



BILLERUDKORSNÄS



**Billerud becomes
BillerudKorsnäs,
doubling in size
and taking its place
as a leading European
player in renewable
packaging materials**



MATERIALS AND SERVICES FOR TODAY'S AND TOMORROW'S **SMARTER PACKAGING**

Leading position

BillerudKorsnäs leads the way in developing primary fibre-based packaging materials.

Smarter solutions

Materials, services and a global network combine to give customers a smarter packaging solution.



High-performance materials

Primary fibre-based paper and board with the properties to meet stringent customer needs.

Sustainable innovation

Innovative solutions from renewable and recyclable materials.

Growing markets

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



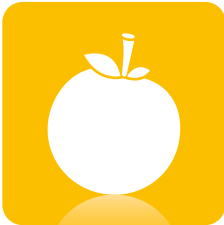


SERVED INDUSTRIES

FOOD & BEVERAGES

Protecting and promoting flavour and nutrition

57%*
(40%)



INDUSTRIAL

Optimising demanding production

26%*
(41%)



CONSUMER & LUXURY GOODS

Giving a positive buying experience

11%*
(7%)



MEDICAL & HYGIENE

Maximising purity and performance

6%*
(12%)



* of the Group's combined net sales in 2012. Figures in parentheses are reported net sales 2011.

Each served industry has its own specific need for smart packaging, and **BillerudKorsnäs meets that need with materials and solutions for design, function and logistics.** Consumer segments account for around 75% of the company's sales, led by Food & Beverages. The strategy is to **further grow the Group's share of sales to consumer industries,** in part by working closely with brand owners.

BUSINESS AREAS



PACKAGING PAPER

Offers kraft and sack paper of premium quality alongside functional solutions for many different areas of use to customers with high standards. For example packaging for food, industrial and medical applications, and carrier bags.



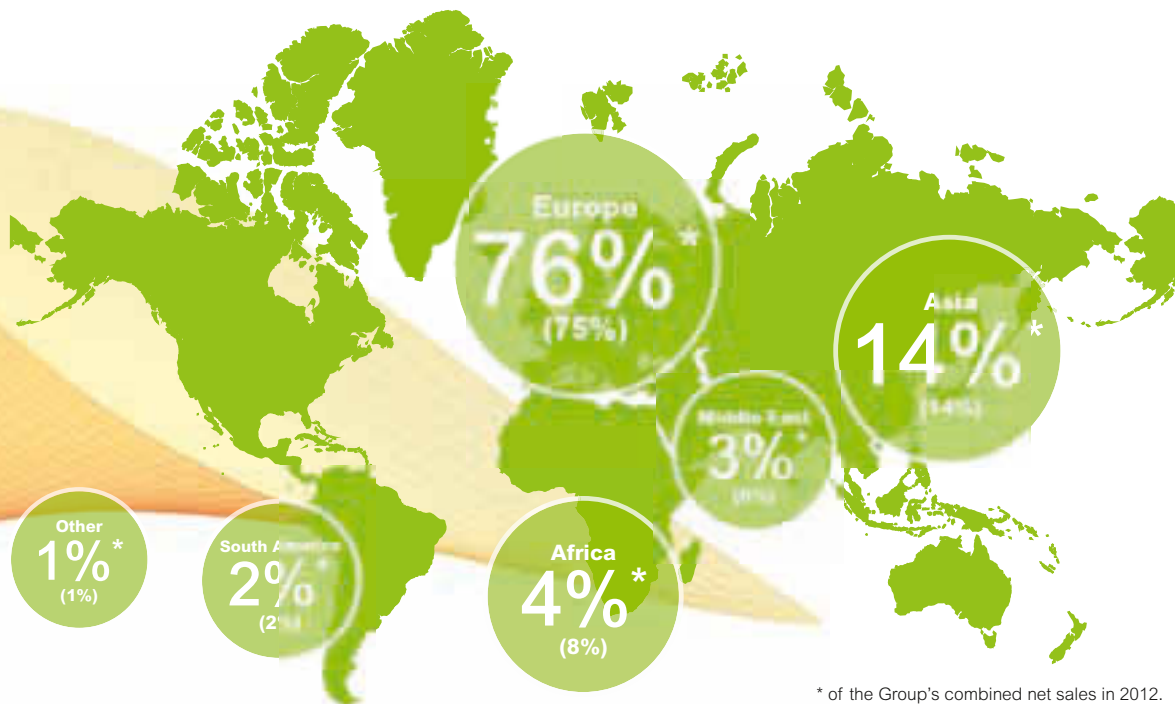
CONSUMER BOARD

Develops and sells high-quality board for the packaging of drinks, yoghurt, chilled and frozen food and other consumer goods. Smart function solutions, design and material add further value for customers.



CONTAINERBOARD

Offers strong, lightweight materials for corrugated board packaging used in demanding distribution systems and for primary packaging. A key element of the offering is advice on packaging optimisation and effective logistics flows.



* of the Group's combined net sales in 2012.
Figures in parentheses are reported net sales 2011.

BillerudKorsnäs operates in the global packaging market. The company has ten sales offices in nine countries, providing 1 500 customers in 100 countries with products and services. Sales offices are located in the following cities: Barcelona, Dubai, Hamburg, Jakarta, Milan, Nottingham, Paris, Shanghai and Stockholm.



At home, at work, in stores, on the go – every day millions of people around the world use climate smart packaging made with materials and solutions from BillerudKorsnäs.

SEK 20.0 BILLION

Combined net sales

SEK 1.3 BILLION

Combined operating profit

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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A HISTORIC YEAR

We enter 2013 as a new and stronger company with a broader market offering. Net sales are up from SEK 9 billion to approximately SEK 20 billion. Billerud-Korsnäs has great potential that we will be capitalising on by developing the right materials and solutions to satisfy the packaging needs of today and tomorrow.

It is no exaggeration to say that 2012 was a year that will forever mark a milestone for Billerud as it combined with Korsnäs.

However, there was more to the year than just structural change. We entered 2012 with the same uncertainty as everyone else, facing a flood of reports about the financial crisis and a pervading pessimism about the economy. The economy also weakened sharply from the end of 2011, causing a fall in our sales prices. The Swedish krona gradually strengthened, peaking against the euro after the summer, which had a negative impact on our profits. And yet I believe the year as a whole turned out relatively well. The operating margin amounted to 5%, adjusted to 6% to account for non-recurring costs. Cash flow from operating activities was SEK 1 002 million.

FINNISH ACQUISITION BRINGS STABILITY

We also had a very strong balance sheet and a desire to continue driving the company forward, despite the wider economic situation. One use for our balance sheet was to seek out acquisitions that could improve Billerud's structure and resolve the cyclical problems associated with market pulp. Between 2008 and 2011, our packaging paper saw a steady rise in its operating margin from 8% to 12%. During that same period, the margin for market pulp fluctuated greatly between -11% and +16%. The varying pulp price rather overshadowed the

positive trend for packaging paper, our largest operational area. In my judgement this also contributed to a valuation of Billerud as a company that was too low relative our peers.

Consequently, we acquired two packaging paper machines in Finland from UPM – machines that offer the very best in terms of both quality and efficiency. The deal, which came in at around SEK 1.1 billion, was completed on 1 June 2012. The Finnish business consumes almost as much pulp as we sell from our Swedish production units, so in one stroke we consolidated the market for packaging paper and eliminated our exposure to the volatile pulp market. The structuring of the Finnish business and the subsequent integration have gone very well and I am very pleased with the acquisition.

BILLERUDKORSNÄS IS BORN

The next major move, at the end of November 2012, was to acquire Korsnäs. There were several motives behind this decision, the leading one being that Korsnäs has a very strong position in consumer products, which reinforces the Group's position over a business cycle. Both companies were too small individually to invest heavily in innovation and growth, but together we can both speed up the pace of development work and generate growth in markets outside

FRANKFURT Helsinki
Paris London NEW YORK
Stockholm BOSTON Lindesberg
Södertälje



Dream deal

– opens up opportunities



Europe. BillerudKorsnäs is very much one of our industry's most specialised businesses, concentrating on renewable packaging materials from primary fibre with a strong orientation towards quality and innovation and, not least, a strong customer focus. When the deal was announced on 20 June 2012, many were caught off guard but not particularly surprised. The combination makes strong industrial sense. Most commentators consider BillerudKorsnäs to be one of the industry's most interesting companies, with a broad product portfolio and the strength to drive cost-efficiencies and product development. I could not agree more.

Our net exposure to the currency markets is falling due to our two major acquisitions, which I see as a positive move in light of the strong krona. We have already begun to achieve synergies from both deals and I expect this to lead to annual savings worth around SEK 330 million.

OWNERS BACKED US ALL THE WAY

The combination with Korsnäs makes Kinnevik, Korsnäs' former owner, the largest stakeholder in BillerudKorsnäs with around 25% of the shares. The financing of the acquisition involved a direct issue to Kinnevik and a rights issue worth around SEK 2 billion which

was oversubscribed by 37%. I'm exceedingly pleased that a full 98% was taken up, underpinned by subscription rights. It really shows how keen the interest was among both Swedish and international shareholders. BillerudKorsnäs' share price saw very strong growth in 2012, rising by 30% over the year, compared with the stock market average of 12%. I believe this indicates the soundness of our actions in 2012 and we will continue to work on giving our shareholders a healthy dividend.

NEW TARGETS

We have set new financial targets to take us forward. The operating margin should on average exceed 10% over a business cycle. In addition, over a business cycle the return on capital employed should on average exceed 13%. In order to achieve these targets, we need not only to improve our operating margin, but also our utilisation of capital. The net debt/equity ratio should be less than 0.9. After the completed preferential issue, the net debt/equity ratio amounted to 0.85 as per 31 December 2012. We are keeping our previous dividend target and, over a business cycle, the dividend should average out at 50% of net profit.

2012 IN BRIEF

- **Net sales** amounted to SEK 10 427 million, an increase of 12%, as a result of higher volumes.
- **Operating profit** was reduced by 50% to SEK 489 million, which equates to an operating margin of 5%. The decline was mainly due to lower prices in local currency and a less favourable currency situation. Adjusted to reflect non-recurring costs of SEK 170 million, operating profit totalled SEK 659 million.
- **The net debt/equity ratio** was 0.85 (-0.05).
- **Emissions of fossil CO₂** from the manufacturing process were 45% lower than the base year 2008.
- **A dividend** of SEK 2.00 per share is the Board's proposal to the Annual General Meeting 2013.
- **Combination** with Korsnäs – BillerudKorsnäs was formed, a leading player in primary fibre-based packaging material and solutions.
- **Acquisition** of UPM's packaging paper business in Pietarsaari and Tervasaari in Finland.
- **Preferential rights issue** valued at approximately SEK 2 billion was carried out in order to strengthen the capital structure following the Korsnäs acquisition.

At 5.30 pm on 29 November, its first day of trading, BillerudKorsnäs sounded the market closing bell for the NASDAQ OMX Stockholm.



BROADER MARKET

The strategy is to continue delivering customer benefit by working more closely with end-customers, and we are firmly committed to further strengthening BillerudKorsnäs by focusing on customer needs in terms of future packaging and packaging solutions. BillerudKorsnäs represents a force for the future with its renewable materials and innovative solutions. We are only just embarking on our journey towards smart new eco-friendly products and services. We are already working to demonstrate all the possibilities of fibre material and the aim is to outcompete fossil plastics in market after market.

The acquisition of PACCESS Packaging in 2011 forms part of our platform for expansion into the growth markets of Asia. From now on, we will be making ourselves less dependent on the European market and ploughing more resources into markets with high growth. We will continue to be the preferred partner for customer development and intensify the development of our renewable materials and smart solutions. We have to be able to give customers what they need – materials that are stronger, more attractive, more cost-effective and with a lower environmental impact. This is the foundation on which we will build the future.

CORPORATE RESPONSIBILITY

BillerudKorsnäs will continue its deep commitment to local communities, diversity and the environment. 2012 saw major environmental investments at several plants within the Group to reduce their environmental impact and improve energy efficiency.

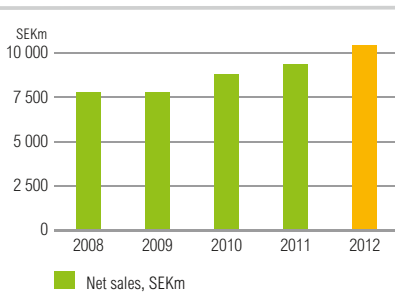
We are looking forward to an exciting 2013. The foundations have been laid for a company with ongoing profitability. My intention is to push for good returns and to create a company that we can all be proud of. I would like to thank all our employees for their commitment over the year and our shareholders for supporting the company.

Solna, March 2013

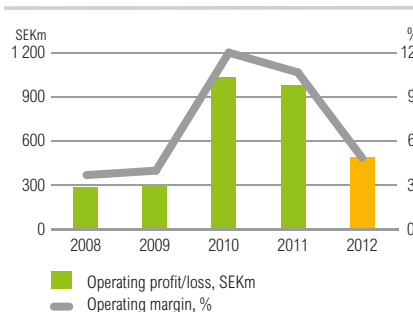
Per Lindberg
President and CEO

DEVELOPMENT 2008-2012

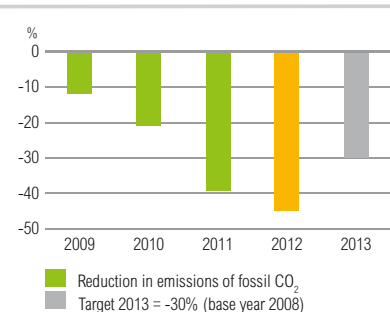
NET SALES



OPERATING PROFIT AND MARGIN



EMISSIONS OF FOSSIL CO₂



FINANCIAL TARGETS

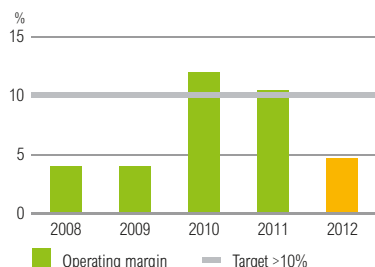
> 10%

Operating margin

Over a business cycle, the operating margin should on average exceed 10%. BillerudKorsnäs operates in an industry that historically has tracked a cyclical pattern, with corresponding variations in earning capacity.

2012

The operating margin was 5% in 2012, compared with 10% the previous year.



> 13%

Return on capital employed

Over a business cycle, the return on capital employed should on average exceed 13%. BillerudKorsnäs shall ensure a return corresponding to the shareholders' return expectations while the cost of the company's debt is covered with a margin.

2012

Return on capital employed was 8% in 2012, compared with 20% the previous year.



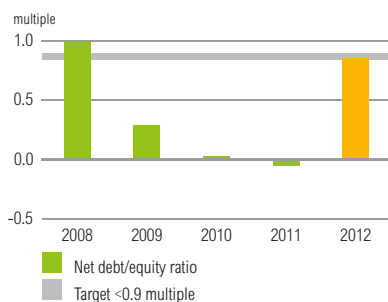
< 0.9

Net debt/equity ratio

The net debt/equity ratio should be less than 0.9. BillerudKorsnäs' 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.

2012

The net debt/equity ratio was 0.85 in 2012, compared with -0.05 in the previous year.



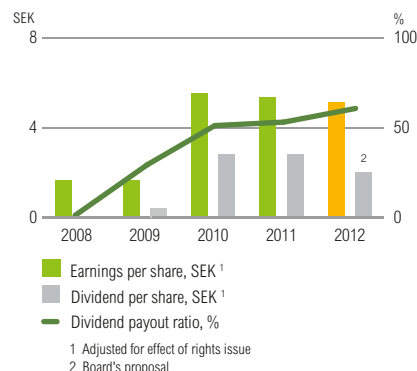
50%

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, BillerudKorsnäs' profit level, financial position and future development opportunities.

2012

The Board's proposal at the 2013 AGM is for a dividend per share of SEK 2.00, which equates to a dividend payout ratio of around 61%.



STRATEGIC FOCUS

BillerudKorsnäs will **lead the way in developing primary fibre-based packaging materials** with the overall objective of generating profitable growth.

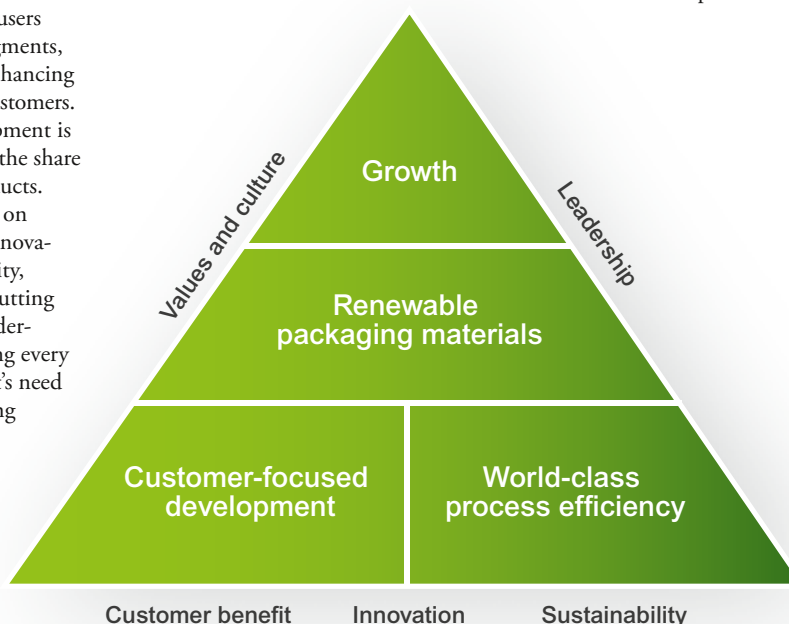
To ensure success, the company will continue to work on customer-focused development and process efficiency.

➤ CUSTOMER-FOCUSED DEVELOPMENT

BillerudKorsnäs specialises in the specific needs of customers and end-users in selected niche segments, adding value and enhancing the business of its customers. Continuous development is pursued to increase the share of value-added products. With a strong focus on customer benefit, innovation and sustainability, BillerudKorsnäs is cutting edge in terms of understanding and meeting every aspect of the market's need for smarter packaging

➤ WORLD-CLASS PROCESS EFFICIENCY

World-class process efficiency will be achieved by means of systematic improvement of process and cost-efficiency in production, sales and administration with the focus on quality. In this way, BillerudKorsnäs will secure long-term competitiveness and generate strong cash flows which can be used for profitable growth.



➤ RENEWABLE PACKAGING MATERIALS

The operations have been streamlined towards renewable packaging materials made from primary fibre, with its unique strength, purity and recyclability.

➤ FOCUS ON CONSUMER SEGMENTS AND GROWTH REGIONS

BillerudKorsnäs will increase sales to consumer segments as a means of reducing the cyclical impact on profits, and improving conditions for stable growth and profitability. The company will also initiate actions in growth markets outside Europe.

➤ LEADING BRAND

Under the umbrella of BillerudKorsnäs, the company has a portfolio of strong product and service brands embodying high quality, innovation and trust. The company will strengthen the BillerudKorsnäs brand by creating a shared culture, values and market expectations. The product and service brands are to be developed such that they remain relevant at all times.



As online shopping grows globally, the market is expected to exceed EUR 1 000 billion in 2013.

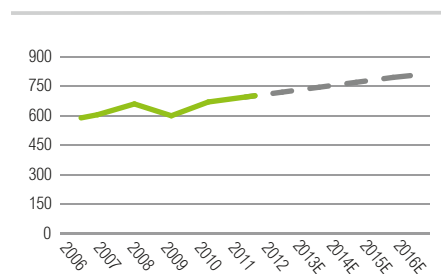
THE RIGHT PACKAGING IS KEY IN AN **EXPANDING GLOBAL MARKET**

The global market for packaging has grown in recent years, and is expected to continue **growing by over 3% per year, so that by 2016 it will be worth USD 820 billion** compared with today's level of just over USD 700 billion.¹

¹ Pira International, 2011.



GLOBAL PACKAGING MARKET, USD BILLION



Source: Pira International, 2011.

The increase is fuelled by both demographic and economic factors. The global population is growing – according to UN calculations the figure of 7 billion people was passed in October 2011 and it is on course to hit 9 billion by 2050. Longevity has increased and people are moving into cities, manufacturing and consumption are taking place in different parts of the world, many people are seeing improved living standards, new technology and new lifestyles are creating new consumption patterns, and so on. All this is driving up demand for housing, infrastructure, transport, food and healthcare, which in turn is fuelling demand for packaging in various forms.

At the same time, it is becoming increasingly clear that the planet's resources are running out, which is pushing up demand for better transport and packaging solutions as a means of ensuring more sustainable consumption.

EUROPEAN MARKET TOP

Europe is the largest packaging market, with Asia coming a close second. The emerging markets of Asia are expected to grow by 6% annually up until 2016.¹ Growth in Europe and North America is expected to be just under 2% per year for the same period. There are major regional differences to take into account. For example, Western Europe shows a more mature structure, while Eastern territories are seeing growth and are increasingly approaching the consumption patterns of the West.

FIBRE-BASED MATERIALS TAKE THE LEAD

Paper and board account for 36% of the global packaging market, making it the most common type of material. Packaging made from paper and board is expected to grow at the same rate as the global market, which is an average of 3% per year up until 2016.

INTERNATIONAL TRADE

Globalisation means that manufacturing is increasingly taking place in one part of the world and consumption in another. Goods consumed in Europe are often made in Asia and have to travel long distances to reach end-users. This requires improved performance from packaging. Customers and brand owners are becoming ever more aware of how important packaging is to their business.

INCOMES RISING IN ASIA

As prosperity increases around the world, the emerging global middle-classes are adopting the consumption patterns of the West. By 2030, the middle-classes in BillerudKorsnäs' growth markets of Asia and the Pacific region will number 3.2 billion people. In 2009 the figure was 0.5 billion. According to the OECD, half of the world's middle-class population may live in this region by 2020 and account for over 40% of middle-class consumption worldwide.²

DEMAND FOR MORE PACKAGING

Packaging is becoming more frequently used and smaller as part of the trend towards more single households and individualisation of goods. More work outside the home, higher disposable incomes and more mobile lifestyles are reshaping consumer behaviour. Demand for portion-packed food and drink from stores is on the rise and a recent US survey shows that 57% of consumers buy take-away food at least once a week. The figure in the UK is 20% at least once a week and 84% at least once a month.³

ONLINE SHOPPING CHANGING REQUIREMENTS

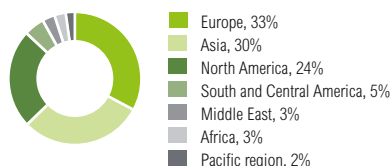
A parallel trend is the global growth in online shopping, which is expected to exceed EUR 1 000 billion in 2013. This requires different packaging compared with traditional retailing. The number of internet users is forecast to rise to around 3.5 billion in a couple of years from 2.2 billion at the end of 2011.⁴ Europe is the largest market for online shopping, with a 19% increase in 2011.⁵ The biggest single country is the US, followed by the UK and Japan, all of which are seeing online sales grow at a rate of 10-15% per year. In China, online shopping rose by 130% in 2011, which puts the country on track to become the world's largest e-commerce nation.⁴

FOCUS ON SUSTAINABILITY

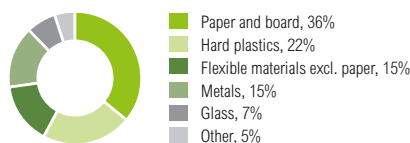
For customers, sustainability and economy often go hand in hand, with an emphasis on factors such as efficient handling and logistics, reduced waste and lower CO₂ emissions in the distribution chain, plus packaging whose production is eco-friendly and resource efficient.

Attitudes and behaviours in society are changing in favour of more climate smart products. It is well documented that end-consumers prefer packaging made from renewable materials over fossil plastics. The new legislation and targets for CO₂ reduction and recycling place further pressure on the packaging industry and its customers to seek out new solutions. Product and service development is increasingly focusing on meeting demands for sustainable production and consumption.

GLOBAL PACKAGING MARKET, BY REGION



GLOBAL PACKAGING MARKET, BY MATERIAL



GLOBAL PACKAGING MARKET, BY MARKET SEGMENT



Source: Pira International, 2011.

1 Pira International, 2011. 2 OECD, The Emerging Middle Class in Developing Countries, 2010. 3 Technomic, Consumer Research, 2012. 4 IMRG (Interactive Media in Retail Group), 2012. 5 EMOTA, the European Multi-channel and Online Trade Association, 2012.



BUSINESS MODEL

BillerudKorsnäs' business model places **the customer in center, offering primary fibre-based packaging materials, knowledge in the form of advanced solution services and a network with global reach.** This helps converters, packaging manufacturers and brand owners to be more competitive and to achieve their business objectives, while also making BillerudKorsnäs a valuable partner.



NETWORK

CUSTOMERS

MATERIALS

SOLUTION SERVICES

SMARTER PACKAGING

- ATTRACTS CONSUMERS
- INCREASES PRODUCTIVITY
- LOWERS TRANSPORTATION COSTS
- REDUCES WASTE
- LOWERS ENVIRONMENTAL IMPACT

ATTRACTS CONSUMERS

Increased competition in retailing makes packaging a powerful marketing tool. Brand owners are allocating an ever larger slice of their advertising budget to packaging, which is required to convey an immediate positive impression of the product and clearly encourage the consumer to make a purchase. BillerudKorsnäs' materials produce attractive and functional packaging for practically unlimited applications. Cartonboard, liner and Billerud FibreForm® are just some examples.

BillerudKorsnäs' innovations and design expertise help brand owners with packaging and consumer behaviour.

INCREASES PRODUCTIVITY

Customers are looking for products that ensure optimum logistical efficiency as far as the end customer. One key factor is the filling speed for sacks, which can often be something of a bottleneck for cement producers. The Billerud QuickFill® product range offers a sack paper with a perfect combination of strength and deaeration that has been developed and adapted to today's high-speed filling and converting machines. The sacks can be made smaller and lighter while retaining their strength and can be filled 10-15% faster.

BillerudKorsnäs' fluting is one of the world's strongest, and another instance

where packaging weight can be reduced without compromising on strength, function, capacity or runnability.

LOWERS TRANSPORTATION COSTS

Packaging has to stand up to mechanical stresses such as knocks, bumps and pressure while in transit and be designed to facilitate flexible and efficient handling. Corrugated board is the world's most widely used packaging material. Practically all goods are packed in corrugated board for transportation. Primary fibre-based materials create strong, light and durable packaging that improves the economics of transportation, since they can be stacked, filled with more content and packed more efficiently with less weight. The result is better use of load capacity, lower transport costs and fewer emissions.

REDUCES WASTE

The planet's limited resources must be used wisely and not wasted, a fact that is particularly important in the food sector.

Fruit and vegetables worth EUR 10 billion, or 10% of volumes transported annually in Europe, never reach consumers. This is an area where the right packaging can make an enormous difference, ensuring that the resources used to produce the food, such as water, energy and nutrients, do not go to waste and making the food chain more

sustainable. The same arguments apply to other types of products that are damaged in transit due to inferior packaging. The SoliQ™ concept is aimed towards major fruit exporting markets, providing effective packaging that reduces waste and improves logistics.

LOWERS ENVIRONMENTAL IMPACT

Consumers are becoming ever more environmentally literate – they know what they are buying and why. Paper packaging intuitively conveys a feeling of eco-awareness. Fibre-based packaging is truly renewable, since the eco-cycle begins with nature's own production of forest through photosynthesis, using solar energy, CO₂ and water. It can also be recycled up to 6 times, which saves energy, money and the environment. And yet paper currently accounts for only 12% of the flexible packaging market in Europe.¹ There is clearly considerable untapped potential in this market.

One example is the climate smart drinks carton. European consumers consume over a million tonnes of drinks cartons each year, so the ability to recycle such cartons is naturally hugely important for the environment.

¹ PCI, The European Flexible Packaging Market, 2010.



CARTONBOARD
BillerudKorsnäs' cartonboard is neutral in terms of smell and taste, gives excellent printability and supports stable designs with windows, handles and smart hanging and closing solutions.

HIGH-PERFORMANCE MATERIALS

Millions of people around the world use packaging made from BillerudKorsnäs' materials, 24 hours a day, all year round. Here are some of the many applications. Primary fibre-based materials are strong, light, renewable and recyclable.



LINER
The pure liner is approved for use with food and copes well in close contact with fats and hot food.



KRAFT PAPER
Food packaging and strong carrier bags require kraft paper that will not break. BillerudKorsnäs is working to introduce the European testing standard for carrier bags for food, a standard that ensures the quality of carrier bags as more and more countries introduce a ban on plastic bags.



LIQUID PACKAGING BOARD

The company's advanced liquid packaging board is hygienic, has no effect on flavour or aroma and gives stable, easy-grip packaging.



SACK PAPER

QuickFill sack paper combines strength with good deaeration and is used in the premium segment for valve sacks.



FLUTING

One of the world's strongest fluting products protects and packs fragile items and heavy goods, everything from crystal glasses to avocados.



LINER

Billrud Pure Archive is an acid-free material that protects paper documents from ageing. The focus here is on preservation rather than simply storage.



CUP STOCK

Cup Stock has been specially developed for the manufacture of paper cups, an interesting area as the market for take-away food and drinks continues to grow.



FIBREFORM (KRAFT PAPER)

FibreForm is challenging fossil plastics. With its remarkably high elasticity, it can be shaped into entirely new forms of packaging solution.



KRAFT PAPER

Pure, hygienic, safe kraft paper is used in a whole range of areas within healthcare.



KRAFT PAPER

Kraft paper is frequently used for consumer goods. With high stiffness and purity, it is ideal for flexible packaging that combines several different materials. The good tear properties also make the packaging easier to open.



KRAFT PAPER

Interleaving kraft paper is highly absorbent for industrial use. It is strong, pure, absolutely free from particles and protects high-gloss steel, for example in the automotive industry. It has superior runnability and, despite its extreme thinness, its strength allows it to be re-used.

SOLUTION SERVICES CONTRIBUTES TO BETTER PROFITABILITY



Customers and brand owners are helped to identify the **best packaging for their products and logistics.**



BillerudKorsnäs has extensive, in-depth knowledge of how packaging should be designed and constructed for the task in hand and works systematically on sharing that knowledge. Through Solution Services, customers and brand owners are helped to identify the best packaging for their products and logistics. The approach takes in everything from material choice and design, sustainability, efficient production and transport optimisation to consumer behaviour and how the packaging can contribute to the marketing of the goods. The customer is offered deliveries with maximum flexibility and the lowest possible environmental impact.

At seminars and trade fairs, the participants are given insights into packaging performance and an opportunity to meet other players in the market, such as converters, distributors and machine manufacturers.

DIRECT CONTACT WITH BRAND OWNERS

This customer-focused approach has given BillerudKorsnäs a clear picture of the customers' business and helped to increase the proportion of premium products in the

areas where customers value high quality and performance. As an example, the proportion of QuickFill high-porosity paper has grown in the company's mix of sack paper.

During the year, specialist teams were put together to work with key brand owners, usually companies with global production and sales. These have a strong focus on optimising logistics and packaging as a means of improving their competitiveness and profitability.

DEVELOPMENT CENTRES WITH BROAD EXPERTISE

Business development and innovation are conducted in cross-functional teams. The company's development centres play a vital role, working on everything from optimising existing packaging to pure innovation processes. Commissions include such tasks as a global brand owner in the industrial segment wanting to replace plastics with fibre-based materials for greater long-term efficiency and sustainability.

Alongside the development centres, technical support shares its expert knowledge of the material and how its potential can be maximised for the best possible

results in each application and segment. They educate, transfer expertise and also support the manufacturing process on site with customers.

BillerudKorsnäs' design and innovation agency NINE has won several international awards for its packaging design and offers services relating to consumer behaviour, brand strategy, graphic and structural design and innovation.

CHANGING ROLE FOR PACKAGING

2012 saw the completion of a European consumer survey that has given BillerudKorsnäs an excellent overview of how consumers act and how grocery packaging functions in practice. What packaging is popular, what is considered problem-free packaging and what makes a consumer choose a particular type of packaging.

The study was based on interviews with consumers in a range of contexts: when they are shopping in the store, when they get home with the goods, when they use the packaged items and finally when they discard or recycle the empty packaging.



Sack Lab **saves money for customers**



The sack must be able to withstand high filling speeds and high pressure without leaking. The thermal imaging camera shows the weak points in the material or design by measuring the temperature differences in the paper under a range of loads. Here the air flows are being analysed to see how the sack deaerates during filling.

BillerudKorsnäs' Sack Lab is a global leader when it comes to measuring and analysing sack performance, and is frequently used to help converters and brand owners with packaging development. The development centre offers measurement equipment for the **sack's entire value chain: strength, drop strength, filling, deaeration, barriers, printability, design, converting, transport, storage, etc.** Over 1 000 sacks are put through rigorous filling and drop testing each year, alongside in-house sack design.

UNIQUE THERMOGRAPHY ANALYSIS

BillerudKorsnäs is the only company to offer thermography analysis. This advanced technology involves measuring infra-red radiation and producing a visual image of any temperature differences to identify a sack's weak points during a serie of tests. It also shows deaeration behaviours in different sack designs, which are key in determining how efficiently a sack can be filled.

KNOW-HOW DRIVING PACKAGING DEVELOPMENT

Nowadays, everything is measured to pinpoint potential improvements. However, it is not enough just to measure; the differences have to be understood and converted into real improvements. The analyses result in recommendations and cost estimates, with the packaging developer also working on site with the customer during test runs.

BillerudKorsnäs has built up extensive expertise on what a sack has to be able to do and maintains close cooperation with its network of manufacturers of converting machines, filling machines, printing machines and suppliers of adhesives, inks, etc.

MAJOR CUSTOMER BENEFIT

The benefit to customers is considerable and their interest is growing. Each year Sack Lab receives around 50 visits, mainly from Europe and Asia. Both brand owners and converters have realised that there is scope for improvements that can bring large production gains.

In Asia, low-strength paper is often used and sacks therefore have to be constructed using three layers of material. When these three layers of 70 g paper are replaced with BillerudKorsnäs' strong, high-porosity 80 g QuickFill, only two layers of paper are needed. That **saves 24% on materials** while also making the sacks stronger and thus reducing breakage. The more efficient deaeration often allows a **productivity rise of 10-15% during filling**, and in addition to that, the working environment becomes dust free, plus the sacks are clean and can often be made smaller for further savings.

GROWING NETWORK

Close contact with customers and partners allows BillerudKorsnäs to reach over 100 countries with its strong, light and pure primary fibre-based material and its portfolio of services.

The company works with packaging manufacturers, machine manufacturers, research bodies and public agencies with a view to jointly offering brand owners **global reach, high speed to market, quality assurance and reliable deliveries.**

One example is the collaboration with and stake in PACCESS Packaging, which offers packaging services to multinational brand owners, with global sales and

manufacturing in Asia. Assignments often involve responsibility for the whole chain: everything from design and materials, via converting and the packing line, to transport and final delivery to the customer.

Another prime example is Fresh Box Alliance, a network of innovative and quality assured corrugated board manufacturers with the exclusive right to offer the SoliQ concept to the fruit export markets.



Take-away food pushing up demand for packaging



Breakthrough for pizza boxes in 100% primary fibre

Lieferando, a fast-growing online supplier of home-delivery convenience food such as pizza, pasta and sushi, chose BillerudKorsnäs' paper from 100% primary fibre for its new and improved pizza boxes in Germany. The main reason for this choice is that BillerudKorsnäs' pure material is approved for direct contact with food and therefore offers excellent product safety for the company's customers. At the same time it was possible to reduce the weight of the packaging and improve the print results, thanks to the strength of the raw material and the white surface of the liner.

Product safety is a burning issue of our day and the regulations surrounding food packaging are very stringent. In the home of the pizza, Italy, pizza boxes are always made from primary fibre. Recovered fibre contains traces of contaminants from previous uses of the recycled material, including inks,

binders, adhesives and chemical residues, with the recovery process for paper simply unable to guarantee the neutralisation of such contaminants.

The boxes are made by Schiettinger Gruppe and MB Karton Ernst Behrend in Germany, two converters in BillerudKorsnäs' large network:

"We are a strong believer in the supremacy of primary fibres and the demand is constantly growing. Sustainability questions are on the agenda and we want to take our responsibility in the value chain by reducing the packaging weight and thus the waste. **BillerudKorsnäs is a natural partner for us since they are in the forefront of developing high quality materials for smarter packaging solutions,**" says Bernhard Schinner, Production Plant Manager at Schiettinger.

Alliances bring end-customers closer

BillerudKorsnäs continues to reap the benefits of its SoliQ service concept, which was developed to meet the specific challenges of the fresh goods market in an age when food waste needs to be radically reduced. The concept is underpinned by the company's knowledge of packaging performance during long and demanding distribution. **At the heart of SoliQ packaging is primary fibre, which provides the requisite strength to handle the various stresses and protect the content.** Depending on the customer's needs, sensors are used to monitor the goods during transport all the way to the store.



Fairtrade bananas

AgroFair is a market leader in Europe in sustainable and Fairtrade labelled fruit.

They had problems shipping bananas from Costa Rica, with the boxes collapsing and being difficult to stack. In need of help, they turned to BillerudKorsnäs, which developed a SoliQ box that keeps its shape in transit and can be put out on the shelf directly in the store. It is **40% stronger, 30% lighter, protects the bananas and boosts the company's sustainability profile** by minimising losses. This project was conducted together with a Fresh Box Alliance partner in El Salvador, which paves the way for more customer collaborations in Central America.



Quality grapes

Working with another of its network partners, BillerudKorsnäs has created **two brand new box designs for the export of grapes from Argentina to Europe and Russia.**

Large quantities of grapes were being destroyed due to inferior boxes. The fruit exporter wanted stackable boxes that were specially adapted for the protective consumer packaging in which the fragile grapes were packed. They also needed to withstand demanding transport stresses, travelling 10 000 km from the packing station to Buenos Aires and then onwards by ship.

The new solution obviously benefits the exporter and the importer, who avoid the major losses caused by the previous inferior packaging. But the environment also gains, since the resources used during growing in the form of energy, water and so on have not gone to waste.

Lighter air freight

New for 2012 was the introduction of **SoliQ Air, a light, strong and durable box for cut flowers** heading from Kenya to the key Dutch market. Flowers do not stay fresh for long and are transported by air so that they are still at their best when they reach consumers. However, the freight costs are considerable.

The solution was SoliQ Air, which uses BillerudKorsnäs' strong, light paper to create a box that is **18% lighter** than the product it replaced. This means that one in five boxes are shipped for free compared with the previous arrangement.

600 tonnes of flowers are flown weekly from Kenya to the Netherlands



SEGMENT

FOOD & BEVERAGES – PROTECTING AND PROMOTING FLAVOUR AND NUTRITION



- Sugar and flour packaging • Cups • Blister packs • Trays • Flexible packaging
- Liquid packaging • Cartons • Sacks • Consumer bags • Corrugated boxes • Displays

Food & Beverages makes up the largest segment of the global market for packaging with a share of around 42%¹ which was worth as much as about USD 290 billion in 2011. The market is growing, with emerging economies such as India and China expecting annual growth of just short of 10% in coming years. Europe is currently the largest market.

HIGHER PERFORMANCE

Rising prosperity is driving up consumption and thus also the need to transport goods. At the same time, environmental awareness is advancing and consumers increasingly prefer packaging made from renewable materials instead of fossil plastics. All this

places greater demands on packaging, which has to tolerate longer periods in transit, contribute to good transport viability and reduce waste of resources. It has to be pure and hygienic, must not contaminate the content or affect the flavour and aroma, and it should be produced in a sustainable manner.

