



**BILLERUD**

Capital Markets Meeting  
15 November 2006

Stallet, Stockholm

# Agenda

- » Welcome
- » Strategic background and steps initiated Per Lindberg, CEO
- » Packaging market opportunities Per Lindberg, CEO
- » Vision, business concept and strategy Per Lindberg, CEO
- » Operational excellence Stina Blombäck, SVP  
Billerud Karlsborg
- » Sales & Business development in action Johan Nellbeck, SVP  
Packaging & Speciality Paper
- » New business growth Per Lindberg, CEO
- » Financial targets Bertil Carlsén, SVP & CFO
- » Summary Per Lindberg, CEO
- » Q&A



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Strategic background and steps initiated

Per Lindberg, CEO

## Background strategy review

- » Significantly reduced profitability and slow growth
- » Five years since formation of Billerud – the synergies from the combination now taken
- » New management team
- » Review of strategy and targets a natural step

## Billerud in brief

- » Leading supplier of speciality products for consumer and industrial packaging
- » Sales turnover approx. SEK 7 billion
- » EBIT MSEK 200 in 2005
- » 2,200 employees in 11 countries <sup>1)</sup>

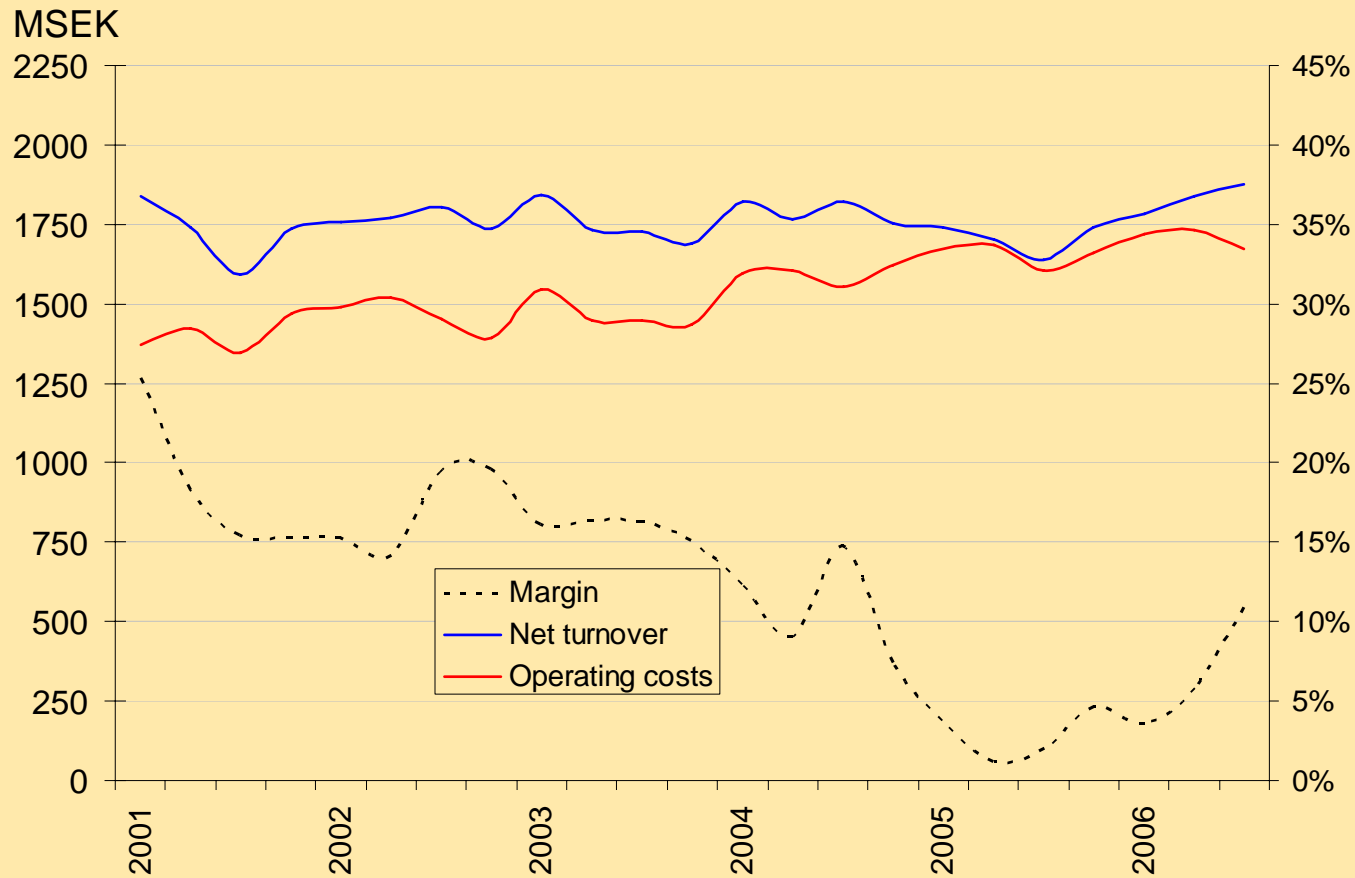
1) 2006



## Challenges to profitability

- » Rising global cost trends for wood fibre, electricity and oil
- » Currency fluctuations – weak USD
- » Cyclicalities of market pulp price
- » Lower growth rates in Europe

# Sales and operating profit 2001-2006

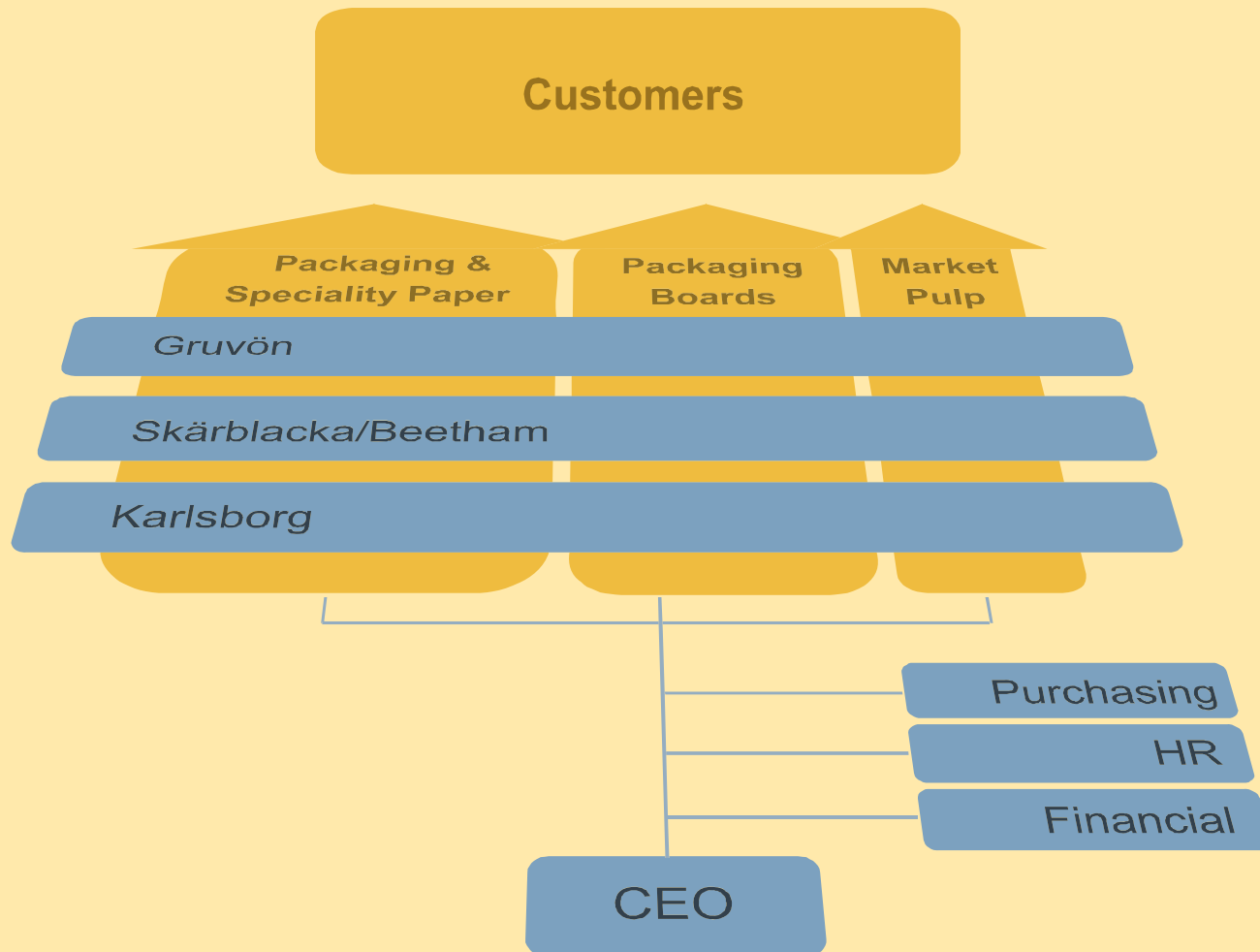


Margin and operating costs data exclude MSEK 400 non-recurring item for "Billerud 2007" in 2005

## Actions initiated 2005/06

- » Cost savings program – speed up implementation of “Billerud 2007”
- » Customer focus - new organization with Business areas
- » Head office control strengthened - renewed focus on management by objectives
- » Initiated steps in marketing activities to target the full length of the packaging value chain
- » Full review of strategy and financial targets

