

## ANNUAL REPORT 2008



*Billerud creates value by developing  
sustainable packaging solutions*





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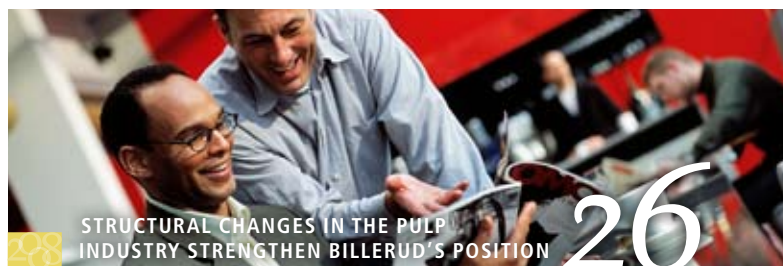
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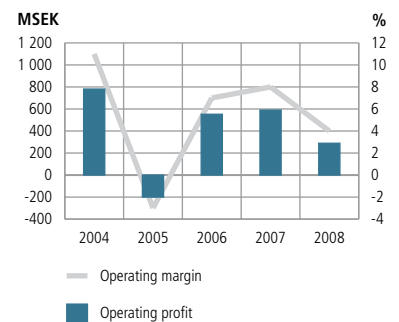
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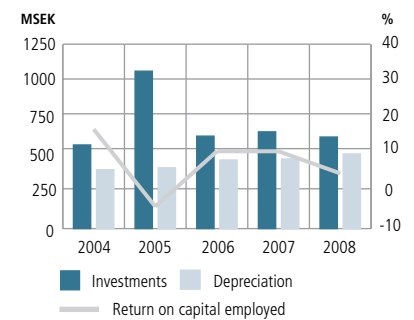
# Year in brief

- » *Of Billerud's business, 80% comprises sales of packaging paper and packaging solutions, and 20% comprises sales of market pulp.*
- » *The consequences of the financial crisis and the ensuing economic downturn became increasingly significant for Billerud's markets in the second half of the year.*
- » *Following a relatively strong first six months a significant weakening towards the end of the year mainly within pulp and sack paper led to an operating profit of MSEK 289 (590).*
- » *Despite price increases of 4% on average, profits deteriorated considerably due to market-related production stoppages at the end of the year as well as continued high wood costs and lower prices for market pulp.*
- » *Work on cost savings continued and further cost savings programs were initiated, totaling MSEK 250 in annual savings. Of these MSEK 115 were achieved during the year. As part of these measures, Billerud was forced to announce redundancies for 125 employees.*
- » *Earnings per share fell by 55% to SEK 2.96 (6.52).*
- » *The Board proposes that the year's profit be used to strengthen the company's equity and that no dividend be paid for 2008.*
- » *Several significant advances were made in line with Billerud's strategic development and long-term positioning. Billerud Skog expanded, the development of Billerud FibreForm™ was initiated, Fresh Services operations progressed further and resources were channeled into laboratories for research and development of better, sustainable packaging solutions.*

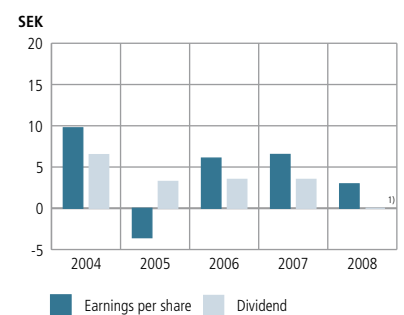
## OPERATING PROFIT AND MARGIN



## INVESTMENTS, DEPRECIATION AND RETURN



## EARNINGS PER SHARE AND DIVIDEND



<sup>1)</sup> Board proposal

	2008	2007
Net turnover, MSEK	7 792	7 758
Operating profit before depreciation and amortisation (EBITDA), MSEK	796	1 063
Operating profit, MSEK	289	590
Operating margin, %	4	8
Profit before tax, MSEK	124	473
Net profit, MSEK	152	336
Earnings per share, SEK	2.96	6.52
Dividend, SEK	- <sup>1)</sup>	3.50

<sup>1)</sup> Board proposal

# 2008

## *A changed reality*

Billerud's positive development continued at the start of 2008.

We were successful on the market and our customers appreciated our new business concepts and products. In the middle of the year a weakening in the industrial business cycle became more obvious, and by the end of the year the financial crisis had struck and the downturn was a fact. We were forced to face up to further challenges.



**W**hen I look back on 2008 I can see how reality changed dramatically during the year. A strong industrial business cycle and optimism about the future turned into a financial crisis and the start of a global recession, meaning more challenges for us. Demand declined, inventories grew and prices started falling on some markets. Without doubt, 2008 became one of the most tumultuous years for decades. Even so, I believe we got most things right during 2008. In recent years we have begun to get paid better for our products and we have created an improved customer and product mix while starting exciting development projects. This continued in 2008. Thanks to an early decision to defend the price positions we have established we managed to postpone price reductions for a long time, although this became difficult as the year ended.

When the business cycle started to shift we quickly decided to continue cutting costs and we realized that we would have to curtail production. As a result we shut down production on a machine at Gruvön, limited production on several other machines and were forced to announce 125 redundancies.

Despite changed conditions we continue the work of transforming Billerud while following the strategy we have laid out. We will continue to create a more

customer-oriented Billerud with new products and new business concepts. I am convinced that this will produce positive leverage when the business cycle turns upward again.

### **Earnings development**

Our operating margin reached 4%, compared with 8% in 2007. This is not in line with our target of 10%. Higher costs combined with significantly weakened economic conditions reduced earnings compared with the previous year. Net sales during the year amounted to MSEK 7792 (7758).

### **Customers and markets**

At the end of 2007 we experienced weakening in some smaller segments and unusually high demand for sack paper. Otherwise the business cycle was strong at the end of 2007 and start of 2008. During the second quarter of the year there were further signs that the economy was faltering, mainly in the form of customers taking a longer time to get through the inventories of sack paper they had been building up. The result was lower demand.

Towards the middle and end of last year the business cycle in our industrial segments weakened considerably. Our products for consumer and food

segments remained stable however. The work of our business areas aimed at improving the mix of customers, products and markets contributed during the year to strengthening prices by around 4%.

Billerud continues to profile towards three key segments: Fresh Foods, Food & Consumer Packaging, and Sack Solutions. Profiling means clearly explaining our business offer, developing new products and services, and working closer to end-users. The goal is to make Billerud one of the most innovative and strongest players in material and packaging development in these customer segments.

### **Cost-efficiency and financing**

The forest industry and Billerud experienced yet another year of major cost increases. In the spring we therefore decided to implement a programme of measures to cut variable costs. Our target is to save at least MSEK 150 on an annual basis by the end of 2009, by cutting consumption of additives such as chemicals, energy and wood. A number of measures were implemented at all of our mills. Through systematic monitoring of consumption figures, recipes and overall energy requirements, potential savings are probably higher than MSEK 150. These efforts will therefore continue into 2009.

As the economic downturn continued we decided to reduce our fixed costs by at least MSEK 100 on an annual basis by the end of 2009. As a part of this programme, redundancies were announced for 125 of our employees in Sweden. This will not notably affect Billerud's production or development capacity, but we do so with a heavy heart nonetheless. It is however necessary to adapt the company to new conditions.

During the year we reviewed the company's financing. Part of this involves controlling the development of working capital during an economic downturn, as well as reviewing risk levels in customer credit. Parts of the credit market ceased functioning during the financial crisis. Despite the turbulent credit market we succeeded in establishing new financing together with our banking consortium.

### **Optimism and development**

Our long-term belief in the future and in Billerud's products remains high, despite current economic conditions. The basic development of the packaging

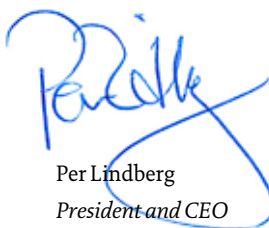
market is positive, and paper is an eco-friendly product that offers significant business opportunities.

Our business and product development will continue in order to meet customer requirements. The operations of Fresh Services are expanding, which together with Billerud Box Lab offers complete solutions for customer in the fruit and vegetable segment, and we have established Billerud Pack Lab and Billerud Sack Lab.

Our joint venture, Nine TPP, has contributed, for example, to a radical renewal of sustainable packaging for several strong brands. The evaluation of the launch of Billerud FibreForm™, a paper that can replace plastic in many applications thanks to its unique formability, is ongoing. We also launched several other new products during the year, including QuickFill® Single for single-leaf sacks, new wet-strength qualities and several new special qualities for food packaging. There's a lot of development taking place. I am convinced that this strengthens Billerud, and that when we emerge from the current downturn we will be able to offer our customers greater added value in the form of higher revenues and lower costs.

### **Value development**

Billerud's share performance was weak in 2008 despite the fact that profits for most of the year were higher than the previous year. A generally negative development on the stock market naturally played a role here, but I consider that there are also concerns about our industry in general. Surplus capacity and cost pressures have undoubtedly created problems in our industry. Our aim is to restore the value by continuing to develop Billerud into a strong and successful material and packaging company that meets tough challenges. We believe in Billerud and despite facing tough challenges in the short term, we remain convinced that we can meet our long-term aim of delivering good value development to our owners.



Per Lindberg  
*President and CEO*



## *Billerud manufactures* **renewable** *materials for packaging*

Billerud is today a leading supplier of materials to specific segments of the packaging market. The company's strategy is to strengthen this position by focusing on customer requirements and to further develop packaging material solutions based on cost-efficient production and supply.

**T**he global packaging market is growing at around 4% per year and is expected to amount to around USD 600 billion even in 2009. Growth for packaging paper is following a similar course. Despite the current economic downturn, Billerud expects to see some growth on the global packaging market in 2009. Several of the company's products are well suited to achieving profitable growth in future, despite significant competition. The current trends in packaging development, distribution and consumption offer new opportunities for creating profitable business offers.

### **Billerud's market and strategic positioning**

Billerud aims to have a high market share and be one of the leading suppliers in selected product areas: Scandinavian semi-chemical fluting, brown and white sack paper, MG and MF paper. By investing in product and process development Billerud can strengthen quality and its business offer in prioritised customer segments.

Customers are based primarily in Europe, but also in the Middle East and Asia. Billerud aims to exploit the strength of the company's knowledge of materials and product offers to create completely new comprehensive solutions for new customers in existing product areas. The purpose of this business development is also to

strengthen the company's know how and brands.

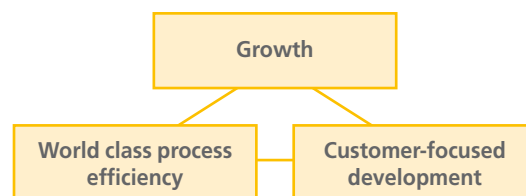
Three primary customer segments have therefore been prioritized for business development: Food and Consumer packaging, Fresh Foods (fruit and vegetables) and Sack Solutions. Development will take place over coming years.

### **Business concept**

Billerud offers demanding customers packaging material and solutions that promote and protect their products – packaging that is attractive, strong and made of renewable material.

### **Strategy**

The company's strategy is based on three components:



### **World class process efficiency**

Billerud works systematically on process efficiency and cost efficiency to ensure long term competitiveness and the ability to generate stable cash flow. Equipment and product quality will be improved, product development safeguarded and production volumes increased. Focus on quality at



every level and on the development of suppliers of additives and logistics will contribute to cost-efficiency.

Through better use of machine capacity, the goal is to increase paper volumes, provided that this can be achieved with satisfactory profitability, and with consideration to marginal costs and to the balance between supply and demand in each market segment.

Selective investments will be made to reach the set goals. To increase cost efficiency, the company has been implementing the Billerud 2007 project in the period 2006-2008 which has generated savings of around MSEK 250 per year. To further cut fixed costs Billerud decided to implement an additional programme of MSEK 100 during 2008 and 2009. This programme will include staff redundancies at all workplaces in Sweden. An investment of MSEK 1,090 in cost-reduction measures in the energy field was carried out in 2005 and 2006, resulting in cost reductions of around MSEK 250 on an annual basis. In the spring of 2008 it was decided to launch an additional savings programme in a scheme entitled "One Billerud" which aimed to cut

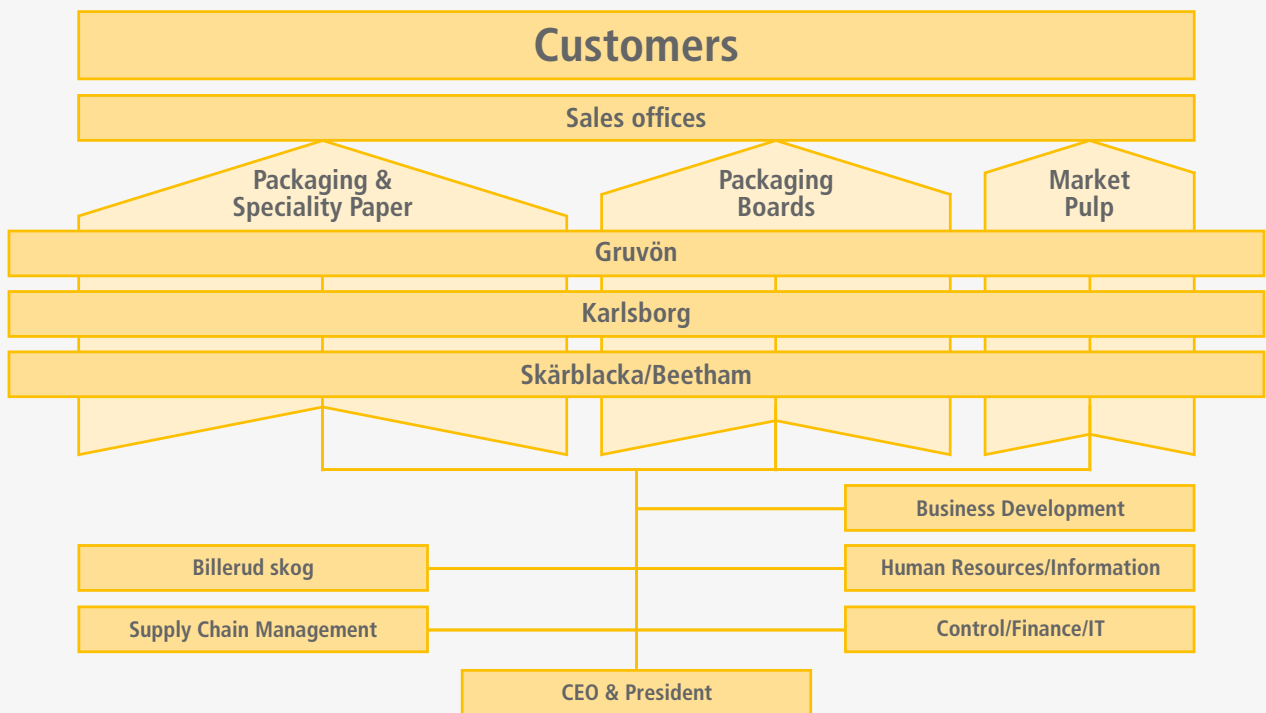
consumption of chemicals, wood and energy by an annual sum of MSEK 150. This programme will be completed by the end of 2009. A 10-year agreement concerning electricity supplies was signed with Vattenfall in 2007, which secures around 20% of electricity requirements at a fixed price. Continuous assessments are made of new energy investments in parallel with an evaluation of new business opportunities in the energy field. Billerud also has a programme for reducing costs for purchased material and to increase the efficiency of external logistics. Increased co-ordination should provide considerable synergy effects between the mills.

**Customer-focused development**

Billerud is continuously working on developing products, product mix and customer structure to improve margins. By identifying and analysing customer demands for profitable packaging solutions, Billerud can provide better service to markets that demand the high quality paper. A sharper focus on customers will help to identify more strategic customers and create lasting and profitable partnerships.



ORGANISATION CHART



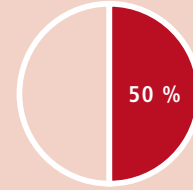
PACKAGING & SPECIALITY PAPER

The business area is responsible for sales of Billerud’s sack paper and kraft paper with a focus on the following customer segments: Food Packaging, Carrier Bags, Sack Solutions and Industrial Packaging.

Each customer segment has direct responsibility for the development of products and services, technical service, sales planning and pricing. Europe and Asia are the main markets.

The main competitors are UPM-Kymmene, Korsnäs, Canfor, Mondi Packaging, Burgo Group, Segheza and Smurfit Kappa Group.

Customers are primarily producers of sacks, food packaging and medical packaging. The steel industry also uses Billerud’s paper to package steel.



Share of Group net sales. Production capacity equivalent to around 545,000 tonnes.

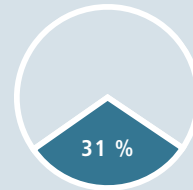
PACKAGING BOARDS

The business area is responsible for sales of Billerud fluting, liner and liquid board with a focus on the Fresh Foods and Consumer Goods customer segments.

Each customer segment has direct responsibility for the development of products and services, technical service, sales planning and pricing. The main market is Europe.

The main competitors are Stora Enso, Powerflute Oy, Smurfit Kappa Group and Mondi Packaging.

Customers are primarily producers of packaging for fruit and vegetables, luxury and gift items, consumer goods and beverages.



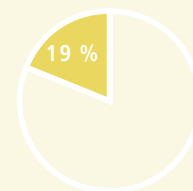
Share of Group net sales. Production capacity equivalent to around 530,000 tonnes.

MARKET PULP

The business area is responsible for sales of Billerud’s long-fibre market pulp. The main markets are Europe and Asia.

Competitors include Södra, Metsä Group, Mercer Group, Stora Enso and Zell Pölz.

Customers are primarily producers of writing and printing papers, packaging paper and tissue.



Share of Group net sales. Production capacity equivalent to around 355,000 tonnes.



Billerud's business areas are divided into customer segments with direct responsibility for developing products and services, technical service, sales planning and price setting. The business areas are responsible for developing a sales culture within Billerud and thus creating a sharp focus on customers and profitability. The segment teams are responsible for developing know-how about the requirements of customers and end-users throughout the value chain in order to supply them over time with the most comprehensive packaging solutions.

Billerud continually assesses different ways of entering attractive markets outside Western Europe. The company is examining different forms of co-operation with customers, suppliers and competitors, as well as possible acquisitions. As a consequence, a new sales office was opened in Shanghai in 2007.

### **Growth**

Several of the markets and value chains where Billerud is active are fragmented, which offers opportunities for new approaches and comprehensive solutions. By using its strong positions in some segments, Billerud can develop business and provide customers with more comprehensive packaging solutions. This requires, however, a broader definition of the market. The aim is to expand contacts with customers, designers, printers and machine manufacturers. Consequently, three primary customer segments have been prioritised for business development:

- » Food and Consumer packaging. End-users are primarily retailers and brand owners.
- » Fresh Foods. These customers are mainly importers, distributors and major supermarkets dealing in fruit and vegetables.
- » Sack Solutions. Customers include sack converters and major cement companies.

As a result, Billerud has launched completely new business concepts and the company expects to present additional profitable initiatives in coming years.

### **Control**

Billerud controls and monitors its operations from a business area perspective. This applies for sales, operating profit/loss, product development and market investments. Production efficiency, results and operating capital are also monitored on a mill basis.

### **Financial targets**

#### ***Operating margin***

Historically, the development of the pulp and paper industry has followed a cycle with corresponding swings in the earnings capabilities of the actors in the industry. When setting a profit target for Billerud, the Board of Directors considered the company's profit history, average exchange rates and price trends for pulp and paper in recent years. The target is that the operating margin shall be at least 10% over a business cycle.

#### ***Return on investments***

Completed investments shall provide a return that is significantly above the weighted average cost of capital (WACC). This will ensure that Billerud has a return on investment that meets the demands of shareholders while covering the company's costs for liabilities. In practice the company will apply different return requirements depending on the risk level of the investment, with a basic requirement that return on investment is significantly above WACC.

#### ***Organic growth***

The target is to establish long-term organic growth of 3% from 2008 onward. Growth will be generated from increasing the proportion of paper in relation to market pulp, improving the product mix and customer structure and from new growth projects in the chain of value.

#### ***Debt/equity ratio***

Billerud's business is influenced to a large extent by general economic conditions, which means that the operating risk is considerable. Strengthening the financial position in good years is essential in order to sustain the company in bad years. Billerud therefore has a target that its debt/equity ratio over a business cycle shall be between 0.6 and 0.9.

#### ***Dividend policy***

The target is that the dividend over a business cycle shall on average be equal to 50% of net profits. The dividend paid to shareholders will be dependent on, among other factors, Billerud's profit level, financial position and future development opportunities. For 2008 the Board proposes that the year's profits be used to strengthen the company's equity and no dividend be paid.



## *Market is growing for innovative and sustainable packaging solutions*

Market activities were intensive during 2008. Billerud carried on its work aimed at building relations with converters and end-users. Efforts with business and product development aimed at maintaining a leading position continues.

**T**he slowdown in the business cycle meant weaker demand in industry-related segments during the year, leading to reduced volumes primarily for sack paper and steel industry paper and falling prices for pulp. Billerud worked proactively to counter this situation. During the year market-related production stops were performed within sack paper to avoid price erosion and adapt production to reduced demand. Billerud also reviewed its costs and worked to divert sales of sack paper to countries in Asia with better economic growth and where the company sees very large potential in the long term. Market transfers require persistent sales activities to convince customers to change sack paper supplier and as part of this work a sales office was opened in Shanghai in 2007.

### **Consumer-related segment remains stable**

Reduced demand in the industry-related segment was compensated for during the year by stable demand relating to food and other consumer products. Applications in medical areas also show a positive trend. Billerud is a major player in both the industry and food segments. The challenge in 2009 and beyond will be to change the product mix without disrupting the price picture with large volume changes.

### **Strong belief in the future**

Billerud's long-term belief in its future and its products remains high despite the current economic situation. Paper is an eco-friendly product that offers significant

## FINANCIAL TARGETS

FINANCIAL TARGETS	2004	2005	2006	2007	2008	AVERAGE	TARGET
Operating margin, %	11	-3	7	8	4	5.4	10 <sup>3)</sup>
Net debt/equity ratio (annual average)	0.47	0.72	1.01	0.96	0.97	0.83 <sup>2)</sup>	0.6-0.9 <sup>3)</sup>
Dividend as %age of net profit	66	-	58	54	- <sup>1)</sup>	77	50 <sup>3)</sup>

<sup>1)</sup> Board proposal that no dividend be paid for 2008

<sup>2)</sup> Five years of accumulated dividends divided by five years of accumulated net profit (net loss in 2005)

<sup>3)</sup> Over a business cycle

business opportunities. Billerud will therefore increase its customer focus and concentrate on customer care and service, while the work aimed at building relations with converters and end-users will continue.

### Moving up the value chain

Billerud has identified three focus areas for future growth and business development which will be based on closer co-operation with end-users and brand owners.

Food and Consumer Packaging focuses on the market for packaged food and various consumer items which in Europe is experiencing annual growth of 2-3%. Paper has great potential as a packaging solution for brand owners and retailers who value function, design and economy.

The European market for fruit and vegetables is expanding by around 4% per year. Billerud sees significant opportunities to create value here throughout the distribution chain, which is why the new operations Fresh Services has been launched. Fresh Services gives consumers better quality fresh produce by offering a service solution throughout the delivery chain – from grower to fruit importer and wholesaler. Billerud supplies packaging that withstands tough freight conditions, including fluctuations in moisture and temperature, without damage to the products due to crushing while guaranteeing to reduce waste that currently costs large amounts.

Within Sack Solutions, Billerud offers sack paper that withstands extremely fast production processes during sack construction and during filling with various materials. The sack paper also has good properties for printing with text and images. Sack Solutions includes a product range, technical customer support, end-user support, product development and one of the world's most modern sack laboratories.

### Innovation

The company's business development goes hand in hand with intensive product development, often in close collaboration with customers. During the year Billerud's joint venture company, NINE Total Packaging Partner, developed a special packaging for one of the world's largest mobile telephone companies. This packaging is made of Billerud FibreForm™ – a completely new paper that thanks to exceptional

elasticity and formability can replace plastic in areas that were not previously possible. Within Sack Solutions Billerud has also launched QuickFill® Single, which enables the production of sacks with a single layer of paper. Furthermore, Billerud Box Lab has expanded and Billerud Pack Lab has opened with the aim of fine-tuning the company's product offer and supplying the most cost-effective and eco-friendly packaging solutions to our customers.

### Billerud the knowledge company

It's important to offer the market material that expands the use of fibre-based packaging. Together with bio refineries, Billerud is looking at opportunities to increase the added value of pulp through the development of bio-plastics using various components of forest raw materials that may be able to replace certain conventional plastics in the long term. These bioplastics could create sustainable development as the raw material is completely renewable and recyclable.



## STRENGTHS AND WEAKNESSES

### Europe

- + Close proximity to customers means cost benefits and reliable transport.
- + Many years of customer relations with high level of quality awareness.
- + Increased consumption of luxury goods.
- Slowing growth in construction sector.

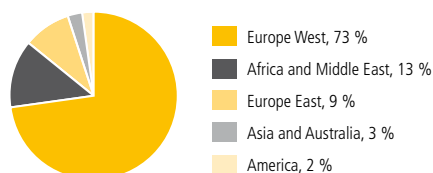
### Asia and the Middle East

- + Large population, strong buying power.
- + Large flow of returning freight transport resulting from Asian exports.
- + Strong growth in many countries.
- + Improving welfare and growing middle class creating new consumption patterns.
- Geographic distance sets increased demands for reliable deliveries.

## OVERVIEW OF BILLERUD'S PRODUCT MARKETS

BUSINESS AREAS	PRODUCT	END-USER GROUPS	DRIVING FORCES
PACKAGING & SPECIALITY PAPER (50% of sales)	<b>Kraft paper</b> (19% of volumes)	Producers of packaging for the food industry, for example flour and sugar bags, deep-frozen food and confectionary. Producers of carrier bags used in the fashion industry, among others. This customer segment accounts for 59% of kraft paper sales.  The steel industry, producers of medical packaging and other industrial applications. They accounts for 41% of kraft paper volumes.	Bans placed on oil-based plastic bags and plastic packaging are driving interest in fibre-based products and boosting demand for paper packaging. Investment in equipment and long-term relations with paper producers across Europe strengthen Billerud's position as a leading supplier of high-quality kraft paper. Healthcare is expanding and driving demand for medical packaging and hygiene products. Economic growth in Asia is fuelled by industry, where China has become the world's largest steel producer, accounting for one third of production.
	<b>Sack paper</b> (19% of volumes)	The cement industry and producers of packaging, mainly for materials in powder form: building materials, minerals, chemicals and food.	Increased demand for cement, other building materials and minerals in powder form are driving demand for sack paper in general. Demands for cost-cutting, improved functionality and attractive appearance are bolstering demand for strong paper with high porosity, enabling production of sacks with lower grammages that can be filled quicker due to good air release.
PACKAGING BOARDS (31% of sales)	<b>Fluting</b> (25% of volumes)	Growers, distributors, fruit importers and wholesalers of fruit and vegetables. Producers of packaging for heavy-duty, such as car components and heavy white goods as well as directly-packaged fast food. Wholesalers and grocery stores seeking solutions in Shelf Ready Packaging <sup>3)</sup> .	Retailers and distributors of fruit and vegetables demand better packaging solutions as the quality of recycled paper has worsened. Corrugated board can only be recycled 5-7 times, with a fall in strength each time. To balance the eco-cycle, new fibre is needed in paper for the most demanding packaging.
	<b>Liner</b> (10% of volumes)	Producers of attractive packaging for consumer, luxury and gift items such as perfume, duty-free, Shelf Ready Packaging <sup>3)</sup> and fast food.	Retailers and FMCG producers <sup>2)</sup> demand more durable packaging solutions and a reduced packaging volume overall. By using primary fibre it's possible to reduce the amount of packaging in relation to the contents and win better printing results with perfect colour reproduction and uncompromised functionality. Billerud's corrugated board is very well suited for low grammages.
	<b>Liquid board</b> (2% of volumes)	Producers and distributors of portion-packed drinks such as milk and juice.	Consistently pure and high product quality, world class. Hygiene-certified production process.
MARKET PULP (19% of sales)	<b>Nordic long fibre bleached sulphate pulp</b> (25% of volumes)	Producers of writing and printing paper, tissue, packaging paper and special products such as air filters for cars.	The properties of long-fibre sulphate pulp give the paper the strength to withstand strains during production and help to optimise speed in modern paper machines. To keep production costs low, paper producers use short-fibre pulp as much as possible. Some long-fibre pulp is needed, however, to give the paper tear and wear strength. With long-fibre sulphate pulp it is required just 10-20% to achieve optimum results in printing paper for example.

## GEOGRAPHIC DISTRIBUTION OF BILLERUD'S SALES





## MARKET AND CAPACITY

**Short term:** The market for retail products is relatively consolidated (MF paper) but much more fragmented for packaged food and the industrial sector (primarily MG paper). In the shorter perspective there is in general some surplus capacity, which together with the economic downturn is pressing prices. This is knocking out some of the less cost-effective producers, mainly of MG paper. In hard times customers tend to focus less on quality, functionality and the environment and more on low price.

**Long term:** Oil-based plastic has become controversial. Eco-aware consumers are unhappy with the waste and non-renewable material. Plastic bags are being banned in more and more countries. These trends support strong market development for Billerud's products. Paper-based carrier bags are expected to grow fastest, but packaged food has enormous potential in the long term. In the industrial segment demand is expected to increase as growth regions increase consumption.

**Short term:** The construction market has been hit hard due to falling property prices and need for competitive financing. Several growth markets outside Europe expect to see continued increases in construction of homes and infrastructure.

**Long term:** Strong market development, but sensitive to business cycle. Demand for cement and other building material products will continue to rise, mainly in growth regions such as Eastern Europe, North Africa, Latin America, the Middle East and large parts of the rest of Asia. The need for ready-mixed building material sold to tradesmen and via retailers is increasing in mature markets. Average annual growth of cement consumption worldwide was 4.1% between 1973 and 2007. Continued consolidation of both the sack and sack paper industry is expected in Europe.

**Short term:** There is over-capacity of recycled containerboard and the economic downturn has contributed to reduced demand and price pressure. In hard times customers tend to focus less on quality, functionality and the environment and more on low price. The fruit and vegetable segment is less affected by the global economy and more by weather conditions and harvests. Fluting has thus not been affected by the global crisis to the same extent as other corrugated raw materials and development is expected to be relatively stable in 2009.

**Long term:** Each year, fruit and vegetables worth around EUR 10 billion are destroyed due to poor packaging. Meanwhile the amount of packaging is increasing and growing environmental awareness suggests that more and more people will choose paper and other fibre-based material for their packaging. The need for fresh fibre in the eco-cycle further supports Billerud's position. The market for primary-fibre fluting is highly consolidated and there are no new capacity additions.

**Short term:** Since Billerud competes to a larger extent with recycled qualities, there is greater price pressure in this segment. In hard times customers tend to focus less on functionality and the environment and more on cheaper, recycled products, where there has been overcapacity in recent years. In an economic downturn, a quality-leading position, however, contributes to more stable customer relations, less fluctuation in price and more stable demand.

**Long term:** Brand owners are placing greater emphasis on the appearance of their products, and there is increased focus on high functionality, quality, transport efficiency and saving of resources. The market is expected to choose products from this segment to a greater extent, why Billerud expects good market development over time.

Improved incomes and changed consumption patterns in Asia and the Middle East are leading to increased demand and good market development opportunities for portion-packed drinks such as milk and fruit juice.

**Short term:** The financial crisis has led to lower consumption of printing and writing paper which meant lower consumption of market pulp in the later stages of 2008. This impacted very negatively on prices. The crisis has however speeded up positive restructuring of the industry, and less profitable pulp producers will probably go out of business.

**Long term:** Due to limited supply of raw materials, there is no current investment in new capacity. Instead a number of older pulp producers disappear each year. Meanwhile, demand in Europe and North America is falling, while growth is positive in Asia. Over the business cycle growth is expected to be around zero. Capacity additions from new producers in Latin America, among other regions, mainly covers short-fibre eucalyptus pulp.

## OUR POSITION

Leading producer of strong, high-quality kraft paper. Billerud has a market share of 59% for MG paper and 27% for MF paper in Europe.<sup>1)</sup>

Leading supplier of bleached sack paper with 44% of European market <sup>1)</sup> and main supplier of brown sack paper to non-integrated sack industry in Europe. 12% market share in Europe for brown sack paper <sup>1)</sup>.

Quality leader and market leader in top segment for S/C fluting with strong position in fruit and vegetables. 34% market share <sup>1)</sup> for fluting based on primary fibre.

Leading supplier of low grammage pure white liner. Few specialist competitors, market share is around 50%.

Leading supplier of raw materials to liquid packaging producers in lower grammage segment.

Strategic supplier to large parts of European paper industry. Many years of business relations with customers who have high quality and environmental demands. Geographic proximity to customers gives cost benefits.

## MAIN COMPETITORS

**Carrier bags:**  
Mainly UPM and Korsnäs  
**Packaged food:**  
Highly fragmented market; main competitors are Mondi and UPM  
**Industrial applications:**  
Ahlstrom, Arjo Wiggins, Mondi, Nordic Paper, Papel Aralar, UPM.

**Brown sack paper:**  
Mondi, Segezha, Smurfit Kappa  
**White sack paper:**  
UPM, Korsnäs, Canfor

Stora Enso (Heinola)  
Powerflute Oy  
Mondi Swieci

M-real (Kemi)  
Korsnäs (Gävle)  
Mondi (South Africa)  
Mondi Ruzemberok

Korsnäs

Market for Nordic long-fibre sulphate is highly fragmented. Main competitors are Södra, Stora Enso, Metsä and Mercer Gruppen. Canadian producers are also highly aggressive competitors from time to time.

<sup>1)</sup> Source: Eurokraft 2008

<sup>2)</sup> Fast Moving Consumer Goods - Producers of fast-moving consumables such as soap, cosmetics, toothpaste, batteries and washing powder.

<sup>3)</sup> Attractive packaging ready to put straight on the shelf to make store operations more efficient.



*The strong opinion in favour of fibre-based products is important in the debate on sustainability. Billerud's goal is to broaden the knowledge of the paper's advantages in terms of function, design and economy.*

# *Global environmental awareness* is prompting *greater use of sustainable packaging*

Innovation will help Billerud be a world-leading supplier in the packaging market. The potential is enormous. Paper accounts for just 15% of the 2.7 million tonnes of material used in Europe to package food each year. Papers good design features and strong environmental arguments attract both brand owners and retailers.

**M**ore and more nations are restricting use of plastic bags that are not biodegradable or recyclable. During the year China prohibited stores from giving away plastic bags for free. Ireland, India and Taiwan have levied extra taxes on plastic bags. Global eco-awareness strengthens arguments for paper as an eco-friendly, sustainable and economic packaging solution. It is increasingly clear that consumers prefer paper. A recent survey asked 8,000 people what material they would prefer to be used to make a carrier bag. 93% chose paper, while most of the respondents also considered paper to be the most luxurious and attractive alternative.<sup>1)</sup>

## **FOOD AND CONSUMER PACKAGING**

### ***Market potential for packaged food***

Food and Consumer Packaging targets the market for packaged food and various consumer goods. In Europe this segment is growing by 2-3% per year. Billerud's products appeal to brand owners who focus on the environment, function and design through their packaging that provides protection against moisture and light while also offering environmental benefits.

The food and consumer segment accounts for around 54% of Billerud's total sales volume of paper

and the company is investing strongly in business and product development in order to expand paper application areas. During the year the launch of Billerud FibreForm™ was evaluated and a barrier lab was opened as a result.

### ***Sustainable arguments for paper bags***

Carrier bags of paper are an excellent way to market fashion products, and they are good for the environment. That was the message when Billerud gathered European converters at a series of seminars. Participants agreed to proactively promote the benefits of carrier bags to the fashion industry and retailers. The aim is to come closer to end-users by extending contacts in the value chain.

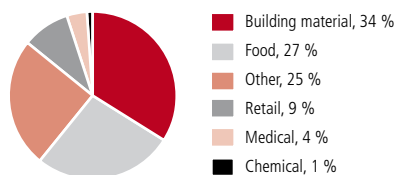
To extend knowledge about the benefits of paper, Billerud visited a number of major retailers during the year. The ecological advantages of paper were presented in film and spoken presentations.

### ***Paper replacing plastic***

Billerud FibreForm™ is a paper that thanks to high elasticity and formability properties can replace plastic in moulded packaging. There is significant market potential for food packaging, trays and blister packs, and packaging for electronics and health products.