MORE PRE-PACKED GOODS

Demand for food packaging is also being fuelled by changing lifestyles and a quicker pace of daily life. More and more people are buying convenience food, which is driving up the need for portion packaging for take-away food and drink. To extend shelf life in stores and cut handling costs, supermarket

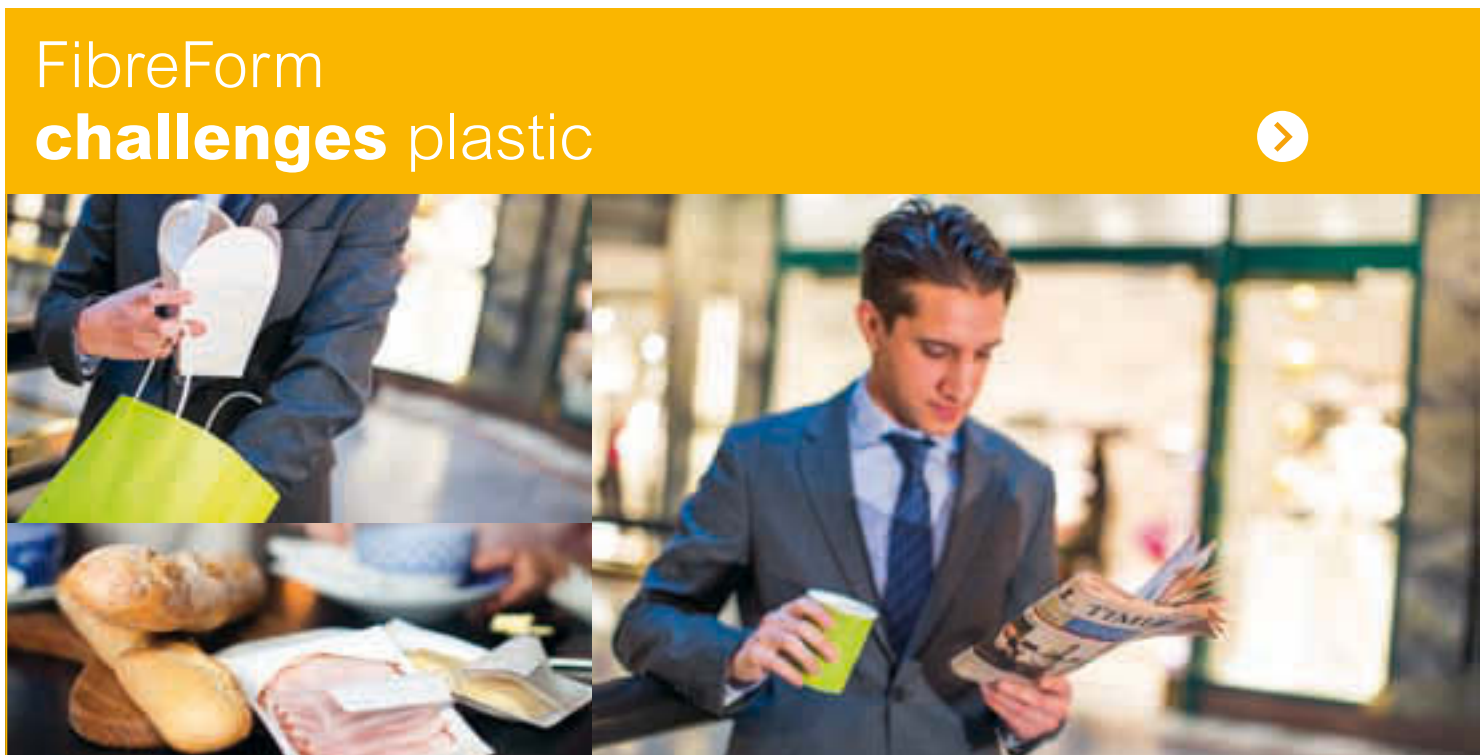
chains are investing in pre-packaged fresh goods, which require packaging that is fit for this specific purpose.

LARGEST SEGMENT

In 2012, the segment accounted for around 57% of BillerudKorsnäs' sales.² BillerudKorsnäs has many products that are approved for use with food, including liquid packaging board for milk, juice and other drinks, plus paper and solutions for bread, sugar and flour bags, cups and corrugated boxes for fruit and vegetables.

The growing take-away food segment makes use of several materials such as liner for pizza boxes and FibreForm for fresh food packaging.

¹ Pira International, 2011.
² Combined sales 2012.



Modern and eco-aware packaging for preserved foods



Tetra Recart is the world's first board-based packaging for food that has traditionally been packed in tin cans and glass jars. BillerudKorsnäs and Tetra Pak have jointly **developed a liquid packaging board that stands up to boiling temperatures** and is also tailored to suit the customer's process and filling machines.

"We are very happy with our collaboration with BillerudKorsnäs, from developing the material together to the business we now have in place," comments Peter Jhaveri, Managing Director of Tetra Recart.

Everything from beans, tomatoes, soups and sauces to vegetables such as peas and sweetcorn can be packed in Tetra Recart packages and will then last for up to 24 months. The content is sterilised in its packaging using steam at 125°C. As long as the packaging remains unopened, it does not require refrigeration.

The packaging makes efficient use of raw materials and is primarily made from a renewable raw material, FSC certified board. It provides for food distribution without chilling.

It is light, takes up 30-40% less space than cylindrical tins and delivers efficient logistics, distribution and shelf storage. The excellent printability around the whole of the packaging offers improved marketing opportunities. It is also laser-perforated and easy to open, easy to stack in the larder and easy to recycle, which means that consumers love it. Since Tetra Recart was launched ten years ago, own brand products have become an increasingly common feature in the supermarkets. Today, retailing is vital to the growth of Tetra Recart.

Tetra Recart is used in 40 countries around the world for over 125 brands and 700 products.

FibreForm, a paper of new opportunities, has received awards at packaging fairs the world over. The paper's unique elasticity makes it possible to develop packaging solutions with exciting, natural shapes and deep embossing. **It runs well in machines that have previously used plastic materials for press forming, plus it is eco-friendly, certified for food contact and made from 100% primary fibre.** In short, FibreForm can compete with fossil plastic in areas where this has previously not been possible.

HIGH HEAT INSULATION

A real success story for FibreForm is insulating sleeves for coffee cups and other hot drink containers in the take-away market. The sleeves provide greater heat insulation than other materials due to the high elasticity, which means that the embossing can be extra deep and trap lots of air. In Europe, the US and Asia, the market for these sleeves has grown by 5-10% annually over the past 10 years, and that pace is expected to continue.

The high insulating properties mean that the customer can reduce the material in the cup, which cuts down on both cost and environmental impact. The embossing opens up great opportunities to differentiate and market a company. Brand owners in fast food across Europe, for example, have been quick to realise the potential and chosen FibreForm for their coffee cups.

LOW ENVIRONMENTAL IMPACT

FibreForm is ideal for all sorts of packaging, not least in the Food & Beverages segment, where grease, moisture and acid barriers are used. Compared with a plastic tray, a tray made from FibreForm produces up to 75% less CO₂. This gives brand owners and super-market chains a new, eco-friendly alternative to fossil plastic.

EUROPE AND SOUTH KOREA

Since Marks & Spencer in the UK took the plunge and started packing sliced ham in FibreForm trays in 2010, the company has gradually expanded its range. Other major chains such as Waitrose and Morrisons have followed suit, as have many food producers with their own brands. Today, the trays are used for sliced cold meats, cheeses and salmon in 10 European countries, plus South Korea. The potential is large, with Europe alone getting through 50 billion trays per year.

SEGMENT

INDUSTRIAL – OPTIMISING DEMANDING PRODUCTION



- Sacks for cement and powdered goods • Release liners • Steel interleaving
- Corrugated boxes • Speciality paper • Cartons

End-users in the industrial sphere account for the second largest proportion of the global market for packaging at around 40%. In 2011, this market was worth about USD 275 billion. The largest market is Asia, which is expected to grow by just short of 7% per year until 2016.¹

INCREASING AWARENESS

In the Industrial segment there is a growing awareness that the right packaging improves productivity through more efficient manufacture, good logistics and less waste. Hence, demand is growing for suppliers who can offer products and services of high quality and who have an in-depth knowledge of processes.

¹ Pira International, 2011.
² Combined sales 2012.

In 2012, the segment accounted for around 26% of BillerudKorsnäs' sales.² Sack paper is the largest product area, with sales of white grades dominating in Europe and brown sack paper in markets such as North Africa, the Middle East and Asia, where the growing construction industry is fuelling demand.

CEMENT A KEY MARKET

The customers tend to be converters or cement producers with their own sack production. Around two thirds of BillerudKorsnäs' sack paper is used for cement packaging. China accounts for 56% of global cement consumption. Outside Europe, where 50 kg sacks are common,

the QuickFill range has strong competitive advantages due to the paper's strength and deaeration properties, which make for much more efficient filling. BillerudKorsnäs' systematic work to promote the performance of the various paper grades has led to an increasing number of brand owners specifying QuickFill when they order sacks.

Other products for industrial customers include paper for transport packaging and packaging for heavy goods, release liner, steel interleaving and other speciality papers.

Seminars a forum for **knowledge and networking**



BillerudKorsnäs continues to promote an exchange of knowledge as a means of building up good business relations. In 2012, **four major sack paper seminars were held for brand owners and network partners in Bali, Germany, Ghana and Mexico, with several smaller events in China and elsewhere.** The seminars form a popular meeting place and an opportunity for BillerudKorsnäs to identify the packaging needs of its industrial customers.

The meetings create contacts and a great opportunity to learn from each other. Many of the seminar participants continue with a visit to BillerudKorsnäs' Sack Lab, where they get concrete help in optimising their own value chain.

BillerudKorsnäs works closely with its network partners to obtain knowledge that can be ploughed into its own development process. The paper has to run smoothly in the machines and

perform well in transit if the sack solutions are to be ultimately effective. The seminars also raise awareness of the benefits of the QuickFill sack concept. For instance, the strength of the paper means that the amount of paper per sack can be reduced, while the rapid deaeration improves filling efficiency, which considerably cuts costs and use of resources.

SEGMENT

CONSUMER & LUXURY GOODS – GIVING A POSITIVE BUYING EXPERIENCE



- Cartons • Flexible packaging • Carrier bags • Bags for consumer goods
- Trays • Boxes • Corrugated boxes • Displays • Sacks

The global packaging market for Consumer & Luxury Goods amounted to around USD 100 billion in 2011, accounting for about 14% of the global packaging market. ¹ In global terms, the market is driven by the growing middle-classes, who have high levels of consumption and reflect their own lifestyle in goods and brand choices. The emerging regions of Asia and Africa are expected to see the highest growth over the next few years.

¹ Pira International, 2011.
² Combined sales 2012.

MARKETING POWER OF PACKAGING

The shape and design of the packaging conveys an immediate impression of the content and has a large impact on the consumer's purchasing decisions. The goods have to stand out on the shelf, which makes the packaging a vital element of the marketing and the brand. Brand owners are therefore placing an ever greater focus on packaging design with the power to differentiate and sell, and are demanding high-quality materials with good printability. Luxury items are usually sold in exclusive packaging.

CONSUMER SALES

In 2012, the segment accounted for around 11% of BillerudKorsnäs' sales. ² The range includes kraft paper for exclusive paper carrier bags and gift bags, board and liner for cosmetics, watch and shoe packaging, and FibreForm, whose elasticity makes it ideal for press formed packaging. End-customers include leading international brand owners who market their products on a global scale.

Packaging as part of the brand



The well-known French cosmetics and skincare company L'Occitane chose the new Korsnäs Artisan[®] cartonboard grade for its packaging. The company's focus is on health and well-being, with a passion for social and environmental concerns. For example, only natural ingredients are used in its products and regional suppliers are prioritised. Production is based in Provence, with global sales in 1 900 shops across 90 countries on five continents.

“Our business is based on high ethical principles, we exercise social responsibility and are passionate about limiting the environmental impact of our products and our operations. The choice of packaging material follows the same principle,” says Pascale Baussan, head of development for packaging, graphic design and materials.

L'Occitane makes conscious use of both materials and packaging to boost its corporate profile and has

worked closely with BillerudKorsnäs for many years, using a range of different boards. Artisan helps products to stand out and gives a luxury feel to the brand, which fits L'Occitane's image perfectly. The material is strong and formable, with a light coating that ensures superb print results, while retaining the matt finish and silkiness of uncoated board, which also further reinforces the environmental message.

SEGMENT

MEDICAL & HYGIENE – MAXIMISING PURITY AND PERFORMANCE



- Medical packaging • Release liners
- Cartons • Corrugated boxes

Packaging for medical and hygiene products accounted for 4% of the global packaging market in 2011, or around USD 30 billion.¹ Growth in this segment is faster than for the packaging market as a whole, and the rate of growth is expected to continue. The demand for medical and hygiene products is being driven primarily by rising prosperity, but also by the world's expanding and ageing population. According to the UN, average life expectancy has risen from 53 in the early 1960s to almost 70 today.

FOCUS ON PURITY

Healthcare is a highly specialised segment governed by extensive regulation that demands safe, flexible, pure and reliable packaging. The sealing and opening proper-

ties are vital in keeping the contents sterile. Child safety is a priority, as well as technology for tamper-proof packaging. The use of disposable packaging for medical products is rising sharply, due to instruments in many cases being sterilised in their packaging.

HIGHLY SPECIALISED PRODUCTS

In 2012, Medical & Hygiene accounted for around 6% of BillerudKorsnäs' sales.² The range includes kraft papers, such as the market leader Sterikraft Peelclean[®], which have been specially developed to let through sterilising agents and act as an effective long-term barrier against micro-organisms. Release liner is also used in this segment as a protective paper for self-adhesive hygiene products such as bandages and plasters.



¹ Pira International, 2011.

² Combined sales 2012. In Medical & Hygiene, the sale of pulp accounted for around three fifths of combined net sales in 2012.

Quality assurance key for the medical technology industry

Quality assurance and product safety are of central importance to B. Braun, which supplies medical technology equipment and treatment systems to hospitals around the world. As with all medical technology businesses, approval is required from the regulatory authorities, **with conditions imposed such as high safety levels, traceability and compliance with international standards.** This also places very high demands on the packaging.

According to Arne Nord, project engineer and packaging specialist at B. Braun, these demands have increased even more in recent years:

“There are now also requirements to simulate age testing and transport before a new product can be launched on the market. All these tests are time-consuming and expensive, which makes the preparatory work extremely important, with the right material choices from the start, and a close collaboration with material suppliers.”

BillerudKorsnäs has provided B. Braun with paper for medical packaging over a number of years. The company took this partnership to new levels during the year, working jointly on

development projects to improve the material for future products. With 40 years' experience of working closely with the demanding healthcare market and insights into the customers' needs when it comes to sterilisation, transport, warehousing and use, BillerudKorsnäs is able to offer support in the complex interplay between material and packing process.

“When selecting suppliers, we look for reliability and quality. The packaging material is the key to product safety and has a major impact on productivity, economics and runnability. Downtime arising from poor runnability leads to production losses and high costs,” concludes Arne Nord.

THREE **BUSINESS AREAS**



> PACKAGING PAPER, 39%*

The business area sells high-performance kraft and sack paper, uniquely elastic FibreForm and offers smart solutions for form, functionality, efficiency and sustainability.

> CONSUMER BOARD, 34%*

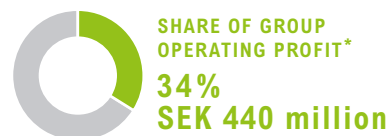
The business area offers liquid packaging board, cartonboard and Cup Stock. Individually tailored service concepts for packaging optimisation and delivery services meet the needs of the fast-moving consumer segments.

> CONTAINERBOARD, 16%*

The business area sells the raw materials for corrugated board, i.e. fluting and liner. A key element of the offering is advice on packaging optimisation and effective logistics flows.

* of the Group's combined net sales in 2012.

PACKAGING PAPER



Offering

The business area sells high-performance kraft and sack paper, uniquely elastic FibreForm and offers smart solutions for form, functionality, efficiency and sustainability.

BillerudKorsnäs is one of Europe's leading players in primary fibre-based kraft paper, whose uses include packaging for bread, sugar, flour, ice cream and medical products, plus interleaving for high-gloss steel and release liner, a silicone-coated base paper that protects the adhesive layer on self-adhesive materials.

The company is a global leader in high-porosity sack paper manufactured from primary fibre. This is a premium product for sacks with the best deaeration, extreme strength and high printability and runnability. The paper is sold primarily for industrial applications, with around two thirds used to package building materials.

The surplus paper pulp that BillerudKorsnäs produces in Sweden is sold by Packaging Paper. However, the business area buys in paper pulp for its plants in the UK and Finland, which is why the net surplus for Packaging Paper only amounts to around 30 ktonnes per year.

Trends and drivers

Rising global prosperity and a growing population are increasing consumption and thus the number of packaged goods. Changing consumption patterns are generating more packaging in smaller formats. Demand for hygiene and medical products is rising, and primary fibre-based packaging is in demand for its purity and safety in both the pharmaceutical and food sectors. Renewable and recyclable materials are gaining ground as a consequence of increasing environmental awareness. A number of countries and regions have introduced restrictions on bags made of fossil plastics, and other similar products.

The food industry is showing a distinctly positive interest in paper, since the material's stiffness increases runnability in the packaging machines compared with plastic. One example is packaging for powdered soups, where several manufacturers previously switched to portion packs entirely in plastic, but have now once again returned to using paper as a packaging component.

The growing construction industry in Asia, North Africa and the Middle East is fuelling demand for packaging materials for building products such as cement. Sacks made from strong, high-porosity paper add value in the form of lower material consumption, higher filling speed and efficient palletising and distribution. There is a general demand across the industry for product optimisation and cost-efficiency.

Strategy

Systematic product development is aimed at adding value for customers and brand owners, with focus on production efficiency, functionality, design, strength and sustainability. Knowledge is sourced through collaboration with customers and partners.

The sales organisation works closely with the company's development centres and technical customer service and has been further strengthened with the addition of a brand team offering specialist expertise for brand owners. Investments are being made in non-European markets in order to increase sales of both materials and associated solutions.

Important events in 2012

The acquisition of UPM's packaging paper business strengthened BillerudKorsnäs' range and capacity.

Direct large-scale orders were secured from the world's leading cement manufacturers Lafarge and Holcim for deliveries of QuickFill in 2013.

Inspired by BillerudKorsnäs' on-site test equipment and information, the industry association Assogracifi developed the "Shopping Bag Sicuro" label, which enables supermarkets in Italy to differentiate between good, effective carrier bags and unsuitable alternatives.

FibreForm has continued to go from strength to strength, with two FibreForm designs winning awards at Spain's leading packaging exhibition. Ever more brand owners are choosing FibreForm as sleeves for paper cups.

* Relates to combined financial information for BillerudKorsnäs 2012.



SACK PAPER

Millions of tonnes of cement, chemicals, minerals and groceries are packed in sacks made from BillerudKorsnäs' strong, high-porosity sack paper.



KRAFT PAPER

BillerudKorsnäs' broad range of kraft paper is pure and strong with good printability. Its applications include packaging of groceries such as bread, flour, sugar and ice cream, as well as medical products.

FIBREFORM

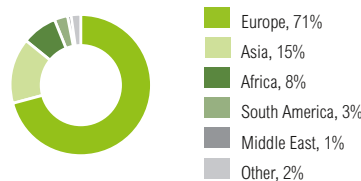
Unique FibreForm is extremely elastic, made from 100% primary fibre and approved for contact with food. With the traditional limitations of paper packaging now a thing of the past, plastic can now be replaced with something much more exciting.



NET SALES* BY SERVED INDUSTRY



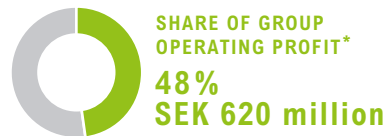
NET SALES* BY REGION



Packaging Paper is challenging fossil plastic with strong kraft paper, unique FibreForm and specially customised solutions. The leading sack paper QuickFill improves productivity for industrial customers.

sustainable and efficient

CONSUMER BOARD



Offering

The business area offers liquid packaging board, cartonboard and Cup Stock. Individually tailored service concepts for optimising packaging plus delivery services with high flexibility and short lead times, even for small volumes, meet the demands of the fast-moving consumer segment. The main market is Europe.

The board is manufactured from primary fibre, giving high purity and product safety. The most common applications can be found in the food industry. All board grades of the business area are approved for use with food and have no effect on the taste or aroma of the contents. Primary fibre also makes the board highly formable and strong, with an exclusive print surface, creating finished packaging that is easy to open, handle and hold.

The company is a leading player in liquid packaging board and the second largest producer in the world. BillerudKorsnäs is also one of the leading producers of cartonboard in Europe.

Trends and drivers

Rising living standards and an emerging middle-class in growth countries are fuelling demand for liquid packaging board and cartonboard in Europe. This is particularly true of the premium segment, where lifestyle consumption and growth in take-away food and drink favour the business area's products.

The increasingly important role that packaging plays in marketing the product makes board very interesting, given its considerable formability, ease of grip and unique print surface, which is capable of reproducing the most demanding images.

A strong environmental awareness among consumers, and their desire to choose sustainable products, bode well for board materials that are strong but light and therefore make efficient use of resources.

Strategy

The long-term strategy of the business area is to maintain its strong position in Europe, while also focusing on selected growth markets outside Europe. The constant development of new products and services will create differentiated, niche products with very good strength, purity, print results, formability and runnability in the converting process.

The approach taken by the business area is to work closely with customers as a means of growing together and creating added value by launching new solutions and enhanced delivery services. Development projects are often run jointly with the customer, based on the needs of converters, printers, brand owners, retailers and end-customers.

Important events in 2012

The new light-coated and lightweight Artisan cartonboard was introduced to the market during the year. Excellent printing properties and a new silky smooth surface make this the ideal packaging material for luxury products such as cosmetics, perfumes, exclusive confectionery and festive foods.

Two customised grammages of the board Liquid were developed in partnership with customer Elopak, broadening BillerudKorsnäs' offering in the fresh food segment. The light barrier that was created when the brown side was turned inwards removed any flavour transfer and reduced the breakdown of vitamin C. The new material also generated 8 g less CO₂ per pack compared with the material the customer had used previously.

* Relates to combined financial information for BillerudKorsnäs 2012.



LIQUID PACKAGING BOARD

BillerudKorsnäs' liquid packaging board is used to make packaging for milk, juice and other groceries that are either freshly packaged and chilled or sterilised in an aseptic process for a long shelf life. The board is pure, taste-neutral, formable and stiff, with a good print surface, and produces stable, easy-grip and attractive packaging.

CARTONBOARD

The company's cartonboard combines strength, low weight, high formability and an exclusive print surface in a manner that is unique in the market. It comes in grades that are perfect for refrigerated and frozen storage, luxury goods such as exclusive confectionery and cosmetics, and unique designs with display windows, hangers, handles and clever opening/closing mechanisms.



CUP STOCK

Cup Stock is board for paper cups. New consumption patterns, with growing purchases of take-away food and drink, are driving up demand for paper cups. With its high stiffness, low weight and high purity, BillerudKorsnäs' Cup Stock is also suitable for paper plates, lunch boxes and other products that come into direct contact with hot food and different types of drinks.



NET SALES* BY SERVED INDUSTRY



- Food & Beverages, 91%
- Consumer & Luxury Goods, 7%
- Industrial, 1%
- Medical & Hygiene, 1%

NET SALES* BY REGION



- Europe, 69%
- Asia, 21%
- Middle East, 7%
- Africa, 2%
- South America, 1%



Consumer Board develops and sells board that is absolutely world class for technically advanced and user-friendly packaging, primarily for consumer segments.

pure and safe

CONTAINERBOARD



Offering

The business area sells the raw materials for corrugated board, i.e. fluting and liner, as well as offering specialist services such as packaging solutions that optimise each logistics chain, based on the type of goods, distribution, humidity and temperature conditions and marketing preferences.

The company is a leading player in primary fibre-based fluting in Europe, offering one of the world's strongest fluting products, with high long-term performance. The primary fibre makes the fluting strong even at low grammages, allowing light and durable designs with good stacking capacity and resistance to high humidity.

The range includes one of the world's whitest kraftliners, as well as coated and uncoated White Top Kraftliner. The liner is much in demand in the segment for luxury and consumer items for its excellent printability.

The SoliQ concept has been specially developed for the transport of fruit and vegetables, with properties that considerably reduce wastage.

Trends and drivers

A rise in long and demanding distribution routes, coupled with a stronger environmental focus, is increasing demand for packaging that will perform along the whole route and protect the content from being damaged or spoiled. Customers and brand owners are aware that both costs and CO₂ can be cut by using strong, lighter packaging that can be loaded more efficiently. This is particularly true in the case of valuable and heavy goods, for example in the automotive industry, and fragile products such as fruit and vegetables that are transported over long distances.

Corrugated board is used for transport packaging and primary packaging for end-users. These functions are increasingly being combined in shelf-ready packaging, particularly for consumer goods, which requires a great deal from the packaging in terms of design, material and appearance.

A drive for greater product safety and pure, hygienic packaging, particularly in the Food & Beverages segment, places primary fibre-based materials from BillerudKorsnäs in a strong sales position. Growing interest in renewable and recyclable materials also bodes well for the company.

Strategy

BillerudKorsnäs is one of the few pure material suppliers driving forward packaging issues and opening the eyes of brand owners to solutions that provide better profitability. This is achieved in part through conferences and seminars, and with the help of the Box Lab development centre, which helps customers to optimise packaging for their specific purposes.

The business area is systematically building up a network of specialist converters. One example is the Fresh Box Alliance, a network of quality assured corrugated board manufacturers with a customer-oriented approach that BillerudKorsnäs collaborates with on fruit and vegetables. Another case in point is the cooperation with PACCESS Packaging, which has created a stronger platform in the growing Asian market.

Containerboard is focusing on increasing sales outside Europe.

Important events in 2012

The launch of Pure Archive represents a prime example of an intelligent material and smart packaging – an acid-free liner made from primary fibre that protects documents from ageing.

Interest in the SoliQ concept has remained strong and several new customer agreements have been secured. Accompanying this is the launch of SoliQAir, a solution that specialises in air freight. The Fresh Box Alliance has been further expanded.

During the year Lieferando, a fast-growing online supplier of home-delivery convenience food, chose BillerudKorsnäs' paper from 100% primary fibre for its new and improved pizza boxes in Germany.

* Relates to combined financial information for BillerudKorsnäs 2012.



FLUTING

Fluting is the corrugated middle layer in corrugated board. BillerudKorsnäs' strong materials with superb long-term performance optimise packaging weight without compromising on strength, function and capacity. The fluting is perfect for corrugated boxes for fruit and vegetables, consumer goods and heavy or fragile goods.

WHITE LINER

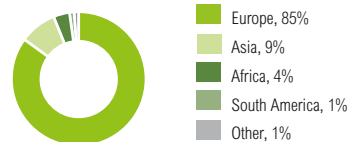
BillerudKorsnäs' pure white liner and White Top Liner form the top layer of corrugated board. The primary fibre makes these products strong, pure and hygienic, with high printability. They are used in a broad range of different applications, from take-away pizza boxes to exclusive packaging for fine wines and jewellery.



NET SALES* BY SERVED INDUSTRY





NET SALES* BY REGION



Containerboard offers the materials and advice needed to optimise the world's most commonly used packaging – corrugated board. The right packaging for the right product cuts down on wasted resources and makes more financial sense for brand owners.

strong and light

MARKET OVERVIEW

	➤ PACKAGING PAPER ¹	➤ CONSUMER BOARD
Products	<p>Kraft paper (18% of sales volume)</p> <p>Sack paper (12% of sales volume)</p>	<p>Liquid packaging board (31% of sales volume)</p>
Customers	<p>Converters and packaging manufacturers for Food & Beverages, approx. 3/5 of volume</p> <ul style="list-style-type: none"> • Packaging for flour, sugar, grain, etc. • Open bags (bread, etc.) • Carrier bags • Flexible packaging • Formable packaging <p>Converters and producers of industrial applications, approx. 2/5 of volume</p> <ul style="list-style-type: none"> • Medical packaging • Release liner for self-adhesive material • Steel interleaving 	<p>Converters and sack manufacturers that supply producers of powdered goods such as</p> <ul style="list-style-type: none"> • Building materials • Industrial minerals and chemicals • Food <p>The cement industry, with its own sack production and integrated filling process</p> <p>Around 2/3 of sack paper sales relate to sacks for building materials, industrial minerals and chemicals</p> <p>The majority of BillerudKorsnäs' white sack paper is sold in Europe, while around 3/4 of brown sack paper is sold to growth regions outside Europe, predominantly North Africa and South-East Asia</p>
Served industries		
Trends and drivers ²	<p>Greater sustainability focus is good news</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 • Paper has unique eco-credentials and is formable, recyclable and biodegradable 	<p>Good sack quality creates added value</p> <ul style="list-style-type: none"> • Increased construction in growth regions is boosting demand • Requirements for cost reduction, improved functionality and more rapid deaeration are boosting demand for high-porosity sack paper • In-store sales are placing greater demands on the appearance and printability of sacks • Continued expansion in the construction industry, with increased consumption of cement, etc. particularly in Asia and other growth markets
BillerudKorsnäs' position	<p>Leading producer of strong, high-quality kraft paper from primary fibre in Europe ²</p>	<p>Global leader in high-porosity sack paper from primary fibre ³</p>
Main competitors	<p>The primary competition comes from plastic packaging solutions</p> <p>Other major kraft paper manufacturers include Ahlstrom, Arjowiggins, Mondi, Nordic Paper and Papel Aralar</p>	<p>The primary competition comes from plastic sack solutions and bulk deliveries (including ready-mixed cement direct from the truck)</p> <p>Other major sack manufacturers are Mondi, Canfor, Segezha Packaging and Smurfit Kappa</p>
		<p>Other major suppliers of liquid packaging board are Klabin, Rank Group, Stora Enso, MeadWestvaco and International Paper</p> <p>There is also competition from other packaging materials, mainly plastic</p>

1 Packaging Paper includes market pulp, which accounts for around 15% of the sales volume.

2 Based on statistics from Pöyry Management Consulting and Eurostat.

3 BillerudKorsnäs' assessment.

4 Based on statistics from Pöyry Management Consulting.

5 World Containerboard Organisation, www.wco-containerboard.org

 CONTAINERBOARD		
Cartonboard (4% of sales volume)	Fluting (12% of sales volume)	Liner (8% of sales volume)
Converters of packaging for <ul style="list-style-type: none"> • Exclusive drinks • Beauty and healthcare products • Confectionery • Home electronics and industrial goods • Chilled and frozen foods 	Producers of <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 	Producers of <ul style="list-style-type: none"> • Primary packaging, e.g. for consumer goods such as perfume, exclusive drinks and confectionery, but also for home electronics • Secondary packaging in corrugated board • Shelf-ready packaging
		
Rising consumption positive for cartonboard <ul style="list-style-type: none"> • Greater focus on appearance and design of packaging that strengthens the product's brand • Rising living standards and a growing middle-class in growth regions • Greater private consumption in the premium segment, where lifestyle consumption is driving growth • Strong and ever increasing eco-awareness in consumer sectors 	Optimised designs reduce waste <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 brings about increased transportation of goods • The demand for optimised packaging is being pushed up by rising populations, stricter environmental requirements and a greater focus on profitability and reducing wasteful use of resources 	Increased focus on the sales value of packaging <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 • Increased focus on material savings, packaging appearance and good quality ensures 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
One of the largest producers of primary fibre-based cartonboard in Europe ⁴	Quality ³ and market-leading ⁵ producer in Europe in the top segment with a strong position in fruit and vegetables	Market leader in Europe in pure white kraftliner (low grammage) ³ and one of the leading suppliers of coated White Top Liner globally ³
Other suppliers of cartonboard in the premium segment are Iggesund, Metsä Board, Stora Enso, MeadWestvaco and International Paper	The primary competition comes from recovered fibre-based fluting Other major manufacturers of primary fibre-based fluting are Stora Enso, Mondi and Powerflute	Competition from specialised players in the market for low-grammage liner, including Metsä Board and Mondi In coated WTL, Metsä Board is one of the larger manufacturers. Competition also comes from coated and uncoated White Top Testliner (based on recovered fibre)

WORLD-CLASS **PROCESS EFFICIENCY**



BillerudKorsnäs is systematically improving process and cost-efficiency in its production, sales and administration, as a means of securing long-term competitiveness. It is estimated that the acquisition of Korsnäs and UPM's packaging business will generate annual synergies of SEK 330 million, in part by consolidating purchasing, raw material supply and logistics, coupled with process optimisation.

INTEGRATED PROCESS

Production takes place at eight units of a very high technical standard. All have ISO 9001 quality certification and ISO 14001 environmental certification.

At the Swedish units, pulp manufacture is integrated with paper and board production, which brings several key advantages:

- Higher quality through complete control over the production process.
- Reduced energy consumption, since the pulp can be used immediately, without drying or further treatment.
- High level of self-sufficiency in electricity, since pulp production produces an energy surplus, which is used in the manufacture of the paper and board.

MORE EFFICIENT PRODUCTION

The newly acquired paper machines in Pietarsaari and Tervasaari in Finland are among the largest and most efficient in Europe. Integration of the IT, administration and organisation is proceeding according to plan.

Skärblackså underwent a refit in 2012 to improve its environmental credentials and energy efficiency. Improvements were also made to the fluting production line at Gruvön and a programme was introduced at Karlsborg to improve profitability. These plants are also involved in two-year quality projects and programmes aimed at making efficiencies in electricity consumption.

A new bioenergy plant (Bomhus) is being built at the plant in Gävle, and will be co-owned with Gävle Energi. In 2012 an extensive quality investment in one of the board machines in Gävle was made to improve the surface finish. A decision was made in 2012 to a refit of the board machine in Frövi aimed at improving the product's surface, printability and stiffness.

GREATER CUSTOMER FOCUS

The sales processes have been reviewed in a drive to be more customer-focused and efficient. Coordinators were appointed to improve internal and external logistics, as a means of shortening response times to customers, and to work on order management for the paper machines.

Work on a group-wide system for workforce planning, training and skills development began in 2012.

A standardisation and efficiency process was also launched within the finance department.

PRODUCTION CAPACITY PER PLANT

Gävle, Sweden	700 ktonnes/year
Gruvön, Sweden	685 ktonnes/year
Frövi/Rockhammar, Sweden	430 ktonnes/year
Skärblackså, Sweden	400 ktonnes/year
Karlsborg, Sweden	300 ktonnes/year
Pietarsaari, Finland	200 ktonnes/year
Tervasaari, Finland	100 ktonnes/year
Beetham, UK	45 ktonnes/year





Skärblacka ramps up its **green ambitions**

A thorough refit of the Skärblacka production unit began in 2012 to minimise emissions to air and to improve energy efficiency and production capacity. The project is expected to cost around SEK 900 million in total and be completed towards the end of 2013. The investment will involve the recovery boiler and flue gas cleaning system being upgraded to the best available technology. A new, more energy efficient evaporation plant is also being built. This will **halve the consumption of external biofuels and cut the use of oil**. Furthermore, the electricity and automation section is being overhauled to ensure more efficient control and a better working environment for the operators.

SUSTAINABILITY REPORT 2012



- BillerudKorsnäs' operations are firmly rooted in a natural eco-cycle. The products are based on **renewable raw materials, are recyclable** and developed in close partnership with customers.
- The right packaging for the right purpose is **resource-efficient and results in a lower environmental impact** thanks to less loss of packaged goods, lower fuel consumption and higher production capacity.
- **Paper-based packaging** is gaining ground as a more eco-friendly alternative compared to packaging based on fossil raw materials. BillerudKorsnäs is thus contributing towards a less fossil-dependent society with a reduced climate impact.

The SoliQ™ service concept cuts waste by optimising the entire delivery 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.



PART OF THE ECO-CYCLE

- The amount of forest in Sweden is increasing
- Growing forest binds CO₂
- The company's wood raw material comes from certified forestry or other responsibly managed sources
- BillerudKorsnäs' materials are turned into packaging that can be recycled five to six times over
- The spent fibre is used as biofuel
- Incineration gives off CO₂ that is taken up by growing trees



Bark is a by-product that as well as being used for biofuel, is also perfect for jogging trails.

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KEY EVENTS DURING THE YEAR



2012 was characterised by acquisition and merger processes within BillerudKorsnäs which have also had an impact on this year's Sustainability Report, see page 57.

TWICE THE SIZE

- UPM's packaging paper operations in Finland were acquired in June, increasing capacity by 300 000 tonnes of paper and broadening the product range.
- The merger with Korsnäs creates a strong actor in the international packaging materials market and doubles turnover.

INTEGRATION

The acquisitions in Finland and the merger with Korsnäs saw the start of a process of integration and change for employees which will continue during 2013.

INVESTMENT AT SKÄRBLACKA

The investment of SEK 900 million was made in order to lower energy costs, increase production capacity and cut emissions.

CO₂ TARGET REACHED

BillerudKorsnäs has cut its CO₂ emissions per tonne of product in the production process by 45% between 2008 and 2012.

FAIRWAY TO KARLSBORG

Together with other investors, Billerud-Korsnäs has financed the dredging of a fairway to the port of Karlsborg. This will keep the fairway open for traffic by large vessels and during the winter.

SAFETY MEASURES

The company makes safety a top priority. In 2012 training and risk analysis were

carried out and improved procedures introduced to further increase safety-consciousness among employees and so reduce work-related injuries.

NEW CHP PLANT IN GÄVLE

The new biofuel-fired CHP plant in Gävle was taken into use. The total investment amounted to SEK 1 800 million and will further contribute towards BillerudKorsnäs becoming self-sufficient in electrical energy. The plant is jointly owned by Billerud-Korsnäs and Gävle municipality.



SIX FOCUS AREAS



BillerudKorsnäs prioritises sustainable development issues on the basis of their impact on the environment, business, society and the company’s stakeholders, as set out in the company’s Code of Conduct. Priorities are also set based on international standards and guidelines, including the UN Global Compact. **In its work on sustainability the company has chosen to focus on the following key areas.**

1
Functional
and
climate smart
products



**reduce dependence
on fossil raw
materials**

The products contribute towards a more sustainable society as paper-based packaging is an environmentally better alternative to packaging based on fossil raw materials. The right packaging for the right purpose is resource-efficient and has a low environmental impact. Through its materials and its services, BillerudKorsnäs helps to reduce customers’ dependence on fossil raw materials.

2
Resource
efficiency



**reduces pressure on
the earth’s natural
resources**

BillerudKorsnäs’ material is so strong that the finished packaging needs less materials to provide the same or improved performance. For customers, this bears fruit in terms of lower production and distribution costs.

3
Renewable
raw materials
from responsible
forestry



**produce recyclable
products**

Replanting is carried out after felling, safeguarding the eco-cycle. The wood raw material comes from FSC[®] or PEFC[™]-certified forests or other controlled sources. Packaging made from BillerudKorsnäs’ materials can be recycled into new products and spent fibre is used as biofuel.



High environmental performance and energy efficiency

Committed employees

Doing business responsibly



cut climate impact



contribute towards a profitable and sustainable company



strengthens trust

The company has gradually improved energy efficiency in all its plants in Sweden, Finland and the UK. In 2012 savings gained amounted to 19 GWh. Billerud-Korsnäs' production of heat energy and self-generated energy was 96% derived from biofuel from forest raw materials.

BillerudKorsnäs is characterised by short decision paths and an informal corporate culture. This is something that the company seeks to retain and safeguard even as it grows. BillerudKorsnäs offers an innovative environment in which close cooperation with customers leads to competitive solutions.

Good business ethics and safe products are a matter of course in BillerudKorsnäs' operations, strengthening trust among investors and customers alike. In the supplier chain BillerudKorsnäs sets requirements for environmental considerations and social responsibility.