# New organization improve customer focus



## Actions initiated 2005/06

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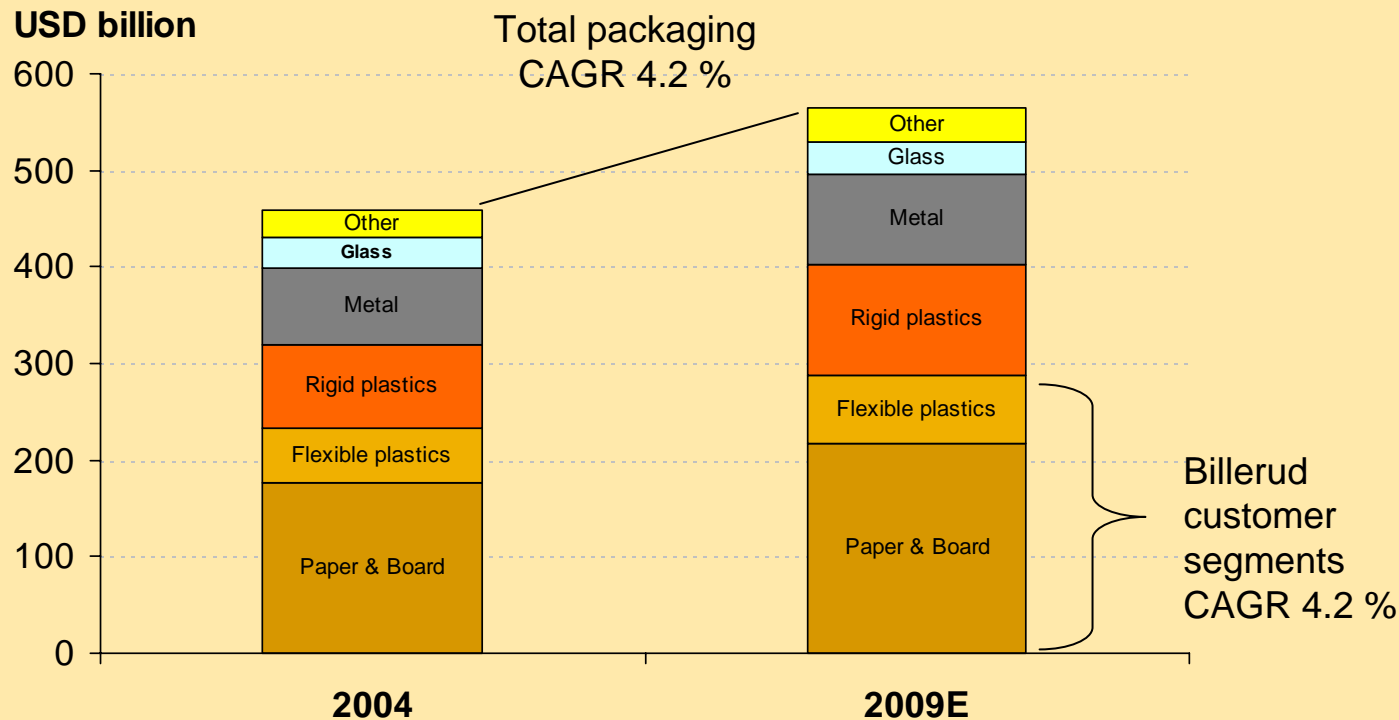


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## Packaging market opportunities

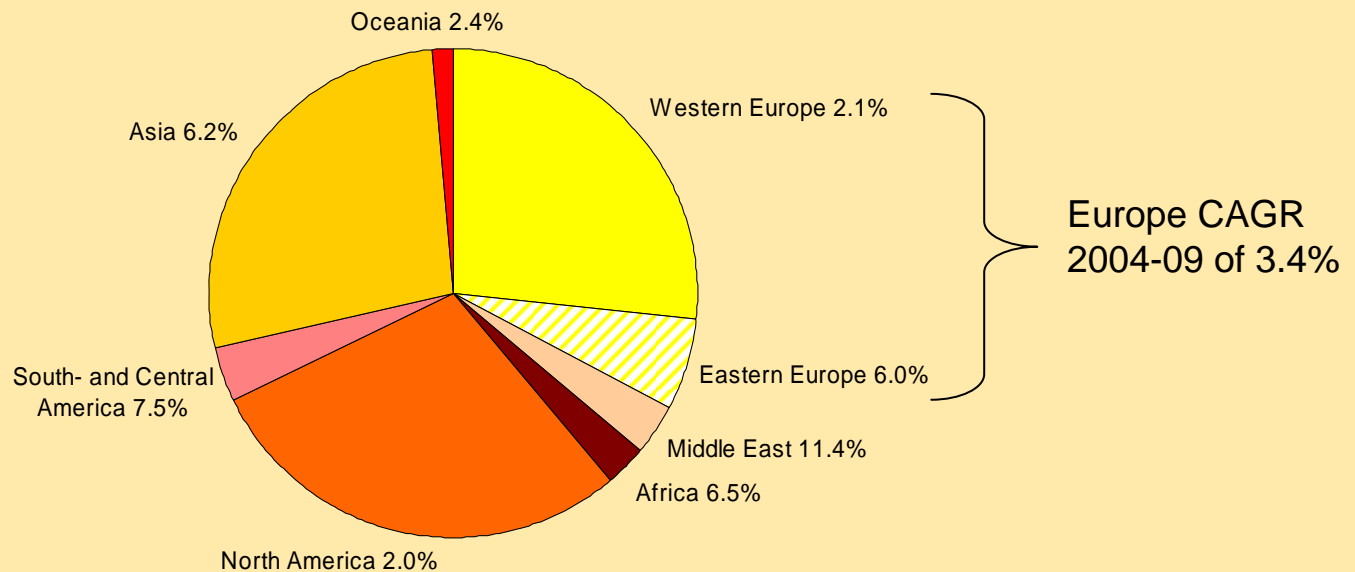
Per Lindberg, CEO

# Packaging is a growing industry - World packaging consumption

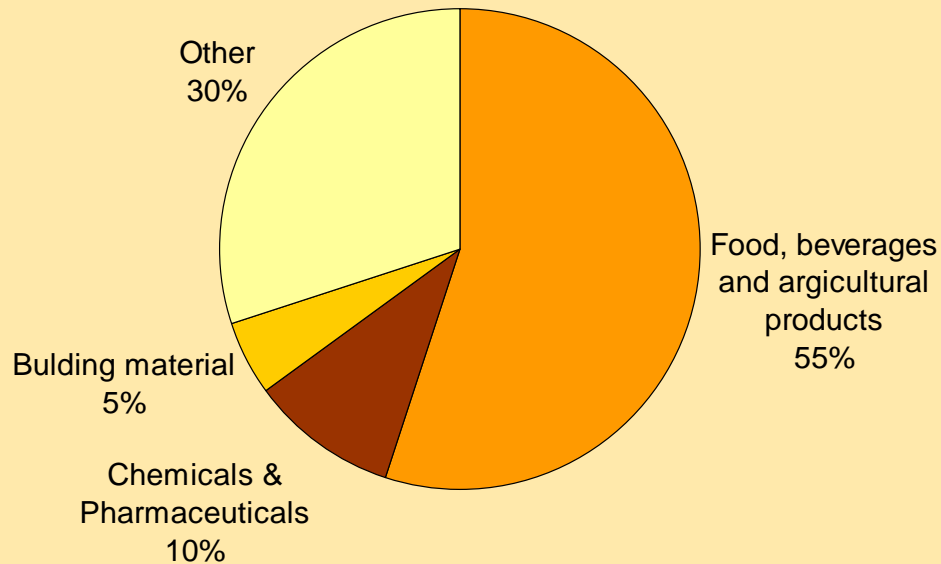


Source: Billerud och Packforsk estimates

# Regional differences - some regions with strong growth



# Market segments by end-user in Europe



Source: Jaakko Pöyry and Billerud estimates

# The market presents opportunities

- » Size and growth
- » Current strength position in priority segments will be exploited
- » Neglected paper promotion in value chain represents an opportunity
- » Fragmented value chains provides opportunities for new solutions
- » Recent trends favour paper in selective value chains

## Recent trends favour paper in selective value chains

- » Lean retailing
- » Differentiation of brands
- » Convenience
- » Demographics and lifestyle
- » Environmental awareness stimulating demand for paper

## Conclusion

- » Conventional measures needed, but not the only way forward
- » A change in performance and position is necessary!



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## Vision, Business Concept and Strategy

Per Lindberg, CEO

## Vision

We set a superior global standard for sustainable, protective & promotive packaging.

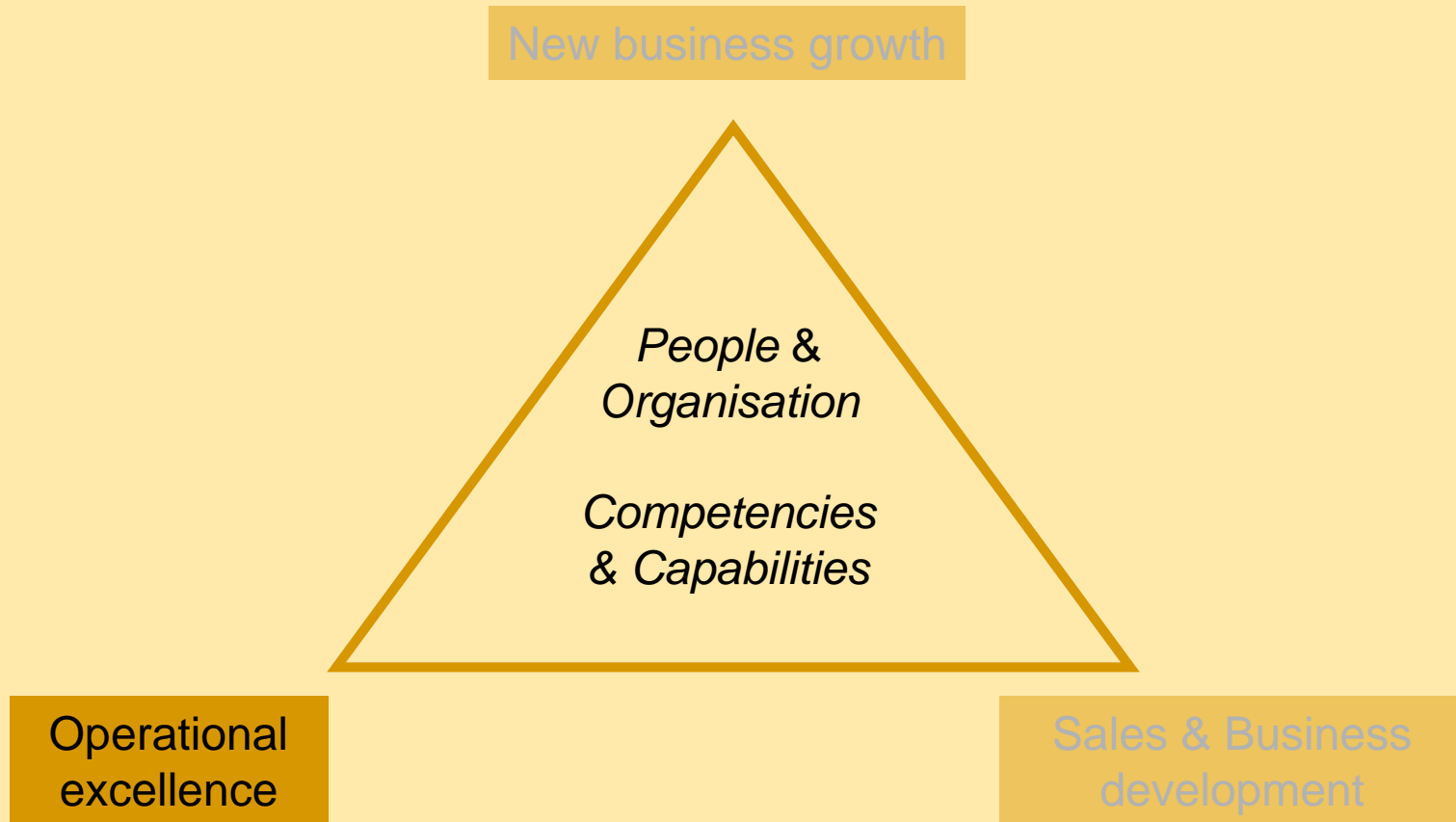
## Business concept

We offer demanding customers packaging materials and solutions that promote and protect their products – packaging that is attractive, strong, sustainable and based on renewable materials.