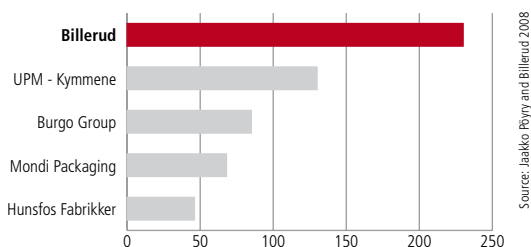
**PACKAGING & SPECIALITY PAPER - APPLICATIONS**



Source: Billerud, 2008

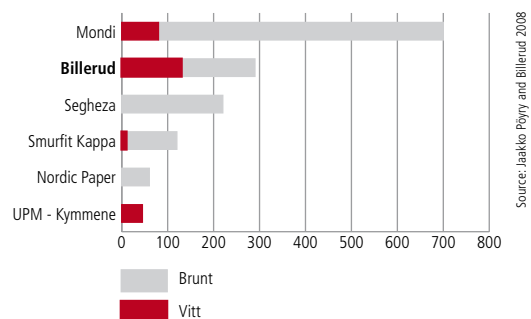
Refers to the share of the business area's sales volumes.

**KRAFT PAPER FOR PACKAGING – LARGEST MANUFACTURERS IN WESTERN EUROPE, '000 TONNES**



Source: Jaakko Pöyry and Billerud 2008

**SACK PAPER – LARGEST MANUFACTURERS IN EUROPE, '000 TONNES**



Source: Jaakko Pöyry and Billerud 2008

Billerud is one of Europe's largest manufacturers of sack paper with a market share of 44% on white and 12% on brown sack paper. Source: Eurokraft 2008.

The paper is based on renewable raw material and can replace plastic in existing converting machines. Packaging weight and material volume can be cut without compromising on protection of the product, which means more efficient transport logistics.

The patent-protected method gives an exceptional paper elasticity, without needing special chemicals. In 2008 Billerud signed an agreement to market and produce the product. A decision about possible investment will be made in the first half of 2009.

**Nine TPP in co-operation with Sony Ericsson**

One of the first companies to choose Billerud FibreForm™ was Sony Ericsson. The goal was to create an eco-friendly packaging solution for the company's products. This assignment was given to No Picnic and Nine TPP which in 2008 developed a mobile phone packaging formed like a leaf. The weight was around a fifth of the normal weight packaging.

Nine TPP is a collaboration between Billerud and design company No Picnic. Nine TPP manages the development of new product concepts and packaging primarily used for food and pharmaceuticals. Major brand owners have chosen Nine TPP as a partner to communicate innovative and sustainable values using paper as a packaging solution.

**Barrier material for the future**

One of the challenges facing Billerud is to extend the application areas for paper in packaged food. Many foods require packaging that protects against oxygen, moisture or grease. To protect against moisture and grease, most paper packaging is coated with some form of barrier.

Currently, plastic or aluminium are often used to form a barrier. These are both expensive and non-renewable raw materials. To save costs and the environment, Billerud works to develop paper qualities that require less barrier material.

Alongside these efforts Billerud in 2008/2009 has taken a prominent position in work aimed at developing barrier material for the future. This included the acquisition of Tenova Bioplastics AB, a leading developer and supplier of bioplastic products. The aim is to replace barrier materials based on fossil sources with renewable material with a smaller impact on the environment and climate.

At the end of the year Billerud opened Pack Lab, which provides opportunities to test barrier materials. The lab examines how paper with different types of barrier reacts when exposed to moisture and oxygen. This is an important tool in the development of Billerud's paper and barrier material.

**SACK SOLUTIONS**

**A changing market for sacks**

Billerud Sack Solutions offers sack paper that provides clear advantages and cost-efficiency in fast processes for sack production and filling with various materials.







*Billerud's paper is made of 100% primary fibre which produces a very pure paper that can be used for food and sterile medical packaging.*



Photo: Sony Ericsson





The offer of added value includes a strong product range, technical consultation, training and seminars and the value-creating concept, TCV – Total Customer Value.

A hot construction sector in Europe opened 2008 with strong demand for sack paper. During the second half of the year orders fell dramatically however due to the sharp downturn in the building industry and other industrial segments, combined with relatively high stocks of paper, sacks and packaged products. Meanwhile structural changes in the sack paper industry have resulted in lower global production, with most of the curtailment taking place in Europe. In the long term this should lead to growing demand and rising prices.

#### **Success through innovation**

Billerud's QuickFill® product family was specially developed for valve sacks filled with powder material. The paper produces an extremely strong sack that breathes as it is filled with cement, planting soil or animal feed. The paper's porosity enables sack producers to increase the capacity of their filling equipment without causing dust problems. Products are hence delivered in clean sacks.

Sack Solutions Centre is a source of knowledge about sack paper and sacks. It is home for the technical resources and services that Billerud offers converters and end-users.

Total Customer Value (TCV) helps sack converters to improve the efficiency of their activities. The concept means that Billerud's technicians examine the customer's production process from the purchasing of paper to the handling of filled sacks during transport and in warehouses. The information results in a calculation of customer benefit.

Billerud's sack lab is a valuable asset in development projects with customers and for internal assignments. Using advanced testing equipment, Billerud's specialists test strength during a fall or rough treatment, friction on a pallet and the sack paper's ability to allow air to pass through.

#### **Outlook**

Billerud sells about half of its production of brown sack paper in Europe, the rest in growth regions outside Europe. Most of the white sack paper is sold within Europe. Consumption of sack paper in Europe is expected to continue decreasing due to continued improvement of sack paper quality and thereby a reduction of paper weight per

sack and a transition to bulk solutions. White consumer sacks for building material and other products are however expected to have a continued positive growth. Demand for strong sack paper within growth regions will continue to increase. Billerud has a strong position for many years in several of these markets in North Africa, the Middle East and in the rest of Asia.

Brand owners and, among others, building merchants set higher demands concerning sack appearance and function as a bearer of information. Here there are good prospects for Billerud's white sack paper. During 2009 several services and products will be introduced within the sales area sack solutions. Billerud will meet tougher market conditions with increased customer focus and service.

## INDUSTRIAL PACKAGING

### *Safe protection against bacteria*

Modern healthcare sets high demands for medical device packaging. The combination of high strength and well-balanced porosity makes Billerud's paper a suitable choice. The paper allows sterilising agents to pass through while presenting long-term protection against bacteria. Billerud's product family includes qualities for the most demanding sterilisation and packaging methods. Examples include medical packaging for single use disposable syringes, needles, catheters and surgical gloves. Billerud manages the development of safer, more flexible and reliable solutions in close co-operation with customers. Growth is good and the price picture is stable.

### *Seal tests*

Billerud's new Pack Lab helps customers to improve the efficiency of their production. By simulating various sealing processes we analyse which medical packaging paper best suits a customer's process. The result is not only safer more efficient production, but also significant financial savings.

### *Market for release liner is growing*

Release liner is used as protective paper for self-adhesive material. Billerud's base papers for release liner have great potential in areas such as hygiene, labels, tape, insulation material and decals. The smooth, strong surface of the paper prevents silicone from passing through the paper. The sales team and technicians work closely with various players in the conversion chain. In 2009 Billerud will offer a new high efficiency product for the release liner market.

## MARKET DETAILS

### **Kraft paper for packaging**

- » Global market for white technical kraft paper for packaging amounts to 3.1 million tonnes.
- » European market is 40% of total, 1.2 million tonnes.
- » The five largest customers for white technical kraft paper for packaging accounted for 23% of Billerud's sales in this product area in 2008.

### **Sack paper**

- » Global market for sack paper amounts to 4.8 million tonnes, of which around 10% is white sack paper.
- » European market is around 25% of the total, or 1.2 million tonnes. This is divided between white sack paper (0.25 million tonnes) and brown sack paper (0.95 million tonnes).
- » The five largest customers for sack paper accounted for around 39% of Billerud's sales in this product area in 2008.

PACKAGING & SPECIALITY PAPER	2008	2007
Net turnover, MSEK	3 832	3 989
Operating profit, MSEK	244	355
Operating margin, %	6	9
Deliveries, '000 tonnes	482	544

## Earnings

Operating profit decreased compared to previous year with MSEK 111 or 31% to MSEK 244. The reason for the decline is the significant economic downturn at the end of 2008, affecting especially the industrial segments such as sack paper and interleaving. Consumer related products were however relatively stable despite the economic downturn.

<sup>1)</sup> Media Analyzer Software & Research GmbH, Hamburg: IPSOS study with 7 970 persons in 7 european countries, 2007.





*Billerud is working actively to minimise the environmental impact and waste of resources by offering the world's strongest box material, packaging design know-how and our services for improving efficiency in the logistics chain.*



# *Packaging solutions that create* greater value *for all members of the value chain*

Thanks to Billerud Flute®, more fruit and vegetables now reach consumers. Strong and light packaging reduces waste and thus also cuts human impact on the environment.

**L**arge amounts of food are damaged or destroyed during transportation to the consumer. For example, 10% of fruit and vegetables go to waste. A new report from the Swedish Institute for Food and Biotechnology, SIK, shows that the food supply chain to households accounts for almost one third of the overall environmental impact. Cutting waste would have positive benefits for the environment.

Billerud offers improved box design that takes into consideration the containerboard, structural design and various equipment used during handling. The solution contributes to improved profitability and reduced environmental impact.



## **FRESH FOODS**

### ***Saving fruit from transport damage***

Up to 2050 the world will have to double its production of food. Today, the amount of fruit and vegetables damaged in transit is worth an incredible EUR 10 billion in Europe alone. In this context, the cost of packaging is a tiny fraction. The waste is partly due to poor packaging that cannot withstand the rigours of transportation. When stacked on top of each other, boxes made of recycled fibre or weak fluting cannot stand the pressure during the entire journey. They fold and crush parts of the contents.

For the past two years Billerud has been running an operation entitled Fresh Services. The aim is to produce a sustainable standard based on packaging that protects fruit and vegetables in the toughest transport conditions. Product development takes place in co-operation with all the members of the value chain; from the fruit grower's packing stations to the customer's distribution centres. The project measures quality during transport and performs regular tests.



## MARKET DETAILS

- » Global market for containerboard amounts to around 90 million tonnes.
- » European market for containerboard amounts to around 24 million tonnes, of which 1.2 million tonnes is semi-chemical fluting. Pure white liner and White top kraft liner account for around 1.2 million tonnes.
- » The five largest customers for container board accounted for 54% of Billerud's sales in this product area in 2008.

PACKAGING BOARDS	2008	2007
Net turnover, MSEK	2 364	2 171
Operating profit, MSEK	248	179
Operating margin, %	10	8
Deliveries, '000 tonnes	469	463

**Climate-friendly box**

With Billerud Flute®, fruit boxes can withstand being stacked on pallets during a journey. This product is the world's strongest fluting and it enables corrugated packaging to be made that is 10-20% lighter with no loss in functionality. The product is sold to corrugated board producers with a focus on packaging for fruit and vegetables, meat and heavy goods.

During the year demand fell slightly due to unusually low fruit harvests in Europe and North Africa. However the overall outlook remains good. By focusing on the contents of the box and on how packaging can contribute to a more sustainable distribution chain, Billerud has reinforced its strong market position.

**Box Lab brings in more business**

Part of Billerud's strategy is to reach further along the value chain. As the first paper producer in the world, Billerud operates its own research into demanding corrugated packaging. Box Lab plays a key role in

identifying players in the fruit and vegetable market. Billerud uses the lab to test packaging and develop prototypes for different box designs. The aim is to develop a global standard for corrugated packaging that can withstand the toughest conditions. The lab attracts visitors from all over the world who come to learn more about this unique concept.

**Outlook**

The amount of packaging is increasing. More packaging is being used per sold unit, with development towards more, smaller packaging. The total packaging market is growing by around 4% per year. In 2009 the packaging market is estimated to be worth around USD 600 billion. The growth figures also apply for paper packaging. Plastic is being questioned increasingly as a packaging material and growing global environmental awareness is making more and more brand owners choose paper and other fibre-based material that can be recycled.

**CONSUMER GOODS****Focus on design and printability**

Sales of perfume, wine, delicacies and mobile phones mean that the packaging has a relatively short life cycle. Several customers use Billerud's paper for exclusive packaging, primarily Billerud Pure Bright that is part of the White Liner collection and is used on the outer layer of containerboard. By focusing on low grammages and products with superior printability, Billerud is able to act on markets that appreciate the high quality of the liner.

**Simple transport onto the shelf**

In the retailer's world, the store shelf is the main point of exposure. This is where a customer decides what to buy. It is vital for a brand owner's products to stand out and attract the buyer. It's also important that the product can be transported efficiently into the store. Shelf-ready packaging is packaging that can be put on the store shelf in just a few simple moves. In the spring of 2008 Billerud made a presentation on this subject at RRpack (Retail-Ready Packaging), a seminar in Göteborg about packaging solutions that improve store operations. The seminar attracted participants from throughout the value chain.

Corrugated box design is based on the packaging being simple to open, position and identity on the shelf. This places completely new demands on perforation,





*Billerud produces high-quality packaging paper made of 100 per cent primary fibre. It is a perfect material for the production of strong and attractive packaging.*





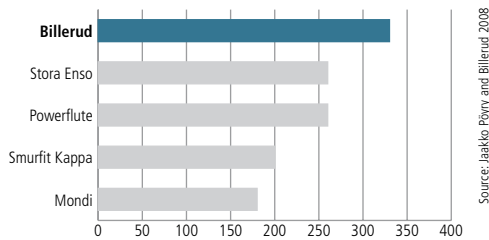
CONTAINERBOARD – APPLICATIONS



Source: Billerud, 2008

Refers to the share of the business area's sales volumes.

SEMI-CHEMICAL FLUTING – LARGEST MANUFACTURERS IN EUROPE, '000 TONNES



Source: Jaakko Pöyry and Billerud 2008

among other things. Billerud's White Liner collection provides a strong outer layer with high printability for demanding packaging solutions within Shelf-Ready Packaging. To increase knowledge about the liner's benefits, Billerud works together with several wholesalers and grocery buyers. The company is also involved in a research project together with the Packaging Arena in Karlstad.

LIQUID PACKAGING

*Successful activity with Tetra Pak*

Even though packaging made of paper guarantees just as good durability and often much easier storage, food and drink are still packaged in glass and tin cans, which has a much higher environmental impact. In several of the most populated countries of the world, demand is growing for smaller portion packs for drinks. One example is long-life milk that can be distributed to schoolchildren in areas where infrastructure is not yet complete. There is significant growth potential in countries such as China, Pakistan and parts of South America. Co-operation with Tetra Pak includes technical investments, upgrades and customer service.

**Earnings**

Operating profit increased compared to previous year with MSEK 69 or 39% to MSEK 248. This was mainly due to decreased fixed costs and increased prices compared to 2007.







*As far as the environment and climate are concerned, there is no better packaging material than paper. Paper can be recycled and transformed into new paper and new packaging. Paper can be burned as biofuel to produce climate-neutral bioenergy.*



# *Structural changes in the* pulp industry *strengthen Billerud's position*

During the first half of the year there was strong demand for market pulp. However, the second half of the year was characterized by price falls due to the slowdown in the world economy. Meanwhile, structural changes in the pulp and paper industry should lead to reduced supply of pulp over time. This may help to stabilize the market and strengthen Billerud's position as a producer of long-fibre sulphate pulp.

**I**n September the global financial crisis began infecting the rest of the economy. Producers of market pulp did not manage to adapt volumes to the swift decline in demand, which led to oversupply and growing inventories. The price of a tonne of long-fibre sulphate pulp fell from a record high of USD 920 at the start of 2008 to around USD 600 at the end of the year. The high exchange rate of the dollar compensated for some of the fall in price.

### **Restructuring wave among producers of long-fibre sulphate pulp**

Rising prices for raw materials and worsening profitability resulted in mill closures during the year in North America, Finland and Sweden, where most of Billerud's main competitors are based. Meanwhile, new mills producing short-fibre pulp have been built in South America and South-East Asia. Billerud's strength rests in the integration of pulp and paper mills, with most of the pulp produced being used to make paper. Around one quarter of pulp produced is surplus to requirements and is sold mainly to major paper

producers in Europe, who account for around 80% of Billerud's sales of market pulp.

### **Global market situation**

Global demand for various paper products increased during the first half of 2008. The biggest growth was in China and India, where improved living conditions are driving consumption of writing and printing paper as well as toilet paper and paper handkerchiefs. Growth in the tissue segment is steady at 3-4% and the segment currently accounts for around 30% of Billerud's total sales volume for market pulp.

Billerud's market pulp is also used for various special products such as binding agents in medical tablets. Deliveries to the segment for special products increased in 2008. There is growth potential primarily in Asia, where Billerud's market pulp is used among other things in paper used to make car air-filters, artificial leather sewn onto jeans and shoe insoles.

Around half of Billerud's market pulp is used to produce writing and printing paper. New information technology competes with printed media and in both



## MARKET DETAILS

- » The global market for bleached chemical pulp amounts to around 44 million tonnes. Bleached long-fibre sulphate pulp accounts for around 22 million tonnes of this total.
- » The European market for bleached chemical pulp amounts to 18 million tonnes.
- » The five largest customers for market pulp accounted for around 30% of Billerud's sales in this product area in 2008.

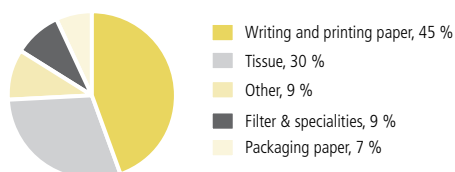
MARKET PULP	2008	2007
Net turnover, MSEK	1 499	1 556
Operating profit, MSEK	-145	81
Operating margin, %	-10	5
Deliveries, '000 tonnes	327	326

Western Europe and North America the market is contracting, although growth remains good in the rest of the world. Quality demands continue to increase, especially in the tissue segment, where Billerud's long-fibre pulp gives paper the strength to withstand hard treatment during production.

**Paper is a material for the future**

The base for Billerud's products is the primary fibre found in Scandinavian pine, spruce and birch trees. The harsh climate and thin soil make the coniferous trees grow more slowly and develop long fibres, a raw material that provides superior strength. Many products in the industrial and consumer markets require packaging that contains material based on primary fibre that ensure strength, purity and printability. Furthermore, Billerud's market pulp is based on renewable raw material from forests that are replanted and consume carbon dioxide as they grow. Market pulp is the basis for producing paper with a sustainable environmental impact.

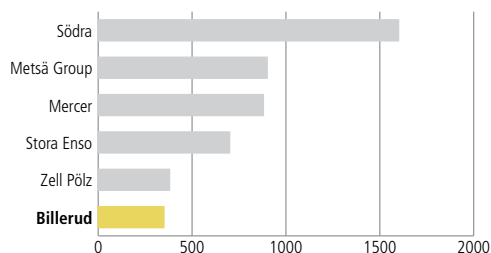
## APPLICATION AREAS FOR BILLERUD'S MARKET PULP



Source: Billerud, 2008

Refers to the share of the business area's sales volumes.

## LARGEST WESTERN EUROPEAN MANUFACTURERS OF NORDIC BLEACHED LONG-FIBRE SULPHATE PULP, '000 TONNES



Source: Hawkins Wright, 2008

**Outlook**

The economic downturn has contributed to a considerable decline in consumption of writing and printing paper. This has led to reduced consumption of market pulp, which has had a negative effect on the pulp market. Major production curtailments, both permanent and temporary, will probably bring the market into a better balance during 2009. When the market regains stability, pulp prices will be able to rise again.

**Earnings**

Operating profit declined with MSEK 226 to MSEK -145 compared to previous year due to falling demand and significantly decreased prices during the second half of 2008.





*Billerud's pulp is based on strong, flexible fibres that combine a large number of properties such as high brightness and purity as well as tear and tensile strength.*



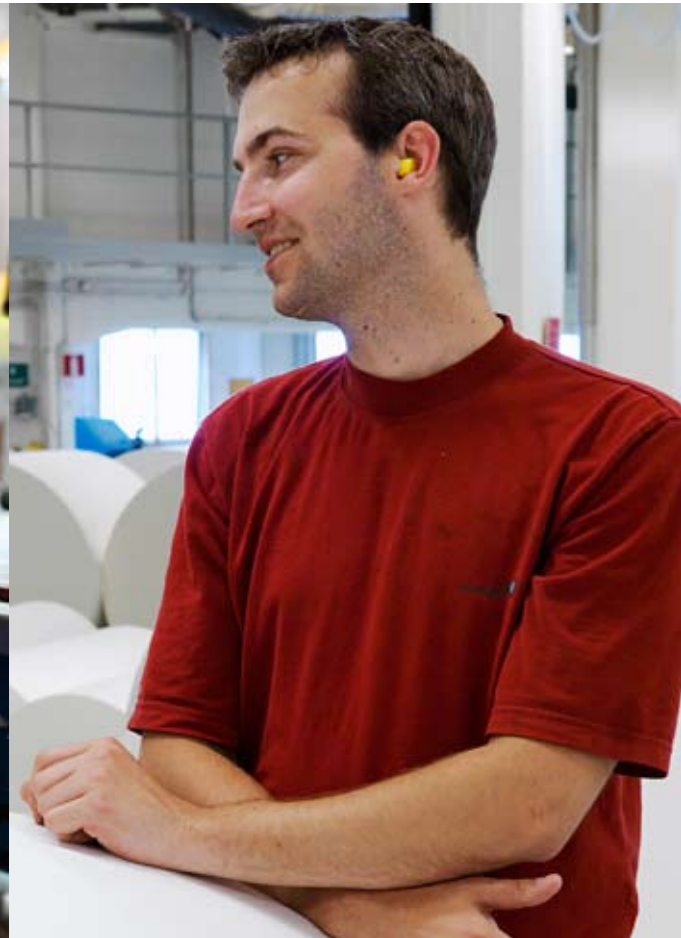


# Inspiring

*leadership and motivated staff*

Successful social work contributes to development and economic growth. Billerud carried out a major staff survey during the year to identify areas for improvement within the working environment, leadership and health. Another important part of HR activities during the year was developing group wide processes for recruitment, training, payroll administration, personnel statistics, health and the working environment.





The year 2008 saw an economic downturn and reduced orders which meant that Billerud was forced to announce redundancy notices for 125 employees in order to adapt cost levels. The redundancies covered employees at all three of Billerud's mills in Sweden and at the head office in Solna. Despite these unfortunate actions Billerud is determined to carry on working to motivate its employees and thus contribute to the good development and economic growth of the company.

#### Measuring staff satisfaction

To provide an overview of employee wellbeing and their views on leadership, Billerud carried out a staff survey during the year. A total of 1,844 employees, or 81% of the workforce, answered the survey. The results were collated into a staff motivation index<sup>1)</sup> (SMI),

which was 63, and a leadership index<sup>1)</sup> (LI), which was 67. These results were positive but still give room for improvements.

Billerud will introduce improvement measures and has set a target to increase MMI to 65 and LI 70 by 2010, when the next survey will be carried out.

#### Billerud the knowledge company

Supporting Billerud as a knowledge company are employees with a great interest in making packaging solutions for the future. The business is characterized by caring for the success of the company both in the short and long term. Throughout the company goal-oriented, systematic and preventive working methods are practiced alongside decision-making based on concrete facts.



### Working towards shared goals

Common values of professionalism, creativity and efficiency contribute to strengthening Billerud's customer relations and business decisions.

Every individual contribution and commitment is needed to achieve the required results and improvements are measured continually against set targets. The aim is to create a working climate where each employee is encouraged to take active responsibility for daily routines by receiving feedback on the results of his or her work. Group-wide bonus targets reward the identification and implementation of improvements.

### Co-ordination of HR activities

In 2008 Group-wide processes for recruitment, competence development, salary administration, personnel statistics, health and working environment were developed. Efforts are being made to avoid work being repeated and create a more efficient HR organisation through the introduction of shared methods, routines and IT support. The aim is that HR work shall receive a sharper link to business activities and contribute to improved profitability. For example, future competence procurement will be secured in recruitment plans connected to Billerud's business goals.

### Leadership that delivers

Situational leadership forms the basis for continual

leadership development within Billerud. This is measured regularly using the index for leadership connected to Billerud's staff survey. The aim is to create a joint view of leadership within Billerud to stimulate motivation and results within the organisation.

An extensive programme to train all of Billerud's managers in Situational Leadership was completed in 2008. This involved theory, group discussions and practical exercises in the form of role play and analysis of real situations. The training gives managers the tools they need to coach staff based on their individual requirements and situation. In 2008 work continued on the development of a Group-wide platform for leadership development. This will have a clear focus on Talent Management. The leadership development programme will be implemented in 2009.

### Health measures reduce sick leave

Billerud aims to be an attractive workplace where it is possible to feel good, enjoy working and develop at every level. To prevent injuries from heavy lifting and to counter poor health, all employees have access to exercise facilities. The aim is to offer all staff the opportunity to exercise in groups in their leisure time either in the form of water gymnastics or Nordic walking.

Corporate health targets were introduced during the year aimed at creating a healthier workplace and thus maintaining the low sick leave. The target is to keep

	2004	2005	2006	2007	2008
Average no. of employees	2 623	2 600	2 476	2 364	2 322
No. of employees at year-end	2 689	2 642	2 437	2 352	2 281
Employee turnover, %	3.2	3.5	12.5 <sup>1)</sup>	7 <sup>1)</sup>	5.2
Average age	45.8	46.3	44.7	45.0	46.1
Work-related injuries <sup>2)</sup> , %	1.7	1.7	1.7	1.9	2.0
Total sick leave, %	5.1	4.9	4.1	3.8	3.5
Of which long-term leave (> 60 days) of total leave, %	56.7	55.1	52.7	49	47.5

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

<sup>1)</sup> Corrected for Billerud 2007 project, staff turnover was 2.1% in 2006 and 2.3% in 2007.

<sup>2)</sup> No. of injuries resulting in sick leave as per cent of total no. of employees. Industry average 1,7%.





short-term and long-term sick leave below 4.0%. This work is being performed in close consultation with the company healthcare staff and other working environment specialists.

**Focus on safe workplace**

When fewer employees are asked to develop the company higher demands are placed on work safety. In 2008 the number of work-related injuries in relation to the total number of employees was 1,95%. Increased individual risk awareness through planned safety checks, shared knowledge about safety issues and behaviour, new technology and increased automation will reduce the number of injuries.

Corporate working environment goals state that, among other things, the number of work-related injuries resulting in sick leave shall be halved by 2015 compared with 2005, and reporting of serious incidents shall be doubled by 2010 compared with 2005 from 144 to around 324 incident reports per year. The average number of employees in 2008 was 2 322 and the average age was 46 years.

A joint process for risk assessment and risk analysis of the working environment will be implemented in 2009. The aim is to formulate a shared tool for reporting and following up injuries and accidents in order to reduce incidents over time.

**Alcohol and drug-free workplace**

A corporate policy was formed during the year, with additional focus on shared attitudes and measures to ensure that all of Billerud's workplaces are free of alcohol and drugs. The purpose is to create a safer workplace for all employees. The policy was formulated by representatives of the company, trade unions and healthcare staff. The basic concept and aim of rehabilitation is to end misuse and help the employee keep their job. Information and training for all employees will increase awareness of drug and alcohol problems.

**Attracting women into our industry**

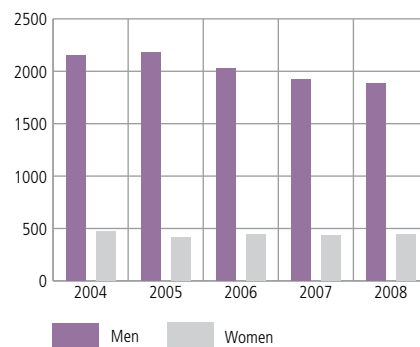
To keep women colleagues and attract more women to the company, Billerud is actively engaged in work to boost gender equality.

The aim is to create the conditions that will enable the company to exploit the full potential of both men and women employees and their competence.

**STRATEGIC HUMAN RESOURCE ISSUES**

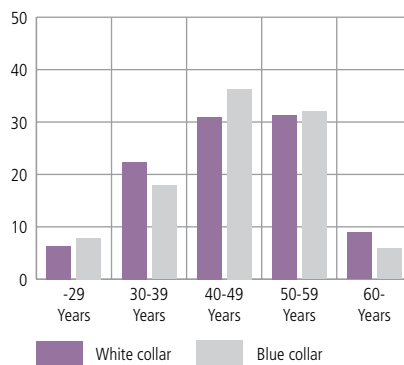
- » Develop leadership based on shared objectives and values.
- » Create the conditions for continuous improvement in safety and the working environment.
- » Enable strategic and individual competence development
- » Increase the number of women working for the company and promote their development

**AVERAGE NUMBER OF EMPLOYEES**



In 2008 the average number of employees fell by 42.

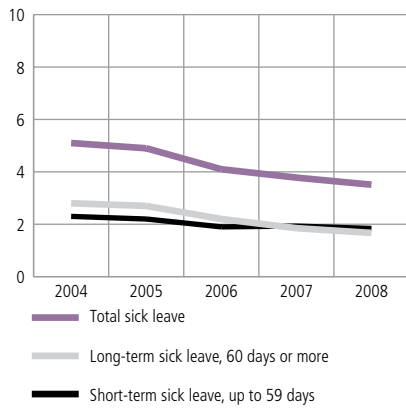
**AGE DISTRIBUTION (%)**



The proportion of employees aged 50 or older was 40% (39) among white collar staff and 38% (34) among blue collar staff. The proportion of employees under 40 was 29% (30) among white collar staff and 26% (30) among blue collar staff.

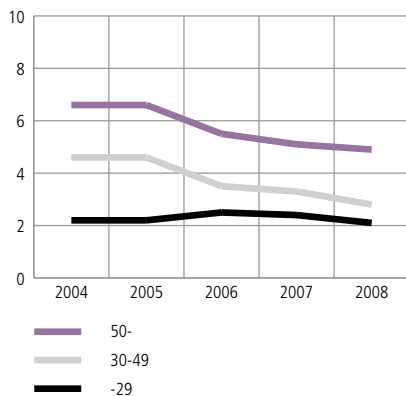


**TOTAL SICK LEAVE AS % OF HOURS WORKED**

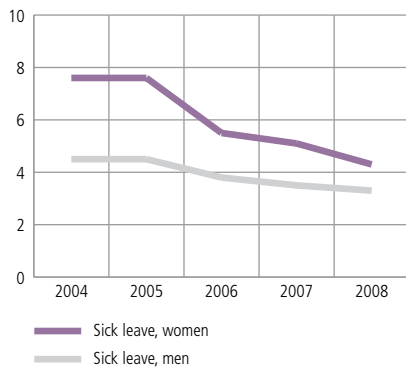


Sick leave has continued to fall and is now just 3.5% of ordinary working hours.

**SICK LEAVE DIVIDED BY AGE AS % OF HOURS WORKED**



**SICK LEAVE DIVIDED BY GENDER AS % OF HOURS WORKED**



Sick leave taken by women continues to fall.

In essence this means changing behaviour and attitudes within the organisation, among managers, colleagues and among women themselves.

Billerud co-operates actively with schools by attending education exhibitions and arranging information evenings for girls. Women are becoming more interested in our industry; among other things over 20 women applied for the advanced professional training course held in Kalix for process operators in the pulp and paper industry.

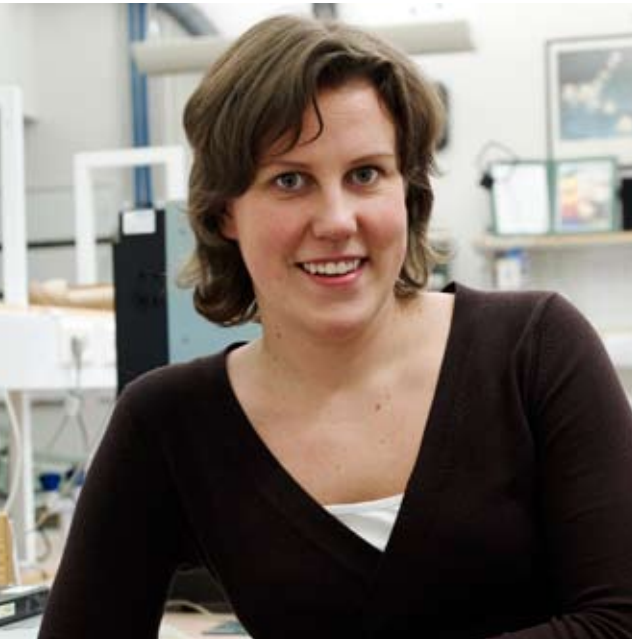
**Mentorships create networks**

Billerud works together with Wiminvest, a network that aims to introduce more women leaders and role models in Swedish business. This is a way to promote and help well-educated women employed by Billerud. Wiminvest's talent development programme runs over 12 months and includes theory and plenty of practice. Two persons from Billerud's senior management team participate in the programme along with representatives from other Swedish businesses to act as mentors and work to create better conditions for young women in the company.

**Focus on women's health**

During the year a 10-week course on women's lifestyle issues was started. Studies show that women employed on collective agreements are the group with the highest amount of sick leave. The aim is to reduce sick leave and increase participants' awareness of how they can influence their own health. The course includes a health check. Of 120 women invited to attend the course one third chose to sign up.

<sup>1)</sup> Both SMI and LI have an index of 100.



*Our work environment shall be dynamic and enable every employee to grow in his or her role. This is how motivation and commitment are created.*



# Billerud Skog

## *secures access to wood raw materials*

Most of the year was characterized by tough competition for wood raw materials that led to high prices for pulpwood. Billerud Skog strengthened its purchasing organisation in Sweden and Lithuania and succeeded in securing supplies for the Group fully according to plan. At the end of 2008 Russia confirmed that it was postponing previously announced increases in export duties for wood, which along with capacity cutbacks in the industry resulted in increased supplies.

**I**n 2008 Billerud's costs for wood raw materials increased by MSEK 273. Prices rose due to a combination of there being several players on the market, including producers of biofuel-based energy, and the announcement of higher Russian customs duties for exports. As a result of unsustainable price levels, production curtailments and shutdowns were carried out in the forest industry in Sweden and other countries,

which together with the delays to the increases in Russian customs duties led to increased supplies of raw materials in the latter part of 2008.

### **More business with smaller forest owners**

Each year Billerud consumes around 5.3 million m<sup>3</sup> of pulpwood and woodchips and around 350 GWh of external biofuel. Deliveries from Sveaskog, which is one of Billerud's largest suppliers, fell slightly during the year while competition for wood raw materials increased. Billerud Skog expanded its purchasing organisation in Sweden to enable more business to be done with smaller forest owners and thus secure delivery volumes.

### **Strengthened purchasing organisation**

Building up contacts with private forest owners is a staff-intensive business. During a two-year period the purchasing organisation has grown from 3 to 27 people. Billerud Skog increased its activity and during the year the company acquired the entire purchasing department at BAC Såg & Hyvleri. This department comprises four wood purchasers and a wood-felling manager. The acquired company also included a stock of standing forest and a register of around 2,000 supplier contacts.





To increase purchasing efficiency, Billerud Skog also introduced computerised support in the form of a digital map system that includes a property register.

#### Majority in Lithuanian purchasing company

During the spring Billerud Skog acquired 70% of the shares in Cebeco Mediena Uab, a Lithuanian purchasing company that trades in pulpwood. The company has four employees and purchases are made from a large number of private landowners and from state-owned forests in Lithuania. Terminal storage and unloading takes place at the port of Klaipeda, which ensures efficient transport by ship to Billerud's papermills. This acquisition is an important part of work aimed at securing sustainable access to wood raw materials in the future for the Billerud Group.

#### Plenty of forest in Sweden

Around 55% of Sweden's total land area consists of forest. Efficient forestry operations in Sweden have resulted in the stock of wood doubling in volume over the past 80 years to reach its current size of 3 billion forest cubic metres. Of total annual growth of around 120 million forest cubic metres, an average of 85 million forest cubic metres are harvested each year. This corresponds to around 70% of annual growth. In 2008 approximately 82 million forest cubic metres were harvested.

#### Control over raw material flow

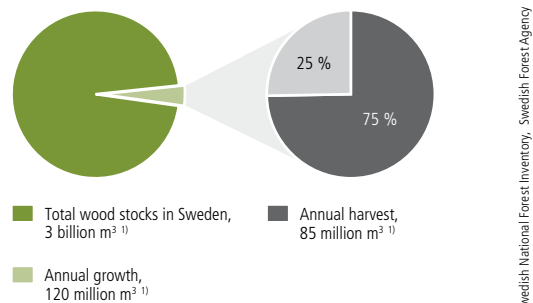
A larger portion of raw material supplies in which Billerud handles the wood all the way from tree stump to mill means that the company increases control over the raw material flow. Purchases of standing forest enable opportunities for exchange business. Pulpwood and biofuel are used in Billerud's production.

Timber is sold locally to sawmills in exchange for cellulose woodchips and pulpwood. The aim is to purchase forest as close to the mill as possible. Billerud is able to exchange pulpwood with other pulp mills in order to cut transport costs. Overall, purchases of standing forest mean improved control of the flow of raw material.

#### Sustainable solution to climate issues

To slow down the greenhouse effect the EU parliament has decided that the amount of renewable energy in

#### FOREST GROWTH AND HARVEST



<sup>1)</sup> Cubic metres of forest (stem volume above the cut including top and bark)

Source: Swedish National Forest Inventory, Swedish Forest Agency

Europe shall amount to 20% by 2020. The aim is that a large amount shall be produced using biomass from the forest. Today, energy production based on biofuel is subsidised through so-called green electricity certificates, which increases competition for forest raw materials. Converting wood into pulp and paper before it is used as raw material for energy increases the economic value of wood, which is why investment in bioenergy should be related to pulp production in order to utilise forest raw material in the most efficient way.

