



THE NATURAL PART IN SMARTER PACKAGING

BILLERUD OFFERS
MATERIALS AND SERVICES FOR
THE PACKAGING OF THE FUTURE

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The annual report comprises pages 54-96

This document is a translation of the original, published in Swedish. In cases of any discrepancies between the Swedish and English versions, or in any other context, the Swedish original shall have precedence.

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LEADING
POSITION

Billerud has a leading position in primary fibre-based packaging paper.

Products and markets,
pages 30-31



SMARTER
SOLUTIONS

High-quality materials, solution services and a global network ensure smarter packaging solutions.

Smarter packaging,
pages 18-21



GROWING
MARKET

The international packaging market is expected to grow by over 3% per year.

Market and trends,
pages 12-13

SUSTAINABILITY
AND INNOVATION

Billerud’s focus on sustainability combined with innovation and design is in demand from both packaging converters and brand owners.

Strategic focus,
pages 4-7

INTEGRATED
PRODUCTION

Billerud has an integrated and cost-effective production and quality assured wood raw material purchasing.

Production and quality,
page 22

GOOD
PROFITABILITY

+10%

The target is to achieve an operating margin of 10% over a business cycle.

Financial targets,
pages 8-9

SERVED INDUSTRIES

Billerud aims to lead the development of future packaging solutions with a focus on function, design and sustainability. Billerud is increasingly working directly with brand owners and targeting four segments of the market in order to better meet demand for smarter packaging.

FOCUS ON FOUR SERVED INDUSTRIES



FOOD & BEVERAGES

Protecting and promoting flavour and nutrition

Greater prosperity and globalisation are increasing transports from producer to consumer. Packaging therefore has to withstand longer periods in transit and at the same time help to reduce environmental impact.

40%*

SUGAR & FLOUR PACKAGING | CUPS |
BLISTER PACKS | TRAYS | FLEXIBLE PACK-
AGING | SACKS | CONSUMER BAGS |
CORRUGATED BOXES | DISPLAYS |
LIQUID PACKAGING



INDUSTRIAL

Optimising demanding production

The Industrial segment demands in-depth process expertise and products of high quality and strength that offer good run-ability and efficient filling.

41%*

SACKS | RELEASE LINERS | STEEL INTER-
LEAVING | CORRUGATED BOXES |
SPECIALITY PAPER



CONSUMER & LUXURY GOODS

Giving a positive buying experience

The battle for consumers is increasingly fought in store and producers are placing a major emphasis on attractive packaging that helps their goods to stand out and strengthens their brands.

7%*

CARRIER BAGS | CONSUMER BAGS |
FLEXIBLE PACKAGING | TRAYS | BOXES |
CORRUGATED BOXES | DISPLAYS | SACKS



MEDICAL & HYGIENE

Safeguarding health and lives

The world's growing middle class and an ageing population in the West are driving demand for medical and hygiene products. Demands for purity and safety are high.

12%*

MEDICAL PACKAGING | RELEASE LINERS |
CORRUGATED BOXES

* Share of Group net sales

BUSINESS REPORTED IN THREE BUSINESS AREAS

The business areas develop and market high-quality paper and smarter packaging solutions in the form of innovative material and service solutions for packaging manufacturers, converters and brand owners.

PACKAGING & SPECIALITY PAPER



Offers technically advanced kraft and sack papers for food packaging, industrial applications and carrier bags, as well as services in packaging optimisation and design.

PACKAGING BOARDS



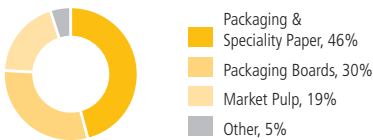
Development and sales of containerboard for applications for products such as fruit and vegetables, consumer goods and transport packaging. Packaging optimisation services are also offered.

MARKET PULP

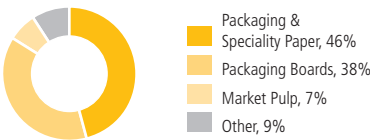


Sales of long-fibre market pulp to producers of tissue, writing and printing paper and packaging paper, etc.

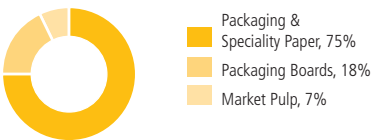
NET SALES BY BUSINESS AREA



OPERATING PROFIT BY BUSINESS AREA

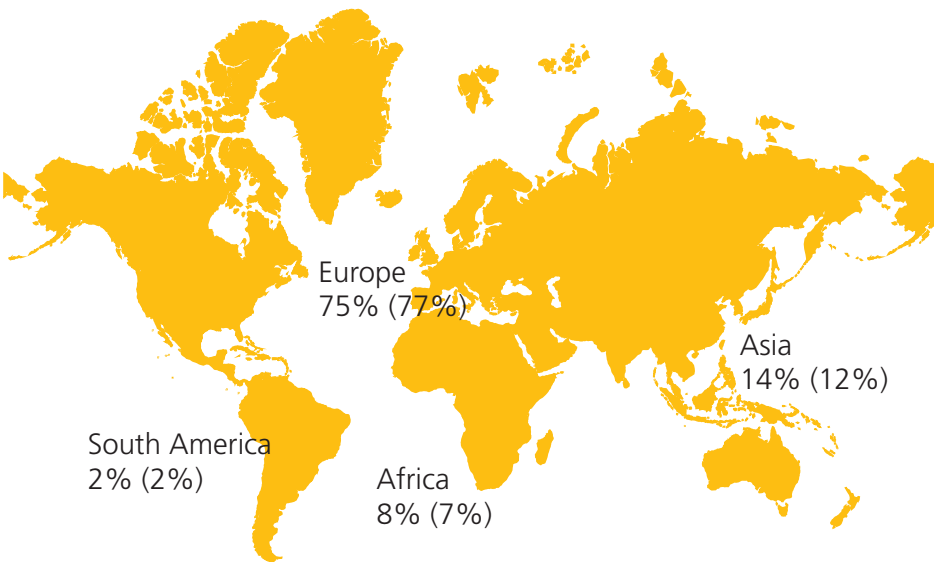
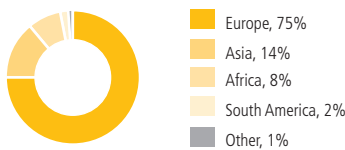


CUSTOMERS BY BUSINESS AREA



Billerud operates in the global packaging market. The company has ten sales offices in nine countries, providing 1 000 customers in 100 countries with products and services. Billerud has sales offices in the following cities: **Stockholm, Hamburg, Nottingham, Paris, Barcelona, Milan, Dubai, Shanghai, Jakarta.**

NET SALES BY GEOGRAPHIC REGION



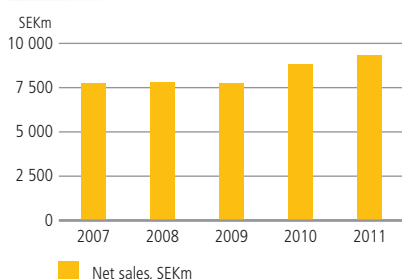
2011 IN BRIEF

- Net sales rose by 6% to SEK 9 343 million, largely due to improved prices and higher sales volumes
- Operating profit totalled SEK 978 million (1 037), which equates to an operating margin of 10%. Lower operating profit for the Market Pulp business area was partly offset by an improved operating profit for the packaging paper segments
- The net debt/equity ratio was -0.05 (0.03)
- Emissions of fossil carbon dioxide in the manufacturing process were 39% lower than the base year 2008
- The Board proposes a dividend of SEK 3.50 per share (3.50)
- Billerud received several international awards within packaging materials and design
- Investment in PACCESS Packaging aims to strengthen Billerud's position in Asia
- February 2012 saw an agreement with UPM-Kymmene to purchase their packaging operations in Pietarsaari and Tervasaari, Finland



- Billerud celebrated ten years as a listed company and had the honour of opening the NASDAQ OMX in New York

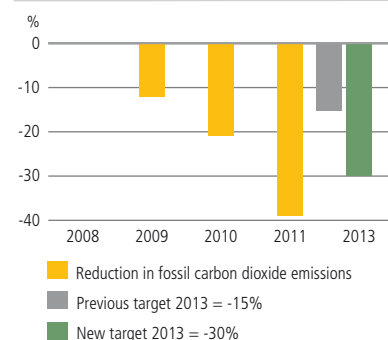
NET SALES



OPERATING PROFIT AND MARGIN



EMISSIONS OF FOSSIL CARBON DIOXIDE



THE NATURAL PART IN SMARTER PACKAGING



Of the fruit and vegetables transported in Europe, around 10% never reaches consumers. Billerud's service concept SoliQ™ reduces wastage by optimising the whole supply chain – from grower to retailer. SoliQ™ provides purpose-built packaging using the right material and the right design, with sensors that monitor conditions in transit.



READY FOR GROWTH

2011 was a good year for Billerud. We started the year on full throttle with very strong order books and good prices, before being drawn into the general uncertainty and economic pessimism that prevailed towards the end of 2011. Our operating margin reached 10%, cash flow from operating activities hit SEK 1 272 million and we ended the year as a debt-free company. This is a sound basis on which to start the coming year.

The economic situation in recent years has proven a challenge for all industrial businesses, including Billerud. Financial crises have come thick and fast, accompanied by waves of pessimism and optimism in the markets. Interest rates and currencies are up and down like a yo-yo. Stocks are run down, filled up and run down again. Customers and consumers are cautious and future is very difficult to assess.

EXCITING JOURNEY

2011 marked Billerud's 10th anniversary, and celebrations included opening the NASDAQ OMX in New York on 26 September. This was an honour, and proof of Billerud's current status – a status attained via a conscious and consistent journey from a company with good products but limited capacity to develop either the business or the products to a customer and solution-driven company. Having built up our innovation system, over the past five years we have launched several new products and business development initiatives, including NINE, Fresh Services, Sack Solutions and FibreForm.

HIGH RATE OF INNOVATION

We continued with our new launches in 2011, one of which was a unique service concept SoliQ™, which focuses on optimising the supply and logistics chain for fruit and vegetables. Alongside the right materials and design, we also embrace the latest in sensor technology to drive up efficiency and quality in the transport chain.

Another example is our subsidiary NINE, which received an award for its design of Ramlösa's new premium water bottle – a PET plastic bottle that has better eco-credentials than glass. Ramlösa enjoyed a successful launch, with customer numbers up 16%. This shows how crucial packaging design is for our customers' products and the value we at Billerud can add in the form of smarter packaging solutions.

CUSTOMER BENEFIT IS KEY

Our packaging material is world-class and our expertise in packaging optimisation is getting stronger. Our long-term success relies on us developing brand new products and packaging solutions that meet the needs and wishes of the market. What we are able to give customers is a total solution comprising materials, advanced advice and global reach.

We engage with the market in four core segments: Food & Beverages, Industrial, Consumer & Luxury goods and Medical & Hygiene. Our customers face challenges on several fronts. The demand to cut resource wastage at every level means that all processes have to be run in a modern and conscious way. Billerud is able to play a key role in this through our expertise in material choice, packaging design and supply chain optimisation. By specialising in the end-user's specific needs, we can help improve business for our customers.

NEW PLATFORM IN ASIA

We're not blind adherents to the conventional business wisdom in the industry – to produce the largest possible volumes for a broadly defined market. Our strategy is to find a position where we have access to end-customers and where we can specify the packaging and produce materials. I believe this gives us the potential to achieve higher long-term growth and better margins.

One aspect of this is our acquisition of a 30% stake in PACCCESS Packaging in 2011, with an option on becoming a majority stakeholder at a later date. PACCCESS Packaging designs, procures and quality assures packaging primarily for American brands who produce their products in Asia. Local knowledge and access to quality assured packaging suppliers in Asia gives PACCCESS Packaging a platform for expansion into new customer segments in North America and Europe, and also into new supply markets in Asia. This move opens up

an extremely interesting opportunity for Billerud to expand in all these markets.

BEST IN INDUSTRY AND STRONG FINANCIAL POSITION

We have a great deal still to do, but I believe that we are already seeing the effects of what we have done so far. We have higher margins than most of our competitors, we have better stability than before and we have shown a capacity for innovation that few others in the industry are able to match. We have also had the industry's best total annual shareholder return, averaging +6.3% per year since 2001. While this is a level that can and should be improved on, it compares favourably with the rest of the Nordic forest industry, which averages -7.2% per year over the same period. What is more, our strong balance sheet makes us well placed to grow through acquisitions.

STRATEGY FOR GROWTH

We have worked actively on acquisitions in two areas, one being knowledge and services and the other being production.

Growing in the area of services and solutions makes us a more valuable partner for our customers. Our investment in PACCCESS Packaging is an example of this.

On 1 February 2012, we entered into an agreement with UPM-Kymmene to purchase their packaging paper operations in Pietarsaari and Tervasaari, Finland. This business had sales of around SEK 2 billion in 2011. I see this deal as opening up significant potential for Billerud to develop its offering in smarter packaging solutions. We are also reducing our pulp exposure considerably and shrinking our currency exposure, which I see as a positive move. Lower exposure to the pulp market means that, on completion of the acquisition, we will not be reporting sales of market pulp separately.



+6%
Net sales growth

+10%
Operating margin

+14%
Return on equity

WE CAN GIVE CUSTOMERS A TOTAL SOLUTION COMPRISING MATERIALS, ADVANCED ADVICE AND GLOBAL REACH

THE NATURAL PART IN SMARTER PACKAGING

With Billerud channelling its energies and focusing on the customer, we also need to make our own brand more defined and have a clear strategy both externally and internally. We have done this over the year under the banner of The Natural Part in Smarter Packaging. We will give customers what they need in the way of packaging – stronger, more attractive, more cost-effective and with a lower environmental impact.

I see building a Billerud that can succeed in this as our core challenge for the coming years. Naturally, we also face challenges on the purely operational front; managing the twists and turns of the economy, investments, cost-efficiencies, environmental work and quality assurance. But we must never lose our focus on development work. After all, this is the foundation on which we will build the future.

Billerud is set to continue on its own path. I believe that developments in the industry are heading in entirely the wrong direction. Further capacity has been added to markets plagued by narrow margins, a focus on volumes has replaced a focus on product

development and the economics of production have been put ahead of customer focus. The upshot of this is an industry where, in many cases, new investment is unviable. Here at Billerud, we have a different take on success and this is what we want to define Billerud's next 10 years.

SUSTAINABILITY AS A GUIDING LIGHT

I also think it is important for a company such as Billerud, with customers in over 100 countries, to maintain a deep commitment to the society around us. We set our environmental sights higher in 2011, with targets for further cuts in carbon emissions by 2013, a decision to invest in Skärblacka to reduce its environmental impact and improve energy efficiency, and a continued concentration on renewable materials. We also managed to recruit two highly competent women to the senior management team during the year, and we are continuing to work with Action Aid to promote direct initiatives in the developing world.

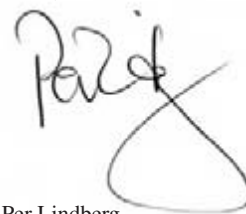
Our motto *Embracing the {Goods}* expresses our desire to embrace our customers' products and values. I want Billerud's employees, our customers and suppliers,

and our shareholders to be proud of what we do and what we stand for. That will be the guiding light on our journey into the future.

NEXT STEP

We will strengthen Billerud by focusing on our customers' packaging solution needs. It may sound trivial, but it represents a major job for us in continuing our extensive process of change. We must secure our position among customers and brand owners as the natural partner in their development, working with renewable materials and solutions.

Solna, March 2012



Per Lindberg
President and CEO



STRATEGIC FOCUS

Billerud is a leading global supplier of primary fibre-based packaging paper that is strong and eco-friendly, with unique properties. The focus on smarter packaging solutions provides packaging manufacturers and brand owners with added value that boosts their competitiveness and their brands.

STRATEGY FOR PROFITABLE GROWTH

Billerud's objective is to generate profitable growth. This will be achieved by increasing the proportion of paper in relation to market pulp, improving the product mix and customer structure and developing smart new packaging solutions for different market segments.

The strategy is built on two cornerstones:

• Customer-focused development

With a strong focus on customer benefit, innovation and sustainability, Billerud is at the very cutting edge when it comes to understanding and meeting every aspect of the market's need for smarter packaging.

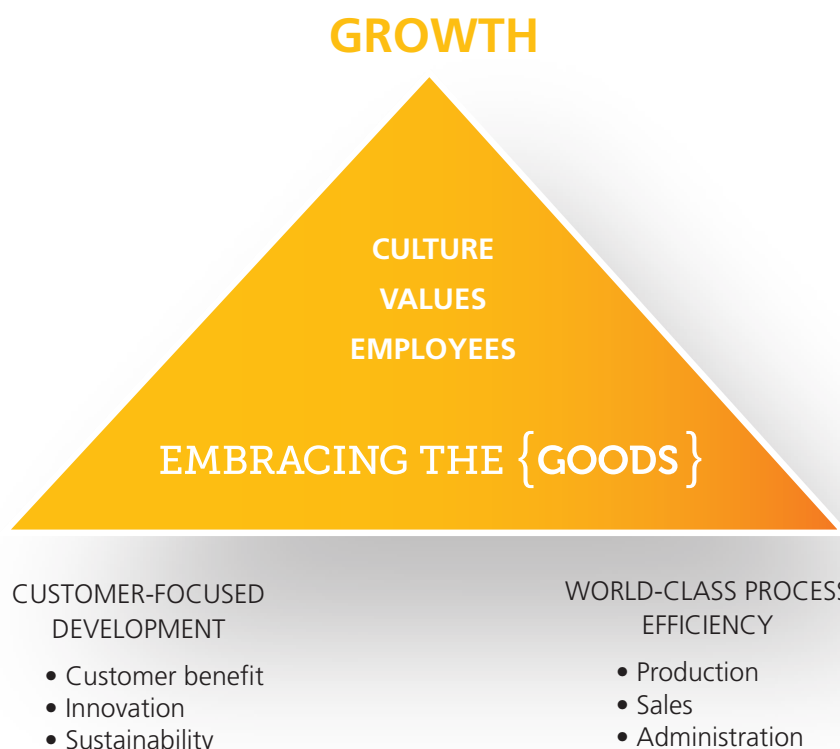
Customer benefit means that each customer is able to exploit the benefits of Billerud's materials and services to achieve an optimal and profitable packaging solution. Billerud's primary fibre-based packaging paper gives attractive, strong and efficient packaging.

Innovation underpins the development of the company's offering. A comprehensive understanding of the whole value chain allows Billerud to offer packaging solutions and materials with new properties, alongside new business models and services.

Sustainability underpins all product development and manufacture. Billerud develops sustainable and attractive solutions that help to reduce environmental impact.

• World-class process efficiency

Billerud will work systematically to continuously improve process and cost-efficiency, in order to ensure long-term competitiveness and the ability to generate strong cash flow, and to optimise resource use in production. This is to be achieved with a keen focus on quality at every level.



POSITIONED FOR THE FUTURE

The repositioning from a production-focused to a customer and solution-driven company, that begun in 2006, means that Billerud is now increasingly focusing directly on brand owners. This creates new business opportunities and growth with higher and more stable margins.

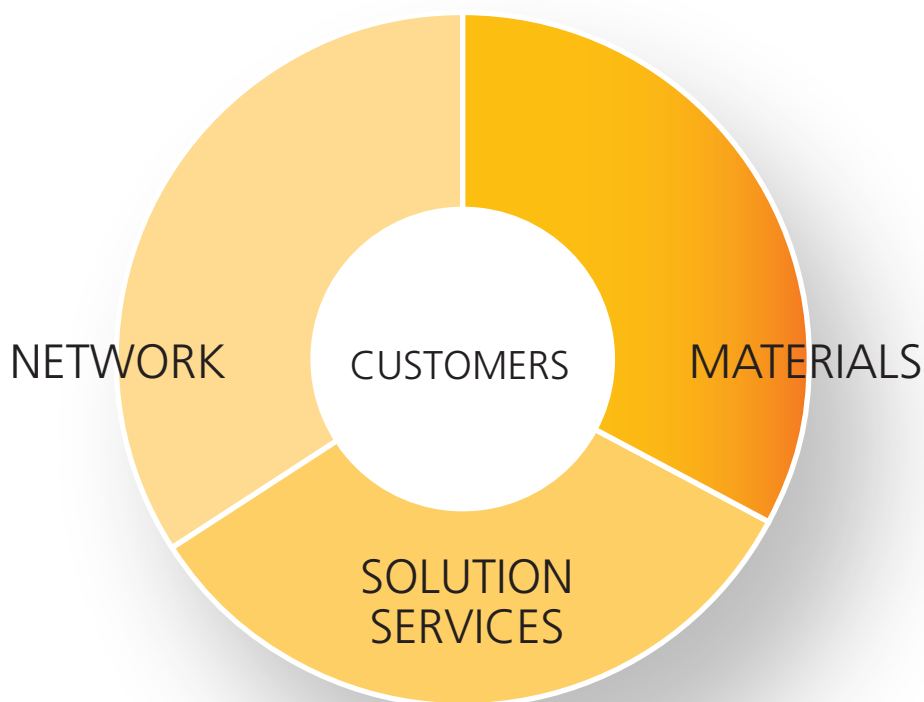
Billerud's vision to set the highest global standards for renewable, protective and attractive packaging solutions ties in with the increasing interest globally in environmental issues, and thus offers major opportunities for growth.

The company is also actively seeking acquisitions that support its strategy and can contribute to greater growth.

THE BILLERUD BRAND

Billerud is a strong and well known brand in the market for packaging paper and packaging. A customer survey conducted in 2010 shows a high level of trust in the company's products and expertise.

Culture, values and employees are key to the way a brand is perceived. In 2011, a drive to further strengthen the brand and enable the company to act in a clear and coherent way globally was therefore initiated. A new profile was launched under the concept "Embracing the {Goods}", which sums up the company's culture and values: embracing what is important to our customers, our company, our colleagues and the environment. By always giving back more than it takes, Billerud is building a company for future generations.



Business model based on materials, solution services and network

Billerud has built up a solid offering of products and services, and is a natural partner to the packaging market and brand owners. The offering is summed up by the concept “smarter packaging” – solutions that attract more consumers, increase productivity, lower transportation costs, reduce waste and lower environmental impact.

Billerud’s business model centres around the customer, with high-quality materials, an in-depth understanding of the whole value chain and a global network of customers and packaging partners.

HIGH-QUALITY MATERIALS

Billerud offers sustainable and renewable paper based on the essential primary fibre needed to achieve strong and functional packaging. The long list of packaging applications ranges from food, building materials and transportation to exclusive goods such as jewellery, perfume and wine. Billerud’s packaging materials are used on a daily basis, all over the world. The product portfolio includes the innovative, elastic material FibreForm, high-porosity sack paper, strong fluting and bioplastic – a plastic material based on renewable raw materials.

KNOWING THE VALUE CHAIN

Billerud’s in-depth knowledge of the value chain for packaging encompasses everything from sustainability, efficient production and transport optimisation to consumer behaviour and the role of packaging in the customer’s business and marketing of its products. Fresh Services has specialist expertise in fruit and vegetables, while Billerud’s development centres – Pack Lab, Box Lab and Sack Lab – experiment on, test and develop packaging solutions as well as contributing to product development and customer support.

Billerud is also the principal owner of the innovation and design agency NINE, and co-owner of the packaging company PACCESS Packaging.

GLOBAL NETWORK

With over 1 000 customers and packaging partners in 100 countries, Billerud has a global network, providing benefits such as global reach, shorter time to market and reliable quality and delivery.

Working more closely with selected packaging manufacturers enables Billerud to deliver smart packaging solutions to brand owners and end-users. The network also includes other suppliers to the packaging industry, such as manufacturers of packaging and filling machines.

INNOVATION



Alongside technical advances, as far as Billerud is concerned, innovation is just as much about developing new business models and services. This work is conducted in cross-functional teams together with customers and suppliers, as well as stakeholders from other industries and networks.

IMPLEMENTED 2011

- FibreForm received numerous awards, both directly and indirectly via customers' product launches
- Innovation and design agency NINE was awarded two of the packaging world's most prestigious design prizes for work on the Ramlösa premium PET plastic bottle: Diamond Pentawards Best of Show and the red dot award: communication design 2011 – packaging
- Plans to establish large-scale production of pyrolysis oil at Skärblacka mill were made public. The green oil will replace fossil oil in contexts such as oil-fired power stations
- Several products were developed, including:
 - Billerud Centre Liner, used as a separating layer in double wall corrugated board for demanding packaging applications
 - A silicone-coated kraft paper for baking
 - Transparent paper for waxing
- Installation of test equipment for carrier bags at Pack Lab, equipment for high-speed measurement using an infrared camera at Sack Lab and equipment for thermoforming of FibreForm

FOCUS NEXT 5 YEARS

- Produce innovative new packaging materials and solutions in partnership with brand owners and retailers
- Continue the development of FibreForm to move into additional applications in more segments
- Continue to develop barriers in bioplastic that, combined with paper, create fully biodegradable packaging
- Seek out new acquisitions that may increase the pace of growth for business development
- Establish a position in the biorefinery field – production of forest-based fuels and new raw materials from the forest

CUSTOMER BENEFIT



Billerud works closely with its customers in its role as adviser, and is constantly developing value-added services. Networks and alliances increase reach and extend the scope to supply markets with different paper grades and services.

IMPLEMENTED 2011

- The Fresh Box Alliance was formed – a global network of quality assured packaging companies with customers in the fruit and vegetables segment, where alliance members can use the packaging concept SoliQ™
- Investment in PACCESS Packaging to strengthen Billerud's position in Asia
- Several industry seminars were organised in order to deepen relations with packaging manufacturers and brand owners
- A successful marketing campaign was completed – six crystal glasses were sent around the world in a specially designed corrugated board box using Billerud materials, to test and demonstrate the strengths of corrugated board
- Launch of targeted offers to different customer segments: Axello, Xpression and Basix
- Billerud took the initiative in raising the quality of paper carrier bags in Italy by working with the industry to introduce a European measurement standard
- An agreement was entered into with packaging group Chesapeake regarding exclusive rights to certain applications and markets for FibreForm, in a move to speed up wider use of the material
- Billerud implemented several initiatives to increase interest in paper as a packaging material among design students

FOCUS NEXT 5 YEARS

- Increase sales to consumer segments in Europe and to industry in Asia and the Middle East
- Build up deeper relations with brand owners to optimise packaging solutions for end-users
- Increase sales of packaging solutions to the world's major fruit markets
- Integrate and combine PACCESS Packaging's offering with Billerud's smart packaging solutions
- Continue optimising the customer and market mix

SUSTAINABILITY



Billerud's processes focus on sustainability in everything from renewable materials, in the form of wood fibre, to optimised production and transport. Billerud contributes to sustainable development in the world by using renewable, fossil-free raw materials as the chief ingredient in its paper-based packaging materials. The company works to achieve constant energy efficiencies and optimised use of resources. This contributes to the company's profitability, while at the same time benefiting the global climate.

IMPLEMENTED 2011

- Carbon emissions from production fell by 39% in 2011. The target for 2013 was revised to -30% from -15% compared with the figure for 2008
- The purchase of fossil fuels was further reduced. Billerud uses 96% biofuel in production
- The number of accidents leading to sick leave was down 20% compared with 2010
- Increased marketing of FibreForm and other climate smart packaging solutions to brand owners and end-customers
- Continued development of cement sacks with low material use, as a result of close collaboration with the world's major cement manufacturers
- 60% of participants in Billerud's latest trainee programme are women
- Billerud's head office moved to one of Stockholm's most climate-smart office buildings, that is also part of the EU's Green Building programme

FOCUS NEXT 5 YEARS

- The materials and solutions offered to customers must be eco-friendly and resource-efficient
- Further reductions in emissions of fossil carbon dioxide in the manufacturing processes and in transport
- Ongoing assessment of business partners from a sustainability perspective
- Improve the work environment, with a core focus on safety
- Greater diversity at all levels of the organisation
- Improve employee skills and focus on leadership development

PROCESS EFFICIENCY



Systematic work to continuously improve process and cost-efficiency in production, sales and administration will secure Billerud's long-term competitiveness and ability to generate strong cash flow. This is to be achieved with a keen focus on quality at every level.

IMPLEMENTED 2011

- Optimised the new logistic system
- Introduced joint financial reporting system
- Continued work on improvement programme
- Quality project launched at the mills
- Continued strengthening of the organisation from a productivity and quality perspective
- Bottlenecks in pulp production at Gruvön mill were eliminated
- An energy efficiency programme was launched
- A focus on work environment management, including increased reporting
- Management reorganisation in Karlsborg
- Refit of the packing station in Skärblacka

FOCUS NEXT 5 YEARS

- Continued energy efficiencies
- More efficient production by identifying and eliminating bottlenecks in production
- Modernising of chemicals recovery in Skärblacka
- Improved reliability of deliveries to customers
- Quality improvements to the customer offering
- Improvement and provision of skills



FINANCIAL TARGETS

Billerud will create value for shareholders and other stakeholders through sustainable profitability and growth. The business is driven by financial targets and sustainability targets.

3%

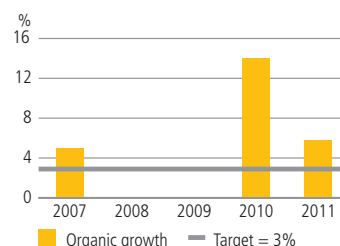
ORGANIC GROWTH

The company's target is to establish long-term organic growth in the order of 3% per year from 2008 onwards.

Growth will be generated from increasing the proportion of paper in relation to market pulp, improving the product mix and customer structure and from new growth projects in the value chain.

Performance 2011

Organic growth was 6% in 2011, compared with 14% the previous year. Over a five-year period, the annual growth rate has been approximately 5%.



≥10%

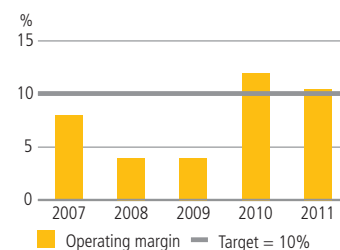
OPERATING MARGIN

Over an economic cycle, the operating margin should be at least 10%.

Historically, the development of the pulp and paper industry has followed a cyclical pattern, with corresponding swings in the earning capabilities of the actors in the industry. When setting a profit target for Billerud, the Board of Directors considered the company's profit history, average exchange rates and price trends for pulp and paper in recent years.

Performance 2011

The operating margin was 10% in 2011, compared with 12% the previous year.



>WACC

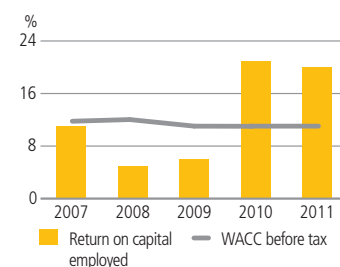
RETURN ON INVESTMENTS

Completed investments are to provide a return that is significantly above the weighted average cost of capital (WACC).

Billerud is to ensure a return on investment that meets the demands of shareholders while more than covering the company's costs for liabilities. In practice the company will apply different return requirements depending on the risk level of the investment, with a basic requirement that return on investment is significantly above WACC.

Performance 2011

Return on capital employed was 20% in 2011, exceeding the company's WACC of 11%.



Billerud will create value for shareholders and other stakeholders

0.6–0.9

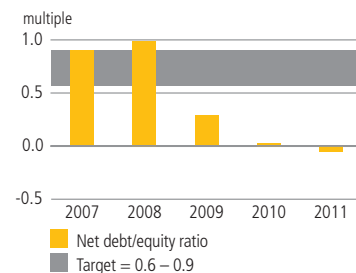
NET DEBT/EQUITY RATIO

Over an economic cycle, the net debt/equity ratio should be between 0.6 and 0.9.

Billerud's business is influenced to a large extent by general economic conditions, which means that the operating risk is considerable. Strengthening the financial position in good years is therefore essential in order to sustain the company in bad years.

Performance 2011

The net debt/equity ratio was -0.05 in 2011, compared with 0.03 in the previous year.



50%

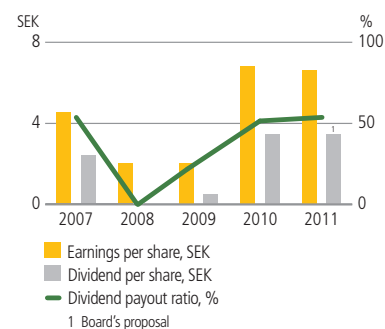
DIVIDEND POLICY

Over an economic cycle, the dividend should average out at 50% of net profit.

The dividend paid to shareholders will be dependent on, among other factors, Billerud's profit level, financial position and future development opportunities.

Performance 2011

The Board's proposal at the 2012 AGM is for a dividend per share of SEK 3.50, which equates to a dividend payout ratio of around 53% of net profit.



SUSTAINABILITY TARGETS

EMISSIONS OF FOSSIL CARBON DIOXIDE IN THE MANUFACTURING PROCESS

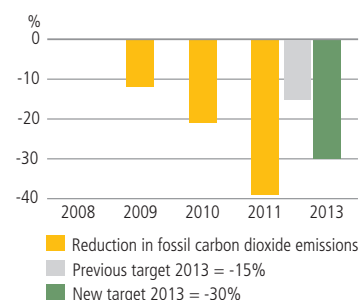
Emissions of fossil carbon dioxide from the manufacturing process per tonne of product will be cut by 30% by 2013 (base year 2008).

Emissions of fossil carbon dioxide are considered to have a major impact on climate change. Billerud's aim is to cease using fossil oil in manufacturing processes in the long term.

Performance 2011

Emissions of fossil carbon dioxide per tonne of product were 39% lower in 2011 than in the base year of 2008, exceeding the long-term target for 2013.

-30%



TRANSPORT

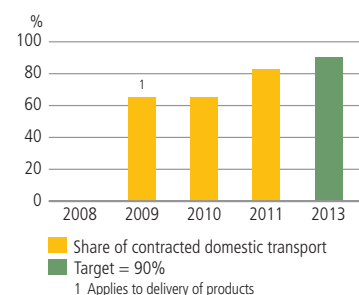
90% of contracted domestic lorry transport is to be carried out by drivers trained in eco-driving by 2013.

Billerud is to develop the most efficient transport solutions possible for raw materials and other materials into the factories and products out of the factories, with a view to cutting emissions of fossil carbon dioxide from transport.

Performance 2011

80% of Billerud's deliveries of pulp and paper within Sweden and 85% of domestic deliveries of wood to Billerud's mills were transported by drivers trained in eco-driving.

90%



BUSINESS PARTNERS

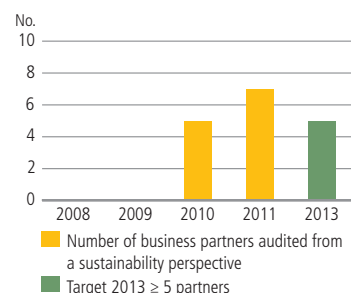
At least five business partners must be audited annually from a sustainability perspective.

In addition to being evaluated on the basis of commercial targets, business partners must also be evaluated from an environmental and social perspective. The aim of the audit is to ensure that Billerud's supply chain meets sustainability standards.

Performance 2011

Seven business partners were audited in 2011. The audit shows that they are working actively in areas such as transport optimisation, cutting energy consumption, strategic HR issues, including safety, and developing codes of conduct.

≥5



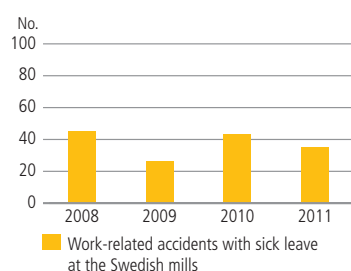
WORK ENVIRONMENT AND SAFETY

The number of work-related accidents is to fall constantly through a focus on safety and through incident reporting on an ongoing basis.

A safe and smoothly functioning workplace is always paramount. Billerud constantly strives to develop a way of working and a follow-up system that will prevent all work-related accidents in the long term.

Performance 2011

There were 35 work-related accidents leading to sick leave, a drop of eight compared with 2010.



DIVERSITY AND EQUALITY

50% of managers recruited in 2013 for jobs with personnel management duties are to be women.

It is important for Billerud to create an organisation that makes the most of the full potential of its employees, irrespective of their sex, age or ethnic background. This diversity must be found at all levels in the organisation.

Performance 2011

In 2011, 36% of managers recruited were female, compared with 29% in the previous year.

50%



SKILLS

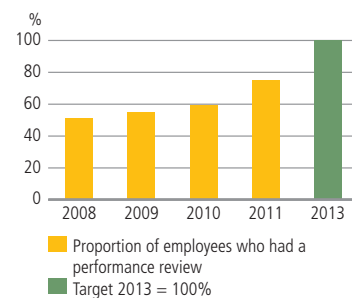
All employees must be able to develop their skills and receive personal feedback on their development and performance.

Since skills are such a key factor for motivated employees, improving skills is a constant area of focus.

Performance 2011

In 2011, 75% of employees received personal feedback in a performance review, compared with 59% in the previous year.

100%

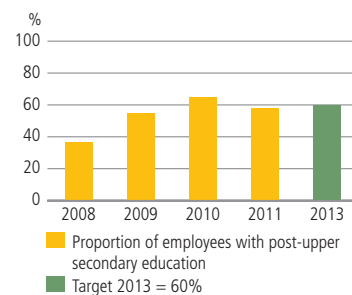


60% of the employees recruited in 2013 must have completed post-upper secondary education.

Performance 2011

The proportion of new recruits with post-upper secondary education was 58% in 2011, compared with 65% in 2010.

60%



LEADERSHIP

Every manager must receive personal feedback on their leadership and access to tools to help them develop.

The world around us is constantly changing and this demands modern, situational leadership. This means that leadership development is a prioritised and strategic issue that will contribute towards the company's success and profitability.

Performance 2011

One way of providing managers with feedback is the staff survey carried out every two years. There was no staff survey in 2011. However, new appointees to management positions received training in leadership, communication and Billerud's business.

100%

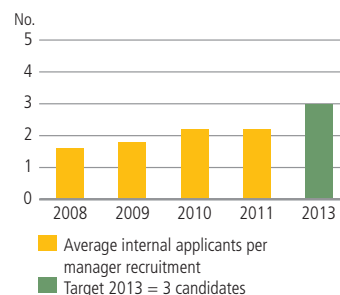


When recruiting managers, three candidates must always be internal to increase development opportunities and internal mobility.

Performance 2011

When recruiting managers in 2011, an average of 2.2 candidates were internal applicants, which is the same as in the previous year.

3



THE GLOBAL PACKAGING MARKET

The world market for packaging continues to grow as a consequence of globalisation, increasing prosperity and changes in consumption patterns. Paper and board are currently the most widely used packaging materials.

The global packaging market continued to grow in 2011, amounting to just under USD 700 billion. Pira International forecasts that the market will continue to grow, reaching USD 820 billion by 2016. That represents expected annual growth of over 3%.¹

The single largest packaging market is Europe, closely followed by Asia. Europe is Billerud's most important market. The 10 largest packaging markets in the world, by country, include five of Billerud's key markets. These are Germany, France, Italy, the UK and Spain.

GREATER DEMAND FOR PACKAGING

Over the past five years, Asia has seen the greatest rise in the use of packaging, with an average annual growth of around 11%. In 2011, China accounted for just over a ninth of the global packaging market, making it second only to the USA. The growth rate in Asia is expected to remain high over the next five years, at about 6% per year. Growth in Europe and North America is estimated to be a little under 2% per year.

Food & beverage packaging is the largest area of use, followed by packaging for industrial applications and transport.

PAPER AND BOARD COMES TOP

In 2011, packaging in paper and board accounted for 36% of the global packaging market, making it the most common type of material. Hard plastic made up 22%, flexible materials and metals 15% each and glass 7%.

Globally, packaging made from paper and board is forecast to grow by an average of

around 3% per year until 2016. The highest growth is expected in Asia, the Middle East, Africa, South and Central America and Eastern Europe, with China and India the fastest growers among the larger national markets. This is in line with the way that the global packaging market is expected to develop.

SEVERAL DRIVERS

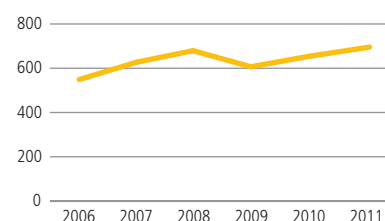
The three key drivers of growth in the packaging market are globalisation, increasing prosperity and changing patterns of consumption.

As a result of globalisation, production and consumption take place in different locations, which in turn brings increased transport needs and thus an increased demand for packaging.

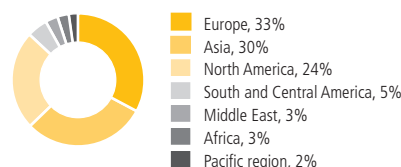
As global prosperity has risen, consumption in the growth regions has approached that of the West. The middle-class in the Asia-Pacific region is expected to increase from 0.5 billion people in 2009 to 3.2 billion people in 2030.² Increased consumption brings increased use of and demand for packaging.

Demand for packaging is also increasing due to rising real incomes and changing consumption habits in the West. Changing lifestyles and greater time-pressure have prompted more and more people to opt for portion-packed and take-away food and beverages, while at the same time e-commerce is on the rise.

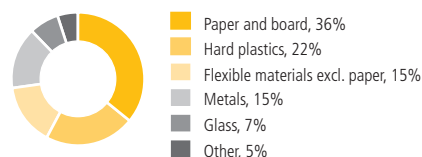
GLOBAL PACKAGING MARKET, USD BILLION



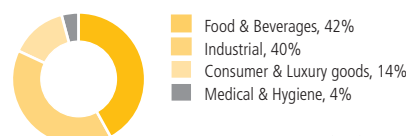
GLOBAL PACKAGING MARKET, BY REGION



GLOBAL PACKAGING MARKET, BY MATERIAL



GLOBAL PACKAGING MARKET, BY MARKET SEGMENT



Source: Pira International (2011). The diagrams show the global packaging market in USD billion.

¹ Pira International (2011). Calculated at 2010 prices and exchange rates

² OECD 2010

CHINA – A KEY SACK PAPER MARKET

The construction industry continues to grow, in turn creating rising demand for packaging. Asia is a significant producer of cement, while China alone accounts for 56% of global cement consumption. Plastic sacks currently dominate the Chinese market.

China is also the world's second-largest sack paper market. Around 95% of sack paper comes from local producers and this is much lower in strength and porosity than high-quality sack paper. Despite this, cement is packed in 50 kg sacks in China, which puts the sacks under extreme strain. This situation offers great potential for Billerud, as the quality leader in strong, high-porosity, brown sack paper for the Asian sack market.

The market potential for manufacturers of high-quality sack paper is as much as 350 000 tonnes per year, which equates to almost 10% of the global market for brown sack paper. This is more than Europe's current exports of high-quality sack paper to the whole of Asia.

Over two thirds of Billerud's brown sack paper is used for cement packaging, with a large proportion of the paper going to growth markets in Asia and North Africa.



PRIMARY FIBRE-BASED FLUTING SAVES FRUIT

The European fruit and vegetable market turns over around EUR 100 billion per year. The goods are fragile and as much as 10% is destroyed during transit and handling between the grower and the consumer. The most common causes for these losses are inferior packaging and logistics.

Today, around two thirds of Billerud's fluting, the middle layer in corrugated board, is used in this market. Fluting affects the compression strength of the packaging. Primary fibre-based fluting is particularly suited to transport packaging in humid environments, since it is stronger and has better long-term performance than recycled fibre-based grades. Despite this, much of today's transport packaging is largely based on recycled fibre and this market also makes use of other packaging solutions such as plastic or wooden trays. Billerud therefore sees large potential for primary fibre-based fluting and the SoliQ™ service concept, which provides smarter packaging solutions for the fruit and vegetable market and minimises losses in transit. Read more on page 15 about what Billerud is doing in this area.

Almost half of all fruit and vegetables for the European market comes from the Mediterranean. Spain is the single biggest exporter, with 25% of the total flow, and a key market for Billerud, with well established customers and contacts. Other major exporters of fruit include Italy, South and Central America and Africa.



FOCUS ON FOUR SERVED INDUSTRIES

Billerud offers innovative and specially optimised solutions for customers. The repositioning from a production focus to a focus on customers and solutions has led to closer customer collaboration, as well as a refreshed and improved range of products and services.

In order to better meet brand owners' needs, the company engages with the market in four segments with varying needs for smarter packaging solutions: Food & Beverages, Industrial, Consumer & Luxury goods and Medical & Hygiene.





STRONG AND HYGIENIC PACKAGING THAT SAVES ON RESOURCES AND MATERIALS – FOOD & BEVERAGES

SUGAR & FLOUR PACKAGING | CUPS | BLISTER PACKS | TRAYS | FLEXIBLE PACKAGING | SACKS | CONSUMER BAGS | CORRUGATED BOXES | DISPLAYS | LIQUID PACKAGING

The global market for the Food & Beverages segment amounted to around USD 290 billion in 2011, which equates to 42% of the packaging market worldwide.¹ Europe is the biggest market.

Food & Beverages made up about 40% of Billerud's net sales in 2011.

GREATER CONSUMPTION

Increasing prosperity is leading to greater consumption and more transportation of goods. At the same time, more and more people want to help protect the environment

as much as they can. This has a knock-on effect on packaging, which has to tolerate longer periods in transit, help ensure transport viability and be manufactured with great resource efficiency. Surveys show that consumers prefer packaging made from renewable materials over fossil plastics.

PRE-PACKED FRESH FOODS

Supermarket chains prefer to sell pre-packed fresh foods for the sake of improved efficiency in store and a longer shelf life, and this is a driving force behind sales of food packaging.

When it comes to food, hygienic packaging is an extra challenge. Billerud has seen growing demand for its pure papers based entirely on primary fibre which, thanks to its strength, considerably reduces material use in manufacture. The papers are approved for direct contact with food by the FDA and BfR, the US and German bodies responsible for food safety.

Via the subsidiary NINE, design of retail packaging for Food & Beverages is offered.



▶▶▶ SOLIQ™ OPTIMISES THE SUPPLY CHAIN

The European market for fruit and vegetables is valued at around EUR 100 billion, but around 10% of the produce never reaches consumers, in part due to inferior packaging.

Billerud has a solution to the problem: SoliQ™ – a unique service concept aimed at optimising the supply chain specifically for fruit and vegetables. The starting point is always what needs to be transported and how. Different fruit has different requirements in terms of humidity, temperature and ventilation while in transit. The longer the time spent in transit, the higher the demands on the packaging solution.

Billerud's primary fibre-based fluting is particularly suited to this application as it resists moisture well for prolonged periods. Choosing Billerud's fluting and the right design can cut material use by around 15% and still give better performance.

SoliQ™ solutions are delivered by members of the Fresh Box Alliance – a network of quality assured packaging manufacturers that Billerud is building up in all the major fruit export markets. The design and specification rely on the expertise at Billerud's development centre, Box Lab.

The concept also includes sensors that monitor whether the transport conditions are correct for the produce in question. As a by-product, Billerud is constantly building up its knowledge of actual transport conditions.