FUNCTIONAL AND **CLIMATE SMART** PRODUCTS



RENEWABLE MATERIALS

BillerudKorsnäs' packaging material is manufactured from primary fibre based on forest raw materials from certified or controlled sources. The raw materials are renewable, the energy consumption of production is mainly based on biofuel and the end-product can be recycled into other paper products. This material thus offers an environmentally better alternative than products based on oil as a raw material produced using fossil fuel. Packaging that brings environmental improvements is demanded by customers and end-consumers. The right packaging for the right purpose is resource-efficient and has a low environmental impact. BillerudKorsnäs provides specialist services in the choice of materials and smart solutions, thus contributing towards reduced dependence on fossil raw materials.

PAPER WITH ENVIRONMENTAL ARGUMENTS

Sustainability aspects are increasingly influencing the choice of packaging and increasing demand for refill packs.

According to a survey by analysis company United Minds ¹ 80% of Swedes think that paper packaging is better suited for storage compared with glass, plastic or aluminium. Several countries today have banned the use of plastic bags.

BillerudKorsnäs' materials are used 75% for consumer packaging. The material is characterised by its strength, good printability and purity.

The three business areas are:

- PACKAGING PAPER – Kraft and sack paper, FibreForm
- CONSUMER BOARD – High quality liquid packaging board and cartonboard and Cup Stock
- CONTAINERBOARD – Materials for corrugated board, fluting and liner

SUSTAINABLE SOCIETY

– Material substitution

BillerudKorsnäs' products often replace plastic, metal or glass in packaging. LCA analyses show, for example, that liquid packaging board offers a significant advan-

tage over both plastic and glass when fossil CO₂ emissions, fossil resource extraction and energy consumption are measured. By driving a gradual switch to paper-based packaging materials BillerudKorsnäs can become part of the solution to reduce fossil dependence and climate impact.

– Reduced food waste

Aseptic liquid packaging board is an example of how the company's development work in partnership with customers can contribute towards cutting food waste and reducing CO₂ emissions. The contents are sterilised in their packaging, which means that end consumers can buy for example milk that does not need to be refrigerated.

– Recyclable product

The primary fibre-based packaging material can be recycled into other products up to 5-6 times. When the recycled fibre is worn out and incinerated, it can replace fossil fuel. Incineration produces CO₂ which the trees in turn take up through photosynthesis.



A small proportion of the total impact

Contrary to statements often heard in the debate, the packaging usually accounts for a very small proportion of the product's total environmental and climate impact. The Swedish National Food Administration's report 18-2011 shows that during its lifecycle milk packaging only accounts for two per cent of the CO₂ emissions caused by the milk and the packaging together. The vast majority of emissions are caused when the milk is produced. A thesis completed at the Swedish University of Agricultural Sciences (SLU)*, in partnership with BillerudKorsnäs, shows similar results: Milk production is responsible for 90% of climate impact while the packaging's proportion amounts to only 2%.

1 The Swedish Graphic Companies' Federation.

RESOURCE EFFICIENCY

2

BillerudKorsnäs' material is so strong that the finished packaging needs less material to provide the same or improved performance. For customers, this bears fruit in terms of more efficient manufacture and distribution. For end consumers, advanced packaging can result in less waste, e.g. of food.

ENVIRONMENTAL BENEFITS

– Less waste

The main job of packaging is to protect goods en route from manufacturer to consumer. In Europe it is estimated that fruit and vegetables lost during transport account for 10% of the total financial value. This is where BillerudKorsnäs' packaging material can make a difference.

The German institute IFEU ¹ found that a litre of juice packaged in liquid packaging board generates less fossil CO₂, uses less fossil resources and consumes less primary energy compared with PET and glass bottles. The analysis is based upon mean value for Europe.

This much lower impact from liquid packaging board in relation to:

	CO ₂	Fossil resources	Primary energy
PET bottle	-28%	-51%	-24%
Glass bottle	-70%	-68%	-56%



– More efficient transport

Functional transport and consumer packaging and stronger and lighter materials improve the efficiency of logistics throughout the chain, so cutting transport costs and energy consumption.

– Resource-efficient production

Lighter packaging material means more efficient use of resources. BillerudKorsnäs produces packaging material with the same or improved strength using less material per square metre, resulting in more efficient production for customers.

DEVELOPMENT WITH CUSTOMERS

BillerudKorsnäs works closely with its customers, and their customers, partly by providing advice on developing optimum solutions. One way of achieving closer contact with customers and brand owners is the recently launched "Smarter Packaging Academy" geared towards brand owners.

EPD – ENVIRONMENTAL PRODUCT DECLARATION

BillerudKorsnäs is one of the first companies in the sector to produce verified environmental product declarations in line with the international EPD system. One purpose of EPD is to be able to compare the performance of different products in terms of their environmental impact throughout their lifecycle. This makes it easier for customers to calculate the environmental impact of the finished packaging.

BillerudKorsnäs sees this as a way to meet the increased demand for reliable environmental information from companies in the procurement process and from the general public. In 2012 environmental declarations were available for nine of BillerudKorsnäs' board and paper products. Plans are in place to update this to ten environmental product declarations in 2013. The declarations list emissions that affect the climate, acidification, the ozone layer and eutrophication. The consumption of resources is also stated, such as the use of bioenergy and fossil energy.

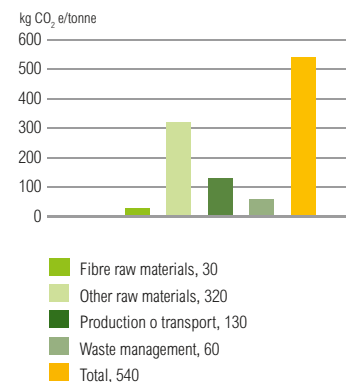
BillerudKorsnäs' data is verified by an independent third party. See also www.environdec.com.



GREENHOUSE GAS EMISSIONS KORSNÄS WHITE 320G

The figure shows greenhouse gas emissions at different phases of the lifecycle and in total. Calculations are for 1 000 kg product delivered to Europe and show CO₂ emissions in kg per tonne of product. In this example the largest greenhouse gas emissions are during the production of chemicals, i.e. in the supplier chain.

CARBON FOOTPRINT, KORSNÄS WHITE, 320 G



¹ Comparative lifecycle assessment of packaging systems for noncarbonated soft drinks. IFEU 2011.



RENEWABLE RAW MATERIALS FROM SUSTAINABLE FORESTS



BillerudKorsnäs' production is based on renewable raw materials from responsible forestry. After clear-felling, replanting is carried out, safeguarding the eco-cycle. Packaging made from BillerudKorsnäs' materials can be recycled into new products and the spent fibre is used as biofuel.

FOREST MAINLY IN SWEDEN

BillerudKorsnäs has no significant forest assets and instead buys in and fells wood through its forestry department, BillerudKorsnäs Skog, which also carries out forestry and provides advice and services to private forest owners.

The company's total annual purchasing of timber amounts to just under 12 million m³ sub (solid under bark), of which just under 10 million m³ sub is used in its own manufacturing. The rest is sold on to sawmills and spruce fibre consumers mainly in Sweden and Latvia. The large volumes of raw materials that the company handles offer good opportunities to optimise purchasing of certified wood within the group.

BillerudKorsnäs buys 80% of its wood from Sweden, 19% from Finland and the Baltic countries, and the remaining small amount from countries including Norway and the UK. The largest suppliers of wood raw materials are Bergvik Skog, Holmen, Mellanskog, Stora Enso and Sveaskog.

The wood raw materials come from forests certified under FSC and PEFC. The proportion that is not certified is controlled under FSC Controlled Wood and PEFC's criteria for the avoidance of raw material from controversial sources.

RESPONSIBLE FORESTRY

Demand for environmentally and climate smart products is growing, driving a future bio-based economy in which forestry products are expected to play a key role. Sustainable forestry is therefore of strategic importance for BillerudKorsnäs.

The Swedish Forestry Act states that forest production, nature conservation, cultural heritage preservation and reindeer husbandry must be taken into consideration. This partly involves replanting forests after felling and taking biodiversity into account.



Active forestry best for the climate

Sometimes it is asserted in the climate debate that for climate reasons forests should not be harvested at all but should be allowed to stand untouched. This would lead to an increase in the amount of CO₂ taken up and stored in the forest – at least until the trees die, rot and release it. However, the consequence would be a reduction in availability of wood raw materials and an increase in the use of fossil energy and fossil-based products, resulting in a greater burden on the climate.

If the forest is instead used sustainably and wood, biofuel and other forest products are used to replace fossil-based alternatives, this has a major positive impact on the climate. Swedish forests should therefore be used actively, so as to contribute towards slowing the greenhouse effect.

Source: Swedish Forest Industries Federation sustainability report 2012

Forestry is also regulated under the Swedish Environmental Code. BillerudKorsnäs endeavor sustainable forest management through targets, policies and guidelines backed by legislation and the management system ISO 14001 and by being certified under the forestry certification systems FSC and PEFC. The wood purchasing policy states that all wood purchasing must fulfil the criteria that no wood comes from harvesting which is illegal, has high conservation values or involves serious social conflicts. BillerudKorsnäs checks this through FSC Controlled Wood certification.

The company actively participates in the development of FSC certification, partly through involvement in the revision of the FSC's chain of custody standard which is to be completed in 2013.

LONG, SLENDER FIBRES

The pulp from Nordic forests is of high quality. Nordic slow-growing coniferous trees provide long, slender fibres, which make the pulp very strong. This helps to create high quality paper and results in a cost effective process for packaging producers because they can run the machinery faster with fewer interruptions.

THE FOREST PROVIDES BENEFITS
– Reduced climate impact

The forest acts as a carbon sink, i.e. it binds CO₂ which would otherwise accumulate in the atmosphere. Sustainable forestry that encourages forest growth cuts climate impact.

The Swedish Environmental Research Institute¹ has calculated that for a selection of BillerudKorsnäs' products emissions of CO₂ from production are less than the binding of CO₂ created through growth in the areas of forest required for equivalent production, all calculated as CO₂ emissions per tonne of board product.

BillerudKorsnäs' products, which often replace fossil-based products such as plastic, become part of the solution to the problem of the greenhouse effect. The combination of sustainable forestry, resource-efficient processes and products that are recyclable provides important climate benefits from a lifecycle perspective.

– Bioenergy as a waste product

BillerudKorsnäs uses waste felling products as biofuel in CHP plants. Bark, recovered liquor and other by-products are also used as fuel in the company's plants. Billerud-Korsnäs has been awarded EU funding to invest in a full-scale plant to produce pyrolysis oil, a green oil which is to be

manufactured from forest biofuel. Pyrolysis oil can be used as an alternative to fossil energy in CHP plants, producing a reduced climate impact.

– Protects biodiversity

To protect biodiversity, forest land, e.g. key biotopes, is set aside for nature conservation and to protect threatened species. Billerud-Korsnäs minimises the risk of felling in areas that are high in natural assets through its wood purchasing guidelines and by planning felling carefully. Employees within the forestry department are trained in nature conservation and the company sets high requirements in terms of the expertise of the contractor companies hired.

– Recreation and reindeer husbandry

In sustainable forests there is room for recreation, outdoor activities, hunting and reindeer husbandry. BillerudKorsnäs conducts an ongoing dialogue with local residents, property owners and the Sami. The purpose is to provide information on forestry and to take on board local opinion. Cooperation with the Swedish University of Agricultural Sciences (SLU) provides valuable contacts through lectures, forest trips and collaborative research.

COOPERATION REDUCES TRANSPORT

The forest industry has set up a timber exchange system to reduce transport to its production plants. BillerudKorsnäs seeks to purchase its wood as locally as possible. Raw materials are usually transported to the mills by road or rail, with a small proportion transported by ship. The end-products are 80% transported by rail or ship. Here the industry works with the company ScandFibre Logistics which optimises rail transport. Ships are also used, mainly to transport end products to customers, but also for transporting imported raw materials to the plants.



Forest in School

BillerudKorsnäs participates in the Forest in School initiative which opened a new school forest in Bomhus outside Gävle. In the school forest younger children find out about the forest while older ones learn about forestry, the forest eco-cycle and its importance for the climate.



The mark of responsible forestry

FSC® is an independent, international member organisation that works for the environmentally friendly, socially responsible and economically sustainable use of the world's forests. FSC is an abbreviation for the Forest Stewardship Council®.

FSC's main tool is developing rules and recommendations for responsible use of the forest. Those who want to follow the rules can have their forest management certified. The system is voluntary and global. The FSC's ten fundamental principles apply to certification worldwide.

The rules include protection for:

- endangered animals and plants
- the future ability of the land to grow forest
- safe and healthy working conditions for the people who work in the forest
- the rights of indigenous populations.

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, entrepreneur standards and chain of custody 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

¹ Eriksson, E., Karlsson, P-E., Hallberg, L., Jelse, K., Carbon Footprints of Cartons in Europe – carton footprint methodology and biogenic sequestration, IVL Swedish Environment Research Institute.



HIGH ENVIRONMENTAL PERFORMANCE AND ENERGY EFFICIENCY

BillerudKorsnäs works on energy efficiency improvements on an ongoing basis. The Swedish Energy Agency's PFE programme has been an important driving force in this work. In 2012 19 GWh were saved via various measures.

INTEGRATED PRODUCTION PRODUCES ENERGY GAINS

The company's Swedish production plants are largely integrated, which means that they produce pulp as well as paper and/or board. The green energy generated by pulp production is used in paper and board manufacture. The pulp is used directly in paper production without having to be dried, so saving energy.

OPERATING UNDER PERMITS

BillerudKorsnäs' operations require permits granted by the Swedish Environmental Court under the Swedish Environmental Code. During the year a new environmental ruling was issued for the production unit in Gävle in which the refurbishment or updating of existing water purification is assumed to be taken into operation before 1 July 2015.

No significant incidents involving breach of environmental criteria occurred during the past year.

EMISSION RIGHTS TRADING

BillerudKorsnäs is part of the EU's emission rights trading system. Emission rights allocated exceed BillerudKorsnäs' needs due to a constant reduction in CO₂ emissions. For the new trading period too, 2013-2020, the allocation is calculated to exceed needs, thanks to BillerudKorsnäs' low use of fossil energy compared with the industry in general in the EU.

NEW CHP PLANT UP AND RUNNING

The new biofuel-fired CHP plant is jointly owned by BillerudKorsnäs and Gävle municipality in equal shares via the newly formed company Bomhus Energy AB. The total investment amounted to SEK 1 800 million. The plant is on the BillerudKorsnäs site and is fired using bark from the facility, waste felling products from forestry and chips and wood residuals from the sawmill



The new CHP plant will result in a major reduction in fossil CO₂ emissions.

industry. The new turbine has a capacity of 85 MW. The biofuel boiler has a capacity of 150 MW and provides the mill with steam and approximately 17 500 households in the city of Gävle and nearby industry with heat. The investment cuts fossil CO₂ emissions by 64 000 tonnes a year, and accounts for a reduction in total emissions in Gävle of approximately 13%. BillerudKorsnäs' self-sufficiency in electrical energy has also increased as a result of the investment.

A MAJOR PRODUCER OF DISTRICT HEATING

BillerudKorsnäs works with local communities to save heating resources. In Gävle BillerudKorsnäs is responsible for approximately 50% of energy delivered to the district heating network. Over 86% of energy from the plant in Frövi is delivered to the municipality's district heating network. Rockhammar also shares its waste heat, which is used to heat a swimming pool and sports centre. Surplus heat from Skärblacka and Gruvön is also piped to the

district heating network, equivalent to 21 000 m³ oil during 2012.

WIND POWER OWNER

BillerudKorsnäs is a co-owner of two wind power companies and thus owns 21.3 GWh of wind power. As part of Sweden's energy-intensive industry, the company seeks to contribute towards greater volumes of sustainable electricity production in the country.

HIGH ENVIRONMENTAL PERFORMANCE

BillerudKorsnäs has high environmental standards in all its production units, a result of many years of active environmental initiatives, which will continue to be a key focus in the years ahead. To steer and work systematically, management systems for the environment, energy and quality are in place, as are policies on the environment, quality and energy. The production managers bear main responsibility for ensuring that the units comply with their permits. All units work together in an environmental



BillerudKorsnäs carries out water quality checks to analyse how emissions affect the water, known as recipient monitoring.

network and the employees are constantly trained on environmental issues.

ELECTRICITY CONSUMPTION CUT

Electricity consumption calculated as kWh/produced tonne has fallen 10% between 2008 and 2012. The cut is due to optimising production and projects directly aimed at reducing energy consumption, including within the Programme for energy efficiency improvements, PFE. During the year, specific projects led to a drop in electrical energy consumption of 19 GWh/year.

BillerudKorsnäs produced 885 GWh electrical energy in its own processes in 2012, which is an increase compared with the previous year.

PROPORTION OF BIOFUEL UP

The Group's heat energy and self-generated electricity needs were 96% met by biofuel in 2012. The proportion of biofuel increased during the year at the plants in Frövi and in Gävle. The long-term vision is to be completely independent of fossil fuels.

CO₂ EMISSIONS DOWN

Total fossil CO₂ emissions from production amounted to 54 kg/tonne of product in 2012 – a reduction of 10% compared with 2011 and 45% compared with the base year 2008. Purchase of fossil fuels per produced tonne continues the downward trend of the past few years as a result of investments, optimised operation and energy efficiency improvements.

Total emissions from transport were calculated as 64 ktonnes CO₂ per produced tonne, a reduction of about 3% compared with the previous year. Transport was divided into 40 ktonnes CO₂ for inward transport and 60 ktonnes for outward transport.

LOWER DUST EMISSIONS

Dust emissions per produced tonne continue to be reduced while other emissions to air, which mainly comprise sulphur and nitrogen oxides, remain relatively unchanged. The major investment at Skärblacka is expected to considerably reduce dust emissions from the recovery boiler in

the years ahead. In Karlsborg dust emissions from the recovery boiler have been cut by approximately two thirds thanks to a new electrical filter.

WATER CONSUMPTION

BillerudKorsnäs' operations require access to large amounts of water. The location of the production units close to big water sources enables the use of water without significant impact on the resource. Surface water is used in the processes, which is then cleaned in biopurification plants and returned to the vicinity of the water source.

EMISSIONS TO WATER

Emissions to water per produced tonne did not differ to any major extent compared with the previous year. Both COD, chemical oxygen demand, and phosphorus show a slightly downward trend. The factory in Gävle has cut its emissions of COD to water considerably in recent years.

MAJOR INVESTMENTS IN THE ENVIRONMENT AND ENERGY

Total environmental investments amounted to SEK 201 million in 2012.

In Skärblacka SEK 900 million is being invested in energy and environmental efficiency improvements. The investment will enable production capacity to be increased and is anticipated to cut energy costs considerably. Measures include the installation of a new evaporation plant which will replace three 1960s plants.

At the end of the year the major joint investment with Gävle municipality of SEK 1 800 million in a new biofuel-fired CHP plant was taken into operation. The investment will mean lower oil consumption, higher electricity production and greater provision of district heating.

A major environmental investment commenced in Karlsborg during the year. It involves collecting diffuse malodorous weak gases for incineration in the recovery boiler. In total the investment amounts to SEK 61 million and will become operational in autumn 2013. The measure will reduce emissions of sulphur to air.

SAFE USE OF CHEMICALS

Use of chemicals largely involves sodium hydroxide, sulphuric acid, sodium chlorate and coating chemicals used in digesters, bleaching plants and paper mills. Billerud-Korsnäs is surveying and working preventively to reduce chemical risks to the environment and risks of accidents. This work draws on the expertise of the County Administrative Board and the Swedish Work Environment Authority. There are chemicals groups at the plants which check all chemicals in relation to health, the working environment, the environment and product safety.

MINIMISING WASTE

BillerudKorsnäs seeks to minimise the amounts of waste sent to landfill and to reuse or recycle waste products as materials or energy. Waste from the production plants is divided into four main fractions:

- 🍃 Combustible organic process waste, which is mainly incinerated
- 🍃 Specific waste, e.g. fibre sludge which is composted
- 🍃 Landfill
- 🍃 Hazardous waste handled by authorised companies

	2012	2011	2010
Purchase of raw materials* (EN1)			
Wood, million m ³ sub	5.8	5.2	5.2
External fibres, ktonnes ¹	213	60	52
Heat energy* (EN3)			
<i>Biofuels:</i>			
Recovered liquor, GWh	5 818	5 260	5 230
Bark, wood residuals, GWh	1 751	1 760	1 700
Tar oil/tall oil, GWh	564	500	420
Steam, bought, GWh	193	-	-
<i>Fossil fuels*¹:</i>			
Oil, GWh	195	190	247
Liquefied petroleum gas, GWh	41	37	38
Natural gas, GWh	129	101	115
Electrical energy*			
Electricity purchased for the manufacturing process, GWh	892	736	822
Self-generated electricity, GWh	885	807	731
Use of chemicals* (EN1)			
Chemicals, ktonnes	179	150	151
Emissions to air* (EN20, EN16)			
Sulphur dioxide (calculated as S), tonnes	276	225	260
Nitrogen oxides, tonnes ⁵	1 749	1 620	1 670
Dust, tonnes	673	660	840
Carbon dioxide, fossil, ktonnes ²	89	82	104
Carbon dioxide, bio-generation, ktonnes	3 314	3 200	3 200
Water consumption* (EN8)			
Water consumption, million m ^{3,3}	127	116	116
Emissions to water* (EN 21)			
Process waste water, million m ³	99	91	93
COD, ktonnes	22	22	22
Substances in suspension, tonnes	2 606	2 400	2 500
Nitrogen, tonnes	279	270	290
Phosphorus, tonnes	33	35	35
Other outward deliveries*			
Heat energy, GWh ⁴	276	167	163
Tall oil, ktonnes	44	46	42
Turpentine, ktonnes	3	2.8	2.6
Key ratio*			
Proportion of fossil fuel, % ¹	4.3	4.2	5.2
Fossil CO ₂ per tonne product, kg/tonne ²	54	60	78
COD per tonne of product, kg/tonne	14	16	16
Nitrogen oxides per tonne of product, kg/tonne	1.1	1.2	1.3

¹ Fuel consumption from transport and vehicles is not included.

² Emissions from transport and vehicles are not included.

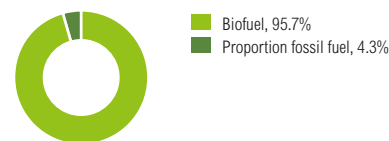
³ Surface water.

⁴ District heating for local community and industry.

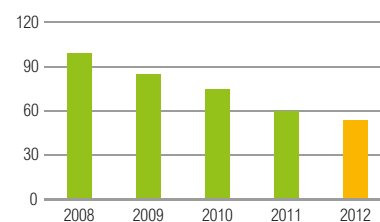
⁵ Online measurements.

* The figures refer to production units at BillerudKorsnäs.

FUEL CONSUMPTION 2012



FOSSIL CO₂ PER TONNE OF PRODUCT (KG/TONNE)



PRODUCTION AND ENVIRONMENTAL INVESTMENTS

	2012	2011	2010
Production*			
Total	1 650	1 353	1 330
Environmental investments (EN30)			
Environmental investments, SEK million ¹	201	95	32

¹ Process changes that reduce emissions.

* The figures refer to production units at BillerudKorsnäs.

COMMITTED EMPLOYEES

5



BillerudKorsnäs is characterised by short decision paths and an informal corporate culture. This is something that the company seeks to retain and safeguard even as it grows. Culture, values and leadership are an important part of the integration work which follows the Finnish acquisition and the merger with Korsnäs.

Two important events during the year were the acquisition of the two Finnish facilities and the formation of Billerud-Korsnäs following the merger with Korsnäs. Since 1 June employees have been working together to integrate the Finnish operations into the company. The merger with Korsnäs in November saw the introduction of a new change and integration process for all employees. As the company expands, internal communication has become an

increasingly important tool for describing the ongoing change process.

STAFF SURVEY

The staff survey completed in early 2012 achieved an impressive response rate of 84%. BillerudKorsnäs will prioritise health and safety and leadership in the immediate future. Examples of measures:

- All employees are encouraged to report incidents with the aim of preventing accidents
- Employees will be trained in safety procedures
- Annual performance reviews will be a priority
- Creating a leadership academy which includes a development ladder from new to experienced manager.

MORE EMPLOYEES

In practice the expansion means that Billerud-Korsnäs needs to build a new organisation to ensure that the right expertise is in the right place. The changes start at the highest level. The Senior Vice President, Corporate Human Resources is a member of the company's senior management team and responsible for strategic HR at Group level. In early 2012 the company employed a total of 2 277 people. With the deals completed during the year, at the end of the year the company had 4319 employees at 15 units and one head office and sales offices.

CHANGES IN THE BOARD

The establishment of BillerudKorsnäs led to changes in the composition of the Board of Directors. The average age of the new Board



is 54 years and 25% of the Board is female. Some changes were also made to the composition of the senior management team to merge the two companies and strengthen certain functions.

SAFETY NUMBER ONE

In 2012, training, risk analyses and audits of procedures were carried out as part of ongoing work to increase safety-consciousness among employees. Activities were carried out at Skärblacka and Karlsborg with the aim of changing safety culture. A major improvement was achieved on one of the paper machines at Skärblacka where no accidents occurred in 12 months. At Gruvön 90% of employees attended risk and safety training.

PIA PRODUCES RESULTS

PIA, the web-based tool for reporting and following up safety issues, has been used at the majority of production units since the end of 2011/early 2012. This has led to heightened awareness due to more reports of risks and near-misses, which form the basis of preventive safety work.

SKILLS DEVELOPMENT

Examples of skills development during 2012 include leadership development for new and more experienced managers and training in change management. The "aktiv vägval" programme is continuing, in which selected employees receive internal and external coaching to boost their personal development. The focus on the aim for all employees to receive performance reviews continues.

SUCCESS WITH TRAINEES

The trainee programme which concluded in August was extremely well received and the trainees have continued working at BillerudKorsnäs. A programme for vocational trainees has also been run successfully with the entire group gaining operational posts in the company. The aim is to start a new trainee programme for BillerudKorsnäs.

"EMPLOYER BRANDING"

BillerudKorsnäs is very active in the activities jointly run by the industry for students and "young professionals". Being nominated as the "Employer branding" company of the year bears witness to the fact that industry evenings, higher education meetings and fairs are appreciated. This, combined with an increased social media presence, has seen BillerudKorsnäs attracting great interest from the young target group. The company also climbed a few places among students in the annual Attractive employers survey.

IALOGUE BEFORE BOARD MEETINGS

Collective agreements apply within BillerudKorsnäs and all employees have the right to join the union of their choice. Before Board meetings a collaborative forum meets consisting of the CEO, Senior Vice President, Corporate Human Resources and employee representatives. The purpose is to conduct a dialogue on the questions that are important for employee-employer relations. BillerudKorsnäs also conducts a dialogue within the framework of European Works Councils (EWC).

NO CASES OF LEGIONNAIRE'S DISEASE

For a long time BillerudKorsnäs has managed the risk of Legionella bacteria which may arise in the biopurification plants used by the forestry industry. Procedures and systems for information to employees are in place.

DIVERSITY AND EQUALITY

The average age of employees at year-end was 47.2 years and 18% of employees were women, a reduction with 1% unit compared with the previous year. 32% of the managers appointed during the year were women. In the new senior management team appointed in December 2012 the average age is 49 years and 27% are women. BillerudKorsnäs runs various activities to even out the differences between the sexes.

SICK LEAVE

Sick leave during 2012 largely remained unchanged compared with the previous year. The total figure for the year was 3.1%, a decrease compared with 3.2% last year. The number of work-related injuries increased and activities to turn this trend around will continue in 2013.

FITNESS GRANTS

All BillerudKorsnäs employees are offered fitness activities on an annual basis. The most common measures are buying gym membership or going to the swimming pool and about half of employees take up these grants.

EMPLOYEE STATISTICS 2012

	TOTAL	SWEDEN	FINLAND	UK	BALTIC COUNTRIES	SALES OFFICE
Employees						
Average number of employees ¹ (LA1)	2 548	2 179	105	143	20	101
No. of employees at year-end	4 319	3 652	175	143	242	107
of whom women (LA13)	18	17	26	6	15	48
of whom covered by collective bargaining (LA4)	66	66	69	68	87	0
of whom white collar	34	34	31	32	13	100
Average age, years	47.2	47.7	43.0	49.1	43.0	43.7
Employee turnover	4.5	4.9	1	1		3
Sick leave (LA7)						
Total sick leave as % of hours worked	3.1	3.2	2	3.2		1
Work-related injuries						
No. of work-related injuries	55	50	1	4	0	0
Work-related injuries with sick leave	2.2	1.1	2.5	2.1	3.5	0

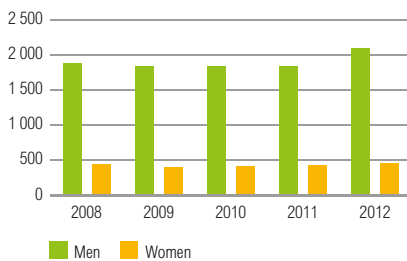
1 99% of employees in Sweden, Finland, UK and the Baltic countries are covered by collective agreements.

FIVE-YEAR OVERVIEW, EMPLOYEE STATISTICS

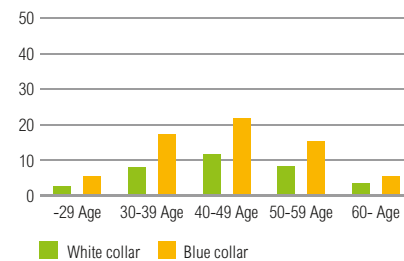
	2012	2011	2010	2009	2008
Average number of employees	2 548	2 277	2 240	2 232	2 322
No. of employees at year-end	4 319	2 287	2 263	2 214	2 281
Employee turnover, %	4.5	4.5	2.8	6	5.2
Average age, years	47.2	47.1	46.5	46.9	46.1
Work-related injuries ² , %	2.0	1.8	2.1	1.3	2
Total sick leave, %	3.1	3.2	2.9	2.8	3.5
of which long-term leave (> 60 days) of total sick leave, %	28.6	36.3	38.7	40.7	47.5

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

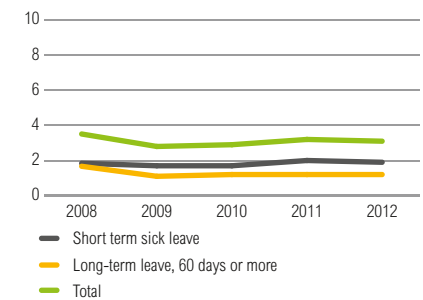
AVERAGE NUMBER OF EMPLOYEES (LA1, LA13)



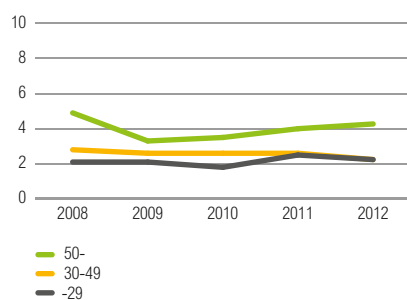
AGE DISTRIBUTION, % (LA4)



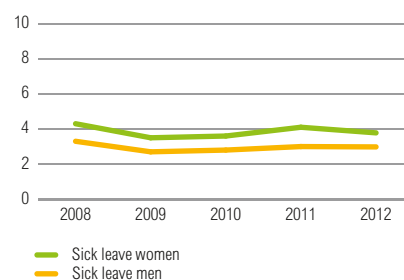
TOTAL SICK LEAVE, % OF TOTAL HOURS WORKED (LA7)



SICK LEAVE DIVIDED BY AGE AS % OF HOURS WORKED (LA7)



SICK LEAVE DIVIDED BY GENDER AS % OF HOURS WORKED (LA7)



POLICIES AND GUIDELINES

- Personnel policy
- Alcohol and drugs policy
- Pay policy

GUIDELINES ON

- Work environment
- Diversity
- Skills development
- Fitness
- Rehabilitation
- Maternity/paternity pay
- Recruitment



DOING BUSINESS RESPONSIBLY



BillerudKorsnäs does business in line with good business ethics, which strengthens trust among investors and customers. In the supplier chain BillerudKorsnäs sets requirements for environmental considerations and social responsibility.

The Code of Conduct was revised somewhat in 2012 and was also translated into Finnish. The new employees in Finland are already familiar with the content of the Code, which sets out BillerudKorsnäs' views on relations and responsibility. The Code of Conduct is an important tool in the ongoing integration process.

The purpose of the Code of Conduct, which was adopted by the Board in 2010, is to guide employees in their daily work. It is based on the UN Declaration on Human Rights and other international guidelines, such as the UN Global Compact, the OECD's guidelines for multinational com-

panies and the ILO's conventions on decent working conditions.

COMPLIANCE

The Ethics Council, which comprises the Senior Vice President Human Resources and the production plants' HR managers, received two reports of discrimination incidents in 2012. These were handled internally within the company according to applicable procedures. Incidents can also be reported to the audit committee and the employee is able to remain anonymous.

SUSTAINABLE DEVELOPMENT TARGETS

BillerudKorsnäs' Sustainability Manager reports to the Senior Vice President Business Support, who is a member of the senior management team. There is a Sustainability Council to integrate sustainability issues in

the company. The council is responsible for strategic work and following up results on a quarterly and annual basis. BillerudKorsnäs has set new targets for 2013 for environmental and employee issues. The targets cover the whole of the new Group.

POLICIES, GUIDELINES AND MANAGEMENT SYSTEMS

BillerudKorsnäs' policies and guidelines form the basis of governance of the company's operations. These are available on the intranet.

In operational work, procedures and results are steered via certified management systems. All production plants have environmental and quality management systems. In the UK a certified health and

The Code of Conduct covers the following areas

- ❖ **Compassion and responsibility** – rights and responsibilities as individuals
- ❖ **Care and consideration** – in relationships with customers and employees
- ❖ **A part of society** – responsibility for sustainable development locally and globally
- ❖ **Our employees** – a safe and stimulating working environment with a focus on equality
- ❖ **Consideration for the environment** – renewable raw materials and climate smart products
- ❖ **Our customers' confidence** – attentiveness and responsibility for the products
- ❖ **Close to our business partners** – good business ethics and an open dialogue
- ❖ **Responsibility to our owners** – long-term, stable and sustainable increase in value
- ❖ **Application and compliance** – code for everyone, incidents are reported



POLICIES AND GUIDELINES

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

safety management system is used. The Swedish production plants also have energy management systems and all production units have chain of custody certificate under FSC and PEFC. The purchasing company BillerudKorsnäs Skog has also chain of custody certificate under FSC and PEFC. For complete information about certificates and management systems, see www.billerudkorsnas.com.

NO INCIDENTS

BillerudKorsnäs has not had to investigate any of its business units or business partners on corruption grounds as no suspicions of irregularities have arisen. During the year procedures were tightened up regarding business in Belarus to ensure that the EU's sanctions are complied with.

The company had no corruption incidents in 2012. Nor was the company

the subject of any legal measures for anti-competitive behaviour, antitrust or monopoly practices.

The sales staff receive ongoing training in the Code of Conduct, which is a way for BillerudKorsnäs to handle the risk of incidents.

The Swedish Supreme Court is continuing to process the appeal made by BillerudKorsnäs in 2011 on the judgment on fines for deficiencies in the reporting of emissions rights in 2007. No fines or sanctions were imposed on BillerudKorsnäs for breach of the law or regulations in 2012.

CHILD LABOUR

The company judges that there is no risk of child labour at the suppliers. Production as well as the majority of its suppliers are in Europe. There are routines for supplier assessments.

SUPPORT TO CUSTOMERS

BillerudKorsnäs is a member of the European Sac Group and during the year helped to develop a quick guide to make it easier for customers to follow laws and regulations on food packaging. The company is active in a number of other partnerships and networks that seek to develop new knowledge or to drive certain issues, e.g. in the EU. Examples include:

- Confederation of European Paper Industries
- European Federation of Corrugated Board Manufacturers
- Miljöpack
- Normpack
- Paper Province
- The Swedish Forest Industries Federation
- ACE Alliance for Beverage Cartons and the Environment

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

Per Lindberg, President and CEO



AWARDS DURING 2012

Best Company
SWEDEN / MID CAP



IR Nordic
Markets
2012

Best IRO
SWEDEN / MID CAP



IR Nordic
Markets
2012

BEST MID CAP COMPANY AND BEST IR MANAGER

BillerudKorsnäs was awarded the prize of best Mid Cap company for the second year in a row for its IR work. The prize for best IR manager in a Mid Cap company went to IR Director Sophie Arnius also for the second year in a row.

AWARD	RECIPIENT	AWARDED BY	RECEIVED
Treasury Manager of the Year 2012	Magnus Lindberg	ibc Euroforum	2012
Liderpack Award - Beverage	Cycobox/FibreForm	Liderpack	2012
Liderpack Award - Food	Cycobox/FibreForm	Liderpack	2012
Ruter Rookie of the Year 2012	Annica Bresky	Ruter Dam	2012
Water Innovation Awards 2012	NINE	foodbev.com	2012



BILLERUDKORSNÄS TAKES RESPONSIBILITY

BillerudKorsnäs’ packaging material and packaging solutions protect and preserve their contents. The material meets requirements in terms of function and quality for its area of use and is safe to use for humans and the environment. The company’s products are used as packaging materials for food and drink, consumer and luxury goods, medicine and hygiene articles and in industry. Approximately 2/3 are used in packaging that comes into contact with food. These materials are subject to statutory requirements to protect human health and to prevent the material changing the taste, smell or composition of the food.

SYSTEM FOR SAFE PRODUCTS

The relationship with customers is characterised by reliability and safety. Customers must be able to trust that materials are produced, handled and delivered such that they meet all the customer’s requirements in terms of packaging for food or for their other intended purpose.

The business areas bear responsibility for ensuring that the right product is sold for the respective application. The plants are responsible for manufacturing pulp and paper and for ensuring that products comply with the requirements of EU regulations and applicable rules or requirements on other markets such as the US and in some cases China. To guarantee product safety the entire chain from raw materials to finished product is carefully managed

and monitored. Verifying that the products comply with statutory requirements and safety requirements is carried out through regular checks of process parameters and finished products. BillerudKorsnäs also hires external laboratories for analysis and document verifications. To support a systematic way of working, production units have various management systems, e.g. ISO 9001 (quality), ISO 14001 (environment) and ISO 22000 and FSSC 22000 (food safety).

WORKING TOGETHER AT THE HIGHEST LEVEL

BillerudKorsnäs has a network for collaboration on product safety. The Group keeps up to date on regulations, legislation and other product safety requirements. The Group deals with questions from customers and provides information and trains the organisation on product safety as required. When developing new products, work that is often carried out in close cooperation with customers, the product safety group is involved at an early stage.

The business areas and the product safety group communicate with authorities,

industry organisations and other bodies in the value chain on product safety issues. General product safety issues are taken to a forum whose participants include members of the top management, marketing and production.

NO INCIDENTS DURING THE YEAR

- BillerudKorsnäs received no complaints leading to fines or legal action on deficient product safety or incorrectly labelled products during the year.
- Nor has the company been reported for market communications infringements.

COMMUNICATING CORRECTLY

The marketing organisation and central purchasers are trained in market communication, in European marketing law and in general rules on good marketing practice. BillerudKorsnäs thus ensures that the law and standards on market communication are complied with. The Code of Conduct also guides the way employees relate to customers, which means high demands in terms of correct and fair communication.