#### Environmental consideration when purchasing materials

This could be prevented if the right measures were implemented at an early stage. Billerud's basic requirements for deliveries of wood raw materials are that the wood comes from sources where harvesting is performed in accordance with the law in the country of origin. Wood should not come from controversial sources such as key biotopes or from forests where there is serious social conflict or from sources where legal preservation is planned.

In addition to its basic requirements, Billerud works with environmental certification in accordance with PEFC and FSC. The Programme for the Endorsement of Forest Certification schemes, PEFC, is an international system of forest certification. The Forest Stewardship Council, FSC, is an international organisation that supports eco-adapted, socially beneficial and economically viable use of the world's forests. The aim is to develop sustainable forestry that has a good balance of forest production with environmental and social interests.



*Sustainable production*  
**from tree**  
*to finished packaging*

Billerud performs sustainable production from tree to finished packaging. Smart energy solutions and sensible use of resources are key factors for the company's profitability as well as for the global climate development.



**T**hanks to the Swedish model for managing forest through replanting, clearing, thinning and fertilizing, forest growth and wood stocks have increased by more than 1% per year. This means, for example, that it now takes around 10 summer days for Swedish forest to produce the raw material that Billerud consumes in its annual production. Increased growth has also meant that the ability of Swedish forest to bind carbon dioxide has gradually increased over the past 100 years as the overall volume of forest has expanded. Today it consumes around 110 million tones of carbon dioxide a year. By working with a natural and renewable raw material, Billerud contributes to creating a sustainable development of the Earth's resources.

#### **Knowledge saves raw material**

Estimates show that Billerud has the potential to save large amounts by using wood even more efficiently.

Therefore, during the year a project was started focused on economy and quality, from wood to finished product. The project includes increased control of wood handling in the woodyard and during the debarking process, which will provide higher fibre quality and fewer wood losses in the debarking plant. Work to increase wood yield is also taking place in the pulp lines.

#### **Smart energy solutions**

Since 2006 Billerud has invested around MSEK 660 in the rebuild of bark boilers and the installation of new steam turbines. These investments have increased self-sufficiency in electricity from around 30% to around 60%. Energy surveys reveal that further efforts will lead to reduced energy consumption and higher self-sufficiency. These efforts have been given priority and will now be implemented.



Demand for forest raw material for production of biofuel has sharpened competition. Billerud's aim is sustainable conversion of wood before the fibre is burnt. In order to utilise existing logistics and coordinate raw material flows, bioenergy initiatives take place in connection with pulp and paper production.

#### **Biofuel powers mills**

Heating energy comes primarily from combustion of the black liquor and bark not used during pulp production, and of branches and tree tops. Around 95% of heating energy and internal electricity production is based on renewable biofuel and the goal is to entirely eliminate the use of fossil fuels.

Billerud's efforts to reduce consumption of mineral oil enables it to sell unused emission certificates over the coming five years.

The production process generates surplus heat that can, where possible, be delivered to nearby homes via the district heating network. Billerud thus reduces dependency on oil and electricity in local communities and thus also helps minimise emissions.

#### **Save 29,000 MWh per year**

Since 2005 Billerud's Swedish mills have been a part of the Programme for Energy Efficiency (PFE), managed by Sweden's Energy Agency. This programme runs for five years and is designed for energy-intensive companies that have a structured approach to energy issues and implement measures to improve energy efficiency. Participation means a reduction in energy tax by SEK 0.005/kWh.

Production machines consume a lot of electrical energy and investigations have resulted in over 30 improvement points that will be implemented before the PFE programme ends in 2009. For Billerud as a whole, improvements mean annual savings of 29,000 MWh, which corresponds to the annual consumption of 1,375 homes heated by electricity.

#### **Reduced chemical consumption**

Billerud's production is based on an understanding of eco-cycles whereby environmental impact can be reduced at every stage. Sensible management of resources is part of the creation of an economically viable and ecologically sustainable production process. The mills focus daily on reducing chemical use.

The chemicals required for pulp production are re-used more than ten times. Before purchase, all new chemicals must be approved by the mill's chemicals group with regard to the environment, working environment and product safety. Billerud supplies paper for food applications, which places large requirements on which chemicals are used.

#### **Long-term environmental work**

The long-term work carried out to reduce emissions has meant that they have been reduced to such an extent that it is no longer possible to see if the surrounding eco-system is affected by activities. This is confirmed in fish samples and by extensive measurements of sediment and growth in the recipient waters.

Production of pulp and paper consumes large amounts of water. Each of Billerud's mills has excellent access to water in nearby lakes and rivers. Once used, the water is treated biologically before being returned to the waterway. No groundwater is used in production.

#### **Environmental impact of our products**

In 2008 Billerud continued to survey the environmental impact of various products from tree to customer. The aim is to establish the Carbon Footprint of our products. This involves measuring direct emissions of greenhouse gases in forest felling, mill production and transport as well as the indirect emissions from electricity generation, among other activities. The surveys also include the ability of growing forest to consume carbon dioxide during photosynthesis. In 2008, IVL, the Swedish Environmental Research Institute, began an independent verification of Billerud's analyses, which follow the CEPI's guidelines for Carbon Footprint analyses.

#### **Rail transport for a better environment**

Transport is a major contributor to global climate change. Billerud's aim is to continue increasing rail transport to reduce emissions of carbon dioxide. The aim is to establish sustainability criteria when procuring transport up to 2010. Billerud already has freight agreements with transport firms which include a requirement to report the environmental impact of vehicles used. Billerud recently established new guidelines for transport. The aim is to switch to eco-friendly alternatives where possible. Today around 70% of the transport of paper from Billerud's mills is by rail.



### Corporate policy guides environmental work

Billerud's environmental work is based on the Group's policy for quality, the environment and the community. This policy explains how Billerud and all company employees view the world and each other. This provides support for each employee of the company while also requiring commitment.

One of the tools for guiding work is the environment management system. This makes it easier to set priorities, monitor and control activities. Each mill has a programme of measures with targets for continual improvement. This includes staff training that covers mill-related and global environmental issues. The Swedish mills are using certified energy management systems.

Billerud is also working at present to establish sustainability targets for the organisation, which are expected to be completed in 2009.

company's sustainability efforts. Billerud follows several international standards. All of the mills have certification in accordance with the ISO 14001 environmental standard, FSC (Forest Stewardship Council, an international body focused on responsible forestry) and PEFC (Programme for Endorsement of Forest Certification). The latter two are international organisations supporting responsible forestry. Billerud had all the permits required for running the business at the volumes produced in 2008. Legal requirements and the demands of public bodies are viewed as a minimum commitment.

### Environmental reports

Extensive environmental reports for each mill are available at [www.billerud.com/environment](http://www.billerud.com/environment) or may be ordered from the mills.

### Eco-labelled sustainability schemes

Certification is an important external assessment of the

FACTS 2008	BEETHAM	GRUVÖN	KARLSBORG	SKÄRBLACKA	
Average no. of employees	135	961	443	647	
<b>CERTIFICATES <sup>1)</sup></b>					
Quality management system – ISO 9001	X	X	X	X	
Environmental management system – ISO 14001	X	X	X	X	
Traceability certificate for wood raw materials – PEFC		X	X	X	
Traceability certificate for wood raw materials – FSC		X	X	X	
Hygiene management system – BRC/IOP		X			
Energy management system – SS 62 77 50		X	X	X	
<b>PRODUCTION CAPACITY, TONNES/YEAR</b>					<b>TOTALT</b>
Packaging & Speciality Paper	45 000	130 000	130 000	240 000	545 000
Packaging Boards		440 000		90 000	530 000
Market Pulp		115 000	170 000	70 000	355 000
<b>Total production capacity</b>	<b>45 000</b>	<b>685 000</b>	<b>300 000</b>	<b>400 000</b>	<b>1 430 000</b>
<b>Permitted production of end products</b>					
- Paper and pulp	<sup>2)</sup>	840 000	290 000	470 000	
- Coating of paper			70 000		

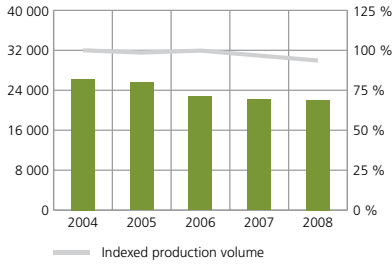
<sup>1)</sup> [www.billerud.com/cert](http://www.billerud.com/cert)

<sup>2)</sup> Permitted production is determined by the amount of emissions and is not defined in tonnes.

# Emissions and fuel consumption

Current figures for emissions and consumption of oil and electricity are presented below.

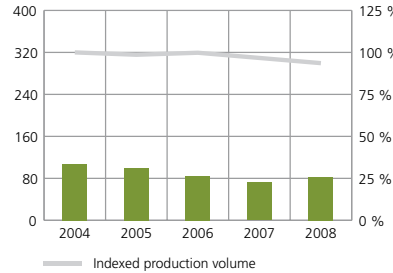
**EMISSIONS OF OXYGEN-CONSUMING SUBSTANCES (TONNES COD) TO WATER**



Source: Billerud 2008

COD is a measure of organic substance in waste water. Substances included in the COD parameter consume oxygen when they break down.

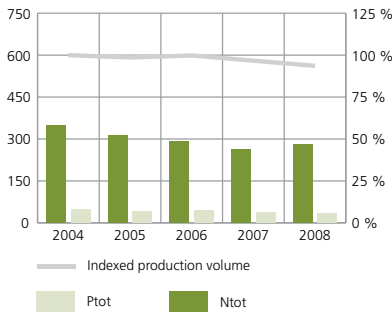
**TOTAL EMISSION OF SULPHUR, EXCLUDING DIFFUSE EMISSIONS, MEASURED AS S (TONNES) TO AIR**



Source: Billerud 2008

Emissions of sulphur compounds comprise sulphur dioxide, hydrogen sulphide and various organic sulphur compounds.

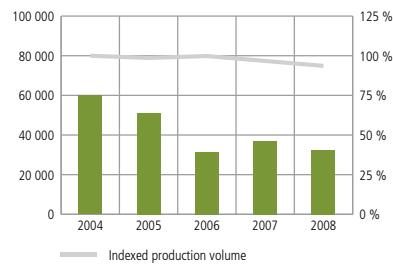
**EMISSIONS OF NITRIC AND PHOSPHOROUS COMPOUNDS (TONNES NTOT, PTOT) TO WATER**



Source: Billerud 2008

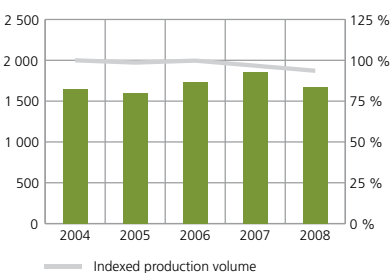
Nitric and phosphorous compounds are nutritive salts that contribute to an excess of nutrients.

**TOTAL CONSUMPTION OF OIL (M³)**



Source: Billerud 2008

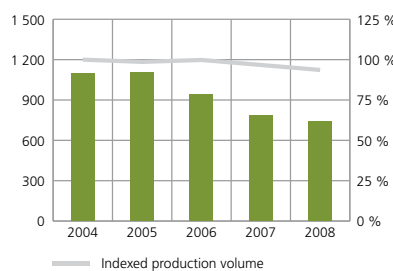
**EMISSIONS OF OXIDES OF NITROGEN (RECLASSIFIED AS TONNES NO<sub>2</sub>) TO AIR**



Source: Billerud 2008

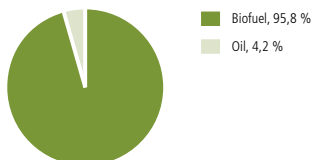
Nitrogen oxides are a group of gases formed during combustion that contribute to acidification and an excess of nutrients.

**PURCHASED ELECTRICITY (GWH)**



Source: Billerud 2008

**FUEL**



Source: Billerud 2008



## Directors' report

The Board and CEO of Billerud AB (publ), corporate identity number 556025-5001, herewith submit the Annual Report and consolidated annual accounts for the 2008 financial year.

**B**illerud's operating profit deteriorated during 2008 and fell to MSEK 289, a decrease of MSEK 301 compared with 2007. Adjusted for one-off items in 2007, the profit decreased by MSEK 286, a fall of 50%. The deterioration was mainly due to continued higher raw material prices and declining sales that were only partly countered by higher sales prices in respective sales currencies.

### Markets

Billerud's business activities comprise the production and sales of niche products within packaging paper and of market pulp.

Customers are primarily in Europe although an increasing share of deliveries is made to other parts of the world.

Billerud's activities are divided into three business areas:

Packaging & Speciality Paper, Packaging Boards and Market Pulp.

The market situation and demand for Billerud's products deteriorated during the year. The effects of the economic downturn and the financial crisis affected demand from the second quarter. The negative effects on demand have gradually increased.

The sharp slowdown in the building industry in Southern Europe has significantly reduced demand for sack paper for cement sacks in the second half of the year. To avoid a build-up in inventories Billerud decided to implement a market-related production stop in the final quarter primarily in the sack paper segment amounting to around 10% of Billerud's total production capacity.

Due to reduced demand and a failure to reduce production sufficiently, the market pulp segment in general is greatly imbalanced, with increasing inventories and falling prices as a result. This situation is particularly significant for long-fibre sulphate pulp and has greatly affected profitability negatively within Billerud's production of market pulp.

The market for Billerud Flute<sup>®</sup>, and kraft paper (MG/MF) for consumer-related products, has been relatively stable, but with increased price pressure in the respective sales currency. Volumes for Billerud's pure white liner and medical kraft paper increased during the year.

Several advances were made in line with Billerud's strategic development and long-term positioning. The launch of Billerud FibreForm<sup>™</sup> was evaluated, Billerud Skog expanded, the operations of Fresh Services was further strengthened and additional resources were channeled into laboratories for research and development of better, sustainable packaging solutions.

During the year, 1,278,000 tonnes of packaging paper were delivered, a decrease of 4% compared with 2007.

During the year, 951,000 tonnes of packaging paper were delivered, a decrease of 56,000 tonnes compared with 2007.

The reduction is mainly related to falling demand for sack paper that resulted in production curtailments during the year, but is also due to a stop in production, for profitability reasons, on a machine at Gruvön that produces interleaving paper for the steel industry.

During the full year 2008, 327,000 tonnes of market pulp were delivered, which was around the same level as in 2007.

### DELIVERY VOLUMES PER BUSINESS AREA

000 tonnes	2008	2007
Packaging & Speciality Paper	482	544
Packaging Boards	469	463
Market Pulp	327	326
<b>Total</b>	<b>1 278</b>	<b>1 333</b>

### NET TURNOVER PER BUSINESS AREA

MSEK	2008	2007
Packaging & Speciality Paper	3 832	3 989
Packaging Boards	2 364	2 171
Market Pulp	1 499	1 556
Currency hedging, etc.	28	42
Other and eliminations <sup>1)</sup>	69	0
<b>Total</b>	<b>7 792</b>	<b>7 758</b>

<sup>1)</sup> Turnover 2008 within "Other and eliminations" relates to external sales from the wood procurement organisation.

### NET TURNOVER PER GEOGRAPHIC AREA

MSEK	2008	2007
Germany	1 155	978
Italy	1 078	1 159
Sweden	745	542
France	423	455
Rest of Europe	2 735	2 990
Rest of the world	1 656	1 634
<b>Total</b>	<b>7 792</b>	<b>7 758</b>

### Net turnover and profits

Net turnover amounted to MSEK 7,792 and was at around the same level as the full year 2007. On average prices increased by 4% compared with 2007.

Operating profit for the full year 2008 amounted to MSEK 289. Compared with the previous year, the profit was MSEK 301 lower. The increase in wood costs due to rising wood prices was MSEK 273 compared with the previous year, which corresponds to around 4% of sales. The effect of reduced volumes and a worse product mix due to reduced demand was MSEK 259.

The difference in operating profit relates primarily to the part of Billerud's sales that refers to market pulp:

## CHANGE IN OPERATING PROFIT PER PRODUCT AREA

Product area (proportion of sales)	Operating profit/loss 2008	Operating margin 2008	Operating profit/loss 2007	Operating margin 2007	Devia- tion
Market pulp (20%)	-145	-10%	81	5%	-226
Packaging paper (80%)	492	8%	534	9%	-42
Currency hedging and other	-58		-25		-33
<b>Total</b>	<b>289</b>	<b>4%</b>	<b>590</b>	<b>8%</b>	<b>-301</b>

The difference in operating profit was due to the following components (MSEK):

## CHANGE IN OPERATING PROFIT

MSEK	
Deliveries and production volumes, including product mix	-259
Sales prices (in local currencies)	310
Higher variable costs	-326
Lower fixed costs	19
Increased depreciation	-34
Earnings reduction due to changed in spot rates	213
Results of currency hedging	-224
<b>Total change in operating profit</b>	<b>-301</b>

The increase in variable costs is mainly due to an MSEK 273 increase in wood prices, but also due to increased prices for chemicals and for electricity and energy. Fixed costs have decreased mainly due to savings measures that included increased utilisation of internal resources during the planned maintenance stop.

## SUMMARISED PROFIT AND LOSS ACCOUNTS

	2008	2007
Net turnover, MSEK	7 792	7 758
Operating profit/loss, MSEK	289	590
Operating margin, %	4	8
Profit/loss before tax, MSEK	124	473
Net profit/loss, MSEK	152	336
Earnings per share, SEK	2.96	6.52

Net financial items were MSEK -165, which meant an increased net expense of MSEK 48 compared with 2007, primarily due to higher interest rates.

Earnings before tax amounted to MSEK 124. Tax for the year was MSEK 28. Tax for the year includes a positive effect of recalculating deferred tax liabilities at the end of the year to the lower level of Swedish corporate tax, 26.3%, which came into effect at the start of 2009. Prior to this adjustment, the tax cost for the year was MSEK 42, corresponding to a tax rate of 34%.

Return on shareholders' equity in the period was 5% (12) and the return on capital employed was 5% (11). The Board will propose to the Annual General Meeting that the profit be used to strengthen the company's equity and that no dividend be paid for 2008.

## OPERATING PROFIT/LOSS AND MARGIN PER BUSINESS AREA

	2008		2007	
	MSEK	%	MSEK	%
Packaging & Speciality Paper	244	6	355	9
Packaging Boards	248	10	179	8
Market Pulp	-145	-10	81	5
Currency hedging etc.	28		42	
Other and eliminations	-86		-67	
<b>Total</b>	<b>289</b>	<b>4</b>	<b>590</b>	<b>8</b>

## Business area development

*Packaging & Speciality Paper*

Compared with 2007, the operating profit decreased by MSEK 111, or 31%, to MSEK 244, mainly due to lower volumes for sack paper.

*Market development*

The sharp slowdown in the building industry in Southern Europe has significantly reduced demand for sack paper for cement sacks in the second half of the year. To avoid a build-up in inventories Billerud decided in the fourth quarter to implement a market-related production stop primarily in sack paper. As a result the order book has stabilised but remains at an unsatisfactory level. Volumes previously switched to Europe are now being switched back to non-European markets. This switch takes time as some of these markets are also seeing the effects of lower demand, inventory utilisation and thus increased competition. In addition to market-related stops, permanent capacity closures were announced for sack paper in the final quarter, which may in the longer term help the market retain balance.

Demand and orders for kraft paper for the food and medical segments remained stable and unchanged at the end of the year.

The price situation in general indicates a weak downward trend in local currencies, although with variations between markets and product areas. Prices for medical paper have risen slightly. Continued weakening of the business cycle inside and outside Europe in coming quarters may further affect prices and the market mix negatively within the business area.

*Packaging Boards*

Compared with the same period last year, the operating profit increased by MSEK 69, or 39% to reach MSEK 248, mainly due to higher prices and lower fixed costs.

*Market development*

Demand for Billerud Flute® (100% virgin fibre S/C fluting) was relatively stable at the end of the year. The order situation at the end of the year was stable but prices in local currencies showed a slight downward tendency. The market for fluting based on recycled fibre and for corrugated board materials continued to be characterised by excess supply.

Delivered volumes of Billerud's fully-bleached virgin fibre-based liner increased during the year despite there currently being surplus capacity of recycled fibre-based liner in Europe. Demand for Billerud's grades of liquid board was stable.

*Market Pulp*

Compared with last year, the operating profit fell by MSEK 226, due to lower prices and higher variable costs.





### Market development

The pulp market was unbalanced at the end of the year. The capacity reductions announced on the market have not yet resulted in a reduction in pulp inventories globally, and inventories continued to rise up to November. The increase in inventories peaked and then fell slightly in December. The market price for long-fibre sulphate pulp (NBSK) fell during the year from USD 865 per tonne to around USD 600. Excess supply meant that spot prices were occasionally at much lower levels. During the final quarter 4% of annual capacity of long-fibre sulphate pulp, or around 850,000 tonnes was closed down, and closure of a further 250,000 tonnes per year has been announced.

### Investments and capital employed

Gross investment amounted to MSEK 622 (657).

In 2008 Billerud AB acquired 70% of the shares in the Lithuanian company Cebeco Mediena Uab, which has annual sales of around MSEK 100. The company trades in pulpwood and will act as a purchasing company for Billerud in the Baltic states. Billerud Skog AB also acquired the timber organisation from BAC Såg & Hyvleri AB. Billerud Skog thus gains a comprehensive organisation with a broad base in Norrbotten.

Depreciation in 2008 amounted to MSEK 507 (473).

Billerud's capital employed amounted to MSEK 5,255 as of 31 December 2008, compared with MSEK 5,506 on 31 December 2007.

The return on capital employed over the most recent 12 months was 5%, compared with 11% for the full year 2007. If the effects of currency hedging are not included, the return on capital employed over the most recent 12-month period was 9% (11).

The return on shareholders' equity after tax was 5% (12).

### Cash flow and financial position

Cash flow from current activities in 2008 amounted to MSEK 791, compared with MSEK 730 last year. The increase was mainly due to a positive change in working capital.

Operating cash flow amounted to MSEK 170, compared with MSEK 74 in 2007. The dividend for 2007 of SEK 3.50 per share, a total of MSEK 180, was paid out in May 2008.

Interest-bearing net debt on 31 December 2008 was MSEK 2,617, compared with MSEK 2,607 as of 31 December 2007. The Group's net debt/equity ratio at the end of the period was 0.99, compared with 0.90 at the end of 2007. According to Billerud's financial targets, the ratio should be between 0.60 and 0.90.

#### SUMMARY OF CASH FLOW ANALYSIS

MSEK	2008	2007
Operating activities	791	730
Investing activities	-621	-656
Operating cash flow	170	74
Dividend	-180	-180
Other	0	12
Change in net debt	-10	-94

### Significant risks and uncertainties

Billerud's products are generally dependent on the business cycle in terms of both price development and delivery volumes. The Group is exposed to changes in currency exchange rates because most of the revenues are invoiced in foreign currency while costs are incurred in SEK.

Billerud's mills have higher capacity for production of sulphate pulp than is required for production of packaging paper. To produce in a cost-effective way, Billerud is largely dependent on being able to sell surplus sulphate pulp as market pulp. The pulp market is currently out of balance and prices are unsatisfactorily low, and sales of market pulp are therefore making a loss. If the pulp market stays unbalanced and costs remain unchanged for a lengthy period, Billerud's financial position may deteriorate.

For an analysis of business sensitivity and further details of risks, see pages 57-61.

On 10 December 2007 the Swedish Environmental Protection Agency announced that it was fining Billerud MSEK 19 for incorrect reporting of emission rights utilised in 2006. Billerud's assessment is that the company has fulfilled its commitments and that a penalty of MSEK 19 is neither proportionate nor backed by law. Billerud has appealed against the decision and the only provision in the 2007 accounts relating to this matter is for an assessed late payment charge of SEK 80,000. In the third quarter of 2008 a similar case was considered by the environmental court in Växjö and the defendant was required to pay a fine. This verdict is not prejudicial and Billerud considers that it does not affect the company's original assessment.

### Cost reduction measures - energy

Billerud has the capacity to generate around 0.9 TWh of electricity from its own production process out of a total requirement of 1.6 TWh. The remainder is currently purchased on the electricity market.

In May 2007 Billerud signed a ten-year fixed-price agreement for electricity supplies with Vattenfall. The agreement covers basic power of around 0.4 TWh per year for the period 2008 to 2017. Due to the agreement, Billerud has secured 80% of electricity requirements in a satisfactory manner with a balance between internal production and long-term supply agreements. The remainder will be purchased on spot markets or be covered by ongoing energy efficiency improvements.

### Tax position

The Group's effective tax rate is normally about 28%, i.e. equal to the Swedish statutory tax rate up to 2008. From 2009 this rate was cut to 26.3%. The tax cost for 2008 was MSEK 28. This includes the positive effect of restating deferred tax liabilities at the end of the year to the lower tax rate of 26.3%. Prior to this adjustment, the tax cost for the year was MSEK 42, corresponding to a tax rate of 34%.

### Parent company

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

Net turnover in 2008 amounted to MSEK 3,448 (3,333).

The operating profit was MSEK 94 (141), a fall of MSEK 47 compared with last year, mainly due to higher variable costs. Earnings include dividends received from subsidiaries amounting to MSEK 4 (438).

The parent company hedges both its own net currency flows, and those of the Group. The parent company's results include the results of these hedging measures. This result amounted to MSEK -208 (16). Results include MSEK -208 (47) in operating profit/loss and MSEK 0 (-31) in net financial items.

Investment in tangible and intangible fixed assets excluding shares amounted to MSEK 248 (364). The average number of employees was 1,011 (1,061). Cash and bank accounts including short term investments amounted to MSEK 443 (652).

### Environment and permit issues

In accordance with Swedish and UK environmental legislation, Billerud has three operations in Sweden and one in the UK that require permits. These permits apply for the production of pulp and paper. Billerud has all permits necessary to conduct operations at the volumes produced in 2008.

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

No new permits were awarded in 2008. Billerud's Swedish mills have been awarded emission rights for carbon dioxide within the EU. The allocation for the second three-year period, starting in 2008, has exceeded the actual emission levels.

### Long-term incentive programme (LTIP 2007)

The 2007 AGM agreed to introduce a long-term incentive programme for Billerud and a related transfer of shareholdings. The programme comprises a share matching programme for all employees involving so-called matching shares, and an incentive scheme with so-called performance shares for senior executives and other key individuals within the Billerud Group. The main purpose of the incentive programme is to strengthen Billerud's ability to retain and motivate staff. The scheme aims to help Billerud achieve its financial targets and comes into effect as previous schemes come to an end. The purpose of the performance share scheme is to encourage senior executives and other key individuals, whose activities have a direct impact on Billerud's earnings, profitability and growth in value, by linking their interests and perspective with those of the company's shareholders.

In addition to continued employment at Billerud, the option to buy performance shares is linked to financial performance. In 2008 this means that Billerud's operating margin remains between 8 and 12% and be above certain comparable companies. In 2007-2009 overall Billerud's total return to shareholders shall exceed the total return for certain comparable paper industries in the Nordic region.

Within the framework of the scheme, Billerud's employees bought 58,527 shares at a price per share of SEK 104.50 from Billerud during May 2007. An additional maximum 133,776 shares may be acquired during the remaining period of the scheme. The expected outcome by the end of the programme is 78,543 shares. This estimate is based on forecast staff turnover and expected utilisation.

The cost of the scheme in accordance with IFRS is calculated at MSEK 4. For the period January-December 2008 net earnings were affected by MSEK 0.9 (0.7).

### Process efficiency and further measures to improve efficiency

During the second half of 2007 work started aimed at identifying further efficiency measures aimed at reducing Billerud's variable costs. This work included, among other things, a review of wood consumption, recipe and product specifications, the production mix, and the identification of further opportunities to improve efficiency within production. Alongside these efforts, there has been a focus on identifying additional improvements in efficiency of administration within the One Billerud project, and a review of extra investments in energy use.

During the first quarter of 2008 a decision was taken to carry out a programme of identified cost savings within the business based on the potential identified. The implementation of this programme is expected to generate an annual effect of MSEK 150 on earnings compared with cost levels in 2007 and it requires an investment of MSEK 50. The annual rate of implementation at the time of decision was calculated at around MSEK 50 by the end of 2008 and MSEK 150 by the end of 2009. Work has progressed better than expected and as of 31 December 2008 savings of MSEK 115 at an annual rate have been achieved within the framework for these measures. The savings are primarily within variable costs attributable to improved energy efficiency and wood consumption.

Ahead of the approaching economic downturn and a fall in demand, a decision has been made to make further cost reductions of MSEK 100 in order to reduce fixed costs. Measures have been initiated during the fourth quarter to achieve this.

### Seasonal variations

#### Maintenance stops

In addition to continuous maintenance while machines are running, Billerud's mills normally require more extensive maintenance at some point during the year. To perform this maintenance, production of pulp and paper is stopped during the so-called maintenance stop. Completed and planned maintenance stops are shown below.

Mill	2009	2008
Gruvön	No stop 2009	Q 4, 7 days
Karlsborg	Q 3, 10 days	Q 3, 10 days
Skärblacka	Q 3, 8 days	Q 2, 8 days

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

The effect of the stoppage on earnings varies depending on the extent of measures carried out, their character and the actual length of stoppage.



### Other seasonal factors

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

### Product and process development

The costs of product and process development, to the extent attributable to research activities, are charged to expenses in the year that they occur and in 2008 they amounted to around 0.6% of Billerud's operating costs.

### Financing

Interest-bearing loans as of 31 December 2008 amounted to MSEK 2,976. This includes utilisation of MSEK 1,168 of a syndicated bank loan (maximum: MSEK 1,800), utilisation of MSEK 1,575 of bond loans, utilisation of MSEK 224 of Billerud's commercial paper programme (maximum: MSEK 1,500) and other interest-bearing liabilities amounting to MSEK 9.

In December 2008 Billerud established a new syndicated credit facility amounting to MSEK 450 for a period of three years. This new facility is not currently being utilised and is designed to cover, among other things, the bond loan worth MSEK 350 that falls due in June 2009. Except for outstanding commercial paper, no other loans fall due in 2009.

The syndicated credit facility established in 2005 and worth MSEK 1,800, of which MSEK 1,168 was utilised as of 31 December 2008, falls due in September 2010. Negotiations concerning renewal of this facility will be initiated in 2009.

Net interest in the first quarter of 2009 is expected to be lower than in the fourth quarter of 2008.

As of 31 December 2008 the maturity structure was as follows:

Loan	Maximum credit (MSEK)	Utilised (MSEK)	Maturity
Syndicated credit facility	1800	1168	Sept 2010
Syndicated credit facility	450	–	Dec 2011
Commercial paper		224	1-6 months
Bond loan 1		350	June 2009
Bond loan 5		150	April 2010
Bond loan 6		250	June 2010
Bond loan 2		150	Sept 2011
Bond loan 4		300	Feb 2013
Bond loan 7		225	June 2013
Bond loan 8		150	March 2016
<b>Total</b>		<b>2 967</b>	

### SUMMARY OF CAPITAL STRUCTURE

	31 Dec. 2008	31 Dec. 2007
Capital employed, MSEK	5 255	5 506
Financing:		
Interest-bearing net debt, MSEK	2 617	2 607
Shareholders' equity, MSEK	2 638	2 898
Net debt/equity ratio, times	0.99	0.90

### Currency hedging

In 2008 net flows were hedged at the following rates: EUR/SEK 9.43 (9.20), USD/SEK 6.43 (6.95), GBP/SEK 12.68 (13.52) and DKK/SEK 1.26 (1.23). Currency hedging had an overall negative effect on profits of MSEK -208 (16) (compared with if no hedging had been performed) in 2008.

Billerud's outstanding currency contracts as of 31 December 2008 had a market value of MSEK -306. The share of contracts corresponding to accounts receivable affected results. Other contracts had a market value of MSEK -211.

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

In December 2008 a decision was made to extend currency hedging of EUR by securing up to a maximum 100% of flows in the first quarter of 2010, which was implemented at an average rate of EUR/SEK 11.01. In January 2009 the hedged level in USD was also increased.

The hedged amount of currency flows and exchange rate for SEK in relation to EUR, USD and GBP are shown in the table below. DKK accounts for just 0.5% of total hedged flows and is therefore not included in the table.

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

Currency		Jan-Jun 2009	Jul-Dec 2009	Total 2009
EUR	Share of flow	86 %	81 %	84 %
	Rate	9.66	9.94	9.80
USD	Share of flow	84 %	32 %	57 %
	Rate	7.02	7.68	7.21
GBP	Share of flow	76 %	18 %	48 %
	Rate	12.16	12.39	12.21

The table shows the situation as of 31 December 2008.

### Share structure

The share capital amounted to SEK 666,788,037.50 divided among 53,343,043 shares as of 31 December 2008. There were 51,491,570 shares on the market.

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

During the second quarter 2008 an offer was made to Billerud shareholders to sell holdings of less than 100 shares without having to pay commission. This scheme resulted in the sale of 1.6 million Billerud shares on the stock exchange and a reduction of around 20,000 in the overall number of shareholders.

### DISTRIBUTION OF SHARES

	31 Dec. 2008
Registered amount of shares	53 343 043
Treasury shares	-1 851 473
Shares on the market	51 491 570

### Financial targets

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

- » Organic growth of around 3% per year
- » Operating margin of 10% over a business cycle
- » Investments shall produce a return well above the company's weighted capital cost
- » Debt/equity ratio of between 0.60 and 0.90
- » Over the business cycle, 50% of net profit to be passed on in dividends to shareholders

The new targets focus more sharply on long-term growth. The target for operating margin creates greater transparency in the governing of the company and a better link between the financial targets communicated internally and those communicated externally.

### The Billerud share

The share capital of Billerud AB is divided among 53 343 043 ordinary shares, of which 1 851 473 are owned by Billerud AB. Each share entitles one vote at the Annual General Meeting. Transfer of shares is not restricted by law or by the company's articles of association. The largest shareholder, Frapag Beteiligungsholding AG, owned 10 690 700 shares, corresponding to 20.8% of shares on the market as of 31 December 2008. No other shareholder owned 10% or more of the total number of shares on 31 December 2008. 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 made by the AGM. No significant agreement to which the company, or other Group company, is a party would come into effect, be changed or cease to be valid if control of the company was changed due to a public acquisition bid. There are agreements 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 follow normal labour market practice.

### Guidelines for remuneration to senior executives

The Board proposes that the 2009 AGM approve the following guidelines for remuneration to senior executives. The term "senior executives" refers to the CEO and other members of the senior management team.

Billerud shall apply market-based remuneration levels and employment terms as necessary in order to recruit and keep managers with the right skills and capabilities to achieve the company's targets. Remuneration forms shall motivate senior managers to do their best to secure shareholders' interests. Remuneration may be in the form of fixed salary, variable salary, long-term incentive scheme and other benefits such as company car and pension. Fixed and variable salary shall be established with regard to skills, area of responsibility and performance. Variable

remuneration shall be based on meeting clearly set targets, and shall be a maximum of a fixed percentage of fixed annual salary and vary between 30 and 45%. The long-term incentive scheme shall primarily be linked to the share price and shall ensure long-term commitment to the company's development. It shall be implemented on market terms. For further information about the existing long-term incentive scheme adopted by the 2007 AGM, see the annual report and the Billerud website. Pension benefits shall either be defined-benefit or defined-contribution plans and will normally give a pension entitlement after age 65. In some cases the retirement age may be reduced, although the minimum retirement age is 62. In the event of dismissal the notification period is normally 6 to 12 months, with the right to severance pay equal to at most 12 months' salary when the company terminates employment.

The CEO's remuneration and other employment terms are proposed by the compensation committee and decided by the Board.

The remuneration and other employment terms of other senior executives are decided by the CEO, following consultation with the compensation committee.

The Board of Billerud is entitled to deviate from these guidelines in an individual case if there is a special reason to do so. See note 24 for 2008 guidelines.

### Proposed allocation of profit

As reported on page 85 of this Annual Report, non-restricted equity in the parent company, Billerud AB, amounted to MSEK 1 480 on 31 December 2008.

According to Billerud's financial goals the dividend shall be 50% of the net profit over a business cycle and the net debt/equity ratio shall be between 0.60 and 0.90 times. At the end of 2008 the company's net debt/equity ratio was 0.99, an increase of 0.09 compared with the end of 2007 and higher than the target range. Considering the increased uncertainty in the global economy in general and the company's markets in particular, it is critical that Billerud reaches its target for the net debt/equity ratio as soon as possible.

Billerud's Board proposes that the earnings per share of SEK 2.96 be used to strengthen the company's equity and that no dividend be paid for 2008. It is therefore proposed that non-restricted equity be carried forward into a new account.

### Outlook

- » There is great uncertainty about market development. The market situation for sack paper and market pulp weakened considerably towards the end of the year, although other segments were relatively stable.
- » A reduction in global inventories to normal levels is needed to restore profitability in the market pulp segment.
- » There are good prospects for relatively stable development in packaging paper segments where Billerud works closely with end-users and is a leader in quality.
- » Cost savings are continuing according to plan and are expected to amount to at least MSEK 250 annually by the end of 2009, while investment levels will be reduced to half during 2009.
- » An improved currency situation and falling prices for wood materials will have positive effects over time.