# Billerud strategy – key components



# Billerud strategy – key components





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**Operational excellence**

Stina Blombäck, SVP, Billerud Karlsborg

## Purpose: Secure cash flow and competitiveness

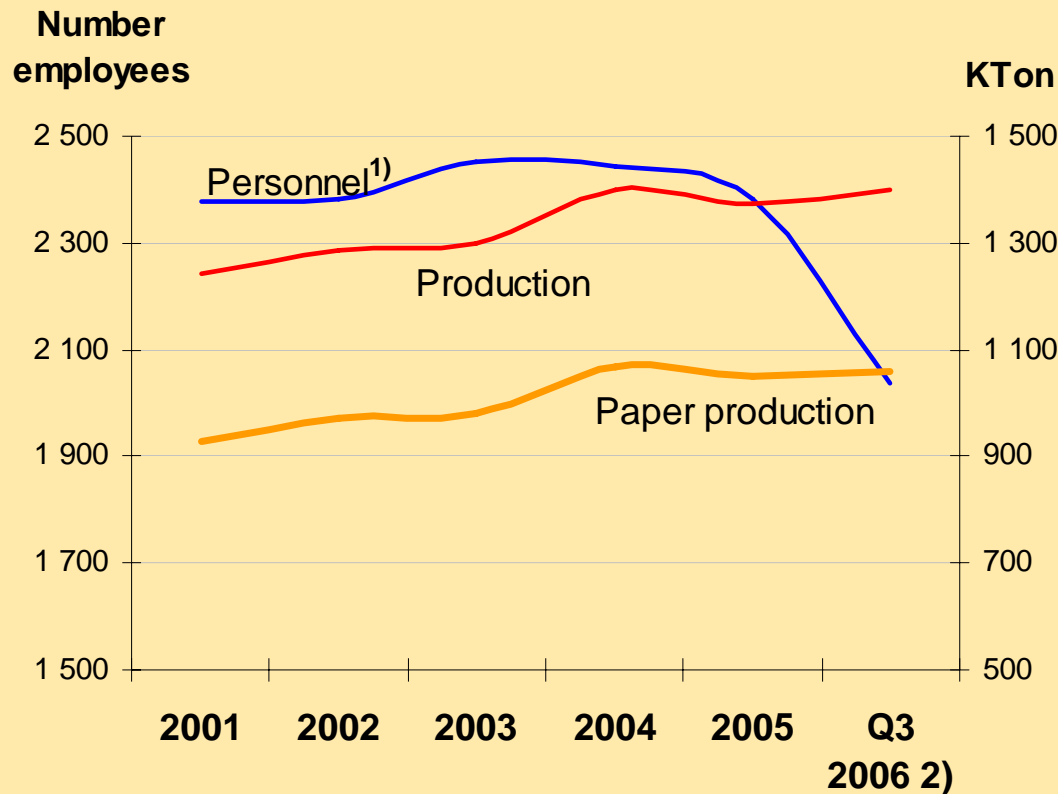
- » Secure quality existing asset base
- » Maintain or improve product quality
- » Increase volume
- » Increase cost efficiency; fixed and variable costs

## We commit to operational excellence

- » Productivity program to increase cost efficiency
- » Centralized purchasing and logistics
- » Selective investments to increase competitiveness

# Productivity program increases volume

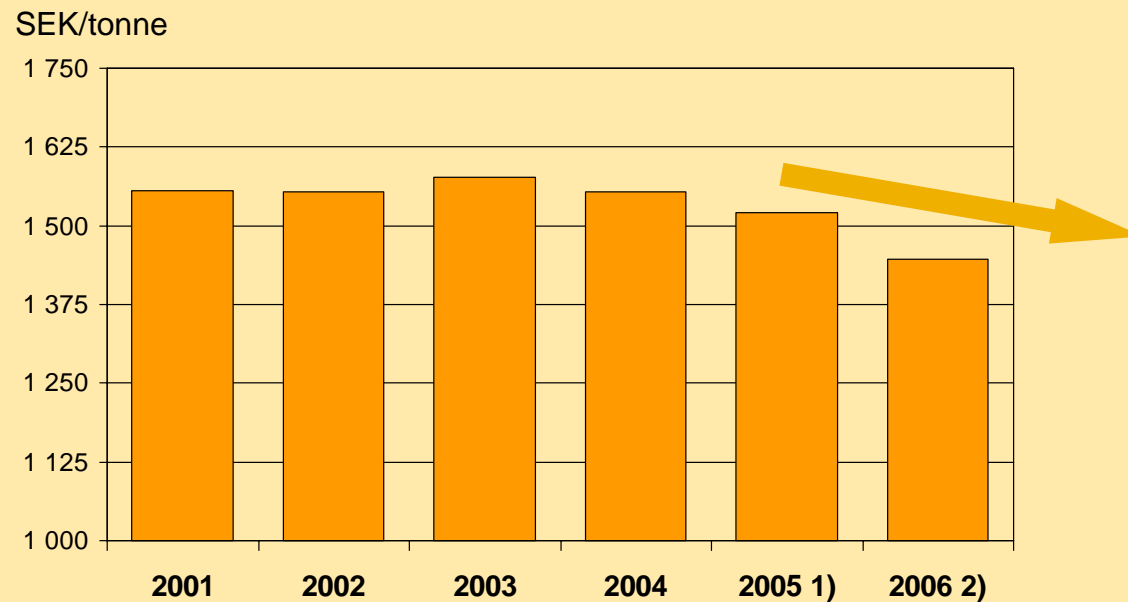
» Target 2010 – 100,000 tonnes of additional paper with minor investments



1) For comparable units 2) Data for 2006 are Q3 annualized

## Fixed cost focus will be maintained

- » Billerud 2007 program close to completion
- » Continued focus on fixed cost reduction



1) For comparable units 2) Data for 2006 are Q3 annualized

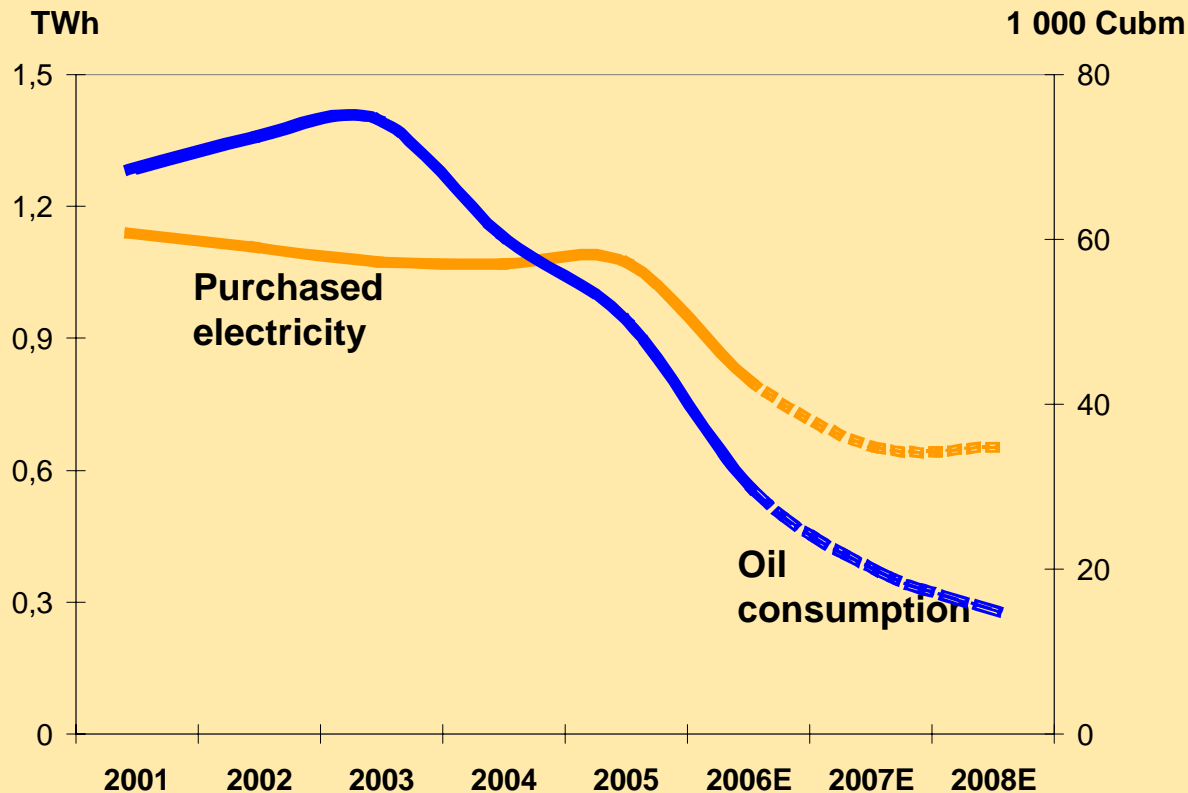


## IT Investments will further increase efficiency

- » Centralized systems
- » New roll-handling and warehouse system
- » Corporate performance management system during 2007

## Reduced energy costs is key to variable costs

- » We aim to continue the energy efficiency trend
- » Further energy saving options will be explored