¹ Pira International (2011)





OPTIMISED PACKAGING SOLUTIONS AND PROCESS EFFICIENCY – INDUSTRIAL

SACKS FOR CEMENT AND POWDERED GOODS | RELEASE LINERS | STEEL INTERLEAVING | CORRUGATED BOXES | SPECIALITY PAPER

The global market for the Industrial segment amounted to around USD 275 billion in 2011, which equates to 40% of the packaging market worldwide.¹ Asia is the biggest market and is expected to see annual growth of just under 7% until 2016.

Industrial made up about 41% of Billerud's net sales in 2011.

SACK PAPER MOST IMPORTANT

Industry demands in-depth process knowledge and products of high quality and strength that provide increased productivity.

Billerud's offering meets, and indeed exceeds, these criteria as well as contributing to further efficiencies through reduced material use.

In the Industrial market segment, sack paper is Billerud's largest product area. The customers are manufacturers of powdered products for the global construction industry, such as cement and plaster, where Billerud's strong, high-porosity sack paper increases customers' productivity through efficient filling.

SPECIALITY PAPER WITH ADDED VALUE

Another example where Billerud creates added value for customers is the specialist paper interleaving for steel. The paper protects reels of high-gloss steel, for the automotive industry and others, which needs to be kept extremely clean to ensure absolutely no risk of contaminants or damage to the steel.

The paper is extremely thin, down to 35 grams per square metre, but strong enough to be re-used. The paper is also able to absorb oil and can thus help to keep the steel clean and ready for coating.



▶▶▶ BREAKTHROUGH FOR HIGH-QUALITY SACKS IN CHINA

Over two thirds of Billerud's brown sack paper is used for cement packaging. Asia is a significant producer of cement, while China alone accounts for 56% of global cement consumption.

Billerud Sack Solutions has made a breakthrough in the Chinese market with QuickFill – a range of high-quality sack paper. A major manufacturer of cement sacks in southern China has installed a modern sack line to produce double-wall sacks, and thus draw maximum benefit from Billerud's strong, high-porosity paper.

Stronger, lighter sacks

The manufacturer has replaced triple-wall designs using locally produced paper with two layers of QuickFill paper, which has led to a saving of over 20% on the use of materials. The paper's porosity means that the sack is ventilated during filling without the perforations previously required. This gives faster filling, a dust-free environment and a smaller sack, which makes for more efficient transport.

Billerud works in a network that includes the customer, cement manufacturer and machine supplier, sharing its expertise in sack construction, design, printing, production, filling and logistics and providing advice regarding the purchase of machinery.



¹ Pira International (2011)



ATTRACTIVE PACKAGING STRENGTHENS THE BRAND – CONSUMER & LUXURY GOODS

CARRIER BAGS | CONSUMER BAGS | FLEXIBLE PACKAGING | TRAYS | BOXES | CORRUGATED BOXES | DISPLAYS | SACKS

The global market for the Consumer & Luxury goods segment amounted to around USD 100 billion in 2011, which equates to 14% of the packaging market worldwide.¹ Growth regions such as Asia and Africa are expected to see the highest growth in the future.

Consumer & Luxury goods made up about 7% of Billerud's net sales in 2011.

BATTLE IN STORE

The battle for the attention of consumers is intensifying. In retail, the majority of purchase decisions are taken in store and producers are putting increasing resources into attractive packaging that makes their goods stand out and strengthens their brands.

Billerud's strong papers are turned into attractive packaging with distinctive printing. Kraft paper may become exclusive carrier bags or gift bags for luxury items such as jewellery. Billerud's white liner becomes packaging for cosmetics, watches or trainers. With its unique elasticity, FibreForm offers almost infinite opportunities for special shapes and embossing that can help differentiate a product.

Via its subsidiary NINE, Billerud offers expertise in both design and consumer behaviour relating to packaging. PACCES Packaging offers packaging services to leading multinational brand owners, often with their manufacturing in Asia and global marketing for their products.



With its extremely high elasticity, FibreForm opens the way for brand new packaging solutions. The material can be shaped into creative and distinctive designs and is also a green choice. Pictured is a box with the shape of the champagne bottle inside embossed on the packaging.



PACKAGING THAT SAFEGUARDS HEALTH AND LIVES – MEDICAL & HYGIENE

MEDICAL PACKAGING | RELEASE LINERS | CORRUGATED BOXES

The global market for the Medical & Hygiene segment amounted to around USD 30 billion in 2011, which equates to 4% of the packaging market worldwide.¹ This segment is expected to grow faster than the packaging market as a whole.

Medical & Hygiene made up about 12% of Billerud's net sales in 2011.²

GROWING SEGMENT

The segment of Medical & Hygiene is growing in importance. Increasing prosperity is driving up the use of hygiene products and healthcare. In the West, with its ageing population, the need for healthcare is set to become increasingly important. The use of disposable packaging for medical products has risen considerably in recent years.

The end-users in this segment are the pharmaceutical industry, the medical technology industry, clinics and manufacturers of tissue products.

HYGIENE AND SAFETY

Customers demands are high in terms of hygiene and safety. In many cases, the packaging is required to be sterile or even to enable the instrument to be sterilised inside the packaging. The products and their handling are often expensive, which makes getting the packaging right crucial. With this in mind, the market for healthcare packaging is highly specialised and change takes place slowly. In this area, there are also regulations requiring precision and checks, which slow things down further. Billerud adopts an extremely specialised development process for new packaging materials and solutions in this segment.

Billerud Sterikraft is Billerud's leading range of paper tailored to the market's most common sterilisation methods. The segment also offers opportunities for FibreForm, which can be barrier coated and shaped into blister packs, for example. Release liner is used for self-adhesive products such as plasters and sanitary pads.



In healthcare, sealing and opening properties are vital in keeping the contents sterile. Market leader Billerud Sterikraft Peelclean is the fourth generation of paper for medical packaging.

¹ Pira International (2011)

² Pulp accounts for approximately half of net sales within Medical & Hygiene



SMARTER PACKAGING

With a mix of high-quality materials, extensive know-how and a broad network, Billerud meets the needs of packaging manufacturers and brand owners for smarter packaging that attracts consumers, increases productivity, lowers transportation costs, reduces waste and lowers environmental impact.

ATTRACTS CONSUMERS

With most purchasing decisions taken in the store, the packaging's function in making goods stand out is becoming increasingly important. New media and new technology allow consumers to skip advertising, which increases the significance of the packaging as a marketing channel.

There is therefore a growing move towards brand owners investing more resources in packaging as the best way of presenting their products. The design is crucial, of course, but so is a surface that offers crystal clear colour reproduction and high text readability.

INCREASES PRODUCTIVITY

Smarter packaging is designed for smooth and efficient handling by customers and increases productivity throughout the logistics chain from paper mill to end-customer. The material must offer high runability during printing and production of the packaging. The packaging must then be easy to pack and fill efficiently and to seal effectively.

High-porosity paper can be filled more quickly, which increases capacity utilisation and thus profitability.

LOWERS TRANSPORTATION COSTS

Using paper based on primary fibre instead of recycled fibre generally allows the packaging to be manufactured using less material while retaining or improving both function and strength. Less material in turn means lower weight, which lowers transportation costs.

Using the right packaging for a specific transport chain can help to prevent the collapse of packaging in transit and the resulting damage to the goods. The size and design of the packaging also has a bearing on the number of goods that can be packed into each consignment.

Optimised packaging also brings with it increased profitability at every stage of the chain – from the packaging manufacturers, logistics companies and brand owners to the retailers and consumers.

REDUCES WASTE

It is becoming ever clearer that both the financial and environmental costs are high if packaging fails in its most fundamental task of protecting goods.

Many packaging manufacturers, brand owners and retailers are appreciating the

value of high-quality packaging to protect products. In Europe, fruit and vegetables worth around EUR 10 billion are damaged in transit every year. Inferior packaging is one of the causes of this waste.

Most foodstuffs have a considerably greater negative environmental impact than the packaging that surrounds them. Producing food often involves high energy and water consumption as well as sizeable emissions. Reducing waste therefore also leads to a more sustainable food industry.

LOWERS ENVIRONMENTAL IMPACT

As much as 87%¹ of consumers in Europe prefer paper over plastic for their packaging, due to environmental concerns. And yet, paper accounts for only 12% of the flexible packaging market in Europe.

Strong action is being taken around the world to reduce the amount of plastic, above all the use of fossil plastic carrier bags, which is creating an opening for paper and bioplastics. The growing market in Asia is of particular interest in terms of paper packaging, since fossil plastics are currently entirely dominant as packaging materials.

Attracts consumers



Increases productivity



Lowers transportation costs



Reduces waste



Lowers environmental impact



¹ IPSOS 2007

SMARTER PACKAGING – HIGH-QUALITY MATERIALS

MULTI-FUNCTIONAL

Packaging for medicines, food and building materials, robust transport packaging or exclusive packaging for goods such as perfume and wine – the list of applications is long and Billerud's packaging materials are used on a daily basis, all over the world.

STRONG, ATTRACTIVE

Billerud's paper is made using primary fibre from slow-growing Nordic forests. This ensures strong, hygienic, food-safe paper with good printability – sustainable paper that contributes to a resource-efficient society.

INCREASED PROFITABILITY

Billerud is well placed to benefit from the underlying drivers of the packaging market and the widespread interest in renewable and eco-friendly materials. An increasing number of companies are demanding high-quality materials that form sustainable, attractive packaging solutions, reduce losses along the logistics chain and contribute to increased profitability.

UNIQUE PROPERTIES

Billerud's range includes many examples of smarter materials with unique properties. Strong, high-porosity sack paper with excellent air release for efficient filling, the incredibly formable FibreForm, the world's strongest fluting that handles long periods in transit even in humid environments, liners in exceptionally low grammages, and so on.

PRODUCT	BRAND	PROPERTIES	TYPE OF PACKAGING	SERVED INDUSTRIES
Kraft paper	Billerud Axello™ Billerud Xpression™ Billerud Basix™ Billerud Conflex™ Billerud Medikraft® Billerud Sterikraft® Billerud Release™ Billerud Interleaving™	Strength, high quality and purity	Packaging for sugar, flour and grain Carrier bags for consumer products and foods Open bags for products such as bread Flexible packaging Medical packaging Release liners for stickers, stamps or hygiene products Steel interleaving	Food & Beverages, Industrial, Consumer & Luxury goods, Medical & Hygiene
Sack paper	Billerud QuickFill® Billerud Performance™	High strength, performance and efficient filling	Valve sacks for building materials, minerals and chemicals Open sacks for animal feed, foods, etc.	Food & Beverages, Industrial
Billerud FibreForm®	Billerud FibreForm®	Uniquely formable paper that can replace fossil plastics	Consumer packaging Thin trays for sliced cold meats, for example Paper cups Blister packs Suitable for embossing and relief printing	Food & Beverages, Consumer & Luxury goods, Medical & Hygiene
Fluting	Billerud Flute® Billerud Flute S™ Billerud Flute Light™	Extremely high strength, good long-term performance, purity	Corrugated board boxes for fruit, vegetables, medical products, etc. Transport and consumer packaging in corrugated board Corrugated board packaging for heavy products and industrial purposes	Industrial, Food & Beverages, Consumer & Luxury goods, Medical & Hygiene
White liners	Billerud Pure White® Billerud Pure Bright®	High purity and good printability	Secondary and primary packaging in corrugated board Shelf-ready packaging	Food & Beverages, Consumer & Luxury goods, Medical & Hygiene
Liquid Board	Billerud Liquid Board™	Purity, high rigidity, low grammage	Portion-packed drinks	Food & Beverages
Cup Stock	Billerud Pure Board®	Purity, high rigidity, low grammage	Paper cups	Food & Beverages



SMARTER PACKAGING – SOLUTION SERVICES

Billerud possesses in-depth knowledge of customer needs – whether the customer is a packaging manufacturer or a brand owner. Everything from how best to protect their products and what it takes to ensure efficient production, to transport optimisation and how the packaging can successfully contribute to their marketing.

With its focus on sustainability and innovation, Billerud employs a three-step process to improve packaging solutions and explore new options:



OWN PACKAGING LABS

Billerud has its own labs out at the mills, with broad expertise in packaging and advanced technical equipment:

- **Pack Lab** assesses the strength and performance of carrier bags and other consumer packaging solutions, as well as developing packaging designs, seals and barrier coatings. New packaging solutions based on FibreForm are just one example.
- **Box Lab** designs, optimises and tests corrugated board boxes so that they work well in the real world. The goal is to optimise a box's ability to withstand all the stresses and strains that it is exposed to. Box Lab has a climate chamber for compression tests under varying air humidity and temperature conditions.
- **Sack Lab** optimises all stages relating to sack function along the value chain, such as design, filling and logistics.

Billerud also offers technical support for the customer's manufacturing process.

DEVELOPMENT CLOSE TO THE CUSTOMER

Billerud's expertise in designing packaging, corrugated board boxes and sack solutions is at the very cutting edge. Business development and innovation are conducted in cross-functional teams that bring together a range of skills, in partnership with customers and suppliers. Billerud also collaborates with stakeholders not usually associated with its own industry, such as design agencies, brand owners, supermarket chains, research institutes and universities.

In order to build long-term relations and increase knowledge about the importance of material choice for packaging performance, Billerud also regularly invites packaging manufacturers and brand owners to special seminars and courses.

OPTIMISING THE LOGISTICS CHAIN

Its close interaction with customers means that Billerud knows its customers' logistics chain well. This makes Billerud a valuable partner, able to provide advice on optimal processes and cost-effective solutions from the paper mill to transport and delivery to the end-customer.

ATTRACTIVE DESIGN SELLS

Innovation and design agency NINE won two of the packaging world's most prestigious design prizes for its work on Ramlösa's new premium bottle: Diamond Pentawards Best of Show and the red dot award: communication design 2011 – packaging.

NINE is a Billerud subsidiary that works closely with brand owners on design and innovation projects associated with packaging and consumer behaviour.

The brief was to come up with a smart new packaging solution in a material other than glass, which still retained the premium feel that the previous glass bottle had. The shape was borrowed from the world of cut crystal to give the bottle an exclusive feel despite it being made from PET plastic.

"The successful launch of Ramlösa in a unique premium PET bottle has increased our numbers of customers with 16%, and the more environmentally-friendly packaging has been an important step in our CSR work," says Paul Davies, Marketing Director, Carlsberg Sweden.



SMARTER PACKAGING – NETWORK

1 000 CUSTOMERS AND PACKAGING PARTNERS IN 100 COUNTRIES



Billerud's network of customers and packaging partners offers numerous benefits – global reach, shorter time to market, reliable quality and delivery, and so on.

Working more closely with selected packaging manufacturers enables Billerud to deliver smart packaging solutions of high quality

to brand owners and end-users. Transporting empty packaging is inefficient, so manufacture always takes place locally. The extensive network of over 1 000 packaging manufacturers in over 100 countries makes Billerud's materials available around the globe.

The network also includes other suppliers to the packaging industry, such as manufacturers of packaging and filling machines. Billerud enjoys a mutual exchange of expertise with these partners, as well as joint development projects. Sound knowledge of packaging machines is a

competitive advantage when developing packaging materials and solutions.

Billerud's local market presence, with ten sales offices in nine countries, is crucial to the implementation of solutions.



STRONGER PLATFORM IN ASIA

In 2011 Billerud invested in PACCES Packaging in order to establish a strong platform in the growing Asian market.

PACCES Packaging offers packaging services for leading multinational companies with branded products, often manufactured in Asia and marketed globally. These brand owners all have one thing in common – they use the packaging to support their marketing and to optimise the flow of products along the supply chain.

Marketing platform in Asia

PACCES Packaging quality assures all the elements, from packaging performance and design, via planning and purchasing to delivery and ongoing quality control, with a view to ensuring that the goods are delivered in a coherent manner around the world. In this they are aided by an established network of local, quality-controlled packaging manufacturers.

The collaboration gives Billerud access to PACCES Packaging's customer base and broad expertise in packaging development and local market conditions in Asia. This establishes a strong platform in the growing Asian market for Billerud, whose intention is to increase its stake in PACCES Packaging over time.

Major cost savings and higher profile

One of PACCES Packaging's customers is a growing US company that markets sportswear, shoes and accessories globally.

The task for this assignment involved analysing the supply chain with a focus on minimising material consumption, increasing cost efficiency, systematising the company's packaging development and producing a comprehensive packaging programme for consumer sports shoes.

The end result was a cost saving of 30%. Stronger packaging paper and improved design cut material consumption by 12%, with the reduced volume of the packaging also leading to more efficient shipments. A system was also developed to purchase packaging from a single source in order to shorten development time and achieve a coherent graphic identity.



FIBREFORM EXTENDS REACH

British packaging group Chesapeake has developed FibreForm into a unique three-dimensional board concept. Named Impressions™, the concept won the Design Challenge award at the Nordic region's leading packaging exhibition, Pack & Emballage.

"We have pioneered a completely new way of shaping board," explains Bob Houghton, Marketing & Communications Manager at Chesapeake. "We have been able to take advantage of the unique flexibility of Billerud's FibreForm to create shapes and effects that simply are not possible with conventional board. And we are developing new technology to make large-scale production of Impressions™ both fast and cost-efficient."

The collaboration with Chesapeake allows Billerud to extend its reach to more brand owners and increase its opportunity to get more FibreForm packaging onto the market.



FOCUS ON PRODUCTIVITY AND QUALITY

Integrated production gives complete control over the production process and high product quality. Another key competitive advantage is a high level of self-sufficiency in electricity. An unwavering focus on process efficiency ensures long-term competitiveness.

Billerud's paper is based on primary fibre from Nordic forests. The northerly climate makes the trees grow more slowly, so that they develop long, strong fibres. The result is one of the world's strongest packaging papers, with high whiteness, purity and quality.

Since Billerud does not own any forest of its own, it buys all its wood raw materials on the timber market.

Billerud produces pulp for use in its own paper manufacturing. Any surplus pulp is sold mainly to manufacturers of tissue, printing paper and writing paper.

INTEGRATED PRODUCTION

Production takes place at four mills: Gruvön, Skärblacka and Karlsborg in Sweden and Beetham in the UK. All the mills maintain a

very high standard of technology, productivity and environmental awareness. They have ISO 9001 quality certification and ISO 14001 environmental certification.

Production at the three Swedish mills is integrated, which means that they combine both pulp and paper production. Integrated mills have several key advantages:

- High product quality: Complete control over the production process ensures high product quality.
- High level of self-sufficiency in electricity: Pulp production produces an energy surplus, which is used in the paper manufacturing process.
- Reduced energy consumption: The pulp can immediately be used in the paper production process.

EFFICIENCY PROGRAMMES

Billerud works constantly to improve process efficiency in order to secure long-term competitiveness and to control the environmental impact of its production. Several efficiency programmes have been implemented since 2005, resulting in cost savings of SEK 750 million. These savings break down into reduced consumption of inputs such as chemicals, energy and wood (SEK 150 million), a rise in electricity self-sufficiency from 30% to 60% at full production (SEK 250 million) and a reduction in employee numbers (SEK 350 million).

Developing quality and sustainability, teamed with efficient production and logistics, enables Billerud to offer customers the best possible products and solutions.

PRODUCTION AT FOUR MILLS IN TWO COUNTRIES



Gruvön, Sweden

PRODUCTION CAPACITY:
685 000 tonnes/year

PRODUCTS:
Kraft paper, sack paper, containerboard (fluting, liner), liquid board, Cup Stock, market pulp



Skärblacka, Sweden

PRODUCTION CAPACITY:
400 000 tonnes/year

PRODUCTS:
Kraft paper, sack paper (brown), containerboard (fluting), market pulp



Karlsborg, Sweden

PRODUCTION CAPACITY:
300 000 tonnes/year

PRODUCTS:
Kraft paper, sack paper (white), market pulp



Beetham, United Kingdom

PRODUCTION CAPACITY:
45 000 tonnes/year

PRODUCTS:
Kraft paper

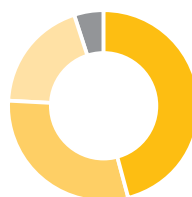
BUSINESS REPORTED IN THREE BUSINESS AREAS

Billerud has three business areas: Packaging & Speciality Paper, which offers technically advanced kraft and sack paper; Packaging Boards, which offers containerboard; and Market Pulp, which is responsible for pulp sales.



PACKAGING & SPECIALITY PAPER

46% OF GROUP NET SALES



- Packaging & Speciality Paper, 46%
- Packaging Boards, 30%
- Market Pulp, 19%
- Other, 5%



PACKAGING BOARDS

30% OF GROUP NET SALES



MARKET PULP

19% OF GROUP NET SALES

BUSINESS AREA PACKAGING & SPECIALITY PAPER

The Packaging & Speciality Paper business area offers customers technically advanced kraft and sack paper, as well as smart solutions in function, design and material choice. All the grades are strong, with the highest standards of printability and runability, and are made from 100% primary fibre.

OFFERING

Packaging & Speciality Paper develops and markets primary fibre-based kraft and sack paper, alongside services and solutions for packaging optimisation.

Kraft paper

A broad range of kraft paper solutions is offered for different customer segments. The food industry dominates with 63% percent of volume. Areas of use include bags for flour, spices and powdered food, plus carrier bags. The kraft paper is also used for medical packaging, as steel interleaving and as a release liner that protects the adhesive layer on items such as stickers. Primary fibre-based kraft paper has several competitive advantages, such as efficient packaging manufacture, high strength, purity and good printability.

Sack paper

Billerud is the global market leader in both white sack paper and high-porosity brown sack paper.

The paper is used to make sacks for powdered products such as building materials, minerals and chemicals, as well as foods. The company's strong, high-porosity sack paper is a premium product with added value from material savings – since the strength of the paper allows sacks to be made using fewer layers – faster filling processes and a dust-free work environment.

Billerud's white sack paper is a world leader in function and performance. It provides a good print surface and is therefore in particular demand for building materials for the growing DIY (Do-It-Yourself) market, where distinctive packaging is a competitive advantage.

FibreForm

The business area also sells the entirely unique material FibreForm, a highly elastic, primary fibre-based paper that is approved for contact with food. It can be shaped in the same thermoforming machines that are used

for fossil plastic trays, for example for sliced cold meats. The paper can also be compression moulded, embossed and laminated with the appropriate barrier. Other areas of use include heat-insulating cup sleeves with embossing and packaging for luxury and consumer goods.

FibreForm offers an alternative to various plastic packaging. It is eco-certified by FSC and is made from a renewable material, which makes it compostable and recyclable.

CUSTOMERS

Mainly located in Europe and Asia, the core customers are packaging manufacturers and converters that finish the paper, for example with print and barrier coatings, and then produce packaging or sell the product on to other packaging manufacturers.

In certain customer segments, the brand owner both manufactures and fills the packaging, known as "form & fill". This is the case with the cement industry, which makes its own sacks, manufacturers of medical products and sugar and flour producers.

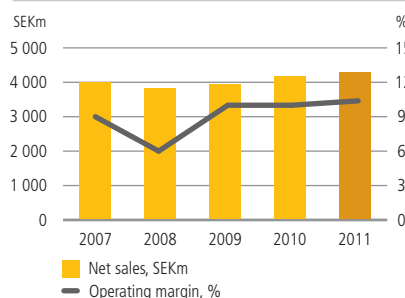
SMARTER PACKAGING

Packaging & Speciality Paper consolidates its role as an adviser to customers and brand owners through a broad spectrum of services that benefit the customer. Suggested technical improvements regarding material, function and construction, coupled with design solutions, help to increase the customer's productivity, improve the performance of the packaging, reduce environmental impact, make the packaging more unique and increase the consumer's urge to buy.

The calculation model TCV, Total Customer Value, is used to work out the added value for the customer and cost per sack. The model shows that Billerud's high-porosity sack paper produces savings of up to 20% per sack.

A number of customer seminars were held over the year to enhance relations with customers and brand owners and to increase packaging expertise in the industry.

NET SALES AND OPERATING MARGIN

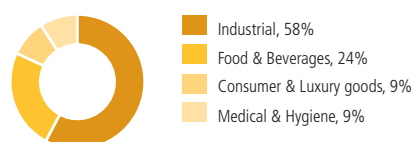


SHARE OF GROUP OPERATING PROFIT

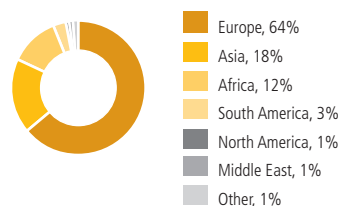


Packaging & Speciality Paper's net sales rose by 3% in 2011 to SEK 4 293 million compared with 2010. The year's operating profit increased 8% to SEK 450 million, compared with 2010, chiefly as a result of improved prices that offset higher variable costs and lower sales volumes. The operating margin for 2011 was 10% (10).

NET SALES BY SERVED INDUSTRY



NET SALES BY GEOGRAPHIC AREA





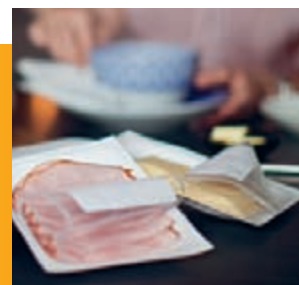
SACK PAPER

With its good printability, white sack paper's applications include building materials for the DIY market, animal feed and bakery products such as flour and sugar. Brown sack paper is used for, among other things, cement and other powdered materials, where strong, high-porosity paper is required.



KRAFT PAPER

Kraft paper is the perfect material for packaging all sorts of goods, from bread, sugar and flour to ice cream and medical products, to name but a few.



FIBREFORM

FibreForm is a uniquely highly elastic material that is able to replace fossil plastics in many applications, such as thin trays for sliced cold meats and blister packs.

FibreForm is also suitable for embossing.

INNOVATIVE PRODUCT DEVELOPMENT

The business area places great emphasis on product development, with a focus on strength properties, production efficiency, attractiveness and sustainability. Billerud wants its paper to reduce environmental impact and support customers' environmental work. FibreForm has attracted a great deal of interest, not least because of its ability to replace fossil plastics in many applications, and Billerud sees great potential in the material.

During 2011, Pack Lab started testing the durability of carrier bags and Sack Lab installed infrared camera technology to show where a sack is strong or weak.

GREATER FOCUS ON GROWTH COUNTRIES

The business area is focusing on increasing sales of sack paper outside Europe, particularly in Asia and North Africa. In these markets, building materials such as cement are packed in 50 kg sacks, which demands a high degree of strength and porosity from the sack paper, and gives Billerud's primary fibre-based sack paper a competitive edge.

TRENDS AND DRIVERS

• Increasing global prosperity

Global prosperity is increasing and driving demand for hygiene products, medical products and disposable consumer packaging. All these areas require pure and safe products made from primary fibre, which opens up a growing market for Billerud.

• Growing construction industry

The construction industry is continuing to grow in Asia, North Africa and the Middle East, which affects demand for sack paper for

cement. Billerud's brown high-porosity sack paper has a leading position globally in this segment.

• Increased demand for product optimisation

The business area's products are benefiting from industry demands for product optimisation that concentrates on cost-efficiency and high runability. In this area, Billerud's sack paper offers improved functionality and more rapid air release, amongst other benefits.

• Packaging as a marketing tool

The market's increased focus on product differentiation and attractive packaging is driving demand for white kraft and sack paper with good printability. Appreciation of and interest in the marketing power of packaging has grown, particularly in consumer markets.

• Environment increasingly important

Care for the environment is gaining ground and market interest in sustainable packaging is rising. This is particularly prominent in consumer goods, which is good news for Billerud's white kraft paper and FibreForm.

Restrictions on non-biodegradable plastic carrier bags are being proposed in many places around the world. Italy is one of Europe's biggest users of plastic bags, at 20 billion bags per year or around 20% of Europe's total consumption. However, it is now being proposed that the country should ban them entirely.

The proposed legislation has not yet been adopted, but many stores are already looking for greener alternatives. Paper bags made from kraft paper have a major advantage in that they are stronger than both biodegradable plastics and other paper alternatives on the market.



☞☞☞ KRAFT PAPER MAKES STRONG, RESILIENT CARRIER BAGS

Billerud has initiated that Italy start using the European testing standard¹ for carrier bags for food. Legislation has already been proposed in Italy to ban non-biodegradable plastic carrier bags. This opens the way for paper carrier bags, but also creates opportunities for new players offering biodegradable plastics, etc. Another alternative is fine papers that break up easily. Kraft paper, on the other hand, makes strong, resilient carrier bags that will not fall apart on the way home and that can enhance the buying experience through high-quality print.

¹ The European testing standard (SS-EN 13 590) was developed in Sweden by Innventia (formerly Packforsk) in collaboration with retailers and the packaging industry



BUSINESS AREA PACKAGING BOARDS

Corrugated board is the most commonly used packaging material in the world, with 90% of all consumer goods packed in corrugated board for transport. The Packaging Boards business area offers primary fibre containerboard – a pure, strong material that meets tough demands for strength, hygiene and good printing. Wide-ranging advice on packaging optimisation helps brand owners identify the right packaging for each item and logistics chain.

PAPER FOR DURABLE PACKAGING

The Packaging Boards business area sells primary fibre-based containerboard such as fluting, the middle layer, and white liner, the outer layer, of corrugated board. Packaging Boards is the market leader in Europe for both pure white liner and primary fibre-based fluting.

Billerud's fluting is the strongest in the world, with excellent long-term performance, ensuring that packaging made using it is extremely resilient to high humidity, long periods in transit and high stacking. This makes the material particularly suitable for transporting fragile goods such as fruit, vegetables and capital goods, as well as heavy goods such as automotive components.

Billerud's pure white liner comes in a wide range, from really low grammages of 80 grams to 190 grams per square metre. It is also one of the world's whitest liners. The packaging can therefore easily carry clear print to help differentiate and market the goods inside, which makes the paper popular for luxury and consumer items.

Packaging Boards also markets Billerud's liquid board for portion-packed drinks and Cup Stock – board for paper cups.

SERVICES AND SOLUTIONS

Packaging Boards offers its customers services and solutions in areas such as material choice and structural design. Customers and brand owners can turn to Box Lab for help in evaluating the function and performance of materials and packaging, and in achieving fibre-optimised packaging.

Whether the focus is on replacing packaging that currently uses a material other than paper or on adjusting a design that is not durable enough, the starting point is always the specific needs of the customer or brand owner.

CUSTOMERS

The vast majority of customers are manufacturers of corrugated board for particularly demanding applications and for the premium segment.

Europe is the business area's most important market, benefiting from well developed customer relations and geographic proximity. Around two thirds of Billerud's fluting is used in packaging for fruit and vegetables, with the Mediterranean region dominating.

Cup Stock is purchased by disposable cup producers, while liquid board is sold to manufacturers of portion packs for drinks.

SMARTER PACKAGING

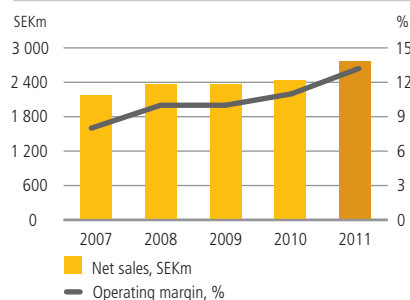
The goal for Packaging Boards is to develop materials and services that are appreciated by customers. The business area is increasingly approaching brand owners directly or in partnership with a packaging manufacturer, in order to combine knowledge and experience to find optimum solutions for a specific logistics chain. Packaging Boards works on product optimisation – finding the right packaging for the right goods and for different modes of transport.

KNOWLEDGE TRANSFER

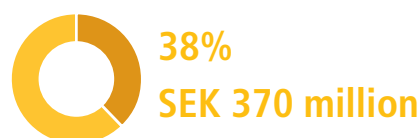
The business area is active in striving to increase the market's awareness that primary fibre offers a better, stronger, purer and often material-saving alternative at a lower overall cost.

One way of convincing customers is to use scientific testing methods. One example is the Corrugated Crush Test that Billerud's Box Lab introduced in 2010 to measure the durability and long-term performance of different grades of corrugated board. The method has gained a great deal of attention and customers have started requesting this data to an increasing extent.

NET SALES AND OPERATING MARGIN

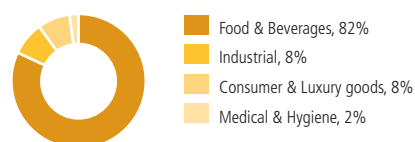


SHARE OF GROUP OPERATING PROFIT

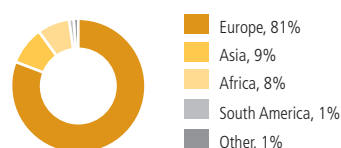


Packaging Boards' net sales rose in 2011 by 14% to SEK 2 772 million compared with 2010. The year's operating profit was up 37% on 2010, at SEK 370 million, due to improved prices and higher sales volumes. The operating margin for 2011 came in at 13% (11).

NET SALES BY SELECTED INDUSTRY



NET SALES BY GEOGRAPHIC AREA





Picture from Tetra Pak



FLUTING

Fluting is the rippled middle layer in corrugated board and is used to transport sensitive goods such as fruit and vegetables and capital goods. Billerud's fluting is the world's strongest, with high long-term performance.

WHITE LINER

Billerud's white liner is the outer layer of corrugated board and the middle layer in micro corrugated board, which is popular with manufacturers of luxury goods and gift items. Billerud's primary fibre-based liner is also perfect where pure, hygienic packaging is required for contact with food.

LIQUID BOARD

Liquid board is used for portion-packed drinks such as milk and juice. Increasing global prosperity is fuelling demand for disposable packaging, particularly in Asia, which is seeing a growing market for portion-packed drinks. Billerud's liquid board is characterised for its purity, high rigidity and low grammage.

CUP STOCK

Cup Stock is board for paper cups. New consumption patterns, with growing purchases of take-away drinks, is driving up demand for paper cups. Billerud's Cup Stock offers low grammage plus high purity and rigidity.

Another approach is the regular seminars on the subject of packaging optimisation, which provide a forum for exchanging experience and networking with customers and brand owners.

EXPLOITING COMPETITIVE ADVANTAGES

The business area is also focused on increasing sales outside Europe. Actively selecting new markets offers an opportunity for niching and differentiation where Packaging Boards' containerboard can be of most benefit to customers, for example leading markets for exports of fruit and other foods.

Sales of Cup Stock continued to develop well over the year, leading to increased production. This is one example of how Packaging Boards is working to optimise the product mix.

2011 saw the launch of SoliQ™, a brand new concept for improving the efficiency of the logistics chain in the fruit and vegetable market. Using primary fibre in the packaging can cut material use by around 15% while

improving the strength of the box.

Other strategic initiatives include the increasing integration of design agency NINE in collaborations with customers and brand owners, and the co-operation with PACCESS Packaging in Asia.

TRENDS AND DRIVERS

• More numerous and more efficient transportation

Overall, globalisation has led to more transportation of goods over longer distances, which increases demand for corrugated packaging. The market's constant need for efficient handling and lower levels of waste favours Packaging Boards' primary fibre-based containerboard, which allows cost savings to be made thanks to reductions in materials, while also improving the strength of the packaging. For the food industry in particular, efficient transportation and strong packaging that protects the goods is becoming more and more critical.

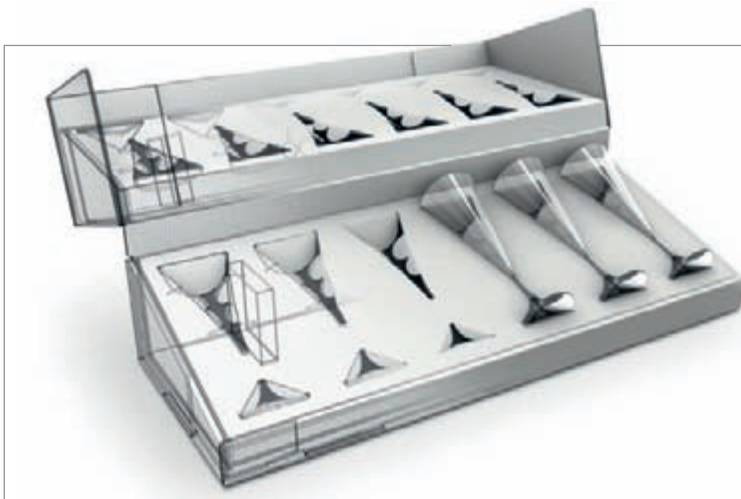
• Demand for purity and hygiene

Primary fibre also benefits from the demand for product safety and pure, hygienic packaging, as knowledge about the effect of packaging on its contents grows. In Italy, for example, recovered fibre-based pizza boxes are banned. Consumers continue to demand eco-friendly, renewable packaging, which is good news for paper packaging.

• The marketing power of packaging

Customers and brand owners are becoming increasingly aware that the appearance of the packaging is crucial to the sale of the goods. Billerud's white liner is well placed in this respect, with its first-class printability to make the brand stand out.

New consumption patterns are also having a positive impact on the business area, not least growing sales in take-away food and drinks.



▶ ▶ ▶ STRONG PACKAGING PROTECTS

During the year, Packaging Boards conducted perhaps the most realistic packaging test ever when, over five months, six fragile crystal champagne glasses were packed off on a journey to 12 destinations around the world. The packaging was made from Billerud's containerboard, and also carried a sensor to measure the actual stresses encountered – temperature, knocks and air humidity. The box of glasses was transported by air and road, without any labels saying that the goods were fragile, in a test that involved 14 journeys rather than the usual one.

All the glasses came back to Sweden whole and intact.



BUSINESS AREA MARKET PULP

Billerud produces high-quality, long-fibre pulp primarily for its own needs, with the surplus sold on the global market. The Nordic climate produces slow-growing coniferous forest, with the resulting pulp ideal for making high-quality paper, which is why it is in such demand.

OFFERING

Billerud's market pulp is known as NBSK, Northern Bleached Softwood Kraft, a high-quality, long-fibre pulp. The pulp is produced primarily to meet Billerud's own needs, with the surplus, which amounted to 343 000 tonnes in 2011, or around 25% of Billerud's total sales volume, being sold by the Market Pulp business area.

The Nordic climate makes conifers grow slowly and develop long, slender fibres, which gives the resulting pulp superior strength. This in turn produces high-quality paper and ensures a cost-effective process for the paper producers, since they can run the paper machines at higher speeds.

SPECIFIC PROPERTIES

The pulp from Billerud's three Swedish mills has different properties, depending on the area in which the trees grew. This allows Billerud to offer its customers the properties that are most suitable for their end-products – high tear and tensile strength for packaging and fine paper, high bulk for board and printing paper, high durability for tissue and high porosity for specialist products such as vehicle air filters.

WELL POSITIONED

Billerud is well positioned in the pulp market. NBSK is a premium pulp that is strengthening its position through its potential to increase customers' productivity. Over the long term, the global growth rate for this pulp has remained quite stable at around 1–2% per year. At the same time, growth in capacity, and thus availability of this high-quality pulp, remains limited.

CUSTOMERS

The majority of Market Pulp's customers are in Europe. Billerud has longstanding and well developed customer relations in this market and is also able to benefit from its geographic proximity and efficient logistics

system. Asia, with its growing economy and living standards, is also an increasingly important market for the business area. Having a presence in several markets also extends the scope to redirect volumes if a particular market drops.

The key customer groups are producers of tissue – mainly for toilet paper and kitchen paper – writing and printing paper, packaging paper and board.

STRATEGY

The Market Pulp business area strives to be a strategic partner for its customers, consolidating its position by offering a mix of high product quality, an environmental profile and effective logistical solutions, together with expert advice on the optimal pulp mix for each customer's end-product.

Tissue is growing fastest, which is why the business area has a long-term focus on increasing sales to this segment. In 2011, the tissue segment accounted for around 35% of the business area's sales compared with 34% in 2010.

The focus is also on increasing sales for end-uses in other industries where Billerud's three grades can provide the greatest benefit, such as niche products including paper for vehicle air filters.

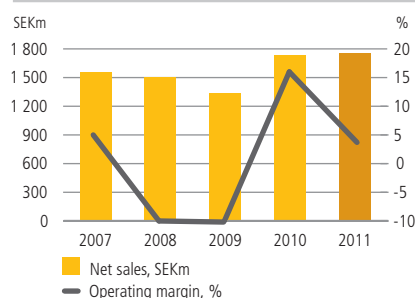
In response to the strong environmental trend, particularly in consumer industries, Billerud is looking to increase its proportion of certified market pulp.

TRENDS AND DRIVERS

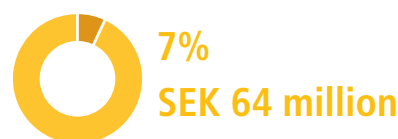
• Tissue continues to grow

Growing global prosperity is increasing consumption of paper products in general. While digital media are having a negative impact on printing and writing paper, changing consumption patterns are driving up demand for hygiene products, since higher living standards increase the use of products such as toilet paper, kitchen paper and so on.

NET SALES AND OPERATING MARGIN

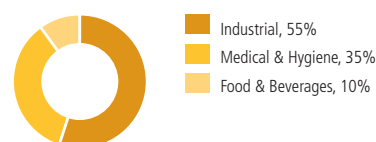


SHARE OF GROUP OPERATING PROFIT

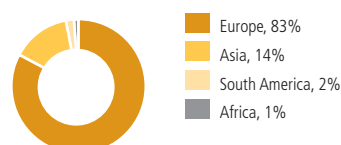


Market Pulp's net sales rose in 2011 by 1% to SEK 1 752 million compared with 2010. The year's operating profit was down 77% on 2010, at SEK 64 million. The fall is chiefly attributable to a less favourable currency situation. The operating margin for 2011 was 4% (16).

NET SALES BY SELECTED INDUSTRY



NET SALES BY GEOGRAPHIC AREA





TISSUE

Higher living standards are having a positive impact on the tissue market. Billerud's pulp is particularly well suited to the manufacture of tissue products, as it offers high quality and durability.



PRINTING AND WRITING PAPER

NBSK pulp is perfect as a reinforcement pulp for improving the strength of printing and writing paper.



PACKAGING PAPER

Billerud's pulp is ideal for manufacturing packaging paper, where good tear strength is an important property.



AIR FILTERS

High porosity is vital for paper used in vehicle air filters, which is why the properties of Billerud's pulp make it so well suited to this product.

NBSK pulp has a strong competitive advantage here, since it is ideal for manufacturing tissue products. With its unique fibres, the pulp from Billerud's mill in Karlsborg is particularly well suited to this area.

The long-term forecast for global growth in tissue is 3–4%, despite the market remaining largely flat during 2011.

• Strong environmental trend

Demand for eco-certified end-products is being driven by ever increasing environmental awareness – a trend that remains strong, especially in consumer segments. This is particularly true in the growing tissue sector. In this area too, Billerud has competitive advantages, since its pulp is made using sustainable raw material from Swedish forests, where replanting is enshrined in law.

2011 saw Billerud work to increase the proportion of eco-certified raw material through a model for group certification that allows small private forest owners to obtain FSC certification for their forestry.

Around 50% of Billerud's market pulp is eco-certified with Chain of Custody certification from the Forest Stewardship Council (FSC), or PEFC.

MARKET

The year started strongly with a good balance between supply and demand globally. The world market price for NBSK initially hovered at the level at which it started 2011, USD 950 per tonne, before rising to USD 1 010 per tonne in April. A few older factories upping their production in the second half of 2010, when the economy started recovering, led to increased supply which,

together with a certain slowdown in demand, meant that prices came under a certain amount of pressure from autumn 2011.

Over the year, the paper producers gradually ran down their pulp stocks, which weakened demand. The price level in Europe dropped to around USD 825 per tonne by the end of 2011.

However, the pulp market grew globally over the year. China accounted for the entire growth, with consumption up 30%, while Europe and North America fell back in 2011.



▶▶▶ OPTIMUM PULP FOR TISSUE

The market for tissue products continues to grow, as higher global living standards lead to greater use of products such as toilet paper and kitchen paper. The long-term strategy of the Market Pulp business area is to increase sales to the tissue market.