## Consolidated profit and loss accounts

	Note	2008	2007
<b>MSEK</b>			
Net turnover	1, 23		
Other operating income	2, 34	7 792	7 758
<b>Total operating income</b>	3	15	12
<b>Operating expenses</b>			
Change in inventories		-46	82
Raw materials and consumables		-3 929	-3 734
Other external costs	4	-1 727	-1 776
Staff costs	5	-1 309	-1 277
Depreciation and impairment of tangible fixed assets	10	-507	-473
Profit/loss from participations in associated companies and joint ventures	14	0	-2
<b>Total operating expenses</b>		<b>-7 518</b>	<b>-7 180</b>
<b>Operating profit/loss</b>	2, 34	<b>289</b>	<b>590</b>
<b>Financial items</b>	6		
Financial income		16	18
Financial expenses		-181	-135
<b>Net financial items</b>		<b>-165</b>	<b>-117</b>
<b>Profit/loss before tax</b>		<b>124</b>	<b>473</b>
Taxes	8	28	-137
<b>Net profit/loss for the year</b>		<b>152</b>	<b>336</b>
<b>Earnings per share, SEK</b>	9	<b>2.96</b>	<b>6.52</b>
<b>Earnings per share after dilution, SEK</b>	9	<b>2.96</b>	<b>6.52</b>

Dividend per share is reported in note 17.

## Consolidated balance sheet

MSEK	Not	31 Dec. 2008	31 Dec. 2007
<b>ASSETS</b>	1, 23		
<b>Fixed assets</b>			
Intangible fixed assets	11	74	41
Tangible fixed assets	10	5 727	5 655
Participations in associated companies and joint ventures	14	4	4
Other holdings	15	18	11
Deferred tax receivable	8	1	0
Long-term receivables		0	1
<b>Total fixed assets</b>		<b>5 824</b>	<b>5 712</b>
<b>Current assets</b>			
Inventories	16	1 091	936
Tax receivables		26	8
Accounts receivable		1 294	1 486
Prepaid expenses and accrued income		59	84
Other receivables		185	258
Liquid funds	25	542	718
<b>Total current assets</b>		<b>3 197</b>	<b>3 490</b>
<b>Total assets</b>		<b>9 021</b>	<b>9 202</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	1, 23		
<b>Shareholders' equity</b>	17		
Share capital		667	667
Other paid-in capital		85	85
Reserves		-176	57
Profit brought forward, including year's profit		2 062	2 089
<b>Total shareholders' equity</b>		<b>2 638</b>	<b>2 898</b>
<b>Long-term liabilities</b>			
Interest-bearing liabilities	20	2 396	1 708
Provisions for pension	18	183	173
Other provisions	19	25	25
Deferred tax liabilities	8	1 254	1 369
<b>Total long-term liabilities</b>		<b>3 858</b>	<b>3 275</b>
<b>Short-term liabilities</b>			
Interest-bearing liabilities	20	580	1 444
Accounts payable		1 004	857
Liabilities to associated companies		15	13
Income tax liability		0	6
Accrued expenses and deferred income	22	431	498
Other liabilities		483	194
Provisions	19	12	17
<b>Total short-term liabilities</b>		<b>2 525</b>	<b>3 029</b>
<b>Total liabilities</b>		<b>6 383</b>	<b>6 304</b>
<b>Total shareholders' equity and liabilities</b>		<b>9 021</b>	<b>9 202</b>

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



## Consolidated statement of changes in equity

MSEK	Note	Share capital	Other paid-in capital	Reserves	Profit brought forward, including year's profit	Total shareholders' equity
<b>Opening balance, 1 Jan. 2007</b>		<b>666</b>	<b>79</b>	<b>7</b>	<b>1 926</b>	<b>2 678</b>
Year's change in translation reserve	17			-2		-2
Year's change in hedging reserve	17			72		72
Tax for items reported directly in equity	17			-20		-20
<b>Net changes recognised directly in equity, excluding transactions with equity holders</b>		<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>50</b>
Profit/loss for the year					336	336
<b>Total recognised income, excluding transactions with equity holders</b>		<b>-</b>	<b>-</b>	<b>50</b>	<b>336</b>	<b>386</b>
Sales of Billerud shares, incentive programme					6	6
Market value of incentive programme					1	1
Convertible loans converted into shares		1	6			7
Dividend					-180	-180
<b>Closing balance, 31 Dec. 2007</b>		<b>667</b>	<b>85</b>	<b>57</b>	<b>2 089</b>	<b>2 898</b>

MSEK	Note	Share capital	Other paid-in capital	Reserves	Profit brought forward, including year's profit	Total shareholders' equity
<b>Opening balance, 1 Jan. 2008</b>		<b>667</b>	<b>85</b>	<b>57</b>	<b>2 089</b>	<b>2 898</b>
Year's change in translation reserve	17			2		2
Year's change in hedging reserve	17			-320		-320
Tax for items reported directly in equity	17			85		85
<b>Net changes recognised directly in equity, excluding transactions with equity holders</b>		<b>-</b>	<b>-</b>	<b>-233</b>	<b>-</b>	<b>-233</b>
Profit/loss for the year					152	152
<b>Total recognised income, excluding transactions with equity holders</b>		<b>-</b>	<b>-</b>	<b>-233</b>	<b>152</b>	<b>-81</b>
Market value of incentive programme					1	1
Dividend					-180	-180
<b>Closing balance, 31 Dec. 2008</b>		<b>667</b>	<b>85</b>	<b>-176</b>	<b>2 062</b>	<b>2 638</b>

## Consolidated cash flow statements

MSEK	Note	2008	2007
	25		
<b>Operating activities</b>			
Profit/loss before tax		124	473
Adjustments for non-cash items, etc.		446	374
Tax paid		-28	-15
<b>Cash flow from operating activities before changes in working capital</b>		<b>542</b>	<b>832</b>
<b>Cash flow from change in working capital</b>			
Increase (-)/decrease (+) in inventories		-161	-211
Increase (-)/decrease (+) in operating receivables		309	-331
Increase (+)/decrease (-) in operating liabilities		101	440
<b>Cash flow from operating activities</b>		<b>791</b>	<b>730</b>
<b>Investing activities</b>			
Acquisition of intangible fixed assets		-20	-24
Acquisition of tangible fixed assets		-587	-629
Acquisition of financial fixed assets		-6	-4
Acquisition of operations, net effect on liquid assets		-9	-
Disposal of tangible fixed assets		1	1
<b>Cash flow from investing activities</b>		<b>-621</b>	<b>-656</b>
<b>Cash flow after investing activities</b>		<b>170</b>	<b>74</b>
<b>Financing activities</b>			
Dividend		-180	-180
Sales of Billerud shares, incentive programme		-	6
New borrowings		1 272	402
Repayment of borrowings		-1 444	-27
<b>Cash flow from financing activities</b>		<b>-352</b>	<b>201</b>
<b>Cash flow for the year</b>		<b>-182</b>	<b>275</b>
<b>Liquid assets, opening balance</b>		<b>718</b>	<b>443</b>
<b>Exchange rate difference in liquid assets</b>		<b>6</b>	<b>0</b>
<b>Liquid assets, closing balance</b>		<b>542</b>	<b>718</b>





## *Profit and loss accounts for parent company*

	Note	2008	2007
<b>MSEK</b>	1, 23		
Net turnover	2	3 448	3 333
Change in inventories		-37	62
Other operating income	3	32	28
<b>Total operating income</b>		<b>3 443</b>	<b>3 423</b>
<b>Operating expenses</b>			
Raw materials and consumables		-1 664	-1 614
Other external costs	4	-861	-883
Staff costs	5	-597	-574
Depreciation and impairment of tangible fixed assets	10	-227	-211
<b>Total operating expenses</b>		<b>-3 349</b>	<b>-3 282</b>
<b>Operating profit/loss</b>		<b>94</b>	<b>141</b>
<b>Financial items</b>	6		
Income from participations in Group companies		4	368
Income from participations in associated companies		-	-
Interest income and similar items		13	22
Interest expenses and similar items		-164	-163
<b>Total financial items</b>		<b>-147</b>	<b>227</b>
<b>Profit/loss after financial items</b>		<b>-53</b>	<b>368</b>
Appropriations	7	1 900	-1 900
<b>Profit/loss before tax</b>		<b>1 847</b>	<b>-1 532</b>
Taxes	8	-482	531
<b>Net profit/loss for the year</b>		<b>1 365</b>	<b>-1 001</b>

## Balance sheet for parent company

MSEK ASSETS	Not 1, 23	31 Dec. 2008	31 Dec. 2007
<b>Fixed assets</b>			
Intangible fixed assets	11	21	41
Tangible fixed assets	10	2 942	2 903
Participations in Group companies	12	1 153	1 125
Participations in associated companies and joint ventures	14	6	6
Other holdings	15	14	11
Receivables from Group companies	13	–	–
Other long-term receivables		26	28
<b>Total fixed assets</b>		<b>4 162</b>	<b>4 114</b>
<b>Current assets</b>			
Inventories	16	341	369
Accounts receivable		1 091	1 417
Receivables from Group companies		1 037	1 603
Prepaid expenses and accrued income		30	39
Other receivables		53	23
Cash and bank accounts	25	443	652
<b>Total current assets</b>		<b>2 995</b>	<b>4 103</b>
<b>Total assets</b>		<b>7 157</b>	<b>8 217</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	1, 23		
<b>Shareholders' equity</b>	17		
<b>Restricted equity</b>			
Share capital (53 343 043 ordinary shares)		667	667
Legal reserve		149	149
<b>Total restricted equity</b>		<b>816</b>	<b>816</b>
<b>Non-restricted equity</b>			
Share premium reserve		9	9
Profit/loss brought forward		106	1 541
Net profit/loss for the year		1 365	-1 001
<b>Total non-restricted equity</b>		<b>1 480</b>	<b>549</b>
<b>Total shareholders' equity</b>		<b>2 296</b>	<b>1 365</b>
<b>Untaxed reserves</b>	26	–	<b>1 900</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	18	181	172
Provisions for taxes	8	618	235
Other provisions	19	7	12
<b>Total provisions</b>		<b>806</b>	<b>419</b>
<b>Long-term liabilities</b>			
Syndicated loan	21	1 082	36
Bond loan	21	1 225	1 575
Other interest-bearing liabilities	21	3	–
Liabilities to Group companies		72	466
<b>Total long-term liabilities</b>		<b>2 382</b>	<b>2 077</b>
<b>Short-term liabilities</b>			
Liabilities to credit institutions	21	574	1 444
Other interest-bearing liabilities	21	3	–
Accounts payable		266	414
Liabilities to Group companies		558	224
Liabilities to associated companies	30	6	13
Income tax liabilities		0	–
Accrued expenses and deferred income	22	193	204
Other liabilities		73	157
<b>Total short-term liabilities</b>		<b>1 673</b>	<b>2 456</b>
<b>Total shareholder's equity and liabilities</b>		<b>7 157</b>	<b>8 217</b>
<b>Pledged securities and contingent liabilities of parent company</b>			
Pledged securities	29	26	29
Contingent liabilities	29	121	131



## Statement of changes in parent company equity

	Restricted equity		Non-restricted equity			Total shareholders' equity
	Share capital	Legal reserve	Share premium reserve	Profit brought forward	Year's profit/loss	
<b>MSEK</b>						
Opening balance, 1 Jan. 2007	666	149	3	-58	1 089	1 849
Previous year's profit/loss brought forward				1 089	-1 089	-
Group contribution received, after tax effect				684		684
<b>Net changes recognised directly in equity, excluding transactions with equity holders</b>	-	-	-	684		684
Profit/loss for the year					-1 001	-1 001
<b>Total recognised income, excluding transactions with equity holders</b>	-	-	-	684	-1 001	-317
Sales of Billerud shares, incentive programme				6		6
Convertible loans converted into shares	1		6			7
Dividend				-180		-180
<b>Closing balance, 31 Dec. 2007</b>	<b>667</b>	<b>149</b>	<b>9</b>	<b>1 541</b>	<b>-1 001</b>	<b>1 365</b>

	Restricted equity		Non-restricted equity			Total shareholders' equity
	Share capital	Legal reserve	Share premium reserve	Profit brought forward	Year's profit/loss	
<b>MSEK</b>						
Opening balance, 1 Jan. 2008	667	149	9	1 541	-1 001	1 365
Previous year's profit/loss brought forward				-1 001	1 001	-
Group contribution paid/received, after tax effect				-254		-254
<b>Net changes recognised directly in equity, excluding transactions with equity holders</b>	-	-	-	-254		-254
Profit/loss for the year					1 365	1 365
<b>Total recognised income, excluding transactions with equity holders</b>	-	-	-	-254	1 365	1 111
Dividend				-180		-180
<b>Closing balance, 31 Dec. 2008</b>	<b>667</b>	<b>149</b>	<b>9</b>	<b>1 06</b>	<b>1 365</b>	<b>2 296</b>

## Cash flow statement for parent company

	Note	2008	2007
<b>MSEK</b>	25		
<b>Operating activities</b>			
Profit/loss after financial items		-53	368
Adjustments for non-cash items, etc.		668	-215
Tax paid		0	0
<b>Cash flow from operating activities before changes in working capital</b>		<b>615</b>	<b>153</b>
<b>Cash flow from change in working capital</b>			
Increase (-)/decrease (+) in inventories		28	-73
Increase (-)/decrease (+) in operating receivables		-502	-80
Increase (+)/decrease (-) in operating liabilities		-282	70
<b>Cash flow from operating activities</b>		<b>-141</b>	<b>70</b>
<b>Investing activities</b>			
Acquisition of intangible fixed assets		-	-24
Disposal of intangible fixed assets		18	-
Acquisition of tangible fixed assets		-264	-340
Disposal of tangible fixed assets		0	1
Acquisition of shares in Cebeco Mediana Uab		-8	-
Acquisition of financial fixed assets		-17	-76
Change in other financial assets		2	-
Repayment of financial receivables, Group companies		-	180
<b>Cash flow from investing activities</b>		<b>-269</b>	<b>-259</b>
<b>Cash flow after investing activities</b>		<b>-410</b>	<b>-189</b>
<b>Financing activities</b>			
Dividend		-180	-180
Sales of Billerud shares, incentive programme		-	6
New borrowings		1 269	777
Repayment of borrowings		-1 838	-27
Settlement of other financial liabilities		-	-
Settlement of Group contributions		950	-
<b>Cash flow from financing activities</b>		<b>201</b>	<b>576</b>
<b>Cash flow for the year</b>		<b>-209</b>	<b>387</b>
<b>Liquid assets, opening balance</b>		<b>652</b>	<b>265</b>
<b>Liquid assets, closing balance</b>		<b>443</b>	<b>652</b>





## Risk management and sensitivity analysis

Billerud is affected by the general economic climate, changes in exchange rates and other factors that are more specific for the company. Billerud endeavours to minimise risk through preventive measures. If this is not possible, hedging or insurance are implemented. The following pages describe the factors that are significant in assessing Billerud's operating risk and financial risk.

**B**illerud's products are affected by the business cycle, both in terms of pricing and delivery volumes. Market pulp, which accounts for around 20% of Billerud's sales, is much more sensitive to the business cycle than packaging paper.

The description below applies to both the Group and parent company. Specific differences concerning the parent company are explained under the heading "Risk management, parent company".

### Customer structure and customer credit

Billerud has around 1 250 active customers. The five largest account for around 9% of the Group's sales. Most customers are packaging converters making bags, sacks, cases and other packaging based on Billerud packaging paper. Their relations with Billerud often go back many years. Around 80% of sales are in Europe.

Nearly all sales are based on framework agreements that specify general delivery conditions and planned volumes. The price of market pulp is determined by the current market price. There are various pricing models for packaging paper. For example, there can be a fixed price for 12 months or a floating price.

A small portion of sales is spot sales, which do not have an accompanying framework agreement. Spot prices can be higher or lower than framework agreement prices and mainly occur for market pulp.

Customer credit varies depending on the market and the product.

At the end of 2008 customer credit amounted to MSEK 1 294 which represents an average customer credit period of 63 days. The Group has developed a credit policy to handle customer credit. There is also a credit insurance agreement that covered around 85% of sales in 2008. The fair value of accounts receivable and supplier credit are in agreement with reported value.

### PROVISIONS FOR DOUBTFUL ACCOUNTS RECEIVABLE

MSEK Group	2008	2007
Provisions, opening account	7	8
Reservation for expected loss	9	4
Actual loss	-1	-5
Provisions, closing balance	15	7

### AGE ANALYSIS, ACCOUNTS RECEIVABLE

MSEK Group	2008			2007		
	Gross	Impairment	Net	Gross	Impairment	Net
Not yet due	1 219	-2	1 217	1 330	-1	1 329
Due for payment 0-30 days	51	-0	51	135	-1	134
Due for payment >30-90 days	22	-1	21	21	-1	20
Due for payment >90-180 days	4	-0	4	2	-0	2
Due for payment >180-360 days	11	-10	1	2	-1	1
Due for payment >360 days	2	-2	0	3	-3	0
<b>Total</b>	<b>1 309</b>	<b>-15</b>	<b>1 294</b>	<b>1 493</b>	<b>-7</b>	<b>1 486</b>

### Credit risk/counterpart risk

Among other things, credit risk refers to when a counterpart in a financial transaction cannot meet commitments. To avoid this, the company's finance policy defines how any excess liquidity may be invested. Investment may only be made in SEK and only with counterparts that have a high rating, i.e. Standard and Poor's minimum A-, A-1 and K - 1 ratings or Moody's minimum A3 and Prime-1, and with the Swedish state, SBAB and other named banks with which Billerud has regular commercial contacts. The interest rate refixing period shall not exceed six months.

When calculating credit risks the positive effects on profit and loss of derivative contracts with counterparts are also included. Billerud's maximum credit risk exposure corresponds to the fair value of financial assets, in accordance with note 23.

### Currency exposure

Billerud is structurally exposed to currency changes because most of the company's income is invoiced in foreign currency, or, where it is in SEK, it is closely related to market prices in other currencies. Currency risk is the effect on earnings caused by a change in the exchange rate. The Group's net currency exposure is considerable and is mainly restricted to USD, EUR and GBP. Most operating costs are in SEK, except primarily for freight costs and costs for imported wood and chemicals, which are mainly affected by EUR and USD. Billerud's financial information is reported in SEK.

To reduce the consequences of currency exposure, Billerud continuously hedges forecast net flows in foreign currencies. According to the financial policy adopted by the Board, around 50% of flows over the coming 12 months will always be hedged. This figure may rise to 100% of flows over the coming 15 months if it is suitable with regard to profitability and the currency situation. At the end of 2008, currency contracts not yet reported in the income statement amounted to a nominal MSEK 3 439 (3 137), of which contracts amounting to MSEK 2 833 (2 995) will be reported in the 2009 income statement. The corresponding net currency flow in 2009 in the Group is estimated at around MSEK 5 000.

Billerud also has assets in foreign currency through its ownership of Billerud Beetham Ltd.

Net assets in GBP are partly hedged by loans in the same currency. A translation effect arises when the subsidiaries' financial statements in other currencies than SEK are translated into SEK.

Control of Billerud's business areas is based on current exchange rates to achieve continual adjustments of commercial terms with regard to the current currency situation.

The main target for each business area is the operating margin, which is measured excluding the earnings effects of hedging currency flows. From 2007 the earnings effects of exchange rate changes in operating capital are being managed centrally and matched against earnings for currency hedging.

Forward contracts not corresponding to underlying accounts receivable on the closing date have not affected the profit and loss accounts.

<b>Nominal amount of currency derivative</b>	<b>2008</b>	<b>2007</b>
MEUR	303	306
MUSD	136	130
MGBP	11	10
MDKK	14	11
Cross currency swaps, MEUR	–	12
<b>Market value of currency derivatives, MSEK</b>	<b>2008</b>	<b>2007</b>
Currency forward contracts	-306	14
Cross currency swaps	–	0

#### Translation exposure

As of 31 December 2008, capital employed in foreign currency amounted to MSEK 148 of which MSEK 157 was financed with shareholders' equity.

MSEK	Capital employed	Net debt	Net assets
GBP	143	52	91
EUR	1	-55	56
Other currencies	4	-6	10
<b>Total</b>	<b>148</b>	<b>-9</b>	<b>157</b>

Of total net assets in GBP before tax, amounting to MSEK 126, 25% have been hedged through loans raised by the parent company. There is no hedging of net assets in other currencies.

#### Costs

An approximate breakdown of Billerud's costs is presented in the table below.

#### BREAKDOWN OF OPERATING COSTS

<b>2008</b>	<b>(%)</b>
Wood raw materials	35
Staff	17
Freight to customers	11
Chemicals	8
Purchased services	5
Other input materials	4
Depreciation	7
Energy	5
Other	8
<b>Total</b>	<b>100</b>

#### Wood raw materials

Billerud does not own forest and buys wood raw materials at market rates from a few major suppliers. Billerud Skog AB is responsible for the Group's wood purchases. Purchases are made from a few, major suppliers, Stora Enso, Holmen, Sveaskog, etc, and from a large number of private forest owners in northern Sweden. Most wood is purchased locally, close to the mills. Around 25% of wood requirements are imported. Most imported wood comes from the Baltic states. In recent years prices have risen. Prices are mainly affected by demand in the pulp industry, which means that changes in production in the Swedish pulp industry can lead to changed costs for wood raw materials over time. Other applications, such as sawn timber products and wood fuel, may also affect pulpwood prices indirectly. The price of imported wood is also affected by changes in customs duties.

#### Staff

Wage costs are primarily regulated by collective agreements, wage taxes and other related legal requirements. In recent years wage costs covered by agreements have risen by around 3% per year.

#### Freight to customers

Around 30% of freight from Billerud's mills is sent by railway, the rest by sea or road. Freight costs are regulated annually via agreements. Freight costs are affected by competition between freight companies, energy prices and wage costs.

#### Chemicals

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



### **Purchased services**

Purchased services mainly comprise maintenance services in connection with the annual maintenance stoppages and regular maintenance. The price of services is primarily affected by wage cost developments in Sweden.

### **Other input materials**

Other input materials include spare parts, maintenance materials, packaging material and machine covers. Prices for these items historically have been stable.

### **Energy**

Billerud consumes electricity, oil, biofuel and other types of energy such as gas. In 2008 Billerud purchased around 0.8 TWh of electricity from external suppliers. By the end of 2008, electricity hedging contracts had a market value of MSEK 0. In 2009, out of a forecast total of 0.8 TWh, only a very minor part of electricity consumption has been hedged via derivatives. Billerud also produces electricity for its own consumption. The biofuel-based share of electricity production entitles the company to electricity certificates, which may be sold continually.

In 2005 and 2006 Billerud carried out a comprehensive investment programme in the energy sector. As a consequence the amount of purchased electricity has fallen from 1.2 TWh to 0.8 TWh from 2007. Billerud's self-sufficiency in electricity is thus around 60%. In May 2007 Billerud signed a 10-year supply agreement for electricity at fixed prices with Vattenfall. The agreement covers basic power requirements of around 0.4 TWh per year for the period 2008-2017. The agreement means that from 2008 around 80% of Billerud's electricity requirements have been secured in a satisfactory way with a balanced combination of internally generated electricity and external supplies covered by contract. The remainder will be bought on the spot market or covered by energy savings. Thanks to the investment in internally generated energy and the long-term supply agreement, Billerud's exposure to spot prices has been reduced considerably.

### **Seasonal variations**

Billerud's activities are relatively unaffected by seasonal variations. Order flows are usually highest during the spring but because available capacity determines deliveries, they are relatively constant over the year. Annual maintenance stoppages have the largest impact, as each mill stops production for around one week. This means that deliveries are lower for a period before, during and after the stoppage. Billerud's costs are also relatively stable across the year. Fixed costs are slightly lower in the summer when fewer maintenance jobs are performed. Energy costs are slightly higher in the winter due to higher energy consumption and higher prices, especially for electricity.

### **Production facilities**

All of Billerud's production facilities operate continually, 24 hours a day, every day of the year. The only planned stoppage is the annual maintenance stoppage at each mill. Continual operation means greater efficiency in the utilisation of capital, but it also raises sensitivity for unplanned disruptions. Major efforts are therefore focused on preventive maintenance and other measures to ensure that operations are not disrupted. To protect Billerud in the event of serious breakdowns and other production problems the facilities are insured to cover the cost of replacing them. Insurance also covers the loss of earnings resulting from production problems. Packaging paper is normally only produced after a customer has placed an order. Market pulp is produced without customer orders but based on one-year contracts. These contracts don't require the customer to buy, nor Billerud to deliver. Billerud usually has a stock of finished products representing four weeks of production.

### **Environmental risks**

Billerud's production of pulp and paper entails considerable environmental aspects. The company consumes raw materials, primarily wood, and uses energy in the production process. The company uses a large amount of water, but returns it in treated form rather than consuming it. There are also emissions of various substances to air and water. The production process also results in certain types of waste. Billerud's activities in Sweden require permits from an environmental court. Verdicts regulate both maximum production levels and maximum environmental impact in the form of emissions, primarily to air and water. There can also be other requirements.

One concrete environmental risk is the risk that Billerud cannot meet the terms in its production permit during normal production. One solution would be to limit production for the time it took to resolve the problem. This would lead to a production shortfall for a period and costs for new investment or other costs. If permit terms are temporarily broken due to an error in handling, individuals can be brought to account. Billerud can in such a case be liable for costs for treatment and other costs. Environmental permits must be renewed within a given time.

In Sweden and internationally the trend is towards stricter environmental legislation, which means that new permits often have lower limits for maximum environmental impact. These rule changes can lead to demands for major new investment in order to continue production.

Another environmental risk is the risk of negative reactions from the community, which can also arise even if the company is meeting legal requirements. To ensure that Billerud's environmental impact stays within permitted boundaries and that other negative environmental consequences are restricted, Billerud operates an environmental management system at each mill. The system is certified according to various standards such as ISO.

The system means that environmental aspects are identified and assessed and goals are set with the aim of gradually reducing the negative effects. Training, supplier assessments and extensive follow-up are also included. Follow-up includes daily checks via a large number of measurements and analyses, periodic reviews and an annual audit of the efficiency of the environmental management system.

#### Financial risk management

Great importance is attached to minimising financial risk and interest rate risks when borrowing. Furthermore, the aim is not to be dependent on a single source of finance and to be conservative regarding other parties when investing any surplus liquid assets. Work aimed at reducing financial risks follows the finance policy established by the Board. Responsibility for the Group's financing and financial risk management is centralised at the Group's finance department. The Group's main financial risk exposure comprises foreign currency, financing and interest rate risks. Another financial risk is counterparty risk, or credit risk.

Counterparty terms and risks concerning financial derivatives are also regulated by the company's finance policy. The fair value of these instruments is taken from the stock market and other organised markets. If prices cannot be taken directly an assessment is made using valuation models in which expected cash flow is discounted with current market rates.

#### Financing risk

The financial risk comprises the risk that a demand for a large borrowed amount exists in a tight credit market situation. To ensure that the Group always has access to external financing, the finance department must ensure that short and long-term credit commitments are available. The highest cost-efficiency within established frameworks shall be aimed for. The lender base shall be reasonably diversified so that it is not too dependent on individual sources of financing.

The Group's loan portfolio consists of two syndicated loans and seven bond loans, see further on page 47. The Group also operates a commercial paper programme whereby commercial papers may be issued for up to 12 months. In accordance with the finance policy, loan maturity in an individual year shall not exceed 25% of total borrowings.

Financial investments may only be made in certain types of low-risk instrument and fixed interest terms cannot exceed six months. According to Billerud's financial targets, the net debt/equity ratio shall be between 0.60 and 0.90. The net debt/equity ratio at the end of 2008 was 0.99.

#### Liquidity risk

Through liquidity planning combined with credit limits and loan facilities, the Group ensures that it always has sufficient liquidity. Billerud aims not to have excessive liquid funds in bank accounts.

#### Interest rate risk/market risk

The interest rate risk corresponds to the profit and loss effect that a change in interest rates would cause. The speed with which an interest rate change trend affects profit and loss depends on the interest rate refixing periods of the loans and investments. If the Group's entire borrowing portfolio had a floating exchange rate the profit and loss effect for one year of a 1% change in interest rates would be MSEK 30 based on the Group's net debt of MSEK 2 976 at year-end. The Group's average interest rate refixing period was around 11 months at year-end. A 1% change in interest rates would have an effect of MSEK 17 on profit and loss over 12 months at the current refixing period.

To ensure cost-efficient financing and avoid excessive impacts on earnings of large negative changes in interest rates, the norm for Billerud is that the average refixing period for the borrowing portfolio shall be 18 months, with a permitted deviation of +/- 12 months. For an individual loan the refixing period shall not exceed 10 years. Interest rate derivatives, preferably interest rate swaps, are used to achieve this norm.

Market risk is defined as the effect on profit and loss that changes in the prices of outstanding capital instruments can have. Billerud is a net borrower and invests only as an exception in listed instruments. The market risk for investments is therefore not significant in principle.

Nominal value of interest derivative instruments MSEK	2008	2007
Interest rate swaps		
Duration less than 1 year	350	107
Duration 1-2 years	400	350
Duration longer than 2 years	525	925
<b>Reported value at end of year</b>	<b>1 275</b>	<b>1 382</b>
<b>Market value of interest derivative instruments</b>	<b>2008</b>	<b>2007</b>
Interest rate swaps	-26	33





### Sensitivity analysis

The table below shows how Billerud's result before tax could have been affected by an isolated change in some key income and expense factors in 2008.

#### SENSITIVITY ANALYSIS

Variable	Approximate effect on result before tax	
	Change	MSEK
Sales volume	+/- 10 %	+/- 300
Pulp price	+/- 10 %	+/- 150
Exchange rate, SEK <sup>1)</sup>	+/- 10 %	+/- 500
Wood price	+/- 10 %	-/+ 280
Electricity price	+/- 10 %	-/+ 13
Interest rate	+/- 1 percentage point	-/+ 17

<sup>1)</sup> Excluding effects of currency hedging.

### Risk management, parent company

The following should be taken into account when considering risk management for the parent company.

#### Customer credit

The parent company's accounts receivable account for more than 90% of the Group's accounts receivable, as the mill's accounts receivable are taken over by the parent company after invoicing and funds are debited to the parent company. However the risk of credit loss remains with the invoicing company. Of total allocations within the Group for uncertain accounts receivable in 2008, MSEK 13 (3) were attributable to the parent company.

#### Currency exposure

All forward currency contracts are signed by the parent company, while flow exposure in foreign currency is attributable in full to the Swedish mills. Exposure is therefore lower for the parent company than that corresponding to signed forward contracts. This applies up to the invoicing date as the parent company takes over the Swedish mills' accounts receivable. At the end of 2008, currency contracts not reported in the parent company's income statement amounted to a nominal sum of MSEK 3 439, of which contracts amounting to MSEK 2 833 will be reported in 2009. The corresponding net flow of currency for the parent company in 2009 is estimated at around MSEK 2 250.

#### Interest rate risk

As of 31 December 2008, 97% of the Group's total borrowings were in the parent company. The parent company thus has the same exposure to interest rate changes as the Group. All interest derivatives are attributable to the parent company.

### Expenses

#### Energy

The parent company is the contracted party in all electricity hedging contracts, which are based on electricity consumption at the Swedish mills. Exposure is therefore lower for the parent company than for total hedged amounts. When the contract is realised there is however a distribution of the contract outcome in proportion to each mill's forecast consumption, which means that the parent company's earnings are only affected by the amount corresponding to the parent company's (Gruvön mill) electricity consumption.

# Notes and accounting principles

## 1 ACCOUNTING PRINCIPLES

### 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 International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the EU Commission for application within the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1.1 concerning supplementary accounting rules for Groups has been applied.

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

### Basis of measurement when preparing the financial reports

Assets and liabilities are stated at the historical acquisition value, except for certain financial assets and liabilities which are measured at fair value or accrued acquisition value. Financial assets and liabilities measured at fair value comprise derivative instruments, financial assets classified as financial assets at fair value through profit or loss or as available-for-sale financial assets.

### Functional and presentation currency

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. This means that 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 the company's management to make judgments and estimates as well as assumptions that affect the application of accounting principles and the reported amounts of 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 the current period and future periods.

Assessments made by the company's management when applying IFRS have a significant impact on financial reports and estimates made that may involve significant adjustments to financial reports in succeeding years are described in more detail in note 32.

### Significant accounting principles applied in the reports

The accounting principles described below have been applied consistently, apart from certain exceptions that are described in

detail, in the reports and consolidated financial statements of the parent company and subsidiaries, as well as the associated companies and joint ventures included in the consolidated accounts.

### Changed accounting principles

In 2008 IFRIC 11, IFRIC 14 and an addition to IAS 39 and IFRS 7 came into effect. None of these had a significant effect on the preparation of the 2008 annual 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. It is not planned that new rules and changes applicable from 2009 will be applied in advance. The expected effects on the financial reports of the application of the following new or changed standards and interpretations have been judged to have limited effects on the financial reports.

Revised IFRS 3 Business Combinations and changed IAS 27 Consolidated and Separate Financial Statements entail changes regarding consolidated reporting and reporting of acquisitions. The reworked standards will be applied by Billerud from 1 January 2010.

IFRS 8 Operating Segments defines an operative segment and prescribes information that must be submitted concerning them in the financial reports. The standard, which has been adopted by the EU, will be applied from 1 January 2009. Billerud has identified its operating segments to reflect Billerud's three business areas: Packaging & Speciality Paper, Packaging Board and Market Pulp. Each operating segment has a manager responsible for reporting the outcome of the operating segment's performance and requirements for resources to the senior management team.

Revised IAS 1 Presentation of Financial Reports requires that the presentation of the financial reports is changed to some extent and that new, non-obligatory names are proposed for the reports. These changes do not affect the amounts that are reported. Revised IAS 1 will be applied from 1 January 2009.

Changes in IAS 23 Borrowing Costs prescribe that borrowing costs must be capitalised when directly attributable to purchases, construction or production of assets that take a considerable time to complete for intended use or sale. The change shall be applied from 1 January 2009.

### Classifications, etc.

Fixed assets and long-term liabilities in the parent company and the Group consist largely only of amounts that are expected to be recovered or paid more than twelve months after the closing date. Current assets and short-term liabilities in the parent company and the Group consist largely only of amounts that are expected to be recovered or paid within twelve months of the closing date.



### Segment reporting

Billerud's activities consist of the business areas Packaging & Speciality Paper, Packaging Boards and Market Pulp, which are strongly integrated in terms of production. The business areas are exposed to risks and opportunities that are largely similar. In Billerud's judgement these three business areas constitute a single line of business and one primary segment in accordance with IAS 14. The market is not considered to be significantly differentiated in terms of risks and opportunities, and Billerud has therefore chosen not to report its activities in geographical areas.

### Basis of consolidation

#### *Subsidiaries*

Subsidiaries are companies in which Billerud AB has a controlling influence. Control means the right to formulate, directly or indirectly, the company's financial and operating strategies in order to obtain financial advantages. This usually means that Billerud has more than 50% of the voting rights. When assessing if control exists, potential vote-entitling shares that can be utilised or converted without delay are considered.

Acquisitions of subsidiaries are reported in accordance with the purchase method. This method means that the acquisition of a subsidiary is considered to be a transaction whereby the Group indirectly acquires the subsidiaries' assets and takes over its liabilities and contingent liabilities. The acquisition cost is established in 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 on the acquisition date of the acquired identifiable assets as well as assumed liabilities and any contingent liabilities. The acquisition value of subsidiary company's shares and the business consists of the total of the fair values on the acquisition date for provided assets, arising or assumed liabilities and for issued equity instruments provided as payment in exchange for the acquired net assets, plus the transaction costs directly attributable to the acquisition. The difference between the acquisition cost and the fair value of acquired assets, assumed liabilities and any contingent liabilities reported separately, represents Group goodwill. When the difference is negative it is reported directly in the profit/loss account.

Financial statements of subsidiaries are included in the consolidated accounts from the date of acquisition up to the date when the 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 representing between 20 and 50% of the total voting rights. From the time when the Group gains its significant influence, participations in the associated company are reported in accordance with the equity method.

The equity method means that the carrying value of interests in associated companies corresponds to the reported equity of associated companies, any goodwill and any other remaining fair

value adjustments. The consolidated profit/loss accounts include under "Profit from participations in associated companies and joint ventures" the group's participation in the earnings of associated companies after tax and after adjustment for any amortisation, impairment losses and other adjustments arising from the purchase price allocations. Dividends received from associated companies reduce the carrying value of the investment.

Any differences at the time of acquisition between the acquisition value for the holding and the owner's share of the net fair value of the associated company's identifiable assets, liabilities and contingent liabilities are reported in accordance with the same principles as for the acquisition of a subsidiary.

When the Group's share of reported losses in an associated company exceeds its interest in the associate, the value of the participation is reduced to zero. The interest in an associate includes long-term financial dealings without security which in economic terms represent a part of the investor's net investment in the associated company. Additional losses are not provided for unless the Group has guaranteed to cover losses incurred by the associated company. The equity method is applied up to the date when the significant influence ceases.