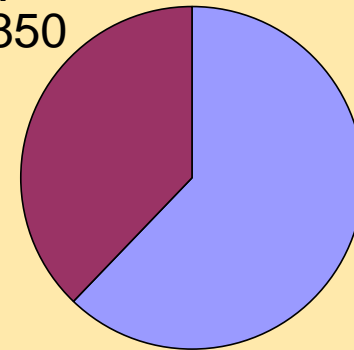


## Reducing cost through purchasing and logistics

Total spend MSEK : ~2,250

» Purchasing

Logistics:  
MSEK ~850



» Logistics

Purchasing:  
MSEK ~1,400

➔ Potential for large savings

## Selective investments to increase competitiveness

- » Energy efficiency project
- » De-bottlenecking investments
- » Quality improvements investments

## We commit to Operational excellence

- » Will generate additional volume of 100,000 tonnes of paper in existing mills
- » Improved overall cost efficiency

# Billerud strategy – key components



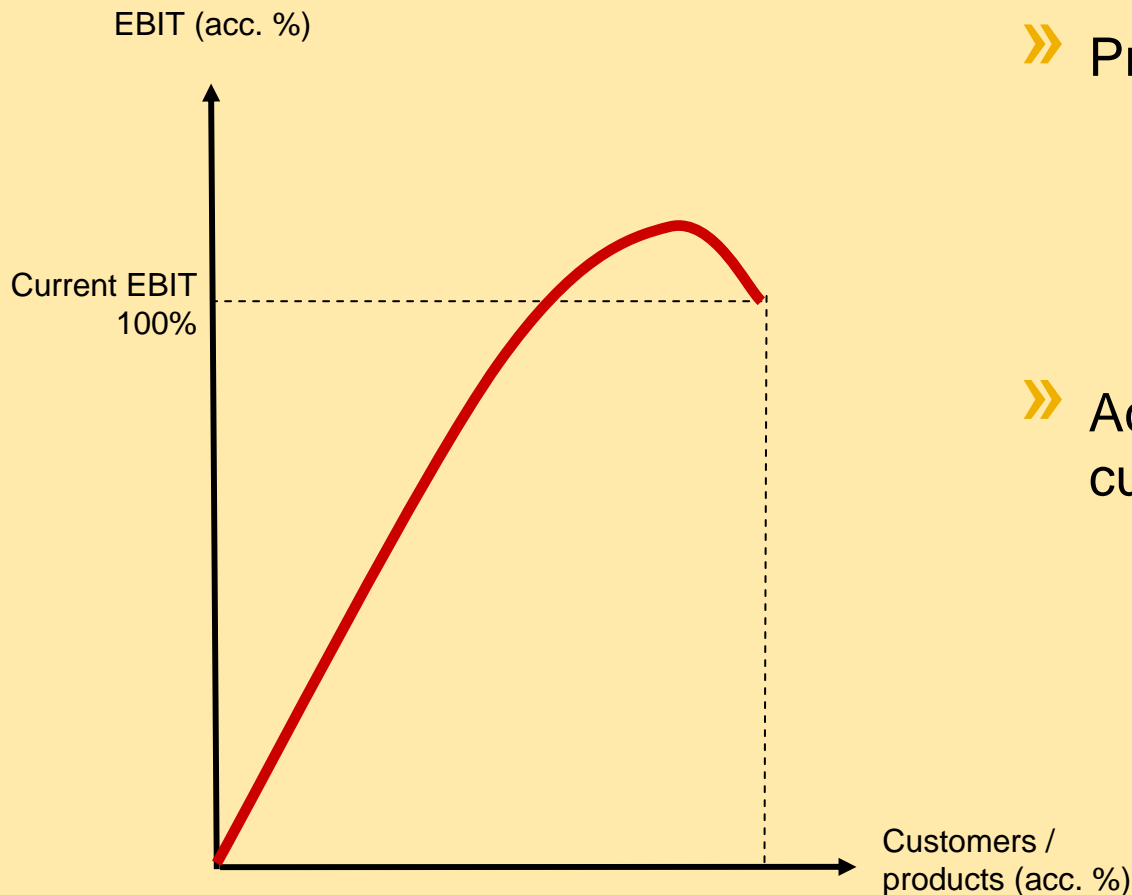


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## Sales & Business development in action

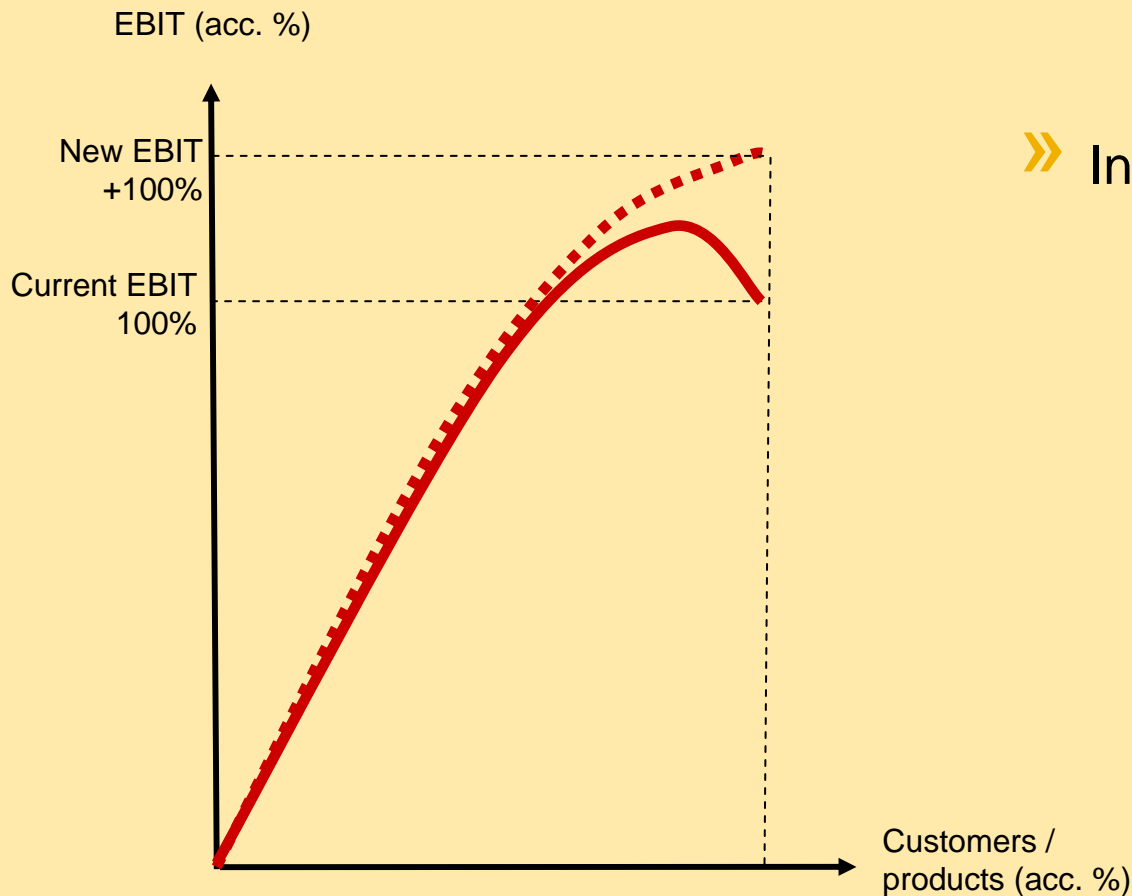
Johan Nellbeck, SVP, Packaging & Speciality Paper

# Target : Improve product and customer mix



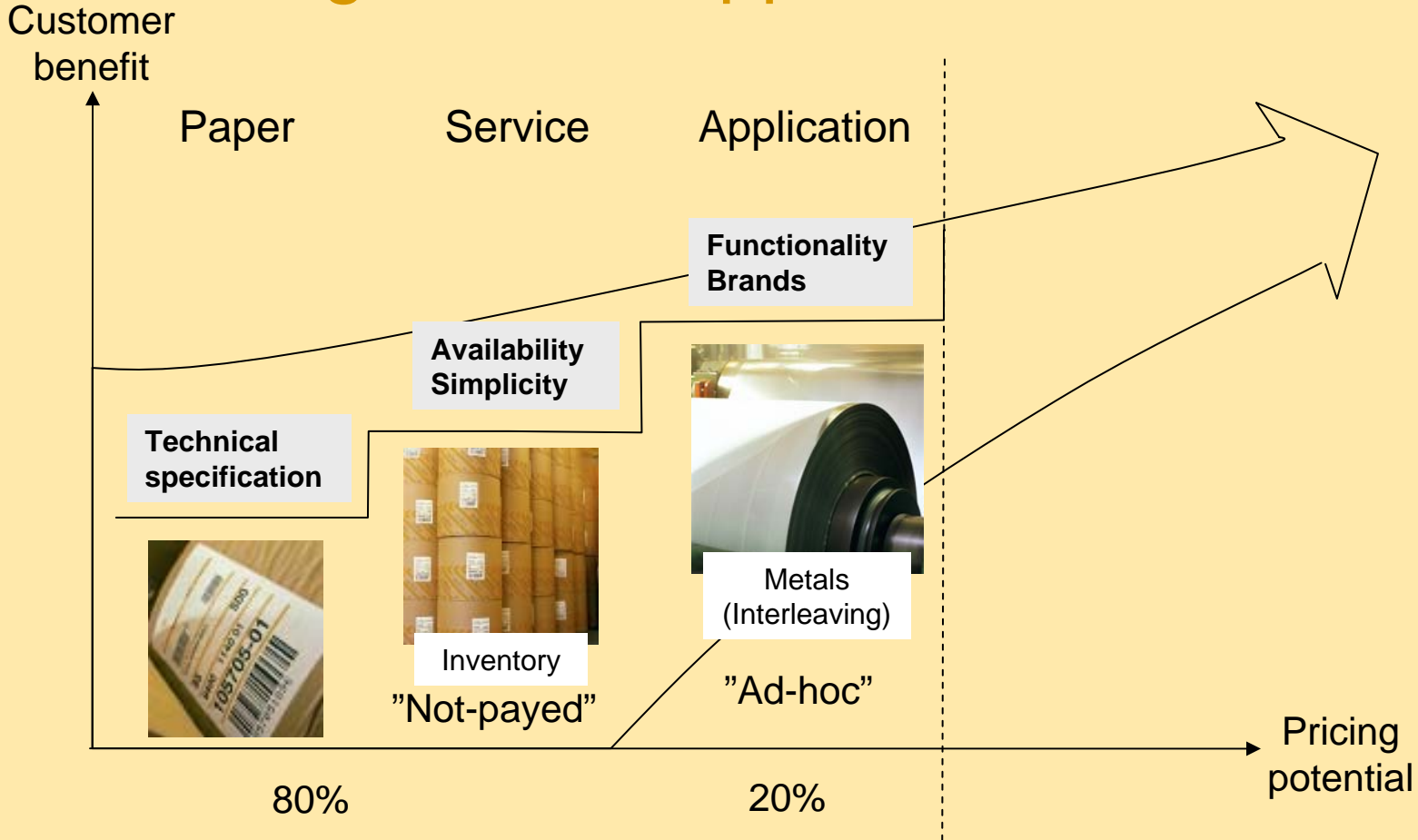
- » Product mix improvement
  - » Between business areas
  - » Between segments
  - » Within segments
  