► PACKAGING & SPECIALITY PAPER

► PACKAGING BOARDS

Products	Kraft paper (19% of volumes)	Sack paper (19% of volumes)	Fluting (25% of volumes)
Customers	<p>Converters and producers of packaging for the food industry – 63% of volume Packaging for flour, sugar, grain, etc.</p> <ul style="list-style-type: none"> • Open bags (bread, etc.) • Carrier bags • Flexible packaging <p>Converters and producers of industrial applications – 37% of volume</p> <ul style="list-style-type: none"> • Medical packaging • Release liners for stickers, stamps or hygiene products • Steel interleaving 	<p>Converters and sack manufacturers that supply producers of powdered goods such as</p> <ul style="list-style-type: none"> • Building materials • Minerals and chemicals • Food <p>The cement industry, with its own sack production and integrated filling processes Around 2/3 of sack paper sales relate to sacks for building materials, industrial minerals and chemicals The majority of Billerud's white sack paper is sold in Europe, while 70% of brown sack paper is sold to growth regions outside Europe, predominantly North Africa and South-East Asia</p>	<p>Producers of</p> <ul style="list-style-type: none"> • Corrugated boxes for fruit and vegetables, about 2/3 of the fluting volume • Packaging for components for the automotive industry, white goods and electronics • Packaging for directly-packaged fast food • Transport packaging in corrugated board
Market segments	   	 	   
Driving forces	<p>Increased demand for kraft paper</p> <ul style="list-style-type: none"> • Eco-awareness and political decisions against fossil plastics are strengthening the position of paper packaging • Increased demand for product optimisation • Prosperity is increasing and driving demand for hygiene products, medical products and disposable consumer packaging • The economic growth in Asia is driven by manufacturing, with China now the world's biggest steel producer • Increased demand for attractive packaging 	<p>Good sack quality provides greater profitability</p> <ul style="list-style-type: none"> • Increased construction in growth regions is boosting demand • Requirements for cost reduction, improved functionality and more rapid air release are boosting demand for high-porosity sack paper • In-store sales are placing greater demands on the appearance and printability of sacks 	<p>Strong structure cuts wastage</p> <ul style="list-style-type: none"> • Increased demand for stronger packaging that protects the goods • Increased awareness of the importance of packaging for the environment • Globalisation has brought about increased transportation of goods
Market and capacity	<p>2011: Stable position with gradual weakening of orders</p> <ul style="list-style-type: none"> • The market for products relating to retail is relatively consolidated. The market for packaged food and industrial applications is more fragmented • Good development in the first half-year, but gradual weakening of orders in the second half of the year • Improved price situation in all segments compared with 2010 <p>Long term: Environmental arguments in favour of kraft paper</p> <ul style="list-style-type: none"> • Increased interest in FibreForm • Increased global demand for packaging solutions • Paper has unique environmental properties • More widespread political moves to cut back on non-degradable plastic packaging • Increased competition from non-traditional kraft paper players 	<p>2011: Good demand in growing market</p> <ul style="list-style-type: none"> • The growth regions continued to see strong growth in the construction market, which increased demand primarily for brown sack paper • The European market is choosing white sack paper to improve attractiveness and boost in-store sales <p>Long term: Stable volumes with potential to increase paper use</p> <ul style="list-style-type: none"> • Continued expansion in the construction industry, with increased consumption of cement, etc. particularly in Asia 	<p>2011: Good demand and stable market</p> <ul style="list-style-type: none"> • Improved prices and good demand • Sales of fruit and vegetables less sensitive to economic fluctuations • More customers are seeing the added value of high-quality packaging • Reduced production capacity since one producer shut down their production in 2010 <p>Long term: Large potential for growth</p> <ul style="list-style-type: none"> • The demand for strong packaging is being pushed up by rising populations, stricter environmental requirements and a greater focus on profitability and reducing wasteful use of resources • Increased globalisation has led to increased transportation of goods
Billerud's position	Leading producer of strong, high-quality kraft paper in Europe	Global market leader in white and high-porosity brown sack paper	Quality leader and market-leading producer in top segment with strong position in fruit and vegetables
Main competitors	<p>The primary competition comes from plastic packaging solutions</p> <p>Packaged food: Highly fragmented kraft paper market where the main competitors are Mondi and UPM</p> <p>Paper carrier bags: UPM, Korsnäs</p> <p>Industrial applications: Ahlstrom, Arjowiggins, Mondi, Nordic Paper, Paper Aralar, UPM</p>	<p>The primary competition comes from plastic sack solutions</p> <p>Major sack manufacturers are Canfor, Korsnäs, Mondi, Segezha, Smurfit Kappa, UPM</p>	<p>The primary competition comes from recovered fibre-based fluting</p> <p>Major manufacturers of primary fibre-based fluting are Stora Enso, Powerflute, Mondi</p>

➤ MARKET PULP

Liner (9% of volumes)	Liquid board (2% of volumes)	Cup Stock (1% of volumes)	Nordic long-fibre bleached sulphate pulp (25% of volumes)
<p>Producers of</p> <ul style="list-style-type: none"> • Secondary and primary packaging in corrugated board • Shelf-ready packaging 	<p>Producers of portion-packed drinks</p> <ul style="list-style-type: none"> • Milk • Juice 	<p>Producers of paper cups mainly for drinks</p>	<p>Producers of</p> <ul style="list-style-type: none"> • Hygiene products (tissue) • Writing and printing paper • Packaging paper • Speciality products such as vehicle air filters
 <p>Increased focus on the sales value of packaging</p> <ul style="list-style-type: none"> • Consumers' changing purchasing choices require packaging with excellent printability that stands out on the store shelf • Increased demand for sustainable packaging solutions • Greater focus on product safety and hygiene 	 <p>Increased demand for portion-packed drinks</p> <ul style="list-style-type: none"> • Rising global prosperity and new consumption patterns are increasing demand for portion-packed drinks 	 <p>Increased demand for paper cups</p> <ul style="list-style-type: none"> • Changed consumption patterns with higher sales of take-away drinks 	 <p>Primary fibre ensures high quality</p> <ul style="list-style-type: none"> • Long-fibre sulphate pulp results in good strength and good runability at the paper mills • Billerud's pulp is an eco-friendly alternative and is also available with environmental certification
<p>2011: Demand still good</p> <ul style="list-style-type: none"> • Smart and attractive packaging is becoming increasingly important • Stable customer relations and more stable demand <p>Long term: Outlook still good</p> <ul style="list-style-type: none"> • Increased focus on material savings, packaging appearance and good quality gives continued stable development • Product safety is expected to be a key issue for the future, which bodes well for demand for primary fibre-based liner 	<p>Short and long term: Increased global prosperity boosts demand</p> <ul style="list-style-type: none"> • Increasing prosperity in Asia and elsewhere is leading to greater consumption of single-portion packs 	<p>Short and long term: Changing patterns of consumption are driving demand</p> <ul style="list-style-type: none"> • Broad demand and few suppliers • Promising future segment, the market is expected to increase steadily 	<p>2011: Weaker market</p> <p>Long term: Positive trend in the global market, particularly for NBSK</p> <ul style="list-style-type: none"> • The market for Nordic long-fibre market pulp remains fragmented • Increased global demand in long term • Limited addition of new capacity for long-fibre market pulp • Changed communication patterns are having a negative impact on printing and writing paper but increased demand for hygiene products is compensating for this
<p>Market leader in Europe for pure white liner</p>	<p>Leading supplier of materials for individual drink packaging in lower grammage segment</p>	<p>New product launched in 2009</p>	<p>Strategic supplier to large parts of the European paper industry. Many years of business relations with and geographic proximity to customers who have high quality demands</p>
<p>A small number of specialised players in the market, including</p> <p>M-real Korsnäs Mondi UPM</p>	<p>Korsnäs</p>	<p>Stora Enso</p>	<p>Södra Stora Enso Botnia Mercer Group</p>



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SUSTAINABILITY REPORT

Billerud's offering "The Natural Part in Smarter Packaging" emphasises the company's focus on sustainability, combined with innovation and design. In close cooperation with packaging manufacturers and brand owners alike, Billerud develops sustainable materials and packaging solutions.



Billerud's products are developed in harmony with customers and based on renewable raw materials. Using wood as an input leads to solutions that largely replace fossil-based packaging. This enables Billerud to contribute towards a reduced climate impact.

The right packaging for the right purpose means more efficient use of resources and a lower environmental impact through reduced waste, lower transport costs and higher production capacity, which attracts customers.

- Several new trees are planted for every one tree harvested
- Growing forest binds carbon dioxide
- 40% of wood purchased comes from FSC® and/or PEFC-certified forestry
- The fibres in the packaging can be recycled four or five times
- Used fibre is used as biofuel



BILLERUD CONTRIBUTES TO SUSTAINABLE DEVELOPMENT

Billerud's offering to the market is founded on a way of working that is sustainable in the long term. The products, manufactured from renewable raw materials using a large proportion of bioenergy, contribute to sustainable development.

Billerud offers smarter packaging solutions – resource efficient, renewable and innovative solutions in other words.

Billerud's values and approach are summed up in "Embracing the {goods}" and seek to highlight what is important for the customer, for colleagues, for the company and for the environment. Combined with the company's values, the offering to the market creates a clear image and direction for the future.

CHALLENGES AND OPPORTUNITIES

The greenhouse effect is one of the biggest global challenges of our time. Fossil raw materials need to be phased out as sources of energy and as production inputs for packaging, for example. This will boost demand for new fossil-free packaging materials. With its paper-based packaging material, Billerud is well placed to become part of the solution. Paper-based packaging is biodegradable and is not associated with the problems of littering or damage to animals and aquatic life created by plastic packaging.

Billerud is striving to reduce fossil carbon dioxide emissions. Emissions of fossil carbon dioxide per tonne of product have fallen steadily from 104 to 60 kg between 2008 and 2011. The target is for the business to be completely fossil free in the long term. In 2011 96% of Billerud's heat energy requirement was met by biofuels such as black liquor and bark. The heat energy was used for process heating and to generate approximately 60% of the plants' electrical energy consumption.

Billerud is involved in emission rights trading, which seeks to lower the industry's carbon dioxide emissions.

Environmental risks are constantly analysed. In general, all mills conduct environmental risk analyses before construction projects, when changing procedures and working methods and before introducing new chemicals. In 2011 a major environmental risk analysis was carried out at

Skärblacka mill prior to the application for a new permit. Risk analyses regarding the spreading of legionella bacteria from the biopurification plants are ongoing. At Gruvön the risk of serious flooding was analysed following the publication by the Swedish Meteorological and Hydrological Institute of new calculations concerning future water levels in Lake Vänern.

BILLERUD PART OF THE SOLUTION

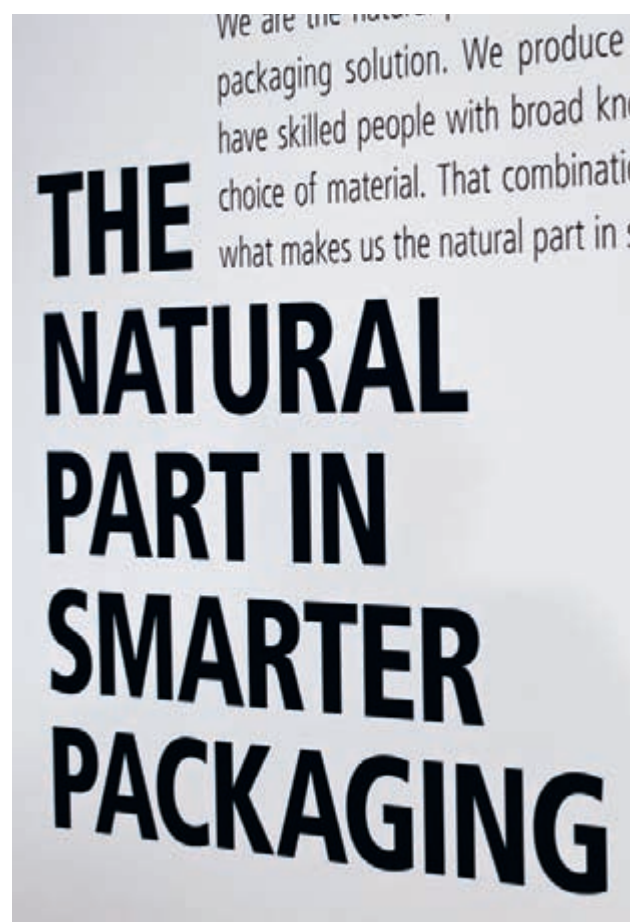
Billerud manufactures paper-based packaging material made from renewable forest raw materials capable of replacing fossil-based materials. Packaging made from paper has a lower greenhouse effect than equivalent plastic packaging.

Innovation is crucial to Billerud and involves customer-oriented development of products and solutions. The packaging produced from Billerud's pulp and paper is recyclable.

Billerud has excellent opportunities to optimise every step of the product's lifecycle. The forest raw materials are purchased as locally as possible, which is efficient in terms of transport. All production takes place in Billerud's own mills, giving the company complete control of energy efficiency, emissions and resource optimisation in general. The very close relationship with customers ensures that Billerud's packaging material is also efficient in the usage phase.

Billerud's products have a positive impact on the environment and on use of resources in several ways:

Customer-oriented innovation – Billerud works very closely with its customers on product development. The Group has special laboratories that work to develop various materials, functions and designs in line with customers' requirements. The result is new, smart packaging capable of meeting the market's growing needs for paper-based packaging capable of replacing plastic in many cases.



Renewable raw materials – Billerud uses raw materials that largely comprise primary fibre from the forest. Active forest management that involves replanting and growing trees contributes towards greater absorption of carbon dioxide. All wood purchasing at Billerud complies with the criteria for FSC Controlled Wood. Used packaging can either be recycled or incinerated as a source of energy. Primary fibre is often a requirement for use in the food industry, for example, which is one of Billerud's main markets.

Strong packaging material – Primary fibre-based paper is strong, which means it can be thinner while still providing high strength. A lighter material demands lower inputs, while strong packaging protects the contents, so minimising waste. This reduces the overall environmental impact, particularly in the food industry.

Strong materials also make transport more efficient, as the packaging can be filled with a larger amount and stacked to a greater extent. The result is a higher packing rate, lower transport costs and lower emissions.



Important events in 2011

- The target for carbon dioxide emissions per tonne of product was revised from -15% to -30% by 2013 (base year 2008). Carbon dioxide emissions fell by 39%
- Close collaboration with one of the world's major cement manufacturers resulted in cement sacks with low material use, saving 20% of materials during manufacture, becoming standard in Indonesia
- The number of work-related accidents resulting in sick leave fell by 20% compared with 2010
- 60% of the trainees recruited for Billerud's trainee programme in 2011 were women
- A new environmental permit at Skärblacka requires investments to reduce emissions to air, which will also result in major energy savings
- Billerud's corporate headquarters moved to one of Stockholm's greenest office buildings. The property is part of the EU's Green Building programme and is rated Gold by the Swedish Green Building Council

BILLERUD REDUCES ITS ENVIRONMENTAL IMPACT

The business is energy intensive, and over many years this has led to investments to improve efficiency. Billerud uses 96% bio-fuel to meet its heat energy requirement, which is reflected in its carbon dioxide emissions, which amounted to 82 000 tonnes from fossil sources and 3 200 000 tonnes from bio-generated sources. The aim is to introduce ongoing efficiency improvements, so developing the business to run entirely without fossil energy.

Production causes emissions to air and water. Operations require a permit under the Swedish Environmental Code. Billerud applies a certified environmental management system in all mills to ensure constant improvements and compliance with its permits. During the year the company has not been found guilty of any breach of its permits. The permit for Skärblacka was renegotiated during 2011, which involved the introduction of more stringent criteria for some emissions to air.

Chemicals are an important input in Billerud's production and are associated with stringent requirements in terms of safety and risk management. Billerud complies with the EU's chemicals legislation on

information and labelling of products within the EU (REACH). The employees who work in the chemicals groups and in production at the respective mills play a decisive role in monitoring use, complying with the law and evaluating new alternative chemicals.

Billerud's transport of inputs predominantly involves wood from the Nordic and Baltic countries. Local raw materials are transported by road. Transport over longer distances is by rail and by sea. The aim is to purchase wood as locally as possible. In 2011 80% of all wood came from Sweden. Transport of products from the various mills is 80% by sea or by rail, partly coordinated within the industry to achieve efficient transport.

AN ACTIVE ROLE IN LOCAL COMMUNITIES

Billerud is the largest employer in all the communities in Sweden where its mills are located. This brings with it a major responsibility as a company but also an opportunity for influence. Billerud has always prided itself on its long-term, trusting relations with the County Administrative Board, the municipality, local residents, the local media and schools.

Beetham, the mill in the United Kingdom, has close links with the local fire

service, as two employees are part-time fire-fighters during working hours. They may be called out during the working day. Such arrangements are common in the UK and have been part of Beetham for 40 years. The Skärblacka mill also pays for three out of eight part-time fireman on duty at the local fire station.

The mill is often consulted when major investments are planned in the municipality. In Kalix municipality this is currently the case as the port is to be expanded, while Norrköping municipality is planning an initiative to make Skärblacka more attractive as a place to live. The mills are involved in the collaborative process in both cases.

In general, Billerud is involved in training initiatives, cultural events and sport at its mills. One example is Karlsborg, which sponsors one of Kalix's women's football teams, which reached Division I this year. Another is Gruvön, which is working to increase contacts with Karlstad University and Chalmers University of Technology with the aim of spreading awareness of the mill's operations and need for expertise.



CODE OF CONDUCT A CORNERSTONE OF SUSTAINABILITY

Billerud's work on sustainability is governed by a number of policies and guidelines, where the Code of Conduct is the predominating standard. 130 managers increased their awareness of the code at the management conference.



CODE OF CONDUCT UP AND RUNNING

At this year's management seminar managers were able to apply the Code of Conduct in practice. Managers were given an introduction to the code and then worked on a number of scenarios on issues such as bribery, employee harassment, risk behaviours and alcohol consumption in the workplace and invitations to collaborate with competitors on pricing. Their task was to use the Code of Conduct to recommend solutions. The aim is to increase awareness among managers of the extent of the code and its usefulness as a staff guideline.

Other employees were also familiarised with the Code of Conduct through local staff meetings.

INTERNATIONAL GUIDELINES

The Code of Conduct is a summary of the company's responsibility, guidelines, procedures, values and goals and was adopted by the Board in 2010. The aim is for it to serve as a guideline for all employees in their day-to-day work. The code sets out Billerud's core values: professionalism, efficiency and creativity. Customers must be treated in a professional manner, characterised by competence, experience and good business ethics. What Billerud delivers must exceed the market's expectations. The code covers areas such as compassion, relationships with various stakeholders, business ethics, consideration for the environment and social responsibility.

The Code of Conduct is based on the UN Declaration on Human Rights and other international guidelines, such as:

- The UN's Global Compact on sustainable business practices.
www.globalcompact.org

- The OECD's guidelines for multinational companies. www.oecd.org
- The ILO's conventions on decent working conditions. www.ilo.org

Billerud also complies with Principle 15 of the Rio Declaration on the Precautionary Approach, which means taking a preventive and risk-minimising approach to environmental issues throughout the business.

Compliance with the Code of Conduct is monitored by Billerud's Ethics Council. The council, which is headed by the Director of Human Resources and also comprises the mills' HR managers, is tasked with following up reported infringements of the code. Employees who discover infringements can report them, anonymously if they so wish, to the Ethics Council or to the audit committee. No incidents were reported during 2011.

INTEGRATING WORK ON SUSTAINABILITY

Billerud's work on sustainability is headed by the company's Sustainability and Energy Director, who reports directly to the President and CEO. The CSR manager heads a CSR Committee tasked with ensuring that sustainability work is as efficient, professional and integrated in the day-to-day work of the company as possible. The CSR Committee drafts proposals for the management and is responsible for monitoring work on sustainable development, quarterly in some cases and otherwise annually. Billerud has Group-wide targets for the environment and human resources.

DEVELOPMENT VIA MANAGEMENT SYSTEMS

Billerud's work on sustainability rests on the firm foundation provided by the Code of

Conduct and guiding policies, such as the policy for quality, the environment and social responsibility, the personnel policy and the sponsoring policy. There are also a number of more detailed guidelines. All the policies and guidelines are available on the intranet and are revised as necessary by the senior management team.

Various management systems are applied in operational work at the mills. All the mills have a certified quality and environmental management system (ISO 14001 and ISO 9001) and the Swedish mills also have energy management systems in place. The Beetham mill in England applies a certified occupational health and safety management system (OHSAS 18001). The management systems ensure the systematic development of the business. The Swedish mills and the purchasing company Billerud Skog also hold Chain of Custody certification from FSC and PEFC.

GOOD COMPLIANCE

- In 2010 Billerud was ordered to pay a fine of SEK 19.5 million due to an administrative error regarding the reporting of emission rights in 2007. Billerud has appealed to the Supreme Court but a decision on leave to appeal has not yet been issued.
- No incidents of corruption were reported in 2011.
- Billerud has not had to investigate any of its business units or business partners on corruption grounds as no suspicions of irregularities have arisen.
- Billerud has not been the subject of any legal measures for anti-competitive behaviour, antitrust or monopoly practices.



POLICIES AND GUIDELINES

Code of Conduct
Policy for quality, the environment and social responsibility
Personnel policy
Sponsoring policy
Guidelines for energy consumption
Environmental guidelines for purchasing wood
Product safety and hygiene guidelines
Purchasing guidelines
Finance policy
Credit policy

“We have been members of the UN’s Global Compact since 2009. Our membership shows the world around us that we have adopted and support the ten global business principles drawn up by the Global Compact.”

Per Lindberg, President and CEO

ACTIVE IN THE INDUSTRY

Billerud actively participates in various collaborative ventures and networks that seek to exchange knowledge and experiences and to lobby on particular issues, for example within the EU. One of these is the Confederation of European Paper Industries, a lobbying organisation at EU level, which champions the interests of the pulp and paper industry. The European Federation of Corrugated Board Manufacturers, of which Billerud is a member, also carries out lobbying at EU level. Another joint initiative is Miljöpack, a group of Swedish companies that work together for environmentally efficient packaging. “Normpack”, “Paper Province” and the Swedish Forest Industries Federation are other examples of organisations in which Billerud plays an active role.

THE 10 PRINCIPLES OF THE GLOBAL COMPACT

Human rights

Principle 1.

Businesses should support and respect the protection of internationally proclaimed human rights and make sure they are not complicit in human rights abuses.

Principle 2.

Labour

Principle 3.

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining the elimination of all forms of forced and compulsory labour the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation.

Principle 4.

Principle 5.

Principle 6.

Environment

Principle 7.

Businesses should support a precautionary approach to environmental challenges undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies.

Principle 8.

Principle 9.

Anti-corruption

Principle 10.

Businesses should work against corruption in all its forms, including extortion and bribery.



AWARDS AND PRIZES 2011

Award	Recipient	Awarded by
Premier Prix Innovation technologique	FibreForm	Packinnove Europe
Pentawards Best of the Show	NINE	Pentawards
Pack & Emballage Design Challenge	FibreForm/Impression	Pack & Emballage
Red dot award: communication design 2011	NINE	red dot
Best MidCap company – financial communication	Billerud AB	IR Nordic Markets
Best IR manager MidCap Companies	Sophie Arnius	IR Nordic Markets
3rd place – Best financial communication web	Billerud AB	The Swedish Shareholders' Association/Kanton
3rd place – Female manager of the future	Annica Bresky	Shortcut & Chef
Top ten best Swedish websites	www.billerud.com	Hallvarsson & Halvarsson
Top ten most responsible companies	Billerud	Folksam's Corporate Responsibility Index 2011
Environment prize of the year	Skärblacka mill	Norrköping environmental network



BILLERUD INTERACTS WITH THE WORLD AROUND IT

Openness towards all stakeholder groups and good contacts create a firm footing for a Billerud that is sustainable in the long term. The mills place great emphasis on fostering good relations with local communities.

DIALOGUE FOR DEVELOPMENT

It is important for Billerud to conduct an open dialogue with its stakeholders to ensure that the company's development is heading in the right direction.

Billerud has daily contact with customers, suppliers and employees plus more formal meetings such as local consultation in mills' local communities.

Meetings are also one way of canvassing the opinions and meeting the communication expectations of investors. As far as sustainability reporting is concerned, investors have made it clear that it is important to report relevant key issues such as how strategies and business models impact on Billerud's work on sustainability.

Shareholders are able to voice their opinions on Billerud's operations at the annual general meeting. At last year's annual general meeting questions were asked about the way the company addresses equality and diversity.

Billerud's operations at the mills have a local impact in the form of smell and noise, which means that local residents in the communities surrounding the mills are an important stakeholder group for the company.

CONTACT WITH LOCAL RESIDENTS

All the mills welcome the views of local residents on Billerud's operations and have established procedures for dealing with complaints. One example is the Skärblacksa mill, which has had an environment panel for the past 20 years, comprising people who live or work close to the mill. They contact the mill if they are troubled by smells or other environmental issues. The system works well and the panel is a supportive element in development work at the mill.

The Gruvön mill has a tradition of inviting the general public in for guided tours in the summer. These events enable Billerud and local people to exchange opinions and

information. All the mills also encourage contacts with schools to spread information and to inspire and attract future employees to work in the mill.

CONSULTATION AT SKÄRBLACKA

Skärblacksa mill has undergone the process of renewing its environmental permit under the Swedish Environmental Code. Consultation with local residents, the Environmental Protection Agency and the County Administrative Board has been a natural and important part of this process. The authorities primarily required reduced emissions of dust, which will be tackled by major investments at the mill. Local residents highlighted noise as an important issue, and the mill is working to improve this in its daily operations. The investments at Skärblacksa will also result in greater energy efficiency and an increase in production capacity.



Billarud supports many clubs and organisations in its local communities. The women's football team in the picture has been sponsored by Billerud for several years and has reached the women's Division I.

STAKEHOLDER-GROUPS	DEFINITION	TYPE OF DIALOGUE	SUSTAINABILITY ISSUES	RESULT
INVESTORS	Shareholders Analysts Potential investors	Annual report including sustainability report, interim reports, Website, Investor meetings, Press conferences, Meetings with analysts, Questionnaires from ethical and environmental investment funds.	Economic value development sustainable in the long term, Business and product development perspective linked to sustainability trends.	Sustainability report, OMX GES Nordic Services Sustainability Index, IR Nordic Markets, best MidCap company financial information and best IR manager, Folksam's Corporate Responsibility Index, 5th place.
	Existing customers Potential customers Customers' customers End-consumers	Personal meetings, daily contact, Fairs, seminars & customer meetings, Customer surveys/questionnaires.	General requirements for sustainable corporate management and Code of Conduct, Specific questions, such as: certified volumes of forest, illegal felling, key biotopes, carbon footprint, REACH, groundwater.	Environmental brochure, Carbon footprint study, Sales material on environmental issues, Product and business development.
CUSTOMERS	Existing suppliers	Supplier evaluations.	Have discussed codes of conduct and sustainability issues with suppliers during procurement.	Revised sustainability evaluation template.
	Lenders	Personal meetings, Financial communication.	Economic value development sustainable in the long term.	Sustainability report.
	Existing employees	Workplace meetings, Management meetings, Internal training, Staff surveys, Incident follow-up, Performance reviews.	Code of Conduct, Business ethics questions, Skills development, Work environment and safety, Fitness measures, Diversity.	Skills development model, Extensive work on the work environment and safety, Action plan for victimisation at work, Diversity survey, Extended trainee programme.
EMPLOYEES	Union representatives	Local joint meetings, Collaborative forum at Group level, European Works Council.	Work environment and safety, Skills development, Terms of contract.	Open and constructive dialogue, Greater respect and understanding of each other's situation.
	Future employees	Mill visits, Careers fairs at colleges and universities, Student magazine.	Environmental issues, Ethical issues, Terms of employment.	Employer branding, Trainee programme.
BUSINESS PARTNERS	Partners	Close contacts and development projects.	Developing sustainable and resource-efficient packaging, Developing bioplastic barriers.	New products and packaging solutions, such as FibreForm, New business approach, e.g. SoliQ.
SOCIETY	Local residents and local associations	Focus groups, Information meetings, Environmental reports at mill level, Environment panels.	Emissions to air and water, What has happened, Plans for the future at mills.	Greater respect and understanding of each other's situation and actions.
	Schools and universities	Close contact with educational institutions, Study visits.	Regional skills-boosting initiatives: training, work placements.	Built a basis for future recruitment, Greater range of technical vocational training courses.
	Authorities	Contact with County Administrative Boards and municipalities in conjunction with supervision, Statutory environmental reports, Consultations in conjunction with environmental licensing.	Emissions to air and water, noise, energy, land issues, waste, use of chemicals.	Better understanding of each other's points of view on environmental issues, New environmental permit at Skärblacka.
	Certification bodies External auditors	On-site visits and other kinds of dialogue in conjunction with audits.	Legislation and criteria of the standard in question.	Requirements and proposals for improvements.



COMMITTED EMPLOYEES

During the year Billerud developed its strategic process to achieve greater clarity internally and in the market. Defining the strategy as “The Natural Part in Smarter Packaging” paves the way for a common image of Billerud.



Similarly, the values and behaviour of employees have been encapsulated in the phrase Embracing the {goods}. This means that Billerud embraces what is valuable for its customers, its business, its employees and the environment.

Billerud's competent employees are determined and highly motivated to fulfil customers' desire to develop smarter packaging solutions.

Billerud began the launch of its offering “The natural part in smarter packaging” and its values statement “Embracing the {goods}” at the end of 2011. In the future this will be a visible part of all communication exter-

nally and internally. It will reinforce the internal culture and emphasise the value of having motivated, satisfied and competent employees. The aim of this more distinct message is to make Billerud an even more attractive employer and attract the best entrants to the company.

STRATEGIC HR

The Director of Human Resources is the person ultimately responsible for developing strategic work on HR and ensuring that the regulatory framework is followed with regard to employees. At each mill there are human resources functions responsible for operational human resources work at local level. At strategic level, the work is headed by the Director of Human Resources in close dialogue with HR managers and business managers.

To ensure systematic work on safety in the mills, the Swedish mills comply with the Work Environment Act's guidelines on systematic work environment management, which serve as a work environment management system. The Beetham mill is certified under the standard OHSAS 18001.

ONGOING SKILLS DEVELOPMENT

Billerud works systematically to develop expertise and increase the level of education of its employees. Guaranteeing the right skills is essential for success today and into the future. The aim is for Billerud's employees to be able to develop their skills on an ongoing basis and receive personal feedback on their development and performance. Performance reviews are used to identify any skills gaps in relation to the organisation's goals and an action plan is drawn up to meet needs that arise. To place performance reviews on the right footing, Billerud has offered performance review training to managers and employees. In 2011 75% of employees received personal feedback in the form of a performance review, compared with 59% in the previous year.

Billerud works systematically on its

long-term skills supply. Following a mapping of retirements coming up in 2011-2015, work is underway to recruit and pass on skills to new employees. Billerud also attended careers fairs and industry evenings to attract skilled employees for the future.

The trainee programme launched in 2010 was developed further in 2011. The most important new element is that employees from different functions in the company are now participating in training. This mix of people with and without experience of Billerud and with different skills has led to constructive discussions, new networks and a learning process.

Since Billerud set the target of 60% of all new recruits having post-upper secondary education by 2013, the trend has been growing. In 2011 58% of all new employees had post-upper secondary education.

INCREASED CUSTOMER FOCUS

Every other year Billerud carries out a staff survey, most recently in 2010. The result led to a list of actions to be taken in three priority areas. One area is customer focus and several initiatives were carried out during the year to increase awareness of Billerud's end-customers. With the new brand strategy, communication will more clearly be linked to demonstrating the value Billerud creates for its end-customers and consumers.

The two other areas are leadership and skills, which are constantly in focus in Billerud's work on HR.

TRAINING NEW MANAGERS

Skilled managers are crucial to Billerud's success. One leadership development target is that every manager must receive personal feedback on their leadership and access to tools to help them develop. The staff survey is a good tool for encouraging this.

During the year, new appointees to management positions received training in leadership, communication and Billerud's business. This investment is expected to reap rewards in the form of managers who are better prepared



SUSTAINABILITY TARGET	PARAMETER	2011	2010	2009	2013
The number of work-related accidents is to fall constantly through a focus on safety and incident reporting on an ongoing basis	Work-related accidents with sick leave, Swedish mills	35	43	26	falling
50% of the managers recruited in 2013 must be women	Proportion of female managers recruited	36	29	50	50%
All employees must be able to develop their skills and receive personal feedback on their development and performance	Proportion of employees who received performance reviews	75	59	55	100%
60% of the employees recruited in 2013 must have completed post-upper secondary education	Proportion of employees with post-upper secondary education	58	65	55	60%
All managers must receive personal feedback on their leadership and access to tools to help them develop	Proportion of managers who received feedback on their leadership (measured every other year)	–	66	–	100%
When recruiting management, three candidates must always be internal to increase development opportunities and internal mobility	Average number of internal applicants per management post	2.2	2.2	1.8	3 candidates

to lead, develop and motivate their staff. Senior managers were also offered skills development training.

In 2011 selected employees were invited to participate in the “Aktivt vägval” programme in which they were given an opportunity to develop a platform for their own development within the company. In consultation with their line manager and an external coach, they each drew up a plan for their own personal development at Billerud.

Leadership and skills development initiatives are important if Billerud is to meet its target of three internal candidates for each management post by 2013. In 2011 2.2 of the candidates for various management posts were internal, the same as in 2010.

25% OF “TOP 150” LEADERS WOMEN

In December 2011 the average age of employees was 47 and 19% were women. 36% of new managers appointed to jobs with personnel management duties were women. The long-term aim is for this figure to be at least 50% for new appointments. The distribution between women and men and the age distribution within Billerud needs to be tackled. The average age of the Board of Directors was 49 and the propor-

tion of women 25%. In the category “Top 150” leaders, 25% were women.

To retain and recruit more women, Billerud is actively working on gender equality. The company attends university fairs and arranges information evenings to market Billerud to young women. Information on opportunities to write dissertations and carry out work experience at Billerud is shown on the website and information about Billerud is provided in magazines distributed to students. These initiatives have paid off and the new trainee programme is 60% female.

Billerud carries out ongoing pay surveys every three years in line with Swedish legislation. Very few cases of significant gender-based pay differences have been identified and these have been tackled with action plans. Under Swedish legislation there is no statutory obligation to report on other diversity factors.

A SAFER WORK ENVIRONMENT

During the year Billerud stepped up its safety work throughout the company. The PIA information system is now used in all mills, making it easy for employees to document incidents and risks in the work environment.

The system has been very positively received by the employees, who find it easy to use. This means that Billerud can now work more preventively to stop accidents occurring.

Further development of safety inspections has reinforced work to ensure a safe work environment. Representatives of the company and its employees work together to survey risks and analyse incidents and accidents that have occurred. The results must be documented in the new PIA tool to make them accessible to the whole organisation.

This year’s figure for work-related accidents with sick leave has fallen to 35, compared with 43 last year. No fatal accidents occurred during the year.

Many stakeholders in the Swedish forest industry, including Billerud, have biopurification plants that use bacteria and micro-organisms to break down pollutants in the water. It has been found that legionella bacteria flourish in this environment, resulting in a risk of employees developing Legionnaire’s disease. Billerud is involved in industry-wide collaboration to address this risk. Billerud has never had any known case of Legionnaire’s disease and has procedures in place to inform employees of how to protect themselves.



SUBSIDISED BIKES

Billerud offers its employees a fitness grant on an annual basis that can be used for exercise or other healthy activity. All Swedish mills also have exercise facilities in the workplace or provide group activities aimed at getting employees exercising. Approximately half of the employees make use of these opportunities. The most common option is to buy a gym membership card or visit the swimming pool. As part of a major fitness campaign at the Beetham mill, staff were offered a chance to buy subsidised bikes, and many employees now cycle to work as a result. Another example of a popular health initiative during the year was a step counting contest run at Billerud Skärblacka.

One aim of these fitness initiatives is to prevent sick leave, which in 2011 amounted to 3.2%, slightly up on 2010. Total sick leave remains low, however, and it can particularly be noted that long-term sick leave is falling.

ACTIVE CO-DETERMINATION

Billerud is keen to maintain a good dialogue with the unions. All employees are entitled to join the union of their choice and collective agreements are in place at Billerud.

At Group level there is a collaborative forum whose members include the CEO, the Director of Human Resources and the employee representatives on the Board of Directors. The forum meets before each Board meeting for a dialogue on the issues that are important for relations between employer and employees.

A union reference group comprising representatives of all collective agreement areas and mills meets before each Board meeting. In addition to these meetings, dialogue is carried out within the framework of European Works Councils (EWC).

BILLERUD'S ROLE IN THE WORLD

Billerud has been supporting the organisation ActionAid since 2010. Employees are offered an opportunity to donate a monthly sum of SEK 60 to the organisation, which Billerud tops up with an additional SEK 100. So far, between them, Billerud and its employees have donated over SEK 1 million to various activities in developing countries. The money goes, for example, towards direct support for seeds or aid in the form of education or building houses. The majority of the aid is paid to women, because experience has shown that when women receive the money the whole family benefits. Every year two of Billerud's employees who participated in the scheme join a project in the country concerned.

NO DISCRIMINATION

All Billerud's suppliers are located in Europe. This means that generally the risk of human rights violations is relatively low. Billerud



Opening of a new school in Kenya funded by ActionAid. Two Billerud employees, Ulla Gälman and Magdalena Finné, spent a week there helping with the building work.

also judges the risk of child labour to be minimal on the same grounds.

For the past few years, Billerud has had an action plan in place against victimisation in the workplace. There is zero tolerance for discrimination on grounds of ethnic origin, nationality, sex, religion, sexual orientation, age, disability or political inclination. Audits of suppliers and internal monitoring in the form of reports to the Ethics Council have not identified any cases of discrimination during 2011.

MOTIVATED EMPLOYEES

Billerud's staff are the greatest standard bearers for the brand and thereby a highly prioritised target group in the company's communication on the new brand promise. The communication plan is divided into three phases. The first is that all employees must feel involved and understand the business strategy and thus Billerud's offering to the market. In autumn 2011 all employees were invited to meetings on the strategy. In phase two Billerud's offering to the market will be described in more detail and the business strategy will be presented to a wider group of stakeholders.

The purpose of internal communication is to create participation and thereby motivated

employees. The company's intranet and staff magazine also play an important role in work on values and employees from different units are included on the editorial boards of the intranet and the magazine.

The contributions and commitment of all employees are encouraged by checks against the targets set. The purpose is to create a working climate in which every employee is encouraged to take active responsibility for their day-to-day work by clearly recognising the results of what they do. All employees at Billerud have a flexible pay component linked to the company's profitability and local targets.

EMPLOYEE STATISTICS 2011

	TOTAL	GRUVÖN	SKÄR- BLACKA	KARLS- BORG	BEETHAM	BILLERUD- SKOG	HQ	SALES OFFICES	TENOVA
Employees									
Average number of employees ¹ (LA1)	2 277 ²	878	635	431	142	36	59	71	15
No. of employees at year-end	2 287 ³	878	651	420	141	36	67	69	14
of whom women (LA13)	% 19	19	18	14	6	33	48	58	7
of whom blue collar (LA4)	% 66	72	71	81	67	0	0	0	50
of whom white collar	% 34	28	29	29	33	100	100	100	50
Average age, years	47.1	48.4	45.8	49.4	48.3	35.3	42.6	42.7	38.6
Employee turnover	% 4.5	3.7	4.5	3.5	2	11	15.3	13	21.4
Sick leave (LA7)									
Total sick leave as % of hours worked	% 3.2	3.5	3.6	2.1	3.6	2.4	0.8	3.3	0.6
Work-related injuries									
No. of work-related injuries	40	10	16	9	5	0	0	0	0
Work-related injuries with sick leave	% 1.8	1.1	2.5	2.1	3.5	0	0	0	0

1 100% of employees in Sweden and at Beetham are covered by collective agreements (LA4). 2 Includes also NINE with 10 employees. 3 Includes also NINE with 11 employees.

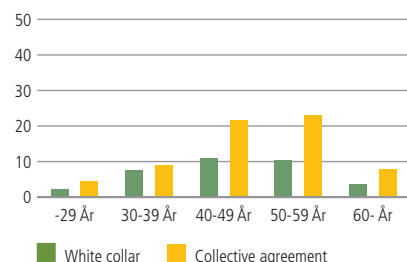
FIVE-YEAR OVERVIEW, EMPLOYEE STATISTICS

	2011	2010	2009	2008	2007
Average number of employees	2 277	2 240	2 232	2 322	2 364
No. of employees at year-end	2 287	2 263	2 214	2 281	2 352
Employee turnover, %	4.5	2.8	6	5.2	2.3
Average age, years	47.1	46.5	46.9	46.1	45
Work-related injuries ⁴ , %	1.8	2.1	1.3	2	1.9
Total sick leave, %	3.2	2.9	2.8	3.5	3.8
Of which long-term leave (> 60 days) of total sick leave, %	36.3	38.7	40.7	47.5	49

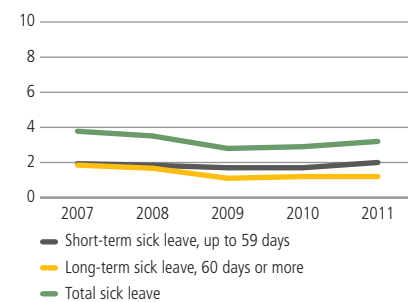
Details of work-related injuries, sick leave and average age are for the Group's Swedish companies up to and including 2008.

4 Number of injuries resulting in sick leave as % of total no. of employees. Industry average 1.7%.

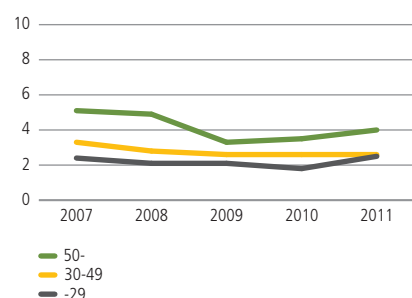
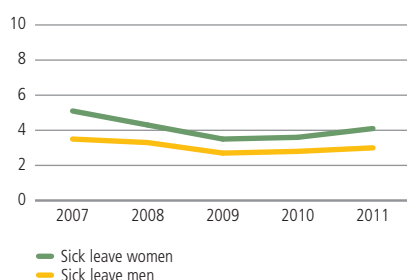
**AVERAGE NUMBER OF EMPLOYEES
(LA 1, LA 13)**

**AGE DISTRIBUTION (%)
(LA 4)**


The proportion of employees aged 50 or older was 40% (43) among white collar staff and 47% (44) among blue collar staff. The proportion of employees under 40 was 28% (26) among white collar staff and 20% (21) among blue collar staff.

**SICK LEAVE AS % OF HOURS WORKED
(LA 7)**


Sick leave increased by 0.3% in 2011 and is 3.2%

**SICK LEAVE DIVIDED BY AGE AS
% OF HOURS WORKED
(LA 7)**

**SICK LEAVE DIVIDED BY GENDER AS
% OF HOURS WORKED
(LA 7)**


Sick leave increased by 0.1% for men and 0.2% for women in 2011.

**POLICIES AND
GUIDELINES**

Personnel policy
Alcohol and drugs policy

Guidelines on:
Work environment
Diversity
Skills development
Fitness
Rehabilitation
Maternity/paternity pay
Recruitment



BILLERUD TAKES RESPONSIBILITY FOR ITS PRODUCTS

In practice this means that the packaging material delivered to different customers the world over must be free from hazardous substances, that the product information is correct and that the right product is sold for the right purpose.

MANAGEMENT SYSTEMS THAT SAFEGUARD PRODUCT RESPONSIBILITY:

- ♦ ISO 14001 (Environment)
- ♦ ISO 9001 (Quality)
- ♦ BRC IoP (Hygiene)
- ♦ FSC/PEFC (Raw materials)

Billerud provides large amounts of packaging material for the food industry and for medical use. The food sector is responsible for approximately 50% of Billerud's production. Both these areas are subject to specific product safety criteria. This means that Billerud sets stringent requirements on checks of inputs such as chemicals. Finished products undergo testing for chemical and microbiological purity, smell and flavour.

CLEAR PRODUCT RESPONSIBILITY

The product safety group, whose members are drawn from all of Billerud's production units, was formalised during the course of 2011. This Group-wide network of product safety engineers further reinforces Billerud's work on product safety. The group keeps up to date on legislation and regulations on product safety in the markets in which Billerud operates and efficiently handles customer enquiries.

The group reports to the product safety council, whose members include the Production Director, the mill managers and the heads of the business areas.

The mills are responsible for ensuring that product safety requirements are met at the production stage, while the business areas are responsible for ensuring that the right product is sold in the respective market. Different markets can have different requirements on product safety and information.



♦ ♦ ♦ Hygienic products are of the utmost importance when they are being used for food or medical applications. This makes high demands of the way in which Billerud manages quality, safety and the environment.

In 2011 Billerud trained employees from production, marketing, including sales staff, purchasing and development on product responsibility, safety and FSC/PEFC forest certification. Billerud works systematically to increase employees' awareness of product safety.

Billerud complies with the relevant legislation and regulations on product safety. The integrated management systems facilitate good control of production management, quality control, traceability and documentation to verify that the products are safe for consumers and the environment. The company also hires third-party laboratories to carry out analyses, check documentation and issue third-party certificates. During the year Billerud was not involved in any incidents regarding product safety or incorrectly labelled products leading to complaints, fines or legal action.

CERTIFIED FOREST RAW MATERIALS

In 2011 41% of the forest raw material that Billerud bought in was FSC or PEFC-certified, which means that the company is able to sell a corresponding proportion of

FSC or PEFC-certified products. The business areas are responsible for ensuring that sales of certified products do not exceed the percentage of certified raw materials. The mills are responsible for providing correct information about FSC and PEFC respectively on invoices and transport documents to customers. To increase awareness of the criteria for using certified raw materials, FSC and PEFC were included in product safety training in 2011.

MARKET COMMUNICATION

There are a wealth of laws and standards governing market communication that companies like Billerud must follow. To ensure compliance, central purchasers of market communication are trained in European marketing law and general rules on good marketing practice. Billerud has never been reported for any form of infringement in the field of market communication. The Code of Conduct contains principles for how Billerud's employees are to relate to different stakeholder groups such as customers, which makes it relevant as a guiding principle for market communication too.



Pictures from Tetra Pak



▶▶▶ TETRA PAK CHECKS BILLERUD

Customers too help to ensure that Billerud maintains its focus on responsibility for the environment, business ethics and product safety. One example is the inspection that Tetra Pak carried out at Gruvön mill over two days in March 2011 to assure itself that Billerud was fulfilling its undertakings as a supplier.

"Of course the most important thing is product safety," say the Tetra Pak representatives.

But Tetra Pak also looked at how Billerud works on other priority issues such as sustainable forestry and low carbon dioxide emissions.

Tetra Pak sets a number of requirements for its suppliers, covering everything from environmental responsibility and product safety to business ethics. Each supplier is audited every three or four years. The visit to Gruvön was one such planned audit. It involved examining documents, visiting the control room and a number of conversations with employees at the mill. Using random sampling techniques, Tetra Pak gained an insight into the way quality management and product safety work. Tetra Pak also tested Billerud Gruvön's traceability. In November Tetra Pak made a follow-up visit to see how non-compliances and suggested improvements from the audit in the spring had been tackled and they were pleased with the results. It is quite common for customers to carry out audits like these, which support Billerud's improvement-oriented approach.



FOREST PRODUCTS ARE GOOD FOR THE ENVIRONMENT

Bans on fossil-based plastic bags are becoming increasingly common across the world. Billerud's packaging solutions based on renewable raw materials replace fossil-based material. The packaging is innovative, often weighs less, protects the goods better and requires less material for its manufacture.

The environmental standard at Billerud's mills is high, as a result of continuous work on the environment spanning many years. All the mills have certified environmental, quality and energy management systems. The mills each have an environment manager responsible for operational work and contact with the supervisory authorities. The mill manager bears main responsibility for ensuring that the mill complies with the permit criteria, while other managers in the line organisation are responsible for work on the environment in their respective areas. The mills work together in an environmental network.

Employees at Billerud have undergone training in basic environmental knowledge, and this also forms part of the induction training for new employees. Key personnel receive more in-depth environmental training to enable them to tackle environmental issues on an ongoing basis.

Over the years Billerud has invested in measures primarily to use resources and energy more efficiently and drive work on the environment forward. In the new energy efficiency plan for the period 2011 to 2014 Billerud estimates cutting electricity use by approximately 24 GWh per year.

In 2011 total environmental investments amounted to SEK 95 million, an increase on the previous year. Other investments made during the year include additional electrical filters after the recovery boiler in Karlsborg to reduce emissions of dust to air. A new

green liquor filter was taken into operation to provide cleaner green liquor, less lime consumption and thus less waste product being sent to landfill.

NEW PERMITS AT SKÄRBLACKA

Pulp and paper manufacturing involves a risk of impacts to health and the environment and consequently a permit is required under the Swedish Environmental Code. Billerud has permits for the production of all its mills, covering maximum production volumes, emissions to air and water and dealing with noise, chemicals and waste.

In 2011 Billerud renegotiated its production permit for Skärblacka mill. Skärblacka is the second-largest mill in the Group with annual production of 400 000 tonnes. The new permit tightens up the requirements governing the mill's emissions to air, which will involve investments on site. Billerud is planning redevelopment work to a cost of approximately SEK 900 million and will take the opportunity at the same time to improve energy efficiency at the mill. The investment is anticipated to cut energy costs considerably, partly by reducing the amount of oil bought in, which is expensive. The investment will also increase production capacity, paving the way for higher income.

SUSTAINABLE PURCHASING

The dominant raw material for production is wood. Billerud owns no forest land of its own and all wood is bought via its subsidiary

FSC is an independent, international membership organization that promotes environmentally appropriate, socially responsible and economically viable management of the world's forests. FSC stands for Forest Stewardship Council.

FSC's main tool is the development of rules and recommendations for responsible use of forest. Anyone who wants to follow the rules can certify their forestry. The system is voluntary and globally. FSC's ten basic principles apply to all certifications worldwide.