#### *Joint ventures*

Joint ventures are, for accountancy purposes, those companies in which the Group, through partnership agreements with one or several partners, has a joint decision-making influence in operational and financial control. The Group's ownership share may exceed 50%. Joint ventures are consolidated in the Group accounts in accordance with the equity method (see above, Associated companies).

#### *Transactions eliminated on consolidation*

Intra-Group receivables and liabilities, income or costs and unrealised profits or losses arising from intra-Group transactions are eliminated in their entirety when preparing the consolidated accounts. Unrealised profits arising from transaction with associated companies and joint ventures are eliminated to the extent of the Group's interest in the company. Unrealised losses are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

#### *Foreign currencies*

##### *Transactions in foreign currency*

Transactions in foreign currency are translated into the functional currency at the exchange rate ruling on the transaction day. The functional currency is the currency of the primary economic environments in which the company operates. Monetary assets and liabilities in foreign currency are translated to the functional currency using the exchange rate ruling on the closing date. Exchange rate differences arising from translation are reported in the profit/loss account. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate ruling 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 valid on the date the fair value was determined.

#### **Financial statements of foreign operations**

Assets and liabilities of foreign operations, including goodwill and other surpluses and deficits are translated from foreign operations' functional value into the Group's reporting currency, SEK, using the exchange rate valid on the closing date. Revenue and expenses of foreign operations are translated into SEK using an average rate approximating the rates on each transaction day. Translation differences that arise when translating the financial statements of foreign operations are recognised directly in equity as a translation reserve. When a foreign operation is sold the accumulated translation differences are reported in the consolidated profit/loss account.

#### **Hedging of net investment in foreign activities**

The Group has business in several countries. In the consolidated balance sheet, investments in foreign activities are reported as net assets in subsidiaries (including monetary items that constitute a part of the net investment in the company). To some extent measures have been taken to reduce currency risks associated with these investments. This is done by raising loans in the same currency as the net investment (hedging instrument). On the closing date these loans are reported translated at the closing day rate. The effective part of the period's currency changes relating to hedge instruments is reported directly under equity in the translation reserve to meet and partly or wholly match the translation differences that are reported for net assets in the foreign activities that have been hedged. Translation differences from both net investment and hedge instruments are dissolved and reported in the profit/loss accounts when the foreign business is sold. In the event that hedging is not effective, the ineffective part is reported directly in the profit/loss accounts.

#### **Revenue**

##### **Sales of goods and rendering of services**

Billerud's revenue is generated mostly from the sale of manufactured products. Income from the sale of products is reported as income provided that all significant risks and rewards related to owning the goods have been transferred to the buyer. Income is not reported if it is probable that the economic benefits will not flow to Billerud.

If there is significant uncertainty concerning payment, associated costs or risk of return, and if the seller maintains a commitment in the ongoing management normally associated with ownership, no income is recognised. Income is reported at fair value of what is received, or is expected to be received, minus agreed discounts.

##### **Government grants**

Government grants are recognised in the balance sheets 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. The grants are distributed systematically in the profit/loss accounts in the same way and over the same periods as

the related costs which they are intended to compensate. Grants related to assets are reported in the balance sheet as deferred income and are distributed as other operating income over the useful life of the asset.

#### **Leasing**

##### **Operational leasing agreements**

Expenses for operating lease agreements are recognised in the profit/loss account linearly over the leasing period. Incentives received in connection with the signing of an agreement are reported in the profit/loss account as a reduction in the leasing fee linearly over the leasing period. Variable expenses are recognised in the periods they arise.

##### **Financial leasing agreements**

Minimum leasing fees are divided between interest costs and amortisation of outstanding liabilities.

Interest costs are distributed over the leasing period so that each accounting period includes an amount corresponding to a fixed interest rate for the liability reported in each period. Variable fees are included in the periods they arise.

#### **Financial income and expenses**

Financial income and expenses consist of interest income on invested funds, dividend income, profit from changes in value in financial assets at fair value through profit/loss accounts and profits from hedge instruments reported in the profit/loss accounts.

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

Financial costs comprise interest costs for loans, the effect of dissolving of current value estimates for provisions. Losses in the change of value of financial assets at fair value through profit/loss accounts, the impairment of financial assets and those losses on hedge instruments reported in the profit/loss accounts. All loan costs are reported in profit/loss with the application of the effective interest rate method irrespective of how the borrowed funds have been used.

Exchange rate profits and losses are reported net.

Effective interest is interest that discounts estimated future inward and outward payments during the expected life of the financial instrument at the reported net value of the financial asset or liability. Measurement includes all fees paid or received by contracted parties that are part of the effective interest, transaction costs and all other surpluses and deficits.

#### **Taxes**

Incomes taxes comprise current tax and deferred tax. Income taxes are reported in the profit/loss account except when the underlying transaction is reported directly in equity whereupon





the associated tax effect is also reported in equity.

Current tax is tax that is to be paid or recoverable for the current year using the tax rates already enacted or substantially enacted on the closing date. Current tax also includes adjustments of current tax attributable to earlier periods.

Deferred tax is calculated using the balance sheet method starting with the temporary differences between reported 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 reported or taxable earnings. Furthermore, temporary differences are not recognised when attributable to participations in subsidiaries and associated companies that are not expected to be reversed in the near future. Measurement of deferred tax is based on how the carrying value of assets and liabilities is expected to be recovered or settled. Deferred tax is calculated using the tax rates enacted or substantially enacted on the closing date.

Deferred tax receivables relating to deductible temporary differences and unused tax losses are recognised only to the extent it is probable that they can be utilised. The value of deferred tax receivables is reduced when it is no longer probable that they can be utilised.

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

#### **Financial instruments**

Financial instruments recognised in the balance sheet include, on the assets side, liquid funds, accounts receivable, shares and other equity instruments, loan receivables and derivatives.

#### ***Recognition in, and removal from, the balance sheet***

A financial asset or liability is recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument. Accounts receivable are recognised when the invoice is sent. Liabilities are recognised when the counter party has performed and there is a liability to pay according to agreement, 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, expire or the company loses control over them. The same applies for part 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 to part of a financial liability.

Billerud has signed an agreement for invoice financing without recourse which means that a small part of the Group's accounts receivable and corresponding credit risk are transferred to a financing company in return for payment received ahead of the contracted credit period. Billerud administrates customer payments which are then settled against payment from the financing company. Transferred accounts receivable are not

reported in the consolidated balance sheet.

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

Acquisition and sale of financial assets are recognised on the trade date, which is the date when the company commits to acquiring or selling the asset.

#### **Classification and recognition**

Financial instruments, which are not derivatives, are initially recognised at transaction price, which corresponds to the instrument's fair value including direct transaction costs for all financial instruments except those belonging to the financial asset category which are reported at fair value, excluding transaction costs. A financial instrument is classified at the first reporting occasion based upon 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 reporting, derivative instruments are reported 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 reported on the same line in the profit/loss account as the hedged item. Even if hedge accounting is not used, the increases and decreases in value of the derivative are reported as income or expenses in operating profit/loss or in net financial items based on the purpose of using the instrument and to what extent use is related to an operating item or financial item. If hedge accounting is used, the ineffective part is reported in the same way as value changes in the derivative not used for hedge accounting. If hedge accounting is not used for interest swaps then the interest coupon is reported as interest and other changes in value of the interest swap are reported as other financial income or other financial cost.

Liquid funds 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 at fair value through profit/loss***

This category has two sub-groups: financial assets held for trading and other financial instruments that the company initially chooses to put in this category. A financial asset is classified as being held for trading if it is acquired with the purpose of being sold in the short term. Derivatives that are independent as well as embedded derivatives, are classified as being held for trading. Assets in this category are measured continually at fair value and the changes in value are reported in the profit/loss account, except for derivatives that are identified and effective hedge instruments.

***Loan receivables and accounts receivable***

Loan receivables and accounts receivable are non-derivative financial assets with fixed payment or with payment that is determinable, and that are not listed on an active market. These assets are assessed at amortised cost, which is determined based on the effective interest calculated at the date of acquisition. Receivables shorter than three months are reported at acquisition value. Accounts receivable are reported at the amount at which they are expected to be received, i.e. after deductions for uncertain receivables.

***Held-to-maturity investments***

Held-to-maturity investments are financial assets that comprise interest-bearing securities with fixed or determinable payment flows 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 that cannot be 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, associated companies or joint ventures are reported here. Assets in this category are valued continually at fair value with value changes entered under equity, although not those changes relating to impairment (see accounting principles for impairment), nor interest on receivables instruments and dividend income, nor exchange rate differences for monetary items reported in the profit and loss account. Shares and participations of insignificant value are reported at acquisition value. When the investment is removed from the balance sheet, previously reported accumulated gains or losses in equity are transferred to the profit/loss account.

***Other financial liabilities***

Loans and other financial liabilities, e.g. accounts payable, are included in this category. Liabilities are measured at amortisation cost. Liabilities shorter than three months are reported at acquisition value.

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 financially secure against the interest and currency risks to which the Group is exposed. Embedded derivatives are reported 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/loss account at the same time as profit and loss are recognised for the items being hedged.

***Receivables and liabilities in foreign currency***

Foreign exchange contracts are used to hedge assets or liabilities against currency risks. Hedge accounting is not required to protect against currency risks because a financial hedge is recognised in the accounts through both the underlying receivables or liability and the hedge instrument being reported at the closing rate and changes in exchange rates being reported in the profit/loss accounts.

***Cash flow hedging***

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

When the hedged future cash flow refers to a transaction recognised in the balance sheet, the hedge reserve is dissolved at the time the hedged item is recognised in the balance sheet. If the hedged item is a financial asset or financial liability, the hedge reserve is dissolved gradually into the profit/loss account 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 hedging relationship before the hedged transaction takes place and the forecast transaction is still expected to occur, the accumulated profit/loss remains in the hedge reserve in equity and is reported in the same way as above when the transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated profit or loss of the hedging instrument is redeemed immediately to the profit/loss account in accordance with the principles described above for derivative instruments.

***Hedging of fixed interest - cash flow hedging***

Interest rate swaps are used to hedge against the uncertainty in future interest flows linked to loans with variable interest. Swaps are valued at fair value in the balance sheet. In the profit/loss account the interest coupon part is reported continually as interest income or interest expense and other changes in value of swaps are reported directly in the hedge reserve in equity until the hedged item affects profit/loss and as long as the criteria for hedge accounting and efficiency are fulfilled. The profit/loss attributable to the ineffective part is reported in the profit/loss account.

***Hedging of fair value***

When a hedging instrument is used to hedge fair value, the derivative is reported at fair value in the balance sheet and the hedged asset/liability is also reported at fair value with regard to the risk being hedged. Changes in value of the derivative are reported in the profit/loss account together with changes in the value of the hedged item.

Hedging of fair value is used to hedge the value of assets and



liabilities included in the balance sheet but not reported at fair value and of contracted flows.

#### **Hedging of fixed interest – fair value hedging**

Interest swaps are used as hedge instruments to hedge against the risk of changes in fair value of borrowings with fixed interest rates. Hedging of fair value is used in the accounts and the hedged item is translated to fair value relating to the hedged risk (risk-free interest) and the change in value is reported in the profit/loss account in the same way as the hedge instrument.

#### **Hedging of net investments**

See the description above for foreign currencies.

#### **Electricity derivatives**

Billerud buys electricity from external suppliers. In order to continually hedge against electricity prices, Billerud enters into electricity contracts. Electricity derivatives that protect the forecast outward flow of electricity costs are reported in the balance sheet at fair value. Changes in value are reported directly in equity in the hedge reserve until the time when the hedged outward flow is recognised in the profit/loss account, at which time the hedging instrument's accumulated changes in value are transferred to the profit/loss account where they then meet and match the profit/loss effects of the hedged transaction. The realised profit/loss from these contracts is reported continuously in the operating profit/loss account as a correction of electricity costs.

#### **Pulp derivatives**

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

#### **Tangible fixed assets**

##### **Owned assets**

The group states tangible fixed assets at cost less deductions for accumulated depreciation and any impairment losses. 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 are not included in the acquisition value of internally produced fixed assets.

The cost for internally produced fixed assets include costs for materials, employee benefits, other production overheads considered to be directly attributable to the asset if applicable and estimated costs for dismantling and removal of the asset and restoration of the place or area where it is sited.

Tangible fixed assets comprising parts with different useful lives are treated as separate components of tangible fixed assets.

The reported value of a tangible fixed asset is removed from the balance sheet upon scrapping or disposal or when no future economic benefit is expected from the use, scrapping or disposal of the asset. Profit or loss arising from the scrapping or disposal of an asset is the difference between the sale proceeds and the asset's carrying value with deductions for direct selling costs. Gains and losses are reported as other operating income/expense.

The accounting principles for impairments are explained below.

##### **Leased assets**

Leasing is classified in the consolidated accounts either as finance or operating leases. A finance lease substantially transports the economic risks and rewards associated with ownership to the lessee. If this is not the case the lease is classified as an operating lease.

Assets leased under finance lease agreements are recognised as assets in the balance sheet and are initially measured as the lower of the leasing object's fair value and the current value of minimum leasing fees at the start of the agreement. The obligation to pay future leasing fees is reported as current and long-term liabilities. The leased assets are systematically depreciated over the utilisation period of the asset while leasing fees are apportioned between interest and amortisation of liabilities.

Assets hired in accordance with operating leases are not normally reported as assets in the balance sheet. Operating lease agreements do not result in a liability.

##### **Subsequent costs**

Subsequent costs are added to the cost of the asset only if it is probable that the future economic benefit associated with the asset will accrue to the company and the cost item can be measured reliably. All other subsequent costs are reported as expenses in the period when they occur.

The determining factor for assessing when subsequent costs will be added to the cost of the asset is whether the payment covers the replacement of identified components, or parts of them, which is recognised in the carrying amount. Even if new components are created, the payment is added to the cost of the asset. Any remaining carrying amount for replaced components, or parts of them, is derecognised in connection with the replacement. Repairs are expensed as incurred.

Maintenance stops are performed at the papermills at regular intervals. The more significant maintenance measures carried out on these occasions are treated as a separate component. Depreciation is carried out up to the time of the next maintenance stop, which is normally after 12-18 months.

**Depreciation principles**

Assets are depreciated linearly over the estimated utilisation period of the asset. Land is not depreciated. The Group applies component depreciation, which means that the components' estimated utilisation period is the basis for depreciation.

The following depreciation periods are used:

Industrial buildings	20 years
Residential and office buildings	30-50 years
Land improvements	20 years
Machinery used for producing pulp and paper	20 years
Other machinery	10 years
Vehicles, inventory and components	1-5 years

The residual value and utilisation period of an asset are assessed annually.

**Intangible fixed assets****Goodwill**

Goodwill is measured at acquisition value minus any accumulated impairment. Goodwill is distributed among cash-generating units and impairment tests are performed at least once a year (see the accounting principles for Impairment of tangible and intangible assets and participations in subsidiaries, associated companies and joint ventures). Goodwill arising from the acquisition of associated companies and joint ventures is included in the value reported for the participations.

**Research and development**

Billerud's product and process development focuses on meeting customer requirements for the properties of products and various adaptations. Activities are divided into a research phase and a development phase. Examples of costs included in the research phase are costs relating to the building of new knowledge and costs for the evaluation and search for new paper grades and production processes. Costs for the research phase are recognised as incurred in the profit/loss account in accordance with 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 reported value includes costs for materials, direct costs for salaries and indirect costs that can be attributed to the asset in a reasonable and consistent manner. Other costs for development are recognised in the profit/loss account as expenses when incurred.

**Software**

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

**Electricity certificates**

Electricity certificates are awarded for production of renewable electricity and are measured at the estimated market value and recognised as intangible assets. Electricity production for which a certificate is due but not awarded on the closing date is recognised as accrued income and initially measured at the estimated market price. Corresponding income is reported in the operating profit/loss as a correction of electricity costs.

**Emission rights**

Billerud's Swedish mills have been allocated emission rights for carbon dioxide within the EU. The allocation for the initial three-year period, 2005-2007, exceeded the total emissions. The allocation for 2008-2010 also slightly exceeds forecast emissions. When emission rights are received they are recognised at their market value as intangible assets and simultaneously recognised as a liability.

As emissions are made they are expensed at market value, while at the same time expense is reduced by the utilised part of the received contribution. When the surplus is sold the income is reported in the profit/loss accounts.

**Subsequent costs**

Subsequent costs are added to the cost of the asset only if it is probable that the future economic benefit associated with the asset will accrue to the company and the cost item can be measured reliably. All other subsequent costs are reported as expenses in the period when they occur.

**Depreciation principles**

Depreciation is reported in the profit/loss accounts linearly throughout the forecast utilisation period of an intangible asset, unless the period is indeterminable. Utilisation periods are tested at least once a year. Goodwill and other intangible assets with indeterminable utilisation periods or intangible assets not yet ready for use are given an annual impairment test and are also tested as soon as there is an indication that the value of the asset in question has decreased. Intangible assets with determinable utilisation periods are depreciated from the time they are available for use. The expected utilisation periods for activated development fees and software is 3-7 years.

Utilisation periods are tested each year.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. The FIFO (first in, first out) formula 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**

The carrying values of Group assets are tested on the closing date to assess whether they are impaired. IAS 36 is applied to test if an impairment loss shall be recognised for assets other than financial assets that are reported in accordance with IAS 39, inventories and deferred tax receivables. For the excluded items above, value is assessed in accordance with the relevant standard.

#### ***Impairment test for tangible and intangible assets and participations in subsidiaries, associated companies and joint ventures***

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. If it is not possible to establish significantly independent cash flows for an individual asset, and its fair value minus selling costs cannot be used, the assets are grouped for assessment of an impairment at the lowest level at which it is possible to identify significantly independent cash flows (a so-called cash-generating unit).

An impairment loss is recognised when an asset's or cash-generating unit's (or group of units') carrying value is higher than the recoverable amount. An impairment loss is charged to the profit/loss account. An impairment loss for a cash-generating unit (group of units) is allocated to reduce the carrying amount of the assets of the unit, firstly to goodwill and then to other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset.

The recoverable amount is the higher of the fair value minus selling costs and utilisation value. When calculating the utilisation value, future cash flows are discounted using a discount factor based on risk-free interest and the risk associated with the specific asset.

#### ***Impairment test for financial assets***

At each balance sheet date the company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence comprises, firstly, observable events that have happened and that have a negative impact on the possibility to recover the acquisition value, and secondly, a significant or drawn-out reduction in fair value for a financial investment classified as a financial asset available-for-sale.

The value reduction recognised in the profit/loss account is the difference between the initial cost and the fair value, less deductions for any previously recognised losses.

The recoverable amount of assets belonging to the held-to-maturity category and loan receivables and accounts receivable that are carried at amortised cost is calculated as the present value of future cash flows discounted at the effective interest that applied when the asset was initially recognised. Assets with a short term are not discounted. Impairment is reported as a cost in the profit/loss accounts.

#### ***Reversal of impairment losses***

Impairment of assets covered by IAS 36 is recovered if there is both

an indication that there is no longer an impairment requirement and there has been a change in the assumption on which estimation of recoverable value was based. An impairment loss recognised for goodwill is not reversed. A reversal is only performed to the extent that the asset's reported value after reversal does not exceed the recognised value that would have been reported, minus possible depreciation, if no impairment had been performed.

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/loss accounts are not reversed through the profit/loss accounts. The impaired value is the value upon which ensuing re-evaluations are based, which are reported directly in equity. Impairment of interest-bearing instruments, classified as financial assets available-for-sale, are reversed in the profit/loss accounts if the fair value increases and the increase can be attributed objectively to an event that occurred after the impairment was performed.

### **Capital payments to shareholders**

#### ***Treasury shares***

Acquisition of the company's own shares is reported 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 reported directly in equity.

#### **Dividends**

Dividends are reported 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 earnings per share after dilution, earnings 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 relating to share options affects the total number of shares and arises only when the subscription rate is lower than the market rate 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 reported as a share-related benefit in accordance with IFRS 2. Dilution attributable to convertible promissory notes is calculated by increasing the total number of shares with the number of shares corresponding to convertibles and increasing earnings by the reported interest cost after tax.

**Employee benefits****Defined-contribution pension plans**

Pension plans in which the company's commitments are restricted to the fees the company undertakes to pay are classified as defined-contribution pension plans. In those cases the size of the 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 reported as a cost in the profit/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 obligations for defined-benefit plans are calculated separately for each plan by estimating the future benefit that the employee has earned through employment both in the current period and previous periods; this benefit is discounted to a present value. Discount interest is the interest on the closing date for a first class corporate bond with a term corresponding to the Group's pension commitments. When there is no active market for such corporate bonds the market rate for government bonds for a corresponding term 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 recognised on the reporting date.

When establishing the current value of the commitment and the fair value of plan assets, actuarial profits 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 reported in the profit/loss account over the expected average remaining service period for the employees covered by the plan. Actuarial gains and losses are otherwise not recognised.

In the balance sheet the reported value of pensions and similar commitments represents the current value of commitments on the closing date, with deductions for the fair value of plan assets and unreported actuarial profit or loss.

When there is a difference between how the pension cost is established for legal entities and the Group, a provision or receivable is reported for special salary tax based on this difference. The provision or receivable is not present valued.

The net amount of pension liabilities and forecast return on pension plan assets is reported in net financial items. Other components are reported in operating profit/loss.

Commitments for retirement pensions and family pensions for white-collar employees in Sweden are safeguarded via insurance

with Alecta. This is a multi-employer defined-benefit plan.

The company has not had access to information for the 2008 financial year to enable it to report this plan as a defined-benefit plan. ITP pension plans secured via insurance with Alecta are therefore reported 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. The commitment is calculated using the projected unit credit method and is discounted to a current value, with the fair value of any associated plan assets being deducted. Discount interest is established on the same basis as for defined-benefit pension plans. Any actuarial profits or losses are reported in the profit/loss accounts of the period when they arise.

**Termination benefits**

A provision is reported in connection with termination of employment 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 reported if it is probable that the offer will be accepted and the number of employee who will accept the offer can be reliably estimated.

**Short-term benefits**

Short-term benefits to employees are calculated without discounting and are reported as a cost when the related services are received.

**Share-related benefits**

The share incentive scheme introduced in 2007 is reported as share-related remuneration settled with equity instruments in accordance with IFRS 2. This means that the fair value is calculated based upon forecast achievement of targets set for the measurement period. The value is distributed over the earning period. Re-assessment after establishment of fair value is not made concerning changes in the number of shares resulting from the condition of continued employment during the earning period not being fulfilled.

Social fees attributable to share-related benefits are reported in accordance with the Swedish Financial Reporting Board's statement (UFR 7) which means that the cost is distributed in the periods when services are performed. The provisions that result are re-assessed at each reporting date to correspond to the estimated fees that will be paid at the end of the earning period.

**Provisions**

Provisions are different to other liabilities because there is uncertainty about the time of payment or the size of the payment. A provision is made in the balance sheet when the company has an existing legal or informal obligation as the result of a past event and



it is probable that an outlay of resources will be required to settle the obligation 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 meet the existing undertaking on the closing date. 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 legal requirements, a provision is reported for recovery of land when it becomes contaminated.

#### **Contingent liabilities**

A contingent liability is reported 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 since it is not probable that resources will have to be used to settle the obligation.

#### **Parent company's accounting principles**

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 2.1 'Reporting by legal entities'. Statements published by the Swedish Financial Reporting Board applicable for listed companies are also observed. Under RFR 2.1 the parent company in its annual report for the legal entity shall apply all IFRSs and interpretations endorsed by the EU as far as possible within the limitations of the annual accounts act, Swedish law safeguarding pension commitments and with consideration to the close tie between reporting and taxation. The standard indicates which exceptions from, and additions to, IFRSs, may be made.

#### **Differences between the Group's accounting principles and those of the parent company**

The differences between the Group's accounting principles and those of the parent company are set out below. The accounting principles of

the parent company described below have been applied consistently in all periods presented in the parent company's financial reports.

#### **Classifications and forms of presentation**

The parent company's profit/loss accounts and balance sheets are presented in accordance with the schedule set by the Swedish annual reports act. The difference compared with IAS 1 'Presentation of financial statements', which is applied for the consolidated accounts, mainly concerns reporting of financial income and expense, fixed assets, shareholders' equity and the use of provisions in the balance sheet.

#### **Subsidiaries, associated companies and joint ventures**

Participations in subsidiaries and associated companies are reported in the parent company in accordance with the cost method. Received dividends are reported as income provided that they arise from profits earned after the acquisition. Dividends that exceed this earned profit are considered as a repayment of the investment and they reduce the reported value of the participation accordingly.

#### **Financial instruments and hedge accounting**

Due to the connection between accounting and taxation, the rules concerning financial instruments and hedge accounting in IAS 39 are not applied to the parent company as a legal entity.

In the parent company financial fixed assets are assessed at cost minus impairment, and financial current assets are assessed according to the principle of lowest value. The cost of interest-bearing instruments is adjusted for the difference over a period that arises between the amount originally paid, after deductions for transaction costs, and the amount paid on the due date (discount and premium).

Forward contracts used to hedge currency changes for receivables and liabilities in foreign currency are valued at the spot rate on the day the contract is made for assessment of the underlying receivable or liability. The difference between the forward rate and the current rate when the contract is opened (forward premium) is allocated across the period of the forward contract. Forward premiums allocated to periods are reported as interest cost or expense when the contract is longer than three months.

Interest swaps that effectively hedge cash flow risks in interest payments for liabilities are assessed as the net of accrued receivables at variable interest and accrued liabilities concerning fixed interest, and the difference is reported 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 paid premium for a swap agreement is allocated as interest across the contract period.

Derivatives not used for hedging are valued in the parent company according to the lower of cost or market principle. Reporting of derivatives used for hedging are 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 in the balance sheet or is stated in the balance sheet at cost.

**Anticipated dividends**

Anticipated dividends from subsidiaries are reported in cases where the parent company alone has the right to decide the size of the dividend and the parent company has made a decision on the size of the dividend before the parent company has published its financial reports.

**Intangible fixed assets-Goodwill, etc.**

Goodwill and other intangible assets with an indeterminable utilisation period which within the Group are not normally subject to depreciation, are depreciated within the parent company in accordance with annual reports act. This normally means a depreciation period of five years, but the period can be longer in special cases.

**Employee benefits-Defined-benefit plans**

In the parent company, the assumptions used to calculate defined-benefit plans are different to those set out in IAS 19. The parent company follows the Swedish law of safeguarding pension commitments and the Swedish Financial Supervisory Authority's rules because they are a condition for making a tax deduction. The most important differences compared with the IAS 19 rules concern how the discount interest is established, that the calculation of the defined-benefit commitment is based on current salary levels without consideration to future increases, and that all actuarial gains and losses are recognised in the profit/loss account as they occur.

**Taxes**

In the parent company, untaxed reserves are reported in the balance sheet without dividing them into shareholders' equity and deferred tax liabilities, unlike in the consolidated accounts, including deferred tax liabilities. Correspondingly, in its profit/loss accounts the parent company does not recognise deferred tax expense as a part of appropriations.

**Group contributions and shareholder contributions for legal entities**

The company reports Group contributions and shareholder contributions in accordance with a statement by the Swedish Financial Reporting Board (UFR 2). Shareholder contributions are recognised directly in equity of the recipient and are capitalised in shares and participations for the contributor, to the extent that the recognition of an impairment loss is not required. Group contributions are reported in accordance with their financial substance. This means that Group contributions made with the purpose of minimising the Group's total tax are reported directly in profit brought forward net of their related current tax effect.

Group contributions equivalent to a dividend are reported as a dividend. This means that a received Group contribution and its current tax effect are reported through the profit/loss account. A paid Group contribution and its current tax effect are reported directly in profit brought forward.

Group contributions equivalent to shareholder contribution are reported, net of the related current tax effect, by the recipient directly in profit brought forward. The contributor reports the Group contribution and its current tax effect as investment in the participations of Group companies, to the extent that the recognition of an impairment loss is not required.

**2 NET TURNOVER BY MARKET AND OPERATING PROFIT/LOSS BY BUSINESS AREA**

External net turnover is distributed among Billerud's various markets as follows.

MSEK 2008	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging etc.	Other & eliminations	Total
<b>Group</b>						
Sweden	193	259	209	28	57	746
Other EU countries	2 402	1 666	925		12	5 005
Rest of Europe	142	122	121			385
<b>Total Europe</b>	<b>2 737</b>	<b>2 047</b>	<b>1 255</b>	<b>28</b>	<b>69</b>	<b>6 136</b>
Other markets	1 095	317	244			1 656
<b>Group total</b>	<b>3 832</b>	<b>2 364</b>	<b>1 499</b>	<b>28</b>	<b>69</b>	<b>7 792</b>

The total net turnover, MSEK 7 792 (7 758) constitutes sales of goods. Group revenue in connection with exchange of goods and services is included with MSEK 62 (0). For quarterly net turnover per business area, see note 34.

MSEK 2008	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging etc.	Total
<b>Parent company</b>					
Sweden	85	134	102	29	350
Other EU countries	639	1 511	254		2 404
Rest of Europe	27	88	16		131
<b>Total Europe</b>	<b>751</b>	<b>1 733</b>	<b>372</b>	<b>29</b>	<b>2 885</b>
Other markets	175	291	97		563
<b>Parent company total</b>	<b>926</b>	<b>2 024</b>	<b>469</b>	<b>29</b>	<b>3 448</b>

The total net turnover, MSEK 3 448 (3 333) constitutes sales of goods.

MSEK 2007	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging etc.	Total
<b>Group</b>					
Sweden	178	181	141	42	542
Other EU countries	2 625	1 539	1 000		5 164
Rest of Europe	202	113	102		417
<b>Total Europe</b>	<b>3 005</b>	<b>1 833</b>	<b>1 243</b>	<b>42</b>	<b>6 123</b>
Other markets	984	338	313		1 635
<b>Group total</b>	<b>3 989</b>	<b>2 171</b>	<b>1 556</b>	<b>42</b>	<b>7 758</b>

MSEK 2007	Packaging & Speciality Paper	Packaging Boards	Market Pulp	Currency hedging etc.	Total
<b>Parent company</b>					
Sweden	63	73	45	73	254
Other EU countries	731	1 355	236		2 322
Rest of Europe	47	85	15		147
<b>Total Europe</b>	<b>841</b>	<b>1 513</b>	<b>296</b>	<b>73</b>	<b>2 723</b>
Other markets	182	331	97		610
<b>Parent company total</b>	<b>1 023</b>	<b>1 844</b>	<b>393</b>	<b>73</b>	<b>3 333</b>



Operating profit/loss per business area MSEK	Group		Parent company	
	2008	2007	2008	2007
Packaging & Speciality Paper	244	355	-18	18
Packaging Boards	248	179	205	133
Market Pulp	-145	81	-27	12
Currency hedging etc.	28	42	29	73
Other and eliminations	-86	-67	-95	-95
<b>Group total</b>	<b>289</b>	<b>590</b>	<b>94</b>	<b>141</b>

Business area earnings are reported excluding the effects of currency hedging and, from 2007, also excluding earnings effects from the translation of accounts receivable in foreign currency and currency effects in connection with payments. These effects are reported separately in the Currency hedging, etc. item. The proportion of currency exposure attributable to changes in invoicing rates will continue to be included in business area earnings.

### 3 OTHER OPERATING INCOME

MSEK Group	2008		2007	
	Services sold	14	9	
Other	1	3		
<b>Total</b>	<b>15</b>	<b>12</b>		

Parent company	2008		2007	
	Services sold	13	9	
Commissions	19	19		
Other	0	-		
<b>Total</b>	<b>32</b>	<b>28</b>		

### 4 AUDITORS' FEES AND COSTS

MSEK KPMG	Group		Parent company	
	2008	2007	2008	2007
Auditing assignment <sup>1)</sup>	3	2	1	1
Other assignments	2	3	1	2
<b>Total</b>	<b>5</b>	<b>5</b>	<b>2</b>	<b>3</b>

<sup>1)</sup> Auditing assignments refer to the audit of the annual report, annual accounts and administration of the Board and CEO, other assignments routinely performed by auditors, and advice or other support required through observations made during the audit or performance of routine duties. Other assignments are primarily advice in accountancy matters and concerning tax matters.

### 5 PERSONNEL AND STAFF COSTS

Average number of employees Parent company	2008	of whom		2007	of whom	
		men	%		men	%
Sweden	1 008	78		1 058	79	
Other countries	3	100		3	100	
<b>Total, parent company</b>	<b>1 011</b>	<b>78</b>		<b>1 061</b>	<b>78</b>	

Average number of employees Subsidiaries	2008	of whom		2007	of whom	
		men	%		men	%
Sweden	1 110	84		1 104	85	
Germany	14	36		15	40	
The Netherlands	7	29		6	33	
France	9	44		10	50	
Italy	9	33		8	38	
Spain	8	38		8	38	
The UK	144	91		147	91	
China	6	50		5	40	
Lithuania	4	25		-	-	
<b>Total, subsidiaries</b>	<b>1 311</b>	<b>83</b>		<b>1 303</b>	<b>84</b>	
<b>Total Group</b>	<b>2 322</b>	<b>81</b>		<b>2 364</b>	<b>81</b>	

Staff costs MSEK	Group		Parent company	
	2008	2007	2008	2007
Salaries and other remuneration				
Board members, CEO and management teams <sup>1)</sup>	58	51	27	21
of which, bonus	6	5	3	2
Other employees	880	853	392	390
of which, bonus	13	22	8	3
<b>Total salaries and other remuneration</b>	<b>938</b>	<b>904</b>	<b>419</b>	<b>411</b>

Social security costs	Group		Parent company	
	2008	2007	2008	2007
Contractual pensions to CEO and management teams <sup>1)</sup>				
Defined-benefit pensions	7	2	2	1
Defined-contribution pensions	7	9	3	4
Contractual pensions, other employees				
Defined-benefit pensions	14	8	9	6
Defined-contribution pensions	34	42	16	8
<b>Other social security costs</b>	<b>309</b>	<b>312</b>	<b>148</b>	<b>144</b>
<b>Total social security costs</b>	<b>371</b>	<b>373</b>	<b>178</b>	<b>163</b>
<b>Total staff costs</b>	<b>1 309</b>	<b>1 277</b>	<b>597</b>	<b>574</b>

<sup>1)</sup> For the Group, CEO includes all staff with Managing Director role in Group companies, and Board members include all Boards of Group companies. Management teams refer to all senior management teams in Group companies. CEOs, Boards and management teams comprise 72 (71) people in total.

Sick leave in parent company, %	2008	2007
Total sick leave as share of normal working hours	3.5	4.3
Share of total sick leave constituting sick leave block of 60 days or more	47	52

#### Sick leave in parent company as share of each category's normal working hours, %

Sick leave by gender:	2008	2007
Men	3.0	3.7
Women	5.0	6.4

Sick leave by age:	2008	2007
29 or younger	2.1	2.7
30-49	2.8	4.0
50 or older	4.8	5.3



Number of women in management positions, %	2008	2007
<b>Group</b>		
Boards	10	9
Other senior managers	14	13
<b>Parent company</b>		
Board	20	22
Other senior managers	15	18

For information about the benefits of senior executives in accordance with the annual accounts act, see note 24.

## 6 NET FINANCIAL ITEMS

MSEK	2008	2007
<b>Group</b>		
Interest income on bank accounts and current investments	16	18
<b>Financial income</b>	<b>16</b>	<b>18</b>
Interest costs for financial liabilities valued at amortised cost		
	-171	-129
Interest costs for pension liabilities	-8	-6
Net change in exchange rates	0	0
Other financial costs	-2	0
<b>Financial costs</b>	<b>-181</b>	<b>-135</b>
<b>Net financial items</b>	<b>-165</b>	<b>-117</b>

MSEK	2008	2007
<b>Parent company</b>		
Profit/loss from participations in Group companies	4	438
Dividend	—	-70
Impairment	4	368
<b>Parent company total</b>	<b>4</b>	<b>368</b>

Interest income and similar profit/loss items	2008	2007
Interest income, Group companies	1	7
Interest income, other	12	15
<b>Parent company total</b>	<b>13</b>	<b>22</b>

Interest costs and similar profit/loss items	2008	2007
Interest costs, Group companies	-1	-9
Interest costs for pension liabilities	-8	-6
Interest costs, other	-162	-121
Interest costs for derivatives in hedge accounting	4	-28
Net change in exchange rates	5	1
Other financial costs	-2	0
<b>Parent company total</b>	<b>-164</b>	<b>-163</b>
<b>Net financial items</b>	<b>-147</b>	<b>227</b>

## 7 APPROPRIATIONS

MSEK	Parent company	2008	2007
Difference between reported depreciation and depreciation according to plan			
- Plant and equipment	1 900	-1 900	
<b>Parent company total</b>	<b>1 900</b>	<b>-1 900</b>	

At the end of 2008 the parent company had switched from the method of depreciation as recorded in the books to the method of residual value for taxable depreciation of plant and equipment.