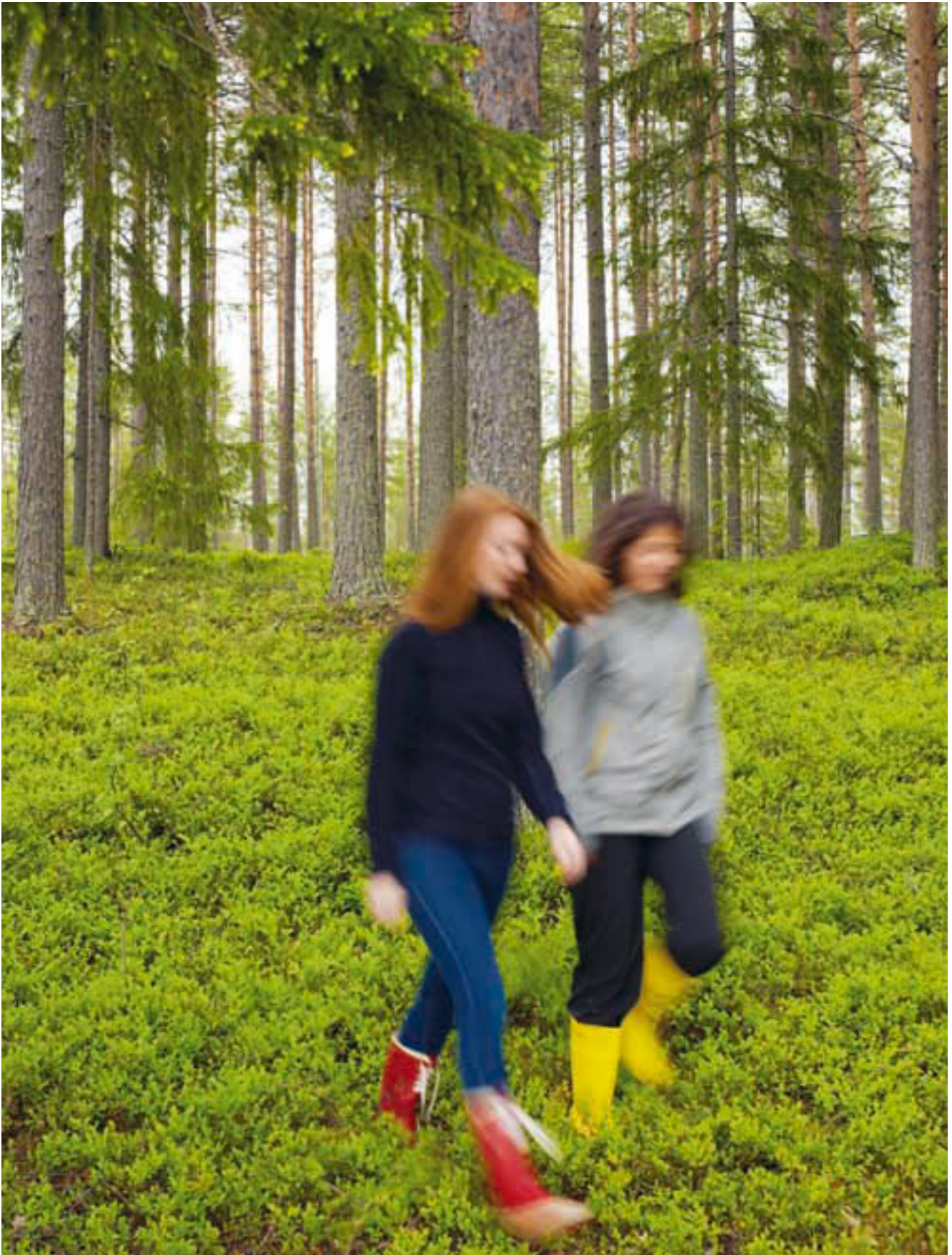
Examples of legislation and regulations that steer BillerudKorsnäs’ work on product safety:

EU Directives and Regulations

- 2001/95/EC (general product safety)
- EC 1935/2004 (framework for materials in contact with food)
- EC 2023/2006 (good manufacturing practice GMP)

Applicable articles of

- FDA (Food and Drug Administration - US law)
- BfR (Bundesinstitut für Risikobewertung - recommendation Germany)
- GB9685-2008 (Chinese standard on additives in food packaging materials)



INTERACTION WITH SOCIETY



The foundation Reach for Change, where BillerudKorsnäs is a main partner, supports Löparakademien – long distance running as a tool for training to reach personal goals.

BillerudKorsnäs works in places where the company is one of the largest employers, which makes the company a vital cog in society. The Group's delivery of district heating to local communities is one example of successful interaction with society. Ongoing dialogue with different stakeholders affects the business in different ways. See the next page for a summary of the channels and issues addressed in 2012.

STUDY VISITS AND WORK PLACEMENTS

BillerudKorsnäs' local involvement takes many different forms. The technology college Teknikcollege Gästrikland is one example in which the company is working with other regional businesses to improve the quality and the attractiveness of training courses. Often the production plants receive study visits from schools and offer work placements and student jobs. This is an effective way of spreading awareness of the company and its culture, while giving young people an insight into industry and the world of work.

DREDGING IN KARLSBORG

The company is involved in dredging work at the port of Karlsborg which started in 2012. Kalix municipality is the project owner and BillerudKorsnäs a part-financier. Dredging is important for the future of the municipality and for BillerudKorsnäs' ability to continue to ship its finished products by boat.

SKÄRBLACKA CELEBRATED ITS 50TH ANNIVERSARY

In some cases the entire local community is invited to visit the company, as was the case on 1 September when Skärblacka celebrated its 50th anniversary. More than 1 000 people participated in the guided tours offered.

GUIDED SUMMER TOURS AT GRUVÖN

Gruvön has a tradition of inviting in the general public once a year every summer. This is a valuable opportunity for the company to listen to people's opinions on the business and also for BillerudKorsnäs to pass on information.

OPINIONS OF INVESTORS

BillerudKorsnäs annually holds meetings with investors regarding the sustainability report, giving them an opportunity to state their opinions on the content. Generally investors have urged BillerudKorsnäs only to include information that is really relevant and to show how sustainability goes hand in hand with the company's strategies and business models.

LIFE GOALS VIA RUNNING

The Reach for Change foundation invests in social entrepreneurs who make children's and young people's lives easier. The basic philosophy is that one voice makes a difference and that everyone has the potential to create change, large or small. BillerudKorsnäs is one of the foundation's main partners. During the year entrepreneurs in Sweden, Ghana and Russia received funding from the foundation. Employees from BillerudKorsnäs have acted as advisors to the social entrepreneurs in Sweden and sat

on the jury to decide which entrepreneurs are to receive funding. One entrepreneur who received funding is John Lasalle, who founded the running academy 'Löparakademien'. He gives young people who are growing up in deprived suburbs better opportunities through a ten-week programme in which they train in setting and achieving personal goals using long-distance running as a tool.

EXTRAORDINARY GENERAL MEETING HELD

The annual general meeting gives all shareholders an opportunity to ask questions of the management team and the Board. No questions on sustainable development were raised either at the annual general meeting or at the extraordinary general meeting held in the autumn due to the merger with Korsnäs.

OPINIONS ON THE SUSTAINABILITY REPORT

BillerudKorsnäs encourages readers of this sustainability report to contact the company with questions on the contents or thoughts about BillerudKorsnäs' sustainability priorities.

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STAKEHOLDER MODEL

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 companies financial information and best Investor Relations Manager, Participated in the report Sustainable Value Creation.
CUSTOMERS	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. Environmental declarations.
	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.
EMPLOYEES	Existing employees	Workplace meetings, Management meetings, Internal training, Staff survey, 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.
	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 for 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 approaches, 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 for and understanding of each other's situation and actions.
	Schools and universities	Regular contact with education institutions, Study visits, Forest in School, lectures.	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.

SUSTAINABILITY TARGETS 2012

The follow-up of the sustainability targets on pages 54-55 only includes the original Billerud units. For the new sustainability targets for the whole new Group, see page 56.

1. EMISSIONS OF FOSSIL CARBON DIOXIDE (CO₂)



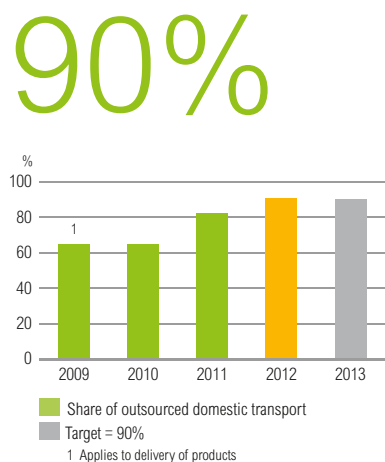
Emissions of fossil CO₂ from the manufacturing process per tonne of product will be cut by 30% by 2013 (base year 2008).

Emissions of fossil CO₂ are considered to have a major impact on climate change. The company's aim is to cease using fossil oil in manufacturing processes in the long term.

2012

Trend of falling CO₂ emissions continued in 2012. Calculated from the base year 2008 BillerudKorsnäs has cut carbon dioxide emissions by 45%, which means that the target has already been met. This is the result of continuous initiatives to improve the energy efficiency of the entire business.

2. TRANSPORT



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

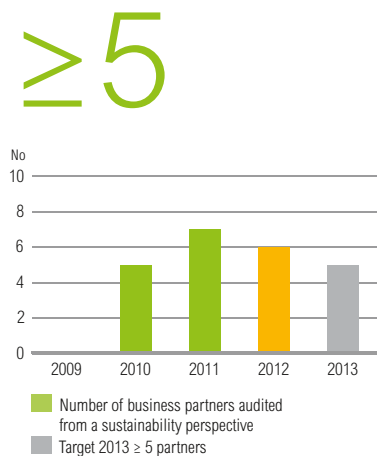
The company is to develop the most efficient transport solutions possible for raw materials and other materials into the factories and products out of the factories, with a view to cutting emissions of fossil CO₂ from transport.

2012

BillerudKorsnäs' deliveries of pulp and paper within Sweden were 90% carried out by drivers trained in eco-driving. The corresponding figure for deliveries of pulpwood to production plants within Sweden was 92%.

Eco-driving is working very well. Monitoring shows that fuel costs are lower due to less idling, lower speeds and increased engine braking. Servicing costs are also reduced as there is less wear on brakes and tyres. Drivers also experience less stress when they drive more calmly.

3. BUSINESS PARTNERS



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

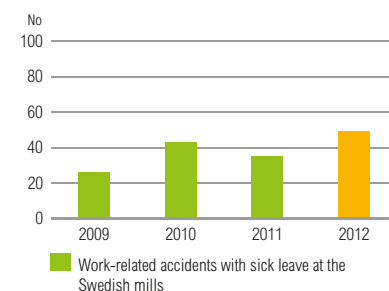
In addition to being evaluated on the basis of commercial targets, business partners must also be evaluated from an environmental and social perspective. The aim of the audit is to ensure that the company's supply chain meets sustainability standards.

2012

The target was achieved as 6 suppliers were evaluated on the basis of sustainability criteria via on-site visits, equivalent to approximately 10% of this year's purchasing volume.

The suppliers covered by the target are selected annually on the basis of certain criteria, including the strategic importance of the supplier. Some may be checked every year, others are selected at regular intervals.

4. 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. The company constantly strives to develop a way of working and a follow-up system that will prevent all work-related accidents in the long term.

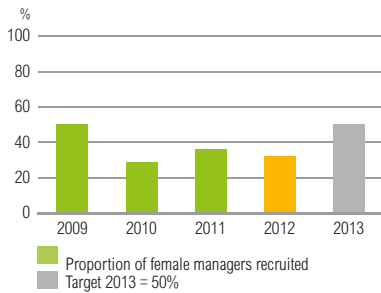
2012

There were a total of 49 work-related accidents with sick leave during 2012. This is an increase compared with last year. This is a high priority area for BillerudKorsnäs which requires ongoing training and information. Employees at Gruvön and Skärblacka were trained in workplace safety during the year. This area will continue to be in focus in 2013.

No fatal accidents occurred in 2012.

5. DIVERSITY AND GENDER EQUALITY

50%



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

It is important for the company to create an organisation that uses 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.

2012

During 2012, 32% of managers recruited were female, a reduction compared with last year.

One good example is the production plant in Karlsborg where the proportion of women in management increased to 45% in 2012.

6. SKILLS

100%



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

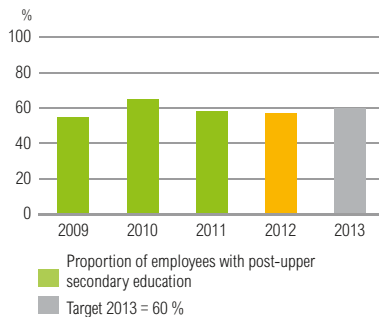
Since skills are such a key factor for motivated employees, improving skills is a constant area of focus.

2012

In 2012, 73% of employees received personal feedback in a performance review. There will be a continued focus on leadership development and employeeship in the year ahead in order to get closer to the final target of 100%.

7. SKILLS

60%



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

2012

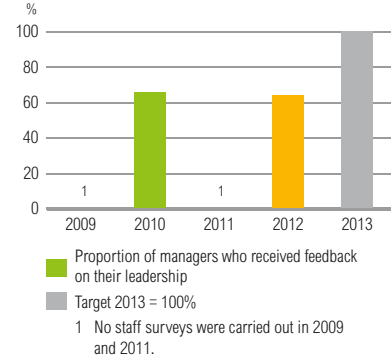
57% of new employees in 2012 had post-upper secondary education. Continued good relationships with schools and universities will enable the target to be reached and maintained.

8. LEADERSHIP

100%

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.

2012

The staff survey in 2012 gave 64% of all managers feedback on their performance. Managers with fewer than five employees do not receive personal feedback via the staff survey. Leadership development will continue to be a priority issue in the year ahead.

9. MANAGEMENT RECRUITMENT

3



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

2012

On average 1.9 candidates for each management post were internal. Continued development of in-house staff, e.g. through the 'aktivt vägval' careers programme and skills development, will help to achieve the target.



SUSTAINABILITY TARGETS 2013

Base year 2012

1. FOSSIL-FREE PRODUCTION

TARGETS

- Emissions of fossil carbon dioxide per tonne of product in the manufacturing process are to be reduced.
- The proportion of bioenergy used in the manufacturing process is to be increased.

2. HIGHER ENERGY EFFICIENCY

TARGETS

Lower energy consumption, heating and electricity, measured as kWh/tonne of product.

3. SKILLS/COMPETENCE AND EQUAL OPPORTUNITY

TARGETS

- The proportion of women employees and women managers is to be increased.
- A higher proportion of employees is to be provided with performance reviews.
- The proportion of employees with post-upper secondary education is to be increased.

4. HEALTHY WORK ENVIRONMENT AND SAFETY

VISION

Zero work-related accidents.

TARGETS

The number of work-related accidents is to be reduced, measured as number/100 employees.

5. LOW SICK LEAVE

TARGETS

Sick leave is to be reduced

6. SUSTAINABILITY IMPROVEMENTS IN DELIVERY CHAIN

TARGETS

No less than 10 suppliers are to undergo sustainability audits annually.

7. CERTIFIED WOOD RAW MATERIALS

TARGETS

Increase the number of group-certified forest owners included in BillerudKorsnäs' FSC/PEFC group certificate.

THIS YEAR'S REPORT

REPORTING AT GRI LEVEL A

BillerudKorsnäs' annual sustainability report aims to follow up the performance of the year from an environmental, social and economic perspective. It is primarily geared to the capital market.

The report has been drawn up according to the Global Reporting Initiative (GRI) G3 standard for sustainability reporting. It complies with the highest level, level A. BillerudKorsnäs has chosen to have a third party check of the report carried out. This means that a third party, in this case the auditor of BillerudKorsnäs, examines the company's own assessment that the report contains the information that matches the standard for level A¹. The report also acts as a Communication on Progress (COP) disclosure for the UN Global Compact.

PARTLY INTEGRATED

The sustainability report is targeted at investors and has therefore undergone a selection process to report the indicators that are most relevant to this target group. Supplementary sustainability information is provided on BillerudKorsnäs' website www.billerudkorsnas.se. Information with a bearing on sustainable development is in the full annual report, with the greatest concentration on pages 34-58.

Reporting of aspects concerning human rights is limited as BillerudKorsnäs' production activities, including the main part of its supplier chain, are restricted to Europe. BillerudKorsnäs therefore judges the risk of incidents infringing human rights to be very limited.

LIMITATIONS

The principle of the company's sustainability reporting is to include all majority-owned companies. Regarding the investment in the Finnish plants from UPM during the year, BillerudKorsnäs has chosen to include these figures for the 7 months of 2012 in which they were part of the business. The acquisition took place in the middle of the financial year.

The sustainability report reflects BillerudKorsnäs' joint operations where the data for the different indicators covers Billerud's operations for January to December, with the addition of Korsnäs' operations in the month of December. This reporting principle follows the principle chosen for the financial reporting.

COMPARABILITY

BillerudKorsnäs produces a complete sustainability report every year. The results which form a basis for the indicators are followed up within the company on a quarterly basis. BillerudKorsnäs' CO₂ emissions from transport to and from the production units are based on NTM's basic freight calculation formula (www.ntmcalc.org). Otherwise GRI's guidelines for calculating indicators have been used. In general no procedures for the calculations have been changed and they are entirely comparable with the previous year.



¹ Ernst and Young's review report, see www.billerudkorsnas.com/sustainability

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1 For complete GRI index and materiality analyses see www.billerudkorsnas.com/sustainability

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2012



DIRECTORS' REPORT

The Board and CEO of BillerudKorsnäs AB (publ), corporate identity number 556025-5001, herewith submit the annual report and the consolidated annual accounts for the 2012 financial year.

In the second quarter of 2012, UPM's packaging paper operations in Pietarsaari and Tervasaari in Finland were acquired. The transaction significantly reduces company's pulp exposure and strengthens its offering in the packaging paper area.

The combination with Korsnäs was completed at the end of the year by acquisition of all shares outstanding in Korsnäs AB from Kinnevik on 29 November 2012. The new company, Billerud-Korsnäs, will be a leading player in primary fibre-based packaging materials and packaging solutions.

BillerudKorsnäs' operating profit declined in 2012 to SEK 489 million. This was SEK 489 million, or 50%, lower than in 2011. The decline was mainly the result of lower prices in local currency and a less favourable currency situation.

BillerudKorsnäs Corporate Governance Report appears on pages 106-115.

Market

BillerudKorsnäs offers the global packaging market innovative and sustainable products and services. The Group has a leading position in primary fibre-based packaging paper and cartonboard. The trend for the packaging market remains positive in the long term, primarily due to increased globalisation, greater prosperity and changes in consumption patterns. In addition to packaging materials, Billerud-Korsnäs sells long-fibre pulp, Northern Bleached Softwood Kraft (NBSK), which is not used in its own production. BillerudKorsnäs' customers are primarily in Europe, although more and more deliveries are going to other parts of the world.

During the first half-year operations were divided into the three business areas, Packaging & Speciality Paper, Packaging Boards and Market Pulp. In the third quarter, Market Pulp was integrated into Packaging & Speciality Paper. When the combination with Korsnäs was finalised on 29 November 2012, a new business area organisation was implemented in the shape of the three business areas Packaging Paper, Consumer Board and Containerboard.

Packaging Paper corresponds to the former Business area Packaging & Speciality Paper business area. Consumer Board includes the liquid and packaging board business that were part of the Korsnäs acquisition, together with the Cup Stock and liquid board products previously included in Packaging Boards business area. Containerboard corresponds to the former Packaging Boards business area, excluding Cup Stock and liquid packaging board.

Order levels were normal during the year, and relatively stable for the packaging paper segments. Prices in local currency were lower than in the preceding year. A less favourable currency situation resulted in further deterioration in prices in SEK. For further market information, see the relevant business area section.

In 2012, BillerudKorsnäs' total sales volume amounted to 1 592 000 tonnes, an increase of 18% from the previous year. The increase was primarily attributable to the two acquisitions made during 2012.

SALES VOLUMES BY BUSINESS AREA

'000 tonnes	2012	2011
Packaging Paper	1 011	850
Consumer Board	71	-
Containerboard	510	504
Total	1 592	1 354

NET SALES BY BUSINESS AREA

SEKm	2012	2011
Packaging Paper	6 837	6 045
Consumer Board	508	-
Containerboard	2 594	2 772
Other units	393	296
Currency hedging, etc.	95	230
Group staff and eliminations	-	-
Total	10 427	9 343

NET SALES BY GEOGRAPHIC AREA

SEKm	2012	2011
Germany	1 479	1 334
Italy	1 235	1 135
Sweden	905	995
United Kingdom	736	732
Spain	712	691
France	502	479
Rest of Europe	2 087	1 595
Rest of the world	2 771	2 382
Total	10 427	9 343

Net sales and profits

Net sales amounted to SEK 10 427 million, an increase of 12%, as a result of higher volumes.

Operating profit halved to SEK 489 million, mainly as a result of lower prices in local currency and a less favourable currency situation.

Higher sales volumes, deriving above all from the two acquisitions made during 2012, contributed SEK 577 million. Variable costs fell by SEK 251 million, of which lower wood prices accounted for SEK 207 million and lower electricity prices for SEK 35 million. The increase of SEK 454 million in fixed costs was mainly due to the acquisitions. This was partly because the businesses acquired were not part of the Group in 2011 and partly because of acquisition-related non-recurring costs for consultation and integration (SEK 114 million). An operating margin of 5% (10) was recorded.

Figures for the preceding year are in parentheses - 2012 (2011).

CHANGE IN OPERATING PROFIT FROM CORRESPONDING PERIOD PREVIOUS YEAR

SEKm	2012-2011	2011-2010
Sales and production volumes, including product mix	577	22
Selling prices in respective sales currency	-573	943
Compensation for strike	-	-77
Change in variable costs	251	-243
Change in fixed costs	-454	-92
Change in depreciation, amortisation and impairment	-95	-4
Effects of exchange rate fluctuations, including hedging ¹	-195	-608
Total change in operating profit	-489	-59

1 Effects of exchange rate fluctuations totalling SEK -195 million comprise the following components: change in spot rates SEK -61 million, currency hedging SEK -48 million and currency effects from remeasurement of trade receivables and payments from customers etc. SEK -86 million.

Net financial items totalled SEK -87 million (-45). Profit before tax was SEK 402 million and estimated tax SEK 275 million. The lowering of the tax rate in Sweden from 26.3 to 22% had a positive impact on equity of approximately SEK 500 million. Net profit totalled SEK 677 million.

SUMMARISED INCOME STATEMENT

	2012	2011
Net sales, SEKm	10 427	9 343
Operating profit, SEKm	489	978
Operating margin, %	5	10
Profit/Loss before tax, SEKm	402	933
Net profit, SEKm	677	683
Earnings per share, SEK	5.14	5.34

Return on equity for the period was 13% (14) and return on capital employed was 8% (20). A dividend of SEK 2.00 per share is proposed (3.50).

OPERATING PROFIT/MARGIN PER BUSINESS AREA

	2012		2011	
	SEKm	%	SEKm	%
Packaging Paper	352	5	514	9
Consumer Board	35	7	-	-
Containerboard	219	8	370	13
Other units	48		35	
Currency hedging, etc.	95		230	
Group staff and eliminations	-260		-171	
Total	489	5	978	10

For quarterly data, see page 118.

Earnings per operating segment

BillerudKorsnäs' operating segments in accordance with IFRS 8 have been identified and reflect its three business areas: Packaging Paper, Consumer Board and Containerboard. See Accounting policies on page 82.

Packaging Paper

Packaging Paper offers premium-quality kraft and sack paper, as well as functional solutions for many applications, including packaging for foodstuffs, industrial purposes, medical applications and carrier bags, for customers with exacting requirements.

The business area also sells any surplus of pulp that Billerud-Korsnäs does not use in its own production. Historically, Billerud-

Korsnäs has sold approximately 325 ktonnes of market pulp annually. The Packaging Paper business area also buys pulp for its paper production in Finland and the UK. As a result, the business area's net exposure in market pulp is estimated to average approximately 30 ktonnes annually. The business area's largest markets are Europe and Asia.

At the start of the fourth quarter 2012, the Packaging & Speciality Paper business area was renamed Packaging Paper. The Finnish business acquired from UPM has been consolidated since 1 June 2012, and is included in Packaging Paper.

Operating profit fell by SEK 162 million to SEK 352 million compared with 2011. The decline arose above all through lower prices for both packaging paper and pulp. Price increases in local currency for packaging paper were implemented from the beginning of the second quarter of 2012. The volume increase, mainly arising from the acquisition in Finland and lower variable costs, impacted favourably on operating profit.

Market Development

Order levels were normal during the year, and relatively stable for packaging paper. Prices in local currency were somewhat lower than in the preceding year. A less favourable currency situation resulted in further deterioration in prices in SEK. The market for NBSK pulp weakened through the major part of the year, but recovered in the fourth quarter. Prices in Europe fell to approximately USD 810 per tonne at year-end, compared with approximately USD 825 per tonne at the beginning of the year. A price increase to USD 840 per tonne was announced for January 2013.

Consumer Board

The Consumer Board business area develops and markets high-quality cartonboards used in packaging for beverages, yoghurts, refrigerated and frozen food products and other consumer goods. Smart solutions in function, design and material selection add further value for the customer. Europe is the largest market.

Consumer Board has been a new business area in the Group since 29 November 2012. The business area includes the liquid and packaging board activities that were part of the Korsnäs acquisition, together with the sales of the Cup Stock and liquid board products that were previously included in the Containerboard business areas (formerly Packaging Boards).

Operating profit totalled SEK 35 million in both the fourth quarter and the full year 2012, since the business area was established on 29 November 2012. Adjusted to discount the reduction in surplus value of SEK 36 million in the inventory of finished products acquired, operating profit totalled SEK 71 million.

Market Development

The order situation in the fourth quarter was stable, compared with the preceding quarter. Consumption of liquid and packaging board was normal and demand stable. Prices in local currency were stable, compared with the preceding quarter. Customers in packaging board were somewhat hesitant towards the end of the quarter, but the order situation for the season was satisfactory.

Containerboard

The Containerboard business area offers corrugated board raw material that provides light but strong packaging for demanding transportation uses and primary packaging. An important part of the offering is consultation for packaging optimisation and efficient logistical flows.



At the start of the fourth quarter 2012, the Packaging Boards business area was renamed Containerboard. On 29 November 2012, the business area incorporated the White Top Liner business, part of the Korsnäs acquisition. At the same time, sales of the Cup Stock and liquid board products were transferred to the Consumer Board business area.

Operating profit fell by SEK 151 million to SEK 219 million compared with 2011. Less favourable prices were partly balanced by higher volumes and lower variable costs.

Market Development

The order situation improved somewhat during the year. The weakening that took place at the end of the quarter was seasonal. Prices in local currencies fell over the first half-year but improved in the second half as a result of price rises and a better customer/geographic mix. Results were adversely affected by a less favourable currency situation during the year.

Investments and capital employed

Gross investments including company acquisitions amounted to SEK 9 903 million (512) in 2012. Environmental and energy investments at Skärblacka amounted to SEK 463 million during 2012. In 2012, the Group acquired UPM's packaging paper operations at a cost of SEK 1 073 million, and Korsnäs at a cost of SEK 7 875 million, represented by net assets acquired less cash.

BillerudKorsnäs' capital employed at 31 December 2012 totalled SEK 17 512 million (4 639). Return on capital employed, calculated over the past 12-month period, amounted to 8% (20). If the effects of currency hedging are excluded, return on capital employed was 5% (16). Return on equity after tax was 13% (14).

Cash flow and financial position

STATEMENT OF CASH FLOWS, SUMMARY

SEKm (positive figure indicates reduction in debt)	2012	2011
Operating surplus, etc.	1 284	1 604
Change in working capital, etc.	132	-113
Net financial items, taxes, etc.	-414	-219
Cash flow from operating activities	1 002	1 272
Current net investments	-952	-510
Operating cash flow	50	762

Cash flow from operating activities in 2012 amounted to SEK 1 002 million (1 272) and the operating cash flow was SEK 50 million (762). Net interest-bearing debt on 31 December 2012 was SEK 8 021 million (-233). The Group's net debt/equity ratio at the end of the period was 0.85 (-0.05). BillerudKorsnäs' financial target for its net debt/equity ratio is that it shall be less than 0.90.

Significant risks and uncertainties

BillerudKorsnäs' products are generally dependent on the business cycle, in terms of both price development and potential sales volumes. The Group is exposed to currency fluctuations, since most revenues are invoiced in foreign currency, while a large part of operating expenses are in SEK.

For a more detailed description of risks and a sensitivity analysis, see pages 75-80.

Tax position

The Group's effective tax rate is estimated at about 22.0%–22.5% normally. Effective 1 January 2013, Sweden's statutory tax rate was

reduced from 26.3% to 22.0%. The tax rate in the foreign subsidiaries is on average somewhat higher than the Swedish tax rate. The tax expense for 2012 was affected in a major way by the tax reduction effective from the beginning of 2013. The tax expense for 2012, disregarding this effect, is estimated at SEK 139 million, equivalent to a tax rate of 34.6% (26.8).

Parent company

The parent company BillerudKorsnäs AB includes the Gruvön production unit, the sales organisation for the Nordic market and markets outside Europe, and the head office functions.

Net sales for 2012 amounted to SEK 4 160 million (4 151). Operating profit totalled SEK 203 million, SEK 326 million lower than in 2011. The decline was mainly attributable to a weaker operating profit for the Gruvön production unit and a lower gain from currency hedges.

The parent company hedges both its own and the Group's net currency flows. The parent company's earnings include the results of these hedging measures. This result amounted to SEK 142 million (190) in 2012.

In 2012, investments in property, plant and equipment and intangible assets excluding shares totalled SEK 160 million (201). The average number of employees was 941 (937). Cash and bank balances and short-term investments amounted to SEK 556 million (842).

Environment and permit issues

BillerudKorsnäs has six operations in Sweden, two in Finland and one in the UK that require permits under environmental legislation. These permits apply to the production of pulp and paper. BillerudKorsnäs has all official permits necessary to conduct operations at the volumes produced in 2012. The environmental impact of operations is mainly in the form of emissions to air and water and the creation of waste and noise.

BillerudKorsnäs' Swedish production units have been awarded emission rights for carbon dioxide (CO₂) within the EU.

Long-term incentive programme (LTIP 2010)

The 2010 AGM approved the introduction of a long-term incentive programme (LTIP 2010) for BillerudKorsnäs and transfer of holdings of its own shares for that purpose.

The Board's main objective in proposing LTIP 2010 is to strengthen BillerudKorsnäs' ability to retain the best talent for key leadership positions. A further purpose is to encourage greater efforts among senior executives and other key individuals whose input has a direct impact on BillerudKorsnäs' earnings, profitability and growth in value, by aligning their interests and perspectives with those of the shareholders.

LTIP 2010 comprises in total no more than 90 senior executives and other key individuals in the BillerudKorsnäs 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 BillerudKorsnäs shares referred to as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2010 is entered into and ends when BillerudKorsnäs 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 BillerudKorsnäs shares provided that certain criteria are met. For both types of rights, the participant must remain throughout the vesting period an employee of the BillerudKorsnäs Group and must not sell his/her saving shares. In addition, to qualify

for rights to performance shares, additional financial performance targets must be met. These performance targets are linked to BillerudKorsnäs' average operating margin for the period 2010-2012 in absolute terms and relative to a benchmark group consisting of specially selected companies, as well as to BillerudKorsnäs' total return for the period 2010-2012 in comparison with the total return for the same period for a benchmark group consisting of specially selected listed Nordic companies.

On 31 December 2012, LTIP 2010 comprised 58 197 saving shares in total, which entails the allocation of in total no more than 290 985 BillerudKorsnäs shares, taking into account the effect of dilution on completion of a preferential rights issue. Moreover LTIP 2010 consists of an additional 109 000 BillerudKorsnäs shares that are related to shares that can be transferred by BillerudKorsnäs for the purpose of covering certain costs, chiefly social fees. Thus the maximum number of BillerudKorsnäs shares included in LTIP 2010 is 399 985, corresponding to about 0.2% of the total number of BillerudKorsnäs shares outstanding.

Based on a theoretical assumption of an annual 10% increase in share price, from SEK 37.75 (recalculated after dilution) when the programme started, and a vesting period of three years, the cost of LTIP 2010 including social fees is estimated at approximately SEK 8 million, which, on an annualised basis, corresponds to about 0.3% of BillerudKorsnäs' total employee benefits expense during the 2012 financial year. The maximum cost of LTIP 2010 based on the above assumptions is estimated at about SEK 22 million, including SEK 15 million in social fees. In 2012, SEK 1 million was charged to operating profit.

For further details of the programme, see the press release dated 24 March 2010 and the documents for the 2010 AGM, which are available on the BillerudKorsnäs website.

Long-term incentive programme (LTIP 2011)

The 2011 AGM approved the introduction of a long-term incentive programme (LTIP 2011) for BillerudKorsnäs and in that connection a transfer of its own holding of its own shares. BillerudKorsnäs has another, earlier, incentive programme in progress (LTIP 2010). The purpose of LTIP 2011 is partly to increase BillerudKorsnäs' ability to retain its best talents for critical leadership positions, and partly to encourage those participating into greater efforts, by linking their interests and viewpoints with those of the shareholders. The programme extends to no more than 20 senior executives and other key people in the BillerudKorsnäs 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 BillerudKorsnäs shares known as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2011 is entered into and ends when BillerudKorsnäs releases its interim report for the first quarter of 2014, those participating 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 BillerudKorsnäs shares provided that certain criteria are met. For both types of rights, the participant must remain throughout the vesting period an employee of the BillerudKorsnäs Group and must not sell his/her 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) BillerudKorsnäs' average operating margin for the period 2011-2013 in

absolute terms; (b) BillerudKorsnäs' operating margin in relation to that of a benchmark group consisting of specially selected listed Nordic companies for the same period; (c) BillerudKorsnäs' 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.

On 31 December 2012, LTIP 2011 comprised 22 056 saving shares in total, which entails the allocation of in total no more than 110 280 BillerudKorsnäs shares, taking into account the effect of dilution on completion of a preferential rights issue. Moreover LTIP 2011 consists of an additional 64 000 BillerudKorsnäs shares that are related to shares that can be transferred by BillerudKorsnäs for the purpose of covering certain costs, chiefly social fees. Thus the maximum number of BillerudKorsnäs shares included in LTIP 2011 is 174 280, representing about 0.1% of the total number of BillerudKorsnäs shares outstanding and number of votes outstanding.

Based on a theoretical assumption of an annual 2% increase in share price, from SEK 51.20 (recalculated after dilution) when the programme started, and a vesting period of three years, the cost of LTIP 2011 is estimated at about SEK 3 million, including social fees of SEK 1 million. The maximum cost of LTIP 2011 based on the above assumptions is estimated at about SEK 10 million, including SEK 6 million in social fees. In 2012, SEK 0 million was charged to operating profit.

For further details of LTIP 2011, see the press release dated 30 March 2011 and the documents for the 2011 AGM, which are available on the BillerudKorsnäs website.

Long-term incentive programme (LTIP 2012)

The 2012 AGM approved the introduction of a long-term incentive programme (LTIP 2012) for BillerudKorsnäs and in that connection a transfer of its own holding of its own shares. BillerudKorsnäs has two other, earlier, incentive programmes in progress (LTIP 2010 and LTIP 2011). The purpose of LTIP 2012 is partly to increase BillerudKorsnäs' ability to retain its best talents for critical leadership positions, and partly to encourage those participating into greater efforts, by linking their interests and viewpoints with those of the shareholders. The programme extends to no more than 20 senior executives and other key people in the BillerudKorsnäs Group. LTIP 2012 has a term of three years starting in 2012 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 2012, a person must own BillerudKorsnäs shares referred to as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2012 is entered into and ends when BillerudKorsnäs releases its interim report for the first quarter of 2015, those participating 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 BillerudKorsnäs shares provided that certain criteria are met. For both types of rights, the participant must remain throughout the vesting period an employee of the BillerudKorsnäs Group and must not sell his/her 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) BillerudKorsnäs' average operating margin for the period 2012-2014 in absolute terms; (b) BillerudKorsnäs' operating margin in relation to that of a benchmark group consisting of specially selected listed Nordic companies for the same period;



(c) BillerudKorsnäs' total return for the period 2012-2014 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.

On 31 December 2012, LTIP 2012 comprised 45 294 saving shares in total, which entails the allocation of in total no more than 224 470 BillerudKorsnäs shares, taking into account the effect of dilution on completion of a preferential rights issue. Moreover LTIP 2012 consists of an additional 57 000 BillerudKorsnäs shares that are related to shares that can be transferred by BillerudKorsnäs for the purpose of covering certain costs, chiefly social fees. Thus the maximum number of BillerudKorsnäs shares included in LTIP 2012 is 281 470, representing about 0.1% of the total number of BillerudKorsnäs shares outstanding and number of votes outstanding.

Based on a theoretical assumption of an annual 2% increase in share price, from SEK 46.80 (recalculated after dilution) when the programme started, and a vesting period of three years, the cost of LTIP 2012 is estimated at about SEK 3 million, including social fees of SEK 1 million. The maximum cost of LTIP 2012 based on the above assumptions is estimated at about SEK 9 million, including SEK 6 million in social fees. In 2012, SEK 1 million was charged to operating profit.

For further details of LTIP 2012, see the press release dated 2 April 2012, as well as the documents for the 2012 AGM, which are available on the BillerudKorsnäs website.

Product and process development

The costs of product and process development, to the extent attributable to research activities, are charged to profit in the year that they arise. In the past year, such costs accounted for approximately 0.2% of BillerudKorsnäs' operating costs.

Seasonal factors

BillerudKorsnäs' business is to a relatively limited extent subject to seasonal fluctuations. Periodical maintenance shutdowns have the largest impact, as each production unit halts production for around one week. The loss of production results in somewhat lower deliveries over an extended period before, during and after the shutdown.

BillerudKorsnäs' costs are relatively stable throughout the year. Fixed costs are slightly lower in the summer, however, due to fewer maintenance projects and lower seasonal employee benefits expense. 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 ongoing maintenance during production, BillerudKorsnäs' production units normally also require more extensive maintenance at some point during the year. In order to carry out maintenance, production of pulp, paper and board is stopped in what are known as maintenance shutdowns. The principal items of cost in a maintenance shutdown are loss of volume arising from the shutdown and fixed costs, mainly costs of maintenance and overtime work, as well as a certain portion of variable costs including higher consumption of electricity and wood when production is restarted. The effects of shutdowns on earnings vary depending on the extent of measures carried out, their nature and the actual length of the shutdown. The estimated cost of shutdown is an assessment of the impact on earnings of a normal shutdown, compared to a quarter during which no periodic maintenance shutdown takes place.

Production unit	Estimated shutdown cost SEKm	Estimated distribution of shutdown cost by business area			Planned times for maintenance shutdowns		
		Packaging Paper	Consumer Board	Container-board	2013	2012	2011
Gävle	Approx. 100	Approx. 10 %	Approx. 70 %	Approx. 20 %	Q4	Q4	Q4
Gruvön	Approx. 100	Approx. 40 %	Approx. 5 %	Approx. 55 %	-	Q4	Q4
Frövi	Approx. 55	0 %	100 %	0 %	Q2	Q2	Q2
Skärblacka	Approx. 60	Approx. 85 %	0 %	Approx. 15 %	Q3	Q3	Q2
Karlsborg	Approx. 40	100 %	0 %	0 %	Q3	Q3	Q3
Pietarsaari	Approx. 15	100 %	0 %	0 %	Q4	Q4	Q4

Maintenance shutdowns at Beetham, Rockhammar and Tervasaari do not have a significant effect on BillerudKorsnäs' total earnings.

As a result of the current environmental and energy investments at Skärblacka, the maintenance shutdown in the third quarter 2013 will be longer than normal. In addition to the cost of approximately SEK 60 million for a normal shutdown, a loss of profits amounting to approximately SEK 120 million also has to be taken into account. At Gruvön, a fairly short maintenance shutdown will take place in the fourth quarter of 2013. The cost of this shutdown is estimated at approximately SEK 50 million, in contrast to the cost of a normal shutdown, which is approximately SEK 100 million.

Financing

On 31 December 2012 interest-bearing loans amounted to SEK 8 105 million. Of this amount, utilisation of the syndicated credit facility (maximum: SEK 5 500 million) accounted for SEK 3 110 million, bond loans for SEK 675 million, utilisation of BillerudKorsnäs' commercial paper programme (maximum: SEK 1 500 million) for SEK 671 million and other interest-bearing liabilities for SEK 3 649 million.