FSC's rules states among other things:

- protect endangered animals and plants
- soil's future ability to bear forest
- safe and healthy working conditions for those working in the woods
- rights of Indigenous Peoples.

www.fsc-sverige.org



The Programme for the Endorsement of Forest Certification schemes, PEFC, is an international system for sustainable forestry. The Swedish PEFC has grown from a standard that was developed by the forest owners' organisations during the 1990s and was approved by the international PEFC in 2000. It covers forestry standards, environmental standards and social standards. PEFC has mainly been used by smaller forest owners but has gradually also been adopted by several of the large forestry companies. www.pefc.se

SUSTAINABILITY TARGETS

	PARAMETER	2011	2010	2009	2013
Emissions of fossil carbon dioxide from the manufacturing process per tonne of product will be cut by 30% between 2008 and 2013	Emissions of fossil carbon dioxide	-39%	-21%	-12%	-30%
90% of contracted domestic lorry transport is to be carried out by drivers trained in eco-driving by 2013	Proportion of contracts	83%	61%	61%	90%
In addition to being evaluated on the basis of commercial targets, at least five business partners must also be evaluated from an environmental and social perspective	No.	7	5	0	5 partners



41% of raw materials come from FSC and/or PEFC-certified forests. 100% of raw materials meet the criteria for FSC Controlled Wood.



Billerud is one of the owners of Kalix Vindkraft AB, which owns eight wind turbines. The picture shows three of the turbines with Billerud Karlsborg in the background.

Billerud Skog AB. Wood raw materials come solely from forests managed sustainably and with a long-term approach. 100% of wood purchased complies with the criteria for FSC Controlled Wood. In 2011 41% of wood bought in was also FSC and/or PEFC-certified.

Purchased volumes from FSC or PEFC-certified suppliers in 2011 almost met the demand from Billerud's customers for certified pulp and paper. The exception is Karlsborg, which was not quite able to deliver the volumes of certified pulp and paper demanded due to a lack of local availability. The need for certified wood has in principle remained the same over the past two years.

The proportion of purchased wood which is not certified is checked under the FSC Controlled Wood standard through Billerud's management system. Work towards what is known as umbrella certification, in which several small suppliers can be grouped

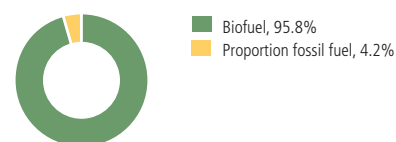
under Billerud's FSC certificate, continued during 2011 and is expected to be complete in the first quarter of 2012. This will improve Billerud's opportunity to increase its proportion of certified wood.

Billerud has Chain of Custody certificates under both FSC and PEFC for Gruvön, Skärblacka, Karlsborg and Billerud Skog. Chain of Custody certification means that Billerud is able to confirm the origin of its timber.

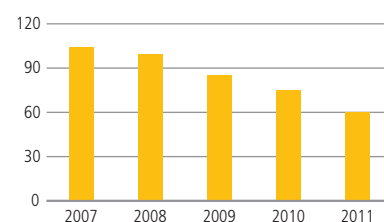
The majority of the wood is harvested and transported by the supplier. Billerud Skog harvests a small amount. There is a limited risk of a threat to biodiversity from harvesting in protected areas by mistake. Billerud addresses this risk and safeguards its supplies by demanding that all its suppliers comply with the criteria for FSC Controlled Wood.

Billerud's total purchasing in 2011

FUEL CONSUMPTION 2011



FOSSIL CARBON DIOXIDE PER TONNE OF PRODUCT (KG/TONNE)



PRODUCTION AND ENVIRONMENTAL INVESTMENTS

	2011	2010	2009
Production*			
Packaging & Speciality Paper, '000 tonnes	508	526	516
Packaging Boards, '000 tonnes	505	483	505
Market Pulp, '000 tonnes	353	321	315
Total	1 353	1 330	1 336
Environmental investments (EN30)			
Environmental investments, SEK million ¹	95	53	32

¹ Process changes that reduce emissions

* The figures refer to production units at Billerud



amounted to 5.35 million cubic metres sub (solid under bark), which is slightly up on the previous year. The reason for this is that all mills increased production during 2011. Billerud always seeks to buy as much of its raw materials as possible locally.

In 2011 the proportion from Sweden increased slightly, reaching 80% compared with last year's figure of 75%. Norway and Finland accounted for 10% of bought-in wood between them, while purchasing in the Baltic countries fell compared with the previous year from 15% to 10% in 2011.

The timber market remained stable during 2011, but with a slightly higher price level than 2010. Over time prices have risen somewhat due to increased demand. Billerud judges that this trend is likely to continue in the long term, which may result in a continued increase in wood prices.

Evaluating suppliers

All joint agreements within Billerud are evaluated every year on quality, the environment and sustainability. This might involve analysis of non-compliance during the year, environmental management systems, energy use, product safety, compliance with the law, the control environment, logistics, the work environment, finance and human rights. Any non-compliances and comments are documented and used to determine whether the supplier should undergo further checks. Additionally, at least five suppliers are selected to be checked in an on-site audit addressing the same factors as the evaluation above.

In 2011 seven suppliers were audited from a sustainability perspective, together accounting for 13% of Billerud's purchased volumes.

96% BIOFUEL

Billerud's operations are energy intensive, which means that the company constantly needs to improve the efficiency of its processes.

Today 96% of Billerud's heat energy and self-generated electricity requirements are already met by biofuel from forest raw materials. The long-term target is to be completely independent of fossil fuels.

Billerud produced 805 GWh of self-generated electrical energy in 2011, an increase of 11% compared with the previous year. This was due to high and stable production levels during the year.

Heat energy is primarily generated by combustion of black liquor and bark from the pulp manufacturing process and from external biofuel, with less than 5% coming from fossil fuels. Billerud's consumption of fossil fuels in its production fell during 2011, thanks to continued process optimisation and high and stable production levels.

Surplus heat from Skärblacka and Gruvön was diverted to the local district heating network, equivalent to 16 400 m³ of oil in 2011. This is up on 2010, when the surplus amounted to 16 000 m³ of oil.

Billerud investing in wind power and green oil

Billerud is a shareholder in two wind power companies: VindIn, owned by a number of energy intensive Swedish companies, and Kalix Vindkraft AB. In total Billerud will own 21.3 GWh/year once the most recent installation is up and running in 2012.

Billerud has applied for an EU grant (NER 300 initiative) to build a full-scale plant to produce pyrolysis oil, a green fossil-free oil that can replace heavy fuel oil. The oil is made from waste forest products.

Energy efficiency improvements

The Energy Agency's PFE programme (Programme for energy efficiency improvements) launched in 2005 has driven energy efficiency measures in all of Billerud's mills. Work on PFE is underway at Billerud and for 2011 it can be reported that 2.4 GWh/year was saved in electricity consumption by

improving the efficiency of pumps and fans and other process optimisation.

Electricity consumption calculated as kWh/produced tonne fell successively in the period 2008–2011 from 1 203 kWh/tonne to 1 163 kWh/tonne. This reduction is the result of high and efficient production and direct energy efficiency measures. The improvement in efficiency roughly corresponds to the electricity generated by 25 1MW wind turbines.

In 2011 Billerud replaced three old boilers at Beetham in the UK with two new ones. The verdict is that the new boilers, which run on natural gas, will lead to a reduction in emissions of fossil carbon dioxide of approximately 2 500 tonnes/year.

CARBON DIOXIDE EMISSIONS DOWN

The process of manufacturing pulp and paper results in emissions to air which are regulated by the permits for each mill. This means that Billerud must constantly measure and control the content of various substances in output air. In 2011 emissions were kept within applicable limits at all mills.

Emissions of greenhouse gases calculated per tonne of product fell by 39% in 2011 compared with 2008, and by 23% compared with 2010, largely due to continued energy efficiency measures and optimised operations resulting in the mills being able to cut their consumption of fossil fuels. The target for reducing carbon dioxide emissions set in 2008 was met by a good margin as early as 2010.

Emissions to air mainly consist of dust, sulphur dioxide and nitrogen oxides, which are formed during combustion in boilers and kilns. These two gases are acidifying for the environment, while nitrogen oxides also cause eutrophication. The mills also emit malodorous gases such as hydrogen sulphide and organic sulphur compounds.



Manufacturing biofuel from untrimmed tops and branches at one of Billerud's mills.

Other emissions to air such as sulphur, nitrogen oxides and dust also exhibited a downward trend in 2011.

Emission rights trading

Billerud participates in European trading in carbon dioxide emission rights. In 2011 the company was allocated more rights than it required and was therefore able to sell its surplus rights.

GOOD ACCESS TO SURFACE WATER

Pulp and paper production demands large amounts of water. Because there is good access to water close to all its mills, Billerud is able to use what is known as surface water in its processes. This means that the water comes from lakes and watercourses. The process water is treated in biological plants before being returned to these bodies of water.

In 2011 total water use was in principle the same as the previous year, at 116 million cubic metres.

Emissions to water primarily comprise oxygen-consuming substances, nitrogen, phosphorus and metals that come from the timber.

Emissions to water

Emissions to water such as nitrogen, phosphorus and COD remained at the same level as the previous year or slightly lower in 2011. At the start of the year Gruvön had a problem with the microbiology of its waste water treatment plant, resulting in too high a nitrogen content in its waste water. Phosphorus content was also exceeded on one occasion at the same mill. With the exception of the problems at Gruvön above, the mills' treatment plants functioned satisfactorily in 2011.

ALL CHEMICALS CHECKED

The chemicals used in production are primarily sodium hydroxide and sodium chlorate, which are needed in the cooking and bleaching processes. In addition to these, a number of additives and auxiliary chemicals are also used. The cooking chemicals used in the pulp manufacturing process can be recycled at least 10 times.

The EU Regulation REACH has tightened up the requirements made of manufacturers and importers of chemicals to assess health and environmental risks. Billerud has drawn up procedures and set out responsibilities for ensuring that the new requirements of REACH legislation are complied with.

Purchasing of chemicals is coordinated to a high degree between the Swedish mills. The mills' chemicals groups play an important role in deciding which chemicals are to be used. The groups examine the chemicals from the point of view of health, the work

environment, the external environment and product safety. If a new chemical is suggested, it must first be approved by the chemicals group before use.

Handling chemicals requires sound risk management. Billerud handles relatively large amounts of chemicals that are classified under the Seveso Directive, such as sulphur dioxide, turpentine and hydrogen peroxide. Leaks of these may have major consequences in the event of an accident. Consequently, Billerud surveys and prevents risks of accidents in consultation with the County Administrative Board and the Swedish Work Environment Authority.

WASTE IS SORTED

Source sorting is applied at all plants. Waste from operations is divided into four main categories:

- ② Combustible organic process waste, which is mainly incinerated to produce heat energy.
- ② Waste that can be used in alternative areas. For example, fibre sludge from purification plants is composted to create soil which is used to cover former landfill sites.
- ② Waste sent to landfill in Billerud's own landfill sites in line with permits, these amounts have been reduced over time.
- ② Finally there is a fraction of hazardous waste comprising chemicals, fluorescent lights and waste oil. These are recycled or destroyed by authorised companies.

Source sorting is applied at all plants.

TRANSPORT LIMITED

The transportation needs of Billerud's operations are considerable, as large amounts of wood and other inputs are transported to the mills primarily from the countries bordering the Baltic, while large volumes of finished products are transported to Europe and the rest of the world.

The basic philosophy for purchasing wood is that it is to be bought as locally as possible. 80% of wood was bought in from Sweden in 2011. The industry works together to minimise transport by exchanging timber, whereby a company can swap its own raw materials for those owned by other companies that have been felled close to its own mills, such that all the companies benefit in the same way. The wood which Billerud purchases is usually transported by road or rail, the exception being wood bought from the Baltic countries, which is transported by sea.

To improve efficiency when transporting finished products, the industry has joined forces to create ScandFibre Logistics, a company that optimises rail transport. This brings environmental and financial gains. Billerud ships 80% of its finished products by rail or by sea. In 2011 the Swedish Rail

	2011	2010	2009
Purchase of raw materials* (EN1)			
Wood, million m ³ sub	5.2	5.2	5.1
Recovered paper, '000 tonnes ¹	18	15.1	24
Pulp, '000 tonnes	42	37	34
Heat energy* (EN3)			
Biofuels:			
Recovered liquor, GWh	5 260	5 230	5 360
Bark, wood residuals, GWh	1 760	1 700	1 650
Tar oil/tall oil, GWh	500	420	340
Fossil fuels*²:			
Oil, GWh	190	247	298
LPG, GWh	37	38	41
Natural gas, GWh	101	115	108
Electrical Energy*			
Electricity purchased for the manufacturing process, GWh	736	822	777
Self-generated electricity, GWh	807	731	800
Use of chemicals* (EN1)			
Chemicals, '000 tonnes	150	151	148
Emissions to air* (EN20, EN16)			
Sulphur dioxide (calculated as S), tonnes	225	260	275
Nitrogen oxides, tonnes	1 620	1 670	1 700
Dust, tonnes	660	840	880
Carbon dioxide, fossil, '000 tonnes ³	82	104	117
Carbon dioxide, bio-generation, '000 tonnes	3 200	3 200	3 200
Water consumption* (EN8)			
Water consumption, million m ³ , ⁴	116	116	116
Emissions into water* (EN21)			
Process waste water, million m ³	91	93	92
COD, '000 tonnes	22	22	21
Substances in suspension, tonnes	2 400	2 500	2 600
Nitrogen, tonnes	270	290	270
Phosphorus, tonnes	35	35	34
Other outward deliveries*			
Heat energy, GWh ⁵	167	163	199
Tall oil, '000 tonnes	46	42	43
Turpentine, '000 tonnes	2.8	2.6	2.6
Key ratio*			
Share of fossil fuel, % ³	4.2	5.2	5.7
Fossil carbon dioxide per tonne of product, kg/tonne ⁶	60	78	87
COD per tonne of product, kg/tonne	16	16	16
Nitrogen oxides per tonne of product, kg/tonne	1.2	1.3	1.3

¹ Recovered paper 1.8% of total fibre requirement

² Fuel consumption from transport and vehicles is not included

³ Emissions from transport and vehicles are not included

⁴ Surface water

⁵ District heating for local community and industry

⁶ Emissions from transport and vehicles are excluded

* The figures refer to production units at Billerud.



Administration electrified lines in the north-east of Sweden and diesel engines were replaced by electric engines. This will reduce Billerud's emissions of carbon dioxide from rail transport of finished goods by 16%.

Billerud sets environmental requirements for lorry deliveries within Sweden by requiring fuel in environmental class 1 and that drivers are trained in eco-driving. The proportion of drivers trained in eco-driving increased from 61% in 2010 to 83% in 2011.

Total emissions of carbon dioxide caused by transport are an estimated 91 000 tonnes, 4% down on 2010, largely due to an increased proportion of rail transport. This year's emissions are divided between 40 000 tonnes for transport to Billerud and 51 000 tonnes for transport from Billerud.

SUSTAINABLE PRODUCTS

Billerud's products are made from renewable raw materials grown in sustainable forests. The products can also be recycled and become new material, or be used as bioenergy and incinerated to produce heat. Billerud's products help to reduce climate emissions, for example when

paper packaging replaces fossil-based plastic packaging. Today paper packaging accounts for only 12% of the total European flexible packaging market, indicating that there is major potential to increase volumes.

Billerud uses large amounts of primary fibre in its production as only primary fibre meets the requirements for strong and hygienic packaging paper. The environmental burden is reduced when packaging material protects products such as food, medical instruments and building materials so effectively that fewer goods are destroyed during transport. Wasted food is a major waste of resources.

A market survey conducted by IPSOS in Europe shows that 87% of consumers prefer paper to plastic packaging. Several countries now have restrictions and bans on the use of plastic for carrier bags. This trend benefits several of Billerud's market segments. In 2011 Billerud formulated its "Smarter Packaging" strategy, which exploits the collective expertise of the entire organisation to highlight the environmental advantages of renewable materials, efficient production, innovative and smart packaging and transport and

reduced wastage in the value chain. Examples of smart packaging solutions:

- ✦ Under the SoliQ™ brand, Billerud Fresh Services offers a service concept that seeks to optimise the fruit and vegetable delivery chain to reduce unnecessary waste and extra handling costs. It also creates major environmental gains without increasing costs.
- ✦ Launched back in 2009, FibreForm® has become a successful alternative to plastic packaging for ready meals and fresh foods. This solution helps to reduce the carbon footprint by 75% and use of plastic by 65%.
- ✦ QuickFill® is an innovative, sustainable sack solution. One of its uses is for cement and Billerud supplies materials for the sacks, which are both thinner and stronger. They have been developed in close cooperation with customers and save 20-50% on material resources.



✦ ✦ ✦ Under the SoliQ™ brand, Billerud Fresh Services offers a service concept that seeks to optimise the fruit and vegetables delivery chain.

REPORTING AT GRI LEVEL A

Billerud's sustainability report aims to annually report results and strategic work from an environmental, social and financial perspective. The report covers the Group's entire operations.

Billerud's sustainability report covering the results for 2011 has been drawn up in line with the Global Reporting Initiative's (GRI) G3 guidelines. It meets the criteria for a level A report and Billerud has chosen to have a third party check of the report carried out. This means that a third party, in this case Billerud's auditor, has confirmed Billerud's own assessment that the report contains the information that corresponds to the standard for level A.

Because Billerud is a member of the UN's Global Compact initiative, this report also serves as its annual Communication on Progress (COP) disclosure.

TARGET GROUP

As was the case with last year's sustainability report, the target group for the report is restricted to capital market investors. A strict analysis was carried out to select the relevant indicators which form the basis of the report. During the year, Billerud held discussions with investors and analysts to determine the indicators to be selected. This means that information and indicators relevant to other stakeholders may be reported via other information channels, such as the website.

The reporting of sustainability factors is integrated throughout the annual report and is also concentrated in this section on pages 32–53.

ENCOMPASSING ALL OPERATIONS

This report includes the results of all Billerud's operations and majority-owned companies. Companies in which Billerud has too small a stake have been excluded because Billerud's control over sustainability issues is limited, as is the potential impact of these units on environmental and social aspects. The following companies are not included in this report: BaseEL i Sverige AB, Vindln AB, Kalix Vindkraft AB and PACCESS LLC.

Billerud's manufacturing is located in Europe, as are all its suppliers, and this has had a bearing on the relevant indicators selected by Billerud for inclusion in the report. Reporting of the human rights dimension has been limited for this reason. Freedom of expression and freedom of association, zero tolerance for discrimination, requirements governing a safe working environment and other issues pertaining to human rights are governed by and communicated in Billerud's Code of Conduct.

In 2011 no major purchases or sales were carried out which might affect the comparability of the results with the previous year.

REPORTING SYSTEM

Billerud monitors its work on sustainability and reports the results as a rule on an annual basis, while in some cases follow-up may be

quarterly. The measuring and reporting systems and the auditing principles have not changed since the previous year. A large proportion of the results reported here are generated by the various management systems. Content is also based on oral information from key people within the company and other written documentation. Billerud has calculated carbon dioxide emissions on the basis of the company's transports into the mills and from the mills in accordance with NTM's basic freight calculation formula (www.ntmcalc.org). Otherwise, the GRI guidelines have been followed in calculating results and indicators.

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OMX GES Swedish and Nordic Sustainability Index. This index was set up in 2008 and ranks the 50 leading companies in the Nordic region in terms of environmental responsibility, social responsibility and corporate governance.
indexes.nasdaqomx.com



GRI INDEX

2011 is the third year that Billerud has reported its sustainability work in line with the Global Reporting Initiative's Sustainability Reporting Guidelines (version 3.0). Billerud applies reporting level A, as confirmed by Billerud's auditors Ernst & Young.

Work on determining the content of the report is based on weighing up what is important to Billerud's business, the company's responsibility for the rights of its employees, its impact on society and the environmental responsibility incumbent upon a pulp and paper manufacturing industry. Billerud intends to report sustainability in line with GRI each

year as an integrated part of the annual report and on the company's website. Billerud applies GRI's performance indicators and reports on all key indicators that are relevant to its business. For complete GRI index, please visit www.billerud.com.

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DIRECTORS' REPORT

The Board and CEO of Billerud AB (publ), corporate identity number 556025-5001, herewith submit the annual report and consolidated annual accounts for the 2011 financial year.

Billerud's operating profit deteriorated in 2011 and decreased by SEK 59 million, or 6%, to SEK 978 million compared to 2010. A substantially poorer operating profit for business area Market Pulp was partly offset by a better operating profit for the packaging paper segments.

Billerud's corporate governance report is presented separately on pages 98-105.

Markets

Billerud offers the global packaging market innovative and sustainable products and services. The Group has a leading position in primary fibre-based packaging paper. The packaging market continues to show a positive trend in the long term, thanks chiefly to increased globalisation, greater prosperity and changed consumer patterns. Besides packaging paper, Billerud sells the surplus of long-fibre pulp, Northern Bleached Softwood Kraft (NBSK), that it does not use in its own production processes. Billerud's customers are primarily in Europe, although an increasing share of deliveries is made to other parts of the world.

Billerud's activities are divided into three business areas: Packaging & Speciality Paper, Packaging Boards and Market Pulp.

The year got off to a very positive start, with demand remaining good or very good in all packaging paper segments. During the second quarter, demand was healthy in most of Billerud's packaging paper segments with order bookings remaining good. The second half of the year started with uncertainty on the market, resulting in lower demand and order bookings for sack and kraft paper. This trend was partly due to seasonal patterns. Order bookings for primary fibre-based containerboard also deteriorated slightly during the third quarter. At the end of the year, order bookings for sack and kraft paper stabilised at a lower level than normal, and order bookings for primary fibre-based containerboard continued to weaken. Prices in local currencies for the packaging segments increased in the first half of the year by around 5%, were stable in the third quarter and decreased in the last quarter by around 4% compared to the previous quarter.

As a result of the worse market conditions in the second half of the year, Billerud implemented several market-related production shutdowns, mainly regarding sack and kraft paper, in order to restore the market balance.

In the market for Nordic long-fibre sulphate pulp, demand remained robust in the first half of the year. In the third quarter, pulp inventories among producers increased, resulting in the pulp market weakening. Nonetheless, demand was relatively healthy at the beginning of the second half of the year. In the last quarter, the market weakened further. Prices of NBSK pulp in Europe increased continually during the first half of the year, from USD 950 per tonne at the beginning of the year to USD 1 025 per tonne at the end of the second quarter. In poorer market conditions in the second half of the year, prices dropped to USD 950 per tonne at the end of the third quarter, and continued downwards to USD 825 per tonne at the end of the year.

Billerud bolstered its position in the packaging industry by investing in a minority position in PACCESS Packaging, a US-based company with several operations on Asian markets. Through this investment, Billerud took a further step to becoming an even more customer- and solution-driven company. Optimising packaging in terms of function, material, design and sustainability is gaining importance for brand owners.

Billerud's expertise within renewable materials and PACCESS Packaging's established customer base, extensive expertise in packaging development and in-depth local market knowledge in Asia, create a strong platform for future growth. The investment strengthened Billerud's position in Asia, which is an important growth market.

Efforts relating to strengthening the Billerud brand, such as "The Natural Part in Smarter Packaging" was launched in connection with Billerud opening on the NASDAQ OMX in New York on 26 September 2011. Through this initiative, Billerud clarified its ambition of being a more customer- and solution-driven company, offering packaging manufacturers and brand owners clear-cut added value thanks to its packaging solutions that strengthen brands, enhance productivity and support the environment.

Billerud also gained recognition during the year in the form of the most prestigious design award in the packaging industry, the Pentaward Best of the Show, awarded to NINE, Billerud's innovation and design agency. Also, in the Design Challenge 2011 at the largest packaging trade fair in the Nordic region, an award went to Chesapeake's new packaging range Impressions™, which is based on Billerud FibreForm®.

In 2011, Billerud's total sales volumes amounted to 1 354 000 tonnes, an increase of 4% from the previous year. The increase is chiefly attributable to market pulp, which increased from 301 000 tonnes to 343 000 tonnes, or by 14% compared to the previous year. This is in line with market-related production shutdowns having been implemented to an increasing extent. This had a negative impact on packaging paper volumes, but increased the volumes of market pulp. The purpose of the market-related production shutdowns was to restore the market balance, and mainly affected the Packaging & Speciality Paper business area, whose sales volumes decreased by 3% from 524 000 tonnes in 2010 to 507 000 tonnes in 2011. Business area Packaging Boards increased sales volumes by 5% from 482 000 tonnes in 2010 to 504 000 tonnes in 2011.

SALES VOLUMES BY BUSINESS AREA

'000 tonnes	2011	2010
Packaging & Speciality Paper	507	524
Packaging Boards	504	482
Market Pulp	343	301
Total	1 354	1 307

NET SALES BY BUSINESS AREA

SEK m	2011	2010
Packaging & Speciality Paper	4 293	4 166
Packaging Boards	2 772	2 428
Market Pulp	1 752	1 731
Currency hedging, etc.	230	153
Other ¹ and eliminations	296	350
Total	9 343	8 828

¹ Relates to external sales from the wood supply operation as well as for Tenova Bioplastics AB and Nine TPP AB.



NET SALES BY GEOGRAPHIC AREA

SEKm	2011	2010
Germany	1 334	1 338
Italy	1 135	1 083
Sweden	995	870
United Kingdom	732	711
France	479	507
Rest of Europe	2 286	2 302
Rest of the world	2 382	2 017
Total	9 343	8 828

Net sales and profits

Net sales totalled SEK 9 343 million, up 6% from the previous year. Despite market-related production shutdowns, sales volumes for 2011 amounted to 1 354 000 tonnes, 4% higher than 2010.

Billerud's operating profit deteriorated in 2011 and decreased by SEK 59 million, or 6%, to SEK 978 million compared to 2010. A substantially poorer operating profit for business area Market Pulp was partly offset by a better operating profit for the packaging paper segments.

For information about change in operating profit see table below. Variable costs increased by SEK 243 million, of which SEK 212 million was attributable to changes in wood prices.

CHANGE IN OPERATING PROFIT FROM CORRESPONDING PERIOD PREVIOUS YEAR

SEKm	2011-2010	2010-2009
Sales and production volumes, including product mix	22	61
Selling prices (in respective sales currency)	943	1,387
Compensation for strike	-77	77
Change in variable costs	-243	-228
Change in fixed costs	-92	-99
Change in depreciation, amortisation and impairments	-4	-49
Effects of exchange rate fluctuations, including hedging ¹	-608	-412
Total change in operating profit	-59	737

1 Effects of exchange rate fluctuations totalling SEK -608 million comprise the following components: change in spot rates SEK -683 million, currency hedging SEK -154 million and exchange rate effects from revaluation of accounts receivable and customer payments, etc. SEK 229 million.

Net financial income/expense amounted to SEK -45 million (-77); an improvement of SEK 32 million as a result of lower debt.

Profit before tax was SEK 933 million and estimated tax was SEK -250 million. Net profit thus totalled SEK 683 million.

CHANGE IN PROFIT/LOSS BY BUSINESS AREA

Business area (share of sales)	Operating margin, %		Operating profit/loss, SEKm		Change SEKm
	2011	2010	2011	2010	
Packaging & Speciality Paper and Packaging Boards					
Packaging paper (around 80%)	12	10	820	688	132
Market Pulp					
Market pulp (around 20%)	4	16	64	276	-212
Currency hedging and other ¹			94	73	21
Total	10	12	978	1 037	-59

1 Currency hedging and other relates to the lines Currency hedging, etc. and Other and eliminations according to the specification on page 108.

PROFIT AND LOSS ACCOUNTS, SUMMARY

	2011	2010
Net sales, SEKm	9 343	8 828
Operating profit/loss, SEKm	978	1,037
Operating margin, %	10	12
Profit/Loss before tax, SEKm	933	960
Net profit/loss, SEKm	683	705
Earnings per share, SEK	6.63	6.84

Return on equity for the period was 14% (17) and return on capital employed was 20% (21). A dividend of SEK 3.50 per share is proposed (3.50).

OPERATING PROFIT/LOSS AND MARGIN PER BUSINESS AREA

	2011		2010	
	SEKm	%	SEKm	%
Packaging & Speciality Paper	450	10	417	10
Packaging Boards	370	13	271	11
Market Pulp	64	4	276	16
Currency hedging, etc.	230		153	
Other and eliminations	-136		-80	
Total	978	10	1 037	12

For quarterly data see page 108.

Earnings per operating segment

Since 2009 Billerud has applied IFRS 8 Operating Segments, which replaced IAS 14 Segment Reporting. Billerud has identified its operating segments in accordance with IFRS 8 to reflect Billerud's three business areas: Packaging & Speciality Paper, Packaging Board and Market Pulp. See Accounting policies on page 74.

Packaging & Speciality Paper

Operating profit increased SEK 33 million, or 8%, to SEK 450 million compared with the previous year. The reason for the increase is improved prices, which compensated for higher variable costs and lower sales volumes. The operating margin was 10% (10).

Market trend

At the beginning of the year, order bookings for sack paper remained robust for the season, and slightly under the level of the corresponding period the previous year for kraft paper. In general, order bookings for sack and kraft paper weakened in the second quarter and returned to a more normalised level. Customers' inventory levels, which had been gradually built up in the first quarter, were reduced in the second.

Further weakening occurred in the third quarter, due in part to seasonal variations. Customers continued to reduce their inventory levels, which mainly affected the sack paper market and, to a certain extent, some kraft paper grades. In the quarter, market-related production shutdowns were carried out, mainly regarding sack paper, aimed at restoring the market balance.

In the final quarter, order bookings for both sack and kraft paper were lower than usual, yet stable compared with the preceding quarter. At the end of the year, order bookings for sack paper improved slightly. As in the previous quarter, customers continued to focus on reducing tied-up capital in inventories. Market-related production shutdowns were carried out also in the fourth quarter, aimed at restoring the market balance.

The price level in local currencies increased for the majority of products in the first half of the year. Price pressure emerged in the third quarter and continued throughout the rest of the year. This led to price increases coming to an end in the third quarter, and at the end of the year prices dropped in local currencies for all products.

Packaging Boards

Operating profit increased by SEK 99 million to SEK 370 million compared with the previous year, following improved prices and higher sales volumes. The operating margin was 13% (11)

Market trend

Order bookings remained healthy in the first half of the year, although a certain seasonal slowdown occurred towards the end of the first half of the year. In the third quarter, order bookings weakened slightly, with increased uncertainty regarding demand compared to the previous period. Towards the end of the year, order bookings continued to weaken and were at lower levels than normal in the fourth quarter. In the fourth quarter, customers reduced their inventories to a greater extent.

The price level in local currencies increased for the majority of products in the first half of the year. In the third quarter, prices in local currency for primary fibre-based containerboard were stable. However, towards the end of the quarter, price pressure heightened for primary fibre-based containerboard as a consequence of lower prices for recycled fibre-based grades. The price pressure continued in the fourth quarter, resulting in poorer price levels in local currency for most products compared with the previous quarter.

Market Pulp

Operating profit decreased by SEK 212 million to SEK 64 million compared to the previous year, chiefly because of less favourable exchange rates. The operating margin was 4% (16)

Market trend

Demand for NBSK pulp remained robust in the first half of the year.

Stocks among pulp producers increased in the second half of the year, resulting in the market weakening. However, demand was relatively healthy to start with. The market for NBSK pulp continued to weaken in the fourth quarter. During the quarter, several non-integrated producers of NBSK pulp carried out market-related production shutdowns aimed at restoring the market balance.

The price level in Europe increased to USD 1 025 per tonne at the end of the second quarter, compared to USD 950 per tonne at the beginning of the year. In the second half of the year, the price level in Europe dropped to around USD 825 per tonne at the end of the year.

Investments and capital employed

Gross investment in property, plant and equipment and intangible assets including company acquisitions totalled SEK 512 million (334).

Billerud's capital employed was SEK 4 639 million (4 792) at 31 December 2011.

Return on capital employed, calculated over the past 12-month period, amounted to 20% (21). If the effects of currency hedging are excluded, return on capital employed was 16% (14). Return on equity after tax was 14% (17).

Cash flow and financial position

STATEMENT OF CASH FLOWS, SUMMARY

SEKm (positive figure indicates reduction in debt)	2011	2010
Operating surplus, etc.	1 604	1 625
Change in working capital, etc.	-113	-147
Net financial income/expense, taxes, etc.	-219	-85
Cash flow from operating activities	1 272	1 393
Current net investments	-510	-331
Operating cash flow	762	1 062
Dividend	-361	-52
Other items, not affecting cash flow	-13	-13
Change in net debt during the period	388	997

Cash flow from operating activities totalled SEK 1 272 million in 2011 (1 393). Operating cash flow in 2011 amounted to SEK 762 million (1 062).

Interest-bearing net cash stood at SEK 233 million at 31 December 2011, compared with interest-bearing net debt of SEK 155 million on 31 December 2010. The Group's net debt/equity ratio at the end of the period was -0.05 (0.03). Billerud's financial target for the debt/equity ratio is between 0.60 and 0.90 over a business cycle. Thus the current net debt/equity ratio is substantially less than the target level. Cash and cash equivalents were SEK 929 million (740) at 31 December 2011.

Significant risks and uncertainties

Billerud's products are generally dependent on the business cycle in terms of both price trends and potential sales volumes. The Group is exposed to changes in exchange rates because most of its revenues are invoiced in foreign currency while a large proportion of operating expenses are incurred in SEK.

Billerud's mills have higher capacity for production of sulphate pulp than it requires to produce packaging paper. To produce in a cost-effective way, Billerud is largely dependent on being able to sell surplus as market pulp.

Changed conditions from the Swedish Energy Agency regarding the allocation of electricity certificates after 2012 could affect earnings. The effect of sold electricity certificates impacted operating earnings by SEK 131 million (162) in 2011.

For a further description of risks and a sensitivity analysis, see pages 69-73.

Tax position

The Group's effective tax rate is normally about 26.5%–27%. Effective 1 January 2009, the Swedish statutory tax rate was reduced, from 28%, to 26.3%. The tax rate in the foreign subsidiaries is on average somewhat higher than the Swedish tax rate. The tax expense for 2011 is estimated at SEK 250 million, equivalent to a tax rate of 26.8% (26.6).

Parent company

Billerud AB comprises the Gruvön mill, the sales organisation for the Nordic markets and markets outside Europe and the head office functions.

In 2011, net sales totalled SEK 4 151 million (3 760). Operating profit amounted to SEK 529 million (525). This profit included SEK 20 million (9) in dividends received from subsidiaries.

The parent company hedges its own net currency flows and those of the Group. The parent company's profit includes the results of these hedging measures which totalled SEK 190 million (344).

Investments in property, plant and equipment and intangible assets excluding shares amounted to SEK 201 million (128) in 2011. The average number of employees was 937 (924). Cash, cash equivalents and investments in securities etc. equalled SEK 842 million (644).

Environment and permit issues

Billerud has three operations in Sweden and one in the UK that require permits under Swedish and UK environmental legislation. These permits apply for the production of pulp and paper. Billerud has all permits necessary to conduct operations at the volumes produced in 2011.

The environmental impact of operations is mainly in the form of emissions to air and water and the creation of waste and noise.

In 2011 Skärblacka mill was granted a new environmental permit including stricter regulation of emissions to air. A new environmental permit has also been granted for Gruvön regarding landfill expansion. Billerud's Swedish mills have been awarded emission rights for carbon dioxide within the EU. The allocation for the five-year period starting in 2008 exceeds the calculated emissions in total.



Long-term incentive programme (LTIP 2010)

The 2010 AGM agreed to introduce a long-term incentive programme (LTIP 2010) for Billerud and a related transfer of shareholdings. The Board's main objective in proposing LTIP 2010 is to strengthen Billerud's ability to retain the best talent for key leadership positions. The purpose is also to encourage greater efforts among senior management and other key individuals whose input has a direct impact on Billerud's earnings, profitability and growth in value, by aligning their interests and perspectives with those of the shareholders.

LTIP 2010 comprises in total a maximum of 90 senior managers and other key individuals in the Billerud Group, who are deemed to have a significant impact on the future development of the Group. To participate in LTIP 2010, a person must own Billerud shares referred to as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2010 takes effect and ends when Billerud releases its interim report for the first quarter of 2013, the participants will be allocated at no charge one right to matching shares and three rights to performance shares for each saving share. These rights entitle holders to Billerud shares provided certain criteria are met. For both types of rights, throughout the vesting period the participant must remain an employee of the Billerud Group and must not divest the saving shares. For the rights to performance shares, additional financial performance targets must be achieved. These performance targets are related to Billerud's average operating margin for the period 2010–2012 in absolute terms and in comparison with a benchmark group consisting of specially designated companies, as well as Billerud's total return for the period 2010–2012 in comparison with the total return for the same period for a benchmark group consisting of specially designated listed Nordic companies.

At 31 December 2011, LTIP comprised a total of 58 773 saving shares, which entail the allocation of in total a maximum of 235 092 Billerud shares. Moreover, LTIP 2010 consists of an additional 109 000 Billerud shares that are related to shares that can be transferred by Billerud for the purpose of covering certain costs, chiefly social fees. Thus the maximum number of Billerud shares included in LTIP 2010 is 344 092, which corresponds to about 0.3% of the total number of Billerud shares outstanding. On the allocation date, the programme comprised 67 150 saving shares, which initially entitled their owners to an allotment of a maximum of 268 600 Billerud shares in total.

Based on a theoretical assumption of an annual 10% increase in share price, from SEK 47.2 when the programme started, and a vesting period of three years, the cost of LTIP 2010 including social fees is estimated at about SEK 10 million, which, on an annual basis, corresponds to about 0.3% of Billerud's total employee benefits expense during financial year 2009. The maximum cost of LTIP 2010 based on the above assumptions is estimated at about SEK 33 million, including SEK 22 million in social fees. For 2011, operating profit was charged SEK 3 million.

For further information about the content of the programme, please refer to the press release dated 24 March 2010 and the documents for the 2010 AGM, which are available on Billerud's website.

Long-term incentive programme (LTIP 2011)

The 2011 AGM resolved to introduce a long-term incentive programme (LTIP 2011) for Billerud and a related transfer of own shareholdings. Billerud already had an incentive programme underway (LTIP 2010). LTIP 2011 aims to strengthen Billerud's ability to retain the best talent for key leadership positions, and to encourage greater efforts of participants by aligning their interests and perspectives with those of shareholders. The programme includes in total a maximum of 20 senior managers and other key individuals within the Billerud Group. LTIP 2011 has a term of three years starting in 2011 and the outcome depends on meeting different financial and share price performance requirements that are deemed to be of great significance in terms of the future development of the Group. To participate in LTIP 2011, a person must own Billerud shares referred to as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2011 takes effect and ends when Billerud releases its interim report for the first quarter of 2014, the participants will be

allocated at no charge one right to matching shares and three rights to performance shares for each saving share. These rights entitle holders to Billerud shares provided certain criteria are met. For both types of rights, throughout the vesting period the participant must remain an employee of the Billerud Group and must not divest the saving shares. The rights are personal and cannot be transferred or pledged. They do not entitle shareholder rights and no adjustment for dividend is made. For the rights to performance shares, additional financial performance targets must be met. The requirements are based on: (a) Billerud's average operating margin for the period 2011–2013 in absolute terms; (b) Billerud's operating margin in relation to that of a benchmark group consisting of specially designated listed Nordic companies for the same period; (c) Billerud's total return for the period 2011–2013 in comparison with that of a benchmark group consisting of listed Nordic companies. The performance requirements (a) and (c) give shares on a straight-line basis between minimum and maximum levels, while performance requirement (b) involves a digital procedure.

LTIP 2011 consisted per 31 December 2011 of 22 056 saving shares in total, which entail the allocation of in total a maximum of 88 224 Billerud shares. Moreover LTIP 2011 consists of an additional 64 000 Billerud shares that are related to shares that can be transferred by Billerud for the purpose of covering certain costs, chiefly social fees. Thus the maximum number of Billerud shares included in LTIP 2011 is 152 224, which corresponds to about 0.1% of the total number of Billerud shares and votes outstanding.

Based on a theoretical assumption of an annual 10% increase in share price, from SEK 64 when the programme started, and a vesting period of three years, the cost of LTIP 2011 including social fees of SEK 6 million, is estimated at about SEK 10 million. For 2011, operating profit was charged SEK 1 million.

For further information about LTIP 2011, please refer to the press release dated 30 March 2011 and the documents for the 2011 AGM, which are available on Billerud's website.

Product and process development

The costs of product and process development, to the extent attributable to research activities, are charged to profit/loss in the year that they occur and in the past year they have corresponded to about 0.5% of Billerud's operating costs.

Seasonal factors

Billerud's activities are relatively unaffected by seasonal variations. Order flows are usually highest during the spring but, because available capacity determines deliveries, they are relatively constant over the year. Periodical maintenance shutdowns have the largest impact, as each mill stops production for around one week. This means that deliveries are somewhat lower for quite some time before, during and after the shutdown. Billerud's costs are relatively stable throughout the year. Fixed costs are slightly lower in the summer, when fewer maintenance jobs are performed. Energy costs are slightly higher in the winter because of higher energy consumption and normally higher energy prices, especially for electricity.

Maintenance shutdowns

In addition to continuous maintenance while machines are running, Billerud's mills normally require more extensive maintenance at some point during the year. To perform this maintenance, production of pulp and paper is stopped – known as a maintenance shutdown. The cost of a maintenance shutdown chiefly consists of lost volumes related to the shutdown and fixed costs, primarily in the form of costs of maintenance and overtime. It also comprises variable costs to a certain extent, for instance higher consumption of electricity and wood when production starts up again. The estimated cost of the shutdown is an assessment of the impact on earnings of a normal shutdown in relation to a quarter without a periodical maintenance shutdown.

Mill	Estimated shutdown cost SEKm	Estimated distribution of shutdown cost by business area			Planned times of maintenance shutdowns		
		PSP	PB	MP	2012	2011	2010
Gruvön	Approx. 100	Approx 30%	Approx 60%	Approx 10%	Q4	Q4	Q2
Karlsborg	Approx. 40	Approx 50%	0%	Approx 50%	Q3	Q3	Q3
Skärblacka	Approx. 60	Approx 70%	15%	Approx 15%	Q3	Q2	Q3

Maintenance shutdowns at Beetham have an insignificant effect on Billerud's overall earnings.

The effect of the shutdown on earnings varies depending on the extent of measures carried out, their character and the actual length of shutdown. Billerud works continually to spread the cost of maintenance shutdowns more evenly over the year.

Other seasonal factors

A significant amount of Billerud Flute® volumes are used for packaging in fruit exports from the Mediterranean region. Demand from this customer group varies with the fruit seasons and is normally highest from September to March. A significant amount of Billerud's sack paper and QuickFill® sack paper goes to packaging for cement and building materials. Demand for building materials in Europe is generally higher during the period May to October.

Financing

In the first quarter of 2011, the SEK 1 200 million syndicated credit facility maturing in 2012 was replaced by a new five-year facility of SEK 801 million with a consortium of banks.

In the third quarter of 2011, a bond loan of SEK 150 million was repaid.

Interest-bearing loans amounted to SEK 819 million at 31 December 2011. Of this amount, utilisation of the syndicated credit facility (maximum: SEK 801 million) accounted for SEK 117 million, bond loans for SEK 675 million, utilisation of Billerud's commercial paper programme (maximum: SEK 1 500 million) for SEK 0 million and other interest-bearing liabilities for SEK 27 million.

FINANCING AT 31 DECEMBER 2011

Loans	Maximum credit SEKm	Utilised SEKm	Maturity
Syndicated credit facility	801	117	January 2016
Commercial paper		–	1–6 months
Bond loan 4		300	February 2013
Bond loan 7		225	June 2013
Bond loan 8		150	March 2016
SEK credit facility	800	–	July 2017
Total	1 601	792	

CAPITAL STRUCTURE, SUMMARY

	31 Dec 2011	31 Dec 2010
Capital employed, SEKm	4 639	4 792
Financing:		
Interest-bearing net debt, SEKm	-233	155
Shareholders' equity, SEKm	4 872	4 637
Net debt/equity ratio, multiple	-0.05	0.03

Currency hedging

During 2011, net flows were hedged at EUR/SEK 9.28 (10.56), USD/SEK 6.92 (7.56), GBP/SEK 10.71 (11.46). In 2011, currency hedging had an earnings impact of SEK 190 million (344) (compared to no hedging having been in place).

Billerud AB's forward currency contracts outstanding at 31 December 2011 had a market value of SEK 35 million. The contracts

matching accounts receivable affected earnings in the fourth quarter. Other contracts had a market value of SEK 17 million.

For its Swedish operations, Billerud hedges around 50% of forecast net flows over the coming 12-month period, but in line with its financial policy the Company also has the possibility to increase currency hedging to 100% of net flows over the coming 15 months.

The hedged amount of currency flows and the SEK exchange rates for EUR, USD and GBP at 31 December 2011 are shown in the table below.

Billerud Beetham Ltd hedges part of its net flow of USD and EUR against GBP.

HEDGED PROPORTIONS OF CURRENCY FLOWS FOR EUR, USD AND GBP AND EXCHANGE RATES AGAINST SEK

Currency		Q1 -12	Q2 -12	Q3 -12	Q4 -12	Total 12 months
EUR	Proportion of flow	92%	68%	41%	17%	54%
	Rate	9.35	9.19	9.22	9.19	9.26
USD	Proportion of flow	92%	60%	41%	19%	53%
	Rate	6.65	6.71	6.79	6.90	6.71
GBP	Proportion of flow	85%	60%	38%	15%	50%
	Rate	10.59	10.56	10.68	10.75	10.61
Market value, forward currency contracts		21	7	5	2	35

The table shows the situation as of 31 December 2011.

Share structure

At 31 December 2011, the share capital totalled SEK 774 173 065, divided among 104 834 613 shares. There were 103 114 299 shares in the market.

Since the end of 2004 there have been no share buy backs.

DISTRIBUTION OF SHARES

	31 Dec 2011
Registered number of shares at beginning of the year	104 834 613
Bought-back shares in Company ownership	-1 720 314
Shares on the market	103 114 299

Financial targets

In November 2006 Billerud's Board established the following long-term financial targets.

- Organic growth of at least 3% on average per year.
- Operating margin of 10% over a business cycle.
- Investments shall produce a return well above the Company's weighted cost of capital.
- Debt/equity ratio of between 0.60 and 0.90 over a business cycle.
- Over the business cycle, 50% of net profit to be allocated as dividends to shareholders.

The targets focus on long-term growth. The target for operating margin creates greater transparency in the governing of the Company and a better link between internal operational financial targets and those communicated externally.

The Billerud share

The share capital of Billerud AB is divided among 104 834 613 ordinary shares, of which 1 720 314 are owned by Billerud AB. Each share entitles one vote at the AGM. Transfer of shares is not restricted by law or by the Company's articles of association. The 2011 Annual General Meeting (AGM) authorised the Board of Directors to decide on the transfer of own shareholdings.

The largest shareholder, Frapag Beteiligungsholding AG, owned 21 621 400 shares, corresponding to 21% of shares in the market, as of 31 December 2011. No other shareholder owned 10% or more of the total number of shares at 31 December 2011. The Company knows of no agreements between shareholders that may restrict the right to transfer shares. Appointment and dismissal of Board members, and changes to the articles of association.



tion, are made by the AGM. No significant agreements to which the Company, or other Group company, is a party would come into effect, be changed or cease to be valid if control of the Company changed as a result of a public acquisition bid. There are agreements between the Company, other Group companies and senior managers that entail compensation if they were to resign, be dismissed without reasonable grounds or if their employment were to end due to a public bid to acquire shares in the Company. These agreements are described in note 24. Agreements between the Company and other employees that regulate their own resignation or dismissal by the Company follow normal labour market practice.