## 8 TAXES

Profit/loss before tax	Group		Parent company	
MSEK	2008	2007	2008	2007
Sweden, Group companies	101	443	1 847	-1 532
Other countries, Group companies	23	30	—	—
<b>Total profit/loss before tax</b>	<b>124</b>	<b>473</b>	<b>1 847</b>	<b>-1 532</b>

Tax expense	Group		Parent company	
MSEK	2008	2007	2008	2007
<b>Current tax</b>				
Tax expense for the period	-3	-9	-99	266
Tax attributable to previous periods	0	1	0	—
<b>Total current tax</b>	<b>-3</b>	<b>-8</b>	<b>-99</b>	<b>266</b>

Deferred tax	Group		Parent company	
MSEK	2008	2007	2008	2007
Deferred tax income/expense, temporary differences	31	-129	-383	265
<b>Total tax expense</b>	<b>28</b>	<b>-137</b>	<b>-482</b>	<b>531</b>

For the parent company in 2008 and 2007 current tax of MSEK 99 and MSEK -266 respectively, on Group contribution received and paid respectively, is recognised directly in shareholders' equity.

Difference between nominal and effective tax rate	Group		Parent company	
Per cent	2008	2007	2008	2007
Swedish income tax rate	28.0	28.0	28.0	-28.0
Effect of other tax rates for foreign subsidiaries	-0.1	0.6		
Tax-exempt dividend			0.0	-8.0
Tax receivable attributable to previous period	0.4	-0.6	0.0	—
Losses in foreign subsidiaries for which deferred tax receivable was not used	—	0.2	—	—
Tax effect due to non-deductible expenses and tax-exempt income	4.9	0.4	0.3	1.4
Tax effect of changed corporate tax rate in Sweden 1 Jan. 2009	-55.9		-2.2	
<b>Effective tax rate according to profit/loss account</b>	<b>-22.7</b>	<b>28.6</b>	<b>26.1</b>	<b>-34.6</b>

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

	Opening balance	Reported in P/L account	Recognised in shareholders' equity	Closing balance
	1 Jan. 2008			31 Dec. 2008
<b>MSEK</b>				
<b>Group</b>				
<b>Deferred tax liability</b>				
Other fixed assets	1 401	-14		1 387
Tax allocation reserve	34	-34		—
Hedge reserve	23		-85	-62
<b>Total deferred tax liability</b>	<b>1 458</b>	<b>-48</b>	<b>-85</b>	<b>1 325</b>
<b>Deferred tax receivable</b>				
Buildings and land	43	-7		36
Inventories	0	0		0
Accounts receivable	1	2		3
Provisions	23	-2		21
Loss carry forward	22	-10		12
<b>Total deferred tax receivable</b>	<b>89</b>	<b>-17</b>	<b>—</b>	<b>72</b>
<b>Total net deferred tax liability</b>	<b>1 369</b>	<b>-31</b>	<b>-85</b>	<b>1 253</b>
Of which reported as deferred tax receivable				1
Of which reported as deferred tax liability				1 254

Temporary differences and/or loss carry forwards that are not balanced by reported deferred tax receivables amount to around MSEK 55. The assessment is based on uncertainty as to when the tax can be recovered.



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

	Opening balance 1 Jan. 2007	Reported in P/L account	Recognised in shareholders' equity	Closing balance 31 Dec. 2007
<b>MSEK Group</b>				
<b>Deferred tax liability</b>				
Other fixed assets	1 279	122		1 401
Tax allocation reserve	53	-19		34
Hedge reserve	3		20	23
<b>Total deferred tax liability</b>	<b>1 335</b>	<b>103</b>	<b>20</b>	<b>1 458</b>
<b>Deferred tax receivable</b>				
Buildings and land	47	-4		43
Inventories	0	0		0
Accounts receivable	1	0		1
Provisions	53	-30		23
Loss carry forward	14	8		22
<b>Total deferred tax receivable</b>	<b>115</b>	<b>-26</b>	<b>-</b>	<b>89</b>
<b>Total net deferred tax liability</b>	<b>1 220</b>	<b>129</b>	<b>2</b>	<b>1 369</b>
Of which reported as deferred tax receivable				0
Of which reported as deferred tax liability				1 369

Temporary differences and/or loss carry forwards that are not recognised in reported deferred tax receivables amount to around MSEK 58. The assessment is based on uncertainty as to when the tax can be recovered.

	Opening balance, 1 Jan. 2008	Reported in profit/loss accounts	Closing balance, 31 Dec. 2008
<b>MSEK Parent company</b>			
<b>Deferred tax liability</b>			
Other fixed assets	277	361	638
<b>Total deferred tax liability</b>	<b>277</b>	<b>361</b>	<b>638</b>
<b>Deferred tax receivable</b>			
Buildings and land	6	0	6
Accounts receivable	1	2	3
Provisions	14	-3	11
Loss carry forward	21	-21	-
<b>Total deferred tax receivable</b>	<b>42</b>	<b>-22</b>	<b>20</b>
<b>Total net deferred tax receivable/liability</b>	<b>235</b>	<b>383</b>	<b>618</b>

There are no significant temporary differences in participations in subsidiaries.

	Opening balance, 1 Jan. 2007	Reported in profit/loss accounts	Closing balance, 31 Dec. 2007
<b>MSEK Parent company</b>			
<b>Deferred tax liability</b>			
Other fixed assets	549	-272	277
<b>Total deferred tax liability</b>	<b>549</b>	<b>-272</b>	<b>277</b>
<b>Deferred tax receivable</b>			
Buildings and land	5	1	6
Accounts receivable	1	0	1
Provisions	36	-22	14
Loss carry forward	7	14	21
<b>Total deferred tax receivable</b>	<b>49</b>	<b>-7</b>	<b>42</b>
<b>Total net deferred tax receivable/liability</b>	<b>500</b>	<b>-265</b>	<b>235</b>

There are no significant temporary differences in participations in subsidiaries.

## 9 EARNINGS PER SHARE

	2008	2007
<b>Earnings per share before dilution</b>		
Profit for the year, MSEK	152	336
Weighted amount of outstanding ordinary shares	51 491 570	51 460 719
<b>Earnings per share before dilution, SEK</b>	<b>2.96</b>	<b>6.52</b>
<b>Earnings per share after dilution</b>		
Profit for the year, MSEK	152	336
Adjusted result, MSEK	152	336
Weighted amount of outstanding ordinary shares	51 491 570	51 460 719
Adjustment for assumed dilution / LTIP	-	49 090
No. of shares when calculating earnings per share	51 491 570	51 509 809
<b>Earnings per share after dilution, SEK</b>	<b>2.96</b>	<b>6.52</b>

## 10 TANGIBLE FIXED ASSETS

2008 MSEK Group	Buildings and land	Plant and equipment <sup>1)</sup>	Construction in progress and advance payments	Total
<b>Acquisition values</b>				
Opening balance 1 Jan. 2008	1 681	11 400	203	13 284
Investments	65	714	-192	587
Sales and disposals	-	-14	-	-14
Translation difference	-2	-52	-	-54
<b>Closing balance 31 Dec. 2008</b>	<b>1 744</b>	<b>12 048</b>	<b>11</b>	<b>13 803</b>
<b>Accumulated depreciation</b>				
Opening balance 1 Jan. 2008	-890	-4 836	-	-5 726
Depreciation	-54	-448	-	-502
Sales and disposals	-	11	-	11
Translation difference	1	43	-	44
<b>Closing balance 31 Dec. 2008</b>	<b>-943</b>	<b>-5 230</b>	<b>-</b>	<b>-6 173</b>
<b>Accumulated impairment losses</b>				
Opening balance 1 Jan. 2008	-111	-1 792	-	-1 903
Sales and disposals	-	-	-	-
<b>Closing balance 31 Dec. 2008</b>	<b>-111</b>	<b>-1 792</b>	<b>-</b>	<b>-1 903</b>
<b>Value according to balance sheet 31 Dec. 2008</b>	<b>690 <sup>2)</sup></b>	<b>5 026</b>	<b>11</b>	<b>5 727</b>
<b>2008 MSEK Parent company</b>				
<b>Acquisition values</b>				
Opening balance 1 Jan. 2008	708	5 899	120	6 727
Investments	55	323	-114	264
Sales and disposals	-	-5	-	-5
<b>Closing balance 31 Dec. 2008</b>	<b>763</b>	<b>6 217</b>	<b>6</b>	<b>6 986</b>
<b>Accumulated depreciation</b>				
Opening balance 1 Jan. 2008	-405	-2 521	-	-2 926
Depreciation	-26	-199	-	-225
Sales and disposals	-	5	-	5
<b>Closing balance 31 Dec. 2008</b>	<b>-431</b>	<b>-2 715</b>	<b>-</b>	<b>-3 146</b>
<b>Accumulated impairment losses</b>				
Opening balance 1 Jan. 2008	-	-898	-	-898
Sales and disposals	-	-	-	-
<b>Closing balance 31 Dec. 2008</b>	<b>-</b>	<b>-898</b>	<b>-</b>	<b>-898</b>
<b>Value according to balance sheet 31 Dec. 2008</b>	<b>332 <sup>3)</sup></b>	<b>2 604</b>	<b>6</b>	<b>2 942</b>

## 10 TANGIBLE FIXED ASSETS

<sup>1)</sup> Light machinery and equipment represent only a minor proportion of the overall value of plant and equipment and are not therefore reported separately.

<sup>2)</sup> Of which land, MSEK 33 (34).

<sup>3)</sup> Of which land, MSEK 8 (8).

2007 MSEK Group	Buildings and land	Plant and equipment <sup>1)</sup>	Construction in progress and advance payments	Total
<b>Acquisition values</b>				
Opening balance 1 Jan. 2007	1 640	10 985	74	12 699
Investments	41	459	129	629
Sales and disposals	–	-25	–	-25
Translation difference	0	-19	–	-19
<b>Closing balance 31 Dec. 2007</b>	<b>1 681</b>	<b>11 400</b>	<b>203</b>	<b>13 284</b>
<b>Accumulated depreciation</b>				
Opening balance 1 Jan. 2007	-836	-4 455	–	-5 291
Depreciation	-53	-420	–	-473
Sales and disposals	–	23	–	23
Translation difference	0	16	–	15
<b>Closing balance 31 Dec. 2007</b>	<b>-890</b>	<b>-4 836</b>	<b>–</b>	<b>-5 726</b>
<b>Accumulated impairment losses</b>				
Opening balance 1 Jan. 2007	-111	-1 792	–	-1 903
Sales and disposals	–	–	–	–
<b>Closing balance 31 Dec. 2007</b>	<b>-111</b>	<b>-1 792</b>	<b>–</b>	<b>-1 903</b>
<b>Value according to balance sheet 31 Dec. 2007</b>				
	<b>680<sup>2)</sup></b>	<b>4 772</b>	<b>203</b>	<b>5 655</b>
<b>2007 MSEK Parent company</b>				
<b>Acquisition values</b>				
Opening balance 1 Jan. 2007	691	5 669	47	6 407
Investments	17	250	73	340
Sales and disposals	–	-20	–	-20
<b>Closing balance 31 Dec. 2007</b>	<b>708</b>	<b>5 899</b>	<b>120</b>	<b>6 727</b>
<b>Accumulated depreciation</b>				
Opening balance 1 Jan. 2007	-379	-2 355	–	-2 734
Depreciation	-26	-185	–	-211
Sales and disposals	–	19	–	19
<b>Closing balance 31 Dec. 2007</b>	<b>-405</b>	<b>-2 521</b>	<b>–</b>	<b>-2 926</b>
<b>Accumulated impairment losses</b>				
Opening balance 1 Jan. 2007	–	-898	–	-898
Sales and disposals	–	–	–	–
<b>Closing balance 31 Dec. 2007</b>	<b>–</b>	<b>-898</b>	<b>–</b>	<b>-898</b>
<b>Value according to balance sheet 31 Dec. 2007</b>				
	<b>303<sup>3)</sup></b>	<b>2 480</b>	<b>120</b>	<b>2 903</b>

<sup>1)</sup> Light machinery and equipment represent only a minor proportion of the overall value of plant and equipment and are not therefore reported separately.

<sup>2)</sup> Of which land, MSEK 33 (34).

<sup>3)</sup> Of which land, MSEK 8 (8).

The tax assessment value of building and lands in Sweden amounts to MSEK 1 872 (1 865), of which buildings constitute MSEK 1 769 (1 769). Tax assessment value also includes assets posted on the balance sheet under plant and equipment. The tax assessment value of building and land for the parent company amounts to MSEK 837 (829), of which buildings constitute MSEK 780 (780).

**Rental and leasing agreements**

Total future contractual leasing commitments for the Group amount to MSEK 135 of which MSEK 34 is within one year and MSEK 121 is between 1-5 years. The corresponding figure for the parent company is MSEK 97 of which MSEK 20 is within one year and MSEK 83 is between 1-5 years. Leasing expenses in 2008 amounted to MSEK 42 for the Group and MSEK 24 for the parent company.

## 11 INTANGIBLE FIXED ASSETS

2008 MSEK Group	Acquired intangible assets		Total
	Software	Other contract- based assets	
<b>Acquisition value</b>			
Opening balance, 1 Jan. 2008	41	–	41
Investments	20	17	37
Translation difference	–	2	2
<b>Closing balance, 31 Dec. 2008</b>	<b>61</b>	<b>19</b>	<b>80</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 Jan. 2008	–	–	–
Depreciation for the year	-4	-2	-6
Translation differences	–	0	0
<b>Closing balance, 31 Dec. 2008</b>	<b>-4</b>	<b>-2</b>	<b>-6</b>
<b>Value reported in balance sheet, 31 Dec. 2008</b>			
	<b>57</b>	<b>17</b>	<b>74</b>
<b>2007</b>			
<b>Acquisition value</b>			
Opening balance, 1 Jan. 2007	17	–	17
Investments	24	–	24
<b>Closing balance, 31 Dec. 2007</b>	<b>41</b>	<b>–</b>	<b>41</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 Jan. 2007	–	–	–
Depreciation for the year	–	–	–
<b>Closing balance, 31 Dec. 2007</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Value reported in balance sheet, 31 Dec. 2007</b>			
	<b>41</b>	<b>–</b>	<b>41</b>
<b>Parent company</b>			
<b>2008</b>			
<b>Acquisition value</b>			
Opening balance, 1 Jan. 2008	41	–	41
Sales	-18	–	-18
<b>Closing balance, 31 Dec. 2008</b>	<b>23</b>	<b>–</b>	<b>23</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 Jan. 2008	–	–	–
Depreciation for the year	-2	–	-2
<b>Closing balance, 31 Dec. 2008</b>	<b>-2</b>	<b>–</b>	<b>-2</b>
<b>Value reported in balance sheet, 31 Dec. 2008</b>			
	<b>21</b>	<b>–</b>	<b>21</b>
<b>2007</b>			
<b>Acquisition value</b>			
Opening balance, 1 Jan. 2007	17	–	17
Investments	24	–	24
<b>Closing balance, 31 Dec. 2007</b>	<b>41</b>	<b>–</b>	<b>41</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 Jan. 2007	–	–	–
Depreciation for the year	–	–	–
<b>Closing balance, 31 Dec. 2007</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Value reported in balance sheet, 31 Dec. 2007</b>			
	<b>41</b>	<b>–</b>	<b>41</b>



## 12 PARTICIPATIONS IN GROUP COMPANIES

MSEK	2008	2007
<b>Acquisition value</b>		
At start of year	1 245	1 174
Investments <sup>1)</sup>	28	71
<b>Closing balance</b>	<b>1 273</b>	<b>1 245</b>
<b>Accumulated impairment losses</b>		
At start of year	-120	-50
Year's losses <sup>2)</sup>	-	-70
<b>Closing balance</b>	<b>-120</b>	<b>-120</b>
<b>Reported book value</b>	<b>1 153</b>	<b>1 125</b>

<sup>1)</sup> Investment during the year comprised a shareholders' contribution to Billerud Beetham Ltd (MSEK 12), the acquisition of Cebeco Mediena Uab (MSEK 14) and shareholders' contribution to Billerud Trading (Shanghai) Co Ltd (MSEK 2).

<sup>2)</sup> There was no impairment of shares in 2008. The impairment loss of shares in 2007, MSEK 70, refers to the holding in Billerud Beetham Ltd.

## Specification of parent company's holdings in Group companies

Subsidiary / Reg. Office / Reg. no.	No. of participations	Participations, % <sup>3)</sup>	Book value
Billerud Karlsborg AB, Kalix 556310-4198	1 250 000	100	300
Billerud Skärblacka AB, Norrköping 556190-3179	1 000 000	100	740
Billerud Skog AB, Stockholm 556724-4641	1 000	100	1
Scankraft Paper AB, Stockholm 556459-7572	1 000	100	0
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 GmbH, Hamburg -	-	100	1
Billerud Iberica S.L., Barcelona -	-	100	1
Billerud S.r.l., Milan -	-	100	0
Billerud Sales Ltd, Nottingham 5 000	5 000	100	7
Billerud Trading (Shanghai) Co Ltd -	-	100	4
Cebeco Mediena Uab <sup>4)</sup> 200	200	70	14
<b>Reported value 31 Dec. 2008</b>			<b>1 153</b>

<sup>3)</sup> Refers to ownership participation in capital, which is also the same as the participation in votes for the total number of shares.

<sup>4)</sup> Option to buy remaining 30% exists.

## 13 RECEIVABLES IN GROUP COMPANIES, INTEREST BEARING

MSEK	2008	2007
<b>Parent company</b>		
Reported value at start of year	-	180
Settled receivables	-	-180
<b>Reported value at end of period</b>	<b>-</b>	<b>-</b>

## 14 PARTICIPATIONS IN ASSOCIATED COMPANIES/JOINT VENTURES

MSEK	2008	2007
<b>Group</b>		
Reported value at start of year	4	1
Acquisition of joint ventures	-	5
Share in associated companies'/joint ventures' earnings after tax	0	-2
Other changes in associated companies'/joint ventures' equity <sup>1)</sup>	0	0
<b>Reported value at end of period</b>	<b>4</b>	<b>4</b>

The Group's share of revenue, result, assets and liabilities is specified below.

## Associated companies / Joint ventures

MSEK	Country	Revenue	Result	Assets	Liabilities	Equity	Owned share in %
<b>2008</b>							
ScandFibre							
Logistics AB	Sweden	851	5	92	82	10	20
Nine Total Packaging							
Partner AB	Sweden	3	-1	2	0	2	60
<b>Total</b>		<b>854</b>	<b>4</b>	<b>94</b>	<b>82</b>	<b>12</b>	
<b>2007</b>							
ScandFibre							
Logistics AB	Sweden	130	0	10	9	1	20
Nine Total Packaging							
Partner AB	Sweden	0	-2	2	0	2	60
<b>Total</b>		<b>130</b>	<b>-2</b>	<b>12</b>	<b>9</b>	<b>3</b>	

MSEK	2008	2007
<b>Parent company</b>		
<b>Acquisition value</b>		
At start of year	7	2
Investments	-	5
Sales during the year <sup>1)</sup>	-	0
<b>Closing balance</b>	<b>7</b>	<b>7</b>
<b>Accumulated impairment losses</b>		
At start of year	-1	-1
Impairment losses for the year	0	0
<b>Closing balance</b>	<b>-1</b>	<b>-1</b>
<b>Reported value at year-end</b>	<b>6</b>	<b>6</b>

<sup>1)</sup> Scankraft Paper AB is being reported as a Group company from 2007.

## Specification of parent company's directly owned holding of participations in associated companies / joint ventures

Name, Reg. no. and registered office	31 Dec. 2008	Votes and capital, %	Reported value
<b>Associated companies/Joint ventures</b>			
ScandFibre Logistics AB, 556253-1474 Stockholm	20		1
Nine Total Packaging Partner AB, 556727-5658 Stockholm	60		5
<b>Parent company total</b>			<b>6</b>

## 31 Dec. 2007

Name, Reg. no. and registered office	31 Dec. 2007	Votes and capital, %	Reported value
<b>Associated companies</b>			
ScandFibre Logistics AB, 556253-1474 Stockholm	20		1
Nine Total Packaging Partner AB, 556727-5658 Stockholm	60		5
<b>Parent company total</b>			<b>6</b>

## 15 OTHER HOLDINGS

MSEK	No. of participations	Participations, %	Book value
<b>Group and parent company</b>			
<b>Name / Reg. no.</b>			
<b>31 Dec. 2008</b>			
2 tenant-owner's rights			9
Vänerhamn AB, 556483-5071	800	4	1
BasEL i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	4
Kalix Vindkraft AB, 556686-1729	20 000	10	4
<b>Total</b>			<b>18</b>
<b>MSEK</b>			
<b>Parent company</b>			
<b>Namn / Org nr</b>			
<b>31 Dec. 2008</b>			
2 tenant-owner's rights			9
Vänerhamn AB, 556483-5071	800	4	1
BasEL i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	4
<b>Total</b>			<b>14</b>

## 15 OTHER HOLDINGS, CONTINUED

MSEK Group and parent company	No. of Participations,		Book value
	participations	%	
Name / Reg. no.			
31 Dec. 2007			
2 tenant-owner's rights			9
Vänerhamn AB, 556483-5071	800	4	1
BasEL i Sverige AB, 556672-5858	50	5	0
VindIn AB, 556713-5172	100	7	1
<b>Total</b>			<b>11</b>

## 16 INVENTORIES

MSEK	Group		Parent company	
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
Raw material	491	380	121	112
and consumables				
Finished goods	511	556	220	257
Work in progress	21	–	–	–
Advance from supplier	68	–	–	–
<b>Total</b>	<b>1 091</b>	<b>936</b>	<b>341</b>	<b>369</b>

Operating costs include an MSEK 90 impairment of inventories. Of inventories of finished goods, MSEK 149 (0) correspond to assessment at fair value.

## 17 SHAREHOLDERS' EQUITY

## Specification of reserves item in shareholders' equity

MSEK Group	2008	2007
<b>Translation reserve</b>		
Opening translation reserve	-3	-1
Translation differences for the year	-1	-3
Less hedging of currency risk in foreign activities	3	1
<b>Closing translation reserve</b>	<b>-1</b>	<b>-3</b>
<b>Hedge reserve</b>		
Opening hedge reserve	60	8
Cash flow hedging		
Reported directly in equity	-132	123
Dissolved against profit / loss account	-188	-51
Tax attributable to year's hedges	85	-20
<b>Closing hedge reserve</b>	<b>-175</b>	<b>60</b>
<b>Total reserves</b>		
Opening reserves	57	7
Year's change in reserves		
Translation reserve <sup>1)</sup>	2	-2
Hedge reserve	-235	52
<b>Closing reserves</b>	<b>-176</b>	<b>57</b>

<sup>1)</sup> The change in the translation reserve represents the translation differences for the year when translating balance sheets of foreign subsidiaries into SEK.

## Share capital

Owners of ordinary shares are entitled to a dividend established at a later date and the shareholding gives an entitlement to vote at the AGM, with one vote per share. All shares have the same rights to Billerud's remaining net assets. Concerning shares owned by the company (see below) all rights are waived up to the moment the shares are re-issued.

## Other paid-in capital

This refers to equity contributed by the owners and includes the share premium reserves transferred to reserve funds on 31 December 2005. Allocations to the share premium reserve from 1 January 2006 and onward are also reported as other paid-in capital.

## Reserves

## Translation reserve

The translation reserve comprises all the exchange rate differences arising when translating financial reports from foreign businesses that have produced financial reports in a currency other than the currency in which the Group presents its financial reports. The parent company and the Group present their financial reports in SEK. The translation reserve also comprises exchange rate differences on liabilities raised as a hedge instrument for a net investment in a foreign business.

## Hedge reserve

The hedge reserve comprises the effective share of the accumulated net changes in fair value of a cash flow hedge instrument attributable to the hedge transactions that have not yet occurred.

## Profit brought forward including profit/loss for the year

Profit brought forward including profit/loss for the year includes earned profit in the parent company and its subsidiaries and in associated companies. Previous allocations to legal reserve, excluding transferred share premium reserves, are included in this equity item.

## Treasury shares

Treasury shares constitute the acquisition cost of the company's own shares owned by the parent company. As of 31 December 2008 the Group's ownership of its own shares was 1 851 473 (1 851 473). During 2007, 58 527 shares were sold to employees in connection with the company's Long-Term Incentive Programme (LTIP).

## Dividend

After the closing date the Board has announced that it will propose to the AGM that the year's profit be used to strengthen the company's equity and no dividend be paid. This proposal will be voted on at the AGM on 6 May 2009.

	2008	2007
Dividend, MSEK	180	180
Reported dividend per ordinary share, SEK	3.50	3.50

## Parent company

## Restricted reserves

Restricted reserves cannot be reduced through profit dividends.

## Share capital

The share capital comprises 53 343 043 (53 343 043) ordinary shares worth a nominal SEK 12.50 (12.50) each and entitling the owner to one vote per share.

## Legal reserve

The purpose of the legal reserve is to save part of the net profit that is not needed to cover the loss.

## Non-restricted equity

## Share premium reserve

When shares are issued at a premium, i.e. a higher sum is to be paid for the shares than the nominal value, a sum corresponding to the amount above the nominal value is transferred to the share premium reserve.

## Profit carried forward

Consists of the previous year's non-restricted equity after payment of dividends, if any. Constitutes together with the profit for the year and any reserves for fair value the amount of non-restricted equity, i.e. the sum available for the dividend to shareholders.

## 18 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

Billerud has defined-benefit pension plans for white-collar workers in Sweden (ITP plan) and to a limited extent for employees in foreign subsidiaries, mainly in Germany. These plans are not managed in funds. Part of the pension commitment for white-collar workers in Sweden is secured through provisions on the balance sheet in accordance with the FPG/PRI system. Billerud also has defined-contribution pension plans. Some of the pension commitment for white collar workers in Sweden is secured through insurance with Alecta. Alecta cannot provide sufficient information to report the ITP plan as a defined-benefit plan, so it is reported as a defined-contribution plan in accordance with UFR 3. The fee for pension insurance with Alecta in 2008 amounted to MSEK 10 (17).

## Defined-benefit obligations

MSEK Group	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Current value of unfunded defined-benefit obligations	218	185	181
Adjustments:			
Accumulated unrecognised actuarial gains(+) and losses (-)	-35	-12	-17
<b>Obligations reported on balance sheet</b>	<b>183</b>	<b>173</b>	<b>164</b>

The amount is reported in the following items on the balance sheet:

## Provisions for pensions and similar commitments

	2008	2007	2006
Provisions for pensions and similar commitments	183	173	164





The net amount is divided among plans in the following countries:

Sweden	172	163	156
Germany	11	10	8
The Netherlands	0	0	0
<b>Provisions reported on balance sheet</b>	<b>183</b>	<b>173</b>	<b>164</b>

#### Pension costs

##### MSEK

<b>Group</b>	<b>2008</b>	<b>2007</b>
Current service cost	21	10
Interest cost	8	6
Cost of defined-benefit plans	29	16
Cost of defined-contribution plans	41	51
Wage tax	16	21
<b>Total cost for remuneration after employment ends</b>	<b>86</b>	<b>88</b>

The cost is reported under the following items in the profit and loss accounts:

Staff costs	78	82
Financial costs	8	6
<b>Total cost for remuneration after employment ends</b>	<b>86</b>	<b>88</b>

#### Reconciliation of provisions for pensions on the balance sheet

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

	<b>2008</b>	<b>2007</b>
Provisions, start of year	173	164
Cost of defined-benefit plans	13	16
Pensions paid	-3	-7
<b>Provisions, year-end</b>	<b>183</b>	<b>173</b>
<b>Unrecognised actuarial gain (-) and loss (+)</b>	<b>2008</b>	<b>2007</b>
Unrecognised actuarial loss, start of year	12	17
Changed assumptions for obligations	24	-4
Amortisation for the year	-1	-1
Translation differences for the year	0	0
<b>Unrecognised actuarial loss, year-end</b>	<b>35</b>	<b>12</b>

#### Actuarial assumptions

The following significant actuarial assumptions have been used when calculating obligations (weighted average values):

	<b>31 Dec. 2008</b>	<b>31 Dec. 2007</b>
Discount rate	3.7 %	4.3 %
Future salary increases	3.0 %	3.0 %
Future increase in income amount	3.0 %	3.0 %
Inflation	2.0 %	2.0 %
Staff turnover	5.0 %	5.0 %
Expected remaining period of service	11 år	11 år

#### Capital value of pension obligations

##### MSEK

<b>Parent company</b>	<b>2008</b>	<b>2007</b>
Capital value of direct pension obligations at start of year	133	125
Costs excluding interest costs that affect results	7	5
Interest costs	8	6
Payment of pensions	-3	-3
Capital value of direct pension obligations at end of year	145	133
Obligations paid to capital insurance owned by Billerud	32	29
Other provisions	4	10
<b>Total provision in balance sheet</b>	<b>181</b>	<b>172</b>
Of which credit insurance via FPG/PR	145	133

#### Costs relating to pensions

##### MSEK

<b>Parent company</b>	<b>2008</b>	<b>2007</b>
Direct pensions		
Costs excluding interest costs	7	5
Interest costs	8	6
<b>Costs for direct pensions</b>	<b>15</b>	<b>11</b>

Pension through insurance		
Paid pension premiums	28	75
Provision for future premiums	1	1
Dissolution of provisions for future premiums	-6	-62
<b>Sub-total</b>	<b>23</b>	<b>14</b>
Yield tax for pension funds	1	1
Special payroll tax for pension costs	9	6
Cost of credit insurance	0	0
<b>Pension costs for the year</b>	<b>48</b>	<b>32</b>

31 Dec. 2008 31 Dec. 2007

#### Group

##### Pledged securities for pension commitments

Capital insurance	32	35
<b>Group total</b>	<b>32</b>	<b>35</b>

#### Parent company

##### Pledged securities for pension commitments

Capital insurance	26	28
<b>Parent company total</b>	<b>26</b>	<b>28</b>

#### Group

Amount at which a provision item is expected to be paid within 12 months	5	3
Amount at which a provision item is expected to be paid after more than 12 months	178	170

#### Parent company

Amount at which a provision item is expected to be paid within 12 months	8	5
Amount at which a provision item is expected to be paid after more than 12 months	173	167

## 19 PROVISIONS

#### MSEK

<b>Group</b>	<b>2008</b>	<b>2007</b>
<b>Provisions that are long-term liabilities</b>		
Severance pay, lay-off pay	2	2
Costs for environmental measures	23	23
<b>Group total</b>	<b>25</b>	<b>25</b>

#### Provisions that are short-term liabilities

Costs for restructuring measures	12	17
<b>Group total</b>	<b>12</b>	<b>17</b>

#### Parent company

Costs for restructuring measures	7	12
<b>Parent company total</b>	<b>7</b>	<b>12</b>

#### Group

##### Costs for restructuring measures

Reported value at start of year	17	124
Unutilised amount dissolved during the year	-	-27
Amount utilised during the year	-5	-78
Transfers	-	-2
<b>Reported value at end of period</b>	<b>12</b>	<b>17</b>

##### Severance pay, lay-off pay

Reported value at start of year	2	2
Provisions made during the year	0	1
Amount utilised during the year	-	-1
<b>Reported value at end of period</b>	<b>2</b>	<b>2</b>

##### Costs for environmental measures

Reported value at start of year	23	22
Provisions made during the year	0	1
<b>Reported value at end of period</b>	<b>23</b>	<b>23</b>

## 19 PROVISIONS, CONTINUED

<b>MSEK</b>		
<b>Group</b>		
<b>Group's total provisions</b>		
Reported value at start of year	42	148
Provisions made during the year	0	2
Unutilised amount dissolved during the year	–	-27
Amount utilised during the year	-5	-79
Transfers	–	-2
<b>Total reported value at end of period</b>	<b>37</b>	<b>42</b>
Of which total long-term proportion of provisions	25	25
Of which total short-term proportion of provisions	12	17

**Parent company****Costs for restructuring measures**

Reported value at start of year	12	89
Unutilised amount dissolved during the year	–	-19
Amount utilised during the year	-5	-58
<b>Reported value at end of period</b>	<b>7</b>	<b>12</b>

**Parent company's total provisions**

Reported value at start of year	12	89
Unutilised amount dissolved during the year	–	-19
Amount utilised during the year	-5	-58
<b>Total reported value at end of period</b>	<b>7</b>	<b>12</b>
Of which total long-term proportion of provisions	–	–
Of which total short-term proportion of provisions	7	12

**Payments** 31 Dec. 2008 31 Dec. 2007

<b>MSEK</b>		
<b>Group</b>		
Amounts for which provisions are expected to be paid out after more than 12 months	25	25

**Parent company**

Amounts for which provisions are expected to be paid out after more than 12 months	–	–
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**Restructuring**

Provisions were made in 2005 for the Billerud 2007 restructuring project and in 2008 payments amounted to MSEK 6 (78).

## 20 INTEREST-BEARING LIABILITIES

<b>MSEK</b>		
<b>Group</b>		
<b>31 Dec. 2008 31 Dec. 2007</b>		
<b>Long-term liabilities</b>		
Syndicated loan	1 168	133
Bond loan	1 225	1 575
Other interest-bearing liabilities	3	–
<b>Reported value at end of year</b>	<b>2 396</b>	<b>1 708</b>
<b>Current liabilities</b>		
Short-term part of bond loan	350	107
Commercial paper programme	224	1 337
Other interest-bearing liabilities	6	–
<b>Reported value at end of year</b>	<b>580</b>	<b>1 444</b>

**Conditions and repayments periods****Syndicated loan 2008**

In December 2008 Billerud signed a new loan agreement. This syndicated loan facility is worth MSEK 450 and runs for three years with an option to extend for one year. This facility was not utilised as of 31 December 2008, but will be utilised fully in June 2009 in connection with the maturity of Bond loan no. 1. The terms of the loan are that the following key indicators shall be met: the net debt/equity ratio shall not exceed 1.2 and the interest coverage ratio shall exceed 1.5.

**Syndicated loan 2005**

The loan runs from 12 September 2005 for five years. The loan amounts to MSEK 1 800. As of 31 December 2008, MSEK 1 050, MGBP 10.3, corresponding to MSEK 121, of the loan had been utilised. MGBP 2.8, or MSEK 32, amounts to the parent company and

MGBP 7.5, or MSEK 86, amounts to the subsidiary Billerud Beetham Ltd. The terms of the loan are that the following key indicators shall be met: the net debt/equity ratio should not exceed 1.2 and the interest coverage ratio exceed 1.5.

**Bond loan no. 1 (FRN loan)**

Loan no. 1 runs from 3 June 2002 for seven years with interest of STIBOR +0.85 %. The loan amounts to MSEK 350. As of 31 December 2008, MSEK 350 of the loan had been utilised.

**Bond loan no. 2 (FRN loan)**

Loan no. 2 runs from 22 September 2003 for eight years with interest of STIBOR +0.85 %. The loan amounts to MSEK 150. As of 31 December 2008, MSEK 150 of the loan had been utilised.

**Bond loan no. 4 (FRN loan)**

Loan no. 4 runs from 23 February 2005 for eight years with interest of STIBOR +0.45 %. The loan amounts to MSEK 300. As of 31 December 2008, MSEK 300 of the loan had been utilised.

**Bond loan no. 5 (FRN loan)**

Loan no. 5 runs from 25 February 2005 for five years with interest of STIBOR +0.47 %. The loan amounts to MSEK 150. As of 31 December 2008, MSEK 150 of the loan had been utilised.

**Bond loan no. 6 (FRN loan)**

Loan no. 6 runs from 15 June 2005 for five years with interest of STIBOR +0.75 %. The loan amounts to MSEK 250. As of 31 December 2008, MSEK 250 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 +0.58 %. The loan amounts to MSEK 225. As of 31 December 2008, MSEK 225 of the loan had been utilised.

**Bond loan no. 8 (FRN loan)**

Loan no. 8 runs from 10 March 2006 for 10 years with interest of STIBOR +0.75 %. The loan amounts to MSEK 150. As of 31 December 2008, MSEK 150 of the loan had been utilised.

**Commercial paper programme**

The programme runs from 18 June 2003 and enables Billerud to issue commercial papers worth a nominal MSEK 1, or EUR 100 000, up to a framework amount of MSEK 1 500 or EUR equivalent. The commercial papers shall run for at least one day and at most one year. As of 31 December 2008, commercial papers worth MSEK 224 had been issued, with maturities of between around 0.5 month and 3.5 months. There are no special re-negotiation terms linked to the above loans.

## 21 LIABILITIES TO CREDIT INSTITUTIONS

<b>MSEK</b>		
<b>Parent company</b>		
<b>31 Dec. 2008 31 Dec. 2007</b>		
<b>Long-term liabilities</b>		
Syndicated loan	1 168	36
Bond loan	1 225	1 575
<b>Reported value at end of year</b>	<b>2 393</b>	<b>1 611</b>
<b>Current liabilities</b>		
Short-term section of bond loan	350	107
Commercial papers	224	1 337
<b>Reported value at end of year</b>	<b>574</b>	<b>1 444</b>

Liabilities that fall due for payment later than five years after the balance date.