In December 2012, the shareholders in BillerudKorsnäs were offered the chance to subscribe for new shares via a preferential rights issue. The objective was to strengthen the Company's capital structure following the acquisition of Korsnäs AB. The preferential rights issue, completed in January 2013, comprised 68 833 629 shares. The issue proceeds totalled approximately SEK 1 996 million before deduction of issue costs.

During the last quarter, SEK 9 000 million of the bridging loan of SEK 10 500 million to finance the acquisition of Korsnäs, was replaced by proceeds from the preferential rights issue, a new revolving 3-year loan facility of SEK 5 500 million and renegotiation of existing loans at BillerudKorsnäs AB and Korsnäs AB.

FINANCING AT 31 DECEMBER 2012

Loans	Maximum credit SEKm	Utilised SEKm	Maturity
Syndicated credit facility	5 500	3 110	November 2015
Revolving credit facility		800	July 2017
Syndicated loan		1 500	June 2013
Bilateral loans		1 200	June 2017
Commercial paper		671	1-12 months
Bond loan 4		300	February 2013
Bond loan 7		225	June 2013
Bond loan 8		150	March 2016
Other interest-bearing liabilities		149	
Total		8 105	

CAPITAL STRUCTURE, SUMMARY

	31 Dec 2012	31 Dec 2011
Capital employed, SEKm	17 512	4 639
Financing:		
Interest-bearing net debt, SEKm	8 021	-233
Shareholders' equity, SEKm	9 492	4 872
Net debt/equity ratio, multiple	0.85	-0.05

Currency hedging

During 2012, net flows were hedged at EUR/SEK 9.14 (9.28), USD/SEK 6.78 (6.92) and GBP/SEK 10.72 (10.71). Currency hedging had an overall earnings impact of SEK 142 million (190) for 2012 (compared with if no hedging had taken place).

BillerudKorsnäs' outstanding forward exchange contracts on 31 December 2012 had a market value of SEK 41 million. Of this SEK 18 million, which is the part of the contracts that is matched by trade receivables, affected earnings in the fourth quarter. Other contracts had a market value of SEK 23 million.

For its Swedish operations, BillerudKorsnäs hedges around 50% of forecast net flows over the next 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 next 15 months.

The hedged amount of currency flows and the SEK exchange rates for EUR, USD and GBP at 31 December 2012 are shown in the table below.

Billerud Beetham Ltd hedges a certain amount of its net inflow of USD and EUR against GBP.

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

Currency		Q 1 - 13	Q 2 - 13	Q 3 - 13	Q 4 - 13	Total 12 months
EUR	Proportion of net flow	89%	60%	36%	14%	50%
	Rate	8.72	8.69	8.66	8.71	8.70
USD	Proportion of net flow	89%	60%	35%	16%	50%
	Rate	6.80	6.82	6.68	6.65	6.78
GBP	Proportion of net flow	80%	50%	29%	11%	42%
	Rate	10.59	10.63	10.58	10.58	10.60

Market value of currency contracts ¹	24	12	3	1	41

¹ The table shows the situation on 31 December 2012.

Share structure

On 31 December 2012, the share capital totalled SEK 1 029 326 503, represented by 139 386 205 shares. The number of shares on the market totalled 137 667 258. A preferential rights issue took place at year-end, resulting in an increase of 68 833 629 in the number of shares outstanding.

No shares have been bought back since year-end 2004.

DISTRIBUTION OF SHARES

	31 Dec 2012
Registered number of shares at beginning of the year	139 386 205
Bought-back shares in Company ownership	-1 718 947
Shares on the market	137 667 258

The number of shares registered on 11 January 2013 was 208 219 834 as a result of the preferential rights issue.

Financial targets

In November 2012 BillerudKorsnäs' Board of Directors established the following long-term financial targets:

- Over an economic cycle, the operating margin shall exceed 10%.
- Over an economic cycle, the return on capital employed shall exceed 13%.
- Over an economic cycle, the net debt/equity ratio shall be less than 0.9.
- Over an economic cycle, the dividend shall average out at 50% of net profit.

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

The BillerudKorsnäs share

The share capital of BillerudKorsnäs AB is represented by 139 386 205 ordinary shares, of which 1 718 947 are owned by BillerudKorsnäs AB. Each share carries an entitlement to one vote at the AGM. Transfer of shares is not restricted by law or by the Company's articles of association. The 2012 Annual General Meeting (AGM) authorised the Board of Directors to decide as to any transfer of shares held by the Company.

On 31 December 2012 the largest shareholder, Investment AB Kinnevik, owned 34 551 592 shares, corresponding to 25.1% of shares in the market. The second largest shareholder, Frapag Beteiligungsholding AG, owned 21 621 400 shares, corresponding to 15.7% of shares in the market, as of 31 December 2012. No other shareholder owned 10% or more of the total number of shares on 31 December 2012. 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, are subject to approval by the AGM. The Company has contracted certain important loan agreements on credit facilities, which agreements contain provisions to the effect that in certain circumstances the loan agreements are to be renegotiated or may be terminated in the event of changes in ownership conditions at BillerudKorsnäs. Other than these agreements, no agreements exist to which the Company, or other Group company, is party would come into effect, be changed or cease to be valid if control of the Company changed as a result of a public bid to acquire the Company. Agreements exist between the Company, other Group companies and senior executives 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 accord with normal labour market practice.

Guidelines for remuneration to senior executives

The Board proposes that the 2013 AGM approve the following guidelines for remuneration to senior executives. Senior executives include the CEO and other members of the senior management team. BillerudKorsnäs shall apply market-related remuneration levels and employment terms that are appropriate in order to recruit and retain a management team that has the high level of competence and capacity to achieve set goals. Remuneration forms shall motivate Group management to do its utmost in the best interests of the Company's shareholders. Compensation 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, subject to a maximum of a fixed percentage of fixed annual salary varying between 30% and 50%. However, variable salary shall be paid only if the Company makes an operating profit. Long-term incentive programmes at the Company shall primarily be linked to certain predetermined financial and share price performance requirements. The programmes shall ensure long-term commitment to the development of the Company and shall be implemented on commercial terms. Long-term incentive programmes shall have a term of at least three years. For further details of the existing long-term incentive programmes adopted by the 2010, 2011 and 2012 AGMs, see the Company's website and the sections "Long-term incentive programme (LTIP 2010)", "Long-term incentive programme (LTIP 2011)" and "Long-term incentive programme (LTIP 2012)". 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 remuneration committee and ruled on by the Board. Remuneration and other employment terms for members of the senior management team are determined by the CEO following approval by the remuneration committee.

The Board of Directors of BillerudKorsnäs is entitled to deviate from these guidelines if in individual cases there is good reason to do so. See note 24 for 2012 guidelines.

Risk management in 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 66% of the Group's accounts receivable, because a large share of the production units' 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 provision within the Group for doubtful accounts receivable in 2012, SEK 6 million (7) 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 production units. Exposure for the parent company is thus lower 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 half of the Swedish production units. At year-end 2012, foreign exchange contracts not yet recognised in profit/loss totalled a nominal SEK 2 679 million (2 094) and all foreign exchange contracts will be recognised in profit/loss in 2013. The corresponding net currency flows in the parent company in 2013 are estimated at approximately SEK 8 500 million (7 300).

Interest rate risk

The Group's borrowing is conducted primarily via the parent company and accounted for 83% of the Group's total borrowing on 31 December 2012. 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.

Costs

Energy

The parent company is the contracted party in all electricity hedging contracts, which are based on electricity consumption at the three Swedish production units, Gruvön, Skärblacka and Karlsborg. 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 production unit. Consequently the parent company's earnings are only affected by the amount corresponding to the parent company's (Gruvön production unit's) electricity consumption. During 2012, the Company had no electricity hedging contracts.

Proposed allocation of profit

As shown on page 104 of this annual report, non-restricted equity in the parent company, BillerudKorsnäs AB, amounted to SEK 6 693 million on 31 December 2012.

According to BillerudKorsnäs' financial targets, the dividend shall equal 50% of the net earnings per share over a business cycle and the net debt/equity ratio shall be less than 0.90 over a business cycle. At the end of 2012, the Company's net debt/equity ratio was 0.85, 0.90 higher than at the end of 2011. BillerudKorsnäs' Board of Directors proposes that, of the earnings per share of SEK 5.14, SEK 2.00 per share be paid to shareholders and that the remaining amount be carried forward.

Events after the close of the financial year

On 16 January, Linköping Administrative Court announced its ruling on the Group's appeal against the Swedish Energy Agency's decision on the award of electricity certificates for new allocation periods. The Court rejected BillerudKorsnäs' appeal. BillerudKorsnäs has appealed against the Court's ruling.

The preferential rights issue that took place in December 2012 was completed in early 2013. The issue comprised 68 833 629 shares and the issue proceeds totalled approximately SEK 1 996 million before deduction of issue costs.

Outlook

- 🔍 The order situation for the majority of products in the packaging materials segments is expected to remain at normal seasonal levels through the first quarter of 2013.
- 🔍 It is anticipated the prices in local currency for packaging materials will remain stable in the first quarter of 2013.
- 🔍 Wood prices in 2013 are expected to be lower than in 2012.
- 🔍 It is estimated that non-recurring costs of SEK 48 million, arising from a reduction in the surplus value in the inventory of finished products acquired, will be charged to earnings in the first quarter of 2013.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

SEKm	Notes	2012	2011
	1, 23		
Net sales	2, 34	10 427	9 343
Other operating income	3	27	18
Total operating income		10 454	9 361
Operating expenses			
Change in inventories		77	1
Raw materials and consumables		-5 413	-4 480
Other external costs	4	-2 268	-1 863
Employee benefits expense	5	-1 654	-1 427
Depreciation and impairment of non-current assets	10, 11	-709	-614
Result from participations in associated companies	14	2	-
Total operating expenses		-9 965	-8 383
Operating profit/loss	2, 34	489	978
Financial income and expenses	6		
Financial income		13	22
Financial expenses		-100	-67
Net financial income/expense		-87	-45
Profit/Loss before tax		402	933
Taxes	8	275	-250
Net profit/loss for the period		677	683
Profit/Loss attributable to:			
Parent company shareholders		677	683
Non-controlling interests		-	-
Net profit/loss for the period		677	683
Earnings per share, SEK	9	5.14	5.34
Diluted earnings per share, SEK	9	5.12	5.33

Dividend per share is shown in note 17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEKm	2012	2011
Net profit/loss for the period	677	683
Other comprehensive income		
Differences arising from the translation of foreign operations' accounts	-56	3
Changes in fair value of available-for-sale financial assets during the period	8	-
Change in fair value of cash flow hedges	-134	-312
Change in fair value of cash flow hedges transferred to profit/loss for the year	142	186
Tax attributable to cash flow hedges in other comprehensive income	-2	33
Other comprehensive income for the period	-42	-90
Total comprehensive income	635	593
Attributable to:		
Parent company shareholders	635	593
Non-controlling interests	-	-
Total comprehensive income for the period	635	593



CONSOLIDATED BALANCE SHEET

SEKm	Notes	31 Dec 2012	31 Dec 2011
ASSETS	1, 23		
Non-current assets			
Intangible assets	11	2 691	52
Property, plant and equipment	10	13 854	5 054
Participations in associated companies	14	265	29
Other holdings	15	737	30
Deferred tax assets	8	1	1
Long-term receivables from associated companies	30	95	-
Long-term receivables		2	342
Total non-current assets		17 645	5 508
Current assets			
Inventories	16	3 146	1 135
Tax assets		78	17
Accounts receivable		2 244	1 391
Receivables from associated companies	30	19	3
Prepaid expenses and accrued income		235	76
Other receivables		611	276
Cash and cash equivalents	25	745	929
Total current assets		7 078	3 827
Total assets		24 723	9 335
SHAREHOLDERS' EQUITY AND LIABILITIES	1, 23		
Shareholders' equity	17		
Share capital		1 029	774
Additional contributed capital		4 950	903
Reserves		-58	-16
Profit brought forward incl. profit/loss for the year		3 527	3 210
Total shareholders' equity attributable to parent company shareholders		9 448	4 871
Non-controlling interests		44	1
Total shareholders' equity		9 492	4 872
Non-current liabilities			
Interest-bearing liabilities	20	5 405	819
Provisions for pensions	18	757	219
Other provisions	19	83	36
Deferred tax liabilities	8	2 577	1 467
Total non-current liabilities		8 822	2 541
Current liabilities			
Interest-bearing liabilities	20	2 700	-
Accounts payable		2 527	1 210
Liabilities to associated companies	30	22	17
Tax liabilities		27	171
Accrued expenses and deferred income	22	940	439
Other liabilities		192	84
Provisions	19	1	1
Total current liabilities		6 409	1 922
Total liabilities		15 231	4 463
Total shareholders' equity and liabilities		24 723	9 335

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEKm	Notes	Attributable to owners of the parent company						Total	Non-controlling interests	Total share-holders' equity
		Share capital	Additional contributed capital	Trans-lation reserve	Fair value reserve	Hedging reserve	Profit brought forward incl. profit/loss for the year			
Opening balance, 1 January 2011	17	774	903	-19	-	93	2 886	4 637	-	4 637
Total comprehensive income for the year				3	-	-93	683	593	-	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	-	-	3 210	4 871	1	4 872

SEKm	Notes	Attributable to owners of the parent company						Total	Non-controlling interests	Total share-holders' equity
		Share capital	Additional contributed capital	Trans-lation reserve	Fair value reserve	Hedging reserve	Profit brought forward incl. profit/loss for the year			
Opening balance, 1 Jan 2012	17	774	903	-16	-	-	3 210	4 871	1	4 872
Total comprehensive income for the year				-56	8	6	677	635	-	635
Acquisition of partly owned subsidiaries, already with non-controlling interests									43	43
Dividends paid							-361	-361		-361
Share-based payments to be settled in equity instruments, IFRS 2							1	1		1
Directed issue		255	2 112					2 367		2 367
Rights issue in progress			1 935					1 935		1 935
Closing balance, 31 Dec 2012		1 029	4 950	-72	8	6	3 527	9 448	44	9 492



CONSOLIDATED CASH FLOW STATEMENT

SEKm	Notes	2012	2011
	25		
Operating activities			
Profit/Loss after financial income and expenses		402	933
Adjustments for non-cash items		821	632
Tax paid		-353	-180
Cash flow from operating activities before changes in working capital		870	1 385
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in inventories		88	-64
Increase (-)/Decrease (+) in operating receivables		-463	-11
Increase (+)/Decrease (-) in operating liabilities		507	-38
Cash flow from operating activities		1 002	1 272
Investing activities			
Acquisition of intangible assets		-	-1
Acquisition of property, plant and equipment		-955	-465
Sale of property, plant and equipment		13	2
Acquisition of businesses/acquisition of company	31	-1 073	-
Acquisition of subsidiaries, net effect on cash and cash equivalents	31	-5 508	-
Acquisition of financial fixed assets		-10	-127
Sale of financial fixed assets		339	-
Cash flow from investing activities		-7 194	-591
Cash flow after investing activities		-6 192	681
Financing activities			
Changes in interest-bearing receivables		-46	-
New borrowings		6 022	25
Repayment of borrowings		-1 534	-157
Dividend		-361	-361
Rights issue		1 954	-
Issue expenses		-19	-
Cash flow from financing activities		6 016	-493
Cash flow for the year		-176	188
Cash and cash equivalents, opening balance		929	740
Translation difference in cash and cash equivalents		-8	1
Cash and cash equivalents, closing balance		745	929

PROFIT AND LOSS ACCOUNTS FOR PARENT COMPANY

SEKm	Notes	2012	2011
	1, 23		
Net sales	2, 30	4 160	4 151
Change in inventories		-343	-1
Other operating income	3	39	35
Total operating income		3 856	4 185
Operating expenses			
Raw materials and consumables		-1 721	-1 797
Other external costs	4	-996	-947
Employee benefits expense	5	-660	-650
Depreciation and impairment of non-current assets	10, 11	-276	-262
Total operating expenses		-3 653	-3 656
Operating profit/loss		203	529
Financial income and expenses	6		
Profit/Loss from participations in Group companies		22	10
Interest income and similar profit/loss items		17	20
Interest expense and similar profit/loss items		-57	-30
Total financial income and expenses		-18	-
Profit/Loss after financial income and expenses		185	529
Appropriations	7	1 438	-1 161
Profit/Loss before tax		1 623	-632
Taxes	8	-318	168
Net profit/loss for the period		1 305	-464

Financial income and expenses and Appropriations for 2011 have been recalculated following new policies for reporting group contributions, see note 1.

STATEMENT OF COMPREHENSIVE INCOME FOR PARENT COMPANY

SEKm	2012	2011
Net profit/loss for the period	1 305	-464
Other comprehensive income		
Other comprehensive income for the period	-	-
Total comprehensive income	1 305	-464



BALANCE SHEET FOR PARENT COMPANY

SEKm	Notes	31 Dec 2012	31 Dec 2011
ASSETS	1, 23		
Subscribed capital unpaid	17	42	-
Non-current assets			
Intangible assets	11	6	12
Property, plant and equipment	10	2 464	2 582
Participations in Group companies	12	10 612	1 220
Participations in associated companies and joint ventures	14	1	1
Other holdings	15	26	25
Other long-term receivables Group companies	13, 30	1 501	-
Other long-term receivables		12	358
Total non-current assets		14 622	4 198
Current assets			
Inventories	16	342	390
Accounts receivable		1 470	1 273
Receivables from Group companies	13, 30	1 115	1 232
Receivables from associated companies	30	4	-
Prepaid expenses and accrued income		52	44
Other receivables		168	150
Cash and bank balances	25	553	842
Total current assets		3 704	3 931
Total assets		18 368	8 129
SHAREHOLDERS' EQUITY AND LIABILITIES	1, 23		
Shareholders' equity	17		
Restricted equity			
Share capital (139 386 205 ordinary shares)		1 029	774
Rights issue in progress		508	-
Statutory reserve		149	149
Total restricted equity		1 686	923
Non-restricted equity			
Share premium reserve		4 408	827
Profit/Loss brought forward		979	1 804
Net profit/loss for the year		1 305	-464
Total non-restricted equity		6 692	2 167
Total shareholders' equity		8 378	3 090
Untaxed reserves	26	346	2 212
Provisions			
Provisions for pensions and similar commitments	18	210	210
Deferred tax liabilities	8	549	333
Other provisions	19	-	-
Total provisions		759	543
Non-current liabilities			
Syndicated loan	21	3 110	58
Bond loans	21	150	675
Other interest-bearing non-current liabilities	21	800	1
Liabilities to Group companies	13, 30	781	675
Total non-current liabilities		4 841	1 409
Current liabilities			
Liabilities to credit institutions	21	2 698	-
Accounts payable		303	235
Liabilities to Group companies	30	749	218
Liabilities to associated companies	30	5	5
Tax liabilities		7	165
Accrued expenses and deferred income	22	261	235
Other liabilities		21	17
Total current liabilities		4 044	875
Total shareholders' equity and liabilities		18 368	8 129
Pledged assets and contingent liabilities of parent company			
Pledged assets	29	12	18
Contingent liabilities	29	43	72

STATEMENT OF CHANGES IN PARENT COMPANY EQUITY

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

SEKm	Notes	Restricted equity			Non-restricted equity			Total share-holders' equity
		Share capital	Rights issue in progress	Statutory reserve	Share premium reserve	Profit/Loss brought forward	Net profit/loss for the year	
Opening balance, 1 Jan 2012	17	774	-	149	827	1 804	-464	3 090
Previous year's profit/loss brought forward						-464	464	-
Net profit/loss for the year							1 305	1 305
Directed issue	255				2 112			2 367
Rights issue in progress			508		1 469			1 977
Dividends paid						-361		-361
Closing balance, 31 Dec 2012		1 029	508	149	4 408	979	1 305	8 378



CASH FLOW STATEMENT FOR PARENT COMPANY

SEKm	Notes	2012	2011
	25		
Operating activities			
Profit/Loss after financial income and expenses ¹		185	529
Adjustments for non-cash items ¹		321	280
Tax paid		-319	-173
Cash flow from operating activities before changes in working capital		187	636
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in inventories		48	-14
Increase (-)/Decrease (+) operating receivables ¹		-259	-24
Increase (+)/Decrease (-) in operating liabilities ¹		254	28
Cash flow from operating activities		230	626
Investing activities			
Acquisition of property, plant and equipment		-160	-201
Disposal of property, plant and equipment		-	1
Acquisition of shares in subsidiaries		-7 040	-29
Acquisition of financial assets		-1	-98
Disposal of financial assets		340	-
Change in financial receivables		-1 500	5
Cash flow from investing activities		-8 361	-322
Cash flow after investing activities		-8 131	304
Financing activities			
New borrowings		6 081	616
Repayment of borrowings		-864	-151
Dividend		-361	-361
Rights issue		1 954	-
Issue costs		-19	-
Group contribution settled ¹		1 051	-210
Cash flow from financing activities		7 842	-106
Cash flow for the year		-289	198
Cash and cash equivalents, opening balance		842	644
Cash and cash equivalents, closing balance		553	842

1 Cash flow for 2011 has been recalculated due to the new principles for recognition of Group contributions.

RISK MANAGEMENT AND SENSITIVITY ANALYSIS

BillerudKorsnäs is affected by the general economic climate, changes in exchange rates and other external factors specific to the company. This section describes the most important risks that influence BillerudKorsnäs' ability to achieve the goals set for the Group, and the way each risk is managed. BillerudKorsnäs seeks actively to minimise risk through preventive measures. Where preventive measures are not possible, the risk can be hedged or insured against. Many of the risks discussed below can influence BillerudKorsnäs positively or negatively. Risk management is governed at the overall level by the Board of Directors and audit committee and at an operational level by the CEO, senior management team and other staff.

OPERATIONAL RISKS

DESCRIPTION OF RISKS	RISK MANAGEMENT	COMMENTS ON 2012
<p>Variations in market prices and volumes for BillerudKorsnäs' products</p> <p>BillerudKorsnäs' products are generally dependent on the business cycle, in terms of both price development and potential sales volumes. BillerudKorsnäs' operations, financial position and earnings are affected by conditions in the global capital markets and in the economy in general in Europe, the USA and the rest of the world.</p>	<p>There are various pricing models for packaging paper, the most common being interim pricing. Sales are based on framework agreements specifying general delivery terms and planned delivery volumes, apart from the majority of customer agreements for liquid packaging board. Many agreements in this sector run for several years, commonly specifying agreed volumes, prices and payment terms.</p> <p>BillerudKorsnäs focuses continually on process efficiency to adapt its costs in order to counteract the negative influence that lower market prices have on BillerudKorsnäs' operating profit. BillerudKorsnäs also works continuously to develop product differentiation based on customers' needs and to boost the proportion of sales to consumer-related industries, for example to counter cyclical fluctuations.</p>	<p>In 2012, operating profit halved mainly as a result of lower prices in local currency and a less favourable currency situation. The deterioration was partly offset by volume increases and lower variable costs.</p>
<p>Customer dependence and customer credit risk</p> <p>BillerudKorsnäs has more than 1 500 customers and packaging partners in more than 100 countries; the Company's five biggest customers account for approximately one third of the Group's sales. If BillerudKorsnäs cannot meet the demands made by its largest customers, and if the customers do not fulfill their payment obligations, BillerudKorsnäs may be adversely affected.</p>	<p>Customers mainly consist of producers of packaging, and the relationship with the customer is usually long-lasting. To a growing extent, BillerudKorsnäs is offering packaging solutions directly to end-customers and brand owners. The Company's customer base is constantly under development and by expanding its customer base, BillerudKorsnäs can reduce its dependence on a small number of customers.</p> <p>The Group's single biggest customer, a customer for liquid packaging board, accounts for a substantial share of the Group's sales. The agreement with this customer operates for a limited period.</p> <p>The granting of credit to customers varies, depending on the market and the product. The Group has developed guidelines to control customer credit, in which the basic policy is to insure all customer credit that is insurable. Exemptions are made for certain major long-standing customers and buyers of wood raw materials. In certain markets, where it is not possible to insure customer credit, letters of credit, advance payments or bank guarantees are used to ensure customer credit.</p>	<p>At year-end 2012, accounts receivable totalled SEK 2 244 million, representing an average customer credit period of about 55 days.</p> <p>On 31 December 2012, approximately 80% of outstanding accounts receivable was insured via credit insurance.</p> <p>Bad debts totalled SEK 0 million in 2012.</p>

PROVISION FOR BAD DEBTS

Group, SEKm	2012	2011
Provision at beginning of year	20	27
Acquisitions	15	-
Provision for anticipated bad debts	6	3
Confirmed bad debts	-	-10
Provision at year-end	41	20

BREAKDOWN OF ACCOUNTS RECEIVABLE BY AGE

Group, SEKm	2012			2011			
	Gross	Acquisitions	Impairment	Net	Gross	Impairment	Net
Accounts receivable not due	2 070	-	-6	2 064	1 362	-1	1 361
Accounts receivable overdue 0–30 days	180	-	-	180	30	-	30
Accounts receivable overdue >30–90 days	20	-1	-	19	22	-	22
Accounts receivable overdue >90–180 days	5	-5	-	-	-1	-2	-3
Accounts receivable overdue >180–360 days	-	-1	-1	-2	-2	-1	-3
Accounts receivable overdue >360 days	10	-8	-19	-17	-	-16	-16
Total	2 285	-15	-26	2 244	1 411	-20	1 391

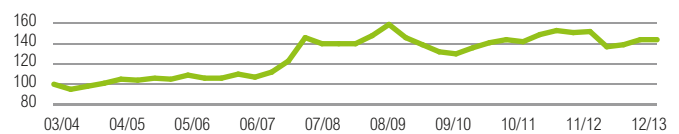


OPERATIONAL RISKS (cont.)

DESCRIPTION OF RISKS	RISK MANAGEMENT	COMMENTS ON 2012
<p>Compliance with conditions for the combination of Billerud and Korsnäs</p> <p>The combination between Billerud and Korsnäs was subject to a number of conditions, including approval by competition authorities. The ruling by one of the competition authorities, the European Commission, to allow the combination to go ahead requires the sale of a paper machine (PM 2) at the Gävle production unit, which the Group uses to manufacture white kraft and sack paper etc.</p> <p>Sales of white kraft and sack paper produced at PM 2 totalled approximately 2% of the new Group's total combined sales volumes in 2012. In addition, BillerudKorsnäs will for a certain period undertake to supply certain inputs such as pulp, steam and electricity for the paper machine. If the European Commission's conditions of sale are not met within a certain period, to a player that the Commission considers appropriate, the Commission may require the sale of other production capacity. The Group may also incur costs arising from fines from the European Commission. In exceptional circumstances, in the absence of any other competition-promoting measures, the European Commission may as a final resort challenge the validity of the transaction. Sanctions arising from non-compliance with the conditions attached to the Commission's decision may impact adversely on BillerudKorsnäs' operations, financial position and earnings.</p>	<p>The sale of PM 2 comprises the sale of an integrated machine, in which BillerudKorsnäs undertakes to supply certain inputs over a period. While the sale is complex, the methodology and implementation is in many ways similar to the Group's acquisition of UPM's packaging paper business. Experience acquired and lessons learned from the Finnish transaction may prove to be useful in the sale.</p>	<p>The process of divesting PM 2 began in 2012.</p>
<p>Supplies of wood raw materials</p> <p>Supplies of fresh fibre are vital to the Group's production of paper and board. BillerudKorsnäs owns forest indirectly via its stake in Bergvik Skog but buys all its wood raw materials in the timber market.</p>	<p>Purchases are made from a small number of major suppliers, as well as from a large number of private landowners. Approximately 20% of the Company's timber requirements are imported, mainly from the Baltic countries. The company has signed supply agreements on a commercial basis regarding timber purchases from Bergvik Skog, Holmen, Mellanskog, Stora Enso and Sveaskog, among others. BillerudKorsnäs takes the view that its partnership with the major suppliers will remain in place for the foreseeable future</p>	<p>The market for BillerudKorsnäs' range of raw materials was in balance in 2012.</p>
<p>Wood price risk</p> <p>Market prices for wood vary over time, which can affect BillerudKorsnäs' earnings. These prices are influenced by demand from the pulp industry, indicating that changes in output for the pulp industry overall in the Nordic countries may in the long term affect the level of costs of wood raw materials. Increased use, for example, of sawn timber and wood as a combustion material, 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.</p>	<p>In general, prices in contracts with major suppliers are set quarterly or half-yearly. This may create problems with deliveries to BillerudKorsnäs if the parties cannot reach agreement on the market price that is to apply.</p>	<p>The price of wood has fallen over the year, thanks to a plentiful supply of softwood and hardwood.</p>
<p>Costs of other inputs</p> <p>Besides wood and energy, many other inputs are used in the manufacture of BillerudKorsnäs' products. Market prices for these inputs vary over time, which can affect BillerudKorsnäs' earnings.</p>	<p>Certain process chemicals are by-products from chemical processes and so their price can vary significantly from year to year. Prices for other chemicals have been much more stable. Overall, however, chemical price trends have been stable.</p> <p>Historically, prices for other inputs, such as packaging materials and machine covers, have been stable.</p>	<p>In 2012, chemicals accounted for 8% (8) of BillerudKorsnäs' total operating costs. Other inputs accounted for 4% (4).</p>

WOOD PRICE INDEX

Source: BillerudKorsnäs.



OPERATIONAL RISKS (cont.)

DESCRIPTION OF RISKS

Energy price risk

Energy costs represent a substantial proportion of the Group's manufacturing costs. The major share of the Group's production takes place in Sweden. BillerudKorsnäs consumes electricity, biofuel and oil, as well as other energy sources on a minor scale. Higher energy prices could lead to higher operating expenses for the Group and adversely impact on operating earnings.

BillerudKorsnäs was entitled to an allocation of electricity certificates for the electricity generated by the company's biofuel plants until the end of 2012. BillerudKorsnäs sells the allocated electricity certificates on an ongoing basis. After the Group in 2005 and 2006 carried out energy investments in the biofuel plants at Gruvön, Skärblacka and Karlsborg to increase environmentally friendly electricity generation and thus to raise its allocation of electricity certificates, the Group applied to the Swedish Energy Agency for an allocation of electricity certificates for new allocation period of 15 years (to apply from 2006). The applications are based on the claim that the biofuel plant investments concerned are – in the Group's view – to be regarded as new facilities. On that basis, they should qualify for new allocation periods under the Swedish Electricity Certificates Act (lagen (2011:1200) om elcertifikat). Following rejection of the applications by the Swedish Energy Agency and Linköping Administrative Court's dismissal of the Group's appeal on the grounds that the modifications and investments did not justify regarding the biofuel plants as new facilities, the Group has appealed against the ruling at Jönköping Administrative Court of Appeal, which is now to examine the issue of whether the Group is entitled to the allocation electricity certificates for new allocation periods. Should the Group not be allocated electricity certificates for new allocation periods, BillerudKorsnäs' electricity costs will rise after year-end 2012, which will negatively affect the Group's earnings and financial position.

RISK MANAGEMENT

BillerudKorsnäs production units had a requirement for procured electricity amounting to 0.9 TWh in 2012. Through the acquisition of Korsnäs and production units in Finland, the requirement will increase and amount to approximately 1.7 TWh in 2013. BillerudKorsnäs's self-sufficiency in electricity is estimated to be approximately 50% at full output.

The acquisition of Korsnäs included a 50% ownership stake in Bomhus Energi AB, the other 50% of which is owned by Gävle Energi AB. Bomhus Energi has constructed a new biofuel-fired cogeneration plant on BillerudKorsnäs' production site in Gävle. The plant was commissioned in autumn 2012. It supplies BillerudKorsnäs with electricity and steam, as well as district heating to the Municipality of Gävle. Commissioning of the new plant has enabled BillerudKorsnäs Gävle to reduce its consumption of oil and increase its self-sufficiency in electricity. The new plant has been awarded electricity certificates for 15 years, reducing the cost of its energy supply.

In May 2007, BillerudKorsnäs 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 2008–2017 period. Through this agreement and its own power generation capacity, BillerudKorsnäs has secured approximately 60% 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.

COMMENTS ON 2012

In 2012, total electricity consumption was about 1.8 TWh, of which approximately 50% was generated in-house, approximately 23% was basic power purchased from Vattenfall at fixed prices and approximately 27% was purchased in the spot market.

Electricity certificates impacted operating earnings by SEK 140 million (131) in 2012.

Cost of purchased services

BillerudKorsnäs procures services such as freight to customers and maintenance services. Market prices for these services vary over time, which can affect BillerudKorsnäs' earnings.

On 29 October 2012, the EU's Council of Ministers approved an amendment of Directive 1999/32/EC as regards the sulphur content of marine fuels. According to the amendment, the sulphur content of marine fuels in the Sulphur Emission Control Area (SECA) (comprising the Baltic Sea, North Sea and English Channel) is to be limited to 0.10% effective January 2015. The demand for low-sulphur fuels such as diesel may rise, relative to high-sulphur fuels. The consequences of the amendment to the directive may therefore affect BillerudKorsnäs' earnings.

Freight costs are fixed annually via agreements. The rise and fall in freight prices are affected by competition between freight companies, energy prices, environmental regulations and wage costs.

Other procured services consist primarily of maintenance services in connection with the annual maintenance shutdowns, and regular maintenance. The prices of services are affected above all by trends in wage costs in Sweden.

In 2012, freight to customers accounted for 11% (11) of BillerudKorsnäs' total operating costs. Shipments by railway accounted for 28% of freight costs incurred by BillerudKorsnäs' production units, while shipments by sea accounted for 39% and road freight 26%.

In 2012, other procured services accounted for 6% (5) of BillerudKorsnäs' total operating costs.

Risks related to employees

Access to skilled and motivated employees and managers is a prerequisite for achieving the goals that BillerudKorsnäs has set.

Personnel costs constitute the second largest expense item.

BillerudKorsnäs works continually to manage generational succession and the conversion of skills. To assure the supply of the right skills, the Company needs to attract top-quality personnel. To avoid a skills gap in the years ahead, BillerudKorsnäs is even today working to strengthen its brand as an employer.

Wages and salary costs are principally determined by collective bargaining agreements, payroll taxes and other related laws and regulations.

In 2012, the Group's second trainee programme, focusing on ongoing long-term activities to supply skills, concluded. BillerudKorsnäs also focuses on employer branding, which aims to profile BillerudKorsnäs as an employer.

In the past three years, wage costs have through agreements risen by around 3% per year.



OPERATIONAL RISKS (cont.)

DESCRIPTION OF RISKS

Environmental impact and renewal of permits

BillerudKorsnäs' production of pulp, paper and board results in emissions into the water and air. Production also creates noise and major volumes of waste.

The Group's operations are governed by extensive environmental legislation and are subject to permits being granted. The permits entitle the production units to produce a certain volume of pulp, paper and/or board, but also include mandatory conditions on, for example, emissions into water and air, noise, and waste and chemicals management.

In Sweden, licences under the Swedish Environmental Code are required. Similar regulations apply in the rest of the EU. Operating licences in Sweden are issued by Land and Environmental Courts following a comprehensive legal review during which the government's interests are safeguarded by the Environmental Protection Agency and the County Administrative Board. The ruling handed down specifies which investments are required to protect people and the environment if operations under the licence are to be conducted.

The production units must apply for new licences if the scale of production is to be increased or major investments are to be carried out. Minor investments/modifications are dealt with via a simple notification procedure. The authorities may on their own initiative call for operating licences to be reviewed. However, this rarely occurs.

Any breaches of licence limits or conditions may result in criminal liability, for example in the form of environmental penalty charges. Serious breaches, for example breaches of certain licence conditions, are referred to the public prosecutor. A conviction may lead to personal criminal liability on the part of the personnel concerned or corporate penalties amounting to substantial sums.

In Sweden, supervision is exercised in the form of experts appointed by the county administrative board, who on an ongoing basis verify compliance with licences, conditions and all general environmental legislation.

The trend in the EU is towards increasingly stringent and less flexible environmental regulations. Under the Industrial Emissions Directive, which is being implemented in Swedish legislation during 2013, standard, industry-wide emission limits will be introduced throughout the EU. The emission limits are being set on the basis of what is considered can be achieved with the best available technology. No account is taken of local conditions. At present, only one proposal has been presented for general emission limits for the pulp and paper industry, and these limits will only become binding four years after being approved. There is a risk that one or more BillerudKorsnäs units will be compelled to undertake new investments or other measures to satisfy future requirements.

Environmental legislation also requires that any operator who has caused environmental damage shall bear joint and several liability for remediation of the damage caused. The issue most affecting BillerudKorsnäs' Swedish production units is land pollution.

The units have to varying extents been ordered to investigate areas affected where operations are being or have been conducted.

Depending on the results of investigations carried out, environmental remediation measures may be required.

Any pollution of land discovered must be notified to the county administrative board, which will then determine the remediation measures.

In the event of closure of an operation or part of an operation, the area shall be restored and the costs of any environmental remediation of the area shall be taken into account. BillerudKorsnäs may also be ordered to investigate or undertake environmental remediation of land pollution in properties that the Company no longer owns or conducts operations in.

Finally, the Group is affected by various economic instruments in the environmental field, including energy taxes, trading in greenhouse gases, carbon dioxide taxes and waste management taxes, which may generate both income and expense. Future rule changes may affect sales and earnings for BillerudKorsnäs.

RISK MANAGEMENT

The environmental standard at BillerudKorsnäs' production units is high, as a result of ongoing initiatives spanning many years. All production units have certified management systems for the environment, quality and energy. The units have environment functions that are responsible for contact with the supervisory authorities. Environmental responsibility in the different production units lies with the line organisations.

The production units work together in an environmental network. Employees at BillerudKorsnäs have undergone training in basic environmental knowledge, and this also forms part of the induction training for new employees. Key staff are given more in-depth environmental training to enable them to tackle ongoing environmental issues. If necessary, conceivable investments are incorporated into the Group's investment plan.

BillerudKorsnäs is working actively on reducing its impact on the climate by cutting down on its use of fossil fuels, thus reducing emissions of greenhouse gases not only in production and in transportation but also via more efficient use of energy. For more information on these efforts, see the Sustainability Report in this annual report.

COMMENTS ON 2012

Environmental activities were conducted in 2012 to satisfactory effect. Fossil oil consumption was again lower than in the previous year.

In 2012, Rockhammar handed in an application to raise production from 90 000 tonnes CTMP per year to 110 000 tonnes per year.

In June 2012, the Swedish Environmental Court of Appeal ruled that conditions should be imposed regarding modification of or addition to the existing water treatment facility at BillerudKorsnäs' production unit at Gävle.

For more information, see the Sustainability Report in this annual report.

FINANCIAL RISKS

BillerudKorsnäs' policies on financial risk management, which correspond to the policies applying to Billerud before the combination with Korsnäs, are described below. These policies apply to BillerudKorsnäs until further notice, but as a result of the combination, the Board of Directors at BillerudKorsnäs will undertake a review of the existing policies in the course 2013, which may result in changes.

DESCRIPTION OF RISKS

Currency risk – transaction exposure

Transaction exposure is the risk of changes in exchange rates for export revenues and import expenses negatively affecting BillerudKorsnäs' operating profit and acquisition cost of its fixed assets. 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 production costs in Finland, the UK and the Baltic States, and the costs of imported wood raw materials and chemicals, which are affected above all by EUR and USD exchange rates.

Nominal amount of foreign exchange derivatives

	2012	2011
EURm	180	203
USDm	113	138
GBPm	33	16

Market value of

interest derivatives, SEKm

	2012	2011
Forward foreign exchange contracts	41	35

RISK MANAGEMENT

To reduce the consequences of currency exposure, BillerudKorsnäs continuously hedges forecast net flows in foreign currencies. The financial policy adopted by the Board states 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 BillerudKorsnäs' 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.