Guidelines for remuneration to senior managers

The Board proposes that the 2012 AGM approve the following guidelines for remuneration to senior managers. Senior management includes the CEO and other members of the senior management team.

Billerud shall apply market-related remuneration levels and employment terms that are appropriate in order to recruit and keep a senior management team that has the competence and capacity to achieve set goals. Remuneration forms shall motivate Group management to do its best to secure shareholders' interests. Remuneration may be in the form of fixed or variable salary, long-term incentive programmes and other benefits such as company car and pension. Fixed and variable salary shall be determined in relation to expertise, area of responsibility and performance. Variable remuneration shall be based on meeting clearly set targets, and shall be a maximum of a fixed percentage of fixed annual salary and vary between 30% and 45%. However, variable salary shall be paid only if the Company makes an operating profit. Long-term incentive programmes shall primarily be linked to certain pre-determined financial and share price related performance criteria. The programs shall ensure long-term commitment to the development of the Company and shall be implemented on market terms. Long-term incentive programmes shall have a term of at least three years. For further information about the current long-term incentive programmes adopted by the 2010 and 2011 AGMs, see the Billerud website as well as the section "Long-term incentive programme (LTIP 2010)" and "Long-term incentive programme (LTIP 2011)". Pension benefits shall either be defined-benefit or defined-contribution plans and will normally give a pension entitlement after age 65. In certain cases, the age may be reduced but never lower than 62. Notice of termination is normally 6–12 months, and if the Company gives notice severance pay shall be a maximum of 12 months' salary.

Remuneration and other employment terms for the CEO are prepared by the compensation committee and decided by the Board. Remuneration and other employment terms for members of the senior management team are determined by the CEO following approval by the compensation committee.

The Board of Directors is entitled to deviate from these guidelines if there is good reason in individual cases. See note 24 for 2011 guidelines.

Risk management, parent company

For a description of the Group's risk management, see the section titled "Risk management and sensitivity analysis". The description applies, where appropriate, to both the Group and parent company. Specific differences concerning the parent company receive comment under this heading.

For an understanding of the risk exposure in the parent company, the following should be taken into account.

Customer credit

The parent company's accounts receivable represent more than 90% of the Group's accounts receivable, because the mills' accounts receivable are taken over by the parent company after invoicing and the monies collected by the parent company. However, the risk of any bad debts remains with the invoicing company. Of total provisions within the Group for doubtful accounts receivable in 2011, SEK 7 million (15) was attributable to the parent company.

Currency exposure

All forward foreign exchange contracts for the Swedish operations are taken out by the parent company, while the exposure to payment flows in foreign currency is borne by all the Swedish mills. Exposure for the parent company is thus less than that of the forward contracts taken out. This applies up to the invoicing date, because the parent company takes over the accounts receivable for the Swedish mills. At year-end 2011, foreign exchange contracts not yet recognised in the parent company's profit and loss statement totalled a nominal SEK 2 094 million (2 633), all of which will be recognised in 2012. The corresponding net currency flows in the parent company in 2012 are estimated at approximately SEK 7 300 million (7 200).

Interest rate risk

The Group's borrowing is conducted primarily via the parent company and accounted for 90% of the Group's total borrowing at 31 December 2011. As a result, the parent company has largely the same exposure to changes in interest rates as the Group. All interest derivatives are attributable to the parent company.

Expenses

Energy

The parent company is the contracted party in all electricity hedging contracts, which are based on electricity consumption at the three Swedish mills. The parent company's exposure is therefore less than the total hedged amounts. However, when the contract is settled, any profit or loss on the contract is distributed in proportion to the forecast consumption of each mill. Consequently the parent company's earnings are only affected by the amount corresponding to the parent company's (Gruvön mill) electricity consumption. During 2011, the Company had no electricity hedging contracts. At the end of 2011, electricity hedging contracts for 2012 had a market value of SEK 0 million.

Proposed allocation of profit

As reported on page 96 of this annual report, non-restricted equity in the parent company, Billerud AB, amounted to SEK 2 168 million at 31 December 2011.

According to Billerud's financial targets, the dividend shall equal 50% of the net earnings per share and the net debt/equity ratio shall be between 0.60 and 0.90 over a business cycle. At the end of 2011, the Company's net debt/equity ratio was -0.05, a decrease of 0.08 compared with the end of 2010 and significantly less than the target range. Billerud's Board proposes that, of the earnings per share of SEK 6.63, SEK 3.50 per share be paid to shareholders and that the remaining amount be carried forward.

Events after the close of the financial year

On 1 February 2012, Billerud Finland Oy, a wholly owned subsidiary of Billerud AB, reached an agreement with UPM-Kymmene (UPM) regarding the acquisition of UPM's packaging operations in Pietarsaari and Tervasaari, Finland. For further information, see note 27.

Outlook

- ✦ Uncertainty prevails in terms of Group order bookings for the first part of 2012. However, the market is showing signs of stabilising.
- ✦ Price pressure is expected to persist in the packaging paper segments at the beginning of 2012.
- ✦ If needed, market-related production shutdowns will take place in order to restore the market balance.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

SEKm	Notes	2011	2010
	1, 23		
Net sales	2, 34	9 343	8 828
Other operating income	3	18	85
Total operating income		9 361	8 913
Operating expenses			
Change in inventories		1	105
Raw materials and consumables		-4 480	-4 241
Other external costs	4	-1 863	-1 753
Employee benefits expense	5	-1 427	-1 377
Depreciation, amortisation and impairment of non-current assets	10, 11	-614	-610
Profit/Loss from participations in associated companies	14	0	0
Total operating expenses		-8 383	-7 876
Operating profit/loss	2, 34	978	1 037
Financial income and expenses	6		
Financial income		22	5
Financial expenses		-67	-82
Net financial income/expense		-45	-77
Profit/Loss before tax		933	960
Taxes	8	-250	-255
Profit/Loss for the period		683	705
Profit/Loss attributable to:			
Owners of the parent company		683	705
Non-controlling interests		0	-
Profit/Loss for the period		683	705
Earnings per share, SEK	9	6.63	6.84
Diluted earnings per share, SEK	9	6.61	6.83

Dividend per share is reported in note 17.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEKm	Notes	2011	2010
Profit/Loss for the year		683	705
Other comprehensive income			
Differences arising from the translation of foreign operations' accounts for the year		3	-15
Changes in fair value of available-for-sale financial assets during the period		0	0
Change in fair value of cash flow hedges		-312	-315
Change in fair value of cash flow hedges transferred to profit/loss for the year		186	313
Tax attributable to cash flow hedges in other comprehensive income		33	1
Total comprehensive income for the year		593	689
Attributable to:			
Owners of the parent company		593	689
Non-controlling interests		0	-
Comprehensive income for the period		593	689

CONSOLIDATED BALANCE SHEET

SEKm	Notes	31 Dec 2011	31 Dec 2010
ASSETS	1, 23		
Non-current assets			
Intangible assets	11	52	77
Property, plant and equipment	10	5 054	5 177
Participations in associated companies	14	29	4
Other holdings	15	30	11
Deferred tax assets	8	1	1
Long-term receivables	23	342	261
Total non-current assets		5 508	5 531
Current assets			
Inventories	16	1 135	1 070
Tax assets		17	21
Accounts receivable		1 391	1 412
Receivables from associated companies	30	3	7
Prepaid expenses and accrued income		76	69
Other receivables		276	350
Cash and cash equivalents	25	929	740
Total current assets		3 827	3 669
Total assets		9 335	9 200
SHAREHOLDERS' EQUITY AND LIABILITIES	1, 23		
Shareholders' equity	17		
Share capital		774	774
Additional paid-in capital		903	903
Reserves		-16	74
Profit brought forward		3 210	2 886
Total shareholders' equity attributable to owners of the parent company		4 871	4 637
Non-controlling interests		1	–
Total shareholders' equity		4 872	4 637
Non-current liabilities			
Interest-bearing liabilities	20	819	798
Provisions for pensions	18	219	207
Other provisions	19	36	27
Deferred tax liabilities	8	1 467	1 434
Total non-current liabilities		2 541	2 466
Current liabilities			
Interest-bearing liabilities	20	0	150
Accounts payable		1 210	1 155
Liabilities to associated companies	30	17	2
Tax liabilities		171	174
Accrued expenses and deferred income	22	439	527
Other liabilities		84	88
Provisions	19	1	1
Total current liabilities		1 922	2 097
Total liabilities		4 463	4 563
Total shareholders' equity and liabilities		9 335	9 200

See note 29 for information on the Group's pledged assets and contingent liabilities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	Notes	Share capital	Additional paid-in capital	Translation reserve	Fair value reserve	Hedge reserve	Profit brought forward incl. profit/loss for the year	Total	Non-controlling interests	Total shareholders' equity
	17									
Opening balance, 1 January 2010		774	903	-4	-	94	2 228	3 995	-	3 995
Total comprehensive income for the year				-15	0	-1	705	689	-	689
Dividends paid							-52	-52	-	-52
Share-based payments to be settled in equity instruments, IFRS 2							0	0	-	0
Sale of shares, incentive programme							5	5	-	5
Closing balance, 31 December 2010		774	903	-19	0	93	2 886	4 637	-	4 637

SEKm	Notes	Share capital	Additional paid-in capital	Translation reserve	Fair value reserve	Hedge reserve	Profit brought forward incl. profit/loss for the year	Total	Non-controlling interests	Total shareholders' equity
	17									
Opening balance, 1 January 2011		774	903	-19	0	93	2 886	4 637	-	4 637
Total comprehensive income for the year				3	0	-93	683	593	0	593
Acquisition of partly owned subsidiaries, already with non-controlling interests									1	1
Dividends paid							-361	-361	-	-361
Share-based payments to be settled in equity instruments, IFRS 2							2	2	-	2
Closing balance, 31 December 2011		774	903	-16	0	0	3 210	4 871	1	4 872



CONSOLIDATED CASH FLOW STATEMENT

SEKm	Notes	2011	2010
	25		
Operating activities			
Profit/Loss after financial income and expenses		933	960
Adjustments for non-cash items		632	592
Tax paid		-180	-12
Cash flow from operating activities before changes in working capital		1 385	1 540
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in inventories		-64	-11
Increase (–)/Decrease (+) in operating receivables		-11	-218
Increase (+)/Decrease (–) in operating liabilities		-38	82
Cash flow from operating activities		1 272	1 393
Investing activities			
Acquisition of intangible assets		-1	-1
Acquisition of property, plant and equipment		-465	-333
Disposal of property, plant and equipment		2	3
Acquisition of financial fixed assets		-127	-261
Cash flow from investing activities		-591	-592
Cash flow after investing activities		681	801
Financing activities			
Dividend		-361	-52
Transfer of own shares, incentive programme		–	5
New borrowings		25	25
Repayment of borrowings		-157	-845
Cash flow from financing activities		-493	-867
Cash flow for the year		188	-66
Cash and cash equivalents, opening balance		740	818
Translation difference in cash and cash equivalents		1	-12
Cash and cash equivalents, closing balance		929	740

PROFIT AND LOSS ACCOUNTS FOR PARENT COMPANY

SEKm	Notes	2011	2010
	1, 23		
Net sales	2	4 151	3 760
Change in inventories		-1	54
Other operating income	3	35	67
Total operating income		4 185	3 881
Operating expenses			
Raw materials and consumables		-1 797	-1 641
Other external costs	4	-947	-851
Employee benefits expense	5	-650	-608
Depreciation, amortisation and impairment of non-current assets	10, 11	-262	-256
Total operating expenses		-3 656	-3 356
Operating profit/loss		529	525
Financial income and expenses	6		
Profit/Loss from participations in Group companies		1 061	-201
Interest income and similar items		20	4
Interest expenses and similar items		-30	-74
Total financial income and expenses		1 051	-271
Profit/Loss after financial income and expenses		1 580	254
Appropriations	7	-2 212	2 098
Profit/Loss before tax		-632	2 352
Taxes	8	168	-618
Profit/Loss for the year		-464	1 734

Financial income and expenses and Taxes for 2010 have been recalculated following new policies for reporting group contributions.

STATEMENT OF COMPREHENSIVE INCOME FOR PARENT COMPANY

SEKm	Notes	2011	2010
Profit/loss for the year		-464	1 734
Other comprehensive income			
Other comprehensive income for the period		—	—
Total comprehensive income for the year		-464	1 734

BALANCE SHEET FOR PARENT COMPANY

SEKm	Notes	31 Dec 2011	31 Dec 2010
ASSETS	1, 23		
Non-current assets			
Intangible assets	11	12	17
Property, plant and equipment	10	2 582	2 638
Participations in Group companies	12	1 220	1 195
Participations in associated companies	14	1	6
Other holdings	15	25	7
Other long-term receivables	23	358	283
Total non-current assets		4 198	4 146
Current assets			
Inventories	16	390	376
Accounts receivable		1 273	1 338
Receivables from Group companies	13	1 232	454
Receivables from associated companies	30	–	4
Prepaid expenses and accrued income		44	51
Other receivables		150	60
Cash and bank balances	25	842	644
Total current assets		3 931	2 927
Total assets		8 129	7 073
SHAREHOLDERS' EQUITY AND LIABILITIES	1, 23		
Shareholders' equity	17		
Restricted equity			
Share capital (104 834 613 ordinary shares)		774	774
Statutory reserve		149	149
Total restricted equity		923	923
Non-restricted equity			
Share premium reserve		827	827
Profit/Loss brought forward		1 804	431
Profit/Loss for the year		-464	1 734
Total non-restricted equity		2 167	2 992
Total shareholders' equity		3 090	3 915
Untaxed reserves	26	2 212	–
Provisions			
Provisions for pensions and similar commitments	18	210	196
Deferred tax liabilities	8	333	673
Total provisions		543	869
Non-current liabilities			
Syndicated loans	21	58	58
Bond loans	21	675	675
Other interest-bearing non-current liabilities	21	1	3
Liabilities to Group companies	13	675	341
Total non-current liabilities		1 409	1 077
Current liabilities			
Liabilities to credit institutions	21	–	150
Accounts payable		235	224
Liabilities to Group companies		218	426
Liabilities to associated companies	30	5	–
Tax liabilities		165	167
Accrued expenses and deferred income	22	235	221
Other liabilities		17	24
Total current liabilities		875	1 212
Total shareholders' equity and liabilities		8 129	7 073
Pledged assets and contingent liabilities of parent company			
Pledged assets	29	18	23
Contingent liabilities	29	72	97

STATEMENT OF CHANGES IN PARENT COMPANY EQUITY

SEKm	Notes	Restricted equity		Non-restricted equity			Total shareholders' equity
		Share capital	Statutory reserve	Share premium reserve	Profit/Loss brought forward	Net profit/loss for the year	
	17						
Opening balance, 1 January 2010		774	149	827	1 986	-1 508	2 228
Previous year's profit/loss brought forward					-1 508	1 508	–
Net profit/loss for the year ¹						1 734	1 734
Dividends paid					-52		-52
Sale of shares, incentive programme					5		5
Closing balance, 31 December 2010		774	149	827	431	1 734	3 915

1 Recalculated following new policies for reporting group contribution.

SEKm	Notes	Restricted equity		Non-restricted equity			Total shareholders' equity
		Share capital	Statutory reserve	Share premium reserve	Profit/Loss brought forward	Profit/loss for the year	
	17						
Opening balance, 1 January 2011		774	149	827	431	1 734	3 915
Previous year's profit/loss brought forward					1 734	-1 734	–
Profit/loss for the year						-464	-464
Dividends paid					-361		-361
Closing balance, 31 December 2011		774	149	827	1 804	-464	3 090



CASH FLOW STATEMENT FOR PARENT COMPANY

SEKm	Notes	2011	2010
	25		
Operating activities			
Profit/Loss after financial income and expenses		1 580	254
Adjustments for non-cash items		280	253
Tax paid		-173	0
Cash flow from operating activities before changes in working capital		1 687	507
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in inventories		-14	-50
Increase (-)/Decrease (+) in operating receivables		-1 075	471
Increase (+)/Decrease (-) in operating liabilities		-182	231
Cash flow from operating activities		416	1 159
Investing activities			
Acquisition of intangible assets		0	-
Acquisition of property, plant and equipment		-201	-128
Disposal of property, plant and equipment		1	0
Acquisition of shares in subsidiaries		-29	-
Acquisition of financial fixed assets		-98	-260
Change in financial receivables		5	4
Cash flow from investing activities		-322	-384
Cash flow after investing activities		94	775
Financing activities			
Dividend		-361	-52
Sale of shares, incentive programme		-	5
New borrowings		616	99
Repayment of borrowings		-151	-924
Cash flow from financing activities		104	-872
Cash flow for the year		198	-97
Cash and cash equivalents, opening balance		644	741
Cash and cash equivalents, closing balance		842	644

RISK MANAGEMENT AND SENSITIVITY ANALYSIS

Billerud is affected by the general economic climate, changes in exchange rates and other factors more specific to the Company. This section describes the most important risks that influence Billerud's ability to achieve the goals set for the Group and the management of each risk. Billerud actively seeks to minimise risk through preventive measures. Wherever this is not possible, risk is hedged or insured against. Many of the risks discussed below can influence Billerud positively or negatively. Risk management is governed at the overall level by the Board and audit committee and at an operational level by the CEO, senior management team and other staff. The risk management process pays special attention to achieving a balance between the control activities and the development of an effective control environment with individual accountability throughout the organisation.

OPERATIONAL RISKS

DESCRIPTION OF RISKS	RISK MANAGEMENT	COMMENTS ON 2011
<p>Variations in market prices and volumes for Billerud's products</p> <p>Billerud's products are generally dependent on the business cycle in terms of both price trends and potential delivery volumes. Market pulp, which accounts for around 20% of Billerud's sales, is considerably more sensitive to the business cycle than packaging paper is. Variations in the market prices of Billerud's products can influence Billerud's profit or loss unless the price variations are related to changes in Billerud's costs. Demand for Billerud's products is among other things influenced by the behavioural patterns and attitudes of Billerud's customers and end-customers.</p>	<p>There are various pricing models for packaging paper, the most common being interim pricing. Fixed price contracts over a long period only occur to a limited extent.</p> <p>The price of market pulp is determined by the current market price. Billerud's mills have higher capacity for production of sulphate pulp than it requires to produce packaging paper. To produce in a cost-effective way, Billerud is largely dependent on being able to sell surplus sulphate pulp as market pulp.</p> <p>Billerud works continually on its process efficiency to adapt its costs, to counteract the negative influence that lower market prices have on Billerud's operating profit.</p> <p>Nearly all sales are based on framework agreements specifying general delivery terms and planned delivery volumes. A minor portion of sales consists of spot sales, that is, sales not subject to a framework agreement. Spot prices may be higher or lower than framework agreement prices. Spot sales occur above all in the market pulp sector.</p> <p>Billerud works continuously to increase product differentiation based on customers' needs and to boost the proportion of sales to consumer-related industries, for example to reduce cyclical fluctuations.</p>	<p>In 2011, Billerud increased prices for packaging paper, in line with the market. Average prices in local currency for Billerud's packaging paper segment rose 15% compared to 2010. However, poorer exchange rates counteracted the price increases.</p> <p>The market price of market pulp decreased, from USD 950 per tonne at the end of 2010, to USD 825 per tonne at the end of 2011.</p>
<p>Customer dependence and customer credit risk</p> <p>Billerud has about 1 000 active customers in about 100 countries, the five largest customers accounting for 23% of the Group's sales in 2011. If Billerud cannot live up to the demands made by its largest customers, and if the customers do not fulfil their payment obligations, Billerud could be adversely affected.</p>	<p>Customers are chiefly producers of packaging, and the relationship with the customer is usually long-lasting. To a growing extent, Billerud is offering packaging solutions directly to end-customers and brand owners. By expanding its customer base, Billerud can reduce its dependence on a small number of customers.</p> <p>The granting of credit to customers varies, depending on the market and the product. The Group has developed a special credit policy to manage customer credit, with the policy of insuring all customer credit that can be insured. Billerud's excess on credit losses is a maximum of SEK 5 million as of 1 January 2011.</p>	<p>At year-end 2011, accounts receivable totalled SEK 1 391 million, representing an average customer credit period of about 56 days. In 2011, about 88% of sales were insured through a credit insurance agreement. Confirmed bad debts totalled SEK 10 million in 2011.</p>

PROVISION FOR BAD DEBTS

SEKm	2011	2010
Group		
Provision at beginning of year	27	16
Provision for anticipated bad debts	3	12
Confirmed bad debts	-10	-1
Provision at year-end	20	27

BREAKDOWN OF ACCOUNTS RECEIVABLE BY AGE

SEKm	2011			2010		
Group	Gross	Impairment	Net	Gross	Impairment	Net
Accounts receivable not due	1 362	-1	1 361	1 359	-1	1 358
Accounts receivable overdue 0–30 days	30	0	30	71	–	71
Accounts receivable overdue >30–90 days	22	0	22	9	–	9
Accounts receivable overdue >90–180 days	-1	-2	-3	-2	–	-2
Accounts receivable overdue >180–360 days	-2	-1	-3	2	-10	-8
Accounts receivable overdue >360 days	0	-16	-16	0	-16	-16
Total	1 411	-20	1 391	1 439	-27	1 412



OPERATIONAL RISKS cont.

DESCRIPTION OF RISKS

Risk at production facilities

Billerud has four production facilities whereof three operate round the clock, every day of the year. The only planned shutdown is the periodic maintenance shutdown at each mill. Continual operation means high efficiency in the utilisation of capital, but it also raises sensitivity to unplanned disruptions to production. If disruptions in operations occur that lead to major production losses, they may result in loss of income to Billerud.

RISK MANAGEMENT

Extensive effort is devoted to developing production plants so as to ensure operational reliability. This is in addition to structured work on documentation, skills development for employees, a well thought-out approach to preventive maintenance and careful follow-up and analysis of deviations. To protect Billerud in the event of serious breakdowns or other production problems, the facilities are insured against disruptions. For disruptions that result from serious breakdowns or other damage, such as a fire, power failure and water damage, Billerud will be compensated by the insurance company for damages beyond the excess. Billerud is also insured for property up to replacement costs.

COMMENTS ON 2011

In 2011, the operations ran well without any disruptions.

Supplies of wood raw materials

Supplies of fresh fibre are vital to Billerud's production of paper. Billerud does not own any forest; it buys all its wood raw materials on the timber market.

These purchases are made from a small number of major suppliers, such as Stora Enso, Holmen and Sveaskog, as well as from a large number of private landowners in northern Sweden. In addition, about 20% of the Company's timber requirements are imported, mainly from the Baltic states. Billerud's assessment is that its partnership with the major suppliers will account for the main share of wood raw material deliveries for the foreseeable future.

Production limitations in the industry led to a certain surplus of wood during the second half of the year. Otherwise, the wood market was in balance in 2011.

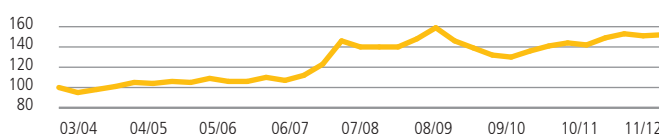
Wood price risk

Market prices for wood vary over time, which can affect Billerud's earnings. These prices are influenced by demand from the pulp industry, indicating that changes in the overall output of the pulp industry in the Nordic region may subsequently affect the level of costs of wood raw materials. Demand in other sectors such as in sawn timber and wood used for combustion, especially in connection with the use of biofuels for generating electricity and heat, may also indirectly affect the price of pulp wood. Changes in customs duties may also impact on the price of imported timber.

In general, prices in contracts with major suppliers are set each quarter or six months. This may create problems with deliveries to Billerud if the parties cannot reach agreement on the market price that is to apply.

The cost of wood raw materials increased in 2011 compared to 2010. In the latter part of 2011, a surplus of softwood built up and market prices consequently fell.

WOOD PRICE INDEX
BILLERUD



Energy price risk

Energy costs represent a major component of the manufacturing costs. Billerud consumes electricity, biofuel, oil and small amounts of other types of energy. Higher energy prices could result in higher operating expenses for the Group and have a negative effect on operating earnings.

As of 1 November 2011, Sweden is divided into four bidding areas for electricity. Karlsborg Mill is in the LUL bidding area and Skärblacka and Gruvön are in the STO bidding area. Prices can vary between the areas and, as an estimate, prices will be lower in the north and higher in the south.

Billerud is entitled to the allocation of electricity certificates for the electricity produced at the Company's biofuel plants until the end of 2012. Billerud sells the allocated electricity certificates on an ongoing basis. In 2005 and 2006, Billerud carried out energy investments in these biofuel plants to increase environmentally friendly electricity production, and thus increase its allocation of electricity certificates. Billerud has therefore applied to the Swedish Energy Agency for a higher allocation of electricity certificates so that the total allocation period amounts to 15 years. Since an amendment to the Electricity Certificates Act in June 2007, 15 years is the maximum period for which electricity certificates can be allocated to a plant owner. According to Billerud, the biofuel plants are entitled to allocation for 15 years. The agency has, however, decided not to approve Billerud's application for renewed allocation, and Billerud intends to appeal to the County Administrative Courts in the regions where each mill is located. This means that there is a risk that Billerud's energy costs will increase after 2012.

In 2005 and 2006, Billerud carried out a comprehensive investment programme in the energy sector, which reduced the amount of electricity it needed to purchase from 1.2 TWh, to approximately 0.8 TWh since the start of 2007. Thus, Billerud's self-sufficiency in electricity is around 60% at full output. In May 2007, Billerud signed a 10-year supply agreement for electricity at fixed prices with Vattenfall. The agreement covers basic power requirements of around 0.4 TWh per year for the period 2008–2017. Through this agreement and its own power generation capacity, Billerud has secured, since the beginning of 2008, approximately 80% of its electricity energy requirement in a satisfactory manner, with a balanced combination of in-house generated electricity and long-term supply agreements. The remainder of the external energy requirement will be bought on the spot market or reduced by further energy savings. Trading in electricity futures may also occur in order to secure a fixed price level for the variable part of consumption.

In 2011, total electricity consumption was about 1.5 TWh, of which about 53% was generated in-house, about 29% was basic power purchased from Vattenfall at fixed prices and about 18% was purchased in the spot market.

Sold electricity certificates impacted operating earnings by SEK 131 million (162) in 2011.

Costs of other inputs

Besides wood and energy, many other inputs are used in the manufacture of Billerud's products. Market prices for these inputs vary over time, which can affect Billerud's earnings.

Certain process chemicals are by-products from chemical processes and their price can therefore vary significantly from year to year. Prices for other chemicals have been much more stable. Overall, however, chemical price trends have been stable.

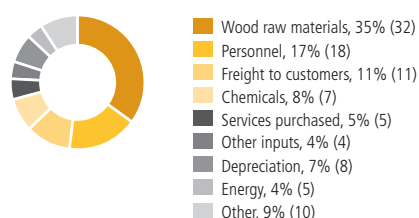
Historically, prices for other inputs, such as packaging material and machine covers, have been stable.

In 2011, chemicals accounted for 8% (7). Other inputs accounted for 4% (4).

OPERATIONAL RISKS cont.

DESCRIPTION OF RISKS	RISK MANAGEMENT	COMMENTS ON 2011
<p>Cost of purchased services</p> <p>Billerud purchases services such as freight to customers and maintenance services. Market prices for these services vary over time, which can affect Billerud's earnings.</p>	<p>Freight costs are fixed annually via agreements, and are affected by energy prices, wage costs and competition between freight companies.</p> <p>Other purchased services mainly comprise maintenance services in connection with the annual maintenance shutdowns, and regular maintenance. The prices of services are primarily affected by trends in wage costs in Sweden.</p>	<p>In 2011, freight to customers accounted for 11% (11) of Billerud's total operating costs. Shipments by railway accounted for 33% of freight costs incurred by Billerud's mills, while shipments by sea accounted for 38% and road freight 29%.</p> <p>In 2011, other purchased services accounted for 5% (5) of Billerud's total operating costs.</p>
<p>Risks related to employees</p> <p>Access to skilled and motivated employees and managers is a prerequisite for achieving the goals Billerud has set.</p> <p>Personnel costs constitute the second largest expense item.</p>	<p>Billerud works continually to manage generational succession and the conversion of skills. So as not to risk losing vital know-how, the Company needs to attract skilled employees. To avoid a skills gap in the years ahead, Billerud is working now to strengthen its brand as an employer.</p> <p>Wages and salary costs are primarily regulated by collective agreements, payroll taxes and other related legal requirements.</p>	<p>In 2011, the Group's second trainee programme commenced, aimed at continual long-term efforts to supply skills. Billerud also works with employer branding, which aims to profile Billerud as an employer.</p> <p>In the last three years, wage costs have risen through agreements by around 3% per year.</p>
<p>Environmental impacts and renewal of permits</p> <p>Billerud's operations are governed by extensive environmental legislation and require permits under current legislation. These permits entitle the mills to produce a certain volume of pulp and paper but also stipulate a large number of conditions regarding, for example, emissions to water and air, noise, and waste and chemicals management. Non-compliance with the permits may incur costs for environmental restoration, environmental penalty charges or criminal liability.</p> <p>In Sweden and internationally, the trend is towards increasingly strict environmental legislation, in which new permits normally stipulate lower thresholds for maximum environmental impact. These rule changes can lead to requirements for major new investment to enable production to continue and requirements under existing legislation being made more stringent.</p> <p>Even if the Company is meeting legal requirements, there is a risk of negative reactions from the community.</p>	<p>In 2010, Billerud introduced a code of conduct stipulating that employees must always act ethically, legally and with respect for its surroundings and the environment.</p> <p>To minimise negative environmental impact, Billerud has established an environmental management system and an energy management system at each mill. The systems are certified under ISO so that environmental and energy aspects are identified and assessed and goals set with the aim of reducing the environmental impact of the operation. Training, supplier assessments and extensive follow-up of environmental activities are also included. Follow-up includes measurements and analyses, periodic audits and an annual evaluation of the management systems.</p> <p>Operations at the Swedish mills are governed by the Swedish Environmental Code. Permits for conducting operations are obtained from the Swedish Environmental Court. The County Administrative Board supervises compliance with the environmental permits obtained by each mill. This work is ongoing. If necessary, feasible investments are introduced into the Group's investment plan.</p> <p>Billerud works actively to reduce its impact on climate change by reducing energy consumption and emissions of fossil carbon dioxide in production and in transportation. Read more about these efforts in the Sustainability Report in this annual report.</p>	<p>Environmental efforts were carried out during 2011 in a satisfactory manner. Fossil oil consumption decreased further compared to the previous year.</p> <p>Billerud Skärblacka received a new environmental permit, which involves more stringent requirements for emissions to air. An investment project to cope with the new requirements has already commenced, and the investment is expected to amount to SEK 900 million in total. The planned investments will also bring about reduced energy consumption. For more information, please read the Sustainability Report in this annual report.</p>

BREAKDOWN OF OPERATING COSTS



FINANCIAL RISKS

Billerud has a number of financial risks to manage. Although these risks are reduced to a certain extent by the measures described below, there is no guarantee that the measures will not have a negative impact on Billerud's financial position and earnings.

DESCRIPTION OF RISKS

RISK MANAGEMENT

COMMENTS ON 2011

Currency risk – transaction exposure

Transaction exposure is the risk of changes in exchange rates for export revenues and import expenses negatively affecting Billerud's operating income and acquisition cost of its property, plant and equipment. The Group's net currency exposure is considerable; the main currencies involved are USD, EUR and GBP. However, the majority of operating expenses are in SEK. The main exceptions are freight costs and the costs of imported wood raw materials and chemicals, which are affected above all by fluctuations in EUR and USD exchange rates.

To reduce the consequences of currency exposure, Billerud continuously hedges forecast net flows in foreign currencies. The finance policy adopted by the Board stipulates guidelines for currency hedging, entailing that around 50% of net flows over the coming 12-month period must always be hedged. However, this figure may rise to 100% of net flows over the coming 15 months if it is deemed appropriate with regard to profitability and the currency situation.

Control of Billerud's business areas is based on exchange rates current at any one time, in order to continually adjust commercial terms to the prevailing currency situation. The main target for each business area is the operating margin, which is measured net of the earnings effects of hedging currency flows. Since 2007, the earnings effects of exchange rate changes in operating capital have been managed centrally and matched against earnings for currency hedging.

At year-end 2011, foreign exchange contracts not yet recognised in profit/loss totalled a nominal SEK 2 094 million (2 633), of which foreign exchange contracts representing SEK 2 094 million (2 633) will be recognised in profit/loss in 2012. The corresponding net currency flows for the Group in 2012 are estimated at around SEK 5 200 million (5 800).

At 31 December 2011, the market value of Billerud's outstanding forward currency contracts was SEK 35 million. The contracts matched by accounts receivable affected earnings. The market value of the remaining contracts was SEK 17 million.

Nominal amount of foreign exchange derivatives	2011	2010
EURm	203	254
USDm	138	136
GBPm	16	16
DKKm	–	1
Market value of foreign exchange derivatives, SEK	2011	2010
Forward foreign exchange contracts	35	202

Currency risk – translation exposure

Translation exposure is the risk that Billerud is exposed to when foreign subsidiaries' profit and loss accounts and balance sheets are translated into SEK.

Billerud also has assets in foreign currency mainly through its ownership of Billerud Beetham Ltd. Net assets in GBP are partly hedged by loans in the same currency.

As of 31 December 2011, total capital employed in foreign currency was SEK 180 million, of which SEK 237 million was financed by shareholders' equity. Of total net assets in GBP, corresponding to SEK 140 million, 30% was hedged through loans raised by the parent company. No hedging has been arranged for net assets in other currencies. Earnings are affected when the earnings of subsidiaries are translated at an exchange rate that differs from the one on the balance sheet date. This had an impact on earnings of SEK 0 million in 2011.

SEKm	Capital employed	Net borrowings	Net assets
GBP	133	-7	140
EUR	-5	-37	32
USD	27	0	27
Other currencies	25	-13	38
Total	180	-57	237

Financing risk

Financing risk is the risk that Billerud will have difficulty raising new loans. Access to further financing will be affected by a number of factors, including market conditions, the general availability of credit and Billerud's creditworthiness and credit capacity. In addition, access to further financing will be affected by any negative perceptions that customers, suppliers or lenders may acquire about Billerud's long- and short-term financial prospects. Disruptions and uncertainty in the capital and credit markets may also limit availability to the capital needed to operate the business.

To ensure that the Group always has access to external financing, the finance department must ensure that short- and long-term credit commitments are available. Maximum cost-efficiency within established limits shall be the goal.

The lender base shall also be reasonably diversified to avoid excessive dependency on individual sources of financing. The repayment structure for loans shall be arranged such that the loan maturity is evenly spread over a period.

In 2011, Billerud's syndicated credit facility of SEK 1 200 million was replaced by a new such facility of SEK 801 million maturing in 2016. At 31 December 2011, outstanding bond loans totalled SEK 675 million. See note 20 for more information.

At 31 December 2011, Billerud's net cash amounted to SEK 233 million compared to interest-bearing net debt of SEK 155 million at 31 December 2010.

FINANCIAL RISKS cont.

DESCRIPTION OF RISKS	RISK MANAGEMENT	COMMENTS ON 2011
Interest rate risk The interest rate risk is the effect on earnings brought about by a change in interest rates. The speed with which a change in the interest rate trend affects earnings depends on the refixing periods for interest rates on loans and investments.	To ensure cost-efficient financing for the Group and avoid excessive impacts on earnings from large negative changes in interest rates, the norm for Billerud is that the average refixing period for the loan stock shall be 18 months, with a permitted deviation of +/- 12 months. The refixing period for an individual loan or interest swap shall not exceed 10 years. To achieve this norm, interest rate derivatives, mainly interest rate swaps, are used. Price risk is defined as the effect on earnings that may be caused by changes in the price of outstanding capital instruments. Investments are made with minimal refixing of interest rates, and interest rate-related risks are therefore limited in the investments.	If the Group's entire borrowing portfolio had a variable interest rate, the effect on earnings for one year from a 1 percentage point change in interest rates would be SEK 8 million, based on liabilities of SEK 819 million at year-end. The Group's average interest rate refixing period was around 17 months at year-end. A change of 1 percentage point in interest rates would have an annualised effect of SEK 3 million on earnings given the current refixing period.
Nominal value of interest rate derivatives, SEKm Interest rate swaps: Duration less than 1 year Duration 1–2 years Duration more than 2 years Total	2011 – 375 150 525 2010 150 – 525 675	
Market value of interest derivatives, SEKm Interest rate swaps	2011 -16 2010 -9	
Financial credit risk Credit risk refers to situations such as when a counterpart in a financial transaction cannot meet commitments. If measures taken by Billerud to minimise credit risk are not sufficient, Billerud's financial position and results may be adversely affected.	To avoid this, Billerud's finance policy defines clearly how any excess liquidity may be invested. When calculating credit risks, the positive effects on earnings of derivative contracts with counterparts are also taken into account. Billerud's maximum credit risk exposure is equal to the fair value of financial assets, disclosed in note 23.	At year-end, total credit exposure was SEK 1 271 million (1 000).

SENSITIVITY ANALYSIS

Variable	Approximate effects on earnings before tax Change	SEKm
Volume of sales	+/- 10 %	+/-350
Price of pulp	+/- 10 %	+/-175
Exchange rates, SEK ¹	+/- 10 %	+/-600
Price of wood	+/- 10 %	-/+320
Price of electricity	+/- 10 %	-/+15
Interest rate on loans	+/- 1 pctg. point	-/+8

1 Excluding effects of currency hedging



NOTES AND ACCOUNTING POLICIES

1 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and interpretations made by the IFRS Interpretations Committee (IFRIC) as endorsed by the European Commission for application within the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 concerning supplementary accounting rules for Groups has been applied.

The parent company applies the same accounting policies as the Group except in the cases indicated under "Parent company's accounting policies".

Basis of measurement in preparing the financial reports

Assets and liabilities are stated at historical cost, except for certain financial assets and liabilities that are measured at fair value or amortised cost. Financial assets and liabilities measured at fair value consist of derivatives as well as financial assets classified either as financial assets recognised at fair value through profit and loss or as available for sale.

Functional and presentation currencies

The functional currency of the parent company is SEK, which is also the presentation currency used for the accounts of both the parent company and the Group. Thus financial reports are presented in SEK. All amounts, unless stated otherwise, are rounded to the nearest million.

Use of estimates and judgments in the financial reports

Preparing financial reports in accordance with IFRS requires company management to make judgments and estimates as well as assumptions that affect the application of accounting policies and the amounts disclosed for assets, liabilities, income and expenses. The actual outcome can differ from the assumptions and estimates.

Assumptions and estimates are reviewed on an ongoing basis. Revisions to estimates are recognised in the period the change occurs if the change only affects that period, or in the period the change occurs and in future periods if the change affects both current and future periods.

Judgements made by the Company's management when applying IFRS that have

a significant impact on financial reports and estimates made that may involve significant adjustments to subsequent financial reports are described in more detail in note 32.

Accounting policies applied in the reports

The accounting policies specified below, excepting those described in greater detail, have been applied consistently when reporting and consolidating the parent company and subsidiaries as well as when incorporating associated companies in the consolidated accounts.

Changes in accounting policies

Changes in IFRS applicable as of 2011 have not had any significant effect on the consolidated accounts.

New IFRS and interpretations coming into effect in future accounting periods

A number of new or changed standards and interpretations will come into effect in coming financial years but have not been applied in advance when preparing this report. New rules and changes applicable after 2012 are not scheduled to be applied in advance.

- IAS 19 Employee benefits - amendment (EU approval expected in first quarter of 2012). The amendment entails the disappearance of the so-called "corridor method". Actuarial gains or losses shall be recognised in other comprehensive income. The amendments shall apply to the financial year starting 1 January 2012 or subsequently with retroactive application. On 31 December 2011, actuarial accumulated losses were SEK 67 million, including special payroll taxes and tax on returns. Had the change been applied as of 2012, a one-time effect of SEK -67 million would have been reported in other comprehensive income for 2011.

The expected effects on the financial reports of the application of the following new or amended standards and interpretations have been judged to have limited effects on the financial reports.

- IFRS 10 Consolidated Financial Statements. The standard contains uniform rules regarding the units that are to be consolidated and will replace IAS 27 Consolidated Financial statements and SIC 12, which addresses Special Purpose Entities.

- IFRS 11 Joint Arrangements. The standard addresses the recognition of Joint Arrangements and will replace IAS 31 Participations in Joint Ventures.
- IFRS 12 Disclosure of Interests in Other Entities. Broader disclosure requirements regarding subsidiaries, joint arrangements and associated companies have been brought together in a standard.
- IFRS 13 Fair Value Measurement. The standard contains uniform rules for calculation and disclosure of fair values.

Classifications etc.

Non-current assets and liabilities in the parent company and the Group consist largely only of amounts that are expected to be recovered or paid more than 12 months after the end of the reporting period. Current assets and liabilities in the parent company and the Group consist largely only of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.

Operating segments

Billerud's operations are divided 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 so that the senior management team monitors the profit or loss and the operating margin generated by the Group's various goods and services. Each operating segment has a manager responsible for the operations who periodically reports to the senior management team the outcome of the operating segment's efforts and its resource requirements. The senior management team monitors the operation's profit or loss and determines resource allocations based on the goods and services the Group manufactures and sells, so these constitute the Group's operating segments. Billerud's operating segments have been identified as per IFRS 8 and comprise the business areas Packaging & Speciality Paper, Packaging Boards and Market Pulp.

Basis of consolidation

Subsidiaries

Subsidiaries are companies in which Billerud AB has a controlling influence. Controlling influence means the right to formulate, directly or indirectly, the company's financial and operating strategies in order to

obtain financial advantages. This usually means that Billerud controls more than 50% of the voting rights. An assessment of whether or not a controlling influence exists must consider potential vote-entitling shares that can be utilised or converted without delay.

Subsidiaries are recognised using the purchase method. By this method, the acquisition of a subsidiary is considered a transaction in which the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. The acquisition cost upon consolidation is determined using a purchase price allocation analysis in connection with the acquisition. This analysis establishes the acquisition cost for the participation or business and the fair value at the acquisition date of the acquired identifiable assets as well as assumed liabilities and any contingent liabilities. The acquisition cost of the subsidiary company's shares and the business consists of the total of the fair values at the acquisition date for assets provided, liabilities arising or assumed and equity instruments on issue that are provided as consideration in exchange for the net assets acquired. Transaction costs directly attributable to the acquisition are recognised as an expense in the Group. If the acquisition cost exceeds the fair value of assets acquired, assumed liabilities and contingent liabilities recognised separately, the difference is recognised as goodwill. When the difference is negative, it is charged directly to profit and loss.

Financial statements of subsidiaries are included in the consolidated accounts from the date of acquisition up to the date when control ceases.

Associated companies

Associated companies are companies in which the Group has a significant influence, but not control, over operating and financial strategies, usually via a shareholding corresponding to 20%–50% of voting rights. From the time when the Group gains its significant influence, participations in the associated company are recognised in accordance with the equity method.

By the equity method, the carrying amount of participations in associated companies recognised in the consolidated accounts corresponds to the Group's participation in the associated companies' equity, any goodwill and any other remaining fair value adjustments. In the consolidated profit and loss accounts, Profit/Loss from participations in associated companies includes the Group's participation in the earnings of associated companies net after tax attributable to the parent company shareholders and after adjustment for any depreciation, amortisation, impairment losses or reversals of goodwill or negative goodwill. Such profit or

loss, less dividends received from the associated companies, accounts for most of the change in the carrying amount of the participations.

Any differences at the time of acquisition between the acquisition cost of the holding and the owner's share of the net fair value of the associated company's identifiable assets, liabilities and contingent liabilities is recognised according to the same policies as for the acquisition of a subsidiary.

When the Group's share of losses recognised in an associated company exceeds the fair value of its participations in the associate, the value of the participations is reduced to zero. Losses may also be settled against long-term financial dealings without security which in economic terms represent a part of the owner's net investment in the associate. Additional losses are not recognised unless the Group has made guarantees to cover losses incurred by the associated company. The equity method is applied up to the date when the significant influence ceases.

Transactions eliminated on consolidation

Transactions in foreign currency are translated into the functional currency at the exchange rate prevailing on the transaction date. The functional currency is the currency of the primary economic environments in which the companies operate. Monetary assets and liabilities in foreign currency are translated to the functional currency using the exchange rate prevailing at the end of the reporting period. Exchange rate differences arising from translation are recognised in the profit and loss accounts. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the time of the transaction. Non-monetary assets and liabilities reported at fair values are translated into the functional currency at the exchange rate prevailing on the date the fair value was determined.

Foreign currency

Transactions in foreign currency

Transactions in foreign currency are translated into the functional currency at the exchange rate prevailing on the transaction date. The functional currency is the currency of the primary economic environments in which the companies operate. Monetary assets and liabilities in foreign currency are translated to the functional currency using the exchange rate prevailing at the end of the reporting period. Exchange rate differences arising from translation are recognised in the profit and loss accounts. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the time of the transaction. Non-monetary assets and liabilities reported at fair values are translated into the functional currency at

the exchange rate prevailing on the date the fair value was determined.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and other fair value adjustments, are translated from foreign operations' functional currency to the Group's reporting currency, SEK, using the exchange rate prevailing at the end of the reporting period. Revenue and expenses of foreign operations are translated to SEK using an average rate approximating the rates on each transaction date. Translation differences that arise when translating the financial statements of foreign operations are recognised directly in other comprehensive income as a translation reserve. When a foreign operation is sold, the accumulated translation differences attributable to the operation are recognised in the consolidated profit and loss accounts.

Hedging of net investments in foreign operations

The Group has business in several countries. In the consolidated balance sheet, investments in foreign operations are recognised as net assets in subsidiaries (including monetary items that constitute a part of the net investments in the companies). To some extent, measures have been taken to reduce currency risk associated with these investments, by raising loans in the same currency as the net investments (hedging instrument). At the close of accounts, these loans are recognised translated at the rate at the end of the period. The effective part of the period's changes in exchange rates relating to hedge instruments is recognised directly in other comprehensive income in the translation reserve to meet and partly or wholly match the translation differences that are recognised for net assets in the foreign operations that have been hedged. Translation differences from net investments and hedge instruments are reversed and recognised in profit and loss when the foreign operation is sold. If hedging is not effective, the ineffective portion is recognised directly in profit and loss.

Revenue

Sale of goods and performance of services

Billerud's revenue is generated mostly from the sale of manufactured products. Revenue from the sale of goods is recognised in the statement of comprehensive income provided that all significant risks and rewards related to owning the goods have been transferred to the buyer. Revenue from services is recognised in net profit/loss for the year based on the degree of completion at the end of the reporting period. Income is not recognised if it is probable that the economic benefits will not flow to Billerud. If there is significant



uncertainty concerning payment, associated costs or risk of return, and if the seller retains an interest in the ongoing management normally associated with ownership, no revenue is recognised. Revenue is recognised at fair value of what is received, or is expected to be received, less agreed discounts.