Bond loan 4, falls due in 2013	300
Bond loan 7, falls due in 2013	225
Bond loan 8, falls due in 2016	150

## 22 ACCRUED EXPENSES AND DEFERRED INCOME

		<b>Group</b>		<b>Parent company</b>	
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>MSEK</b>					
<b>Staff-related expenses</b>					
including social security costs	199	206	125	120	
Excise duty	3	2	0	–	
Delivery expenses	116	89	50	45	
Wood costs	9	104	–	–	
Energy costs	22	18	–	–	
Other	82	79	18	39	
<b>Total</b>	<b>431</b>	<b>498</b>	<b>193</b>	<b>204</b>	



## 23 FINANCIAL ASSETS AND LIABILITIES

Fair value and reported value are presented in the balance sheet below:

Group 2008	Derivatives used for hedge accounting	Loan receivables and accounts receivable	Available-for-sale financial assets	Other financial liabilities	Total reported value	Fair value
Other shares and participations			18		18	18
Long-term receivables		0			0	0
Accounts receivable		1 294			1 294	1 294
Other receivables	30	155			185	185
Liquid funds <sup>1)</sup>		542			542	542
<b>Total</b>	<b>30</b>	<b>1 991</b>	<b>18</b>		<b>2 039</b>	<b>2 039</b>
Long-term interest-bearing liabilities				2 396	2 396	2 396
Short-term interest-bearing liabilities				580	580	580
Accounts payable				1 019	1 019	1 019
Other liabilities	267			217	484	484
<b>Total</b>	<b>267</b>			<b>4 212</b>	<b>4 479</b>	<b>4 479</b>
<b>Group 2007</b>						
Other shares and participations			11		11	11
Long-term receivables		1			1	1
Accounts receivable		1 486			1 486	1 486
Other receivables	95	163			258	258
Liquid funds <sup>1)</sup>		718			718	718
<b>Total</b>	<b>95</b>	<b>2 368</b>	<b>11</b>		<b>2 474</b>	<b>2 474</b>
Long-term interest-bearing liabilities				1 708	1 708	1 708
Short-term interest-bearing liabilities				1 444	1 444	1 444
Accounts payable				870	870	870
Other liabilities	11			183	194	194
<b>Total</b>	<b>11</b>			<b>4 205</b>	<b>4 216</b>	<b>4 216</b>

Net value changes for cash flow hedging reported in the profit and loss accounts amounted in 2008 to MSEK -188 (-51), of which MSEK -208 (16) is reported under "Net turnover", and MSEK 21 (-67) under "Raw materials and consumables".

<sup>1)</sup> Short-term investments are reported as "Liquid funds" when the period after the acquisition date is less than 3 months and there is only a very minor risk associated with fluctuations in value.

Fair value and reported value are presented in the balance sheet below:

Parent company 2008	Derivatives used for hedge accounting	Loan receivables and accounts receivable	Available-for-sale financial assets	Other financial liabilities	Total reported value	Fair value
Other shares and participations			14		14	14
Other long-term receivables		26			26	26
Accounts receivable		1 091			1 091	1 091
Other receivables		53			53	83
Cash and bank accounts <sup>2)</sup>		443			443	443
<b>Total</b>		<b>1 613</b>	<b>14</b>		<b>1 627</b>	<b>1 657</b>
Bond liabilities and syndicated loans				2 307	2 307	2 307
Liabilities to credit institutes				574	574	574
Other interest-bearing liabilities				6	6	6
Accounts payable				272	272	272
Other liabilities				73	73	340
<b>Total</b>				<b>3 232</b>	<b>3 232</b>	<b>3 499</b>
<b>Parent company 2007</b>						
Other shares and participations			11		11	11
Other long-term receivables		28			28	28
Accounts receivable		1 417			1 417	1 417
Other receivables		23			23	118
Cash and bank accounts <sup>2)</sup>		652			652	652
<b>Total</b>		<b>2 120</b>	<b>11</b>		<b>2 131</b>	<b>2 226</b>
Bond liabilities and syndicated loans				1 611	1 611	1 611
Liabilities to credit institutes				1 444	1 444	1 444
Accounts payable				427	427	427
Other liabilities				157	157	168
<b>Total</b>				<b>3 639</b>	<b>3 639</b>	<b>3 650</b>

<sup>2)</sup> Short-term investments are reported as "Cash and bank accounts" when the period after the acquisition date is less than 3 months and there is only a very minor risk associated with fluctuations in value.

## 24 REMUNERATION TO SENIOR EXECUTIVES

**Remuneration to the Board**

Fees are paid to the Chairman of the Board and to Board members in accordance with decisions made by the Annual General Meeting. Fees are also paid for work on committees. The Chairman received a Board fee of SEK 510 000 in 2008, of which SEK 76 000 was for committee work. Other Board members received a total of SEK 1 560 000, of which SEK 143 000 was for committee work.

**Directors' fees 2008**

kSEK

Name	Annual fee	Annual fee	Fee Audit	Fee Audit	Fee Compensation	Fee Compensation	Expensed fee 2008 <sup>1)</sup>
	2007-2008	2008-2009	committee 2007-2008	committee 2008-2009	committee 2007-2008	committee 2008-2009	
Ingvar Petersson	400	450	30	35	40	45	510
Michael M.F. Kaufmann	300	350	–	–	–	–	333
Gunilla Jönson	200	225	–	–	–	–	217
Per Lundberg	200	225	60	70	20	23	305
Ewald Nageler	200	225	–	–	–	–	217
Yngve Ståde	200	225	–	–	20	23	238
Meg Tivéus	200	225	30	35	–	–	250

<sup>1)</sup> The fees decided by the 2007 and 2008 AGMs.

**Remuneration to the CEO and senior executives**

The 2008 Annual General Meeting established the following guidelines for remuneration to senior executives. Senior executives include the CEO and other members of the senior management team.

Billerud shall apply market-related remuneration levels and employment terms that are appropriate in order to recruit and keep a senior executive team that has the competence and capacity to achieve set goals. Remuneration forms shall motivate executives to do their utmost to secure the interests of shareholders. Remuneration may be in the form of fixed or variable salary, long-term incentive schemes and other benefits such as company car and pension. Fixed and variable salary shall be established in relation to competence, area of responsibility and performance. Variable remuneration will be based on the outcome in relation to set targets and be maximized to a fixed percentage of fixed salary and vary between 30 and 45%. The incentive scheme shall primarily be share-related and the aim is to secure a long-term commitment to the development of the company. The scheme will be based on market terms.

For more information about the incentive scheme adopted at the 2007 AGM, see information in the company's annual report and on its website.

Pension benefits will be either defined-benefit or defined-contribution pension plans. They will normally entitle the executive the right to retire from age 65. In some cases this age will be lower, although not lower than 62.

Notification of termination of contract is normally six to twelve months, and if the company terminates the contract severance pay shall be maximized at 12 months of salary. Remuneration and other employment terms for the CEO are prepared and decided by the Board. Remuneration and other employment terms for members of the senior executive team are determined by the CEO following approval by the remuneration committee.

The Board is entitled to deviate from these guidelines if there is good reason in individual cases.

In 2008 the bonus outcome for the CEO was 15% and an average of 15% for other senior executives.

**Remuneration and other benefits to the CEO**

SEK '000	Year	Basic salary	Bonus	Other benefits	Pension cost	Total
Per Lindberg	2007	4 315 <sup>2)</sup>	1 126	150	976	6 567

**Remuneration and other benefits to other senior executives (8 simultaneous members)**

SEK '000	Year	Basic salary	Bonus	Other benefits	Pension cost	Total
Senior executive team <sup>2)</sup>	2007	10 506	2 057	978	4 434	17 975

<sup>1)</sup> The amount includes extra holiday pay, daily allowances and lunch coupons of SEK 114,000 in addition to basic salary.

<sup>2)</sup> The amount includes extra holiday pay of SEK 65,000 in addition to basic salary.

<sup>3)</sup> The amount also includes remuneration and other benefits for a senior executive who left the senior management team in 2007 and one who joined the team in 2007. The amounts refer to the period they were members of the team.

**Comments**

- The variable bonus for 2008 refers to amounts to be paid out in 2009 but charged to 2008, while the variable bonus for 2007 refers to bonus paid out in 2008 but charged to 2007. The amount is based on financial and individual goals that are linked to the development of the business and based on results in 2008 and 2007.
- Other benefits include company car, home supplied and other taxable benefits.
- Pension plans are of the defined-benefit and contribution-defined type. Pension costs relate to the cost that affects the year's profit and loss.
- In Billerud's Long-Term Incentive Programme, the CEO has the right as part of the share matching scheme to acquire 3 865 shares at the end of the programme in 2010 at a price of SEK 41.80 per share. Other members of the senior management team have the right to acquire 8 624 shares in a corresponding programme at a price of SEK 41.80 per share.

In the second section of the programme, involving the opportunity to acquire so-called performance shares, the outcome for 2008 has not yet been settled.

## 25 ADDITIONAL INFORMATION CONCERNING THE CASH FLOW STATEMENT

MSEK	Group		Parent company	
	2008	2007	2008	2007
<b>Paid interest, received interest and dividends</b>				
Received interest and dividends	10	18	10	35
Paid interest	-156	-111	-135	-159
<b>Total</b>	<b>-146</b>	<b>-93</b>	<b>-125</b>	<b>-124</b>
<b>Adjustments for items not included in cash flow, etc.</b>				
Depreciation and impairment of assets	508	473	227	211
Adjusting interest	18	4	21	4
Anticipated dividend			425	-425
Impairment of subsidiary's shares			–	70
Other provisions	-82	-103	-5	-75
Capital loss	2	0	0	0
<b>Total</b>	<b>446</b>	<b>374</b>	<b>668</b>	<b>-215</b>



MSEK	Group		Parent company	
	2008	2007	2008	2007
Liquid funds <sup>1)</sup>				
The following components are included in liquid funds				
Short-term investments	120	330	120	330
Cash and bank accounts	422	388	323	322
<b>Total</b>	<b>542</b>	<b>718</b>	<b>443</b>	<b>652</b>

<sup>1)</sup> Short-term investments are classified as liquid funds when the term after the acquisition date is shorter than three months and is exposed to insignificant risk for changes in value.

## 26 UNTAXED RESERVES

MSEK	2008	2007
<b>Parent company</b>		
<b>Accelerated depreciation</b>		
Plant and equipment		
Opening balance, 1 January	1 900	–
Year's accelerated depreciation	-1 900	1 900
<b>Closing balance, 31 December</b>	<b>–</b>	<b>1 900</b>
<b>Total untaxed reserves</b>	<b>–</b>	<b>1 900</b>

## 27 EVENTS AFTER THE CLOSING DATE

Billerud strengthened its expertise in renewable packaging through the acquisition of Tenova Bioplastics AB, a development company working with bioplastics in Norrköping, Sweden, that produces compostable carrier bags made of bioplastic. The largest customer is ICA AB, a major Swedish supermarket chain. Tenova had sales of MSEK 35 in 2008 and is a market leader in Sweden.

## 28 INVESTMENT COMMITMENTS

### Group

In 2008 the Group signed agreements to acquire tangible fixed assets for MSEK 65 (280). Of these commitments, MSEK 42 (280) are expected to be settled in 2009.

### Parent company

In 2008 the parent company signed agreements to acquire tangible fixed assets for MSEK 27 (121). Of these commitments, MSEK 0 (121) are expected to be settled in 2009.

## 29 PLEDGED SECURITIES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

MSEK	Group		Parent company	
	2008	2007	2008	2007
<b>Pledged securities for own liabilities and provisions</b>				
Pledged endowment insurance	32	35	26	28
<b>Total pledged securities</b>	<b>32</b>	<b>35</b>	<b>26</b>	<b>28</b>
<b>Contingent liabilities</b>				
Guarantee commitment, FPG/PRI	3	3	3	3
Other guarantees	6	6	6	6
Warranties	–	–	26	26
Guarantees for Group companies	–	–	86	96
<b>Total contingent liabilities</b>	<b>9</b>	<b>9</b>	<b>121</b>	<b>131</b>

## 30 RELATED PARTIES

### Related-party relationships

The parent company has related-party relationship with its subsidiaries, see note 12.

### Summary of related-party transactions

MSEK	Group	Related-party relationship	Year	Sales of goods and services to related parties	Purchase of goods and services from related parties	Debts to related parties	Receivables from related parties
		Associated company / joint ventures	2008	1	258	15	–
		Associated company / joint ventures	2007	–	267	13	–
		<b>Parent company</b>					
		Related-party relation	År				
		Subsidiary	2008	2	1 194	630	1 037
		Subsidiary	2007	3	8	690	1 603
		Associated company / joint ventures	2008	1	108	6	–
		Associated company / joint ventures	2007	–	–	13	–

### Transactions with key people in leading positions

For remuneration, salaries and other benefits, see notes 5 and 24.

## 31 ACQUISITION OF SUBSIDIARIES

On 30 April 2008 Billerud acquired 70% of the shares in Cebeco Mediena Uab, a Lithuanian company that trades in pulpwood. Billerud has an option to buy the remaining 30% of the company. The purchase sum will be paid successively during 2008-2010. Billerud's sales in 2008 include MSEK 6 from this acquisition, while profits were affected by MSEK -1. If the acquisition had been completed by the start of 2008, sales would have been affected by MSEK 8 and profits by MSEK -1. The acquired intangible fixed assets have a depreciation period of 5 years. In August 2008 Billerud acquired the wood purchase organisation from BAC Säg & Hyvleri AB. The acquisition included the taking over of personnel and stocks of standing forest. In Billerud the acquisition rendered the recognition of an intangible asset with a depreciation period of 5 years and the net effect on liquid assets from the acquisition was MSEK 5.

MSEK	Reported value in Cebeco Mediena Uab	Fair value adjustment	Fair value
Intangible fixed assets		12	12
Tangible fixed assets	0		0
Inventories	3		3
Accounts receivable and other receivables	6		6
Liquid funds	5		5
Interest-bearing liabilities	3		3
Accounts payable and other liabilities	7		7
Deferred tax liability	–	2	2
Net of identifiable assets and liabilities	4	10	14
Purchase sum			14
Liquid funds (acquired)			4
Remaining liability for purchase sum			6
Net effect on liquid funds			4



## 32 KEY ESTIMATES AND ASSESSMENTS

The audit committee has discussed the application of the Group's accounting principles and made assessments and estimates in connection with the application of these principles. The following key estimates and assessments require further explanation.

**Pension liabilities**

The discount rate when calculating the commitment concerning Billerud's defined-benefit pension plans was decreased from 4.3% in 2007 to 3.7% in 2008. For other actuarial assumptions, see note 18, pages 78-79.

**Valuation of acquired unit**

Billerud's production of MG paper at the Billerud Beetham mill made a small profit during the year. Production at Beetham is included as an integrated part of the MG segment as a cash-generating unit. An impairment test has been performed for MG segment. According to the company's calculations the value of future cash-flow exceeds the reported value, and it was determined that no impairment loss had been incurred. Following a test for impairment, the parent company's shareholding in the subsidiary, Billerud Beetham Ltd, has retained its reported value.

**Valuation of Billerud**

With the stock market evaluation of Billerud being less than consolidated shareholders' equity, an assessment was made of the value of the Group's assets based on forecast cash flows. This assessment did not indicate an impairment requirement for the assets.

## 34 QUARTERLY DATA

The business areas' results have been reported excluding the effects of currency hedging since last year. From 2007 the business areas' results are in addition reported excluding that part of currency effects referring to change in value in operating assets in foreign currency. This currency exposure is managed centrally and is hedged to a large extent and therefore reported under "Currency hedging etc." This item, "Currency

## 33 INFORMATION ABOUT THE PARENT COMPANY

Billerud AB is a limited liability company registered in Sweden with the head office in Stockholm. The shares of the parent company are registered on the OMX Nordic Exchange Stockholm. The address to the head office is P.O. Box 703, SE-169 27 Solna. The consolidated accounts for 2008 are for the parent company and its subsidiaries, which form the Group. The Group also has participations in associated companies and joint ventures.

hedging etc.", presents the net amount of the result of currency hedging and currency re-assessments of operating assets including currency effects from payments. The part of currency exposure attributable to the effects of currency changes in invoicing rates will continue to be reported as part of the business area's results.

**Quarterly breakdown of net turnover by business area and total**

MSEK	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
Packaging & Speciality Paper	3 832	815	1 008	976	1 033	3 989	1 072	969	960	988
Packaging Boards	2 364	556	598	566	644	2 171	577	546	508	540
Market Pulp	1 499	334	385	366	414	1 556	382	360	425	389
Currency hedging etc.	28	-33	38	37	-14	42	37	-1	-9	15
Other and eliminations	69	37	9	4	19	0	0	-	-	-
<b>Total</b>	<b>7 792</b>	<b>1 709</b>	<b>2 038</b>	<b>1 949</b>	<b>2 096</b>	<b>7 758</b>	<b>2 068</b>	<b>1 874</b>	<b>1 884</b>	<b>1 932</b>

**Quarterly breakdown of operating profit by business area and total**

MSEK	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
Packaging & Speciality Paper	244	-23	76	50	141	355	144	96	17	98
Packaging Boards	248	29	83	50	86	179	71	64	-9	53
Market Pulp	-145	-110	-39	-15	19	81	22	11	16	32
Currency hedging etc.	28	-33	38	37	-14	42	37	-1	-9	15
Other and eliminations	-86	-28	-32	-8	-18	-67	-31	-17	2	-21
<b>Total</b>	<b>289</b>	<b>-165</b>	<b>126</b>	<b>114</b>	<b>214</b>	<b>590</b>	<b>243</b>	<b>153</b>	<b>17</b>	<b>177</b>

**Quarterly breakdown of operating margin by business area and total**

%	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
Packaging & Speciality Paper	6	-3	8	5	14	9	13	10	2	10
Packaging Boards	10	5	14	9	13	8	12	12	-2	10
Market Pulp	-10	-33	-10	-4	5	5	6	3	4	8
<b>Group</b>	<b>4</b>	<b>-10</b>	<b>6</b>	<b>6</b>	<b>10</b>	<b>8</b>	<b>12</b>	<b>8</b>	<b>1</b>	<b>9</b>

**Quarterly breakdown of delivery volumes by business area and total**

'000 tonnes	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
Packaging & Speciality Paper	482	103	128	123	128	544	144	130	131	139
Packaging Boards	469	108	121	113	127	463	118	114	111	120
Market Pulp	327	78	85	79	85	326	79	74	89	84
<b>Total</b>	<b>1 278</b>	<b>289</b>	<b>334</b>	<b>315</b>	<b>340</b>	<b>1 333</b>	<b>341</b>	<b>318</b>	<b>331</b>	<b>343</b>



# Proposed allocation of profit

## Non-restricted equity in the parent company amounts to:

<b>SEK</b>	
Profit brought forward from previous year	369 206 805
Net of group contribution paid/received, after tax effect	-253 944 000
Profit for the year	1 365 079 773
<b>Total</b>	<b>1 480 342 578</b>

The Board proposes

<b>SEK</b>	
That the remaining amount be carried forward into a new account	<b>1 480 342 578</b>
<b>SEK</b>	<b>1 480 342 578</b>

The consolidated financial statements and the annual report, 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 July 19, 2002 on the application of international accounting standards and generally accepted accounting practices, respectively, and give a true and fair view of the financial position and results for the Group and Parent Company, respectively. The Report of the Directors for the Group and the Parent Company, respectively, includes a fair review of the operations, financial position and results of the Group and the Parent Company and describe the principal risks and uncertainties facing the Parent Company and the companies included in the Group.

The annual report and consolidated accounts were approved for publication by the Board on 12 March 2009. The Group's and parent company's profit/loss accounts and balance sheets will be subject to adoption by the Annual General Meeting of shareholders on 6 May 2009.

Solna, Sweden, 12 March 2009

Ingvar Petersson, *Chairman*

Michael M. F. Kaufmann, *Deputy chairman*

Stewe Cato, *Board member*

Gunilla Jönson, *Board member*

Per Lundberg, *Board member*

Ewald Nageler, *Board member*

Per Nilsson, *Board member*

Yngve Ståde, *Board member*

Meg Tivéus, *Board member*

Per Lindberg, *CEO*

Our audit report was issued on 20 March 2009

KPMG AB

Caj Nackstad  
Authorised public accountant

# Auditors' report

To the annual meeting of the shareholders of Billerud AB (publ)  
Corporate identity number 556025-5001

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of Billerud AB (publ) for the year 2008. The annual accounts and consolidated accounts are included in the printed version of this document on pages 43-85. The Board of Directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards, IFRS, as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director and significant estimates made by the Board of Directors and the Managing Director when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and

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

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

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

Stockholm, 20 March 2009  
KPMG AB

Caj Nackstad  
Authorised Public Accountant



# Key figure definitions

## Margins

### Gross margin

Operating profit before depreciation (EBITDA) as a percentage of net turnover.

### Operating margin

Operating profit as a percentage of net turnover.

## Return

### Return on capital employed

Operating profit as a percentage of average capital employed.

### Return on total capital

Operating profit as percentage of average total capital.

### Return on equity

Net profit as a percentage of average shareholders' equity.

### Return on equity after full conversion

Net profit plus convertible loan interest after tax as a percentage of average shareholders' equity plus the effect of full conversion of the convertible loan into shareholders' equity

## 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.

### Shareholders' equity after full conversion

Shareholders' equity at the end of the period plus the effect of full conversion of the convertible loan.

### Interest-bearing net debt

Interest-bearing provisions and liabilities less interest-bearing assets.

### Capital turnover

Net turnover divided by average capital employed.

### Interest coverage

Operating profit plus financial income divided by financial costs.

### Net debt/equity ratio

Interest-bearing net debt divided by shareholders' equity.

### Net debt/equity ratio after full conversion

Interest-bearing net debt minus the effect of full conversion of the convertible loan into shareholders' equity divided by shareholders' equity plus the effect of full conversion of the convertible loan into shareholders' equity.

### 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.

### Equity ratio after full conversion

Shareholders' equity plus the effect of full conversion of the convertible loan into shareholders' equity as a percentage of total assets.

### Self-financing ratio

Cash flow from operating activities, excluding paid and received financial items and paid tax, divided by investments in fixed assets.

## Per share data <sup>1)</sup>

### Earnings per share

Net profit divided by the average number of shares.

### Earnings per share after dilution / full conversion

Net profit plus convertible loan interest after tax divided by the average number of shares after dilution / full conversion and estimated utilisation of incentive programme.

### Equity per share

Shareholders' equity at the end of the period divided by the number of shares at the end of the period.

### Equity per share after dilution / full conversion

Shareholders' equity at the end of the period plus the effect of full conversion of the convertible loan divided by the number of shares at the end of the period plus the effect of full conversion and estimated utilisation of incentive programme.

### Cash flow per share

Cash flow before financing activities divided by the average number of shares during the period.

### P/E ratio

Share price at year-end divided by earnings per share.

### EV/EBITDA

Stock market value plus interest-bearing net liabilities divided by the operating profit before depreciation and write-downs. (EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortisation.)

<sup>1)</sup> Total number of shares, see pages 100-101.

## *Billerud's corporate governance in 2008*

This report about corporate governance in the Billerud Group is organised in accordance with rules contained in the Swedish code of corporate governance. This code was introduced at Billerud during the spring of 2005. The report is not part of the formal annual report and has not been checked by the company's auditors.

A summary of implementation of the Swedish code of corporate governance as of 2008 is presented in the table below.

The complete table is available in the section on corporate governance on the company's website, [www.billerud.com/governance](http://www.billerud.com/governance).

<b>Chapter</b>	<b>Implement/explain</b>
1. Annual General Meeting	The code has been implemented
2. Nominations committee	The code has been implemented with the following exceptions. <i>2.1.2 Chairman of the Board or other Board member shall not be chairman of the nominations committee:</i> The reason for non-conformance is that the 2008 AGM decided that the chairman of the nominations committee shall be the Board member representing the largest owner in terms of numbers of shares. Michael M.F. Kaufmann represents the largest shareholder and is therefore chairman of the nominations committee. He is also a Board member and vice chairman of the Board.
3. The Board	The code has been implemented
4. Company management	The code has been implemented
5. Corporate governance	The code has been implemented

### **Ownership structure and shares**

At the end of 2008 the total number of shareholders was 118,222 compared with 144,447 at the end of the previous year. The portion of foreign ownership increased to 47.9% (46.1) excluding shares bought back and owned by the company (1,851,473). The other owners are private Swedish individuals, 35.4% (36.0), and Swedish legal entities 16.7% (19.6).

In early summer a programme approved by the 2008 AGM concerning commission-free trading was carried out for directly registered shareholders who held 99 shares or fewer. This offer was available from 12 May to 2 June 2008 and around 21,000 shareholders responded.

A reduction in the number of directly registered shareholders benefits all owners of Billerud shares by cutting costs.

Further details about the company's shares, shareholders, etc. are presented in the chapter entitled "The Billerud share" and on the company's website, [www.billerud.com/IR](http://www.billerud.com/IR).

### **Annual General Meeting (AGM), etc.**

#### ***The 2008 AGM***

The 2008 Annual General Meeting was held on 29 April 2008 at Aula Magna, Stockholm University. Among other matters, the meeting agreed to re-elect the existing Board: Ingvar Petersson, Gunilla Jönson, Michael M.F. Kaufmann, Per Lundberg, Ewald Nageler, Yngve Stade and Meg Tivéus. The meeting also agreed to the introduction of a programme for commission-free trading.

#### ***The 2009 AGM***

The 2009 AGM will take place on 6 May at 15.00 at Nalen, Regeringsgatan 74, Stockholm.

#### ***Nominations committee for 2009 AGM***

The 2008 AGM decided to set up a nominations committee ahead of the 2009 AGM. The nominations committee was appointed by the Chairman contacting the larger shareholders during the autumn of 2008. The nominations committee will make proposals regarding a chairman for the AGM, Board members, Board Chairman and Vice Chairman and the remuneration to Board members and auditors. The committee will also make proposals for appointing the elections committee ahead of the 2010 AGM.

On 23 October 2008 an elections committee for the 2009 AGM was appointed comprising Michael M. F. Kaufmann, Frapag Beteiligungsholding AG, (chairman), Anders Oscarsson, SEB Fonder and SEB Trygg Liv, and Fredrik Nordström, AMF Fondförvaltning AB. Ingvar Petersson, Chairman of Billerud AB, is secretary and convenor, but not a member of the nominations committee. No special remuneration was paid to the chairman or any other members of the nominations committee for their work. The three owner representatives represent around 24.5% of the votes in Billerud.





Ahead of the 2009 AGM the nominations committee held minuted meetings and kept in contact via telephone and e-mail. Billerud's website contains a page entitled "Nominations committee" within the section on "Corporate governance", where shareholders are able to communicate with the committee.

## The Board of Directors

### Composition

In accordance with the articles of association, the Board of Directors of Billerud AB comprises at least six members and at most ten members, with at most six deputies. Board members are appointed for one year at a time. The company's CEO is not a member of the Board.

Of Board members elected by the AGM, all except two members are independent of the company, senior executives and the larger shareholders. Michael M. F. Kaufmann is the CEO and Ewald Nageler is the CFO of the parent company of Frapag Beteiligungsholding AG, Billerud AB's largest shareholder, and are therefore not independent of the company's owners according to the definitions of the Swedish code of corporate governance and the listing requirements of the OMX Nordic Exchange Stockholm.

The Board also includes two members and two deputies who are appointed by the trade unions in accordance with the law on Board representation for private employees. These four Board members are employees of the company and are not therefore independent of the company.

During 2008 the secretary of the Board has been Wilhelm Lünig of the Cederquist legal firm.

All Board members have completed training courses for Board members of listed companies arranged by the OMX Nordic Exchange Stockholm.

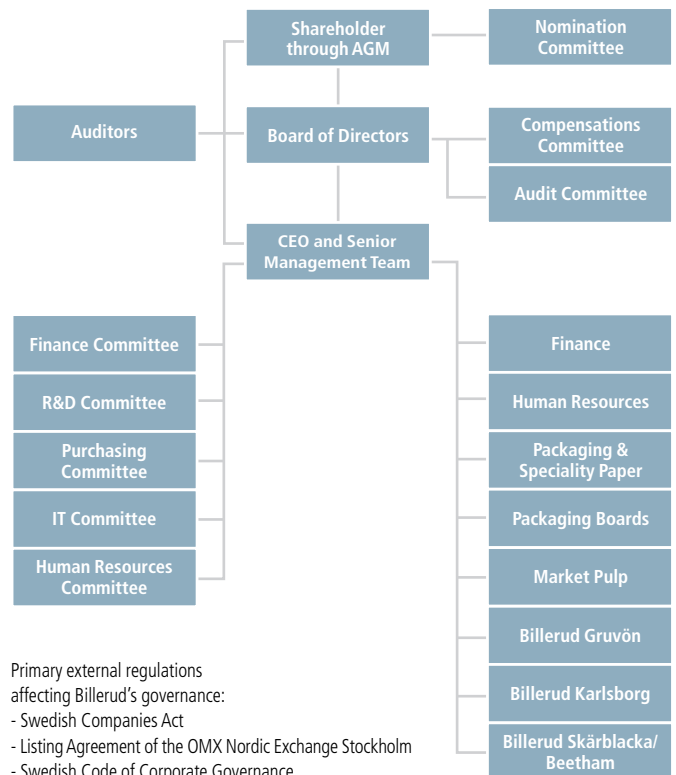
The Board met 11 times in 2008, including 1 time via telephone conference. One meeting coincided with a tour of the Billerud Gruvön mill.

### Organisation of the work of the Board

The work of the Board follows written instructions and a meetings schedule, which aims to ensure that the Board receives comprehensive information and that all aspects of the company's activities are dealt with. The written instructions prescribe the information to be supplied to the Board. These instructions are available on the company's website, together with instructions for the CEO.

The Board has also established a number of general policies for the company's activities. These policies are revised as necessary. They include policies on corporate governance, finance and communications and a single policy covering quality, the environment and the community. The latter policy covers Billerud's attitudes towards ethics and the environment.

## CORPORATE GOVERNANCE WITHIN BILLERUD



### Work of the Board in 2008

In 2008, the Board, inter alia, considered the issues concerning:

- » Financial statements, interim reports and audit
- » Strategy and policies
- » Financial plans and budgets
- » Structure, acquisitions and investments
- » Evaluation of the Board and the work of the CEO

The Board has in 2008 also put extra focus on issues related to cost savings activities within wood supply, energy and other costs, development of new products and customer concepts in close cooperation with end customers, working capital management and financing issues.

### Assessment

At a meeting in December the Board makes its own assessment of its work during the year, including an assessment of the work of the chairman. The chairman has reported the results of this assessment to the nominations committee.

The Board continually assesses the work of the CEO. Once a year an assessment is made of the CEO without the CEO being present.



### Board committees

The Board currently has two committees, the audit committee established in 2004 and the compensation committee established in 2001. The roles, composition and activities of these committees in 2008 are presented below. The Board appoints the members of these committees.

### Audit committee

The Board is ultimately responsible for ensuring that satisfactory controls are in place for risk management, accounting, financial reporting and similar issues. To support the Board in its supervising role, an audit committee was established in 2004. This committee is a part of the Board. The audit committee's role is to contribute to a good standard of financial reporting and ensure that efficient and independent auditing of the company is performed by qualified, external auditors. The committee shall furthermore monitor the accounting principles, risk management and internal controls of the company. Finally, the committee shall organise the election of the auditors and their fees. The rules of procedure for the audit committee are presented in full on the company's website.

The audit committee comprises the following four members: Per Lundberg (chairman), Per Nilsson, Ingvar Petersson and Meg Tivéus. All members are independent of the company except for Per Nilsson, who is a Billerud employee, and thus a dependent of the company. During 2008 the secretary of the committee was Wilhelm Lüning of the Cederquist legal firm.

### Work in 2008

During 2008 the audit committee held six meetings, of which one was a telephone conference. Attendance of members of the committee is

presented on this page. During the year the committee addressed various auditing issues, the audit plans for 2008, risk analysis, internal controls and policy issues. The committee also met ahead of the publication of each interim report and the financial statement, and addressed the accounting and reporting issues relating to publication.

The chairman of the audit committee reports regularly to the Board concerning the audit committee meetings. The Board's work on internal controls for financial reporting is presented in the Report of Internal Controls, which also includes an assessment of the need for a special verification system.

### Compensations committee

The Board has established a compensations committee charged with the task of proposing general policy for salaries, remuneration and other general employment terms within Billerud, and to approve the CEO's proposal for salaries and remuneration for senior executives within the framework of the policy. The committee also makes proposals to the Board and takes decisions regarding the salary and remuneration to the CEO. The rules of procedure for the compensations committee are available on the company's website.

In 2008 the members of the committee were: Ingvar Petersson, (chairman), Per Lundberg and Yngve Stade. The head of human resources, Cecilia Lundin, was the secretary but was not a member of the committee. The committee met 4 times in 2008. Attendance of members of the committee is presented in the table below.

### Work in 2008

In 2008 discussions were held concerning a review of employment terms for senior executives, bonus outcomes for 2007, a salary review for

## BOARD MEMBERS

Name	Funktion	Nationality	Born	Holdings in Billerud <sup>1)</sup> Shares	The Board of Directors 11 meetings held in 2008			Audit committee 6 meetings held in 2008		Compensation Committee 4 meetings held in 2008	
					Elected	Independent	Attendance	Member	Attendance	Member	Attendance
Ingvar Petersson	Chairman	Swedish	1941	8000	2001	Yes	11	Yes	6	Chairman	4
Michael M.F. Kaufmann	Deputy chairman	Austrian	1948	0	2005	No	10	No	-	No	-
Gunilla Jönson	Member	Swedish	1943	550	2003	Yes	11	No	-	No	-
Per Lundberg	Member	Swedish	1943	1500	2001	Yes	11	Chairman	6	Yes	4
Ewald Nageler	Member	Austrian	1950	4000	2006	No	11	No	-	No	-
Yngve Stade	Member	Swedish	1947	500	2001-2003	Yes	11	No	-	Yes	4
Meg Tivéus	Member	Swedish	1943	1000	2001	Yes	11	Yes	6	No	-
Stewe Cato	Employee Representative	Swedish	1953	0	2001	No	11	No	-	No	-
Kurt Lindvall	Employee Representative, deputy	Swedish	1951	0	2001	No	11	No	-	No	-
Per Nilsson	Employee Representative	Swedish	1946	250	2001	No	10	Yes	6	No	-
Katarina Stavöstrand	Employee Representative, deputy	Swedish	1946	585	2007	No	10	No	-	No	-

<sup>1)</sup> Shareholding up to 11 February 2009.

2009 and the bonus criteria for senior executives in 2009. The principles for remuneration to the CEO and other senior executives, and the actual figures are contained in note 24 of the 2008 annual report.

#### Auditors

At the 2007 AGM the accountancy firm, KPMG Bohlins AB (now KPMG AB), headed by lead auditor Caj Nackstad, was elected as auditors of the company up to the end of the 2009 AGM.

In order to ensure that the work of the Board and the audit committee is performed in a structured way, and to meet the Board's information requirements, Billerud's auditors report directly on at least three occasions per year to the Board and to the audit committee.

In 2008 the auditors made reports on three occasions to the audit committee and on one occasion to the Board. These reports dealt with the audit plans, the results of the audit based on the September accounts, and the results of the audit of the annual accounts.

The auditors' assignments in other companies are presented on page 11. For details of fees, note 4 of the 2008 annual report.

During the autumn 2008 work began aimed at procuring auditor services for the period 2009-2012.

#### CEO and senior executives

The CEO is responsible for the day-to-day management of the company in accordance with instructions established by the Board. The CEO also acts as the chairman of the senior management team. Further details about the CEO are presented below.

The senior management team comprised the managers of the three Swedish mills, the CFO, the director for human resources and information, and three business area managers.

The senior management team normally meets once a week, with face-to-face meetings and telephone conferences in alternating weeks. In 2008 the senior management team addressed issues concerning financing, emergency communication, staff surveys, cost savings, wood supplies, wood prices, production, energy, markets, pricing, the environment, environmental permits, investment and human resources.

Executives also report on projects in their areas of responsibility. A situation report is presented at each meeting for each unit within the Group, along with current financial reports.

Activities are divided into three business areas: Packaging & Speciality Paper, Packaging Boards and Market Pulp, with each business area being responsible for sales, marketing and development within their product area.

The business areas also have responsibility for financial results, based on pre-calculated production costs. The Billerud mills are responsible for production and efficiency, upon which their responsibility for financial results is based.

The senior management team has organised a number of Group-wide networks, in which a member of the team acts as co-ordinator and chairman. Representatives of the three Swedish mills participate on all committees. The following committees were active in 2008:

Finance managers committee	Bertil Carlsén
R&D committee	Stina Blombäck
Purchasing committee	Per Lindberg
IT committee	Bertil Carlsén
Human resources committee	Cecilia Lundin

All members of the senior management team have attended the OMX Nordic Exchange Stockholm's training course for Board members and leading executives of listed companies.

#### Principles for remuneration of senior executives

The 2008 Annual General Meeting adopted as a principle that remuneration and employment terms should be market-based. Work performed shall be remunerated with a fixed salary. In addition a variable bonus may be offered as a reward for achieving fixed targets. For the complete decision concerning the principles for remuneration see note 24 of the 2008 annual report. The Board's proposal for guidelines in 2009 is presented in the directors' report.