COMMENTS ON 2012

At year-end 2012, foreign exchange contracts not yet recognised in profit/loss totalled a nominal SEK 1 827 million (2 094), of which foreign exchange contracts representing SEK 1 827 million (2 094) will be recognised in profit/loss in 2013. The corresponding net currency flows for the Group in 2013 are estimated at around SEK 5 600 million (5 200).

At 31 December 2012, the market value of BillerudKorsnäs' outstanding forward currency contracts was SEK 41 million. The contracts matched by accounts receivable affected earnings. The market value of the remaining contracts was SEK 23 million.

Currency risk – translation exposure

Translation exposure is the risk to which BillerudKorsnäs is exposed when foreign subsidiaries' income statements and balance sheets are translated into SEK.

SEKm	Capital employed	Net borrowings	Net assets
GBP	134	-8	142
EUR	760	-399	1 159
LVL	473	169	304
USD	20	-3	23
Other currencies	9	-10	19
Total	1 396	-251	1 647

BillerudKorsnäs has assets in foreign currency, mainly through owning assets in Finland, the UK and Latvia. Net assets in GBP are partly hedged by loans in the same currency.

As of 31 December 2012, total capital employed in foreign currency was SEK 1 396 million, of which SEK 1 647 million was financed by shareholders' equity. Of the net assets in GBP, SEK 142 million, 43% was hedged through loans raised by the parent company. No hedging was 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 -2 million in 2012.

Financing risk

The financing risk is the risk of failure to obtain financing, or of obtaining financing only at sharply increased costs. Access to further financing will be affected by a number of factors, including market conditions, the general availability of credit and BillerudKorsnäs' creditworthiness and credit capacity. In addition, access to further financing depends on customers, suppliers or lenders not being affected by negative perceptions about BillerudKorsnäs' 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 a supply to short- and long-term credit commitments. 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 the Group's loans shall be arranged such that the loan maturity is evenly spread over the period.

In 2012, major changes took place in the Group's loan portfolio as a result of the acquisition of UPM's packaging paper business and the combination with Korsnäs. The Finnish acquisition was partly financed via the Group's own cash and partly via issues within the commercial paper programme. The combination with Korsnäs was financed via bridging finance totalling SEK 10 500 million, of which SEK 9 000 million was replaced in the fourth quarter by a syndicated credit facility of SEK 5 500 million, the proceeds from the preferential rights issue and renegotiation of existing loans. On 31 December 2012, outstanding bond loans totalled SEK 675 million and commercial paper SEK 671 million. For more information, see note 20.

On 31 December 2012, BillerudKorsnäs' interest-bearing net debt amounted to SEK 8 021 million compared to net cash of SEK 233 million on 31 December 2011.

FINANCIAL RISKS (cont.)

DESCRIPTION OF RISKS

Interest rate risk

The interest rate risk is the possible effect that a change in interest rates may have on earnings. The speed with which a change in the interest rate trend affects earnings depends on the refinancing periods for interest rates on loans and investments.

RISK MANAGEMENT

To ensure cost-effective financing for the Group and avoid excessive impacts on earnings from large negative changes in interest rates, the norm for BillerudKorsnäs is that the average refinancing period for the loan stock shall be 18 months, with a permitted deviation of +/- 12 months. The fixed interest term for an individual loan or interest swap may 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 refinancing of interest rates, and rate-related risks are therefore limited in the investments.

COMMENTS ON 2012

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 81 million, based on liabilities of SEK 8 105 million at year-end.

The Group's average interest rate refinancing period was around 3 months at year-end. A change of 1 percentage point in interest rates would have an annualised effect of SEK 65 million on earnings, given the current refinancing period.

Nominal value of interest rate derivatives, SEKm	2012	2011
Interest rate swaps		
Duration less than 1 year	375	-
Duration 1–2 years	-	375
Duration more than 2 years	150	150
Total	525	525

Market value of interest derivatives, SEKm	2012	2011
Interest swaps	-13	-16

Financial credit risk

Credit risk refers to situations such as when a counterpart in a financial transaction cannot meet commitments. If measures taken by BillerudKorsnäs to minimise credit risk are not sufficient, BillerudKorsnäs' financial position and earnings may be adversely affected.

To avoid this, BillerudKorsnäs' financial 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. BillerudKorsnäs' 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 842 million (1 271).

SENSITIVITY ANALYSIS

Variable	Approximate effects on earnings before tax	
	Change	SEKm
Volume of sales	+/- 10%	+/- 750
Exchange rates, SEK ¹	+/- 10%	+/- 600
Price of wood	+/- 10%	-/+ 435
Price of electricity	+/- 10%	-/+ 45
Interest rate on loans ²	+/- 1 pctg point	-/+ 65

1 Excluding effects of currency hedging

2 Excluding effects of interest hedging

BREAKDOWN OF OPERATING COSTS



Wood raw materials, 36% (35)
Personnel, 17% (17)
Freight to customers, 11% (11)
Chemicals, 8% (8)
Services purchased, 6% (5)
Other inputs, 4% (4)
Depreciation, 7% (7)
Energy, 4% (4)
Other, 7% (9)

NOTES AND ACCOUNTING POLICIES

(Amount in SEKm unless stated otherwise)

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 2012 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 - The amendment in IAS 19 shall apply to the financial year starting 1 January 2013. The amendment mainly involves significant changes in reporting of defined benefit pension plans, such as:
 - Elimination of reporting options using the "corridor" approach which allowed deferred recognition of actuarial gains and losses, or of recognising actuarial gains and losses directly in profit or loss; instead, these must be recognised in other comprehensive income.
 - Revaluations reported in other comprehensive income (no reclassification) are actuarial gains and losses and the difference between actual and expected return on pension assets.
 - Those items attributable to the earning of defined benefit pensions as well as gains and losses arising on settlement of a pension liability and interest on the net

of the defined benefit plan's assets and liabilities are all recognised in the income statement.

- The same interest rate must be used to calculate both pension liabilities and estimated return on pension assets.
- Sensitivity analyses must be carried out for reasonably possible changes in each assumption made when calculating pension liabilities.
- The distinction between short-term and long-term employee benefits will now be based on expected timing of settlement rather than the employee's entitlement to the benefits.

The amendment includes additional changes that do not focus on reporting of pensions, but on other forms of employee benefits. Termination benefits should be reported at the earlier of the time when the offer of compensation cannot be withdrawn, or in accordance with IAS 37 as part of e.g. the restructuring of the business. For Swedish units, the actuarial calculations will also include future payments of special employers' contributions. On 31 December 2012, actuarial accumulated losses were SEK 73 million, including special payroll taxes and tax on returns. Had the change been applied as of 2012, a one-time effect of SEK -73 million would have been reported in equity for 2012.

The expected effects on the financial reports of the application of the other new or amended standards and interpretations have been judged to have limited effects on the financial reports, apart from IFRS 11. The shareholdings in Bomhus Energi AB will be accounted for with reference to the new standard. Bomhus Energi AB is 50%-owned by BillerudKorsnäs and in 2012 is accounted by the equity method. According to the new standard, the judgement may be that proportionate consolidation is applicable.

- ◆ IFRS 10 Consolidated financial statements and amendment IAS 27 separate financial statements
IFRS 10 and the amendment in IAS 27 shall apply to the financial year starting 1 January 2014.
IFRS 10 supersedes the section in IAS 27 dealing with the preparation of consolidated financial statements. What remains in IAS 27 concerns the management of subsidiaries, joint ventures and associated companies in separate financial statements.



The rules concerning the preparation of consolidated financial statements remain unchanged. Instead, the amendment concerns how a company is to go about deciding whether it has a controlling interest and thus whether a company is to be consolidated.

- ❖ IFRS 11 Joint Arrangements and amendment to IAS 28 Associates and joint ventures.
IFRS 11 and the amendment to IAS 28 shall apply to the financial year starting 1 January 2014.
IFRS 11 addresses the accounting for joint arrangements, defined as an agreement in which two or more parties have joint control. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Contribution of non-monetary assets from a joint ownership to a jointly controlled entity.
- ❖ IFRS 12 Disclosure of Interests in Other Entities.
IAS 12 shall apply to the financial year starting 1 January 2014.
Entities that have interests in subsidiaries, associates, joint arrangements and structured entities must provide disclosures about them in accordance with IFRS 12.
- ❖ IFRS 13 Fair Value Measurement. IFRS 13 shall apply to the financial year starting on or after 1 January 2013. The implementation of IFRS 13 also introduces amendments to IAS 34 Interim Financial Reporting, requiring new disclosures about fair value to be included in the interim reports. IFRS 13 does not describe when to use a fair value, but how it is determined when fair value must or may be used in accordance with the respective IFRS standard. The standard shall be applied prospectively.
- ❖ IAS 1 Presentation of financial statements – amendment: presentation of other comprehensive income.
The amendment in IAS 1 shall apply to the financial year starting on or after 1 July 2012.
The amendment entails changes to the grouping of transactions reported under other comprehensive income. Items that are recognised in profit and loss are to be recognised separately from those items that are not recognised in profit and loss. The proposal does not change the actual content of other comprehensive income, only the way it is presented.

- ❖ IAS 32 Financial instruments: Classification – amendment
The amendment in IAS 32 shall apply to the financial year starting on or after 1 January 2014.
The amendment to IAS 32 inserts a clarification in the “Application Guidance” regarding offsetting of financial assets and financial liabilities. The amendment clarifies what is meant by a “legal right to offset” and what is meant by “settling on a net basis” in different situations.
- ❖ UFR 9 Accounting for tax on returns
UFR 9 shall begin to apply at the same time as the amendment in IAS 19, i.e., on or after 1 January 2013.
Tax on returns levied on provisions in the balance sheet is recognised as an expense in the period to which the tax relates. Such tax on returns should therefore not be included in the debt calculation for defined benefit pension plans.

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

BillerudKorsnäs’ 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. BillerudKorsnäs has identified its operating segments in accordance with IFRS 8 and consists of: Packaging Paper, Consumer Board and Container-board.

Basis of consolidation

Subsidiaries

Subsidiaries are companies in which BillerudKorsnäs 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 BillerudKorsnäs 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

Intra-Group balances, income and expenses and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains from transactions with associated companies and jointly controlled entities are eliminated to the extent that they correspond to the Group's interest in the entity. Unrealised losses are similarly eliminated, but only insofar as there is no impairment requirement.

Foreign currency

Foreign currency transactions

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

BillerudKorsnäs' 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 the Group. 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

Income taxes comprise 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 in the balance sheet when an invoice has been 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, corresponding 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 transaction 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 that 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

BillerudKorsnäs buys electricity from external suppliers. To continually hedge the electricity price, the Company 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.

Derivative contracts for pulp

BillerudKorsnäs buys some of the pulp it requires from external suppliers. To continually hedge pulp prices, the company enters into derivative contracts for pulp. Derivative contracts for pulp 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. BillerudKorsnäs can also hedge 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.

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	20–33 years
Residential and office buildings	30–50 years
Land improvements	20–25 years
Machinery used for pulp and paper	20–25 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

BillerudKorsnäs' 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 development costs are expensed in profit or loss as they arise.

Other intangible assets

Other intangible assets include customer contracts and brands relating to acquisitions and 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

BillerudKorsnäs' Swedish mills have been awarded 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

actual 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.

Depreciation 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 is:

Customer contracts	8 years
Brands	8 years
Capitalised development expenditure and software	3–7 years
The residual value and useful life of each asset is assessed annually.	

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 and equipment and intangible assets as well as participations in subsidiaries

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 acqui-



sition 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. Otherwise, actuarial gains and losses are 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.

The commitments for retirement and family pensions for salaried employees in Sweden are secured through an insurance policy with Alecta. This is a multiemployer defined-benefit plan. BillerudKorsnäs has not had access to information for the 2012 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 2010, 2011 and 2012 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 nonfulfillment 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.

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

The Swedish Annual Accounts Act Chapter 4 § 14 paragraphs f and g have been repealed; i.e., the ability to value property, equipment and intangible assets at fair value.

The Swedish Financial Reporting Board publishes amendments and updates to RFR 1 and 2 on a regular basis. Both recommendations include an appendix with comparisons with the previous standard and descriptions of the most significant differences.

RFR 2 was updated in September 2012 and shall apply for the financial year starting on or after 1 January 2012, unless stated otherwise in the respective standard and statement. One significant change in RFR 2 is that new guidance has been introduced on how group contributions should be recognised. The new guidance on group contributions shall apply to the financial year starting on or after 1 January 2013, but may be applied in advance.

In the accounting of group contributions, a company may apply either the main rule or the alternative rule. The selected rule must be applied consistently to all group contributions.

The main rule:

- The parent company reports group contributions from subsidiaries as financial income and group contributions paid to subsidiaries is recognised as an increase in participations in Group companies.
 - Subsidiaries report group contributions received from the parent in equity and group contributions paid to the parent are also recognised in equity.
 - Group contributions received from fellow subsidiaries are recognised in equity and group contributions paid to fellow subsidiaries are also recognised in equity.
- Under the alternative rule, group contributions paid and received are both recognised as appropriations.

BillerudKorsnäs has chosen to apply the alternative rule as of 2012. Comparable years have been adjusted.



Classification and measurement

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 noncurrent 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 BillerudKorsnäs' various markets as follows

SEKm	Packaging Paper	Consumer Board	Container-board	Other units	Other and eliminations	Total
2012						
Group						
Sweden	302	47	143	318	95	905
Other EU countries	3 981	255	1 831	74		6 141
Rest of Europe	446	26	137	1		610
Total Europe	4 729	328	2 111	393	95	7 656
Other markets	2 108	180	483			2 771
Group total	6 837	508	2 594	393	95	10 427

Of net sales of SEK 10 427 million (9 343), SEK 17 million (9) was sales of services.
Income in the Group related to the exchange of goods and services totalled SEK 234 million (238).

SEKm	Packaging Paper	Consumer Board	Container-board	Other units	Other and eliminations	Total
2012						
Parent company						
Sweden	91	1	115		421	628
Other EU countries	816	6	1 551		-2	2 371
Rest of Europe	136	1	113			250
Total Europe	1 043	8	1 779	-	419	3 249
Other markets	441	14	456			911
Parent company total	1 484	22	2 235	-	419	4 160

Of net sales of SEK 4 160 million (4 151), SEK 0 million (0) was sales of services.

SEKm	Packaging Paper	Consumer Board	Container-board	Other units	Other and eliminations	Total
2011						
Group						
Sweden	332		176	257	230	995
Other EU countries	3 457		1 920	39		5 416
Rest of Europe	401		149			550
Total Europe	4 190	-	2 245	296	230	6 961
Other markets	1 855		527			2 382
Group total	6 045	-	2 772	296	230	9 343
2011						
Parent company						
Sweden	91		123		202	416
Other EU countries	925		1 659			2 584
Rest of Europe	142		121			263
Total Europe	1 158	-	1 903	-	202	3 263
Other markets	394		494			888
Parent company total	1 552	-	2 397	-	202	4 151

Operating profit/loss by business area SEKm	Group		Parent company	
	2012	2011	2012	2011
Packaging Paper	352	514	58	136
Consumer Board	35	-	6	-
Containerboard	219	370	216	331
Other units	48	35	8	6
Other and eliminations				
Currency hedging, etc.	95	230	60	202
Group staff and elimination	-260	-171	-145	-146
Group total	489	978	203	529

Business area earnings are reported excluding the effects of currency hedging and also beginning in 2007 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	2012	2011
Group		
Services sold	6	4
Other	21	14
Group total	27	18
Parent company		
Services sold	5	4
Commissions	27	24
Other	7	7
Parent company total	39	35

4 FEES AND EXPENSES FOR AUDITORS

SEKm	Group		Parent company	
	2012	2011	2012	2011
Ernst & Young				
Auditing assignments ¹	2	2	1	1
Audit activities besides audit engagements	-	-	-	-
Tax consultancy	-	-	-	-
Other services	8	1	8	1
Total	10	3	9	2
SEKm				
Other auditors				
Auditing assignments ¹	-	-	-	-
Tax consultancy	-	1	-	-
Other services	1	1	-	-
Total	1	2	-	-

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 refers chiefly to remuneration for advisory services in relation to acquisitions and accounting matters.



5 EMPLOYEES AND EMPLOYEE BENEFITS EXPENSE

Average number of employees	2012	Of whom men, %	2011	Of whom men, %
Parent company				
Sweden	937	80	933	80
Other countries	4	100	4	100
Parent company total	941	80	937	80
Subsidiaries				
Sweden	1 253	83	1 118	84
Finland	102	84	-	-
Germany	23	43	19	42
Netherlands	1	-	5	20
France	12	33	11	36
Italy	10	60	9	44
Spain	11	36	9	33
United Kingdom	154	90	153	91
China	9	33	7	43
Lithuania	6	17	5	20
Latvia	25	84	3	67
Estonia	1	100	1	100
Subsidiaries total	1 607	82	1 340	82
Group total	2 548	81	2 277	82

SEKm Employee benefits expense	Group		Parent company	
	2012	2011	2012	2011
Salaries and other remuneration				
Board, CEO and management teams ¹	70	60	31	26
including bonus	7	7	4	4
Other employees	1 109	955	427	416
including bonus	29	37	14	19
Total salaries and other remuneration	1 179	1 015	458	442

Social security costs	Group		Parent company	
	2012	2011	2012	2011
Contractual pensions to the CEO and management groups ¹				
Defined-benefit pensions	4	3	2	2
Defined-contribution pensions	8	9	4	4
Contractual pensions, other				
Defined-benefit pensions	15	15	12	23
Defined-contribution pensions	72	55	28	23
Other social security costs	376	330	156	156
Total social security costs	475	412	202	208
Total employee benefits expense	1 654	1 427	660	650

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 121 (95) people.

Number of women in management positions, %	2012	2011
Group		
Boards	12	11
CEO and management teams	21	21
Parent company		
The Board	30	33
CEO and management teams	18	18

For information about the benefits of senior managers in accordance with the Annual Accounts Act, see note 24.

6 NET FINANCIAL INCOME/EXPENSES

SEKm Group	2012	2011
Interest income on cash and investments in securities etc.	13	22
Financial income	13	22
Interest expense for financial liabilities measured at amortised cost	-85	-37
Interest expense for pension provision	-9	-9
Net change in exchange rates	13	-
Other financial expenses	-19	-21
Financial expenses	-100	-67
Net financial income/expenses	-87	-45

SEKm Parent company	2012	2011
Profit/Loss from participations in Group companies¹	2012	2011
Dividend	37	20
Impairment losses	-15	-10
Parent company total	22	10

Interest income and similar profit/loss items	2012	2011
Interest income, Group companies	4	-
Interest income, other	13	20
Parent company total	17	20

Interest expense and similar profit/loss items	2012	2011
Interest expense for pension provision	-7	-8
Interest expense, other	-83	-33
Interest expense for derivatives in hedge accounting	35	33
Net change in exchange rates	17	-1
Other financial expenses	-19	-21
Parent company total	-57	-30
Net financial income/expenses	-18	-

7 APPROPRIATIONS

SEKm Parent company	2012	2011
Group contributions received ¹	-	1 062
Group contributions paid ¹	-428	-11
Tax allocation reserve	-131	-215
Difference between scheduled and recognised depreciation/amortisation		
Plant and equipment	1 997	-1 997
Parent company total	1 438	-1 161

At year-end 2012, the parent company switched from the theoretical method to the residual value depreciation method for tax depreciation of plant and equipment.

¹ Figures for 2011 have been recalculated due to new principles for recognition of Group contributions.

8 TAXES

Profit/Loss before tax SEKm	Group		Parent company	
	2012	2011	2012	2011
Sweden, Group companies	309	890	1 623	-632
Rest of world, Group companies	93	43	-	-
Total profit/loss before tax	402	933	1 623	-632
Tax expense SEKm	Group		Parent company	
	2012	2011	2012	2011
Current tax				
Tax expense for the period	-128	-183	-102	-172
Tax attributable to previous period	-	-	-	-
Total current tax	-128	-183	-102	-172
Deferred tax				
Deferred tax income/expense related to temporary differences	403	-67	-216	340
Total tax expense	275	-250	-318	168

In the parent company, Group contributions received and paid are recognised as appropriations in the profit and loss accounts as of 2012. 2011, the year for comparison, has been adjusted accordingly.

Difference between nominal and effective tax rate %	Group		Parent company	
	2012	2011	2012	2011
Swedish income tax rate	26.3	26.3	26.3	26.3
Effect of other tax rates for foreign subsidiaries	-	0.2	-	-
Tax-exempt dividends	-	-	-0.6	0.8
Tax attributable to previous period	0.4	-0.1	-	0.1
Tax effect of non-deductible expenses	7.7	0.5	0.5	-0.6
Tax effect of tax-exempt income	-	-0.1	-	0.1
Tax effect of change in tax rate in Sweden as of 1 January 2013	-103.0	-	-6.6	-
Effective tax rate according to profit and loss accounts	-68.6	26.8	19.6	26.7

Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance 1 Jan 2011	Rec in profit and loss accounts	Company acquisitions	Rec directly in shareholders' equity	Closing balance 31 Dec 2011
Deferred tax liability					
Other non-current assets	1 448	-	-	-	1 448
Tax allocation reserve	-	57	-	-	57
Hedging 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	-	-	-	1
Accounts receivable	8	-2	-	-	6
Provisions	11	-5	-	1	7
Loss carry-forwards	-	-	-	-	-
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 as to whether this deferred tax benefit can be claimed.

Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance 1 Jan 2012	Recognised in profit and loss accounts	Company acquisitions	Recognised directly in shareholders' equity	Closing balance 31 Dec 2012
Deferred tax liability					
Other non-current assets	1 448	-418	1 536	-	2 566
Tax allocation reserve	57	19	-	-	76
Hedging reserve	1	-	-	1	2
Total deferred tax liability	1 506	-399	1 536	1	2 644
Deferred tax asset					
Buildings and land	26	-6	10	-	30
Inventories	1	14	-17	-	-2
Accounts receivable	6	1	-	-	7
Provisions	7	-5	31	-	33
Loss carry-forwards	-	-	-	-	-
Total deferred tax asset	40	4	24	-	68
Total net deferred tax liability	1 466	-403	1 512	1	2 576
Portion recognised as deferred tax asset					1
Portion recognised as deferred tax liability					2 577

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 as to whether this deferred tax benefit can be claimed.

Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance 1 Jan 2011	Recognised in profit and loss account	Closing balance 31 Dec 2011
Deferred tax liability			
Other non-current assets		694	350
Total deferred tax liability		694	350
Deferred tax asset			
Buildings and land		6	6
Accounts receivable		4	2
Provisions		11	9
Loss carry-forwards		-	-
Total deferred tax asset		21	17
Total net deferred tax liability		673	333

Participations in subsidiaries do not include any material temporary differences.

Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance 1 Jan 2012	Recognised in profit and loss account	Closing balance 31 Dec 2012
Deferred tax liability			
Other non-current assets		350	559
Total deferred tax liability		350	559
Deferred tax asset			
Buildings and land		6	5
Accounts receivable		2	1
Provisions		9	4
Loss carry-forwards		-	-
Total deferred tax asset		17	10
Total net deferred tax liability		333	549

Participations in subsidiaries do not include any material temporary differences.



9 EARNINGS PER SHARE

	2012	2011
Basic earnings per share		
Profit/Loss for the period, SEKm	677	683
Weighted number of outstanding ordinary shares	131 852 149	127 860 805
Basic earnings per share, SEK	5.14	5.34
Diluted earnings per share		
Profit/Loss for the period, SEKm	677	683
Adjusted profit/loss, SEKm	677	683
Weighted number of outstanding ordinary shares	131 852 149	127 860 805
Adjustment for assumed dilution through incentive programme	305 054	361 979
No. of shares used to calculate earnings per share	132 157 203	128 222 784
Diluted earnings per share, SEK	5.12	5.33

10 PROPERTY, PLANT, AND EQUIPMENT

2012 SEKm Group	Build ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Acquisition cost					
Opening balance, 1 Jan 2012	1 803	12 496	-	49	14 348
Investments	18	348	1	588	955
Investment through business combinations	1 972	15 172	13	512	17 669
Reclassification ⁴	4	842	-	-92	754
Sales and disposals	-2	-206	-	-	-208
Translation difference	-2	-46	-	-	-48
Closing balance, 31 Dec 2012	3 793	28 606	14	1 057	33 470
Accumulated depreciation					
Opening balance, 1 Jan 2012	-1 080	-6 298	-	-	-7 378
Business combinations	-1 169	-7 912	-7	-	-9 088
Depreciation/Amortisation	-56	-610	-	-	-666
Reclassification ⁴	-	-762	-	-	-762
Sales and disposals	2	185	-	-	187
Translation difference	-	7	-	-	7
Closing balance, 31 Dec 2012	-2 303	-15 390	-7	-	-17 700
Accumulated impairment losses					
Opening balance, 1 Jan 2012	-111	-1 805	-	-	-1 916
Impairment losses	-	-	-	-	-
Sales and disposals	-	-	-	-	-
Closing balance, 31 Dec 2012	-111	-1 805	-	-	-1 916
Carrying amount on the balance sheet, 31 Dec 2012	1 379 ²	11 411	7	1 057	13 854
2012 Parent company					
Acquisition cost					
Opening balance, 1 Jan 2012	803	6 539	-	21	7 363
Investments	6	139	-	15	160
Reclassification ⁴	1	776	-	-15	762
Sales and disposals	-	-106	-	-	-106
Closing balance, 31 Dec 2012	810	7 348	-	21	8 179
Accumulated depreciation					
Opening balance, 1 Jan 2012	-507	-3 376	-	-	-3 883
Depreciation/Amortisation	-26	-244	-	-	-270
Reclassification ⁴	-	-762	-	-	-762
Sales and disposals	-	98	-	-	98
Closing balance, 31 Dec 2012	-533	-4 284	-	-	-4 817
Accumulated impairment losses					
Opening balance, 1 Jan 2012	-	-898	-	-	-898
Sales and disposals	-	-	-	-	-
Closing balance, 31 Dec 2012	-	-898	-	-	-898
Carrying amount on the balance sheet, 31 Dec 2012	277 ³	2 166	-	21	2 464

2011 SEKm Group	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Acquisition cost					
Opening balance, 1 Jan 2011	1 744	12 196	-	68	14 008
Investments	38	279	-	148	465
Reclassification	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

2011 SEKm Group	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
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	-	-5	-	-	-5
Closing balance, 31 Dec 2011	-1 080	-6 298	-	-	-7 378

2011 SEKm Group	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Accumulated impairment losses					
Opening balance, 1 Jan 2011	-111	-1 805	-	-	-1 916
Closing balance, 31 Dec 2011	-111	-1 805	-	-	-1 916

2011 SEKm Group	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Carrying amount on the balance sheet, 31 Dec 2011	612 ²	4 393	-	49	5 054

2011 Parent company	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Acquisition cost					
Opening balance, 1 Jan 2011	773	6 381	-	18	7 172
Investments	28	159	-	14	201
Reclassification	2	9	-	-11	-
Sales and disposals	-	-10	-	-	-10
Closing balance, 31 Dec 2011	803	6 539	-	21	7 363

2011 Parent company	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
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

2011 Parent company	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Accumulated impairment losses					
Opening balance, 1 Jan 2011	-	-898	-	-	-898
Sales and disposals	-	-	-	-	-
Closing balance, 31 Dec 2011	-	-898	-	-	-898

2011 Parent company	Build- ings and land	Plant and equip- ment ¹	Leased non- current assets	Construc- tion in progress	Total
Carrying amount on the balance sheet, 31 Dec 2011	296 ³	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 38 million (39).

3 Including land totalling SEK 15 million (15)

4 Reclassification includes correction of identified difference in fixed assets register with SEK 762 million in BillerudKorsnäs AB.

Rental agreements and lease

Future contractual lease commitments for the Group totalled SEK 242 million, SEK 73 million of which payable within one year and SEK 161 million within 1–5 years. The corresponding figure for the parent company is SEK 81 million, SEK 25 million of which payable within one year and SEK 53 million within 1–5 years. In 2010, leasing expenses totalled SEK 73 million for the Group. For the parent company, the total was SEK 26 million.

11 INTANGIBLE ASSETS

2012 SEKm Group	Intangible assets acquired				Total
	Goodwill	Customer contract	Brands	Other intangible assets	
Acquisition cost					
Opening balance, 1 Jan 2012	31	-	-	90	121
Investments	-	-	-	-	-
Investment through business combinations	2 041	567	66	-	2 674
Reclassification	-	-	-	9	9
Translation differences	-	-	-	-	-
Closing balance, 31 Dec 2012	2 072	567	66	99	2 804
Accumulated depreciation					
Opening balance, 1 Jan 2012	-	-	-	-59	-59
Depreciation/Amortisation	-	-5	-1	-17	-23
Translation differences	-	-	-	-1	-1
Closing balance, 31 Dec 2012	-	-5	-1	-77	-83
Accumulated impairment losses					
Opening balance, 1 Jan 2012	-10	-	-	-	-10
Impairment losses	-20	-	-	-	-20
Closing balance, 31 Dec 2012	-30	-	-	-	-30
Carrying amount on the balance sheet 31 Dec 2012	2 042	562	65	22	2 691
2011					
Parent company					
Acquisition cost					
Opening balance, 1 Jan 2012	-	-	-	28	28
Investments	-	-	-	-	-
Sales	-	-	-	-	-
Closing balance, 31 Dec 2012	-	-	-	28	28
Accumulated depreciation					
Opening balance, 1 Jan 2012	-	-	-	-16	-16
Depreciation/Amortisation	-	-	-	-6	-6
Closing balance, 31 Dec 2012	-	-	-	-22	-22
Carrying amount on the balance sheet 31 Dec 2012	-	-	-	6	6
2011					
Group					
Acquisition cost					
Opening balance, 1 Jan 2011	30	-	-	89	119
Investments	1	-	-	1	2
Translation differences	-	-	-	-	-
Closing balance, 31 Dec 2011	31	-	-	90	121
Accumulated depreciation					
Opening balance, 1 Jan 2011	-	-	-	-42	-42
Business combinations	-	-	-	-	-
Depreciation/Amortisation	-	-	-	-17	-17
Translation differences	-	-	-	-	-
Closing balance, 31 Dec 2011	-	-	-	-59	-59
Accumulated impairment losses					
Opening balance, 1 Jan 2011	-	-	-	-	-
Impairment losses	-10	-	-	-	-10
Closing balance, 31 Dec 2011	-10	-	-	-	-10
Carrying amount on the balance sheet 31 Dec 2011	21	-	-	31	52
2011					
Parent company					
Acquisition cost					
Opening balance, 1 Jan 2011	-	-	-	28	28
Investments	-	-	-	-	-
Sales	-	-	-	-	-
Closing balance, 31 Dec 2011	-	-	-	28	28
Accumulated depreciation					
Opening balance, 1 Jan 2011	-	-	-	-11	-11
Depreciation/Amortisation	-	-	-	-5	-5
Closing balance, 31 Dec 2011	-	-	-	-16	-16
Carrying amount on the balance sheet 31 Dec 2011	-	-	-	12	12

12 PARTICIPATIONS IN GROUP COMPANIES

SEKm	2012	2011
Acquisition cost		
Opening balance 1 January	1 350	1 315
Investments ¹	9 407	35
Closing balance 31 December	10 757	1 350
Accumulated impairment losses		
Opening balance 1 January	-130	-120
Impairment losses ²	-15	-10
Closing balance 31 December	-145	-130
Carrying amount on the balance sheet	10 612	1 220

1 Investments consist of a capital contribution of SEK 1 167 million to Billerud Finland Oy and the amount of SEK 8 240 million, including indirect acquisition costs, for the acquisition of Korsnäs AB amounting to SEK 41 million.

2 Impairment losses totalling SEK 15 million pertain to Tenova Bioplastics AB.

Specification of parent company's participations in Group companies

Subsidiary/Reg. office/Reg. no.	No. of shares	% 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 556724-5641	1 000	100	1
Fresh Services AB, Stockholm 556459-7572	1 000	100	-
Billerud Holding AB, Stockholm 556876-2974	2 000	100	-
Nine TPP AB, Stockholm 556724-5658	1 000	71.6	7
Tenova Bioplastics AB, Åby 556639-6197	2 500	100	17
Billerud Beetham Ltd, Cumbria 3 500 000	3 500 000	100	81
Billerud Benelux B.V., Amsterdam 200	200	100	3
Billerud France S.A.S., Paris 4 000	4 000	100	1
Billerud Central Europe GmbH, Hamburg -	-	100	1
Billerud Iberica S.L., Barcelona -	-	100	1
Billerud S.r.l., Milan -	-	100	-
Billerud Sales Ltd, Nottingham 5 000	5 000	100	7
Billerud Trading Co. Ltd, Shanghai -	-	100	4
Billerud Mediena UAB, Klaipeda ⁴ 200	200	85	14
Billerud Wood Supply SIA, Dreilini 2 000	2 000	100	-
Billerud Estonia OÜ, Pärnu 1	1	100	-
Billerud Incorporated, Delaware 100	100	100	28
Billerud Finland Oy, Helsinki 2 500	2 500	100	1 167
Korsnäs AB, Gävle 556023-8338	53 613 270	100	8 240
Carrying amount, 31 Dec 2012			10 612

3 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	2012	2011
Parent company		
Receivables from Group companies		
Carrying amount, 1 January	-	12
Change for the year	1 545	-12
Carrying amount, 31 December	1 545	-
Liabilities to Group companies		
Carrying amount, 1 January	48	31
Change for the year	444	17
Carrying amount, 31 December	492	48

Interest-bearing receivables and liabilities refers to Group cash pools and fixed-term loans and investments carrying intra-Group interest rates.



14 PARTICIPATIONS IN ASSOCIATED COMPANIES

SEKm Group	2012	2011
Carrying amount, 1 January	29	4
Acquisition of associated companies	234	27
Reclassification as subsidiary ¹	-	-2
Participations in associated companies' profit/loss after tax	2	-
Carrying amount, 31 December	265	29

The Group's share of revenue, profit/loss, assets and liabilities through participations is specified below.

Associated companies

SEKm 2012	Country	Revenue	Profit/ Loss	Assets	Liabili- ties	Share- holders' equity	Pctg. owned
ScandFibre Logistics AB	Sweden	1 078	-	161	150	11	40
Paccess Packaging LLC	USA	263	4	80	70	10	30
Bomhus Energi AB	Sweden	4	-	1 885	1 432	453	50
Trätåg AB	Sweden	196	-	33	33	-	50
Industriskog AB	Sweden	-	-	-	-	-	33
Fastighetsbolaget							
Marma Skog 31	Sweden	-	-	7	-	7	50
Total		1 541	4	2 166	1 685	481	

2011

ScandFibre Logistics AB	Sweden	812	-2	142	134	8	20
Paccess Packaging LLC	USA	55	-1	22	8	14	30
Total		867	-3	164	142	22	

SEKm

Parent company	2012	2011
Acquisition cost		
Opening balance	1	6
Reclassification as subsidiary ¹	-	-5
Closing balance	1	1

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 2012		

Associated companies

ScandFibre Logistics AB, 556253-1474 Örebro	20	1
Parent company total		1

31 Dec 2011

Associated companies

ScandFibre Logistics AB, 556253-1474 Örebro	20	1
Parent company total		1

1 In 2011, BillerudKorsnäs' participation in Nine TPP AB increased from 60% till 71.6% and was consolidated as a subsidiary.

15 OTHER HOLDINGS

SEKm Group	No. of shares	% participation	Carrying amount
Name / Corp. id. no., 31 Dec 2012			
2 tenant-owners' rights			2
BasEI i Sverige AB, 556672-5858	100	10	1
VindIn AB, 556713-5172	200	10.3	29
Kalix Vindkraft AB, 556686-1729	20 000	10	5
BioBag International AS, 966 534 281	360	10	9
Bergvik Skog AB, 556610-2959 ¹	353	5	691
Gävle-Sandviken Flygfält AB, 556160-1625	20	3	-
Radio Skog AB, 556137-8506	400	10	-
RK Returkartong AB, 556483-8828	28	4	-
Intressebolaget Nya Norrköping AB, 556364-0480	10	7	-
Marknadsbolaget i fjärde storstadsregionen, 556757-7647	115	5	-
Total			737

SEKm Parent company	No. of shares	% participation	Carrying amount
Name / Corp. id. no., 31 Dec 2012			
1 tenant-owners' right			2
BasEI i Sverige AB, 556672-5858	50	5	-
VindIn AB, 556713-5172	100	7	24
Total			26

SEKm Group	No. of shares	% participation	Carrying amount
Name / Corp. id. no., 31 Dec 2011			
1 tenant-owners' right			2
BasEI i Sverige AB, 556672-5858	50	5	-
VindIn AB, 556713-5172	100	7	23
Kalix Vindkraft AB, 556686-1729	20 000	10	5
Total			30

SEKm Parent company	No. of shares	% participation	Carrying amount
Name / Corp. id. no., 31 Dec 2011			
1 tenant-owners' right			2
BasEI i Sverige AB, 556672-5858	50	5	-
VindIn AB, 556713-5172	100	7	23
Total			25

16 INVENTORIES

SEKm	Group		Parent company	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Raw materials and consumables	1 149	389	95	111
Finished goods	1 751	647	247	279
Work in progress	27	37	-	-
Advances from suppliers	219	62	-	-
Total	3 146	1 135	342	390

Operating costs include SEK 42 million (46) for impairment of inventories. SEK 130 million (216) 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 BillerudKorsnäs' remaining net assets. Regarding shares in the Company's treasury (see below), all rights are suspended until the shares are re-issued.

Additional paid-in capital

The shares represent equity paid in by the owners. This includes part of share premium reserves transferred to the statutory reserve on 31 December 2005. Allocations 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 arising from the translation of financial reports of foreign operations that have prepared their financial reports in a currency other than the currency that is 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 arising 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.

Hedging reserve

The hedging 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 allocations to the statutory reserve, excluding transferred share premium reserves, are included in this equity item.

Shares bought back

Shares bought back includes the acquisition cost of the Company's own shares held by the parent company. On 31 December 2012, the Group's holdings of its own shares totalled 1 718 947 (1 720 314).

Dividend

After the end of the reporting period, the Board of Directors proposed to the AGM a dividend of SEK 2.00 per ordinary share, totalling SEK 413 million. This proposal will be voted on at the AGM on 7 May 2013.

	2012	2011
Dividend, SEKm	413	361
Recognised dividend per ordinary share, SEK	2.00	3.50

Parent company

Restricted reserves

Restricted reserves cannot be reduced by distributing them as dividends.

Share capital

The share capital at year-end consists of 208 219 834 (104 834 613) ordinary shares with a quotient value of SEK 7.38 (7.38) and entitling holders to one vote per share. In 2012, a directed issue was carried out, increasing the number of ordinary shares by 34 551 592. In addition, a rights issue was in progress at year-end and will increase the number of shares outstanding by 68 833 629. At year-end, all shares in the rights issue were subscribed but unpaid part of the rights issue amounted to SEK 42 million corresponding to 1 462 413 subscription rights.

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 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 reserve, this constitutes non-restricted equity, that is, the amount available for distribution as a dividend to shareholders.

18 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

BillerudKorsnäs has defined-benefit pension plans for white-collar workers in Sweden (ITP plan) and to some extent for employees in the German subsidiary Billerud Central Europe 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.

BillerudKorsnäs 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 34 million (28) for the year.