- » Active adjustments of customer base
  - » More partner and strategic customers
  - » Fewer spot customers
  - » Enter new markets

# Target : Improve product and customer mix



- » Increased profit by selling to:
  - » The right customers
  - » The right segments
  - » The right markets
  - » The right price

# A changed sales approach

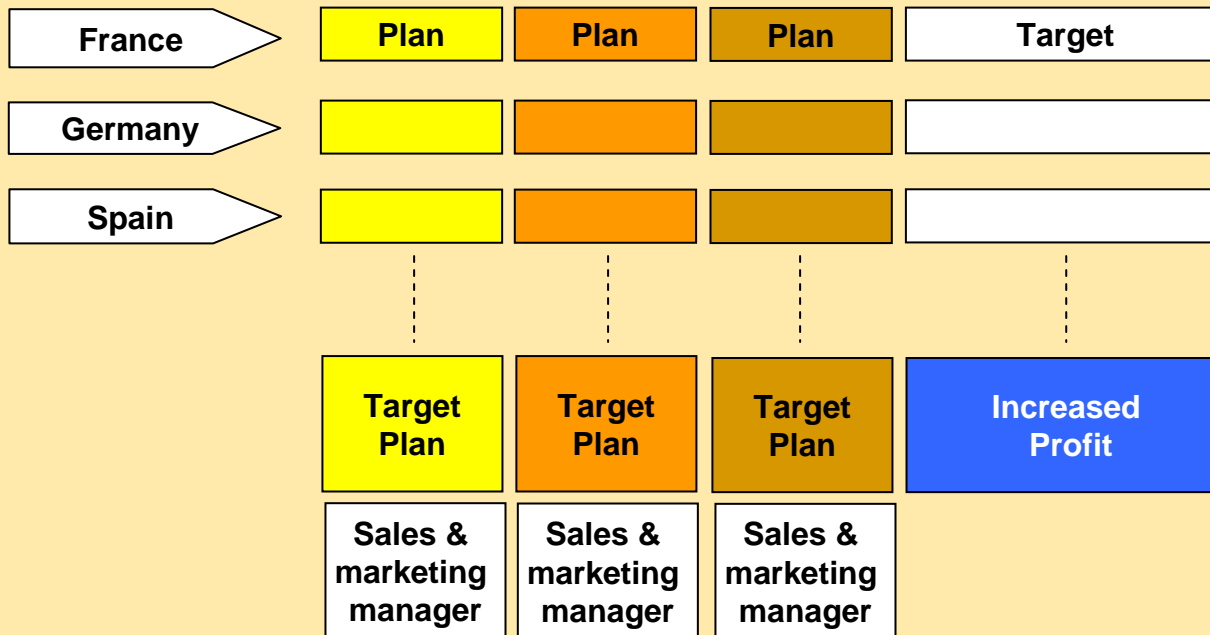


# A new structure to target the possibilities

## Segments



Responsibility  
Sales Offices



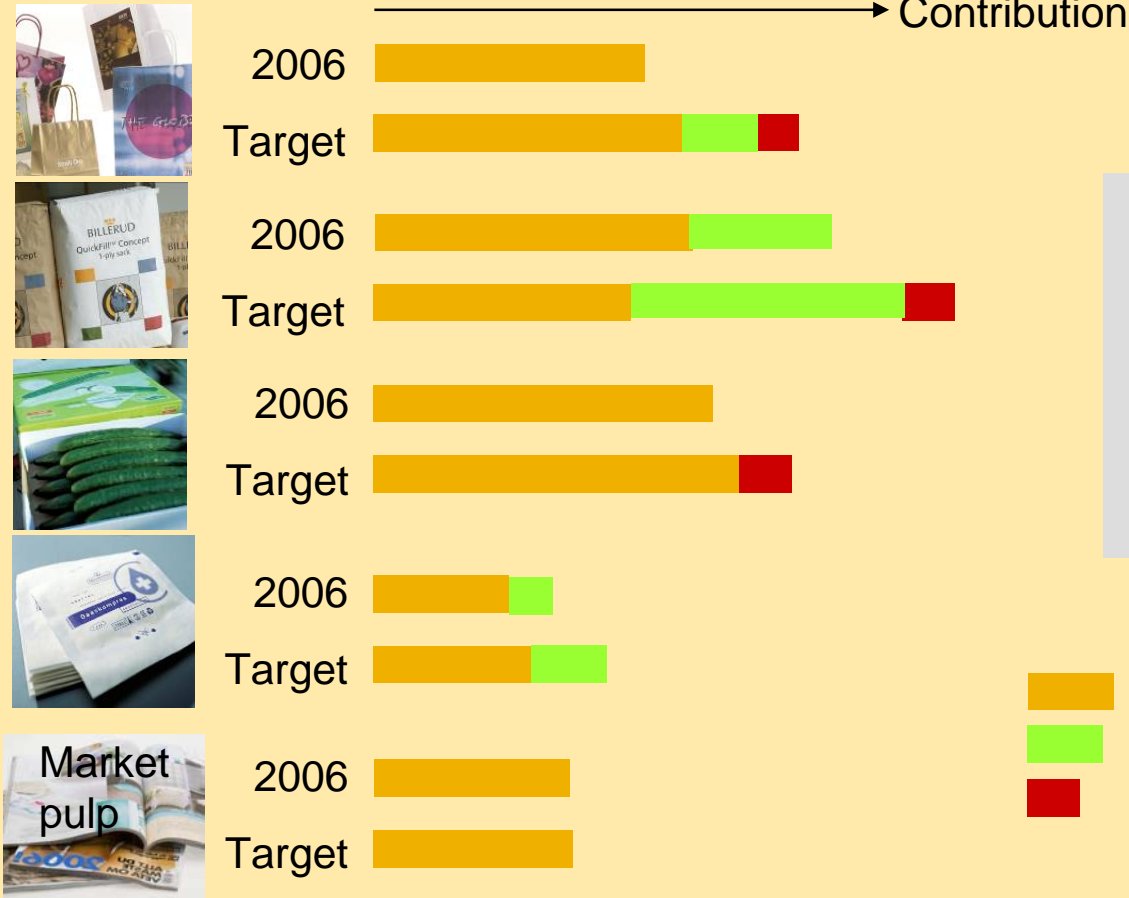
## We have:

- Identified the potentials
- Mapped value chains
- Gained knowledge about end customers, brand owners needs
- Improve mix between
  - Business Areas
  - Segment
  - Markets
  - Customer
- Set clear targets

We target more than increased paper sales  
 - retailers and brand owners our new contacts!

Illustrative

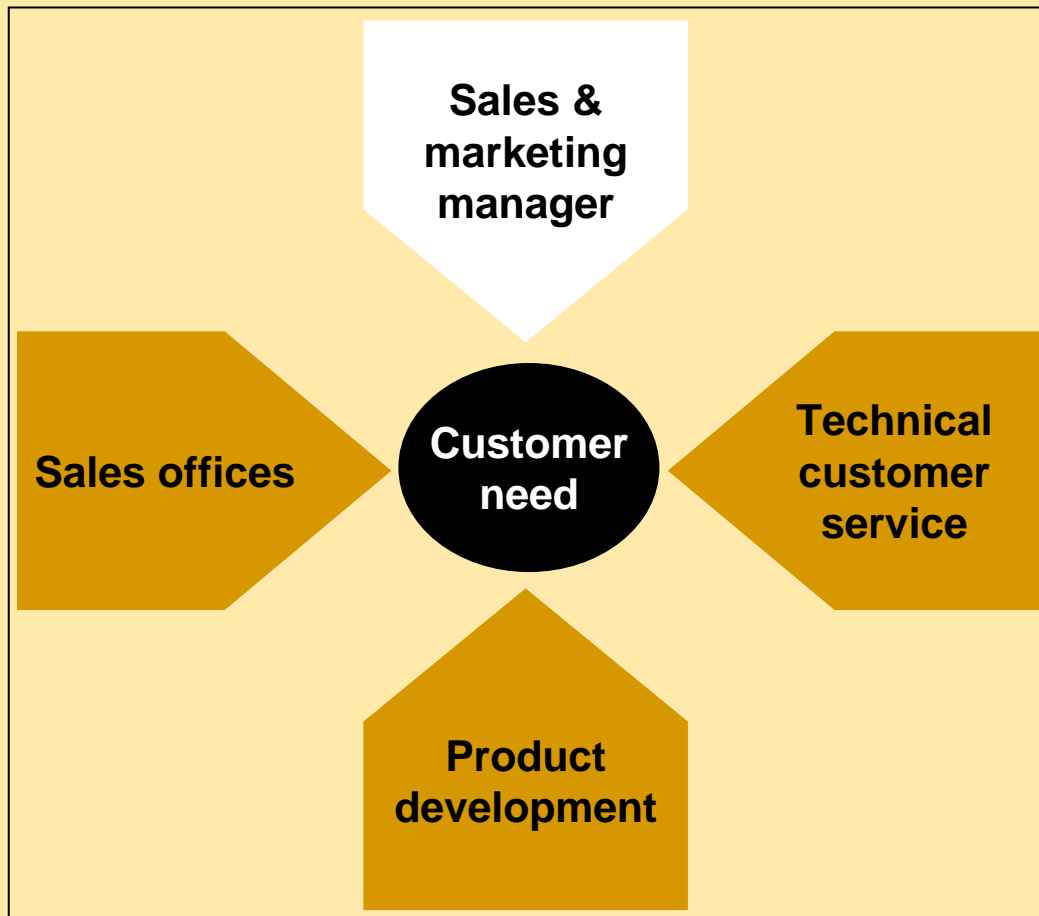
Segment



Segment plans are the road map to success, by adding services and application sales in each segment!