INGVAR PETERSSON



CHAIRMAN OF THE BOARD

MICHAEL M.F. KAUFMANN



DEPUTY CHAIRMAN

STEWÉ CATO



EMPLOYEE REPRESENTATIVE

GUNILLA JÖNSON



BOARD MEMBER

KURT LINDVALL



EMPLOYEE REPRESENTATIVE, DEPUTY

PER LUNDBERG



BOARD MEMBER

EWALD NAGELER



BOARD MEMBER

PER NILSSON



EMPLOYEE REPRESENTATIVE

YNGVE STADE



BOARD MEMBER

KATARINA STAVÖSTRAND



EMPLOYEE REPRESENTATIVE, DEPUTY

MEG TIVÉUS



BOARD MEMBER





# Members of the Board of Billerud AB

## INGVAR PETERSSON

Born 1941

Chairman of the board and independent Board member since 2001. Chairman of the Compensation Committee and member of the Audit Committee.

**Education** Business economist. University studies, University of Lund.

**Other board assignments** Chairman of Försäkringsbolaget. Pensionsgaranti, ömsesidigt (FPG) and of RAM One AB. Board member of Econova AB, Munksjö AB and others.

**Work experience** SEVP, Stora Enso. First Executive Vice President, Stora. CEO, Kopparfors AB.

**Holding in Billerud** 8 000 shares.

## STEWÉ CATO

Born 1953

Employee representative (Pappers) since 2001. Not independent of the company.

**Holding in Billerud** 0 shares.

## GUNILLA JÖNSSON

Born 1943

Board member since 2003, Independent of owners and of the company.

**Education** MSc and PhD - exams in Mechanical Engineering, transport technology, Chalmers University of Technology, Gothenburg.

**Other board assignments** Vice Chairman, Chalmers. Member of the Board, Vinnova, SIK, Blekinge Tekniska Högskola, Invest in Skåne AB. Member of the Royal Academy of Engineering Sciences (IVA).

**Present position** Professor in packaging logistics, Lund Institute of Technology and Adjunct professor, School of Packaging at Michigan State University, USA.

**Work experience** Dean, Lund Institute of Technology. Director, environment and product safety, SCA Packaging, Belgium and UK. Director, technology development, SCA Packaging, Belgium. Various positions within SCA Packaging, Sweden. Research Director, Swedish Packaging Research Institute, Stockholm. Assistant professor, School of Packaging, Michigan State University, East Lansing, MI, USA.

Member of the Board of Innovationsbron Syd.

**Holding in Billerud** 550 shares.

## MICHAEL M.F. KAUFMANN

Born 1948

Member of the Board of Billerud since September 2005. Not independent of the company's owners.

**Education** MBA at universities of Stuttgart and Erlangen-Nürnberg.

**Present position** Chief Executive Officer of Frapag Beteiligungsholding AG, Vienna, Austria.

**Other board assignments** Chairman of Frapag Beteiligungsholding AG, Vienna, Austria. Vice chairman of Immofinanz Immobilien Anlagen AG, Vienna, Austria. Board member of Hirsch Servo AG, Glanegg, Austria.

**Work experience** Has formerly held various managerial positions within Frantschach/Mondi, Vienna, Austria.

**Holding in Billerud** 0 shares.

## KURT LINDVALL

Born 1951

Employee representative, deputy (Pappers) since 2001. Not independent of the company.

**Holding in Billerud** 0 shares.

## PER LUNDBERG

Born 1943 Independent Board member since 2001.

Independent of owners and the company. Chairman of the Audit Committee and member of the Compensation Committee.

**Education** MBA, Stockholm School of Economics, Stockholm.

**Other board assignments** Chairman of the Board of Sophiahemmet volunteer association, the Jacob Wallenberg foundation and the Institute for Research in Economic and Business History at the Stockholm School of Economics. Member of the Centre for Business History, Uppsala University. Vice Chairman of Sällskapet Vänner till Pauvres Honteux among others.

**Work experience** Stockholms Enskilda Bank/Skandinaviska Enskilda Banken. Managing Director, Förvaltnings AB Providentia. Deputy Managing Director, Investor AB. Managing Director and CEO, Gota Bank. Group Chief Credit Officer, Skandinaviska Enskilda Banken. Member of the Stock Exchange Disciplinary Committee. Chairman of Bohusbanken, L M Ericsson Finans AB, Nordben Ltd (Guernsey), Stockholm Saltsjön, Grand Hôtel (Stockholm), Ångpanneföreningen. among others. Board member of Alfa Laval, Atlas Copco, AB Finans Vendor, Garphyttan, Haldex, Incentive, Ericsson, New Media Spark Ltd (London), Providentia Ltd (New York och Hong Kong), Saab Automobil, Saab-Scania, SPP, Sterling Airways (Denmark), Stora Timber, Trygg Hansa, Swedish American Chamber of Commerce in New York and Svensk Hypotekspension AB.

**Shareholding in Billerud** 1 500 shares.

## EWALD NAGELER

Born 1950

Board member since 2006.

Not independent of Billerud's owners.

**Education** Degree in economics, University of Innsbruck, Austria

**Present position** CFO, Frapag Beteiligungsholding AG, Vienna, Austria

**Work experience** CFO, Egger Holzindustrie Beteiligungsgesellschaft m b H, St. Johann, Austria. 25 years experience in banking. Member of the managing board of Creditanstalt AG, Vienna. Member of boards for a wide range of financial institutions and companies both within and outside Austria

**Shareholding in Billerud** 4 000 shares.

## PER NILSSON

Born 1946

Employee representative (PTK) since 2001.

Not independent of the company.

**Holding in Billerud** 250 shares.

## YNGVE STADE

Independent Board member 2001-2003, and since 2005.

Member of Compensation Committee.

**Education** Master of Engineering, the Royal Institute of Technology, Stockholm.

**Other board assignments** Chairman of RISE Holding AB.

Member of the board of Newbeam Sweden AB.

**Work experience** President of Stora Enso AB and member of Executive Management Group of Stora Enso Oyi. President, Kamy AB. President, NLK Celpap Engineering AB. Various technical functions, Korsnäs AB. Manager research, STFI. Board member of MoDoChemetics, STFI-Packforsk AB, Skogsindustrierna, and chairman of Stora Fonden för Stiftelsen Tekniska Museet (IVA) and member of boards of several other research institutions linked to the forest industry. Member of the board of Falu Rödfärgs AB/ Stora Kopparbergs Bergslags AB.

**Holding in Billerud** 500 shares.

## KATARINA STAVÖSTRAND

Born 1946

Employee representative (PTK) since 2007.

Not independent of the company.

**Holding in Billerud** 585 shares.

## MEG TIVÉUS

Born 1943

Board member since 2001. Independent of owners and of the company. Member of the Audit Committee.

**Education** Master of Business Administration, School of Economics, Stockholm.

**Other board assignments** Chairman of Sprit- och vinleverantörsföreningen. Frösunda LSS AB and of Folktdandvården i Stockholm. Board member of Swedish Match AB, Cloetta AB, Nordea Fonder AB, Viktoria Park AB and Apoteket Farmaci AB.

**Work experience** Managing Director and board member, AB Svenska Spel. Deputy Managing Director, Posten. Head of Division, Holmen. Head of Division, Åhlens. Product Manager, MoDo. Chairman of Boss Media AB. Board member of Postgirot AB, Postbanken AB, SJ AB, Kommentus AB, Statens Provningsanstalt AB, Jordbruksverket, Operan AB, Framfab AB, Synerco AB, Danderyds Sjukhus AB, Cloetta Fazer AB, among others.

**Holding in Billerud** 2 000 shares.

Shareholdings in Billerud refer to individuals' own holding and those of related parties as of 11 February 2009.

## AUDITORS

At the 2007 AGM the accountancy firm, KPMG AB (name changed to KPMG AB), headed by lead auditor Caj Nackstad, was elected as auditors of the company up to the end of the 2009 AGM.

## CAJ NACKSTAD

Born 1945.

Authorised public accountant at KPMG AB, auditor of Billerud, 2001-2007.

**Other audit assignments** Sandvik, Skanska and LKAB.



PER LINDBERG



PRESIDENT AND CEO

PER BJURBOM



MILL MANAGER GRUVÖN

STINA BLOMBÄCK



MILL MANAGER KARLSBORG

BERTIL CARLSÉN



CFO

PETER DAVIDSON



MILL MANAGER SKÄRBLACKA

LENNART EBERLEH

BUSINESS AREA DIRECTOR  
PACKAGING BOARDS

CECILIA LUNDIN



HEAD OF HUMAN RESOURCES

JOHAN NELLBECK

BUSINESS AREA DIRECTOR  
PACKAGING & SPECIALITY PAPER

NIKLAS SÖDERSTRÖM

BUSINESS AREA DIRECTOR  
MARKET PULP



# Members of senior management team

## PER LINDBERG

President and CEO

Born 1959. Joined Billerud in 2005.

**Education** MSc., Chalmers University of Technology. Ph.D., Chalmers University of Technology.

**Other assignments** Board member, VindIn.

**Work experience** CEO, Korsnäs AB. Executive Vice President, Investment AB Kinnevik. Management and strategy consultant, Applied Value Corporation, USA.

**Holding in Billerud** 4 685 shares.

## PER BJURBOM

Mill manager Gruvön

Born 1961. Joined Billerud in 2007.

**Education** Mechanical engineer, Royal Institute of Technology, Stockholm.

**Work experience** Site manager, Holmen Paper Hallsta.

Site manager, Stora Enso Skoghall mill. Production manager, Stora Enso Skoghall mill. Production manager PM53, Holmen Paper Braviken. Product manager, Braviken Holmen Paper.

Technical marketing, telephone book paper, Holmen Paper.

Operator PM52, Holmen Paper Braviken.

**Holding in Billerud** 1 000 shares.

## STINA BLOMBÄCK

Mill manager Karlsborg

Born 1951. Joined Billerud in 2001.

**Education** MSc., Chemical Engineering, Royal Institute of Technology, Stockholm.

**Other assignments** Board member, LKAB. Member, Energy development board, Swedish Energy Agency.

**Work experience** Research director, AssiDomän. Research manager, AssiDomän Piteå. Consultant, ÅF-IPK. Pulp mill manager, ASSI Karlsborg. Process engineer, Pulp mill manager, ASSI Kraftliner. Process manager, Gruvön. Process engineer, ASSI Karlsborg. Board member, STFI-Packforsk AB. Board member, SPCI.

**Holding in Billerud** 4 860 shares.

## BERTIL CARLSÉN

CFO

Born 1960. Joined Billerud in 2006.

**Education** MSc., Business Administration, Stockholm School of Economics and UC Berkeley Business School, USA.

**Work experience** Senior Vice President, CFO, Acando AB. Senior Vice President, Customer segment manager, Acando AB. Executive Vice President, Commercial Services & IT, AGA Group. Head of control staffs, AGA AB, Region Latin America. CFO, AGA AB, Division North & South America. CFO, AGA Chile, Santiago. Vice President, Treasury and Investor Relations, AGA AB. Finance staff, AGA AB.

**Holding in Billerud** 3 095 shares.

## PETER DAVIDSON

Mill manager Skärblacka

Born 1951. Joined Billerud in 2001.

**Education** MSc., Chemical Engineering, Lund University of Technology.

**Other assignments** Board member, Ljusfors Kraft.

Board member, Marknadsbolaget Nya Norrköping.

Board member, East Sweden chamber of commerce.

**Work experience** Business development, Norske Skog. Factory manager, Klippans Finpappersbruk. Sales manager, Kemira Kemi. General Manager, USA, Canada, Kemira Kemi. Market manager, Kemira Kemi. Product manager, Boliden Kemi. Development engineer, Boliden Kemi. Operations engineer, Klippans papermill.

**Holding in Billerud** 1 243 shares.

## LENNART EBERLEH

Business area director Packaging Boards

Born 1969. Joined Billerud in 2001.

**Education** MSc., University of Technology Carolo Wilhelmina, Braunschweig, Germany.

**Work experience**

Product area manager, Containerboard, Billerud AB.

Sales manager containerboard, Stora Enso Gruvön.

Stora Support Team, Stora Kopparberg Bergslags AB.

Product manager containerboard, Stora Gruvön.

**Holding in Billerud** 500 shares.

## CECILIA LUNDIN

Head of Human resources

Joined Billerud in 2006.

**Education** MSc., Business Administration, Linköping University.

**Work experience** HR manager, Nordic region, Novartis Sverige AB. Business area manager, Adcore Consulting AB. Consulting manager, Connecta AB. Unit manager, Ericsson. Project manager, Ericsson. Business developer, Ericsson.

**Holding in Billerud** 900 shares.

## JOHAN NELLBECK

Business area director Packaging & Speciality Paper

Born 1964. Joined Billerud in 2006.

**Education** MSc., Business Administration, Uppsala University.

**Work experience** Sales manager Tele2. Managing Director, AssiDomän Kraft Products Sales AB. Sales manager, AssiDomän.

**Holding in Billerud** 1 486 shares.

## NIKLAS SÖDERSTRÖM

Business area director Market Pulp

Born 1950. Joined Billerud in 2001.

**Education** Economic Degree.

**Work experience** Market director, AssiDomän. Market director, Rottneros. Sales manager, Utansjö Bruk. Order-/Logistic Manager, Värnamo Gummi. Board member, ScandFibre Logistics.

**Holding in Billerud** 1 500 shares.

Shareholdings in Billerud refer to individuals' own holding and those of related parties as of 11 February 2009.

## SENIOR MANAGEMENT TEAM

Name	Function	Nationality	Born	Employed since	Holding in Billerud <sup>1)</sup>
Per Lindberg	CEO	Swedish	1959	2005	4 865
Per Bjurbom	Mill Manager, Gruvön	Swedish	1961	2007	1 000
Stina Blombäck	Mill Manager, Karlsborg	Swedish	1951	2001	4 860
Bertil Carlsén	CFO	Swedish	1960	2006	3 095
Peter Davidson	Mill Manager, Skärblacka	Swedish	1951	2001	1 243
Lennart Eberleh	Business Area Manager, Packaging Boards	German	1969	2001	500
Cecilia Lundin	Head of Human Resources	Swedish	1970	2006	900
Johan Nellbeck	Business Area Manager, Packaging & Speciality Paper	Swedish	1964	2006	1 486
Niklas Söderström	Business Area Manager, Market Pulp	Swedish	1950	2001	1 500

<sup>1)</sup> Shareholding as of 11 February 2009

# Report on internal controls

The responsibility of the Board and CEO for internal controls is regulated by the Swedish companies act. The responsibility of the Board is also regulated by the Swedish code of corporate governance which contains a requirement for annual publication of external information about how internal controls for financial reporting are organised. This year's report is submitted below.

## Internal controls

Billerud has set the following goals for internal controls.

### 1. Compliance with regulations

Internal controls shall ensure that Billerud complies with all laws and regulations.

### 2. Financial reporting

Internal controls shall ensure that all of Billerud's financial reporting is reliable and provides managers, the Board and shareholders with complete information to ensure that they can assess the company's development.

### 3. Operational activities

Internal controls shall ensure that the company's operational activities are appropriate, 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 this goal, work is carried out in a process based on the framework for internal controls published by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO). The process includes a control environment that creates discipline and structures for the other four components in the process - Risk assessment, Control activities, Information & Communication, and Follow-up

The process is controlled at the overall level by the Board and Board committees, and at operational level by the CEO, senior management team and other staff. In the process, special attention is paid to ensure that application of internal controls achieves a balance between the control activities and the development of an effective control environment with individual responsibility taken throughout the organisation.

## Priority areas in 2008

During 2008 work on internal controls focused on the following areas.

### Financial reporting

- » The development of joint methods throughout the Group for the application of updated accounting instructions
- » The introduction of a new Group reporting system

## Operational risks

- » Identification of risks of disruption to wood flows and adoption of measures for securing long-term efficiency of wood supplies through establishment of Billerud Skog.
- » Control of credit management process with regard to division of responsibility, working methods, credit terms and follow-up.

## External financial reporting

The following report has been produced in accordance with the Swedish code of corporate governance and appropriate instructions for application of the code, and constitutes the Board's report on internal controls concerning financial reporting.

The purpose of internal controls for financial reporting is to provide suitable safeguards concerning the reliability of external financial reporting in the form of interim reports, year-end financial statements, annual reports and to ensure that external financial reporting is produced in accordance with all laws, appropriate accounting standards and other requirements placed on listed companies.

During the year there was a focus on integrating legal and operational reporting and the planning of system structures in a new Group reporting system. These measures will facilitate follow-up of financial reporting according to plans and targets, and increase the reliability of tracking information.

## Control environment

Efficient internal controls are the basis for the proper functioning of the Board. The rules of procedure for the Board and Board committees, and the instructions for the CEO aim to establish clear division of roles and responsibility in order to ensure efficient management of the company's risks. Furthermore the Board has established a series of guidelines for internal controls, such as accounting and reporting instructions, the finance policy, financial goals and decisions about a suitable organisation, including the senior management team. The senior management team reports regularly to the Board based on fixed procedures. In addition there are reports from the audit committee.

During 2008 an assessment was made of the application of accounting instructions updated in 2007.



The senior management team is responsible for ensuring that the necessary internal controls are performed for the management of significant risks in day-to-day activities. These include guidelines for how the individual employee shall understand his or her role in maintaining good internal controls.

#### **Risk assessment and controls**

The company uses a model for assessing the risk of errors in financial reporting. The company continually monitors items where there is special risk for error. This work was performed in 2008 and described on pages 57-61 and in note 32 of this annual report. Special attention was paid to designing controls for preventing and discovering errors in these areas.

#### **Information and communication**

Key guidelines, manuals, etc. that are essential for financial reporting are kept up to date and communicated continually to the staff involved. Both formal and informal information channels to the senior management team and Board exist to ensure that important

information is communicated by staff. Guidelines for external communication ensure that the company meets the strict requirements for accurate information placed by the financial markets.

#### **Follow-up**

The Board assesses the information that the senior management team and audit committee submits. The audit committee's follow-up of the efficiency of the work of the senior management team is especially important in this area. The work includes ensuring that measures are implemented concerning errors and proposals identified in internal and external audits.

#### **Internal audit**

The Board has assessed the need for a special verification function (internal audit). Because the organisation for internal controls performed efficiently the Board has decided that the follow-up work as described above is sufficient and that a special internal verification function is not required.

The corporate governance report, including the report on internal controls, is not a formal part of the annual report and has not been reviewed by the company's auditors.

Solna 11 February 2009

Ingvar Petersson, *Chairman*

Michael M.F. Kaufmann, *Deputy chairman*

Stewe Cato, *Member*

Gunilla Jönson, *Member*

Per Lundberg, *Member*

Ewald Nageler, *Member*

Per Nilsson, *Member*

Yngve Stade, *Member*

Meg Tivéus, *Member*

# Shareholder information and key dates

## Annual General Meeting

Billerud AB's Annual General Meeting will be held at 3 p.m. on 6 May 2009 at Nalen, Regeringsgatan 74, Stockholm, Sweden.

An announcement was made in Sweden's national press on 1 April 2009.

## Notification

Shareholders wishing to take part in the AGM should be registered in the Shareholders' Register held by VPC (the Swedish Central Securities Depository) by Wednesday 29 April 2009, at the latest; notify the company by 4 p.m. on 29 April 2009 at the latest.

Notification can be made by telephone to +46 8 553 335 40, by telefax to +46 8 553 335 65 or by post to Billerud AB, Investor Relations, Box 703, SE-169 27 Solna, Sweden. Notification can also be made via [www.billerud.se/anmalan](http://www.billerud.se/anmalan).

To be able to participate at the meeting, shareholders whose shares are registered in the name of a nominee must request that their own names are temporarily registered in the share register kept by VPC. This procedure, so-called voting right registration, must be completed by 29 April 2009, which means that the shareholder must inform the nominee in good time before this date.

## Dividend

The Board proposes that this year's profits be used to strengthen the company's equity and no dividend be paid for 2008.

## Interim reports in 2008

First quarter January - March 2009

28 April

Second quarter January - June 2009

23 July

Third quarter January - September 2009

28 October

## Financial information

All financial information is available in both Swedish and English and is also published on [www.billerud.com](http://www.billerud.com) in English and [www.billerud.se](http://www.billerud.se) in Swedish.

The 2008 annual report is printed in English and Swedish, with a print-run of 24,000 copies that are distributed to those who have requested a copy either on the company's website or via the form that every new shareholder receives. The same procedure is followed for the financial statement and interim reports. Billerud's annual report may also be ordered through the leading Swedish media outlets, either in printed form or a pdf file.

The 2008 annual report is available as a pdf on Billerud's website. There is also an interactive electronic version that includes Excel files for downloading. These versions of the annual report can be found at [www.billerud.se/rapporter](http://www.billerud.se/rapporter) in Swedish and at [www.billerud.com/reports](http://www.billerud.com/reports) in English.

## Other

ISIN code SE0000862997

OMX Nordic Exchange Stockholm ticker BILL

# 5-year review

## PROFIT AND LOSS ACCOUNTS, SUMMARY

MSEK	2004	2005	2006	2007	2008
Net turnover	7 159	6 823	7 369	7 758	7 792
Other income	9	10	15	12	15
Operating income	7 168	6 833	7 384	7 770	7 807
Operating expenses	-5 988	-6 620	-6 366	-6 707	-7 011
Depreciation	-399	-413	-466	-473	-507
Operating profit/loss	781	-200	552	590	289
Net financial items	-74	-78	-95	-117	-165
Profit/loss after financial items	707	-278	457	473	124
Taxes	-198	95	-145	-137	28
<b>Net profit/loss</b>	<b>509</b>	<b>-183</b>	<b>312</b>	<b>336</b>	<b>152</b>

## CAPITAL EMPLOYED, SUMMARY

MSEK	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008
Fixed assets	4 681	5 350	5 539	5 712	5 824
Inventories	749	739	727	936	1 091
Accounts receivable	1 128	1 204	1 201	1 486	1 294
Other current assets	170	282	283	350	270
<b>Total operating assets</b>	<b>6 728</b>	<b>7 575</b>	<b>7 750</b>	<b>8 484</b>	<b>8 479</b>
Less:					
Deferred tax receivables	1 177	1 081	1 225	1 369	1 045
Non-interest-bearing provisions	7	346	148	42	37
Accounts payable	487	555	591	870	1 019
Other non-interest-bearing liabilities	551	564	596	698	1 123
<b>Capital employed</b>	<b>4 506</b>	<b>5 029</b>	<b>5 190</b>	<b>5 506</b>	<b>5 255</b>





## CASH FLOW STATEMENT, SUMMARY

MSEK	2004	2005	2006	2007	2008
Operating surplus	1 185	555	802	960	716
Change in working capital	91	-44	42	-102	244
Net financial items	-66	-89	-79	-113	-141
Tax paid	-	-9	29	-15	-28
<b>Cash flow from operating activities</b>	<b>1 210</b>	<b>413</b>	<b>794</b>	<b>730</b>	<b>791</b>
Cash flow from investing activities	-777	-1 069	-628	-656	-621
<b>Cash flow after investing activities</b>	<b>433</b>	<b>-656</b>	<b>166</b>	<b>74</b>	<b>170</b>

## KEY FINANCIAL INDICATORS

Margins	2004	2005	2006	2007	2008
Gross margin, %	16	3	14	14	10
Operating margin, %	11	-3	7	8	4
<b>Return</b>					
Return on capital employed, %	17	-4	11	11	5
Return on total capital, %	11	-3	7	7	3
Return on equity, %	16	-7	12	12	5
Return on equity after full conversion, %	16	-7	12	12	5
<b>Capital structure</b>					
Capital employed, MSEK	4 506	5 029	5 190	5 506	5 255
Shareholders' equity, MSEK	3 037	2 526	2 678	2 898	2 638
Interest-bearing net debt, MSEK	1 469	2 503	2 513	2 607	2 617
Capital turnover, times	1.6	1.4	1.4	1.5	1.4
Interest coverage, times	9.4	neg	5.1	4.5	1.7
Net debt/equity ratio, times	0.48	0.99	0.94	0.90	0.99
Net debt/equity ratio after full conversion, times	0.47	0.97	0.92	0.90	0.99
Share of risk-bearing capital, %	59	46	48	46	41
Equity ratio, %	43	33	33	31	29
Equity ratio after full conversion, %	43	33	33	31	29
Self-financing ratio, times	2.3 <sup>1)</sup>	0.5	1.3	1.3	1.6
<b>Data per share</b>					
Earnings per share, SEK	9.66	-3.56	6.08	6.52	2.96
Earnings per share after dilution / full conversion, SEK	9.62	-3.56	6.07	6.52	2.96
Equity per share, SEK	59.16	49.20	52.12	56.29	51.24
Equity per share after dilution / full conversion, SEK	59.41	49.52	52.41	56.20	51.24
<b>Investments</b>					
Investments in fixed assets, MSEK	568	1075	643	657	613
Acquisition, MSEK	213				9
<b>Personnel</b>					
Average number of employees	2 623	2 600	2 476	2 364	2 322

Definitions, see page 87.

<sup>1)</sup> Excluding company acquisitions

# The Billerud share

## Share performance

Since 2 October 2006 the Billerud share has been listed on OMX Nordic Exchange Stockholm list for Mid Cap companies.

The Billerud share has been listed on the Stockholmsbörsen (the Stockholm stock exchange) O-list since 20 November 2001. From 1 July 2002 to 30 September 2006 the company was in the Attract 40 segment, which is for O-list shares traded in the highest volumes.

## Number of shares and share capital

The share capital amounts to SEK 666 788 037.50 divided among 53 343 043 shares. The number of shares on the market is 51 491 570.

### DISTRIBUTION OF SHARES 31 DEC 2008

Registered amount of shares	53 343 043
Bought-back shares in company ownership	-1 851 473
<b>Shares on the market</b>	<b>51 491 570</b>

### NUMBER OF SHARES ON THE MARKET

	2004	2005	2006	2007	2008
Average	52 735 464	51 342 998	51 351 464	51 460 719	51 491 570
Average after conversion	53 003 511	51 611 045	51 611 045	51 509 809	51 491 570
Closing day	51 342 998	51 342 998	51 369 620	51 491 570	51 491 570
Closing day after conversion	51 611 045	51 611 045	51 611 045	51 491 570	51 491 570

## Dividend policy

The goal is that over a business cycle the dividend on average shall be 50% of the net profit. Dividends to shareholders will, among other factors, be dependent on Billerud's profit level, financial position and future development opportunities.

The Board proposes that the profit for the year be used to strengthen the company's capital base and that no dividend be paid for the 2008 financial year.

## Share performance

From its first listing in 2001 up to 2006 Billerud's share price performed positively. In 2007, however, the company's shares

were affected by the general concerns that impacted on all listed companies and in 2008 share performance was very weak due to the financial crisis and economic downturn. The last price paid in 2008 was SEK 21.20, which was 68% lower than the last price paid (66.50) at the end of 2007. During the same period the OMX Stockholm Paper & Forest products index (SX151050) fell 38% and the Stockholm stock exchange All Share Index (OMXS) fell 41%.

During the year the highest share price, SEK 73.50, was paid on 28 February 2008, and the lowest, SEK 20.90, on 29 December 2008. Billerud's market value at the end of 2008 was MSEK 1 092.

Up to 17 February 2009 the price had fallen to SEK 15.70 down 26% on the final price paid in 2008. During the same period the forest index fell by around 6% and the Stockholm exchange general index fell 6%.

## Turnover

The total number of shares traded during the year was 40 million. This represents 78% of the total number of registered shares, which amounted to 51 491 570 on 31 December 2008. The average number of shares traded per trading day during 2008 was 160 112.

## Ownership structure

At the end of 2008 the total number of shareholders was 118 222 compared with 144 447 at the end of the previous year. The proportion of foreign ownership increased to 47.9% (46.1%) excluding Billerud's own shareholding (1 851 473). The other owners are private Swedish individuals, 35.4% (36.0) and private Swedish legal entities 16.7% (16.7).

OWNERSHIP CATEGORIES <sup>1)</sup>

	Number of shares	Holding/Votes (%)
Swedish legal entities	8 587 988	16.7
Frapag Vermögensverwaltung GmbH	9 100 000	17.6
Other foreign legal entities	14 403 843	28.0
<b>Total legal entities</b>	<b>32 091 831</b>	<b>62.3</b>
Private individuals, foreign	219 790	0.4
Private individuals, Swedish	18 246 642	35.4
Private individuals, total	18 471 245	35.9
<b>Total 31 December 2008</b>	<b>51 491 570</b>	<b>100</b>

<sup>1)</sup> Excluding Billerud's own shareholding (1 851 473)

Source: VPC

CATEGORIES ACCORDING TO VPC 31 DECEMBER 2008 <sup>1)</sup>

Category	No. of shares	Shareholding (%)
Financial institutions		
- Banks	14 167	0.03
- Investment funds	3 527 798	6.61
- Insurance companies and pension funds	1 376 921	2.58
- Pension foundations	798 576	1.50
<b>Total financial institutions</b>	<b>5 717 462</b>	<b>10.72</b>
Other financial institutions	9 887	0.02
Social insurance funds	337 114	0.63
Swedish state	282 201	0.53
Swedish municipalities	20 616	0.04
Special interest organisations		
- Aid organisations and trade unions	367 927	0.69
- Religious community	1 320	0
<b>Total special interest organisations</b>	<b>369 247</b>	<b>0.69</b>
Other Swedish legal entities	3 532 791	6.62
Uncategorised legal entities	173 751	0.33
Owners residing abroad	24 653 332	46.22
Swedish citizens	18 246 642	34.21
<b>Total 31 December 2008</b>	<b>53 343 043</b>	<b>100</b>

<sup>1)</sup> Including Billerud's own shareholding (1 851 473)

## 10 LARGEST SHAREHOLDERS 31 DECEMBER 2008

Billerud's 10 largest owners as of 31 December 2008 (excluding Billerud's own shareholding)

Owner/manager/deposit bank	Proportion of shares (million)	No. of shares on market, % (Shares = Votes)
Frapag Vermögensverwaltung GmbH	10.7	20.8
Sanderson Asset Management	2.9	5.5
Clearstream banking	1.6	3.0
SEB FUnds/SEB Trygg Liv/Securities	1.2	2.4
Citibank	1.2	2.3
Credit Suisse International	0.8	1.6
Swedbank incl. Robur FUnds	0.8	1.5
Mellon	0.7	1.4
Apoteket AB:s pension foundation	0.7	1.4
Handelsbanken Funds	0.7	1.3
<b>Total 10 largest shareholders</b>	<b>21.2</b>	<b>41.3</b>

Source: VPC and Sanderson Asset Management

OWNERSHIP STRUCTURE 31 DECEMBER 2008 <sup>1)</sup>

Shareholding	No. of shares	%	No. of owners	%
1-100	7 335 515	13.8	97 216	82.2
101-500	3 642 104	6.8	16 255	13.7
501-10 000	7 305 929	13.7	4 540	3.8
10 001-50 000	2 611 016	4.9	128	0.1
50 001-	32 448 479	60.8	83	0.1
<b>Totalt</b>	<b>53 343 043</b>	<b>100</b>	<b>118 222</b>	<b>100</b>

<sup>1)</sup> Including Billerud's own shareholding (1 851 473)

Source: VPC

## KEY FIGURES PER SHARE

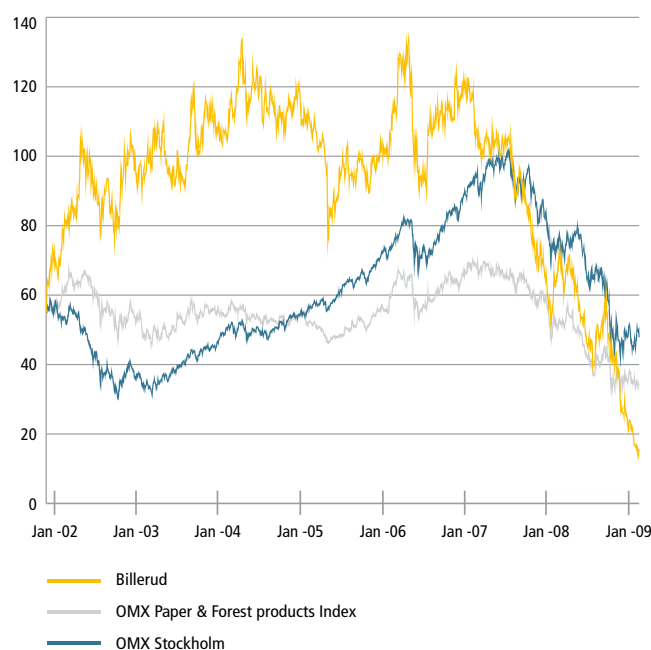
## SEK per share, unless stated otherwise IFRS

	2004	2005	2006	2007	2008
Profit/loss	9.66	-3.56	6.08	6.52	2.96
Profit/loss after dilution	9.62	-3.56	6.07	6.52	2.96
Dividend	6.50	3.25	3.50	3.50	- <sup>1)</sup>
Dividend as % of					
- share price (yield)	5.5	3.1	2.9	5.3	-
- profit	67.3	<sup>2)</sup>	57.6	53.7	-
- closing equity	11.0	6.6	6.7	6.2	-
Cash flow	8.2	-12.8	3.23	1.45	3.30
Equity	59.16	49.20	52.12	56.29	51.24
Equity, after full conversion	59.41	49.52	52.41	56.20	51.24
Share price/closing equity, %	200	211	233	118	41
P/E ratio, times	12.3	neg	20.0	10.2	7.2
EV/EBITDA, times	6.4	36.8	8.6	5.68	1.37
Share price					
- Closing rate last trading day	118.50	104.00	121.50	66.50	21.20
- Year's highest closing rate	133.00	115.50	133.50	122.50	73.50
- Year's lowest closing rate	104.00	75.00	91.50	64.00	20.90
Share turnover	1.07	1.31	0.88	1.15	0.78

<sup>1)</sup> Board proposal

<sup>2)</sup> Loss in 2005

## SHARE PERFORMANCE 20 NOVEMBER 2001 TO 17 FEBRUARY 2009



# Glossary

## Biofuels

Renewable fuels originating from the plant kingdom, for example from wood, including black liquor and bark.

## Black liquor

The name given to the consumed cooking liquid in production of sulphate pulp. Black liquor is burnt in the soda recovery boiler at which time the wood substances (primarily lignin) provide energy for steam and electricity production. One requirement for both the environment and economy is that the chemicals consumed in black liquid are reproduced in the sulphate mill to new cooking chemicals.

## Carbon Footprint

The amount of greenhouse gases a product releases or sequesters during its lifetime determines its carbon footprint.

## Climate change

Also called the greenhouse effect. Human activity is contributing to global warming, which is raising temperatures, causing unexpected weather patterns and causing polar ice to melt.

## 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 two flat layers of paper (liner) with a rippled layer (fluting) in the middle.

## Duty-free

Goods sold excluding taxes at international airports or on ferries sailing on international waters.

## 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.

## FMCG producers

Producers of Fast Moving Consumer Goods such as soap, cosmetics, toothpaste, batteries and washing powders.

## Fluting

The rippled middle layer in corrugated board, produced from either new or recycled fibre.

## Forest cubic metre

Volume in cubic metres of tree trunks above the sawcut and including bark and tree top.

## Forest with root

Trees are sold still standing on their roots in the forest and the buyer pays for felling and transportation of wood out of the forest.

## Fossil fuels

Fuels based on organic carbon and hydrogen compounds deposited in sediments or rock deposits - mainly coal, oil and fossil gas.

## Heavy-duty

Highly durable packaging based on several layers of paper. Used for heavy goods such as car components.

## ISO14001

ISO's (The International Organisation for Standardisation) standard for an environmental management system.

## MF Paper (machine finished)

A calendered paper with high printability in combination with high strength. Used for packaging with special need for this combination.

## MG Paper (Mono Glazed Paper)

Paper which is dried on a highly polished Yankee cylinder thus producing paper which has a very smooth, glossy surface on one side.

## Market pulp

Pulp which 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 wastewater can cause nutrient enrichment (eutrophication) in lakes, leading to oxygen deficiency when dead plants decompose.

## Nitrogen oxides (NO<sub>x</sub>)

A group of gases composed of nitrogen and oxygen which are formed during combustion. In damp air, nitrogen oxides are converted to nitric acid, which causes acid precipitation.

## Phosphorous (P)

A chemical element naturally present in wood. Too much phosphorous in wastewater 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 pulp.

## Recycled fibre

Fibre material that has previously been used in a paper or board product.

## Sack paper

Paper with high strength properties and used for the production of sacks. Made from softwood sulphate pulp.

## Shelf Ready Packaging/ Retail Ready Packaging

Attractive packaging ready for the shelf and contributing to increased promotional effectiveness.

## Solid cubic metres under bark (m<sup>3</sup>sub)

Volume of solid wood under bark.

## 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 (SO<sub>2</sub>)

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.

## Sustainable development

Basing decision-making on three united factors - economic growth, social viability and environmental awareness - so that society can meet current demands without compromising its future.



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