Defined-benefit commitments

SEKm	31 Dec 2012	31 Dec 2011
Group		
Present value of unfunded defined-benefit commitments	816	272
Adjustments:		
Accumulated unrecognised actuarial gains (+) and losses (-)	-59	-53
Carrying amount, 31 December	757	219

The amount is recognised in the following item on the balance sheet:

Provisions for pensions and similar commitments	757	219
The net amount is divided among plans in the following countries:		
Sweden	748	210
Germany	9	9
Commitments recognised on balance sheet	757	219

Pension costs

SEKm	2012	2011
Group		
Cost of defined-benefit plans earned during the year	19	18
Interest expense	9	9
Cost of defined-benefit plans	28	27
Cost of defined-contribution plans	80	64
Payroll tax	22	21
Total cost of remuneration after employment ends	130	112

The cost is recognised in the following items in the profit and loss account:

Employee benefits expense	121	103
Financial expenses	9	9
Total cost of remuneration after employment ends	130	112

Reconciliation of provisions for pensions on the balance sheet

The following table indicates how provisions for pensions on the balance sheet changed during the period.

	2012	2011
Commitments on the balance sheet at start of year	219	207
Company acquisitions	539	-
Cost of defined-benefit plans	9	18
Pensions paid	-10	-6
Commitments on the balance sheet at year-end	757	219

Unrealised actuarial gains (-) and losses (+)	2012	2011
Value, 1 January	53	46
Changed assumptions for commitments	9	9
Amortisation for the year	-3	-2
Translation differences for the year	-	-
Unrecognised actuarial losses at year-end	59	53



18 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS (CONT'D.)

Actuarial assumptions	31 Dec 2012	31 Dec 2011
The following material actuarial assumptions have been used in the calculation of commitments (weighted average).		
Discount rate	3.0%	3.3%
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	10 years	11 years
Present value of pension commitments		
Parent company		
Present value of pension commitments related to retirement under the management of the Company at the start of the year	182	163
Costs excluding interest expense charged to earnings	8	17
Interest expense	7	8
Pensions paid	-8	-6
Present value of pension commitments related to retirement under the management of the Company at year-end	189	182
Commitments paid to pension insurance held by BillerudKorsnäs	12	18
Other provisions	9	10
Commitments recognised on the balance sheet	210	210
Of which covered by credit insurance with FPG/PRI	189	182
Costs relating to pensions, SEKm		
Parent company		
Direct pensions		
Cost excluding interest expense	8	17
Interest expense	7	8
Total cost of direct pensions	15	25
Insurance-based pensions		
Insurance premiums paid	37	35
Provision for future premiums	-	1
Dissolution of provision for future premiums	-	-
Sub-total	37	36
Tax on returns from pension funds	1	1
Special payroll tax on pension costs	12	14
Cost of credit insurance	1	-
Pension cost for the year	66	76
Group		
31 Dec 2012 31 Dec 2011		
Assets pledged for pension commitments		
Endowment insurance	19	25
Group total	19	25
Parent company		
Assets pledged for pension commitments		
Endowment insurance	12	18
Parent company total	12	18
Group		
Amount of provision expected to be paid within 12 months	50	9
Amount of provision expected to be paid beyond 12 months	707	210
Parent company		
Amount of provision expected to be paid within 12 months	22	15
Amount of provision expected to be paid beyond 12 months	188	195

19 PROVISIONS

SEKm	2012	2011
Group		
Provisions that are non-current liabilities		
Severance pay, lay-off pay	48	3
Costs of environmental measures	34	33
Group total	82	36
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	1
Provisions made during the year	-	-
Unutilised amount reversed during the year	-	-
Amount utilised during the year	-	-
Carrying amount, 31 December	1	1
Severance pay, lay-off pay		
Carrying amount, 1 January	3	3
Acquisitions	23	-
Provisions made during the year	42	-
Unutilised amount reversed during the year	-1	-
Amount utilised during the year	-19	-
Carrying amount, 31 December	48	3
Costs of environmental measures		
Carrying amount, 1 January	33	24
Provisions made during the year	1	9
Carrying amount, 31 December	34	33
Group		
Group's total provisions		
Total carrying amount, 1 January	37	28
Acquisitions	23	-
Provisions made during the year	43	9
Unutilised amount reversed during the year	-1	-
Amount utilised during the year	-19	-
Total carrying amount, 31 December	83	37
Of which total non-current portion of provisions	53	36
Of which total current portion of provisions	30	1
Parent company		
Costs of restructuring measures		
Carrying amount, 1 January	-	-
Unutilised amount reversed during the year	-	-
Amount utilised during the year	-	-
Carrying amount, 31 December	-	-
Parent company's total provisions		
Total carrying amount at start of period	-	-
Unutilised amount reversed during the year	-	-
Amount utilised during the period	-	-
Total carrying amount at end of period	-	-
Payments, SEKm		
31 Dec 2012 31 Dec 2011		
Group		
Amount of provision expected to be paid beyond 12 months	34	32
Parent company		
Amount of provision expected to be paid beyond 12 months	-	-

20 INTEREST-BEARING LIABILITIES

SEKm	31 Dec 2012	31 Dec 2011
Group		
Non-current liabilities		
Syndicated loans	3 110	117
Bilateral loans	2 000	-
Bond loans	150	675
Other interest-bearing liabilities	145	27
Carrying amount, 31 December	5 405	819
Current liabilities		
Syndicated loan	1 500	-
Current portion of bond loans	525	-
Commercial paper	671	-
Other interest-bearing liabilities	4	-
Carrying amount, 31 December	2 700	-

Terms and repayment periods

Syndicated loan 2012

On 19 June 2012, BillerudKorsnäs signed a new loan agreement with a consortium of banks to finance the acquisition of Korsnäs. This loan for SEK 1 500 million extends one year. The loan was fully utilised at 31 December 2012. The terms of the loan facility follow those of BillerudKorsnäs' syndicated loan facility of SEK 5 500 million, see below.

Syndicated loan 2012

On 2 November 2012, BillerudKorsnäs signed a new loan agreement with a consortium of banks. This revolving loan facility of SEK 5 500 million has a three-year term and replaces parts of the original bridge facility of SEK 10 500 million from 19 June 2012 maturing in 2013. At 31 December 2012, SEK 3 110 million of the facility had been utilised. The parent company carries the entire withdrawn amount. The terms for the loan include compliance with the following ratios:

-The net debt/equity ratio shall not exceed 1.2.

-The interest coverage ratio shall not be less than 3.0.

Bilateral loan 2010

On 12 July 2010 BillerudKorsnäs entered into a seven-year loan agreement with a counterparty for SEK 800 million. The loan was fully utilised at 31 December 2012. The terms of the loan facility follow those of BillerudKorsnäs' syndicated loan facility of SEK 5 500 million, see above.

Bilateral loans 2010

On 3 June 2010 Korsnäs AB entered into two bilateral loan agreements with different counterparties for a total of SEK 1 200 million. The seven-year loans were fully utilised at 31 December 2012. The terms of the loan facility follow those of BillerudKorsnäs' syndicated loan facility of SEK 5 500 million, see above.

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 2012, 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 2012, 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 2012, SEK 150 million of the loan had been utilised.

Commercial paper programme

The programme runs from 18 June 2003 and enables BillerudKorsnäs 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. Per 31 Dec 2012 commercial papers equivalent to SEK 671 million were issued. There are no special conditions for renegotiation linked to the liabilities above.

21 LIABILITIES TO CREDIT INSTITUTIONS

SEKm	31 Dec 2012	31 Dec 2011
Parent company		
Non-current liabilities		
Syndicated loans	3 110	58
Bond loans	150	675
Bilateral loan	800	-
Other interest-bearing liabilities	-	1
Carrying amount, 31 December	4 060	734
Current liabilities		
Syndicated loan	1500	-
Current portion of bond loans	525	-
Commercial paper	671	-
Other interest-bearing liabilities	2	-
Carrying amount, 31 December	2 698	-

All liabilities are due for payment within five years after the end of the reporting period.

22 ACCRUED EXPENSES AND DEFERRED INCOME

SEKm	Group		Parent company	
	2012	2011	2012	2011
Employee costs including social fees	545	264	167	159
Excise duties	5	3	1	1
Delivery costs	130	111	66	61
Wood costs	65	16	-	-
Energy costs	38	4	-	-
Other	157	41	27	14
Total	940	439	261	235



23 FINANCIAL ASSETS AND LIABILITIES

Fair value and carrying amount

are presented in the balance sheet below in SEK million:

Group 2012	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			737		737	737
Long-term receivables ¹			97		97	97
Accounts receivable		2 244			2 244	2 244
Other receivables	29	480			509	509
Cash and cash equivalents ²		745			745	745
Total	29	3 469	834		4 332	4 332
Non-current interest-bearing liabilities				5 405	5 405	5 405
Current interest-bearing liabilities				2 700	2 700	2 700
Accounts payable				2 550	2 550	2 550
Other liabilities	20			171	191	191
Total	20			10 826	10 846	10 846
Group 2011						
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				-	-	-
Accounts payable				1 227	1 227	1 227
Other liabilities	33			51	84	84
Total	33			2 097	2 130	2 130
Parent company 2012						
Other shares and participations			26		26	26
Other long-term receivables ³			12		12	12
Accounts receivable		1 474			1 474	1 474
Other receivables		101			101	130
Cash and bank balances ⁴		553			553	553
Total		2 128	38		2 166	2 195
Bond and syndicated loans				3 260	3 260	3 260
Other interest-bearing liabilities				800	800	800
Liabilities to credit institutions				2 698	2 698	2 698
Accounts payable				308	308	308
Other liabilities				20	20	40
Total				7 086	7 086	7 106
Parent company 2011						
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 loan				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

Net changes in the value of cash flow hedges recognised in the profit and loss accounts totalled SEK 142 million (186) in 2012, of which SEK 142 million (190) is recognised in Net sales and SEK 0 million (-4) in Raw materials and consumables.

1 At the start of 2012 BillerudKorsnäs had investments in eight different bonds for a total of SEK 341 million which were sold in May 2012.

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.

3 At the start of 2012 BillerudKorsnäs had investments in eight different bonds for a total of SEK 341 million which were sold in May 2012.

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 of the previous Board received SEK 570 thousand in 2012, of which an additional SEK 90 thousand was for committee work. Total remuneration to other Board members was SEK 2 490 thousand, of which SEK 170 thousand was for committee work. Remuneration to the Chairman of the current Board of Directors for 2012/2013 is SEK 1 000 thousand, of which an additional SEK 100 thousand is for committee work. Total remuneration to other Board members was SEK 3 175 thousand, of which SEK 375 thousand was for committee work.

Directors' fees SEK '000

Name	Annual fee 2011-2012	Annual fee 2012-2013 ¹	Audit committee fee 2011-2012	Audit committee fee 2012-2013	Remuneration committee fee 2011-2012	Remuneration committee fee 2012-2013	Integration committee fee 2012-2013	Fee paid 2012
Ingvar Petersson (until 29 Nov. 2012)	525	570	40	40	50	50		576
Michael M.F. Kaufmann	400	430/400			25	25		442
Gunilla Jönson	250	270/400	40	40				313
Ewald Nageler (until 29 Nov. 2012)	250	270						235
Yngve Stade (until 29 Nov. 2012)	250	270			25	25		258
Mikael Hellberg (until 29 Nov. 2012)	250	270	80	80				307
Helena Andreas (until 29 Nov. 2012)	250	270						235
Hannu Ryöppönen (from 29 Nov. 2012)		1 000				50	50	115
Lennart Holm		270/400		75			50	207
Jan Homan		270/400		75				201
Wilhelm Klingspor (from 29 Nov. 2012)		400						42
Mikael Larsson (from 29 Nov. 2012)		400		150				57
Mia Brunell Livfors (from 29 Nov. 2012)		400				25		44

¹ The fees decided by the Annual General Meetings in 2011 and 2012 as well as the Extraordinary General Meeting in 2012 include both outgoing and incoming members in 2012.

Remuneration to the CEO and senior management

The 2012 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. BillerudKorsnäs 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, 2011 and 2012 AGMs, respectively, 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 if the Company gives notice. Remuneration and other employment terms for the CEO are prepared by the remuneration 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 remuneration committee.

The Board of Directors of BillerudKorsnäs is entitled to deviate from these guidelines if there is good reason in individual cases. In 2012 the remuneration committee approved a deviation regarding severance pay for 24 months' salary.

In 2012, the actual variable remuneration was 36% for the CEO and an average of 18% for the senior management team.

Remuneration and benefits to the CEO

SEK '000	Year	Gross salary	Bonus	Other benefits	Pension costs	Total
Per Lindberg	2012	5 631 ¹	1 987	246	1 325	9 189
Per Lindberg	2011	5 169 ²	1 012	244	1 153	7 578

Remuneration and benefits to rest of senior management team during the year

SEK '000	Year	Gross salary	Bonus	Other benefits	Pension costs	Total
Management team ³	2012	14 528	3 177	799	2 686	21 190
Management team ⁴	2011	11 554	1 225	703	3 965	17 447

- This amount includes holiday pay supplement, allowances for expenses and lunch coupons totalling SEK 111 thousand in addition to fixed salary.
- This amount includes holiday pay supplement, allowances for expenses and lunch coupons totalling SEK 125 thousand in addition to fixed salary.
- These amounts include remuneration and other benefits for one person who left the senior management team in 2012 as well as five new people in conjunction with the formation of BillerudKorsnäs. The opening amounts refer to the period that person was a member of the senior management team.
- 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.

Comments

- The variable remuneration for 2012 refers to amounts to be paid out in 2013 but charged to 2012, while the variable remuneration for 2011 refers to remuneration paid out in 2012 but charged to 2011. The actual amounts are based on financial and individual targets linked to the development of the business and based on profit for 2011 and 2012.
- 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.
- In BillerudKorsnäs' long-term incentive programmes (LTIP 2010, LTIP 2011 and 2012) participants are allocated a certain number of BillerudKorsnäs shares free of charge after a three-year vesting period, provided certain criteria are met. In LTIP 2012, the CEO participates with 8 000 BillerudKorsnäs shares, referred to as "saving shares". Other members of the senior management team participate with 37 294 saving shares. All participants can achieve a 4:1 exchange ratio. Each saving share entitles the holder to:
 - One right to attaching shares
 - Three rights to performance share (one share right for the operating margin, one share right for the relative margin and one share right for total return)



25 ADDITIONAL INFORMATION FOR THE CASH FLOW STATEMENT

SEKm	Group		Parent company	
	2012	2011	2012	2011
Interest paid and received and dividend				
Interest and dividends received	15	20	56	39
Interest paid	-76	-59	-52	-27
Total	-61	-39	4	12
Adjustments for non-cash items, etc				
Depreciation, amortisation and impairment of assets	709	614	276	262
Interest adjustment	27	7	24	2
Impairment of shares in subsidiaries			15	10
Pensions and other provisions	10	11	-1	6
Realised surplus value inventory	35	-	-	-
Adjustments acquisition costs Group	34	-	-	-
Profit/Loss from participations in associated companies	-2	-	-	-
Capital gains	8	-	7	-
Total	821	632	321	280
Cash and cash equivalents ¹				
The following are included in cash and cash equivalents:				
Investments in securities etc.	-	250	-	250
Cash and bank balances	745	679	553	592
Total	745	929	553	842

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	Parent company	
	2012	2011
Tax allocation reserve		
Carrying amount, 1 January	215	-
Change for the year in addition to plan	131	215
Carrying amount, 31 December	346	215
Accumulated additional depreciation		
Plant and equipment		
Carrying amount, 1 January	1 997	-
Change for the year in addition to plan	-1 997	1 997
Carrying amount, 31 December	-	1 997
Total untaxed reserves	346	2 212

27 EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

On 16 January, Linköping Administrative Court announced its ruling on the Group's appeal against the Swedish Energy Agency's decision on the award of electricity certificates for new allocation periods. The Court rejected BillerudKorsnäs's appeal. BillerudKorsnäs has appealed against the Court's ruling.

The preferential rights issue that took place in December 2012 was completed in early 2013. The issue comprised 68 833 629 shares and the issue proceeds totalled approximately SEK 1 996 million before deduction of issue costs.

28 INVESTMENTS COMMITMENTS

Group

In 2012, the Group signed agreements to acquire property, plant and equipment for SEK 438 million (128). Of these commitments, it is expected that SEK 437 million (85) will be settled in 2013.

Parent company

In 2012, the parent company signed agreements to acquire property, plant and equipment for SEK 33 million (117). Of these commitments, it is expected that SEK 33 million (75) will be settled in 2013.

29 PLEDGED ASSETS AND CONTINGENT LIABILITIES

SEKm	Group		Parent company	
	2012	2011	2012	2011
Assets pledged for own liabilities and provisions				
Pledged endowment insurance	19	25	12	18
Pledged shares, associated companies	227	-	-	-
Total pledged assets	246	25	12	18
Contingent liabilities				
Guarantee commitment, FPG/PRI	13	4	4	4
Other guarantees	10	10	10	10
Guarantees for associated companies	5	-	-	-
Guarantees for group companies	-	-	29	58
Total contingent liabilities	28	14	43	72

30 RELATED PARTIES

Relationships subject to related party disclosure

The parent company has relationships with its subsidiaries subject to related party disclosure, see note 12.

Summary of related party transactions

SEKm	Year	Sales of goods and services to related parties	Purchase of goods and services from related parties	Receivables from related parties	Debts to related parties
Group					
Relationship					
Associated companies	2012	5	342	22	114
Associated companies	2011	-	386	17	3
Parent company					
Relationship					
Subsidiaries	2012	8	1 233	1 530	2 616
Subsidiaries	2011	9	1 297	893	1 232
Associated companies	2012	2	131	5	4
Associated companies	2011	-	143	5	-

Transactions with key individuals in executive positions

Salaries, remuneration and other benefits are accounted for in notes 5 and 24.

31 BUSINESS COMBINATIONS

On 1 June 2012 Billerud Finland Oy, a wholly owned subsidiary of BillerudKorsnäs AB, acquired two paper machines from UPM and a certain portion of related working capital. The acquisition cost amounted in all to SEK 1 039 million (EUR 116 million), of which machinery and equipment accounted for SEK 877 million and working capital for SEK 162 million. Indirect acquisition costs of SEK 34 million (EUR 4 million) were also incurred.

The transaction significantly reduces BillerudKorsnäs' pulp exposure and strengthens its offering in the packaging paper area. It also reduces the Group's currency exposure.

The business acquired was consolidated as of 1 June 2012 and is included in the Packaging Paper business area. Effective 1 July 2012, sales of market pulp are not accounted for separately but are included in the Packaging Paper business area.

On 29 November 2012, BillerudKorsnäs AB acquired all shares outstanding in Korsnäs AB from Kinnevik at a cost of SEK 8 199 million, and assumed operational control and a controlling interest in Korsnäs AB. The consideration paid for Korsnäs consists of newly issued shares in BillerudKorsnäs (directed issue) and a preliminary cash payment. The cash payment is to be adjusted according to the actual levels of external net debt, working capital and level of investment on the day of taking possession, and on 29 November a preliminary cash payment of SEK 5 332 million was made on the basis of estimates of the above-mentioned items on the day of taking possession (including compensation to Kinnevik in settlement of Korsnäs' SEK 2 579 million claim on Kinnevik). In addition, a seller's promissory note for SEK 500 million was issued. Of the purchase consideration, SEK 324 million consisted of cash and cash equivalents acquired and interest-bear-

ing liabilities amounting to SEK 3 264 million were taken over. On the day of taking possession, the directed issue was valued at SEK 2 367 million. Korsnäs has been part of the BillerudKorsnäs Group with effect from 29 November 2012.

The operations of Billerud and Korsnäs complement each other very well. The combination creates a strong and focused player in packaging materials and packaging solutions. Billerud-Korsnäs secures a strong platform for further expansion into new markets, with competitive products and solutions.

One condition for European Commission approval of Billerud's acquisition of Korsnäs was that the paper machine used for manufacturing white kraft and sack paper at the Gävle production unit (PM2) should be divested. Because this operation represents a minor proportion of the new group's total combined income statement and balance sheet, it is not accounted for separately as a fixed asset group for sale. Net sales and operating profit from PM2 at the Gävle production unit have been accounted for under Other units.

At the acquisition of Korsnäs, differences were identified between fair value and the carrying amount for tangible assets, inventories and defined-benefit pension liability. In addition, at acquisition customer contracts and brands had been measured at fair value and recognised as separate intangible assets. Because the aggregated purchase consideration exceeds the net value of all assets and liabilities acquired, goodwill is recognised. This goodwill has been calculated preliminarily at SEK 1 162 million and is made up of assets and future cash flows (such as synergies via coordination of raw material supply and other purchases and via optimisation of development, production, logistics and sales), see table Preliminary Acquisition Balance Sheet. The impact of the acquisition on external net sales in 2012 amounted to SEK 657 million, while the impact on operating profit was SEK 40 million, based on operating result SEK 88 million, amortisation of surplus values SEK -12 million and realised surplus value in inventory acquired SEK -36 million. Profit for 2012 was also charged with indirect acquisition costs of SEK -42 million. Korsnäs' net sales for the full year of 2012 amounted to SEK 8 980 million. The company's operating profit totalled SEK 920 million.

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 BillerudKorsnäs' defined-benefit pension plans was reduced, from 3.3% in 2011, to 3.0% in 2012, 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 97-98.

Valuation of subsidiaries

BillerudKorsnäs' 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 20 million has been carried out in the Group.

34 OPERATING SEGMENTS

SEKm	Packaging Paper		Consumer Board		Containerboard		Currency hedging, etc.		Other		Group total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net sales	6 837	6 045	508	-	2 594	2 772	95	230	393	296	10 427	9 343
Other income	7	-	2	-	8	-	-	-	10	18	27	18
Operating expenses, other	-6 043	-5 099	-416	-	-2 208	-2 238	-	-	-591	-432	-9 258	-7 769
Depreciation and impairment losses	-449	-432	-59	-	-175	-164	-	-	-26	-18	-709	-614
Profit/Loss from participations in associated companies	-	-	-	-	-	-	-	-	2	-	2	-
Operating profit/loss	352	514	35	-	219	370	95	230	-212	-136	489	978
Operating margin	5%	9%	7%	-	8%	13%	-	-	-	-	5%	10%
Financial income and expenses	-	-	-	-	-	-	-	-	-	-	-87	-45
Taxes	-	-	-	-	-	-	-	-	-	-	275	-250
Net profit/loss for the period											677	683

The Group's business is controlled and reported according to BillerudKorsnäs' three business areas: Packaging Paper, Consumer Board and Containerboard. Non-current assets and capital investments cannot be broken down by business area since the business areas are highly integrated in terms of production.

Currency hedging etc. includes results from hedging of the Group's net currency flows and revaluation of accounts receivable and payments from customers. The part of currency exposure

PRELIMINARY ACQUISITION BALANCE SHEET

SEKm	Recognised value in Korsnäs Group	Fair value adj.	Fair value rec. in Group
Goodwill	879	1 162	2 041
Customer contracts	-	567	567
Brands	-	66	66
Property, plant and equipment	6 339	1 417	7 756
Non-current financial assets	972	-	972
Inventories	1 842	84	1 926
Accounts receivable and other receivables	920	-	920
Cash and cash equivalents	324	-	324
Non-controlling interests	-44	-	-44
Interest-bearing liabilities	-2 802	-	-2 802
Pensions	-482	-73	-555
Accounts payable and other liabilities	-1 416	-	-1 416
Other provisions	-44	-	-44
Deferred tax liability	-1 059	-453	-1 512
Net identifiable financial assets and liabilities	5 429	2 770	8 199
Purchase consideration excluding indirect acquisition costs			8 199
Less: directed issue			-2 367
Cash and cash equivalents (acquired)			-324
Net effect on cash and cash equivalents			5 508

32 KEY ESTIMATES AND ASSESSMENTS (CONT'D.)

Following a test for impairment, the parent company's shareholding in the subsidiary Tenova Bioplastics AB has been impaired in the amount of SEK 15 million.

The acquisition of Korsnäs has recognised a surplus value in the form of goodwill amounting to MSEK 2 041. The value will be tested for impairment annually or more frequently if indications of impairment arise. Similarly, the parent company's shareholding in the subsidiary will be tested for impairment. Analysis of the allocation of goodwill to cash-generating units for the acquisition of Korsnäs is not completed.

33 INFORMATION ABOUT THE PARENT COMPANY

BillerudKorsnäs 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, Sweden. The consolidated accounts for 2012 are for the parent company and its subsidiaries, which form the Group. The Group also includes owned participations in associated companies.

relating to changes in invoicing rates is included in the business area's profit or loss.

Other includes other units, Group staff and eliminations. Other units include wood supply, sales organisations, Tenova Bioplastics AB, Nine TPP AB, Billerud Inc., Diacell AB, the Latgran Group, white kraft and sack paper at the Gävle production unit (PM2) and dormant companies. Group staff and eliminations comprise Group-wide functions and Group eliminations. Group eliminations also include shares in profits/losses from participations in associated companies.



PROPOSED ALLOCATION OF PROFIT

Non-restricted equity in the parent company consists of:

SEK

Non-restricted funds at beginning of the year	2 167 519 060
Directed issue	2 111 630 614
Rights issue in progress	1 469 067 806
Dividend for 2011	-360 900 046
Net profit/loss for the year	1 305 403 433
Total	6 692 720 867

The Board proposes

SEK

A dividend of 2.00 per share to be paid to shareholders and that the remaining amount be carried forward	413 001 774 6 279 719 093
Total	6 692 720 867

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 parent company, respectively, provides a true and fair view of the Group's and parent company's operations, position and performance, and describes material risks and uncertainties faced by the parent company and Group companies.

The annual accounts and consolidated accounts were approved for publication by the Board on 12 March 2013. 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 7 May 2013.

Solna, 12 March 2013

Hannu Ryöppönen,
Chairman

Mia Brunell Livfors,
Board member

Lennart Holm,
Board member

Jan Homan,
Board member

Gunilla Jönson,
Board member

Michael M. F. Kaufmann,
Board member

Wilhelm Klingspor,
Board member

Mikael Larsson,
Board member

Helén Gustafsson,
Board member

Kjell Olsson,
Board member

Per Lindberg,
CEO

Our audit report was issued on 13 March 2013

Ernst & Young AB

Lars Träff
Authorised Public Accountant

AUDITORS' REPORT

To the annual meeting of the shareholders in BillerudKorsnäs AB (publ), corporate identity number 556025-5001.

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of BillerudKorsnäs AB for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 59-104.

Responsibilities of the Board of Directors and the Chief Executive Officer for the annual accounts and consolidated accounts

The Board of Directors and the Chief Executive Officer 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 Chief Executive Officer, 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 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year 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 Chief Executive Officer of BillerudKorsnäs AB for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of

Directors and the Chief Executive Officer 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 Chief Executive Officer is liable to the company. We also examined whether any member of the Board of Directors or the Chief Executive Officer 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 audit opinion.

Opinions

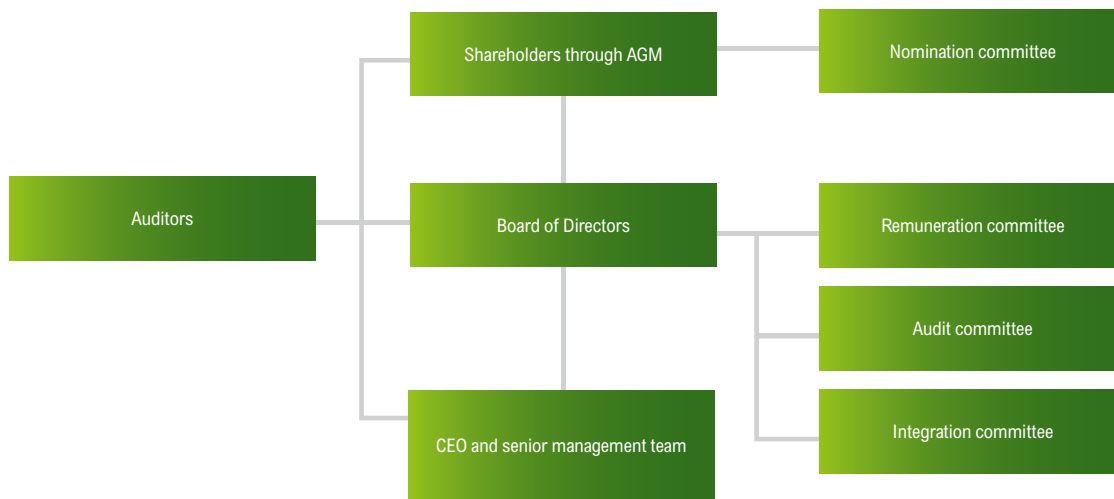
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm, 13 March 2013
Ernst & Young AB

Lars Träff
Authorised Public Accountant

CORPORATE GOVERNANCE IN BILLERUDKORSNÄS IN 2012

This report on corporate governance in the BillerudKorsnäs Group in 2012 has been prepared in accordance with regulations in the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance. BillerudKorsnäs has been applying the code since 2005. The report has been drawn up by the Company's Board of Directors and been reviewed by the Company's auditors.



Primary external regulations affecting BillerudKorsnäs' governance:

- the Swedish Companies Act
- NASDAQ OMX Stockholm AB Rulebook for issuers
- the Swedish Code of Corporate Governance

Corporate governance in BillerudKorsnäs is based on the law, the Company's articles of association, NASDAQ OMX's Rulebook for Issuers, the Swedish Code of Corporate Governance ("the Code"), other relevant laws and regulations and internal policies and guidelines. The Code is based on the principle of "comply or explain". This means that a company that applies the Code may deviate from particular rules but will then have to provide an explanation giving the reasons for the deviation. In 2012, BillerudKorsnäs applied the Code in all respects, except for the following deviations. Prior to the 2012 Annual General Meeting (AGM), Board member Michael M.F. Kaufmann was chairman of the nomination committee and prior to the 2013 AGM, Mia Brunell Livfors has been appointed chairman of the nomination committee. This deviates from the rule in the Code that no board member shall act as chairman of the nomination committee. The deviations are in accordance with the

resolutions passed by the AGM in 2011 and 2012 regarding rules on composition of the nomination committee. According to these resolutions, the chairman of the nomination committee shall be the board member representing the largest shareholder. The resolutions are in the best interests of the Company and all shareholders, and a natural consequence of Michael M.F. Kaufmann's and Mia Brunell Livfors' association with the Company's largest shareholder at the time.

OWNERSHIP STRUCTURE AND SHARES

BillerudKorsnäs' shares are listed on NASDAQ OMX Stockholm. At year-end 2012, the total number of shareholders was 104 625, compared to 107 795 at the previous year-end. Every share carries an entitlement to one vote. The proportion of foreign ownership was 34.4% (48.6) of the number of shares in the market. Other groups of shareholders consist of private individuals

in Sweden, 25.9% (34.5), and legal entities in Sweden, 39.7% (16.9). Further details of the Company's shares, shareholders and the like are presented in the 2012 Annual Report, under "The BillerudKorsnäs share", and on the Company's website.

SHAREHOLDER MEETINGS AND RELATED MATTERS

Rules for shareholders' meetings

Under the Swedish 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 for their total holdings of shares. Notice of shareholders' meetings will be posted on the Company's website and published as an advertisement in Post och Inrikes Tidningar. An announcement that the notice has been issued is published simultaneously

in Svenska Dagbladet. The AGM shall be held in Stockholm within six months from the end of the financial year. Normally, the AGM is held in April or May. The AGM 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 AGM 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 compensation for the CEO and senior management team. Resolutions are usually passed at a shareholders' meeting by simple majority except in those cases when the Companies Act stipulates a higher proportion of shares represented and votes cast 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.

Annual General Meeting 2012

The 2012 AGM took place on 9 May 2012 at Hotel Rival, Mariatorget 3, Stockholm, and addressed matters customarily dealt with at the AGM. The AGM resolved inter alia to re-elect Board members Ingvar Petersson, Helena Andreas, Mikael Hellberg, Gunilla Jönson, Michael M.F. Kaufmann, Ewald Nageler and Yngve Stade. Lennart Holm and Jan Homan were elected as new regular Board members. The AGM also resolved to introduce a long-term incentive programme (LTIP 2012) and to authorise the Board take a decision on a transfer of its own shares.

Extraordinary General Meeting 2012

On 14 September 2012, an Extraordinary General Meeting (EGM) was held by reason of the combination with Korsnäs. The meeting resolved inter alia to approve the acquisition of Korsnäs and to authorise the Board to carry out new share issues relating to the transaction. The EGM also resolved to elect Hannu Ryöppönen (Chairman), Mia Brunell Livfors, Wilhelm Klingspor and Mikael Larsson as new ordinary Board members. The new Board members thus elected entered into office when the combination with Korsnäs was finally completed on 29 November 2012. On the same occasion, Ingvar Petersson, Helena Andreas, Mikael Hellberg, Ewald Nageler and Yngve Stade resigned from their positions. No other changes regarding the composition of the Board were proposed or approved.

The EGM also resolved to approve changes in Board fees.

Annual General Meeting 2013

The 2013 AGM will take place at 2 p.m. on 7 May 2013 at Hotel Rival, Mariatorget 3, Stockholm. A full text of the notice of the 2013 AGM, including details of how to register for attendance at the meeting, is posted on the Company's website.

Nomination committee

According to the Code, the Company is required to have a nomination committee, the main task of which is to prepare the AGM's decisions on elections and fees. The Company's AGM resolves on procedures determining how the members of the nomination committee are appointed and guidelines for the committee's work on drafting proposals to be considered at the next AGM. As required by these guidelines, the Chairman contacted the largest shareholders, after which a nomination committee was appointed. The nomination committee for the 2013 AGM consists of; see table below.

One task of the nomination committee is to produce proposals for Board of Directors and auditor, in the event that an auditor is to be appointed, as well as for fees for such persons, and proposals for a chairman for the AGM, prior to the 2013 AGM. Before the 2013 AGM, the nomination committee held physical meetings and kept contact by phone and e-mail. Shareholders have been welcome to submit proposals and opinions to the nomination committee by e-mail or mail. On the Company's website, a section for the nomination committee in the corporate governance area entitled "Nomination committee" provides information to shareholders regarding how they can submit proposals to the committee. No separate remuneration was paid to the Chairman or any other members of the nomination committee.

BOARD OF DIRECTORS

Composition

The articles of association stipulate that the Board of Directors of BillerudKorsnäs shall consist of at least six members and at most

ten members, with at most six deputies. Board members are appointed for one year at a time. At the EGM held on 14 September 2012 by reason of the combination with Korsnäs, it was resolved that the Board of Directors should consist of eight members elected by the Meeting, without deputies, to serve until the end of the next AGM. During the period until the next AGM, the Board of Directors shall consist of Hannu Ryöppönen (Chairman), Mia Brunell Livfors, Jan Homan, Lennart Holm, Gunilla Jönson, Michael M.F. Kaufmann, Wilhelm Klingspor and Mikael Larsson. In addition, the employee organisations have appointed two employee representatives to serve on the Board. These are Helén Gustafsson and Kjell Olsson with deputies Kurt Lindvall and Tobias Söderholm. Other than the employee representatives and their deputies, none of the Board members are employed by the Group. The composition of the Board meets the Code's requirements as to independence in relation to the Company, the Company's management and the Company's major shareholders. For more information on the independence of the Board members, their duties outside the Group and their holdings of shares in BillerudKorsnäs, see the section "Board of Directors" on pages 112-113. The Board of Directors has appointed the Group's Legal Counsel Andreas Mattsson as Board secretary.

Organisation of the work of the Board

The Board of Directors is the Company's highest administrative body below the AGM. The Board of Directors is charged with the organisation of the Company and management of the Company's affairs, ensuring that the Company's organisation is structured such that record keeping, asset management and the Company's financial affairs otherwise are supervised in a satisfactory manner and with assessing the Company's financial situation on an ongoing basis. The Board shall in the first instance focus its attention on general, long-term issues, as well as issues that are of an exceptional nature or of major importance to the Group and the Company.

The work of the Board follows written

COMPOSITION OF AND VOTING REPRESENTATION ON THE NOMINATION COMMITTEE

Representative	Shareholder	Share of voting power ¹
Mia Brunell Livfors, Chairman	Investment AB Kinnevik	25.1
Michael M.F. Kaufmann	Frapag Beteiligungsholding AG	15.7
Björn Franzon	Swedbank Robur funds	1.6
Frank Larsson	Handelsbanken funds	1.5

¹ As of 31 December 2012.



rules of procedure to ensure that the Board obtains information on all issues, and that all aspects of the Company's activities relating to the Board are addressed. The Board has also established a number of general policies for the Company's activities. They include policies on finance and communications, as well as a policy covering quality, the environment and the community. The latter policy covers the Company's approach to ethical business conduct and the environment.

Work of the Board in 2012

During 2012 the Board held 18 meetings. The Board addressed, on an ongoing basis, strategic issues relating to the Company's operations and focus, potential acquisitions and follow-up of those completed earlier, investments above a certain level, and other matters. At the beginning of the year, the Board considered the year-end report and the annual accounts, as well as the issues that are to be submitted to the AGM. At the end of the year, the Board considered the budget for the year ahead. Every quarter, the Board reviews the Group's results and interim reports are approved for publication. Important issues that were in particular addressed by BillerudKorsnäs' Board of Directors in 2012 included the acquisition of UPM-Kymmene's packaging paper business and the combination with Korsnäs, and related integration issues. Furthermore, the Board attended to matters concerned with the continued development of new products and customer concepts in close cooperation with end customers, as well as growth, sustainability issues, cost savings, wood supply and strategy and brand building.

All meetings followed an approved agenda, which, accompanied by documentation on the particular agenda item, was distributed to all Board members about a week before the meeting. Minutes are taken at all Board meetings and distributed to Board members in accordance with the rules stated in the Code.

Of the total of 18 Board meetings held in 2012, 17 took place before the current Board took office on 29 November 2012. Gunilla Jönson, Ewald Nageler, Mikael Hellberg and Fredrik Nordström were absent at one of these 17 meetings, Yngve Stade and Stewe Cato were absent at two and Helena Andreas and Helén Gustafsson were absent at four meetings. Jan Homan, who was elected to the Board at the 2012 AGM, was absent at one meeting (excluding Board meetings before the AGM).

Other Board members were present at all Board meetings.¹ One Board meeting was held after the current Board took office on 29 November 2012. All Board members apart from Mia Brunell Livfors attended the meeting.

Assessment

BillerudKorsnäs 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 improvements and as background to 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 three committees: a remuneration committee, an audit committee and a temporary integration committee. The Board nominates the members to serve on these committees.

AUDIT COMMITTEE

To support the Board in its role in supervising auditing issues, the Board has appointed a separate audit committee.

The audit committee's main role is to contribute to a good standard of financial reporting and ensure that the Company is audited in an expert, efficient and independent way. Without impinging on the Board's responsibilities and tasks, the audit committee is charged with considering all important accounting issues that affect the quality of the Company's financial reporting. With regard to the financial reporting, particular attention is to be paid to supervision of the effectiveness of the Company's internal control and risk management. The audit committee is required to keep informed about the audit of the annual accounts and the consolidated accounts and to scrutinise and supervise the impartiality and independence of the auditor. Particular attention is to be paid to whether the auditors provide the Company with services other than auditing. The audit committee is also charged with assisting in the preparation of proposals for decisions by the AGM on election and remuneration of auditors.

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, the Company auditor reports directly to the Board and the audit committee on certain occasions. 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. The audit committee consists of members Mikael Larsson (Chairman), Lennart Holm, Jan Homan and Kurt Lindvall.

Work in 2012

The committee held five meetings in 2012. All committee members were present at these meetings. During the year, the committee addressed various accounting issues, the audit plan for 2012, risk analysis and internal control. The committee also met ahead of the publication of each interim report and the year-end report, when the members dealt with accounting and reporting issues related to the reports. At these meetings, accounting and reporting issues related to the reports were discussed. The chairman of the audit committee regularly reported to the Board on committee meetings. The Board's work on internal control related to financial reporting is summarised in "Internal control and risk management for financial reporting in 2012".