# The segment teams have clear tasks



- » Increase knowledge about the value chain
- » Create new business models
- » Work with proactive customer service
- » Find new products and applications
- » Create new sales networks

# New business demands new offices

## New sales offices



## We are creating a new sales culture

- » Scorecards for key development needs
- » Close follow up of results
- » Implement incentive models
- » Added new capabilities in Business Development and sales
- » We take a new position, from being a raw material supplier to supply value added products
- » Become a sales company not only a production company!

# Billerud strategy – key components





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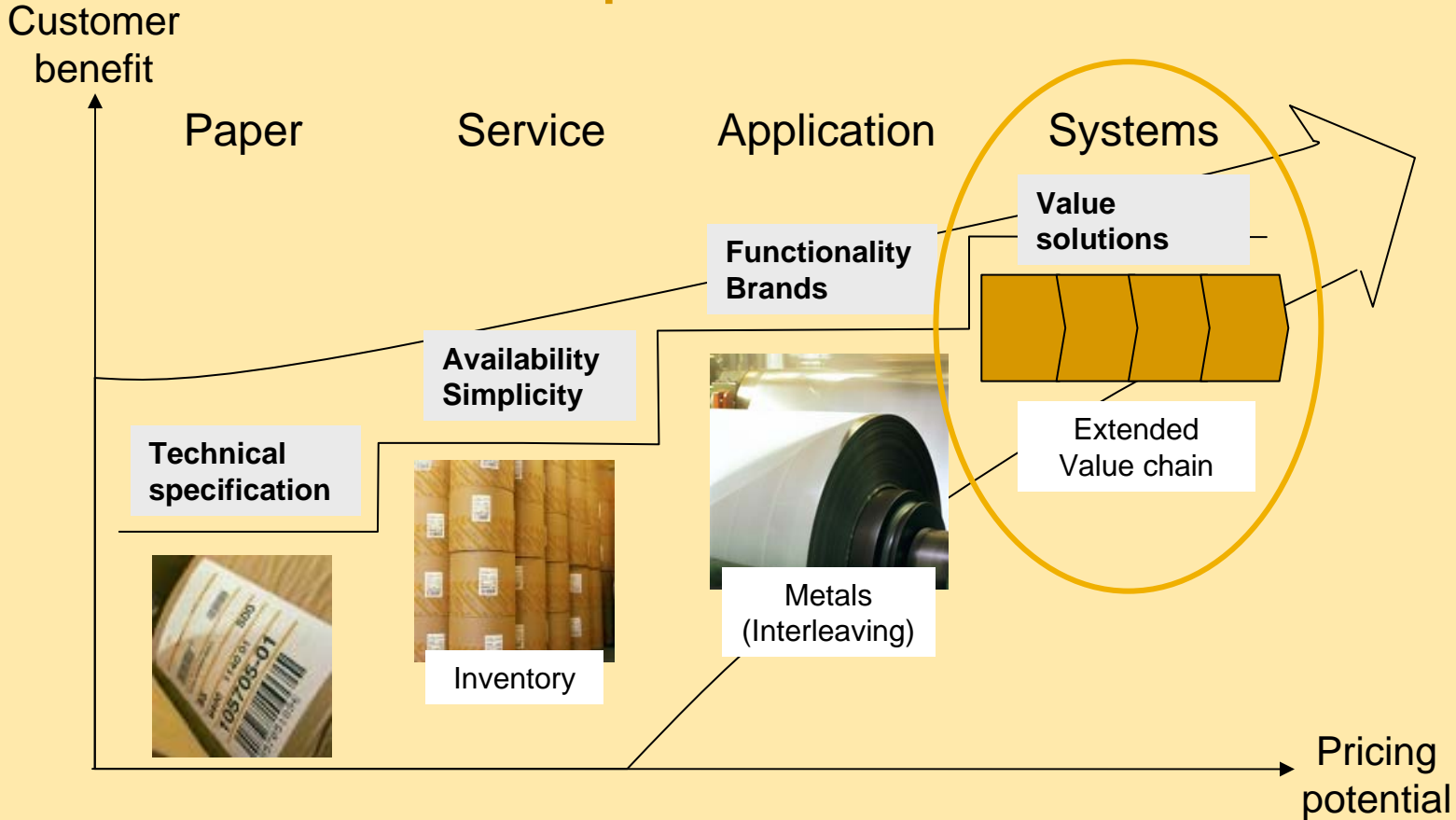
**New Business Growth**

Per Lindberg, CEO

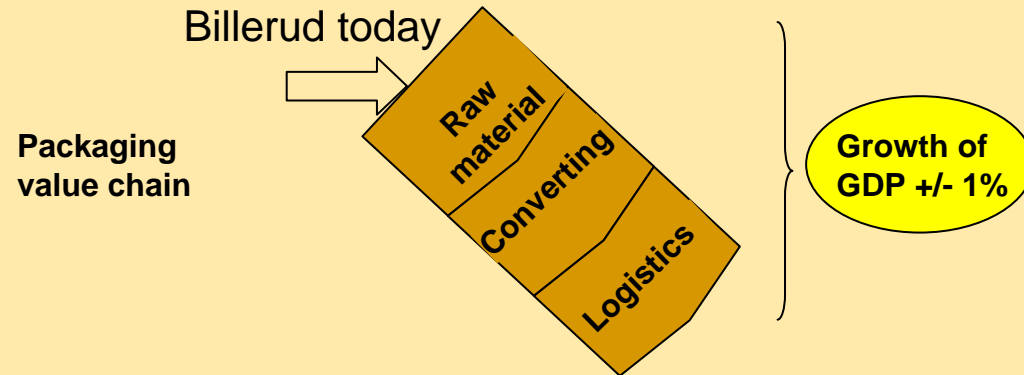
## The future: Exploiting new opportunities

- » Billerud can exploit market trends from a position of strength in key segments
- » This requires a new market definition
- » It also requires an expanded view of the value chain in which we operate
- » We intend to expand our capacity to move in this new direction

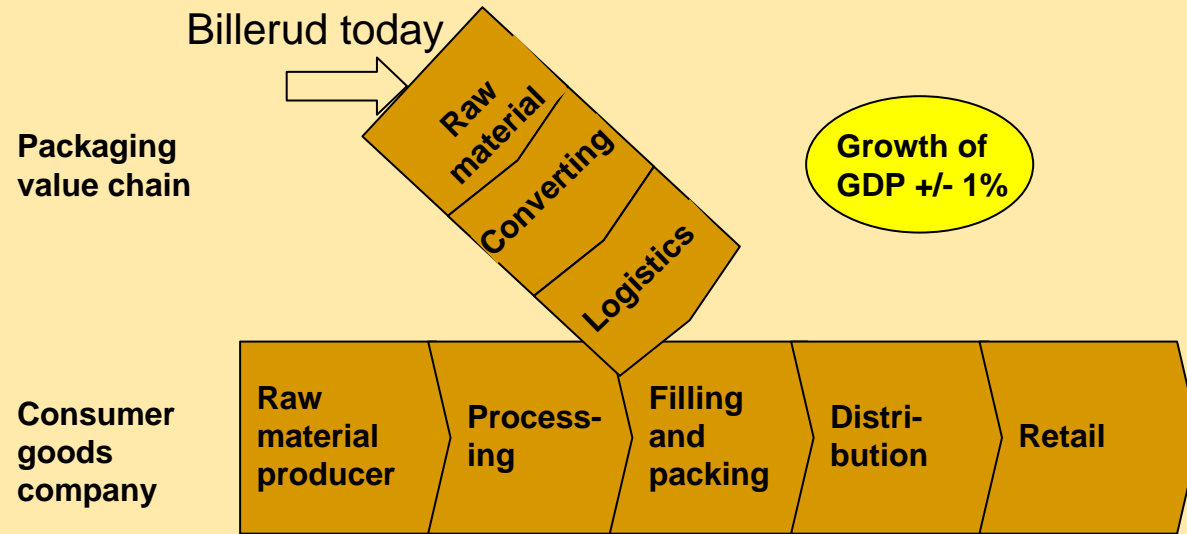
# New business potential



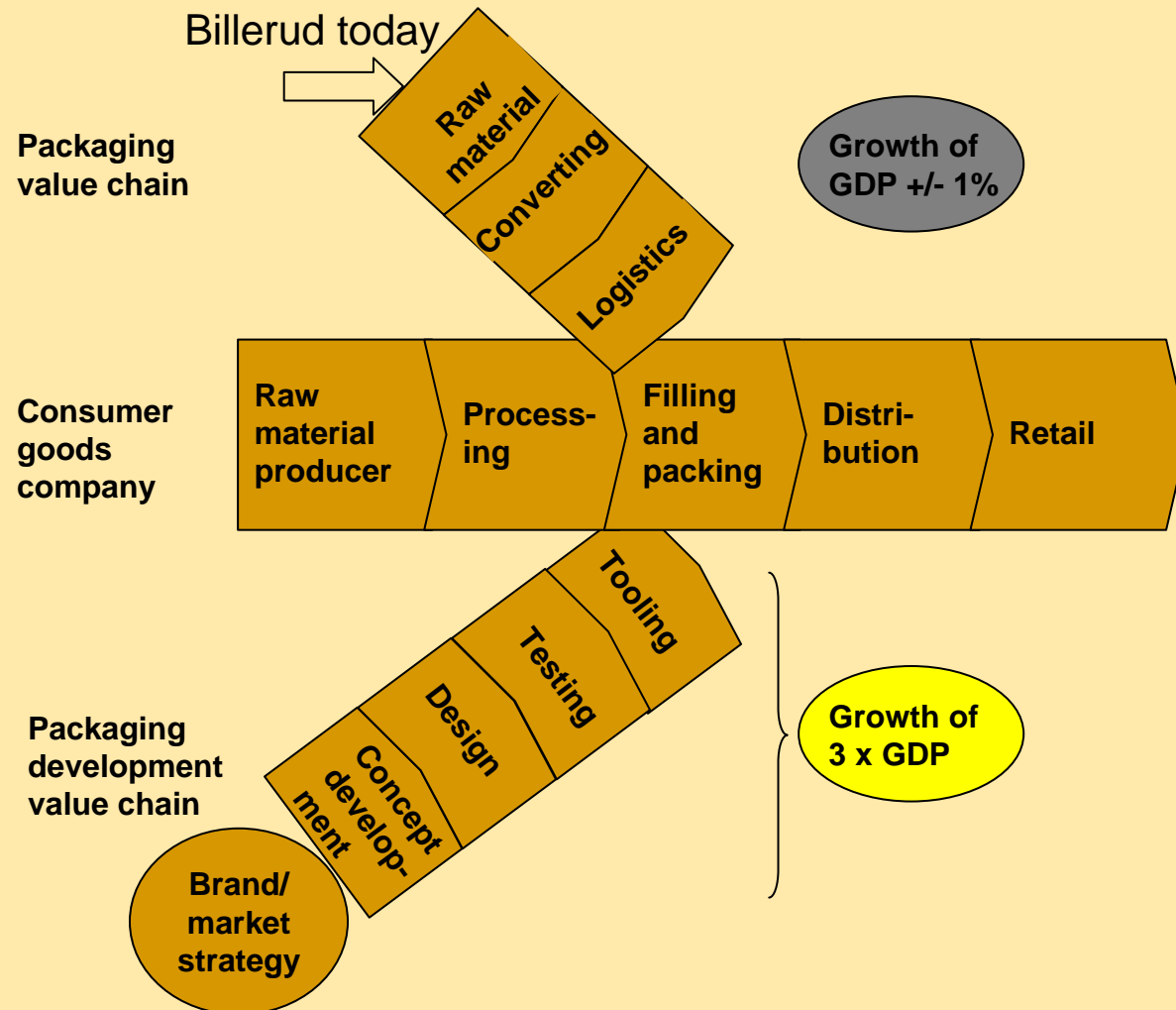
# Our traditional value chain...