Government support

Government grants are recognised in the balance sheet as deferred income when there is reason to assume that the conditions connected with receiving a grant will be fulfilled and that the grant will be paid out. Grants are distributed systematically in the profit and loss accounts in the same way and over the same periods as the costs that the grants are intended to compensate. Government grants related to assets are recognised in the balance sheet as deferred income and are distributed as other operating income over the useful life of the asset.

Leasing

Operating leases

Expenses for operating leases are recognised in profit and loss over the leasing period on a straight-line basis. Incentives received in connection with the signing of a lease are recognised in the profit and loss accounts as a reduction in the lease payments over the period of the lease on a straight-line basis. Variable expenses are recognised in the periods when they arise.

Finance leases

The minimum lease payments are divided between interest costs and repayment of the outstanding liability.

Interest costs are distributed over the period of the lease so that each accounting period includes an amount corresponding to a fixed interest rate for the liability recognised in each period. Variable payments are recognised in the periods when they arise.

Financial income and expenses

Financial income consists of interest income on invested funds, dividend income, gains on changes in the value of financial assets measured at fair value through profit and loss and gains on hedge instruments recognised in the profit and loss accounts.

Interest income from financial instruments is recognised using the effective interest method (see below). Dividend income is recognised when the right to the received payment is established. Gains on the disposal of financial instruments are recognised when the risks and benefits associated with owning the instrument are transferred to the buyer and the Group no longer controls the instrument.

Financial expenses comprises interest costs for loans, the effects of reversals of

present value estimates for provisions, losses on the change in value of financial assets measured at fair value through profit and loss, impairment of financial assets and losses on hedge instruments that are recognised in the profit and loss accounts. All borrowing costs are recognised in profit/loss with the application of the effective interest rate method regardless of how the borrowed funds have been used. Borrowing costs are not recognised in profit/loss in the proportion that they are directly attributable to the acquisition, construction or production of assets that take considerable time to complete for intended use or sale. In these cases, they are included in the assets' acquisition costs.

Exchange rate gains and losses are recognised net. Effective interest is the rate used to discount estimated future receipts and disbursements during the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The calculation includes all fees paid or received by contracted parties that are part of the effective interest, transaction costs and all other fair value adjustments.

Taxes

Incomes taxes comprises current tax and deferred tax. Income taxes are recognised in the profit and loss accounts except when the underlying transaction is recognised directly in equity whereupon the associated tax effect is also recognised in equity.

Current tax is tax to be paid or recovered for the current year using the tax rates already enacted or substantially enacted at the end of the reporting period; adjustments of current tax attributable to earlier periods is included.

Deferred tax is calculated using the balance sheet method starting with the temporary differences between the recognised and taxable values of assets and liabilities. Temporary differences are not considered when the temporary differences arise from the initial recognition of goodwill nor when temporary differences arise from initial recognition of assets and liabilities in a transaction which is not a business combination and at the time of the transaction affects neither recognised nor taxable earnings. In addition, temporary differences are not recognised when attributable to participations in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Measurement of deferred tax is based on how the carrying amount of underlying assets and liabilities is expected to be recovered or settled. Deferred tax is calculated using the tax rates and regulations enacted or substantially enacted at the end of the reporting period.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are recognised only to the extent it is

probable that they can be utilised. The value of deferred tax assets is reduced when it is no longer probable that they can be utilised.

Any additional income tax relating to the dividend is recognised at the same time as the dividend is recognised as a liability.

Financial instruments

Financial instruments recognised in the balance sheet include, on the assets side, cash and cash equivalents, accounts receivable, financial investments and derivatives. The liabilities side has accounts payable, borrowings and derivatives.

Recognition on, and removal from, the balance sheet

A financial asset or liability is recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument. Accounts receivable are recognised when the invoice is sent. Liabilities are recognised when the counterparty has performed and there is a contractual liability to pay, even if the invoice has not been received. Accounts payable are recognised when the invoice is received.

A financial asset is removed from the balance sheet when the rights in the agreement are realised or expire or the company loses control over them. The same applies for portions of a financial asset.

A financial liability is removed from the balance sheet when the obligation in the agreement is discharged or otherwise expires. The same applies for portions of a financial liability.

A financial asset and a financial liability are offset against each other and recognised as a net sum on the balance sheet only when there exists a legal right to offset the amounts and an intention to settle the items with a net amount or to simultaneously realise the asset and settle the liability.

Acquisitions and sales of financial assets are recognised at the trade date, which is the date when the company commits to acquire or sell the asset.

Classification and measurement

Financial instruments that are not derivatives are initially recognised at the acquisition cost, which corresponds to the instrument's fair value including direct transaction costs for all financial instruments except those belonging to the category financial assets measured at fair value through profit and loss, which are recognised excluding transaction costs. A financial instrument is classified upon initial recognition based on the purpose of the acquisition of the instrument. The classification of a financial instrument determines how it is measured after initial recognition as follows.

Derivative instruments are initially reported at fair value, meaning that transac-

tion costs are charged to profit/loss for the period. After the initial recognition, derivative instruments are recognised as follows. If the derivative is used for hedge accounting, then to the extent that it is effective the change in value of the derivative is recognised on the same line as the hedged item in the profit and loss accounts. Even if hedge accounting is not used, increases and decreases in the value of the derivative are recognised as income or expense in operating profit/loss or in financial income and expenses based on what the derivative is used for and to what extent the use is related to an operating item or financial item. If hedge accounting is used, the ineffective portion is recognised in the same way as value changes in a derivative not used for hedge accounting. If hedge accounting is not used for interest swaps, then the interest coupon is recognised as interest, and other changes in value of the interest swap are recognised as other financial income or other financial expenses.

The fair value amounts are based on directly observed market prices or derived from market prices.

Cash and cash equivalents comprise cash and funds immediately available at banks and similar institutions as well as current investments with terms of less than three months at the acquisition date and which are exposed to an insignificant risk for changes in value.

Financial assets measured at fair value through the profit and loss accounts

This category consists of two subcategories: financial assets held for trading and other financial assets that the Company initially chooses to put in this category. A financial asset is classified as held for trading if it is acquired with the aim of being sold in the short term. Derivatives that are independent, as well as embedded derivatives, are classified as held for trading. Assets in this category are measured continually at fair value, and the changes in value are recognised in the profit and loss accounts, except for derivatives that are identified as effective hedge instruments.

Loan receivables and accounts receivable

Loan receivables and accounts receivable are non-derivative financial assets with payments that are fixed or can be determined and that are not listed on an active market. These assets are measured at amortised cost. The amortised cost is determined based on the effective rate of interest estimated at the time of acquisition. Receivables shorter than three months are recognised at acquisition cost. Accounts receivable are recognised at the amounts expected to be received, that is, after deductions for doubtful receivables.

Held-to-maturity investments

Held-to-maturity investments are financial assets and include interest-bearing securities with fixed or determinable payments and a fixed term that the company has clearly stated it intends to hold to maturity and has the capability to do so. Assets in this category are measured at the amortised cost.

Available-for-sale financial assets

The category of available-for-sale financial assets includes financial assets not included in any other category or financial assets that the company initially chooses to put in this category. Holdings of shares and participations not reported as subsidiaries or associated companies are recognised here. Assets in this category are measured continually at fair value with value changes recognised in equity, though not those changes relating to impairment (see accounting policies for impairment), nor interest on receivables instruments or dividend income, nor exchange rate differences for monetary items recognised in profit and loss. Shares and participations of insignificant value are recognised at acquisition cost. When the investment is sold, accumulated gains or losses previously recognised in equity are transferred to the profit and loss accounts.

Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. Liabilities are measured at amortised cost. Liabilities shorter than three months are recognised at acquisition cost.

The categories to which the Group's financial assets and liabilities belong are explained in note 23, Financial assets and liabilities.

Derivatives and hedge accounting

The Group's derivative instruments have been acquired to hedge the interest, currency and pulp price risk exposure of the Group. Embedded derivatives are recognised separately unless they are closely related to the host contract.

To meet the requirements of hedge accounting in accordance with IAS 39 there must be a clear connection to the hedged item. Furthermore, the hedging must protect the hedged item efficiently, hedging documents must be prepared and the efficiency must be measurable. Gains and losses on hedging are recognised in the profit and loss accounts at the same time as profit and loss are recognised for the items being hedged.

Receivables and liabilities denominated in foreign currencies

Forward contracts are used to hedge receivables and liabilities against foreign exchange risk. Hedge accounting is not used to protect

against currency risks, because a financial hedge is reflected in the accounts by recognising the underlying receivable or liability and its hedge instrument at the rate at the end of the reporting period and by recognising changes arising from exchange rate fluctuations in the profit and loss accounts.

Hedging of foreign currency –

Cash flow hedging

Foreign exchange contracts used to hedge future cash flows and forecast sales and purchases in foreign currency are recognised at fair value on the balance sheet. Changes in value are recognised directly in equity in the hedge reserve until the time when the hedged flow is recognised in the profit and loss, at which time the hedging instrument's accumulated changes in value are transferred to the profit and loss accounts, where they then meet and match the profit/loss effects of the hedged transaction.

When the hedged future cash flow refers to a transaction capitalised on the balance sheet, the hedge reserve is reversed when the hedged item is recognised on the balance sheet. If the hedged item is a financial asset or liability, the hedge reserve is reversed gradually in the profit and loss accounts at the same rate as the hedged item affects profit/loss.

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

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

Hedging of fixed interest – Cash flow hedging

Interest rate swaps are used to hedge against the uncertainty of future interest flows related to loans carrying variable rates of interest. Swaps are measured at fair value on the balance sheet. The interest coupon is recognised in the profit and loss accounts continually as interest income or expense. Other value changes in swaps are recognised directly in the hedge reserve in equity until the hedged item affects the profit and loss accounts and as long as the criteria for hedge accounting and efficiency are fulfilled. The gain or loss attributable to the ineffective portion is recognised in the profit and loss accounts.



Hedging of fair value

When a hedging instrument is used to hedge fair value, the derivative is recognised at fair value on the balance sheet and the hedged asset/liability is also recognised at fair value with regard to the risk being hedged. Changes in the value of the derivative are recognised in the profit and loss accounts together with changes in the value of the hedged item. Hedging of fair values is used to hedge the value of assets and liabilities on the balance sheet that are not recognised at fair value and of contracted flows.

Hedging of fixed interest – Fair value hedging

Interest swaps are used as instruments to hedge against the risk of changes in the fair value of borrowings with fixed interest rates. Thus fair value hedges are used in the accounts, the hedged item is translated into fair value regarding the hedged risk (risk-free interest), and the change in value is recognised in the profit and loss accounts in the same way as the hedge instrument is.

Hedging of net investments

See the description above for foreign currencies.

Electricity derivatives

Billerud buys electricity from external suppliers. To continually hedge the electricity price, Billerud enters into derivative contracts for electricity. Electricity derivatives that protect the forecast outward flow of electricity expenses are recognised in the balance sheet at fair value. Changes in value are recognised directly in equity in the hedge reserve until the hedged outward flow is recognised in profit and loss, at which time the hedging instrument's accumulated changes in value are transferred to the profit and loss accounts, where they meet and match the profit/loss impact of the hedged transaction. The gains or losses realised on these contracts are recognised continuously in operating profit/loss as a correction of electricity costs.

Pulp derivatives

Billerud buys some of the pulp it requires from external suppliers. To continually hedge pulp prices, Billerud enters into derivative contracts for pulp. Pulp derivatives that protect the forecast outflow of expenses for pulp are recognised on the balance sheet at fair value. Changes in value are recognised directly in equity in the hedge reserve until the hedged outward flow is recognised in profit and loss, at which time the hedging instrument's accumulated changes in value are transferred to the profit and loss accounts, where they meet and match the profit/loss impact of the hedged transaction. The gains or losses realised on these contracts are recognised continuously in operating profit/loss as a correction of raw material costs.

ognised continuously in operating profit/loss as a correction of raw material costs.

Billerud also hedges a portion of its external sales of pulp. These hedges are recognised in the accounts in a way similar to purchases. The gains or losses realised on these contracts are recognised continuously in operating profit/loss as a correction of operating income.

Property, plant and equipment

Owned assets

The Group recognises property, plant and equipment at cost less deductions for accumulated depreciation and any impairment losses. Acquisition cost includes the purchase price and costs directly attributable to the asset in order to bring it into place in the right condition to be used as intended. Examples of directly attributable costs are costs for delivery and handling, installation, title registration, consulting services and legal services. Borrowing costs directly attributable to the purchase, construction or production of assets that take considerable time to complete for intended use or sale are capitalised starting in 2009, as per an amendment to IAS 23.

The acquisition cost of internally produced non-current assets includes costs for materials, employee benefits, other production overheads directly attributable to the assets and estimated outlays for dismantling and removing the assets and restoring the site or area where they are located. Property, plant and equipment that consists of parts with different useful lives is treated as separate components of property, plant and equipment.

The carrying amount of property, plant and equipment is removed from the balance sheet upon scrapping or disposal or when no future economic benefit is expected from its use, scrapping or disposal. Any gain or loss arising from the scrapping or disposal of an asset is the difference between the sale proceeds and the asset's carrying amount less deductions for direct selling costs. Gains and losses are recognised as other operating income or expense.

The accounting policies for impairment are explained below.

Leased assets

Leases are classified in the consolidated accounts either as finance leases or operating leases. A finance lease substantially transfers the economic risks and rewards associated with ownership to the lessee; any other case is an operating lease.

Assets leased under finance leases are recognised as assets on the balance sheet and are initially measured at the lease object's fair value or the present value of minimum leasing payments at the start of the agreement, whichever is less. The obligation to

pay future lease payments is recognised as current and non-current liabilities. The leased assets are depreciated over the period of use of each asset, while leasing payments are recognised as interest and repayment of liabilities.

Assets hired in accordance with operating leases are not normally recognised as assets on the balance sheet. Operating leases do not result in a liability, either.

Subsequent costs

Subsequent costs are added to the acquisition cost of an asset only if it is probable that the future economic benefits associated with the asset will accrue to the company and the acquisition cost can be measured reliably. All other subsequent costs are recognised as expenses in the period when they occur.

A subsequent cost is added to the acquisition cost if the expenditure relates to the replacement of identified components or parts thereof. Even if new components are created, the expenditure is added to the cost of the asset. Any remaining carrying amount for replaced components, or parts of them, is scrapped and expensed in connection with the replacement. Repairs are expensed as incurred.

Maintenance stops are performed at the paper mills at regular intervals. The more significant maintenance measures carried out on these occasions are treated as a separate component. Depreciation is recognised periodically until the next maintenance stop, normally after 12–18 months.

Depreciation policies

Assets are depreciated on a straight-line basis over the estimated useful life of the asset, though land is not depreciated. The Group applies component depreciation, which means that each component's estimated useful life is the basis for depreciation.

The following depreciation periods are applied:

Industrial buildings	20 years
Residential and office buildings	30–50 years
Land improvements	20 years
Machinery used for pulp and paper	20 years
Other machinery	10 years
Vehicles, equipment and components	1–5 years
The residual value and useful life of each asset is assessed annually.	

Intangible assets

Goodwill

Goodwill is measured at acquisition cost less any accumulated impairment. Goodwill is distributed among cash-generating units and tested for impairment at least once a year (see the accounting policies for Impairment

of property, plant and equipment and intangible assets as well as participations in subsidiaries and associated companies). Goodwill arising upon the acquisition of associated companies is included in the carrying amount of the participations.

Research and development

Billerud's product and process development focuses primarily on meeting customer requirements on product characteristics 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 for the evaluation of and search for alternative grades and processes. Costs for the research phase are expensed continually in the profit and loss accounts as per IAS 38.

Costs for development, where research results or other knowledge is applied to achieve new or improved products or processes, are recognised as an asset on the balance sheet, if the product or process is technically and commercially feasible and the company has sufficient resources to complete the development and then use or sell the intangible asset. The carrying amount includes costs for materials, direct costs for salaries and indirect costs that can be attributed to the asset in a reasonable and consistent manner. Other costs for development are recognised in the profit and loss accounts as expenses when incurred.

Software

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

Electricity certificates

Electricity certificates are awarded for production of renewable electricity. Electricity certificates are valued at the estimated market value and recognised as a current intangible asset. Production entitled to electricity certificates but which had not yet been awarded certificates at the end of the reporting period is recognised as accrued income and initially measured at the estimated market price. Corresponding income is recognised in operating profit/loss as a correction of electricity costs.

Emission rights

Billerud's Swedish mills have been allocated emission rights for carbon dioxide within the EU. The allotment for the initial three-year period 2005–2007 exceeded the actual total emissions. The allotment for 2008–2012

also exceeded somewhat the expected emissions. When emission rights are received, they are recognised as intangible assets at market value and as grants received on the liabilities side.

As emissions are released, they are expensed at market value, while this expense is reduced by the utilised portion of the received contribution. When a surplus is sold, the income is recognised in profit/loss.

Subsequent costs

Subsequent costs are added to the acquisition cost of an asset only if it is probable that the future economic benefits associated with the asset will accrue to the company and the acquisition cost can be measured reliably. All other subsequent costs are recognised as expenses in the period when they occur.

Amortisation policies

Amortisation is recognised in the profit and loss accounts on a straight-line basis throughout the estimated useful life of an intangible asset unless this period is indeterminable. Useful life is tested at least once a year. Goodwill and other intangible assets with an indeterminable useful life or intangible assets not yet ready for use are tested for impairment annually and are also tested as soon as there is an indication that the value of the asset has decreased. An intangible asset with a determinable useful life is depreciated from the time it is available for use. The expected useful life of capitalised development expenditure and software is 3–7 years. Useful life is tested each year.

Inventories

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

The FIFO (first in, first out) method is used to calculate the cost of inventories. This includes costs arising upon the acquisition of the asset and transport to the current site. For manufactured goods and work in progress, the cost includes a reasonable portion of indirect costs based on normal capacity.

The net realisable value is the expected selling price in the ordinary course of business, less expected costs for completion and selling.

Impairment losses

The carrying amounts of Group assets are tested at the end of each reporting period to determine whether they are impaired. IAS 36 is applied to test if an impairment loss shall be recognised for assets other than financial assets, which are recognised in accordance with IAS 39, assets for sale, inventories and deferred tax assets. For the excluded assets above, the carrying amount is assessed in accordance with the relevant standard.

Impairment of property, plant, equipment and intangible assets as well as participations in subsidiaries and associated companies

If there is an indication that an asset is impaired, the recoverable amount of the asset is calculated (see below). For goodwill, other intangible assets with indefinite useful lives and intangible assets not yet ready for use, the recoverable amount is assessed annually or as soon as the need is indicated. If it is not possible to establish significantly independent cash flows for an individual asset, and if its fair value less selling costs cannot be used, the assets are grouped to test impairment at the lowest level at which it is possible to identify significantly independent cash flows (a cash-generating entity).

An impairment loss is recognised when the carrying amount of an asset, cash-generating entity or group of entities exceeds the recoverable amount. Impairment is recognised as an expense in the profit and loss accounts. Impairment identified for a cash-generating unit (group of units) is applied first of all to goodwill and then to other assets of the unit (group of units) pro rata based on the carrying amount of each asset.

The recoverable amount is the higher of the fair value less selling costs and value in use. When calculating the value in use, future cash flows are discounted using a discount factor taking into account risk-free interest and the risk associated with the specific asset.

Impairment of financial assets

At the end of each accounting period, the Company assesses whether there is any objective evidence that a financial asset or group of assets is impaired. Objective evidence may consist of observable events that have occurred and that have a negative impact on the feasibility of recovering the acquisition cost, or may consist of a significant or prolonged reduction in the fair value of a financial investment classified as a financial asset available-for-sale.

The value reduction recognised in profit and loss is the difference between the acquisition cost and the current fair value, less deductions for any previously recognised impairment.

The recoverable amount of assets belonging to the categories held-to-maturity, loan receivables and accounts receivable that are recognised at amortised cost is calculated as the present value of future cash flows discounted with the effective interest rate applied when the asset was initially recognised. Assets of short maturity are not discounted. Impairment is recognised as an expense in the profit and loss accounts.



Reversal of impairment losses

Impairment of assets covered by IAS 36 is reversed if there is an indication that impairment no longer exists and also there has been a change in the assumptions on which the estimate of recoverable value was based. However, impairment recognised on goodwill is never reversed. A reversal is only performed to the extent that the asset's carrying amount after reversal does not exceed the carrying amount that would have been recognised, minus appropriate depreciation, if no impairment loss had been recognised.

Recognised impairments of held-to-maturity investments or loan receivables and accounts receivable carried at amortised cost are reversed if a later increase in the recovery value can be objectively attributed to an event that occurred after the impairment was recognised.

Impairment of equity instruments classified as available-for-sale financial assets, which were previously recognised in the profit and loss accounts, are not reversed through profit and loss.

The impaired value is the value upon which subsequent revaluations are based, which are recognised directly in equity. Impairment of interest-bearing instruments classified as financial assets available-for-sale are reversed in the profit and loss accounts if their fair value increases and the increase can be objectively attributed to an event that occurred after the impairment was charged.

Capital payments to shareholders

Buy-back of own shares

Acquisition of the Company's own shares is recognised as a deduction from equity. Consideration received from the sale of such treasury shares is recognised as an increase in equity. Any transaction costs are recognised directly in equity.

Dividends

Dividends are recognised as a liability after the AGM has approved the dividend.

Earnings per share

Calculation of earnings per share is based on the consolidated profit/loss attributable to parent company shareholders and on the weighted average number of shares outstanding during the year. When calculating diluted earnings per share, profit/loss and the average number of shares are adjusted to take account of the dilution effects of potential ordinary shares, which during the reporting period are linked to convertible promissory notes and employee share options. Dilution resulting from share options affects the total number of shares and arises only when the subscription price is lower than the market

price and increases as the difference between subscription price and market price increases. The subscription price is adjusted by adding the value of future service connected to the equity-regulated employee share options scheme, which is recognised as a share-based payment in accordance with IFRS 2. Dilution attributable to convertible promissory notes is calculated by increasing the total number of shares by the number of shares corresponding to convertibles and increasing earnings by the interest cost recognised after tax.

Employee benefits

Defined-contribution plans

Pension plans in which the company's commitments are restricted to the fees the company has undertaken to pay are classified as defined-contribution pension plans. In those cases, the size of an employee's pension depends on the fees the company pays into the pension plan or to an insurance company and the capital return on those fees. Consequently it is the employee who bears the actuarial risk (that the benefit is less than expected) and the investment risk (that the invested assets will be insufficient to support the expected benefit). The company's commitments concerning fees paid to defined-contribution pension plans are recognised as a cost in the profit and loss accounts at the rate at which they are earned through the employee performing services for the company during a period.

Defined-benefit plans

The Group's net commitments for defined-benefit plans are calculated separately for each plan by estimating the future benefit that each employee has earned through employment both in the current period and previous periods; this benefit is discounted to its present value. The discount rate is the interest rate at the end of the reporting period for a first class corporate bond with a duration corresponding to the Group's pension commitments. When there is no active market for such corporate bonds, the market rate for government bonds of corresponding duration is used instead. The calculation is made by a qualified actuary using the projected unit credit method. In addition, the fair value of any plan assets are calculated at the report date.

In the determination of the present value of the commitment and the fair value of plan assets, actuarial gains or losses may arise. They arise either because the fair value deviates from earlier assumptions or because the assumptions change. The corridor rule is applied for actuarial gains and losses. The corridor rule means that the proportion of the accumulated actuarial gains and losses that exceeds 10% of the larger of the present

value of the commitment and the fair value of related plan assets is recognised in the profit and loss accounts over the expected average remaining service period for the employees covered by the plan. Actuarial gains and losses are otherwise not recognised.

The carrying amount of pensions and similar commitments on the balance sheet represents the present value of commitments at the end of the period, less the fair value of plan assets and unrecognised actuarial gains or losses.

When there is a difference between how the pension cost is established for legal entities and the Group, a provision or receivable is recognised for special payroll taxes based on this difference. The present value of the provision or claim is not calculated.

Net interest income on pension liabilities and forecast returns on the related pension plan assets is recognised in net financial items. Other components are recognised in operating profit/loss.

Commitments for retirement pensions and family pensions for white-collar employees in Sweden are safeguarded via insurance with Alecta. This is a multi-employer defined-benefit plan. The Company has not had access to information for the 2011 financial year to enable it to disclose this plan as a defined-benefit plan. ITP pension plans secured via insurance with Alecta are therefore disclosed as defined-contribution plans.

Other long-term employee benefits

The Group's net commitment for other long-term employee benefits, aside from pensions, constitutes the value of future benefits that the employee has earned through employment both in the current period and previous periods. This benefit is discounted to its present value, and the fair value of any plan assets is deducted. The discount rate is determined on the same basis as for defined-benefit pension plans, and the calculations are performed using the projected unit credit method. Any actuarial gains or losses are recognised in the profit and loss accounts for the period when they arise.

Termination benefits

A provision is recognised in connection with termination of staff only if the company is clearly committed, without a realistic possibility of reversal, to a formal and detailed plan to terminate employment before the normal time. When a termination benefit is offered to encourage voluntary redundancy, a cost is recognised if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

Short-term benefits

Short-term benefits to employees are calculated without discounting and are recognised as a cost when the related services are received.

Share-based payments

The long-term incentive programmes introduced in 2007 and 2010 are recognised as share-based payments settled with treasury shares in accordance with IFRS 2. This means that their fair value is calculated based on forecast achievement of targets set for the measurement period. The value is distributed over the vesting period. Once the fair value has been determined, it is not revalued, except for changes in the number of shares resulting from nonfulfilment of the condition on continued employment during the vesting period.

Social fees attributable to share-based payments are recognised as per the Swedish Financial Reporting Board's statement UFR 7, which states that the cost shall be distributed among the periods when services are performed. The resulting provision is revalued at the end of each period to correspond to the estimated fees that will be paid at the end of the vesting period. The incentive programme introduced in 2007 was concluded in 2010.

Provisions

Provisions are different from other liabilities, because the time of payment or the size of the payment are uncertain. A provision is posted on the balance sheet when the company has an existing legal or informal commitment as the result of a past event and it is probable that an outlay of resources will be required to settle the commitment and a reliable estimate of the amount can be made.

A provision is made based on the best estimate of what will be required to settle the existing commitment at the end of the reporting period. When the effect of the time value of money is material, the amount of the provision is calculated by discounting forecast cash flows using a pre-tax interest rate that reflects current market assessments of the time value of money and, if applicable, the risks specific to the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historic data on warranties and a weighing of possible outcomes in relation to the probability of these outcomes occurring.

Restructuring

A provision for restructuring is recognised when the Group has established a detailed and formal restructuring plan, and the restructuring has either started or been

publicly announced. No provisions are made for future operating expenses.

Recovery of contaminated land

In accordance with the Group's publicised environmental principles and appropriate legal requirements, a provision is recognised for recovery of land when it becomes contaminated.

Contingent liabilities

A contingent liability is recognised whenever there is a possible obligation arising from past events and whose existence is confirmed only by one or more uncertain future events, or there is an obligation not reported as a liability or provision because it is not probable that resources will have to be used to settle the obligation.

Parent company's accounting policies

The parent company prepares its annual report in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's standard RFR 2 Reporting by legal entities. Statements published by the Swedish Financial Reporting Board applicable to listed companies are also followed. Under RFR 2, the parent company in its annual report for the legal entity shall apply all IFRS and interpretations endorsed by the EU as far as possible within the limitations of the Annual Accounts Act, the Swedish law safeguarding pension commitments and with consideration for the connection between accounting and taxation.

Differences between the Group's accounting policies and those of the parent company

The differences between the Group's accounting policies and those of the parent company are set out below. The accounting policies of the parent company described below have been applied consistently in all periods presented in the parent company's financial statements.

Changes in accounting policies

As the Swedish Financial Reporting Board has withdrawn UFR 2 Group contributions and shareholder contributions, and made amendments to RFR 2 regarding reporting of group contributions, this entails that the parent company has changed accounting policies regarding the reporting of group contributions. The new accounting policies are stipulated in RFR 2 IAS 18 p. 3 (Group contributions received) and RFR 2 IAS 27 p. 2 (Group contributions paid). For Billerud AB, this means that received and paid Group contributions are recognised as financial income and expenses as of 2011. Comparable years have been adjusted.

Classifications and forms of presentation

The parent company's profit and loss accounts and balance sheet are presented based on the schedule in the Swedish Annual Accounts Act. The differences from IAS 1 Presentation of Financial Statements, which is applied for the consolidated accounts, mainly concern reporting of financial income and expenses, non-current assets and equity and the use of provisions in the balance sheet.

Subsidiaries and associated companies

Participations in subsidiaries and associated companies are recognised in the parent company in accordance with the cost method. All dividends from subsidiaries and associated companies are recognised in the profit and loss accounts for the parent company. Under special 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

Because of the connection between accounting and taxation, the rules in IAS 39 concerning financial instruments and hedge accounting are not applied by the parent company as a legal entity.

The parent company measures non-current financial assets at acquisition cost less any impairment losses and current financial assets at the lesser of cost or market. The cost of interest-bearing instruments is adjusted for the accrued difference between the amount originally paid, after deducting transaction costs, and the amount paid on the due date (at a discount or premium).

Forward contracts used to hedge changes in foreign exchange rates for receivables and liabilities in foreign currency are measured at the spot rate on the date the contract is made for measurement of the underlying receivable or liability. The difference between the forward rate and the rate prevailing when the contract is entered into (forward premium) is allocated across the period of the forward contract and is included in the net financial income/expense item.

Interest swaps that effectively hedge cash flow risks in interest payments for liabilities are measured at the net of accrued receivables at variable interest and accrued liabilities with regard to fixed interest, and the difference is recognised as either interest income or expense. Hedging is effective if the economic outcome of hedging and the liability is the same as if the liability had instead been reported at a fixed market interest rate when the hedge was made. Any premium paid for a swap agreement is allocated across the contract period as interest.

Derivatives not used for hedging are measured in the parent company according



to the lower of cost or market. Recognition of derivatives used for hedging is governed by the hedged item. This means that the derivative is treated as an off-balance-sheet item as long as the hedged item is not on the balance sheet or is recognised on the balance sheet at cost.

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.

Intangible assets – Goodwill etc.

Goodwill and other intangible assets with an indeterminable useful life that are not normally subject to amortisation in the Group are amortised in the parent company in accordance with the Annual Accounts Act.

This normally means an amortisation period of five years, but the period can be longer in special cases.

Employee benefits – Defined-benefit plans

The parent company uses different assumptions than those set out in IAS 19 when calculating defined-benefit pension plans. The parent company follows the Swedish law on safeguarding pension commitments and the Swedish Financial Supervisory Authority's rules, because they are a condition for tax deductions. The most material differences compared to the IAS 19 rules are how the discount rate is determined, that the calculation of the defined-benefit commitment is based on current salary levels with no consideration of future increases and that all actuarial gains and losses are recognised in the profit and loss accounts as they occur.

Taxes

In the parent company, untaxed reserves are recognised on the balance sheet without dividing them into equity and deferred tax liabilities, unlike in the consolidated accounts. Correspondingly, the parent company does not recognise in its profit and loss accounts deferred tax expense as a part of appropriations.

Shareholder contributions

Shareholder contributions are recognised directly in the equity of the recipient and are capitalised in shares and participations for the contributor, as far as no impairment is determined.

NET SALES BY MARKET AND OPERATING PROFIT/LOSS 2 BY BUSINESS AREA

External net sales are distributed among Billerud's various markets as follows.

SEKm	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging, etc.	Other and elimina- tions	Total
2011						
Group						
Sweden	206	176	126	230	257	995
Other EU countries	2 315	1 920	1 142		39	5 416
Rest of Europe	223	149	178			550
Total Europe	2 744	2 245	1 446	230	296	6 961
Other markets	1 549	527	306			2 382
Group total	4 293	2 772	1 752	230	296	9 343

Of net sales of SEK 9 343 million (8 828), SEK 9 million (1) was sales of services. Income in the Group related to the exchange of goods and services totalled SEK 238 million (293). For net sales by business area, see note 34.

SEKm	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging, etc.	Other and elimina- tions	Total
2011						
Parent company						
Sweden	56	123	35	202		416
Other EU countries	684	1 659	241			2 584
Rest of Europe	28	121	114			263
Total Europe	768	1 903	390	202	–	3 263
Other markets	237	494	157			888
Parent company total	1 005	2 397	547	202	–	4 151

Of net sales of SEK 4 151 million (3 760), SEK 0 million (1) was sales of services.

SEKm	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging, etc.	Other and elimina- tions	Total
2010						
Group						
Sweden	149	143	130	153	295	870
Other EU countries	2 453	1 745	1 116		55	5 369
Rest of Europe	241	128	203			572
Total Europe	2 843	2 016	1 449	153	350	6 811
Other markets	1 323	412	282			2 017
Group total	4 166	2 428	1 731	153	350	8 828

SEKm	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging, etc.	Other and elimina- tions	Total
2010						
Parent company						
Sweden	50	97	66	162	1	376
Other EU countries	692	1 504	250			2 446
Rest of Europe	27	103	112			242
Total Europe	769	1 704	428	162	1	3 064
Other markets	177	383	136			696
Parent company total	946	2 087	564	162	1	3 760

Operating profit/loss by business area SEKm	Group		Parent company	
	2011	2010	2011	2010
Packaging & Speciality Paper	450	417	101	104
Packaging Boards	370	271	331	251
Market Pulp	64	276	35	101
Currency hedging, etc.	230	153	202	161
Other units	35	23	6	6
Group staff and elimination	-171	-103	-146	-98
Group total	978	1 037	529	525

Business area earnings are reported excluding the effects of currency hedging and also excluding the impact on earnings of revaluing accounts receivable in foreign currencies and currency effects in connection with payments. These effects are reported separately on the line "Currency hedging, etc." The portion of foreign currency exposure attributable to changes in invoicing rates will continue to be included in business area earnings.

Non-current assets and capital investments cannot be broken down by operating segment, because the business areas are highly integrated in terms of production.

3 OTHER OPERATING INCOME

SEKm		2011	2010
Group			
Services sold		4	3
Damages		–	77
Other		14	5
Group total		18	85

SEKm		2011	2010
Parent company			
Services sold		4	2
Commissions		24	21
Damages		–	40
Other		7	4
Parent company total		35	67

4 AUDITORS' FEES AND COSTS

SEKm	Group		Parent company	
Ernst & Young	2011	2010	2011	2010
Auditing assignments ¹	2	2	1	1
Audit activities besides audit engagements	0	0	0	0
Tax consultancy	–	0	–	0
Other services	1	0	1	–
Total	3	2	2	1

SEKm	Group		Parent company	
Other auditors	2011	2010	2011	2010
Auditing assignments ¹	0	0	–	–
Tax consultancy	1	0	0	0
Other services	1	2	0	0
Total	2	2	0	0

¹ Audit assignments refers to the audit of the annual report and accounting records as well as the Board of Directors' and CEO's administration of the Company, other tasks incumbent on the Company's auditor and advice or other assistance resulting from observations made during audits or the performance of such tasks. Other assignments refer chiefly to remuneration for advisory services in accounting matters.



5 EMPLOYEES AND EMPLOYEE BENEFITS EXPENSE

Average number of employees	2011	Men, %	2010	Men, %
Parent company				
Sweden	933	80	920	81
Other countries	4	100	4	100
Parent company total	937	80	924	81

Average number of employees	2011	Men, %	2010	Men, %
Subsidiaries				
Sweden	1 118	84	1 102	85
Germany	19	42	15	33
Netherlands	5	20	6	17
France	11	36	11	36
Italy	9	44	10	40
Spain	9	33	10	30
United Kingdom	153	91	149	91
China	7	43	6	33
Lithuania	5	20	5	20
Latvia	3	67	2	50
Estonia	1	100	—	—
Subsidiaries total	1 340	82	1 316	83
Group total	2 277	82	2 240	82

	Group		Parent company	
Employee benefits expense	2011	2010	2011	2010
SEKm				
Salaries and other remuneration				
Board, CEO and management teams ¹	60	63	26	27
of which bonus	7	10	4	5
Other employees	955	915	416	398
of which bonus	37	48	19	23
Total salaries and other remuneration	1 015	978	442	425

	Group		Parent company	
Social security costs	2011	2010	2011	2010
Contractual pensions to the CEO and management teams ¹				
Defined-benefit pensions	3	2	2	1
Defined-contribution pensions	9	11	4	4
Contractual pensions, other				
Defined-benefit pensions	15	14	23	9
Defined-contribution pensions	55	61	23	26
Other social security costs	330	311	156	143
Total social security costs	412	399	208	183
Total employee benefits expense	1 427	1 377	650	608

1 For the Group, CEO includes all staff with the chief executive role in any Group company. Board includes the members of all Boards of Group companies. Management teams includes all management teams in Group companies. In total, CEOs, Boards and management teams comprise 95 (84) people.

Number of women in management positions, %	2011	2010
Group		
Boards	11	12
CEO and management teams	21	12
Parent company		
The Board	33	18
CEO and management teams	18	12

For information about the benefits of senior managers in accordance with the Annual Accounts Act, see note 24.

6 NET FINANCIAL INCOME/EXPENSE

SEKm	2011	2010
Group		
Interest income on cash and investments in securities etc.	22	5
Financial income	22	5
Interest expense for financial liabilities measured at amortised cost	-37	-42
Interest expense for pension provision	-9	-9
Net change in exchange rates	0	0
Other financial expenses	-21	-31
Financial expenses	-67	-82
Net financial income/expense	-45	-77

SEKm	2011	2010
Parent company		
Profit/Loss from participations in Group companies		
Dividend	20	9
Impairment losses	-10	—
Group contributions received	1 062	—
Group contributions paid	-11	-210
Parent company total	1 061	-201
Interest income and similar profit/loss items		
Interest income, Group companies	0	0
Interest income, other	20	4
Parent company total	20	4

Interest expense and similar profit/loss items	2011	2010
Interest expense, Group companies	0	0
Interest expense for pension provision	-8	-8
Interest expense, other	-33	-39
Net interest income for derivatives in hedge accounting	33	-1
Net change in exchange rates	-1	5
Other financial expenses	-21	-31
Parent company total	-30	-74
Net financial income/expense	1 051	-271

7 APPROPRIATIONS

	Parent company	
SEKm	2011	2010
Difference between recognised and scheduled depreciation/amortisation		
Plant and equipment	-2 212	2 098
Parent company total	-2 212	2 098

At year-end 2011, the parent company switched from the residual value depreciation method to the theoretical method for tax depreciation of plant and equipment.

8 TAXES

Profit/Loss before tax SEKm	Group		Parent company	
	2011	2010	2011	2010
Sweden, Group companies	890	912	-632	2 352
Rest of world, Group companies	43	48	–	–
Total profit/loss before tax	933	960	-632	2 352
Tax expense SEKm	Group		Parent company	
	2011	2010	2011	2010
Current tax				
Tax expense for the period	-183	-177	-172	-167
Tax attributable to previous periods	0	0	0	–
Total current tax	-183	-177	-172	-167
Deferred tax				
Deferred tax income/expense related to temporary differences	-67	-78	340	-451
Total tax expense	-250	-255	168	-618

In the parent company, Group contributions received and paid are recognised as financial income/expense in the profit and loss accounts as of 2011. 2010, the comparable year, has been adjusted correspondingly.

Difference between nominal and effective tax rate %	Group		Parent company	
	2011	2010	2011	2010
Swedish income tax rate	26.3	26.3	26.3	26.3
Effect of other tax rates for foreign subsidiaries	0.2	0.2		
Tax-exempt dividends			0.8	-0.1
Tax income attributable to previous period	-0.1	–	0.1	–
Tax effect of non-deductible expenses	0.5	0.1	-0.6	0.1
Tax effect of tax-exempt income	-0.1	0	0.1	0
Effective tax rate according to profit and loss accounts	26.8	26.6	26.7	26.3

Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance	Recognised in profit/loss	Recognised in other comprehensive income	Closing balance
	1 Jan 2011			31 Dec 2011
Group				
Deferred tax liability				
Other non-current assets	1 448	57		1 505
Hedge reserve	34		-33	1
Total deferred tax liability	1 482	57	-33	1 506
Deferred tax asset				
Buildings and land	29	-3		26
Inventories	1	0		1
Accounts receivable	8	-2		6
Provisions	11	-5	1	7
Loss carry-forwards	0	0		0
Total deferred tax asset	49	-10	1	40
Total net deferred tax liability	1 433	67	-34	1 466
Portion recognised as deferred tax asset				1
Portion recognised as deferred tax liability				1 467

Temporary differences and/or loss carry-forwards that are not balanced by recognised deferred tax assets total SEK 13 million. The assessment is based on uncertainty whether this deferred tax benefit can be claimed.

Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance	Recognised in profit/loss	Recognised in other comprehensive income	Closing balance
	1 Jan 2011			31 Dec 2011
Group				
Deferred tax liability				
Other non-current assets	1 473	-25		1 448
Hedge reserve	34		0	34
Total deferred tax liability	1 507	-25	0	1 482
Deferred tax asset				
Buildings and land	33	-4		29
Inventories	0	1		1
Accounts receivable	4	4		8
Provisions	23	-13	1	11
Loss carry-forwards	91	-91		0
Total deferred tax asset	151	-103	1	49
Total net deferred tax liability	1 356	78	-1	1 433
Portion recognised as deferred tax asset				1
Portion recognised as deferred tax liability				1 434

Temporary differences and/or loss carry-forwards that are not balanced by recognised deferred tax assets total SEK 13 million. The assessment is based on uncertainty whether this deferred tax benefit can be claimed.

SEKm	Opening balance	Recognised in profit and loss accounts	Closing balance
	1 Jan 2011		31 Dec 2011
Parent company			
Deferred tax liability			
Other non-current assets	694	-344	350
Total deferred tax liability	694	-344	350
Deferred tax asset			
Buildings and land	6	0	6
Accounts receivable	4	-2	2
Provisions	11	-2	9
Loss carry-forwards	0	0	0
Total deferred tax asset	21	-4	17
Total net deferred tax liability	673	-340	333

Participations in subsidiaries contain no material temporary differences.

SEKm	Opening balance	Recognised in profit and loss accounts	Closing balance
	1 Jan 2011		31 Dec 2011
Parent company			
Deferred tax liability			
Other non-current assets	339	355	694
Total deferred tax liability	339	355	694
Deferred tax asset			
Buildings and land	6	0	6
Accounts receivable	3	1	4
Provisions	11	0	11
Loss carry-forwards	96	-96	0
Total deferred tax asset	116	-95	21
Total net deferred tax liability	223	450	673

Participations in subsidiaries contain no material temporary differences.



9 EARNINGS PER SHARE

	2011	2010
Basic earnings per share		
Profit/Loss for the period, SEKm	683	705
Weighted number of outstanding ordinary shares	103 114 299	103 062 031
Basic earnings per share, SEK	6.63	6.84
Diluted earnings per share		
Profit/Loss for the period, SEKm	683	705
Adjusted profit/loss, SEKm	683	705
Weighted number of outstanding shares	103 114 299	103 062 031
Adjustment for assumed dilution from incentive programme	291 921	191 603
No. of shares used to calculate earnings per share	103 406 220	103 253 634
Diluted earnings per share, SEK	6.61	6.83

10 PROPERTY, PLANT AND EQUIPMENT

2011 SEKm Group	Buildings and land	Plant and equipment ¹	Construction in progress and advance payments	Total
Acquisition cost				
Opening balance, 1 Jan 2011	1 744	12 196	68	14 008
Investments	38	279	148	465
Reclassifications	20	147	-167	—
Sales and disposals	—	-132	—	-132
Translation difference	1	6	—	7
Closing balance, 31 Dec 2011	1 803	12 496	49	14 348
Accumulated depreciation				
Opening balance, 1 Jan 2011	-1 029	-5 886	—	-6 915
Depreciation/Amortisation	-51	-536	—	-587
Sales and disposals	—	129	—	129
Translation difference	0	-5	—	-5
Closing balance, 31 Dec 2011	-1 080	-6 298	—	-7 378
Accumulated impairment losses				
Opening balance, 1 Jan 2011	-111	-1 805	—	-1 916
Closing balance, 31 Dec 2011	-111	-1 805	—	-1 916
Carrying amount on the balance sheet, 31 Dec 2011	612²	4 393	49	5 054
2011 Parent company				
Acquisition cost				
Opening balance, 1 Jan 2011	773	6 381	18	7 172
Investments	28	159	14	201
Reclassifications	2	9	-11	—
Sales and disposals	—	-10	—	-10
Closing balance, 31 Dec 2011	803	6 539	21	7 363
Accumulated depreciation				
Opening balance, 1 Jan 2011	-482	-3 154	—	-3 636
Depreciation/Amortisation	-25	-232	—	-257
Sales and disposals	—	10	—	10
Closing balance, 31 Dec 2011	-507	-3 376	—	-3 883
Accumulated impairment losses				
Opening balance, 1 Jan 2011	—	-898	—	-898
Sales and disposals	—	—	—	—
Closing balance, 31 Dec 2011	—	-898	—	-898
Carrying amount on the balance sheet, 31 Dec 2011	296³	2 265	21	2 582

1 Light machinery and equipment represent only a minor proportion of the value of plant and equipment and thus are not disclosed separately.

2 Including land totalling SEK 39 million (32).

3 Including land totalling SEK 15 million (8).

2010 SEKm Group	Buildings and land	Plant and equipment ¹	Construction in progress and advance payments	Total
Acquisition cost				
Opening balance, 1 Jan 2010	1 752	12 156	125	14 033
Investments	4	206	123	333
Reclassifications	6	174	-180	—
Sales and disposals	-17	-299	—	-316
Translation difference	-1	-41	—	-42
Closing balance, 31 Dec 2010	1 744	12 196	68	14 008

Accumulated depreciation				
Opening balance, 1 Jan 2010	-995	-5 692	—	-6 687
Depreciation/Amortisation	-53	-527	—	-580
Sales and disposals	18	297	—	315
Translation difference	1	36	—	37
Closing balance, 31 Dec 2010	-1 029	-5 886	—	-6 915

Accumulated impairment losses				
Opening balance, 1 Jan 2010	-111	-1 792	—	-1 903
Impairment losses	—	-13	—	-13
Sales and disposals	—	—	—	—
Closing balance, 31 Dec 2010	-111	-1 805	—	-1 916

Carrying amount on the balance sheet, 31 Dec 2010	604²	4 505	68	5 177
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2010 Parent company				
Acquisition cost				
Opening balance, 1 Jan 2010	770	6 248	27	7 045
Investments	2	111	15	128
Reclassifications	1	23	-24	—
Sales and disposals	—	-1	—	-1
Closing balance, 31 Dec 2010	773	6 381	18	7 172

Accumulated depreciation				
Opening balance, 1 Jan 2010	-456	-2 929	—	-3 385
Depreciation/Amortisation	-26	-225	—	-251
Sales and disposals	—	0	—	0
Closing balance, 31 Dec 2010	-482	-3 154	—	-3 636

Accumulated impairment losses				
Opening balance, 1 Jan 2010	—	-898	—	-898
Sales and disposals	—	—	—	—
Closing balance, 31 Dec 2010	—	-898	—	-898

Carrying amount on the balance sheet, 31 Dec 2010	291³	2 329	18	2 638
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1 Light machinery and equipment represent only a minor proportion of the value of plant and equipment and thus are not disclosed separately.