REMUNERATION COMMITTEE

The principal function of the remuneration committee is to prepare the Board's decisions on issues relating to compensation principles, compensation amounts and other employment terms for members of the senior management team, to monitor and evaluate programmes for variable compensation to the senior management team – ongoing and completed during the year – and to monitor and evaluate the implementation of guidelines and compensation to senior executives, compensation structures and compensation levels. More specifically, the committee's tasks include to propose a general policy on salaries, compensation and other employment terms generally within BillerudKorsnäs, and to approve 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 compensation for the CEO. The remuneration committee consists of members Hannu Ryöppönen (Chairman), Mia Brunell Livfors and Michael M.F. Kaufmann.

¹ Lennart Holm was elected to the Board at the 2012 AGM and attended all Board meetings after election to the Board.



Work in 2012

The committee held three meetings in 2012. Yngve Stade was absent at one meeting. Otherwise, all committee members were present at these meetings. In 2012, the committee considered actual variable salaries in 2011, and salary reviews for the senior management team in 2012. Further, the committee addressed the evaluation of the LTIP 2012 incentive programme and the structure of the LTIP 2013 incentive programme. The principles for remuneration to the CEO and other senior executives, as well as the actual figures, are contained in note 24 of the 2012 Annual Report.

INTEGRATION COMMITTEE

The board may also resolve that issues may be rendered by ad hoc committees dealing with specific matters and has due to the combination between Billerud and Korsnäs established an integration committee of temporary nature.

The integration committee comprises the members Lennart Holm (chairman) and Hannu Ryöppönen.

AUDITORS

The Company's auditors are appointed by the AGM. At the 2009 AGM, accountancy firm Ernst & Young AB, with lead auditor Lars Träff, was elected as the Company's auditor for the period until the end of the 2013 AGM. Lars Träff is an authorised public accountant and has experience of auditing at several other listed companies. Lars Träff is also currently serving as auditor on behalf of Boliden, PostNord, Lantmännen, the ÅF Group, Scania and Intrum Justitia.

The auditor's duties include keeping the Board informed regarding the planning, scope and content of the annual audit, auditing interim reports and the year-end accounts in order to assess their accuracy and comprehensiveness and compliance of the accounts with generally accepted

accounting practices and relevant accounting policies. Duties also include informing the Board about services provided over and above auditing services, the compensation for such services, and other circumstances affecting the independence of the auditors. 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, BillerudKorsnäs' auditors met with the audit committee on four occasions and with the Board on one occasion in 2012.

CEO AND SENIOR MANAGEMENT TEAM

The CEO is responsible for the ongoing management of the Company's and Group's business operations in accordance with instructions established by the Board. The Board appoints the CEO. Per Lindberg is the Group's CEO and Christer Simrén was appointed Deputy CEO at the statutory Board meeting held on 29 November 2012. The CEO also chairs the senior management team and makes decisions in consultation with the other senior executives. On 29 November 2012, in connection with completion of the combination with Korsnäs, significant changes were made in the senior management team. The senior management team now consists of, in addition to the CEO and Deputy CEO, nine members, namely the Chief Financial Officer (CFO) and the Senior Vice Presidents for BillerudKorsnäs Forestry, Human Resources, Containerboard, Packaging Paper, Supply Chain Management & IT, Communication & Change Management, Business Support and Technology and Strategic Development. For further information about the members of the senior management team, see pages 110 - 111. After expiry of 2012, the former Senior Vice President Production, Per Bjurbom, has left his position in the senior management team.

The senior management team is responsible, within the framework of directives issued by the Board, for investment planning and follow-up, acquisitions and divestments, formulating and following up strategies and budgets, allocation of resources, supervising operational activities and preparations for Board meetings.

PRINCIPLES FOR COMPENSATION TO SENIOR MANAGEMENT

At the 2012 AGM, guidelines on compensation to senior management in the Group were adopted. The guidelines state for example that BillerudKorsnäs shall apply market-related compensation levels and employment terms that are appropriate in order to recruit and retain a senior management team with a high level of competence and capacity to achieve set goals. Compensation 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 measured against detailed targets, up to a maximum percentage of a fixed annual salary. The maximum percentage is between 30 and 45 percent. However, variable salary shall be paid only if the Company makes an operating profit. Notice of termination is normally 6–12 months, and if the Company gives notice severance pay shall be a maximum of 12 months' salary.

For the complete resolution on principles for remuneration, see note 24 of the 2012 Annual Report. The Board's proposal for guidelines in 2013 is presented in the Directors' report.

SENIOR MANAGEMENT TEAM

PER LINDBERG



CHRISTER SIMRÉN



UNO BRINNEN



LENNART EBERLEH



KARIN HÅGFELDT



SUSANNE LITHANDER



JOHAN NELLBECK



PER PERSSON



ULRIKA SPÅLS



MIKAEL WESTERBERG



MAGNUS WIKSTRÖM



PER LINDBERG

President and CEO

Education: MSc and PhD, Chalmers University of Technology

Year employed: 2005

Year born: 1959

Nationality: Swedish

Other assignments: Board member, Middlepoint AB

Background: President, Korsnäs AB EVP, Investment AB Kinnevik; Management and strategy consultant, Applied Value Corporation, US

Shareholding¹: 36 273

CHRISTER SIMRÉN

Executive Vice President, COO and Senior Vice President Consumer Board

Education: MSc and PhD, Chalmers University of Technology MBA, School of Business, Economics and Law, Gothenburg University.

Year employed: 2012

Year born: 1961

Nationality: Swedish

Other assignments: Chairman, Bomhus Energi AB and Vireo Energy AB, Board member, AB Geveko.

Background: President and CEO, Korsnäs AB and Wermland Paper AB. Member of Senior Management Group at Kinnevik. Chairman, Grycksbo Paper Holding AB.

Shareholding¹: 12 000

UNO BRINNEN

Senior Vice President BillerudKorsnäs Forestry

Education: MSc in Forestry, Swedish University of Agricultural Sciences, Umeå. Licentiate Degree in Forestry, Swedish University of Agricultural Sciences, Garpenberg.

Year employed: 2012

Year born: 1956

Nationality: Swedish

Other assignments: Board member, Future Position X Service AB, Svenska FSC and ACE, Brussels.

Background: Business Area Director, Forest, Korsnäs AB

Shareholding¹: 3 560

LENNART EBERLEH

Senior Vice President Containerboard

Education: MSc, Technische Universität Carolo Wilhelmina Braunschweig, Germany Executive MBA, Mgruppen.

Year employed: 2001

Year born: 1969

Nationality: German

Other assignments: Board member, Paccess Packaging LLC

Background: Sales manager, Stora Enso Gruvön. Stora Support Team, Stora Kopparberg Bergslags AB. Product manager, Stora Gruvön.

Shareholding¹: 6 000

KARIN HÅGFELDT

Senior Vice President Human Resources

Education: Human resources and occupational programme, Umeå University Executive MBA, Stockholm School of Economics.

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.

Shareholding¹: 3 000

SUSANNE LITHANDER

CFO

Education: MSc Business Administration, School of Business, Economics and Law, Gothenburg University.

Year employed: 2011

Year born: 1961

Nationality: Swedish

Other assignments: Board member, Acando AB.

Background: President, 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.

Shareholding¹: 975

JOHAN NELLBECK

Senior Vice President Packaging Paper

Education: MSc Business Administration, Uppsala University Executive MBA, Mgruppen.

Year employed: 2006

Year born: 1964

Nationality: Swedish

Other assignments: Board member, CEPI Eurokraft and PaperImpact

Background: Sales Manager, Tele2 Stockholm; MD, AssiDomän Kraft Products Nordic Sales AB. Sales Manager, AssiDomän Scandinavia

Shareholding¹: 13 000

PER PERSSON

Senior Vice President Supply Chain Management & IT

Education: MSc Business Administration, Uppsala University

Year employed: 2012

Year born: 1951

Nationality: Swedish

Other assignments: Board member, Bomhus Energi AB.

Background: CFO, Korsnäs AB. Board member, Karskär Energi AB and ScanFibre Logistics.

Shareholding¹: 4 425

ULRIKA SPÅLS

Senior Vice President Communication & Change Management

Education: BSc, Planning Engineering/ Psychology Studies, University of Gävle. Senior Management Programme, International Institute for Management Development (IMD), Lausanne.

Year employed: 2012

Year born: 1973

Nationality: Swedish

Other assignments: Board member, BRC Utvecklingspartner AB and Föreningen Svenska Re.

Background: Director of HR at Korsnäs AB, with responsibility for communication and organisational development, HR and Talent Manager at Sandvik Materials Technology.

Shareholding¹: 3 046

MIKAEL WESTERBERG

Senior Vice President Business Support

Education: MSc Business Administration, Uppsala University MBA, University of Warwick.

Year employed: 2012

Year born: 1964

Nationality: Swedish

Other assignments: –

Background: Director of Strategic Planning and Sales Manager, Korsnäs AB.

Shareholding¹: 5 467

MAGNUS WIKSTRÖM

Senior Vice President Technology & Strategic Development.

Education: MSc Chemical Engineering and PhD and Senior Lecturer in Paper Technology, Royal Institute of Technology, Stockholm. Executive MBA, Mgruppen.

Year employed: 2006

Year born: 1963

Nationality: Swedish

Other assignments: Board member, Innventia AB

Background: R&D Director, Korsnäs AB; Research Manager, Korsnäs Development, Project Area Manager, Swedish Pulp and Paper Research Institute (STFI).

Shareholding¹: 5 000

¹ Own and related parties' shareholdings at 1 March 2013.

BOARD OF DIRECTORS

HANNU RYÖPPÖNEN

Board Chairman since 2012, chairman of the remuneration committee and member of the integration committee.

Education: MSc, Economics and Business Administration, Hanken School of Economics, Helsinki.

Year born: 1952

Nationality: Finnish

Other assignments: Chairman, Hakon Invest AB and Altor Private Equity Funds. Board member, Novo Nordisk A/S, Amer Sport Corporation Oyj and Value Creation Investments Ltd.

Background: CFO and EVP, Stora Enso Oyj and Royal Ahold, CFO IK Investment Partners and the IKEA Group. Board member, Korsnäs AB, Neste Oil OYJ and Rautaruukki OYJ.

Shareholding¹: 8 960

Independent/Not independent: Independent of the Company and management, independent of the Company's major shareholders.



MIA BRUNELL LIVFORS

Board member since 2012 and member of the remuneration committee.

Education: Economics, University of Stockholm

Year born: 1965

Nationality: Swedish

Other assignments:

President and CEO, Investment AB Kinnevik. Chairman, Metro International S.A.

Board member, Tele 2 AB, Millicom International Cellular S.A., Modern Times Group MTG AB, Efta Attling Stockholm AB, H&M Hennes & Mauritz AB and CDON Group AB.

Background: Various management positions in Modern Times Group MTG AB, Board member, Korsnäs AB.

Shareholding¹: -

Independent/Not independent: Independent of the Company and management, not independent of the Company's major shareholders.



LENNART HOLM

Board member since 2012, member of the audit committee and chairman of the integration committee.

Education: MSc Chemical Engineering, Chalmers University of Technology MSc Business Administration, University of Gothenburg.

Year born: 1960

Nationality: Swedish

Other assignments: Chairman, Vida AB, Nexam Chemical AB, Vigmed Holding AB and Chamber Tech AB. Board member, BioMass C Holding AB, Nattaro Labs AB, Hempel A/S, Lahega Kemi AB and Croviva Invest AB. Deputy Chairman of SOS Children's Villages, Sweden.

Background: Chairman and President of the Perstorp Group, worked for Stora Enso and partner at PAI Partners SAS.

Shareholding¹: -

Independent/Not independent: Independent of the Company and management, independent of the Company's major shareholders.



JAN HOMAN

Board member since 2012 and member of the audit committee.

Education: Economics, University of Vienna.

Year born: 1947

Nationality: Austrian

Other assignments: Chairman, Constantia Flexibles Group. Board member, Allianz Elementar Versicherungs AG,

Erste Group Bank AG and Slovenska Sportelna. President, European Aluminium Foil Association and Flexible Packaging Europe.

Background: President, Constantia Flexibles Group and President, Constantia Teich Group.

Shareholding¹: -

Independent/Not independent: Independent of the Company and management, independent of the Company's major shareholders.



GUNILLA JÖNSON

Board member since 2003

Education: MSc and PhD in Mech. Eng. and Transport Technology, Chalmers University of Technology.

Year born: 1943

Nationality: Swedish

Other assignments: Senior Professor in Packaging Logistics, Lund University Faculty of Engineering LTH. Chairman,

International Institute for Industrial Environmental Economics. Vice Chairman, Chalmers University of Technology. Board member, SIK, Invest in Skåne AB, Packbridge AB (svb), CIT and Blekinge Institute of Technology.

Background: Dean, Lund University Faculty of Engineering LTH. Various directorships and other positions in SCA Packaging. Research Director, Swedish Packaging Research Institute, Stockholm.

Shareholding¹: 3 528

Independent/Not independent: Independent of the Company and management, independent of the Company's major shareholders.



MICHAEL M. F. KAUFMANN

Board member since 2005 and member of the remuneration committee.

Education: MBA at the Universities of Stuttgart and Erlangen-Nürnberg

Year born: 1948

Nationality: Austrian

Other assignments: Chairman and President, Frapag Beteiligungsholding AG.

Background: Formerly held various managerial positions in Frantschach/Mondi, Vienna, Austria.

Shareholding¹: 9 500

Independent/Not independent: Independent of the Company and management, not independent of the Company's major shareholders.



¹ Own and related parties' shareholdings at 1 March 2013.

WILHELM KLINGSPOR

Board member since 2012.

Education: Degree in Forestry, Swedish University of Agricultural Sciences, Skinnkatteberg, and studies in Economics.

Year born: 1962

Nationality: Swedish

Other assignments: Board member and President, Hellekis Säteri AB. Board member, Investment AB Kinnevik, Handelsbanken in Lidköping, Utvecklingsaktiebolaget Ullersbro and Apotek Vita Hästen AB.

Background: Board member, Korsnäs and assignments in the Kinnevik Group.

Shareholding¹: -

Independent/Not independent: Independent of the Company and management, not independent of the Company's major shareholders.



MIKAEL LARSSON

Board member since 2012 and chairman of the audit committee.

Education: MSc Business Administration, Uppsala University

Year born: 1968

Nationality: Swedish

Other assignments: CFO, Investment AB Kinnevik; Board member, Transcom WorldWide S.A. and Bergvik Skog and most roles in the Kinnevik Group.

Background: Several assignments in the Kinnevik and Korsnäs Groups.

Shareholding¹: 3 000

Independent/Not independent: Independent of the Company and management, not independent of the Company's major shareholders.



HELÉN GUSTAFSSON

Employee Representative, PTK, since 2010.

Education: MSc Chemical Engineering, Institute of Technology, Linköping University.

Year born: 1971

Nationality: Swedish

Other assignments: Production Technician/Personnel Supervisor, Billerud Skärblackska AB.

Background: -

Shareholding¹: 517

Independent/Not independent: Independent of the Company's management and major shareholders, not independent of the Company (employed by Company).



KJELL OLSSON

Employee Representative, Swedish Paper Workers Union, since 2012.

Year born: 1959

Nationality: Swedish

Other assignments: -

Background: -

Shareholding¹: 45

Independent/Not independent: Independent of the Company's management and major shareholders, not independent of the Company (employed by Company).



KURT LINDVALL

Deputy Employee Representative, Swedish Paper Workers Union, since 2001 and member of the audit committee.

Year born: 1951

Nationality: Swedish

Other assignments: -

Background: -

Shareholding¹: -

Independent/Not independent:

Independent of the Company's management and major shareholders, not independent of the Company (employed by Company).



TOBIAS SÖDERHOLM

Deputy Employee Representative, PTK, since 2012.

Education: MSc Chemical Engineering, Chalmers University of Technology.

Year born: 1975

Nationality: Swedish

Other assignments: Development Engineer, BillerudKorsnäs Frövi.

Background: -

Shareholding¹: -

Independent/Not independent: Independent of the Company's management and major shareholders, not independent of the Company (employed by Company).



¹ Own and related parties' shareholdings at 1 March 2013.



INTERNAL CONTROLS AND RISK MANAGEMENT FOR FINANCIAL REPORTING IN 2012

The report on internal control related to financial reporting for financial year 2012 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.

INTERNAL CONTROL

BillerudKorsnäs has set the following goals for its internal control.

1. Compliance with regulations

Internal control shall ensure that BillerudKorsnäs complies with applicable laws and regulations.

2. Financial reporting

Internal control shall ensure that BillerudKorsnäs' 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. The process pays special attention to ensure that the application of internal controls achieves a balance between the control activities and the development of an effective control environment with individual accountability throughout the organisation.

PRIORITY AREAS IN 2012

Financial year 2012 was characterized by the integration process and handling risks in the financial reporting that arose in conjunction with the acquisition of the two Finnish production units, as well as the combination with Korsnäs.

During the second half of 2012 a short-term service agreement with UPM handled the transition to the BillerudKorsnäs IT environment for order processing and operations in the Finnish production units. A

strong focus was placed on ensuring proper management of the settlement between the companies and successful migration to an independent IT environment for BillerudKorsnäs was achieved in the fourth quarter. Preparations to incorporate Korsnäs into the financial reporting also took place during the second half of the year to ensure compliance with common accounting policies during consolidation.

In addition to the constant efforts to make improvements in the production units, some major projects were carried out during the year, including initiatives to reduce operational risks. In an energy and environmental project at Skärblacka, dependence on external energy will be reduced through more efficient processes. The project entails an investment of about SEK 900 million. An efficiency enhancement project in Karlsborg is aimed at reducing the unit's vulnerability and improving competitiveness.

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 on 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 divi-

sion 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. In addition, reports come from the audit committee. 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 important items subject to appraisal and assessment, please see the section Risk management and sensitivity analysis and note 32 in the 2012 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.

CONTROL ENVIRONMENT

- The Board adopts**
- Accounting and reporting instructions
 - Finance policy
 - Financial goals
 - CEO and senior management team

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 BillerudKorsnäs AB (publ), corporate identity number 556025-5001.

The Board of Directors is responsible for the corporate governance report for the year 2012 on pages 106–115 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, 13 March 2013
Ernst & Young AB

Lars Träff
Authorised Public Accountant



FIVE -YEAR REVIEW

PROFIT AND LOSS ACCOUNTS, SUMMARY

SEKm	2012	2011	2010	2009	2008
Net sales	10 427	9 343	8 828	7 760	7 792
Other income	27	18	85	32	15
Operating income	10 454	9 361	8 913	7 792	7 807
Operating expenses	-9 256	-7 769	-7 266	-6 931	-7 011
Depreciation/Amortisation	-709	-614	-610	-561	-507
Operating profit/loss	489	978	1 037	300	289
Net financial income and expenses	-87	-45	-77	-114	-165
Profit/Loss before tax	402	933	960	186	124
Taxes	275	-250	-255	-21	28
Net profit/loss	677	683	705	165	152

CAPITAL EMPLOYED, SUMMARY

SEKm	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Non-current assets excluding interest-bearing receivables	17 549	5 166	5 271	5 555	5 824
Inventories	3 146	1 135	1 070	1 065	1 091
Accounts receivable	2 244	1 391	1 412	1 152	1 294
Other current assets	943	372	447	491	270
Total operating assets	23 882	8 064	8 200	8 263	8 479
Less:					
Deferred tax liabilities	2 577	1 467	1 434	1 357	1 254
Non-interest-bearing provisions	84	36	27	27	37
Accounts payable	2 549	1 227	1 157	1 056	1 019
Other non-interest-bearing liabilities	1 160	695	790	676	914
Capital employed	17 512	4 639	4 792	5 148	5 255

STATEMENT OF CASH FLOWS, SUMMARY

SEKm	2012	2011	2010	2009	2008
Operating surplus	1 284	1 604	1 625	862	716
Change in working capital	132	-113	-147	116	244
Net financial income/expenses	-61	-39	-73	-128	-141
Tax paid	-353	-180	-12	4	-28
Cash flow from operating activities	1 002	1 272	1 393	854	791
Cash flow from investing activities	-7 194	-591	-592	-292	-621
Cash flow after investing activities	-6 192	681	801	562	170

KEY FINANCIAL RATIOS

	2012	2011	2010	2009	2008
Margins					
Gross margin, %	11	17	19	11	10
Operating margin, %	5	10	12	4	4
Return (trailing 12 months)					
Return on capital employed, %	8	20	21	6	5
Return on total capital, %	4	11	12	3	3
Return on shareholders' equity, %	13	14	17	5	5
Diluted return on shareholders' equity, %	13	14	17	5	5
Capital structure at end of period					
Capital employed, SEKm	17 512	4 639	4 792	5 148	5 255
Shareholders' equity, SEKm	9 492	4 872	4 637	3 995	2 638
Interest-bearing net debt, SEKm	8 021	-233	155	1 152	2 617
Capital turnover, multiple	1.4	2.0	1.8	1.4	1.4
Interest coverage, multiple	5.1	14.9	12.8	2.6	1.7
Net debt/equity ratio, multiple	0.85	-0.05	0.03	0.29	0.99
Diluted net debt/equity ratio, multiple	0.84	-0.05	0.03	0.29	0.99
Share of risk-bearing capital, %	49	68	66	59	41
Equity ratio, %	38	52	50	44	29
Diluted equity ratio, %	39	52	50	44	29
Self-financing ratio, multiple	1.5	2.5	2.5	3.3	1.6
Per share ¹					
Earnings per share, SEK	5.14	5.34	5.52	1.64	1.67
Diluted earnings per share, SEK	5.12	5.33	5.51	1.64	1.67
Per share at end of period ¹					
Shareholders' equity per share, SEK	45.75	38.10	36.27	31.29	28.86
Diluted shareholders' equity per share, SEK	45.68	37.99	36.19	31.25	28.86
Dividend per share, SEK	2.00	3.50	3.50	0.50	-
Cash flow per share from operating activities, SEK	7.60	9.94	10.90	8.50	8.65
Operating cash flow per share, SEK	0.38	5.96	8.31	5.60	1.86
Investments					
Investments in non-current assets, SEKm	965	512	334	271	613
Acquisitions, SEKm	8 938	-	-	35	9
Human Resources					
Average number of employees	2 548	2 277	2 240	2 232	2 322

¹ Historic figures recalculated taking into account the 2012 and 2009 rights issues.



QUARTERLY DATA

BillerudKorsnäs' 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	2012					2011				
	Full year	Q4 -12	Q3 -12	Q2 -12	Q1 -12	Full year	Q4 -11	Q3 -11	Q2 -11	Q1 -11
Packaging Paper	6 837	1 717	1 925	1 668	1 527	6 045	1 357	1 521	1 514	1 653
Consumer Board	508	508	-	-	-	-	-	-	-	-
Containerboard	2 594	623	634	674	663	2 772	644	696	704	728
Other units	393	183	52	79	79	296	69	64	75	88
Currency hedging, etc.	95	37	17	19	22	230	16	46	90	78
Group staff and eliminations	-	-	-	-	-	-	-	-	-	-
Total Group	10 427	3 068	2 628	2 440	2 291	9 343	2 086	2 327	2 383	2 547

QUARTERLY OPERATING PROFIT/LOSS PER BUSINESS AREA AND FOR THE GROUP

SEKm	2012					2011				
	Full year	Q4 -12	Q3 -12	Q2 -12	Q1 -12	Full year	Q4 -11	Q3 -11	Q2 -11	Q1 -11
Packaging Paper	352	39	84	145	84	514	41	173	122	178
Consumer Board	35	35	-	-	-	-	-	-	-	-
Containerboard	219	23	73	67	56	370	60	119	94	97
Other units	48	9	20	9	10	35	4	9	9	13
Currency hedging, etc.	95	37	17	19	22	230	16	46	90	78
Group staff and eliminations	-260	-118	-33	-79	-30	-171	-46	-51	-40	-34
Total Group	489	25	161	161	142	978	75	296	275	332

QUARTERLY OPERATING MARGIN PER BUSINESS AREA AND FOR THE GROUP

%	2012					2011				
	Full year	Q4 -12	Q3 -12	Q2 -12	Q1 -12	Full year	Q4 -11	Q3 -11	Q2 -11	Q1 -11
Packaging Paper	5	2	4	9	6	9	3	11	8	11
Consumer Board	7	7	-	-	-	-	-	-	-	-
Containerboard	8	4	12	10	8	13	9	17	13	13
Group	5	1	6	7	6	10	4	13	12	13

QUARTERLY SALES VOLUMES PER BUSINESS AREA AND FOR THE GROUP

ktonnes	2012					2011				
	Full year	Q4 -12	Q3 -12	Q2 -12	Q1 -12	Full year	Q4 -11	Q3 -11	Q2 -11	Q1 -11
Packaging Paper	1 011	254	283	242	232	850	200	210	207	233
Consumer Board	71	71	-	-	-	-	-	-	-	-
Containerboard	510	120	130	132	128	504	115	125	128	136
Total	1 592	445	413	374	360	1 354	315	335	335	369

KEY FIGURE DEFINITIONS

MARGINS

Gross margin

Operating profit before depreciation (EBITDA = Earnings before Interest, Taxes, Depreciation and Amortisation) 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 tax paid, divided by investments in non-current assets.

PER SHARE DATA¹

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 owners of the parent company, 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 BillerudKorsnäs share".

THE BILLERUDKORSNÄS SHARE

THE SHARE

The BillerudKorsnäs share has been listed since 20 November 2001 and is traded on the Large Cap list of NASDAQ OMX Stockholm. The share's ticker symbol is BILL.

On 31 December 2012, the share capital totalled SEK 1 029 326 503, represented by 139 386 205 shares.

The number of shares on the market totalled 137 667 258. Each share on the market entitles its holder to an equal right in the Company's earnings and capital.

SHARE PERFORMANCE

The BillerudKorsnäs share closed at SEK 61.25 on 28 December 2012, corresponding to a market capitalisation of SEK 12.6 billion. BillerudKorsnäs' share price rose by 30% during 2012. Over the same period, the NASDAQ OMX Stockholm forestry and paper products index (Forestry & Paper_PI) rose by 6%, while the NASDAQ OMX Stockholm All Share Index (OMX Stockholm_PI) rose by 12%.

In 2012, the share recorded its highest closing price, SEK 62.25, on 20 December, and its lowest closing price, SEK 41.45, on 5 June.

TRADING VOLUME

During 2012, 71 million BillerudKorsnäs shares were traded on NASDAQ OMX Stockholm, corresponding to a value of approximately SEK 3.6 billion. The average number of shares traded each trading day was about 283 000, corresponding to a

value of SEK 14 million. On average, about 425 trades were made each trading day.

OWNERSHIP STRUCTURE

At year-end 2012, the total number of shareholders was 104 625 (107 795). The proportion of foreign ownership was 34.4% (48.6), excluding BillerudKorsnäs' bought-back treasury shares (1 718 947). The largest groups of shareholders registered outside Sweden are in Austria and the United States, representing 15.7% and 7.0% of the votes, respectively. Other groups of shareholders are private individuals in Sweden, 25.9% (34.5), and legal entities in Sweden, 39.7% (16.9).

DIVIDEND

The goal is for the dividend to average 50% of net profit over a business cycle. The dividend paid to shareholders will depend on, for example, BillerudKorsnäs' level of profits, its financial position and its future development opportunities.

BillerudKorsnäs' Board of Directors proposes a dividend of SEK 2.00 per share for 2012. The proposed dividend corresponds to around 61% of net profit for 2012.

DISTRIBUTION OF SHARES AT 28 DECEMBER 2012

Registered number of shares	139 386 205
Bought-back shares in Company treasury	-1 718 947
Shares on the market	137 667 258
Shares on the market following completion of rights issue (January 2013)	206 500 887

NUMBER OF SHARES ON THE MARKET

	2012	2011	2010	2009	2008
Average	131 852 149	127 860 805	127 795 993	100 475 598	91 401 407
Average after dilution	132 157 203	128 222 784	128 033 579	100 638 037	91 401 407
Closing date	206 500 887 ¹	127 860 805	127 860 805	127 698 169	91 401 407
Closing date after dilution	206 805 941 ¹	128 222 784	128 098 391	127 891 191	91 401 407

¹ Corresponds to the number of shares on the market following completion of rights issue.

10 BIGGEST SHAREHOLDERS

Shareholder	No. of shares (millions)	Share of votes, %
Investment AB Kinnevik	34.6	25.1
Frapag Beteiligungsholding AG	21.6	15.7
Swedbank Robur Funds	2.2	1.6
SHB Funds	2.0	1.5
AFA Insurance	1.9	1.4
Nordea Funds	1.7	1.2
Norges Bank Investment Management	1.6	1.2
SEB Funds	1.5	1.1
Evli Funds	1.1	0.8
Second Swedish National Pension Fund	1.0	0.7
Total top 10 shareholders	69.2	50.3

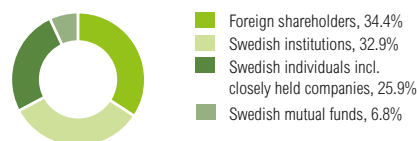
Source: SIS Ägarservice, 28 December 2012.

OWNERSHIP STRUCTURE¹

Shareholding	No. of shares	%	No. of owners	%
1-100	2 350 325	1.7	36 387	34.8
101-500	13 032 100	9.4	58 175	55.6
501-10 000	16 508 470	11.8	9 624	9.2
10 001-50 000	5 553 872	4.0	280	0.3
50 001-	101 941 438	73.1	159	0.1
Total	139 386 205	100.0	104 625	100.0

¹ Including BillerudKorsnäs' treasury shares. Source: SIS Ägarservice, 28 December 2012.

SHAREHOLDER CATEGORIES, VOTES



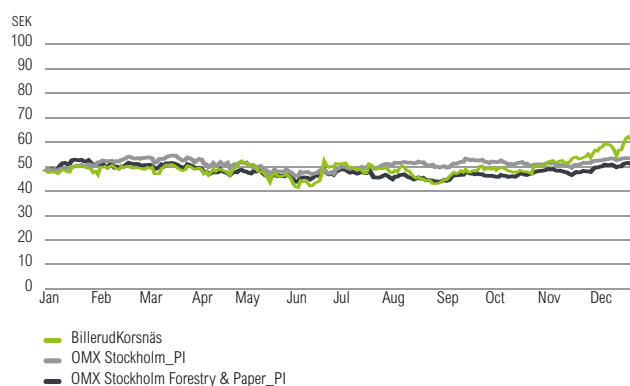
GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDERS, VOTES



SHARE PERFORMANCE 20 NOVEMBER 2001 – 28 DECEMBER 2012



SHARE PERFORMANCE 2012



KEY FIGURES PER SHARE

SEK per share, unless stated otherwise ²	2012	2011	2010	2009	2008
Earnings	5.14	5.34	5.52	1.64	1.67
Diluted earnings	5.12	5.33	5.51	1.64	1.67
Dividend (for each financial year), actual	2.00 ¹	3.50	3.50	0.50	-
Dividend (for each financial year), adjusted for effect of rights issue	2.00 ¹	2.82	2.82	0.41	-
Dividend as % of					
- share price (dividend yield)	3.3	6.0	6.0	0.9	-
- profit	61.0	52.8	51.1	31.2	-
- shareholders' equity (closing balance)	4.4	7.4	7.8	1.3	-
Cash flow from operating activities	7.60	9.94	10.90	8.50	8.65
Operating cash flow	0.38	5.96	8.31	5.60	1.86
Shareholders' equity	45.75	38.10	36.27	31.29	28.86
Diluted shareholders' equity	45.68	37.99	36.19	31.25	28.86
Share price/closing balance of shareholders' equity, %	134	124	130	137	41
P/E ratio, multiple	11.9	8.8	8.5	26.1	7.2
EV/EBITDA, multiple	17.26	3.7	3.7	7.7	4.7
Share price (closing price, last trading day)	61.25	47.08	46.88	42.85	12.07

¹ Board's proposal

² All figures are historically adjusted for the effect of the rights issues in 2009 and 2012, unless otherwise indicated.

ANALYSTS COVERING BILLERUDKORSNÄS

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Carnegie	Johan Sjöberg	+46 8 676 87 55	Nordea	Harri Taittonen	+358 9 16 55 99 24
Cheuvreux	Mikael Jäfs	+46 8 723 51 71	SEB Enskilda	Linus Larsson	+46 8 52 22 97 01
Danske Bank	Oskar Lindström	+46 8 56 88 06 12	Swedbank Markets	Marko Zivkovic	+46 8 58 5937 04
Handelsbanken Capital Markets	Karri Rinta	+46 8 701 36 36			

GLOSSARY

Biofuels

Renewable fuels originating from the plant kingdom, for example from wood, including black liquor and bark.

Black liquor

The name for used cooking liquid when producing sulphate pulp. Black liquor is burnt in the soda recovery boiler at which time the wood solids 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 that a product releases or sequesters during its lifetime determines its carbon footprint.

Climate change

Also known as the greenhouse effect. Human activity is contributing to global warming, which is raising temperatures, causing unexpected weather patterns and causing polar ice to melt.

CO₂

Carbon dioxide.

COD (Chemical Oxygen Demand)

COD is a measure of the amount of oxygen required to break down organic material in water.

Corrugated board

Corrugated board is manufactured by gluing together two flat layers of paper (liner) with a rippled layer (fluting) in the middle.

CTMP (Chemo Thermo Mechanical Pulp)

Pulp with chemically treated fibres.

Cubic metre standing volume (m³sk)

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 wavy middle layer of 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

Fuel based on organic carbon and hydrogen compounds from sediment or sedimented bedrock – primarily coal, oil and natural gas.

FSC®

FSC® is an independent membership-based organisation that promotes environmentally aware, socially responsible and economically sustainable use of the world's forests. FSC is an acronym for the Forest Stewardship Council.

Heavy-duty

Highly durable packaging made up of several layers of paper. Often used for heavy goods such as car components.

ISO 14001

The standard of the International Organisation for Standardisation (ISO) for an environmental management system.

Liquid packaging board

Liquid packaging board is used to manufacture packaging for beverages and other liquid foods.

Market pulp

Pulp that is sold to paper mills that do not produce their own pulp.

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) in lakes, leading to oxygen deficiency when dead plants decompose.

Nitrogen oxides (NOx)

A group of gases composed of nitrogen and oxygen and 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.

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 (m³ub)

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 combined factors – economic growth, social viability and environmental awareness – so that society can meet current demands without compromising its future.



SHAREHOLDER INFORMATION AND KEY DATES

ANNUAL GENERAL MEETING

BillerudKorsnäs AB's Annual General Meeting will be held at 2.00 p.m. on Tuesday 7 May 2013 at Hotel Rival, Mariatorget 3, Stockholm, Sweden.

Notice of the 2013 Annual General Meeting is posted on the Company's website at www.billerudkorsnas.com.

NOTIFICATION

Shareholders wishing to take part in the AGM must be registered in the shareholders' register maintained by Euroclear by no later than Tuesday, 30 April 2013 and must notify the Company by no later than 4.00 p.m. on Tuesday 30 April 2013.

Notification can be made by telephone to +46 8 402 90 62, via the Company's website at www.billerudkorsnas.se/anmalan or by post to BillerudKorsnäs AB, Årsstämman, Box 7841, SE-103 98 Stockholm, Sweden.

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 Tuesday, 30 April 2013, which means that the shareholder must inform the nominee well before this date.

DIVIDEND

BillerudKorsnäs' Board of Directors proposes a dividend of SEK 2.00 per share for 2012. The proposed dividend corresponds to around 61% of net profit for 2012.

FINANCIAL INFORMATION

All financial information is available in both Swedish and English and is published on BillerudKorsnäs' website at www.billerudkorsnas.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, including Excel files for downloading.

OTHER INFORMATION

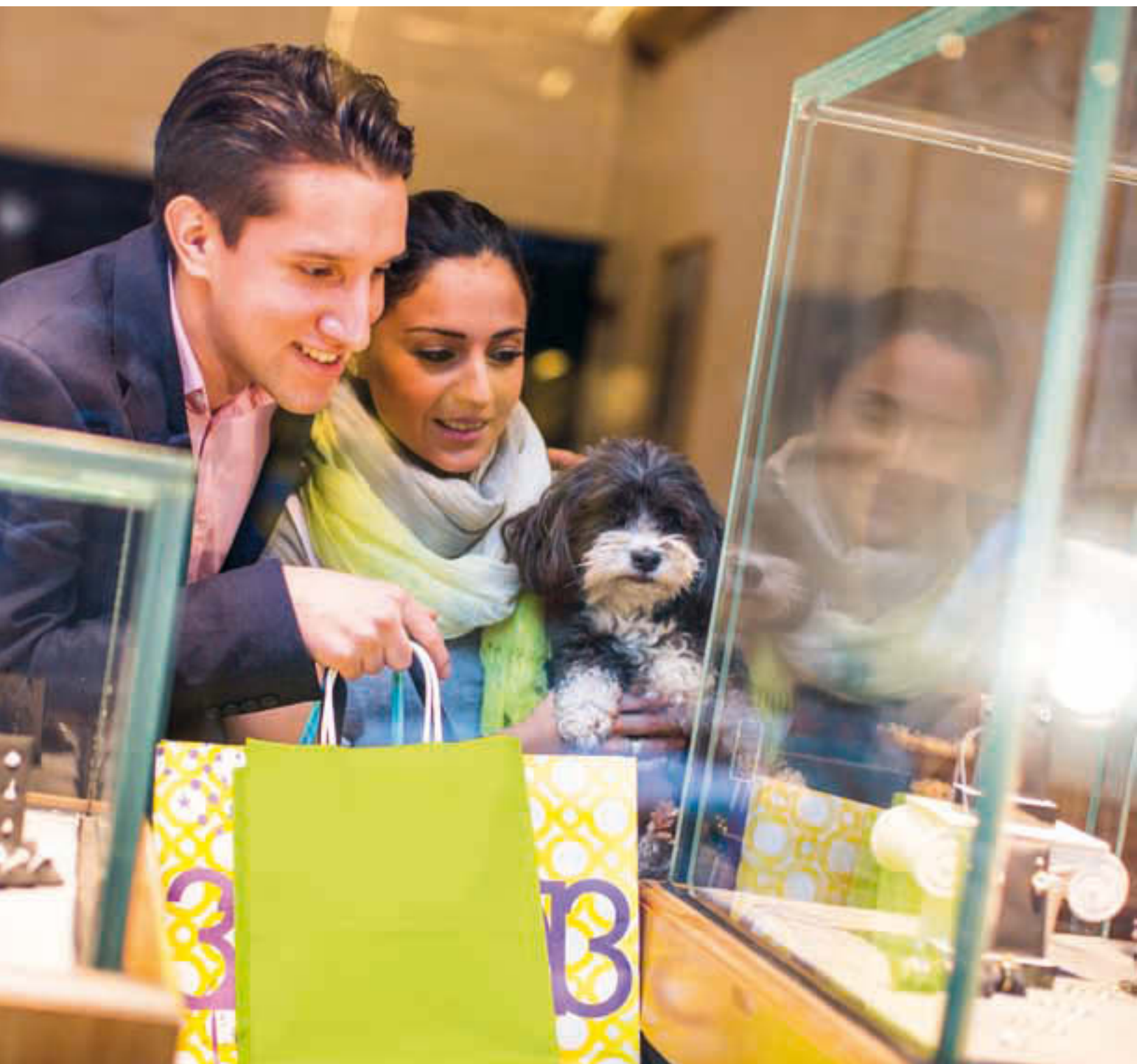
ISIN code SE0000862997

The share's ticker symbol is BILL.

INTERIM REPORTS IN 2013

January – March 2013	23 April
January – June 2013	18 July
January – September 2013	30 October







ADDRESSES

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BILLERUDKORSNÄS

BillerudKorsnäs' materials and services are used in packaging that all have one thing in common: they are based on

**renewable
fibre**

from the forest and are helping to create a greener world.

**BillerudKorsnäs works with its
customers in developing the**

**materials of today
and the future,**

**together with designs
to create the optimal
packaging solution for the
particular goods and logistical systems
that customers need in their business.**