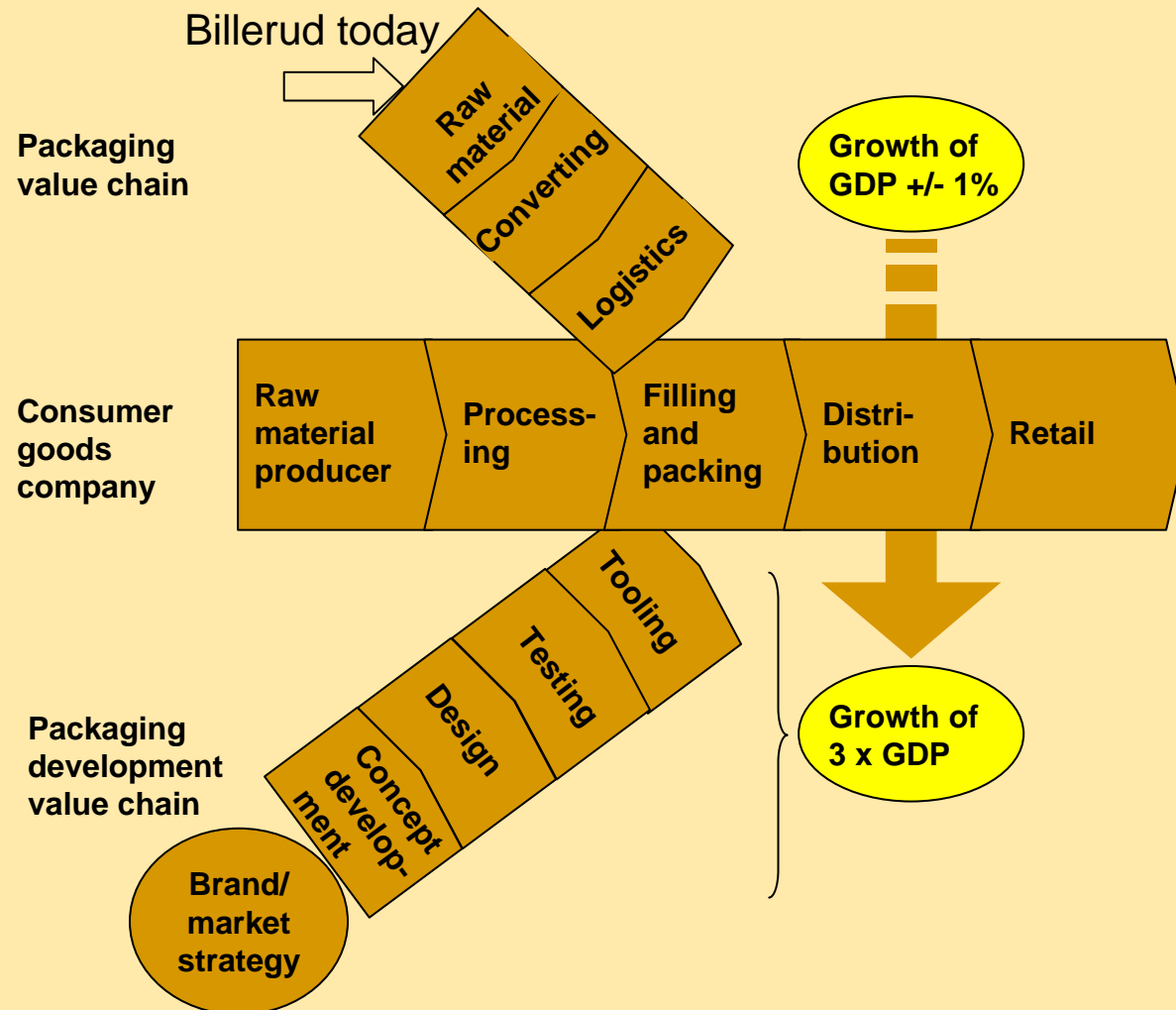
...typically serves consumer goods chains



# Other business models grow faster

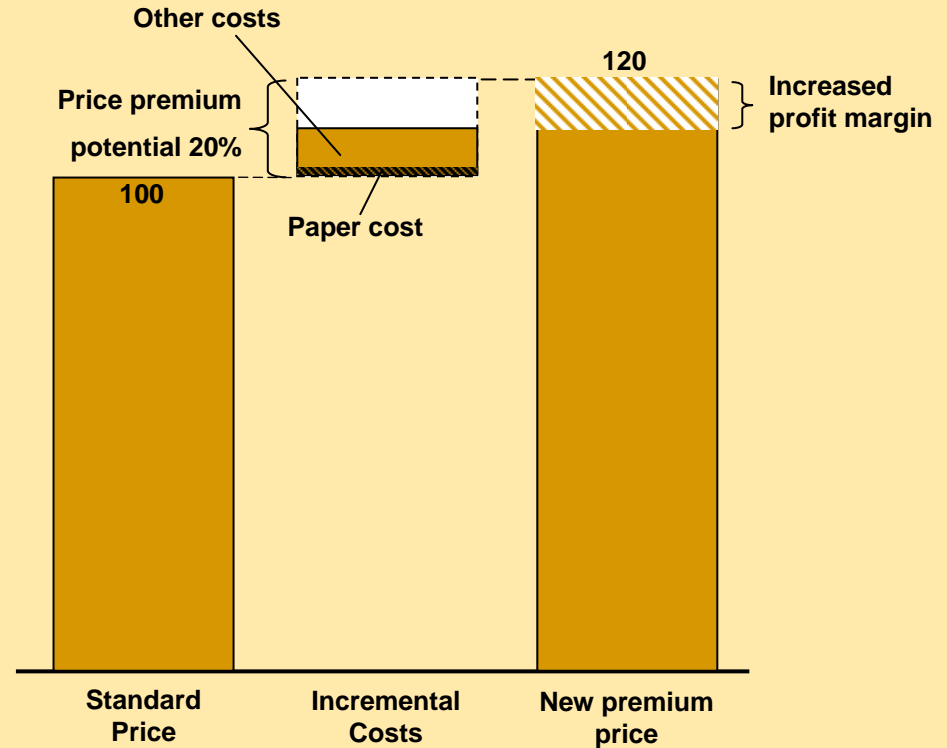


# Extending perspective on value chains



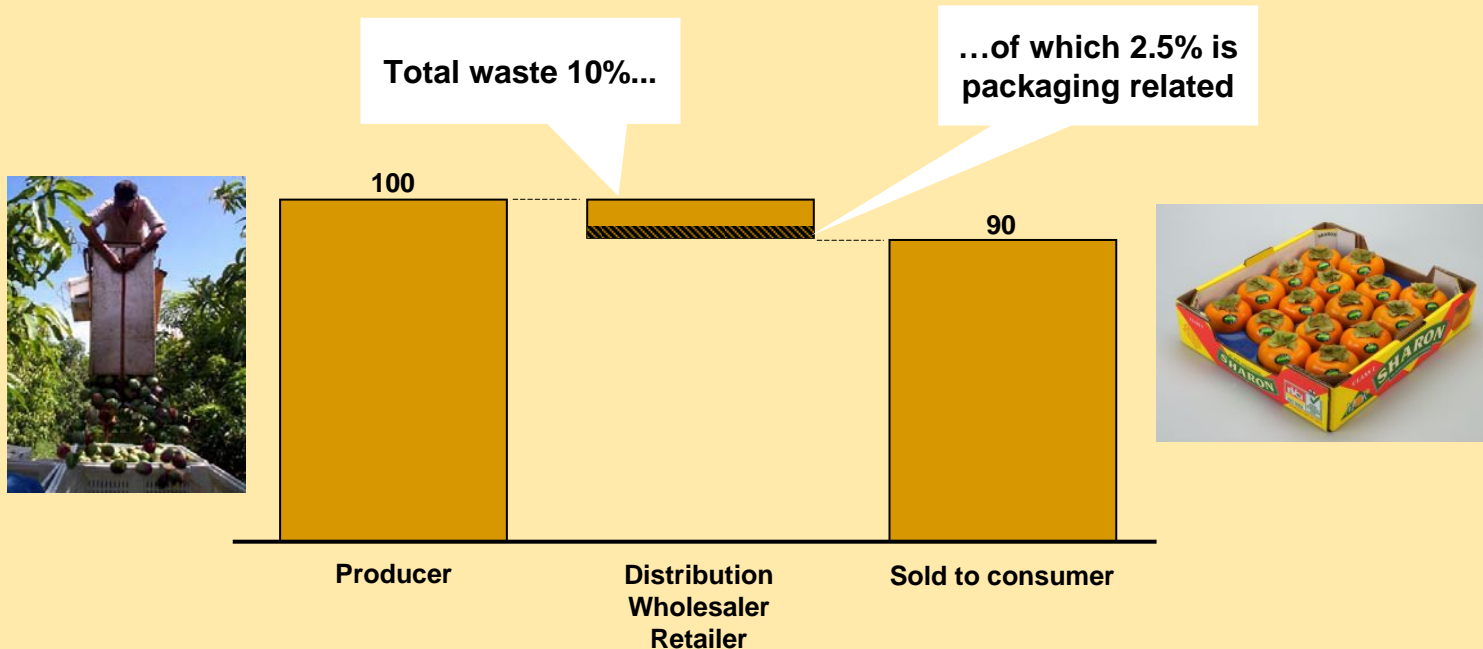
- » Identify positions in value chain that has higher growth
- » Evaluate new positions
- » Exploit paper usage
- » M&A potentials

# Premium price for paper packaging - a trend to be exploited



Increased cost of paper represent only 5% of potential price premium

# Significant savings opportunity – European fresh food example



➔ Value of packaging related waste of damaged goods in EU is SEK >23 bn



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## Financial targets

Bertil Carlsén, CFO


## Targeting an organic sales growth of > 3%

» Operational excellence ~1%

» Sales & Business development ~1%

» New business growth ~1%

» Option to enter new geographical markets ?