2 Including land totalling SEK 32 million (33).

3 Including land totalling SEK 8 million (8).

Rental agreements and lease

Future contractual operational lease commitments for the Group totalled SEK 142 million, SEK 43 million of which payable within one year and SEK 142 million within 1–5 years. The corresponding figure for the parent company is SEK 103 million, SEK 27 million of which payable within one year and SEK 103 million within 1–5 years. In 2011, operational leasing expenses totalled SEK 53 million for the Group. For the parent company, the total was SEK 34 million.

11 INTANGIBLE ASSETS

		Intangible assets acquired			
2011					
SEKm		Software	Other contractual Assets	Goodwill	Total
Group					
Acquisition cost					
Opening balance, 1 Jan 2011		64	25	30	119
Investments		1	–	1	2
Translation differences		–	0	–	0
Closing balance, 31 Dec 2011		65	25	31	121
Accumulated depreciation					
Opening balance, 1 Jan 2011		-31	-11	–	-42
Business combinations		–	–	–	–
Depreciation/Amortisation		-13	-4	–	-17
Translation differences		–	0	–	0
Closing balance, 31 Dec 2011		-44	-15	–	-59
Accumulated impairment losses					
Impairment losses		–	–	-10	-10
Closing balance, 31 Dec 2011		–	–	-10	-10
Carrying amount on the balance sheet 31 Dec 2011		21	10	21	52
2010					
Parent company					
Acquisition cost					
Opening balance, 1 Jan 2011		23	5	–	28
Investments		0	–	–	0
Sales		–	–	–	–
Closing balance, 31 Dec 2011		23	5	–	28
Accumulated depreciation					
Opening balance, 1 Jan 2011		-11	0	–	-11
Depreciation/Amortisation		-5	0	–	-5
Closing balance, 31 Dec 2011		-16	0	–	-16
Carrying amount on the balance sheet 31 Dec 2011		7	5	–	12
2010					
SEKm					
Group		Software	Other contractual Assets	Goodwill	Total
Acquisition cost					
Opening balance, 1 Jan 2010		64	26	30	120
Investments		0	–	–	0
Investment through business combinations		–	–	–	–
Translation differences		–	-1	–	-1
Closing balance, 31 Dec 2010		64	25	30	119
Accumulated depreciation					
Opening balance, 1 Jan 2010		-18	-6	–	-24
Business combinations		–	–	–	–
Depreciation/Amortisation		-13	-4	–	-17
Translation differences		–	-1	–	-1
Closing balance, 31 Dec 2010		-31	-11	–	-42
Carrying amount on the balance sheet 31 Dec 2010		33	14	30	77
2010					
Parent company					
Acquisition cost					
Opening balance, 1 Jan 2010		23	5	–	28
Investments		–	–	–	–
Sales		–	–	–	–
Closing balance, 31 Dec 2010		23	5	–	28
Accumulated depreciation					
Opening balance, 1 Jan 2010		-7	–	–	-7
Depreciation/Amortisation		-4	0	–	-4
Closing balance, 31 Dec 2010		-11	0	–	-11
Carrying amount on the balance sheet 31 Dec 2010		12	5	–	17

12 PARTICIPATIONS IN GROUP COMPANIES

SEKm	2011	2010
Acquisition cost		
Opening balance 1 January	1 315	1 315
Investments ¹	35	–
Closing balance 31 December	1 350	1 315
Accumulated impairment losses		
Opening balance 1 January	-120	-120
Impairment losses for the year ²	-10	–
Closing balance 31 December	-130	-120
Carrying amount on the balance sheet	1 220	1 195

1 Investments relate to Billerud Estonia OÜ, Billerud Holding AB, Billerud Finland Oy, Billerud Inc. and Nine TPP AB. Nine TPP AB has been reclassified from associated company to subsidiary with 71.6% ownership.

2 Impairment relates to Tenova Bioplastics AB.

Specification of parent company's participations in Group companies

Subsidiary/Reg. office/Reg. no	No. of shares	Pctg. participation ³	Carrying amount
Billerud Karlsborg AB, Kalix			
556310-4198	1 250 000	100	300
Billerud Skärblacka AB, Norrköping			
556190-3179	1 000 000	100	740
Billerud Skog AB, Stockholm			
556724-4641	1 000	100	1
Billerud Fresh Services AB, Stockholm			
556459-7572	1 000	100	0
Billerud Holding AB, Stockholm			
556876-2974	2 000	100	0
Nine TPP AB, Stockholm			
556724-5658	1 000	71.6	7
Tenova Bioplastics AB, Åby			
556639-6197	2 500	100	32
Billerud Beetham Ltd, Cumbria	3 500 000	100	81
Billerud Benelux B.V., Amsterdam	200	100	3
Billerud France S.A.S., Paris	4 000	100	1
Billerud GmbH, Hamburg	–	100	1
Billerud Iberica S.L., Barcelona	–	100	1
Billerud S.r.l., Milan	–	100	0
Billerud Sales Ltd, Nottingham	5 000	100	7
Billerud Trading Co Ltd, Shanghai	–	100	4
Billerud Mediena Uab, Klaipėda ⁴	200	85	14
Billerud Wood Supply SIA, Dreilini	2 000	100	0
Billerud Estonia OÜ, Pärnu	1	100	0
Billerud Inc., Delaware	100	100	28
Billerud Finland Oy, Helsinki	2 500	100	0
Carrying amount, 31 Dec 2011			1 220

3 Refers to participating interest in capital, which is the same as the proportion of votes in the total number of shares.

4 There is an option to purchase the remaining 15%.

RECEIVABLES FROM AND LIABILITIES TO GROUP COMPANIES, 13 INTEREST-BEARING

SEKm	2011	2010
Parent company		
Receivables from Group companies		
Carrying amount, 1 January	12	10
Change for the year	-12	2
Carrying amount, 31 December	–	12
SEKm		
Liabilities to Group companies		
Carrying amount, 1 January	31	15
Change for the year	17	16
Carrying amount, 31 December	48	31

Interest-bearing receivables and liabilities refers to Group cash pools carrying intra-Group interest rates.

14 PARTICIPATIONS IN ASSOCIATED COMPANIES

SEKm Group	2011	2010
Carrying amount, 1 January	4	4
Acquisition of associated companies	27	–
Reclassification as subsidiary ¹	-2	–
Participations in associated companies' profit/loss after tax	0	0
Carrying amount, 31 December	29	4

The Group's share of revenue, profit/loss, assets and liabilities through participations is specified below.

Associated companies

SEKm 2011	Country	Revenue	Earnings	Assets	Liabilities	Share-holders' equity	Pctg. owned
ScandFibre Logistics AB	Sweden	812	-2	142	134	8	20
Paccess Packaging LCC	USA	55	-1	22	8	14	30
Total		867	-3	164	142	22	

SEKm 2010	Country	Revenue	Earnings	Assets	Liabilities	Share-holders' equity	Pctg. owned
ScandFibre Logistics AB	Sweden	860	1	98	90	8	20
Nine TPP	Sweden	2	0	1	1	0	60
Total		862	1	99	91	8	

SEKm Parent company	2011	2010
Acquisition cost		
Opening balance	6	6
Investments	–	–
Reclassification as subsidiary ¹	-5	–
Divestments	–	–
Closing balance	1	6

Specification of the parent company's directly owned holdings of participations in associated companies

Name, corp. id. no. and registered office	Votes and capital, %	Carrying amount
31 Dec 2011		
Associated companies		
ScandFibre Logistics AB, 556253-1474 Stockholm	20	1
Parent company total		1

31 Dec 2010		
Associated companies		
ScandFibre Logistics AB, 556253-1474 Stockholm	20	1
Nine TPP AB, 556724-5658 Stockholm ¹	60	5
Parent company total		6

1 In 2011, Billerud's participation in Nine TPP AB increased from 60% till 71.6% and is consolidated as a subsidiary.

15 OTHER HOLDINGS

SEKm Group	No. of shares	Pctg. participation	Carrying amount
Name / Corp. id. no.			
31 Dec 2011			
1 tenant-owners' right			2
BasEl i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	23
Kalix Vindkraft AB, 556686-1729	20 000	10	5
Total			30

SEKm Parent company	No. of shares	Pctg. participation	Carrying amount
Name / Corp. id. no.			
31 Dec 2011			
1 tenant-owners' right			2
BasEl i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	23
Total			25

SEKm Group	No. of participations	Pctg. participation	Carrying amount
Name / Corp. id. no.			
31 Dec 2010			
1 tenant-owners' right			2
BasEl i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	5
Kalix Vindkraft AB, 556686-1729	20 000	10	4
Total			11

SEKm Parent company	No. of participations	Pctg. participation	Carrying amount
Name / Corp. id. no.			
31 Dec 2010			
1 tenant-owners' right			2
BasEl i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	5
Total			7

16 INVENTORIES

	Group		Parent company	
SEKm	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Raw materials and consumables	389	372	111	96
Finished goods	647	650	279	280
Work in progress	37	47	–	–
Advances from suppliers	62	1	–	–
Total	1 135	1 070	390	376

Operating costs include SEK 46 million (18) for impairment of inventories. SEK 216 million (25) of the inventory of finished goods has been measured at net realisable value.

17 SHAREHOLDERS' EQUITY

Share capital

Owners of ordinary shares are entitled to a dividend approved at a later date, and the shareholding entitles the owner to vote at the AGM, with one vote per share. All shares have the same rights to Billerud's remaining net assets. For shares owned by the Company (see under Shares bought back), all rights are waived until the shares are re-issued.

Additional paid-in capital

Relates to equity paid in by the owners. This includes part of share premium reserves transferred to the statutory reserve on 31 December 2005. Provisions to the share premium reserve from 1 January 2006 onward are also recognised as paid-in capital.

Reserves

Translation reserve

The translation reserve comprises all exchange rate differences resulting from the translation of financial reports of foreign operations that have prepared their financial reports in a currency other than the Group's functional (reporting) currency. The parent company and Group present their financial reports in Swedish kronor. In addition, the translation reserve consists of exchange rate differences resulting from the revaluation of debts raised to hedge net investments in foreign operations.

Fair value reserve

The fair value reserve includes the accumulated net change in the fair value of available-for-sale financial assets until the asset is taken off the balance sheet.

Hedge reserve

The hedge reserve comprises the effective portion of accumulated net changes in the fair value of a cash-flow hedge instrument attributable to hedge transactions that have not yet occurred.

Profit brought forward

Profit brought forward including profit/loss for the year includes profit earned by the parent company and its subsidiaries and associated companies. Previous provisions to the statutory reserve, excluding transferred share premium reserves, are included in this equity item.

Shares bought back

Shares bought back comprises the acquisition cost of the Company's own shares held by the parent company. At 31 December 2011, the Group's holdings of its own shares totalled 1 720 314 (1 720 314).

Dividend

After the end of the reporting period, the Board of Directors proposed to the AGM a dividend of SEK 3.50 per ordinary share, totalling SEK 361 million. This proposal will be voted on at the AGM on 9 May 2012.

	2011	2010
Dividend, SEKm	361	52
Recognised dividend per ordinary share, SEK	3.50	0.50

Parent company

Restricted reserves

Restricted reserves cannot be reduced by distributing them as dividends.

Share capital

The share capital at year-end consists of 104 834 613 (104 834 613) ordinary shares with a quotient value of SEK 7.38 (7.38) and entitling holders to one vote per share.

Statutory reserve

The purpose of the statutory reserve is to save a part of net earnings that is not needed to cover losses brought forward.

Non-restricted equity

Share premium reserve

When shares are issued at a premium, that is, at a price that is greater than the shares' quotient value, an amount corresponding to the amount received in excess of the quotient value of the shares shall be transferred to the share premium reserve.

Profit/Loss brought forward

This consists of the preceding year's non-restricted equity after payment of dividends, if any. Together with net profit/loss for the year and any fair value reserves, this constitutes non-restricted equity, that is, the amount available for distribution as a dividend to shareholders

18 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

Billerud has defined-benefit pension plans for white-collar workers in Sweden (ITP plan) and to some extent for employees in the German subsidiary Billerud GmbH. These plans are unfunded. Some pension commitments for white-collar workers in Sweden are secured through provisions on the balance sheet in accordance with the FPG/PRI system. Billerud also has defined-contribution pension plans. Some pension commitments for white-collar workers in Sweden are secured through insurance with Alecta. Alecta cannot provide sufficient information to recognise the ITP plan as a defined-benefit plan, so the plan is recognised as a defined-contribution plan in accordance with UFR 3. The fee for pension insurance with Alecta totalled SEK 28 million (27) for the year.

Defined-benefit commitments

SEKm

Group	31 Dec 2011	31 Dec 2010
Present value of unfunded defined-benefit commitments	272	253
Adjustments:		
Accumulated unrecognised actuarial gains (+) and losses (-)	-53	-46
Carrying amount, 31 December	219	207

The amount is recognised in the following item on the balance sheet.

Provisions for pensions and similar commitments

	219	207
The net amount is divided among plans in the following countries:		
Sweden	210	198
Germany	9	9
Commitments recognised on balance sheet	219	207

Pension costs

SEKm

Group	2011	2010
Cost of defined-benefit plans earned during the year	18	16
Interest expense	9	9
Cost of defined-benefit plans	27	25
Cost of defined-contribution plans	64	72
Payroll tax	21	20
Total cost of remuneration after employment ends	112	117

The cost is recognised in the following items in the profit and loss account.

Employee benefits expense	103	108
Financial expenses	9	9
Total cost of remuneration after employment ends	112	117

Reconciliation of provisions for pensions on the balance sheet

The following table explains how provisions for pensions on the balance sheet changed during the period.

	2011	2010
Commitments on the balance sheet at start of year	207	193
Cost of defined-benefit plans	18	19
Pensions paid	-6	-5
Commitments on the balance sheet at year-end	219	207

Unrecognised actuarial gains (-) and losses (+)

	2011	2010
Carrying amount, 1 January	46	46
Changed assumptions for commitments	9	3
Amortisation for the year	-2	-3
Translation differences for the year	0	0
Unrecognised actuarial losses at year-end	53	46



18 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS (CONT'D.)

Actuarial assumptions	31 Dec 2011	31 Dec 2010
The following material actuarial assumptions have been used in the calculation of commitments (weighted average).		
Discount rate	3.3%	3.8%
Future salary increases	3.0%	3.0%
Future increases in pensions	2.0%	2.0%
Employee turnover	5.0%	5.0%
Expected remaining period of service	11 years	11 years

Present value of pension commitments

SEKm		
<i>Parent company</i>	2011	2010
Present value of pension commitments related to retirement under the management of the Company at the start of the year	163	153
Costs excluding interest expense charged to earnings	17	7
Interest expense	8	8
Pensions paid	-6	-5
Present value of pension commitments related to retirement under the management of the Company at year-end	182	163
Commitments paid to pension insurance held by Billerud	18	23
Other provisions	10	10
Commitments recognised on the balance sheet	210	196
Of which covered by credit insurance with FPG/PRI	182	163

Costs relating to pensions

SEKm		
<i>Parent company</i>	2011	2010
Direct pensions		
Cost excluding interest expense	17	7
Interest expense	8	8
Total cost of direct pension	25	15
Retirement through insurance		
Insurance premiums paid	35	32
Provision for future premiums	1	1
Dissolution of provision for future premiums	0	—
Sub-total	36	33
Tax on returns from pension funds	1	1
Special payroll tax for pension costs	14	10
Cost of credit insurance	0	0
Pension cost for the year	76	59

<i>Group</i>	31 Dec 2011	31 Dec 2010
Assets pledged for pension commitments		
Endowment insurance	25	29
Group total	25	29

Parent company

Assets pledged for pension commitments		
Endowment insurance	18	23
Parent company total	18	23

Group

Amount of provision expected to be paid within 12 months	9	9
Amount of provision expected to be paid beyond 12 months	210	198

Parent company

Amount of provision expected to be paid within 12 months	15	14
Amount of provision expected to be paid beyond 12 months	195	182

19 PROVISIONS

SEKm		
<i>Group</i>	2011	2010
Provisions that are non-current liabilities		
Severance pay, lay-off pay	3	3
Costs of environmental measures	33	24
Group total	36	27
Provisions that are current liabilities		
Costs of restructuring measures	1	1
Group total	1	1

Parent company

Costs of restructuring measures	—	—
Parent company total	—	—

Group

Costs of restructuring measures		
Carrying amount, 1 January	1	2
Provisions made during the year	0	0
Unutilised amount reversed during the year	—	0
Amount utilised during the year	0	-1
Carrying amount, 31 December	1	1

Severance pay, lay-off pay

Carrying amount, 1 January	3	3
Provisions made during the year	0	0
Amount utilised during the year	0	0
Carrying amount, 31 December	3	3

Costs of environmental measures

Carrying amount, 1 January	24	24
Provisions made during the year	9	0
Carrying amount, 31 December	33	24

Group's total provisions

Total carrying amount, 1 January	28	29
Provisions made during the year	9	0
Unutilised amount reversed during the year	—	0
Amount utilised during the year	0	-1
Total carrying amount, 31 December	37	28
Of which total non-current portion of provisions	36	27
Of which total current portion of provisions	1	1

Parent company

Costs of restructuring measures		
Carrying amount, 1 January	—	1
Unutilised amount reversed during the year	—	0
Amount utilised during the year	—	-1
Carrying amount, 31 December	—	—

Parent company's total provisions

Total carrying amount at start of period	—	1
Unutilised amount reversed during the year	—	0
Amount utilised during the period	—	-1
Total carrying amount at end of period	—	—

Payments, SEKm	31 Dec 2011	31 Dec 2010
Group		
Amount of provision expected to be paid beyond 12 months	32	27

Parent company

Amount of provision expected to be paid beyond 12 months	—	—
--	---	---

20 INTEREST-BEARING LIABILITIES

SEKm		
Group	31 Dec 2011	31 Dec 2010
Non-current liabilities		
Syndicated loans	117	121
Bond loans	675	675
Other interest-bearing liabilities	27	2
Carrying amount, 31 December	819	798
Current liabilities		
Current portion of bond loans	–	150
Commercial paper	–	–
Other interest-bearing liabilities	0	0
Carrying amount, 31 December	0	150

Terms and repayment periods

Syndicated loan 2010

On 12 July 2010, Billerud signed a new loan agreement with AB Svensk Exportkredit. This loan facility for SEK 800 million extends seven years. None of the loan had been utilised at 31 December 2011. The terms of the loan facility follow those of Billerud's syndicated loan facility, see below.

Syndicated loan 2011

On 28 January 2011, Billerud signed a new loan agreement with a consortium of banks. This loan facility of SEK 801 million has a five-year term and replaces the syndicated credit facility of SEK 1 200 million from 8 April 2009 maturing in 2012. At 31 December 2011, GBP 11 million, corresponding to SEK 117 million, of the loan had been utilised. The parent company carries GBP 5.5 million, or SEK 58 million, and the subsidiary Billerud Beetham Ltd GBP 5.5 million, or SEK 58 million. The terms for the loan include compliance with the following ratios:

The net debt/equity ratio shall not exceed 1.1.

The interest coverage ratio shall not be less than 4.0.

Bond loan no. 2 (FRN loan)

On 22 September 2011, Loan no. 2 matured and was repaid. The loan carried interest of STIBOR plus 0.85%. The loan amount was SEK 150 million.

Bond loan no. 4 (FRN loan)

Loan no. 4 runs from 23 February 2005 for eight years with interest of STIBOR plus 0.45 percentage points. The loan amounts to SEK 300 million. At 31 December 2011, SEK 300 million of the loan had been utilised.

Bond loan no. 7 (FRN loan)

Loan no. 7 runs from 27 June 2005 for eight years with interest of STIBOR plus 0.58 percentage points. The loan amounts to SEK 225 million. At 31 December 2011, SEK 225 million of the loan had been utilised.

Bond loan no. 8 (FRN loan)

Loan no. 8 runs from 10 March 2006 for ten years with interest of STIBOR plus 0.75 percentage points. The loan amounts to SEK 150 million. At 31 December 2011, SEK 150 million of the loan had been utilised.

Commercial paper programme

The programme runs from 18 June 2003 and enables Billerud to issue commercial papers with a nominal value of SEK 1 million, or EUR 100 000, up to a limit of SEK 1 500 million or the equivalent in EUR. The commercial papers shall run for at least one day and at most one year. At 31 December 2011, no commercial paper was on issue. There are no special conditions for renegotiation linked to the liabilities above.

21 LIABILITIES TO CREDIT INSTITUTIONS

SEKm		
Parent company	31 Dec 2011	31 Dec 2010
Non-current liabilities		
Syndicated loans	58	58
Bond loans	675	675
Other interest-bearing liabilities	1	3
Carrying amount, 31 December	734	736
Current liabilities		
Current portion of bond loans	–	150
Carrying amount, 31 December	–	150

All liabilities are due for payment within five years after the end of the reporting period.

22 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent company	
SEKm	2011	2010	2011	2010
Employee costs including				
social fees	264	260	159	135
Excise duties	3	3	1	1
Delivery costs	111	115	61	58
Wood costs	16	68	–	–
Energy costs	4	9	–	–
Other information	41	72	14	27
Total	439	527	235	221



23 FINANCIAL ASSETS AND LIABILITIES

Fair value and carrying amount are presented in the balance sheet below, SEKm

Group 2011	Derivatives in hedge accounting	Accounts and loan receivables	Available- for-sale financial assets	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Other shares and participations			30		30	30
Long-term receivables ¹			342		342	342
Accounts receivable		1 391			1 391	1 391
Other receivables	34	234			268	268
Cash and cash equivalents ²		929			929	929
Total	34	2 554	372		2 960	2 960
Non-current interest-bearing liabilities				819	819	819
Current interest-bearing liabilities				0	0	0
Accounts payable				1 227	1 227	1 227
Other liabilities	33			51	84	84
Total	33			2 097	2 130	2 130
Group 2010						
Other shares and participations			11		11	11
Long-term receivables ¹			260		260	260
Accounts receivable		1 412			1 412	1 412
Other receivables	146	204			350	350
Cash and cash equivalents ²		740			740	740
Total	146	2 356	271		2 773	2 773
Non-current interest-bearing liabilities				798	798	798
Current interest-bearing liabilities				150	150	150
Accounts payable				1 157	1 157	1 157
Other liabilities	19			69	88	88
Total	19			2 174	2 193	2 193

Net changes in the value of cash flow hedges recognised in the profit and loss accounts totalled SEK 186 million (313) in 2011, of which SEK 190 million (344) is recognised in Net sales and SEK -4 million (31) in Raw materials and consumables.

1 Billerud has invested a total of SEK 342 (260) million in eight (six) different bonds. The bonds mature in 2012–2015 and carry a rating of AA- or better.

2 Investments in securities etc. are classified as Cash and cash equivalents when they mature less than three months after the acquisition date and are exposed to only a minor risk of fluctuation in value.

Fair value and carrying amount are presented in the balance sheet below

Parent company 2011	Derivatives in hedge accounting	Accounts and loan receivables	Available- for-sale financial assets	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Other shares and participations			25		25	25
Other long-term receivables ³		18	340		358	358
Accounts receivable		1 273			1 273	1 273
Other receivables		147			147	181
Cash and bank balances ⁴		842			842	842
Total		2 280	365		2 645	2 679
Bond and syndicated loans				733	733	733
Liabilities to credit institutions				—	—	—
Other interest-bearing liabilities				1	1	1
Accounts payable				240	240	240
Other liabilities				17	17	50
Total				991	991	1 024
Parent company 2010						
Other shares and participations			7		7	7
Other long-term receivables ³		23	260		283	283
Accounts receivable		1 343			1 343	1 343
Other receivables		60			60	206
Cash and bank balances ⁴		644			644	644
Total		2 070	267		2 337	2 483
Bond and syndicated loans				732	732	732
Liabilities to credit institutions				150	150	150
Other interest-bearing liabilities				3	3	3
Accounts payable				224	224	224
Other liabilities				24	24	43
Total				1 133	1 133	1 152

3 Billerud has invested a total of SEK 342 (260) million in eight (six) different bonds. The bonds mature in 2012–2015 and carry a rating of AA- or better.

4 Investments in securities etc. are classified as Cash and bank balances when they mature less than three months after the acquisition date and are exposed to only a minor risk of fluctuation in value.

24 REMUNERATION TO SENIOR MANAGEMENT

Remuneration for Board

The Annual General Meeting decides the fees to be paid to the Chairman of the Board and Board members. Additional fees are paid for work on committees. The Chairman received SEK 583 thousand in 2011, of which SEK 83 thousand was for committee work. Other Board members received a total of SEK 1 749 thousand, of which SEK 157 thousand was for committee work.

Directors' fees

SEK '000

Name	Annual fee 2010–2011	Annual fee 2011–2012	Audit committee fee 2010–2011	Audit committee fee 2011–2012	Compensation committee fee 2010–2011	Compensation committee fee 2011–2012	Fee paid 2011 ¹
Ingvar Petersson	450	525	30	40	40	50	583
Michael M.F. Kaufmann	350	400	–	–	–	25	400
Gunilla Jönson	225	250	–	40	–	–	268
Ewald Nageler	225	250	–	–	–	–	242
Yngve Ståde	225	250	–	–	15	25	264
Mikael Hellberg ²	–	250	–	80	–	–	220
Helena Andreas ²	–	250	–	–	–	–	167
Meg Tivéus ³	225	–	30	–	–	–	85
Per Lundberg ³	225	–	70	–	15	–	103

1 The fees decided by the Annual General Meetings in 2010 and 2011

2 Board member appointed at the Annual General Meeting 2011

3 Board member declined re-election and left his/her position on the Board at the Annual General Meeting 2011

Remuneration to the CEO and senior management

The 2011 Annual General Meeting established the following guidelines for remuneration to senior managers. Senior management includes the CEO and other members of the senior management team. Billerud shall apply market-related remuneration levels and employment terms that are appropriate in order to recruit and keep a senior management team that has the competence and capacity to achieve set goals. Remuneration forms shall motivate Group management to do its best to secure shareholders' interests. Remuneration may be in the form of fixed or variable salary, long-term incentive programmes and other benefits such as company car and pension. Fixed and variable salary shall be determined in relation to expertise, area of responsibility and performance. Variable remuneration is paid depending on actual results compared to explicit targets, up to a maximum percentage of a fixed annual salary that may vary between 30% and 45%. However, variable salary shall be paid only if the Company makes a profit. The incentive programme shall primarily be related to financial performance criteria, ensure long-term commitment to the development of the Company and be implemented on commercial terms. For more information about the current incentive programmes adopted by the 2010 and 2011 AGMs, see the Company's website. Pension benefits shall either be defined-benefit or defined-contribution plans and will normally give a pension entitlement after age 65. In certain cases, the age may be reduced but never lower than 62. Notice of termination is normally 6–12 months, and if the Company gives notice severance pay shall be a maximum of 12 months' salary. Remuneration and other employment terms for the CEO are prepared by the compensation committee and decided by the Board. Remuneration and other employment terms for members of the senior management team are determined by the CEO following approval by the compensation committee.

The Board of Directors is entitled to deviate from these guidelines if there is good reason in individual cases.

In 2011, the actual variable remuneration was 20.0% for the CEO and an average of 12.96% for the senior management team.

1 This amount includes holiday pay supplement, allowances for expenses and lunch coupons totalling SEK 125 thousand in addition to fixed salary.

2 This amount includes holiday pay supplement, allowances for expenses and lunch coupons totalling SEK 100 thousand in addition to fixed salary.

3 These amounts include remuneration and other benefits for two people who left the senior management team in 2011. The opening amounts refer to the period that person was a member of the senior management team.

4 These amounts include remuneration and other benefits for a person who left the senior management team in 2010. The opening amounts refer to the period that person was a member of the senior management team.

Comments

- The variable remuneration for 2011 refers to amounts to be paid out in 2012 but charged to 2011, while the variable remuneration for 2010 refers to remuneration paid out in 2011 but charged to 2010. The actual amounts are based on financial and individual targets linked to the development of the business and based on profit for 2011 and 2010.
- Other benefits include company car, housing and other taxable benefits.
- Pension plans are of the defined-benefit and defined-contribution types. Pension costs refers to the costs charged to profit/loss for the year.
- Billerud's long-term incentive programmes (LTIP 2010 and LTIP 2011) comprise no rights to acquire Billerud shares at a discount during a redemption period after a vesting period. Instead, participants are allocated a certain number of Billerud shares free of charge after a three-year vesting period, provided certain criteria are met.
In LTIP 2010, the CEO participates with 9 093 Billerud shares, referred to as "saving shares". Other members of the senior management team participate with 18 357 saving shares.
In LTIP 2011, the CEO participates with 7 089 Billerud shares, referred to as "saving shares". Other members of the senior management team participate with 11 143 saving shares.
All participants can achieve a 4:1 exchange ratio. Each saving share entitles the holder to:
One right to matching shares
Three rights to performance shares (one share right for the operating margin, one share right for the relative margin and one share right for total return)

Remuneration and benefits to the CEO

SEK '000	Year	Gross salary	Bonus	Other benefits	Pension costs	Total
Per Lindberg	2011	5 169 ¹	1 878	244	1 153	8 444
Per Lindberg	2010	4 966 ²	1 946	519	761	8 192

Remuneration and other benefits to rest of senior management team during the year

SEK '000	Year	Gross salary	Bonus	Other benefits	Pension costs	Total
Senior management team ³	2011	11 554	3 124	703	3 965	19 346
Senior management team ⁴	2010	10 662	3 304	1 216	3 963	19 145



25 ADDITIONAL INFORMATION FOR THE CASH FLOW STATEMENT

SEKm	Group		Parent company	
	2011	2010	2011	2010
Interest paid and received and dividends				
Interest and dividends received	20	5	39	13
Interest paid	-59	-79	-27	-73
Total	-39	-74	12	-60
Adjustments for non-cash items, etc.				
Depreciation, amortisation and impairment of assets	614	610	262	256
Interest adjustment	7	4	2	0
Anticipated dividend			—	—
Impairment of shares in subsidiaries			10	—
Pensions and other provisions	11	-22	6	-3
Capital gains/losses	0	0	0	0
Total	632	592	280	253
Cash and cash equivalents ¹				
The following are included in cash and cash equivalents:				
Investments in securities etc.	250	—	250	—
Cash and bank balances	679	740	592	644
Total	929	740	842	644

1 Investments in securities etc. are classified as cash and cash equivalents when they mature less than three months after the acquisition date and are exposed to only a minor risk of fluctuation in value.

26 UNTAXED RESERVES

SEKm	2011	2010
Parent company		
Accumulated additional depreciation		
Plant and equipment		
Carrying amount, 1 January	—	2 098
Change for the year in addition to plan	2 212	-2 098
Carrying amount, 31 December	2 212	—
Total untaxed reserves	2 212	—

27 EVENTS AFTER THE CLOSING DATE

On 1 February 2012, Billerud Finland Oy, a wholly owned subsidiary of Billerud AB, reached an agreement with UPM-Kymmene (UPM) regarding the acquisition of UPM's packaging operations in Pietarsaari and Tervasaari with net sales of around EUR 220 million (SEK 2 billion) in 2011. The purchase price is EUR 130 million (around SEK 1.2 billion). The transaction significantly reduces Billerud's pulp exposure and strengthens its offering in the packaging paper area. Currency exposure is also reduced.

Long-term commercial agreements have been reached between the parties stipulating, for instance, that UPM will deliver inputs such as pulp, steam and electricity to Billerud. The transaction is conditional upon the approval of the requisite competition authorities.

The transaction will be financed through cash and cash equivalents, and through raising loans within existing credit frameworks. The impact of the acquisition on Billerud's net debt/equity ratio will be +24 percentage points. Therefore, the net debt/equity ratio is still deemed to be below the Group's financial targets, all else being equal. In the event of the acquisition failing to complete, Billerud has undertaken to pay a one-time amount of EUR 5 million to UPM.

For further information, please see the press release dated 1 February 2012 on the Billerud website, www.billerud.se.

28 INVESTMENT COMMITMENTS

Group

In 2011, the Group signed agreements to acquire property, plant and equipment for SEK 128 million (133). Of these commitments, it is expected that SEK 85 million (133) will be settled in 2012.

Parent company

In 2011, the parent company signed agreements to acquire property, plant and equipment for SEK 117 million (42). Of these commitments, it is expected that SEK 75 million (42) will be settled in 2012.

29 CONTINGENT ASSETS AND LIABILITIES

SEKm	Group		Parent company	
	2011	2010	2011	2010
Assets pledged for own liabilities and provisions				
Pledged endowment insurance	25	27	18	23
Total pledged assets	25	27	18	23
Contingent liabilities				
Guarantee commitment, FPG/PRI	4	3	4	3
Other guarantees	10	5	10	5
Warranties	—	—	—	26
Guarantees for Group companies	—	—	58	63
Total contingent liabilities	14	8	72	97

30 RELATED PARTIES

Relationships

The parent company has relationships with its subsidiaries subject to related party disclosure, see note 12.

Summary of related party transactions

SEKm	Sales of goods and services to related parties	Purchase of goods and services from related parties	Debts to related parties	Receivables from related parties
Group				
Relationships	Year			
Associated companies	2011	—	386	17
Associated companies	2010	1	269	2
Parent company				
Relationships	Year			
Subsidiary	2011	9	1 297	893
Subsidiary	2010	11	1 127	767
Associated companies	2011	—	143	5
Associated companies	2010	1	104	—

Transactions with key individuals in executive positions

Recognition of salaries, remuneration and other benefits is found in notes 5 and 24.

31 BUSINESS COMBINATIONS

In 2011, Billerud has acquired 30% of the shares in associated company Paccess Packaging LCC through subsidiary Billerud Inc. Billerud has acquired 11.6% of the shares in Nine TPP AB, thus increasing its share of ownership of the company to 71.6%. On 1 February 2012, Billerud Finland Oy, a wholly owned subsidiary of Billerud AB, reached an agreement with UPM-Kymmene (UPM) regarding the acquisition of UPM's packaging operations in Pietarsaari and Tervasaari. The purchase price is EUR 130 million (around SEK 1.2 billion). The transaction is conditional upon the approval of the requisite competition authorities.

No business combinations were carried out in 2010.

32 KEY ESTIMATES AND ASSESSMENTS

The audit committee has discussed the application of the Group's accounting policies and made assessments and estimates in connection with the application of these policies. The following key estimates and assessments require further explanation.

Pension liabilities

The discount rate for calculating the commitment related to Billerud's defined-benefit pension plans was reduced, from 3.8% in 2010, to 3.3% in 2011, which is consistent with the nominal Government interest rate on Sweden's 10-year secured housing bond. For other actuarial assumptions, see note 18, pages 89-90.

Valuation of subsidiaries

Billerud's production of bioplastic products in Tenova Bioplastics AB yielded a loss during the year. An impairment test was performed for the capital employed in the company. According to the Company's calculations, the value of future payments is below the carrying amount, so a goodwill impairment of SEK 10 million has been carried out in the Group.

Following a test for impairment, the parent company's shareholding in the subsidiary Tenova Bioplastics AB has been impaired in the amount of SEK 10 million.

34 OPERATING SEGMENTS

The Group's business is managed and reported by business area as set out below. The introduction of IFRS 8 did not lead to any change in accounting for the business areas. The main target for each business area is the operating margin, which is measured net of the earnings effects of hedging currency flows. Billerud has identified its operating segments to reflect the three business areas in the Group.

- The Packaging & Speciality Paper business area is responsible for sales of sack paper and kraft paper with a focus on packaged food, paper carrier bags, sack solutions and industrial applications.
- The Packaging Boards business area is responsible for sales of fluting, liner and liquid board with a focus on fruit and vegetables and consumer goods.
- The Market Pulp business area is responsible for sales of long-fibre market pulp.

33 INFORMATION ABOUT THE PARENT COMPANY

Billerud AB is a Swedish limited liability company whose domicile is in Stockholm. The shares of the parent company are registered with NASDAQ OMX Stockholm AB. The address of the head office is Box 703, SE-169 27 Solna. The consolidated accounts for 2011 are for the parent company and its subsidiaries, which form the Group. The Group also includes owned participations in associated companies.

- In addition to the business areas, Billerud's operations include group-wide functions such as corporate headquarters, wood supplies and the sales organisations. These functions are reported as Other business, which includes profit/loss in associated company ScandFibre Logistics AB and subsidiaries Tenova Bioplastics AB, Nine TPP AB and Billerud Inc. Other business also includes gains/losses from hedging of the Group's net currency flows and eliminations.

Non-current assets and capital investments cannot be broken down by operating segment, because the business areas are highly integrated in terms of production.

Operating earnings for Other business consisted of SEK 230 million (153) for Currency hedging, etc., SEK -171 million (-103) for Group staff and eliminations and SEK 35 million (23) for Other units.

SEKm	Packaging & Speciality Paper		Packaging Boards		Market Pulp		Other business		Group total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	4 293	4 166	2 772	2 428	1 752	1 731	526	503	9 343	8 828
Other income	–	40	–	26	–	12	18	7	18	85
Operating expenses, other	-3 525	-3 461	-2 238	-2 023	-1 574	-1 352	-432	-430	-7 769	-7 266
Depreciation, amortisation and impairment	-318	-328	-164	-160	-114	-115	-18	-7	-614	-610
Profit/Loss from participations in associated companies	–	–	–	–	–	–	0	0	0	0
Operating profit/loss	450	417	370	271	64	276	94	73	978	1 037
Operating margin	10%	10%	13%	11%	4%	16%			10%	12%
Financial income and expenses									-45	-77
Taxes									-250	-255
Net profit/loss									683	705



PROPOSED ALLOCATION OF PROFIT

Non-restricted equity in the parent company consists of:

SEK	
Non-restricted funds	2 992 037 580
Dividend for 2010	-360 900 046
Profit/Loss for the year	-463 618 474
Total	2 167 519 060

The Board proposes:

SEK	
A dividend of 3.50 per share to be paid to shareholders	360 900 046
and that the remaining amount be carried forward	1 806 619 014
Total	2 167 519 060

The undersigned affirm that the consolidated accounts and the annual accounts, respectively, have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and generally accepted accounting practices and give a true and fair view of the financial position and results for the Group and parent company, respectively. The Directors' report for the Group and the parent company includes a fair review of the operations, financial position and results of the Group and the parent company and describes the principal risks and uncertainties facing the parent company and the companies included in the Group.

The annual accounts and consolidated accounts were approved for publication by the Board on 13 March 2012. The consolidated statement of comprehensive income and consolidated balance sheet, as well as the statement of comprehensive income for the parent company and balance sheet for the parent company will be subject to adoption by the Annual General Meeting of Shareholders on 9 May 2012.

Solna, 13 March 2012

Ingvar Petersson,
Chairman

Michael M. F. Kaufmann,
Deputy Chairman

Helena Andreas,
Board member

Stewe Cato,
Board member

Helén Gustafsson,
Board member

Mikael Hellberg,
Board member

Gunilla Jönson,
Board member

Ewald Nageler,
Board member

Yngve Stade,
Board member

Per Lindberg,
CEO

Our audit report was issued on 14 March 2012

Ernst & Young AB

Lars Träff
Authorised Public Accountant

AUDITORS' REPORT

To the annual meeting of the shareholders of Billerud AB, corporate identity number 556025-5001

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Billerud AB for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 54–96.

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 and 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 opinion.

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 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 2011 and of their financial performance and cash flows for the year 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 examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Billerud AB for the year 2011.

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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess 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 opinion.

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.

Stockholm, 14 March 2012

Ernst & Young AB

Lars Träff
Authorised Public Accountant



BILLERUD'S CORPORATE GOVERNANCE IN 2011

This report on corporate governance in the Billerud Group for 2011 has been prepared in accordance with regulations in the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance, which took effect 1 July 2005 and was last revised on 1 February 2011. The Code was introduced at Billerud in spring 2005.

In 2011, Billerud complied with the Swedish Code of Corporate Governance in all respects except for item 2.1.2 concerning the composition of the Board of Directors, the reason for non-compliance being, regarding composition of the nomination committee, that the 2011 AGM resolved that the chairman of the nomination committee shall be the Board member representing the largest shareholder in terms of the number of shares. Michael M.F. Kaufmann represents the largest shareholder and is therefore chairman of the nomination committee. He is also a Board member and Deputy Chairman of the Board. Other exceptions to the Code were item 6.2 concerning the Chairman of the Board and item 9.3 concerning remuneration of senior management. The latter two items are not applicable to the Billerud Group.

OWNERSHIP STRUCTURE AND SHARES

At year-end 2011, the total number of shareholders was 107 795, compared to 120 733 at the previous year-end. The proportion of foreign ownership increased, to 48.6% (44.0), excluding shares that Billerud bought back (1 720 314). Other groups of shareholders consist of private individuals in Sweden, 34.5% (38.5), and legal entities in Sweden, 16.9% (17.5). Further details about the Company's shares, shareholders and the like are presented in the 2011 annual report, under "The Billerud share", and on the Company's website.

SHAREHOLDER MEETINGS AND RELATED MATTERS

2011 Annual General Meeting

The 2011 AGM took place on 4 May 2011 at 3 p.m. at Hotel Rival, Mariatorget 3, Stockholm. Among other matters, the AGM voted to re-elect Ingar Petersson, Gunilla Jönson, Michael M.F. Kaufmann, Ewald Nageler and Yngve Ståde. Per Lundberg and Meg Tivéus declined re-election and Helena Andreas and Mikael Hellberg were thus elected new Board members.

COMPOSITION OF AND VOTING REPRESENTATION ON THE NOMINATION COMMITTEE

Representative	Shareholder	Share of voting power, % ¹
Michael M.F. Kaufmann, Chairman	Frapag Beteiligungsholding AG	21.0
Björn Franzon	Swedbank Robur Fonder	2.4
Hans Ek	SEB Fonder and SEB Trygg Liv	2.1
Ingvar Petersson, Chairman of the Board of Billerud, convening but not a member	Billerud	–

¹ As per 29 February 2012

Rules for shareholders' meetings

Under the Companies Act, the shareholders' meeting is the Company's ultimate decision-making body. Shareholders exercise their voting rights at the meeting. All shareholders entered in the share register on the record date who have notified the Company in time are entitled to participate in the meeting and vote their total holdings of shares. Resolutions are usually passed at a shareholders' meeting by simple majority except in those cases when the Companies Act stipulates a higher proportion of votes cast and shares represented at the meeting. Resolutions passed at a shareholders' meeting are made public after the meeting in a press release, and the minutes of the meeting are published on the Company's website. The meeting decides on matters such as whether to adopt the Company's annual accounts, how to appropriate the Company's profit/loss and whether to discharge the members of the Board and the CEO from liability for the year. The Annual General Meeting also elects members of the Board and auditors, and votes on the establishment of a nomination committee, fees for the Board of Directors and auditors and guidelines for determining the salaries and other remuneration for the CEO and senior management team. The AGM shall be held in Stockholm within six months from the end of the financial year. Notice of the AGM will be published as an advertisement in Post och Inrikes Tidningar and an announcement in Svenska Dagbladet and be posted on the Company's website. Information about Billerud's major shareholders is provided under "The Billerud share" in the Directors' report.

2012 Annual General Meeting

The 2012 AGM will take place on 9 May 2012 at 3 p.m. at Hotel Rival, Mariatorget 3, Stockholm. Billerud's website contains information about how to register to attend the AGM and how to submit a matter to be dealt with by the AGM.

Nomination committee for the 2012 AGM

Pursuant to a decision by Billerud AB's AGM held 4 May 2011, the Chairman of the Board contacted the largest shareholders, after which a nomination committee was appointed. On 2 November 2011, the nomination committee for the 2012 AGM was announced; see table above.

No separate remuneration was paid to the Chairman or any other members of the nomination committee.

Ahead of the 2012 AGM, the nomination committee held four meetings (with minutes taken), keeping in contact in between meetings by phone and e-mail. Shareholders have been welcome to submit proposals and opinions to the nomination committee by e-mail or mail. On Billerud's website, a section for the nomination committee in the corporate governance area provides information to shareholders regarding how they can submit proposals to the committee.

THE BOARD Composition

The articles of association stipulate that the Board of Directors of Billerud AB contain at least six members and at most 10 members, with at most six deputies. Board members are appointed for one year at a time. The

CORPORATE GOVERNANCE AT BILLERUD

Company's CEO is not a member of the Board. All but two members of the Board elected by the AGM are independent of the Company, senior management team and major shareholders. Michael M. F. Kaufmann is the CEO and Ewald Nageler the CFO of the parent company of Frapag Beteiligungs-holding AG, Billerud AB's largest shareholder, and are thus not independent of the Company's major shareholders, as defined by the Swedish Code of Corporate Governance and the regulations of NASDAQ OMX Stockholm AB. The Board also includes two members and two deputies appointed by the trade unions in accordance with the Board Representation (Private Sector Employees) Act. These four Board members are employees and thus not independent of the Company.

In 2011, the Board's external secretary was Wilhelm Luning, of the legal firm Advokatfirman Cederquist.

All Board members have completed NASDAQ OMX Stockholm AB's training for board members and senior executives at listed companies.

Organisation of the work of the Board

The work of the Board follows written rules of procedure and a meeting schedule, to ensure that the Board receives comprehensive information and that all Company activities concerning the Board are dealt with. The rules of procedure prescribe the information to be supplied to the Board, among other things, and are available on the Company's website, as are the instructions for Billerud's CEO.

The Board has also established a number of general policies for the Company's activities. These policies are revised as necessary. They include policies on corporate governance, finance and communications and a single policy covering quality, the environment and the community. The latter policy covers Billerud's approach to ethical business conduct and the environment.

Work of the Board in 2011

During 2011 the Board held 12 meetings, of which two were per capsulam, in addition to the constituent meeting. One meeting is mainly devoted to strategy and one to finance issues. The Chairman leads the work of the Board, monitors the business in dialogue with the CEO and is responsible for the other Board members receiving the information and documentation necessary for discussions and decisions. During 2011 the work of the Board focused on managing, in addition to ordinary agenda items:

- January/February: annual financial statements, year-end report, audits and sustainability
- March: AGM agenda, financing matters
- April/May: AGM, interim report, investments, audits and financing
- June: mill visit, review of corporate governance, legal issues relating to competition and financing
- September: strategy, investments
- October: interim report
- December: financing including finance policy, issues regarding the annual financial statements and budget for 2012, audit, sustainability report and evaluation of the work of the Board and CEO

In 2011, extra emphasis was placed on the continued development of new products and customer concepts in close cooperation with end customers, growth, sustainability issues, cost savings, wood supply as well as strategy and brand building.

During the year, mill managers and other

senior management have also made presentations about and discussed their areas of responsibility with the Board. Minutes are taken at all Board meetings and distributed to Board members in compliance with the Swedish Code of Corporate Governance.