 New target of long-term organic annual sales growth >3%

# Financial targets

## Revised

- » Long term organic sales growth rate of at least 3%
- » An EBIT margin of 10% as an average for a business cycle
- » Investments should give a return well above WACC

## Unchanged

- » Net debt/equity 0.6-0.9
- » Dividends 50% of net profit, over a business cycle

## Rationale for changed targets

- » Stronger focus on growth
- » Margin target put explicit pressure on efficiency in operations both externally and internally
- » Previous investment target was "inflexible"

# Performance management strategy

- » Simplicity and focus
- » Operative margin targets on all levels
- » Working capital management
- » Business areas focusing on pricing, product mix improvements and growth/business development in customer segments
- » Mills focusing on costs and production

# Hedging strategies

## » Currencies

- » Revenues mainly in EUR (2/3) and USD (1/3)
- » Policy to hedge at least 50% of net currency exposure coming 12 months.

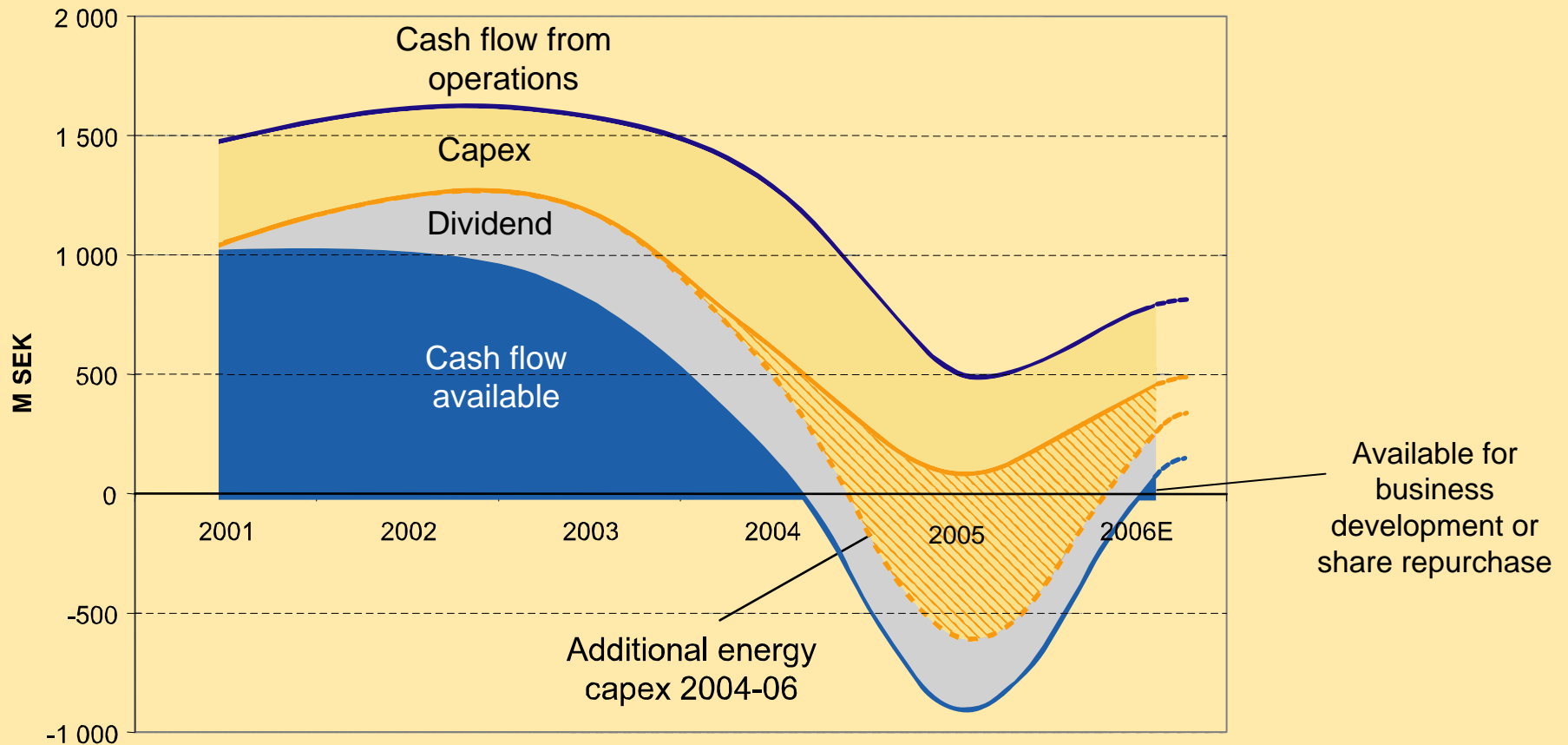
## » Energy

- » Consumption 1.6 Twh of which 0.95 Twh (60%) generated internally as of January 2007.
- » Policy to hedge 50% plus of annual external electricity need.
- » Working with long term supply alternatives

## » Wood cost

- » Purchased on one or three year contracts, based on market prices. Main suppliers are Sveaskog and Stora Enso. Import 15-20 per cent.

# Cash flow generation and capex



Data for 2006 are actual 3Q adjusted to full year basis

## Investment strategy

» Secure operational excellence

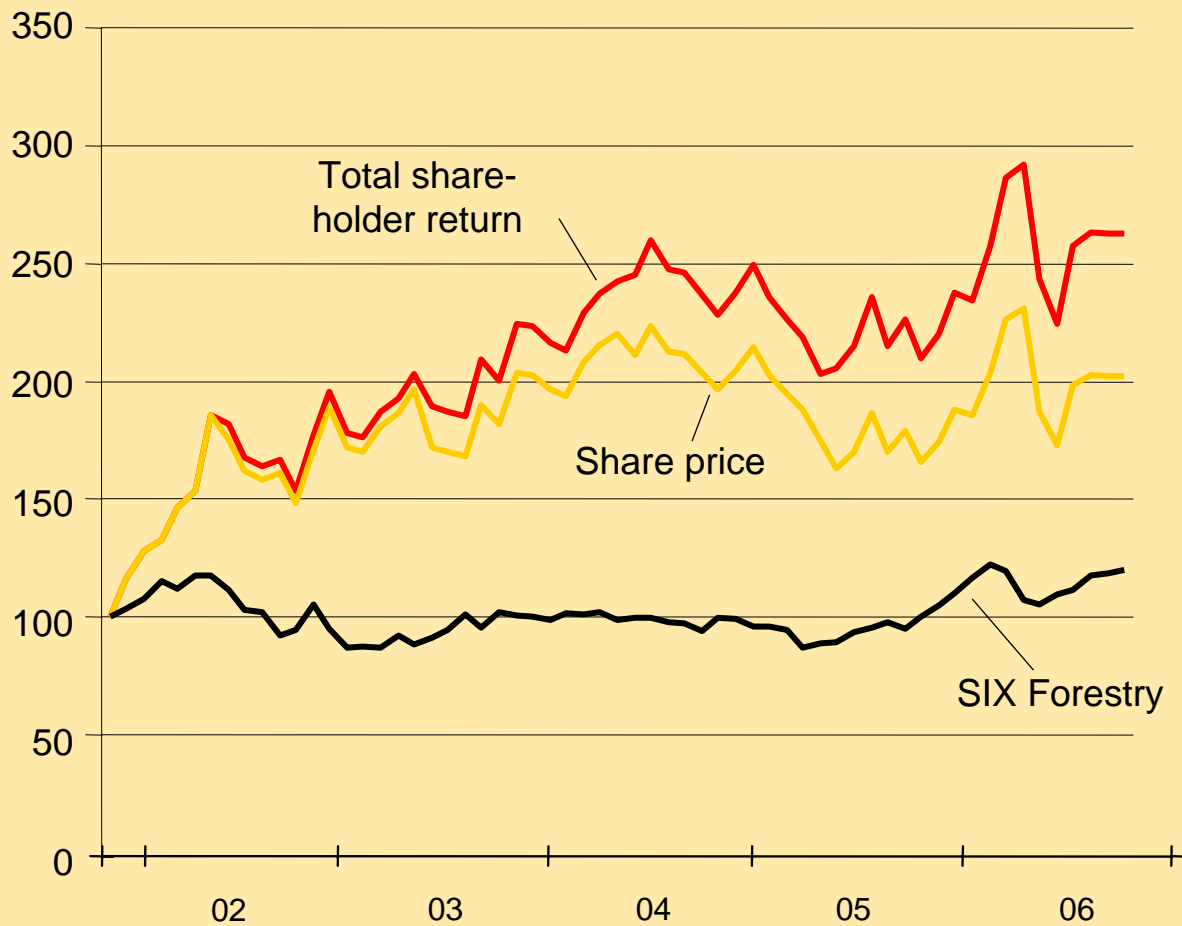
» Support growth strategy

» “Opportunistic” acquisitions option

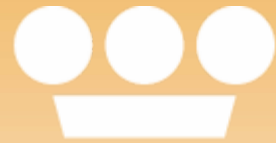
 All investments must give a return well above WACC

# Billerud track record shareholder return

Index – share price



Average total annual return: 20%+



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Summary

# Billerud strategy – key components





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Q & A



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