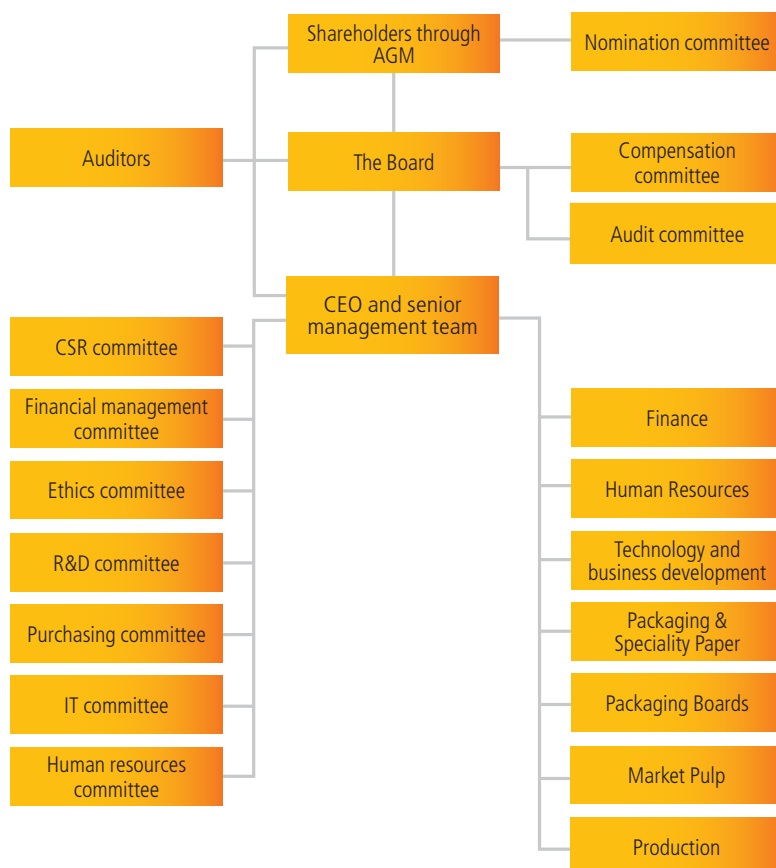
Assessment

Billerud has routines for assessing the work of the Chairman and members of the Board each year. The assessment serves as input for an action plan for improvement as well as background for the nomination committee's work as they assemble a Board.

The Board also continually evaluates the work of the CEO. Once a year an assessment is made of the CEO without the CEO being present.

BOARD COMMITTEES

The Board currently has two committees: the audit committee, established in 2004, and the compensation committee, established in 2001. The Board appoints the members of



Primary external regulations affecting Billerud's governance:

- Swedish Companies Act
- Regulations of Euroclear and NASDAQ OMX Stockholm AB for issuers
- Swedish Code of Corporate Governance



these committees. The composition of these committees in 2011 is presented on pages 102–103.

AUDIT COMMITTEE

The Board is ultimately responsible for ensuring that satisfactory controls are in place for risk management, accounting, financial reporting and similar issues.

To support the Board in its supervisory role, an audit committee was established in 2004.

The chief task of the committee is to contribute to and adopt policies for financial reporting and internal control and to ensure compliance with those policies as well as to maintain an appropriate relationship with the Company's auditors as per the Board of Directors' instructions to the audit committee. The audit committee is a preparatory body and part of the Board. It continually reports the results of its work, in the form of observations, recommendations and proposed resolutions and corrective actions, to the Board, which must make any decisions that result from the committee's work. Further, the committee shall monitor the Company's accounting policies, risk management and internal control. Finally, it shall organise the election of the auditors and their fees. Minutes are kept of the meetings of the audit committee and provided to the Board. The rules of procedure for the audit committee are presented in full on the Company's website. The audit committee consists of four members: Mikael Hellberg (chair), Ingvar Petersson, Kurt Lindvall and Gunilla Jönson. All members except one are independent of the Company. Kurt Lindvall is a Billerud employee and thus not independent of the Company. During 2011, the secretary of the audit committee was Wilhelm Lüning, of the legal firm Advokatfirman Cederquist.

Work in 2011

During 2011, the audit committee held seven meetings, two of which were teleconferences. The table on pages 102–103 presenting members of the board shows meeting attendance by the committee members. During the year, the committee addressed various accounting issues, the audit plan for 2011, risk analysis, internal control and policy issues. The committee also met ahead of the publication of each interim report and the year-end report, when the members addressed accounting and reporting issues related to the reports. The chairman of the audit committee regularly reports to the Board on committee meetings. The Board's work on internal control related to financial reporting is summarised in "Internal controls and risk management for financial reporting in 2011".

COMPENSATION COMMITTEE

The 2011 AGM voted on guidelines for remuneration of senior executives; see note

24 in the 2011 annual report. The Board set up a compensation committee tasked with proposing a general policy for salaries, remuneration and other general employment terms within Billerud as well as approving the CEO's proposal for salaries and remuneration for the senior management team within the framework of the policy. The committee also makes proposals to the Board, which decides on the salary and other remuneration for the CEO. The rules of procedure for the compensation committee are presented in full on the Company's website. The members of the committee are Ingvar Petersson, (chair), Michael Kaufmann and Yngve Ståde.

Work in 2011

The committee held two meetings in 2011. The table on pages 102–103 presenting members of the board shows meeting attendance by the committee members. In 2011, the committee considered actual variable salaries in 2010, and salary reviews for the senior management team in 2011. Further, the committee addressed the evaluation of LTIP 2011 and the structure of LTIP 2012.

The principles for remuneration to the CEO and other senior executives, as well as actual figures, are contained in note 24 of the 2011 annual report.

AUDITORS

The accounting firm is Ernst & Young AB, represented by authorised public accountant Lars Träff, managing auditor, for three years until the 2013 AGM.

Lars Träff

Born 1954. Authorised public accountant at Ernst & Young AB. Auditor of Billerud from 2009 until the financial year of 2012.

Public accountant for Boliden, Posten, Lantmännen, the ÅF Group, Scania and Öresund.

To ensure that the work of the Board and the audit committee is performed in a structured manner and to satisfy the Board's information requirements, Billerud's auditors met with the audit committee on three occasions and with the Board on one occasion in 2011.

CEO AND SENIOR MANAGEMENT TEAM

The CEO is appointed by the Board and is responsible for the ongoing management of the Company's and Group's business operations in accordance with instructions established by the Board. The CEO also chairs the senior management team and makes decisions in consultation with the other senior executives. The senior management team has seven members in addition to the CEO: the Chief Financial Officer (CFO), Senior Vice President Corporate Human Resources, Production Director, Technical Director and the three Business Area Directors. The senior management team normally meets once a

week, alternate weeks in face-to-face meetings and in video- or teleconferences.

In 2011, the senior management team addressed issues concerning financing, acquisitions, crisis management, cost savings, wood supplies and wood prices, production, energy, markets and pricing, environmental issues and permits, investments, strategy, human resources and brand building. The executives also report on projects under way in their areas of responsibility. At each meeting, a situation report is presented for each unit in the Company and the current financial report is reviewed.

Billerud is divided into three business areas: Packaging & Speciality Paper, Packaging Boards and Market Pulp. Each business area is responsible for sales, marketing and development in its own product area, as well as being accountable for its own profit, based on predetermined production costs. The Billerud mills are responsible for production and efficiency, which is the basis for their financial accountability. The senior management team has organised several group-wide networks, each of which is convened and chaired by a member of the team or some other person who reports directly to the CEO.

THE FOLLOWING COMMITTEES WERE ACTIVE IN 2011

CSR committee	Stina Blombäck
Financial management committee	Susanne Lithander
Ethics committee	Karin Hågfeldt
R&D committee	Magnus Wikström
Purchasing committee	Per Lindberg
IT committee	Susanne Lithander
Human resources committee	Karin Hågfeldt

All members of the senior management team have attended NASDAQ OMX Stockholm AB's training for board members and senior executives of listed companies.

PRINCIPLES FOR REMUNERATION OF SENIOR EXECUTIVES

The 2011 AGM adopted the principle that remuneration and employment terms should be market-based. Satisfactory work shall be remunerated with a fixed salary.

In addition, variable remuneration may be offered as a reward for achieving fixed targets. For the complete resolution on principles for remuneration, see note 24 of the 2011 annual report. The Board's proposal for guidelines in 2012 is presented in the Directors' report.

SENIOR MANAGEMENT TEAM



From the left: Lennart Eberleh, Susanne Lithander, Per Bjurbom, Johan Nellbeck, Niklas Söderström, Karin Hågfeldt, Magnus Wikström and Per Lindberg.

PER LINDBERG

Position: President and CEO
Education: MSc, Chalmers University of Technology PhD, Chalmers University of Technology
Year employed: 2005
Year born: 1959
Nationality: Swedish
Other assignments: Chairman of YKI Board member, Vindlin AB and Middlepoint AB
Background: CEO, Korsnäs AB; EVP, Investment AB Kinnevik; Management and strategy consultant, Applied Value Corporation, US
Shareholdings*: 20 182

PER BJURBOM

Position: Production Director
Education: MSc Mechanical Engineering, Royal Institute of Technology, Stockholm
Year employed: 2007
Year born: 1961
Nationality: Swedish
Other assignments: –
Background: Site mgr., Holmen Paper Hallsta; Site mgr., Stora Enso Skoghall mill; Production Mgr., Stora Enso Skoghall mill; Production Mgr. PM53, Holmen Paper Braviken; Product manager, Braviken Holmen Paper; Technical mktg., telephone directory paper, Holmen Paper; Operating engineer PM52, Holmen Paper Braviken
Shareholdings*: 6 000

LENNART EBERLEH

Position: Business Area Director Packaging Boards
Education: MSc, Technische Universität Braunschweig, Germany Executive MBA
Year employed: 2001
Year born: 1969
Nationality: German
Other assignments: –
Background: Product Area Mgr., Containerboard, Billerud AB; Sales mgr., Containerboard, Stora Enso Gruvön; Stora Support Team, Stora Kopparberg Bergslags AB; Product manager, Containerboard, Stora Gruvön
Shareholdings*: 4 000

KARIN HÅGFELDT

Position: Director of Human Resources
Education: Executive MBA, Stockholm School of Economics. Human resources and occupational programme, Umeå University
Year employed: 2011
Year born: 1970
Nationality: Swedish
Other assignments: –
Background: HR Lead Global Supply Chain & Strategy, AstraZeneca. Head of Human Resources Sweden Operations, AstraZeneca. Human Resources Manager, Ericsson
Shareholdings*: 1 000

SUSANNE LITHANDER

Position: CFO
Education: MSc Business Administration, University of Gothenburg School of Economics, Business and Law
Year employed: 2011
Year born: 1961
Nationality: Swedish
Other assignments: Board member and audit committee member of Acando.
Background: CEO, Mercuri International Group. EVP, Head of Product Area Advise, BU Global Services, Ericsson AB. EVP Finance & Operational Development, BU Global Services, Ericsson AB. EVP, Business Operations, Ericsson Inc., TX, USA. EVP and general manager, Head of Business Unit Private Radio Systems, Ericsson Inc., VA, USA
Shareholdings*: –

JOHAN NELLBECK

Position: Business Area Director, Packaging & Speciality Paper
Education: MSc Business administration, Uppsala University Executive MBA
Year employed: 2006
Year born: 1964
Nationality: Swedish
Other assignments: Board member of CEPI Eurokraft and PaperImpact
Background: Sales Mgr., Tele2 Stockholm; MD, AssiDomän Kraft Products Nordic Sales AB; Sales Mgr., AssiDomän Scandinavia
Shareholdings*: 10 000

NIKLAS SÖDERSTRÖM

Position: Business Area Director Market Pulp
Education: Economics degree
Year employed: 2001
Year born: 1950
Nationality: Swedish
Other assignments: Chairman of the Board of Bjurfors i Uppsala AB
Background: Market director, AssiDomän; Market director, Rottneros; Sales mgr., Utansjö Mill; Order/Logistics mgr., Värnamo Gummi
Shareholdings*: 7 423

MAGNUS WIKSTRÖM

Position: Technical Director
Education: MSc Chemical Engineering PhD Engineering, Senior Lecturer, Royal Institute of Technology
Year employed: 2006
Year born: 1963
Nationality: Swedish
Other assignments: Board member, Innventia AB
Background: R&D Director, Korsnäs AB; Research Mgr., Korsnäs Development, Project Area Mgr., Swedish Pulp and Paper Research Institute (STFI)
Shareholdings*: 3 000

* Own and related parties' shareholdings at 1 March 2012.



BOARD OF DIRECTORS



INGVAR PETERSSON

Chairman of the Board

Position: –

Education: Business Economist. Studies at University of Lund

Year elected: 2001

Year born: 1941

Nationality: Swedish

Other assignments: Chair, Econova AB and RAM One AB; Board member, Munksjö AB and other companies

Background: Senior EVP, Stora Enso; First EVP, Stora Group; CEO, Kopparfors AB

Shareholdings*: 16 000

Independent/Not independent: Independent of owners and of the Company



MICHAEL M.F. KAUFMANN

Deputy Chairman

Position: CEO, Frapag Beteiligungsholding AG, Vienna, Austria

Education: MBA at universities in Stuttgart and Erlangen-Nürnberg

Year elected: 2005

Year born: 1948

Nationality: Austrian

Other assignments: Board member, Hirsch Servo AG, Glanegg, Austria

Background: Formerly held various managerial positions in Frantschach/Mondi, Vienna, Austria

Shareholdings*: 9 500

Independent/Not independent: Not independent of Billerud's owners



HELENA ANDREAS

Board member

Position: Head of Retail at Vodafone Group

Education: Master of Business Administration, INSEAD, France/Singapore. Master of Engineering Technical Physics, Lund University Faculty of Engineering LTH/Caltech. Economics degree, Lund University, Lund

Year elected: 2011

Year born: 1975

Nationality: Swedish

Other assignments: Board member, Extenda AB

Background: Positions in the retail and consumer goods industry, including that of Head of Marketing Fresh Foods at Tesco UK. Management consultant Accenture

Shareholdings*: 5 000

Independent/Not independent: Independent of owners and of the Company



STEW E CATO

Employee representative, Board member

Position: Chair, Swedish Paper Workers Union local 96 Billerud Gruvön

Year elected: 2001

Year born: 1953

Nationality: Swedish

Other assignments: –

Background: –

Shareholdings*: –

Independent/Not independent: Not independent of the Company (employee)



HELÉN GUSTAFSSON

Employee representative, Board member

Position: Production Technician, Process Development, Billerud Skärblacka AB

Year elected: 2010

Year born: 1971

Nationality: Swedish

Other assignments: –

Background: –

Shareholdings*: 517

Independent/Not independent: Not independent of the Company (employee)



MIKAEL HELLBERG

Board member

Position: –

Education: BSc, Business Administration, University of Minnesota. Studies at the Stockholm School of Economics

Year elected: 2011

Year born: 1954

Nationality: Swedish

Other assignments:

Chairman of Delicato Bakverk AB, NCS Colour AB, Pelly Industrier AB, Berntson Brands AB, Björnkälder AB, Wallvision. Board member, AB Annas Pepparkakor, Cederroth International AB, Color Processing Systems and more

Background: CEO of Wasabröd AB, Pripps Bryggerier/Carlsberg Sverige AB and Alcro-Beckers AB. Advisor to Ericsson's Business Unit Systems. Category Manager, Procter & Gamble Norden.

Shareholdings*: 10 000

Independent/Not independent: Independent of owners and of the Company

Board members	Attendance at a total of 12 Board meetings	Attendance at a total of 7 audit committee meetings	Attendance at a total of 2 compensation committee meetings
Ingvar Petersson, Chairman	12	7	2
Michael M.F. Kaufmann, Deputy Chairman	11	–	1 (Elected after the 2011 AGM)
Helena Andreas	9 (Appointed at the 2011 AGM)	–	–
Stewe Cato	11	–	–
Helén Gustafsson	12	–	–
Mikael Hellberg	9 (Appointed at the 2011 AGM)	6 (Elected at the 2011 AGM)	–

* Own and related parties' shareholdings at 1 March 2012.


GUNILLA JÖNSON
Board member

Position: Professor, Packaging Logistics, Lund University Faculty of Engineering LTH, and Adjunct Professor, Packaging Technology, Michigan State University

Education: MSc and PhD, Mech. Eng. and Transport Technology, Chalmers University of Technology, Gothenburg

Year elected: 2003

Year born: 1943

Nationality: Swedish

Other assignments: Vice chair, University Board of Chalmers Board member, SIK, Blekinge Institute of Technology, Invest in Skåne AB and Invest Sweden. Member of the Royal Swedish Academy of Engineering Sciences

Background: Dean, Lund University Faculty of Engineering LTH; Various directorships and other positions in SCA Packaging, in Sweden, Belgium and the UK; Research Director, Swedish Packaging Research Institute, Stockholm

Shareholdings*: 2 250

Independent/Not independent: Independent of owners and of the Company


KURT LINDVALL
Employee representative

Position: Chair, Swedish Paper Workers Union local 165 Billerud Karlsborg

Year elected: 2001

Year born: 1951

Nationality: Swedish

Other assignments: –

Background: –

Shareholdings*: –

Independent/Not independent: Not independent of the Company (employee)


EWALD NAGELER
Board member

Position: CFO, Frapag Beteiligungsholding AG, Vienna, Austria

Education: Economics degree, University of Innsbruck, Austria

Year elected: 2006

Year born: 1950

Nationality: Austrian

Other assignments: –

Background: CFO, Egger Holzindustrie Beteiligungsgesellschaft m b H, St Johann, Austria; 25 years' experience in banking; Member of the managing board of Creditanstalt AG, Vienna, Austria; Member of the boards of many financial institutions and companies in Austria and elsewhere

Shareholdings*: 8 000

Independent/Not independent: Not independent of Billerud's owners


FREDRIK NORDSTRÖM
Employee representative

Position: Production Controller, Billerud Gruvön AB

Year elected: 2011

Year born: 1972

Nationality: Swedish

Other assignments: –

Background: –

Shareholdings*: 900

Independent/Not independent: Not independent of the Company (employee)


YNGVE STADE
Board member

Position: –

Education: MSc Engineering and PhD (hc), Royal Institute of Technology, Stockholm

Year elected: 2005

Year born: 1947

Nationality: Swedish

Other assignments: Chairman of RISE Holding AB; Member of the Royal Swedish Academy of Engineering Sciences and Mantex AB

Background: CEO, Stora Enso AB, and member of exec. mgmt., Stora Enso Oyj; CEO, Kamyr AB; CEO, NLK Celpap Engineering AB; Various production and technical positions, Korsnäs AB and the Swedish Pulp and Paper Research Institute (STFI); Member of the board of MoDo Chemicals, Innventia AB, Swedish Forest Industries Federation and Chairman of the board in several research foundations associated with forest industry issues; Member of the board of Falu Rödfärgs AB/Stora Kopparbergs Bergslags AB, Mantex AB

Shareholdings*: 1 100

Independent/Not independent: Independent of owners and of the Company

Board members	Attendance at a total of 12 Board meetings	Attendance at a total of 7 audit committee meetings	Attendance at a total of 2 compensation committee meetings
Gunilla Jönson	12	6 (Elected at the 2011 AGM)	–
Kurt Lindvall	12	7	–
Ewald Nageler	9	–	–
Fredrik Nordström	8 (Appointed at the 2011 AGM)	–	–
Yngve Stade	12	–	2

* Own and related parties' shareholdings at 1 March 2012.



INTERNAL CONTROLS AND RISK MANAGEMENT FOR FINANCIAL REPORTING IN 2011

The report on internal control related to financial reporting for financial year 2011 was prepared and submitted by the Board in compliance with the Swedish Code of Corporate Governance and the guidelines drawn up by FAR SRS and the Confederation of Swedish Enterprise and through the application of the instructions for 2007 issued by the Swedish Corporate Governance Board. The report describes how internal control related to financial reporting is organised. This year's report is presented below.



👉👉👉 In 2011, Billerud was commended for its financial communication. At IR Nordic Markets, an annual evaluation of the financial communication of listed Swedish companies, Billerud received the Best Mid Cap company award. Also, Billerud's IR manager Sophie Arnius was named best IR manager in the Mid Cap category.

INTERNAL CONTROL

Billerud has set the following goals for its internal control.

1. Compliance with regulations

Internal control shall ensure that Billerud complies with applicable laws and regulations.

2. Financial reporting

Internal control shall ensure that Billerud's financial reporting is reliable and provides managers, the Board and shareholders with information adequate for assessing the Company's performance and development.

3. Operational activities

Internal control shall ensure that the Company's operational activities are effective, efficiently organised and performed in such a way that the risk of the business not achieving its financial and operational targets is assessed and dealt with continually. To achieve these goals, work is carried out in a process based on the framework for internal control published by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO). The process includes a control environment that provides the discipline and structure for the other four components in the process – risk assessment, control activities, information & communication, and monitoring – which are described in more detail below. It is governed at the overall level by the Board and audit committee and at an operational level by the CEO, senior management team and other staff. Special attention is paid in the process to ensuring that the application of internal controls achieves a balance between the control activities and the devel-

opment of an effective control environment with individual accountability throughout the organisation.

PRIORITY AREAS IN 2011

Financial reporting

During financial year 2011, work on the development of a common accounting model and account code structure for the Swedish units and a common accounting system has continued and reached completion. It has enabled uniform routines and common working methods in the Group, improving internal control considerably.

Operational risks

During the year, the Billerud Group has worked with optimising a new logistics system, initiated a quality project at the mills and launched a programme aimed at more efficient electrical energy. This enhances the efficiency of routines and procedures, improving control of the Company's operational risks.

EXTERNAL FINANCIAL REPORTING

The following report has been prepared in accordance with the Swedish Code of Corporate Governance and current instructions to the Code and constitutes the Board's report on internal control for financial reporting. The purpose of internal control for financial reporting is to provide suitable safeguards as to the reliability of external financial reports in the form of interim reports, year-end reports and annual reports, and to ensure that external financial reports are

prepared in compliance with all laws, applicable accounting standards and other requirements for listed companies.

Control environment

Solid internal control is fundamental to the proper functioning of the Board. The rules of procedure for the Board and Board committees as well as the instructions for the CEO are intended to establish a clear division of roles and responsibilities that will facilitate the efficient management of risks identified in operations. The Board has also established a series of fundamental policies significant to internal control activities, such as accounting and reporting instructions, a finance policy and financial goals, and has adopted a suitable organisation, including the Company's senior management team. The senior management team reports regularly to the Board based on predetermined procedures. The audit committee also reports to the Board. The senior management team is responsible for ensuring that internal control is implemented as necessary to manage significant risks in day-to-day activities. This includes guidelines for how the individual employee shall understand his or her role in maintaining good internal control.

Risk assessment and control activities

The Company uses a model for assessing the risk of errors in financial reporting. It continually monitors items where there is an aggravated risk of material error, and ensures that adequate control activities are in place. For information regarding financial risk and

CONTROL ENVIRONMENT

- The Board adopts**
- Accounting and reporting instructions
 - Finance policy
 - Financial targets
 - CEO and Company management



important items subject to appraisal and assessment, please see the section Risk management and sensitivity analysis and note 32 in the 2011 annual report.

Information and communication

Key guidelines, manuals and the like that are significant to financial reporting are kept up-to-date and communicated continually to the staff involved. Both formal and informal information channels carry important information from staff to the senior management team and the Board. Guidelines for external

communication ensure that the Company meets the strict requirements on accurate information for financial markets.

Monitoring

The audit committee prepares information that the senior management team and auditors submit prior to the Board's assessment. The audit committee's tasks include ensuring, on behalf of the Board, that actions are taken concerning the errors and proposed actions identified in the external audit.

Internal audit

Considering the monitoring performed by the accounting and controller organisation and the organisation for internal control, the Board has decided that a special internal audit or review function is not necessary at present.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the annual meeting of the shareholders in Billerud AB (publ), corporate identity number 556025-5001.

The Board of Directors is responsible for the corporate governance report for the year 2011 on pages 98–105 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance report and based on that reading and our knowledge of the Company and the Group, we believe that we have a sufficient basis for our opinion. This means that our statutory examination of the corporate governance report is different and substantially smaller in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 14 March 2012
Ernst & Young AB

Lars Träff
Authorised Public Accountant



FIVE-YEAR REVIEW

PROFIT AND LOSS ACCOUNTS, SUMMARY

SEKm	2011	2010	2009	2008	2007
Net sales	9 343	8 828	7 760	7 792	7 758
Other income	18	85	32	15	12
Operating income	9 361	8 913	7 792	7 807	7 770
Operating expenses	-7 769	-7 266	-6 931	-7 011	-6 707
Depreciation/Amortisation	-614	-610	-561	-507	-473
Operating profit/loss	978	1 037	300	289	590
Net financial items	-45	-77	-114	-165	-117
Profit/Loss before tax	933	960	186	124	473
Taxes	-250	-255	-21	28	-137
Net profit/loss	683	705	165	152	336

CAPITAL EMPLOYED, SUMMARY

SEKm	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
Non-current assets excluding interest-bearing receivables	5 166	5 271	5 555	5 824	5 712
Inventories	1 135	1 070	1 065	1 091	936
Accounts receivable	1 391	1 412	1 152	1 294	1 486
Other current assets	372	447	491	270	350
Total operating assets	8 064	8 200	8 263	8 479	8 484
Less:					
Deferred tax liabilities	1 467	1 434	1 357	1 254	1 369
Non-interest-bearing provisions	36	27	27	37	42
Accounts payable	1 227	1 157	1 056	1 019	870
Other non-interest-bearing liabilities	695	790	676	914	698
Capital employed	4 639	4 792	5 148	5 255	5 505

STATEMENT OF CASH FLOWS, SUMMARY

SEKm	2011	2010	2009	2008	2007
Operating surplus	1 604	1 625	862	716	960
Change in working capital	-113	-147	116	244	-102
Net financial income/expense	-39	-73	-128	-141	-113
Tax paid	-180	-12	4	-28	-15
Cash flow from operating activities	1 272	1 393	854	791	730
Cash flow from investing activities	-591	-592	-292	-621	-656
Cash flow after investing activities	681	801	562	170	74

KEY FINANCIAL RATIOS

	2011	2010	2009	2008	2007
Margins					
Gross margin, %	17	19	11	10	14
Operating margin, %	10	12	4	4	8
Return (trailing 12 months)					
Return on capital employed, %	20	21	6	5	11
Return on total capital, %	11	12	3	3	7
Return on equity, %	14	17	5	5	12
Diluted return on equity, %	14	17	5	5	12
Capital structure at end of period					
Capital employed, SEKm	4 639	4 792	5 148	5 255	5 506
Shareholders' equity, SEKm	4 872	4 637	3 995	2 638	2 898
Interest-bearing net debt, SEKm	-233	155	1 152	2 617	2 607
Capital turnover, multiple	2.0	1.8	1.4	1.4	1.5
Interest coverage, multiple	14.9	12.8	2.6	1.7	4.5
Net debt/equity ratio, multiple	-0.05	0.03	0.29	0.99	0.90
Diluted net debt/equity ratio, multiple	-0.05	0.03	0.29	0.99	0.90
Share of risk-bearing capital, %	68	66	59	41	46
Equity ratio, %	52	50	44	29	31
Diluted equity ratio, %	52	50	44	29	31
Self-financing ratio, multiple	2.5	2.5	3.3	1.6	1.3
Per share¹					
Earnings per share, SEK	6.63	6.84	2.04	2.07	4.56
Diluted earnings per share, SEK	6.61	6.83	2.03	2.07	4.55
Per share at end of period¹					
Shareholders' equity per share, SEK	47.24	44.97	38.80	35.79	39.32
Diluted shareholders' equity per share, SEK	47.11	44.88	38.75	35.79	39.26
Dividend per share, SEK	3.50	3.50	0.50	–	2.45
Cash flow per share from operating activities, SEK	12.33	13.52	10.54	15.36	14.18
Operating cash flow per share, SEK	7.39	10.30	6.94	2.31	1.01
Investments					
Investments in non-current assets, SEKm	512	334	271	613	657
Acquisitions, SEKm	–	–	35	9	0
Human Resources					
Average number of employees	2 277	2 240	2 232	2 322	2 364

1 Historical figures recalculated taking into account the 2009 rights issue.

QUARTERLY DATA

Billerud's net sales and operating profit/loss by business area are presented below. The results of the business areas are reported excluding the effects of currency hedging and excluding the effect on profit/loss of the translation of trade receivables in foreign currency and currency effects in connection with payments. These effects are reported separately on the line Currency hedging, etc. The part of currency exposure relating to changes in invoicing rates is included in the business area's profit or loss.

QUARTERLY NET SALES PER BUSINESS AREA AND FOR THE GROUP

SEKm	Full year	2011				Full year	2010			
		IV	III	II	I		IV	III	II	I
Packaging & Speciality Paper	4 293	941	1 056	1 079	1 217	4 166	1 020	1 085	1 009	1 052
Packaging Boards	2 772	644	696	704	728	2 428	648	649	518	613
Market Pulp	1 752	416	465	435	436	1 731	450	452	445	384
Currency hedging, etc.	230	16	46	90	78	153	54	-17	52	64
Other and eliminations	296	69	64	75	88	350	107	82	84	77
Total	9 343	2 086	2 327	2 383	2 547	8 828	2 279	2 251	2 108	2 190

QUARTERLY OPERATING PROFIT/LOSS PER BUSINESS AREA AND FOR THE GROUP

SEKm	Full year	2011				Full year	2010			
		IV	III	II	I		IV	III	II	I
Packaging & Speciality Paper	450	65	143	102	140	417	131	106	84	96
Packaging Boards	370	60	119	94	97	271	122	107	-14	56
Market Pulp	64	-24	30	20	38	276	53	92	100	31
Currency hedging, etc.	230	16	46	90	78	153	54	-17	52	64
Other and eliminations	-136	-42	-42	-31	-21	-80	-34	-12	-21	-13
Total	978	75	296	275	332	1 037	326	276	201	234

QUARTERLY OPERATING MARGIN PER BUSINESS AREA AND FOR THE GROUP

%	Full year	2011				Full year	2010			
		IV	III	II	I		IV	III	II	I
Packaging & Speciality Paper	10	7	14	9	12	10	13	10	8	9
Packaging Boards	13	9	17	13	13	11	19	16	-3	9
Market Pulp	4	-6	6	5	9	16	12	20	22	8
Group	10	4	13	12	13	12	14	12	10	11

QUARTERLY SALES VOLUMES PER BUSINESS AREA AND FOR THE GROUP

'000 tonnes	Full year	2011				Full year	2010			
		IV	III	II	I		IV	III	II	I
Packaging & Speciality Paper	507	112	119	126	150	524	121	133	132	138
Packaging Boards	504	115	125	128	136	482	121	125	106	130
Market Pulp	343	88	91	81	83	301	81	74	71	75
Total	1 354	315	335	335	369	1 307	323	332	309	343

KEY FIGURE DEFINITIONS

MARGINS

Gross margin

Operating profit before depreciation and amortisation (EBITDA) as a percentage of net sales.

Operating margin

Operating profit as a percentage of net sales.

RETURN

Return on capital employed

Operating profit as a percentage of average capital employed.

Return on total capital

Operating profit as a percentage of average total capital.

Return on equity

Profit/loss for the year, attributable to parent company shareholders, as a percentage of average shareholders' equity, attributable to parent company shareholders.

Diluted return on equity

Profit/loss for the year, attributable to parent company shareholders, as a percentage of average shareholders' equity, attributable to parent company shareholders, plus the effect of estimated participation in the incentive programme.

CAPITAL STRUCTURE

Capital employed

Total assets less non-interest-bearing liabilities, non-interest-bearing provisions and interest-bearing assets.

Shareholders' equity

Shareholders' equity at the end of the period.

Diluted shareholders' equity

Shareholders' equity at the end of the period plus the effect of estimated participation in the incentive programme.

Interest-bearing net debt

Interest-bearing provisions and liabilities less interest-bearing assets.

Capital turnover rate

Net sales divided by average capital employed.

Interest coverage ratio

Operating profit plus financial income divided by financial expenses.

Net debt/equity ratio

Interest-bearing net debt divided by shareholders' equity.

Diluted net debt/equity ratio

Interest-bearing net debt divided by shareholders' equity plus the effect of estimated participation in the incentive programme.

Share of risk-bearing capital

Shareholders' equity plus deferred tax liability as a percentage of total assets.

Equity ratio

Shareholders' equity as a percentage of total assets.

Diluted equity ratio

Shareholders' equity plus the effect of estimated participation in the incentive programme, as a percentage of total assets plus the effect of estimated participation in the incentive programme.

Self-financing ratio

Cash flow from operating activities, excluding paid and received financial items and paid tax, divided by investments in non-current assets.

PER SHARE DATA ¹

Earnings per share

Profit/loss for the year, attributable to parent company shareholders, divided by the average number of shares on the market.

Diluted earnings per share

Profit/loss for the year, attributable to parent company shareholders, divided by the average number of shares on the market after estimated participation in the incentive programme.

Shareholders' equity per share

Shareholders' equity at the end of the period, attributable to parent company shareholders, divided by the number of shares on the market at the end of the period.

Shareholders' equity per share, diluted/full conversion

Shareholders' equity at the end of the period, attributable to parent company shareholders, plus the effect of estimated participation in the incentive programme, divided by the number of shares on the market at the end of the period plus the effect of estimated participation in the incentive programme.

Cash flow from operating activities per share

Cash flow from operating activities divided by the average number of shares on the market during the period.

Operating cash flow per share

Cash flow after investing activities adjusted for acquisition/divestment of financial assets divided by the average number of shares on the market during the period.

P/E ratio

Share price at year-end divided by earnings per share.

EV/EBITDA

Market capitalisation plus interest-bearing net debt, divided by operating profit before depreciation, amortisation and impairment losses (EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation).

¹ For number of shares, see section "The Billerud share".



THE BILLERUD SHARE

THE SHARE

The Billerud share has been listed since 20 November 2001 and traded on the Mid Cap list of NASDAQ OMX Stockholm since 2 October 2006. The share's ticker symbol is BILL.

At 31 December 2011, the share capital totalled SEK 774 173 065, divided among 104 834 613 shares. The number of shares on the market totalled 103 114 299. Each share on the market entitles its holder to an equal right in the Company's earnings and capital.

SHARE PERFORMANCE

The Billerud share closed at SEK 58.50 on 30 December 2011, corresponding to a market capitalisation of SEK 6 133 million. Billerud's share price increased 0.4% during 2011. During the same period, the NASDAQ OMX Stockholm forestry and paper products index (Forestry & Paper_PI) decreased 19.5%, while the NASDAQ OMX Stockholm All Share Index (OMX Stockholm_PI) decreased 16.7%.

In 2011, the share recorded its highest closing price, SEK 75.25, on 19 April, and its lowest closing price, SEK 42.30, on 8 August.

TRADING VOLUME

During 2011, 78 million Billerud shares were traded on NASDAQ OMX Stockholm, worth SEK 4 606 million. The average number of shares traded each trading day was about 310 000, corresponding to SEK 18 million. On average, about 580 trades were made each trading day.

SHAREHOLDER CATEGORIES, VOTES



Foreign shareholders, 48.6%
Swedish individuals incl. closely held companies, 34.5%
Swedish mutual funds, 8.8%
Swedish institutions, 8.1%

Source: SIS Ägarservice, 30 December 2011

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS, VOTES



Sweden, 51.4%
Austria, 21.0%
USA, 14.9%
Norway, 3.1%
UK, 2.9%
Others, 6.7%

Source: SIS Ägarservice, 30 December 2011

OWNERSHIP STRUCTURE

At year-end 2011, the total number of shareholders was 107 795, compared to 120 733 at the previous year-end. The proportion of foreign ownership increased, to 48.6% (44.0), excluding Billerud's own bought back shares (1 720 314). The largest groups of shareholders registered outside Sweden are in Austria and the United States, representing 21.0% and 14.9% of the votes, respectively. Other groups of shareholders are private individuals in Sweden, 34.5% (38.5), and legal entities in Sweden, 16.9% (17.5).

DIVIDEND

The goal is for the dividend to average 50% of net profit over a business cycle. The dividend paid to shareholders will be dependent on, among other factors, Billerud's profit level, financial position and future development opportunities.

The Board proposes a dividend of SEK 3.50 per share (3.50) for financial year 2011. The proposed dividend corresponds to around 53% of net profit for 2011.

DISTRIBUTION OF SHARES AT 31 DECEMBER 2011

Registered number of shares	104 834 613
Bought-back shares in Company ownership	-1 720 314
Shares on the market	103 114 299

NUMBER OF SHARES ON THE MARKET

	2011	2010	2009	2008	2007
Average	103 114 299	103 062 031	81 029 295	73 711 346	73 667 182
Average after dilution	103 406 220	103 253 634	81 160 295	73 711 346	73 737 456
Closing date	103 114 299	103 114 299	102 983 140	73 711 346	73 711 346
Closing date after dilution	103 406 220	103 305 902	103 138 804	73 711 346	73 711 346

10 BIGGEST SHAREHOLDERS

Shareholders	No. of shares, millions	Share of votes, %
Frapag Beteiligungsholding AG	21.6	21.0
DFA funds	2.9	2.8
Government of Norway	2.7	2.6
Swedbank Robur funds	2.6	2.5
SHB funds	1.9	1.9
SEB funds	1.9	1.8
AP4 (Fourth Swedish National Pension Fund)	1.5	1.5
Nordea funds	1.1	1.1
Avanza Pension Försäkring AB	0.8	0.8
The Foundation for Baltic and East European Studies	0.8	0.8
Total top 10 shareholders	37.9	36.8

Source: SIS Ägarservice, 30 December 2011

OWNERSHIP STRUCTURE¹

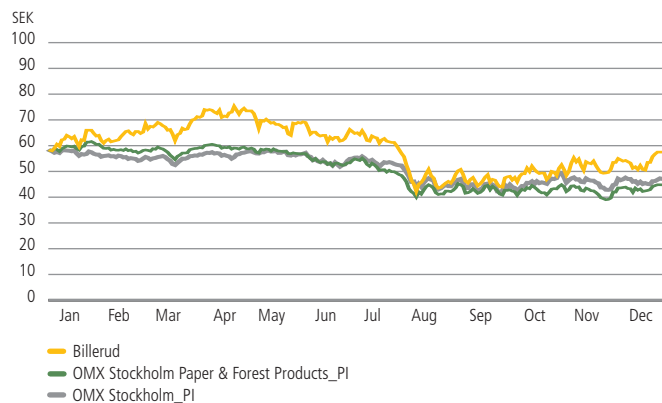
Shareholding	No. of shares	%	No. of owners	%
1–100	2 399 773	2.3	37 624	34.9
101–500	13 434 648	12.8	60 280	55.9
501–10 000	16 037 866	15.3	9 458	8.8
10 001–50 000	5 801 740	5.5	286	0.3
50 001–	67 160 586	64.1	147	0.1
Total	104 834 613	100.0	107 795	100.0

1 Including Billerud's treasury shares. Source: SIS Ägarservice, 30 December 2011

SHARE PERFORMANCE 20 NOVEMBER 2001–30 DECEMBER 2011



SHARE PERFORMANCE 2011



KEY FIGURES PER SHARE

SEK per share, unless stated otherwise	2011	2010	2009	2008	2007
Earnings	6.63	6.84	2.04	2.07	4.56
Diluted earnings	6.61	6.83	2.03	2.07	4.55
Dividend (for each financial year), actual	3.50 ¹	3.50	0.50	—	3.50
Dividend (for each financial year), adjusted for effect of rights issue	3.50 ¹	3.50	0.50	—	2.45
Dividend as pctg. of					
- share price (dividend yield)	6.0	6.0	0.9	—	5.3
- earnings	52.8	51.1	31.2	—	53.7
- equity (closing balance)	7.4	7.8	1.3	—	6.2
Cash flow from operating activities	12.33	13.52	10.54	15.36	14.18
Operating cash flow	7.39	10.30	6.94	2.31	1.01
Shareholders' equity	47.24	44.97	38.80	35.79	39.32
Diluted shareholders' equity	47.11	44.88	38.75	35.79	39.26
Share price/closing equity, %	124	130	137	41	118
P/E ratio	8.8	8.5	26.1	7.2	10.2
EV/EBITDA	3.7	3.7	7.7	4.7	5.7
Share price ²					
- Closing price, last trading day	58.50	58.25	53.25	15.00	47.04
- Highest closing price for year	75.25	64.00	53.75	52.00	86.66
- Lowest closing price for year	42.30	40.90	9.51	14.79	45.28
Share turnover	0.76	1.10	1.25	0.78	1.15

1 Board's proposal

2 All prices historically adjusted for effect of the rights issue in 2009

ANALYSTS COVERING BILLERUD

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Handelsbanken Capital Markets	Karri Rinta	+46 8 701 36 36	UBS*	Myles Allsop	+44 207 568 16 93

* No regular coverage



GLOSSARY

Biofuels

Renewable fuels originating from the plant kingdom, for example from wood, including black liquor and bark.

Black liquor

The name given to the consumed cooking liquid in production of sulphate pulp. Black liquor is burnt in the soda recovery boiler at which time the wood substances released (primarily lignin) provide energy for steam and electricity production. One requirement for both the environment and economy is that the chemicals consumed in black liquor are reproduced in the sulphate mill as new cooking chemicals.

Carbon footprint

The amount of greenhouse gases a product releases or sequesters during its lifetime determines its carbon footprint.

Chemical oxygen demand (COD)

COD is a measure of the amount of oxygen required to break down organic material in water.

Climate change

Also called the greenhouse effect. Human activity is contributing to global warming, which is raising temperatures, causing unexpected weather patterns and causing polar ice to melt.

Corrugated board

Corrugated board is manufactured by gluing two flat layers of paper (liner) with a rippled layer (fluting) in the middle.

Cubic metre standing volume (m³sv)

Trunk volume in cubic metres from stump to tip including bark.

Cup Stock

Board specially designed for drink cups.

Energy management system

Standard that provides guidance for how an organisation can document energy use in a structured way and record implementation of energy-saving measures.

Environmental Management System

Part of the main management system that describes the structure, principles, procedures and resources for systematic implementation of the Company's environmental policy.

FibreForm®

Paper with high elasticity, which can be shaped to produce thermoformed and deep-drawn food and consumer packaging such as trays, blisterpacks, etc.

Fluting

The rippled middle layer in corrugated board. Produced from primary or recycled fibre.

Forest with root

Trees are sold still standing on their roots in the forest, and the buyer pays for felling and transportation of wood out of the forest.

Fossil fuels

Fuels based on organic carbon and hydrogen compounds deposited in sediments or rock deposits, mainly coal, oil and fossil gas.

Heavy-duty

Highly durable packaging based on several layers of paper. Used for heavy goods such as car components.

ISO 14001

The standard of the International Organisation for Standardisation (ISO) for an environmental management system.

Market pulp

Pulp which is sold to paper mills that do not produce their own pulp.

MF Paper (machine finished)

A calendered paper with high printability combined with high strength. Used for packaging with a special need for this combination.

MG Paper

(mono glazed paper)

Paper which is dried on a highly polished Yankee cylinder, giving it a smooth, glossy surface on one side. Used for packaging with stringent demands on purity, for example.

Micro corrugated board

Very thin corrugated board.

Nitrogen (N)

A chemical element naturally present in wood. Too much nitrogen in water can cause nutrient enrichment (eutrophication), leading to oxygen deficiency when dead plants decompose.

Nitrogen oxides (NOx)

A group of gases composed of nitrogen and oxygen which are formed during combustion. In damp air, nitrogen oxides are converted to nitric acid, which causes acid precipitation. Also acts as a fertilising agent.

Phosphorous (P)

A chemical element naturally present in wood. Too much phosphorous in waste water can cause nutrient enrichment (eutrophication) in lakes, leading to oxygen deficiency when dead plants decompose.

Pulpwood

In Sweden this is primarily softwood (spruce and pine) and birch used to make paper pulp.

Recycled fibre

Fibre material that has previously been used in a paper or board product.

Sack paper

Paper with high strength properties and used for the production of sacks. Made from softwood sulphate pulp.

Shelf Ready Packaging/ Retail Ready Packaging

Attractive packaging ready for the shelf and contributing to increased promotional effectiveness.

Solid cubic metres under bark (m³sub)

Volume of solid wood under bark in cubic metres.

Sulphate pulp

Chemical pulp produced by cooking wood under high pressure and at a high temperature in cooking liquor, known as white liquor (sodium hydroxide and sodium sulphide). Sulphate pulp is also known as kraft pulp.

Sulphur dioxide (SO₂)

A gas consisting of sulphur and oxygen formed during combustion of sulphur-containing fuels such as black liquor and oil. In contact with damp air, sulphur dioxide is converted into sulphuric acid which causes acid precipitation.

Suspended solids

Suspended substances in water consisting of fibres and other particles which can largely be removed by filtration.

Sustainable development

Basing decision-making on three united factors – economic growth, social viability and environmental awareness – so that society can meet current demands without compromising its future.

Tissue

Soft paper such as toilet paper, paper towels, tissues and napkins.

SHAREHOLDER INFORMATION AND KEY DATES

ANNUAL GENERAL MEETING

Billerud AB's Annual General Meeting will be held at 3 p.m. on 9 May 2012 at Hotel Rival, Mariatorget 3, Stockholm, Sweden.

Notice of the 2012 Annual General Meeting was issued on Monday, 2 April 2012 and was published in its entirety in Post- och Inrikes Tidningar on Wednesday, 4 April 2012. An announcement that the notice had been issued was published in Svenska Dagbladet on Wednesday, 4 April 2012.

NOTIFICATION

Shareholders wishing to take part in the Annual General Meeting should be registered in the shareholders' register held by Euroclear (the Swedish Central Securities Depository) by Thursday, 3 May 2012 and notify the Company by Thursday, 3 May 2012 by 4 p.m. at the latest.

Notification can be made by telephone to +46 8 402 90 62 or by post to Billerud AB, AGM, Box 7841, SE-103 98 Stockholm, Sweden. Notification can also be made via www.billerud.se/anmalan

To be able to participate at the meeting, shareholders whose shares are registered in the name of a nominee must request that their own names are temporarily registered in the shareholders' register kept by Euroclear. This procedure, referred to as voting right registration, must be completed by Thursday, 3 May 2012, which means that the shareholder must inform the nominee well before this date.

DIVIDEND

The Board proposes a dividend of SEK 3.50 per share (3.50) for 2011. The proposed dividend corresponds to around 53% of net profit for 2011.

INTERIM REPORTS IN 2012

January – March 2012	26 April
January – June 2012	19 July
January – September 2012	25 October

FINANCIAL INFORMATION

All financial information is available in both Swedish and English and is published on Billerud's website, www.billerud.com.

The annual report and other financial reports are distributed to shareholders and other interested parties who have registered their interest either through the Company's website or by the form received by each new shareholder. There is also an html version of the annual report available on the website that includes Excel files for downloading.

OTHER INFORMATION

ISIN code SE0000862997

The share's ticker symbol is BILL

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www.billerud.com



EMBRACING THE {GOODS}

We believe in embracing what is important to our customers, our company, our colleagues and the environment. By always giving back more than we take, we are building a company for future generations.



Billerud AB

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