

Billerud

Handelsbanken

Basic Industry Seminar 2006

Per Lindberg, CEO

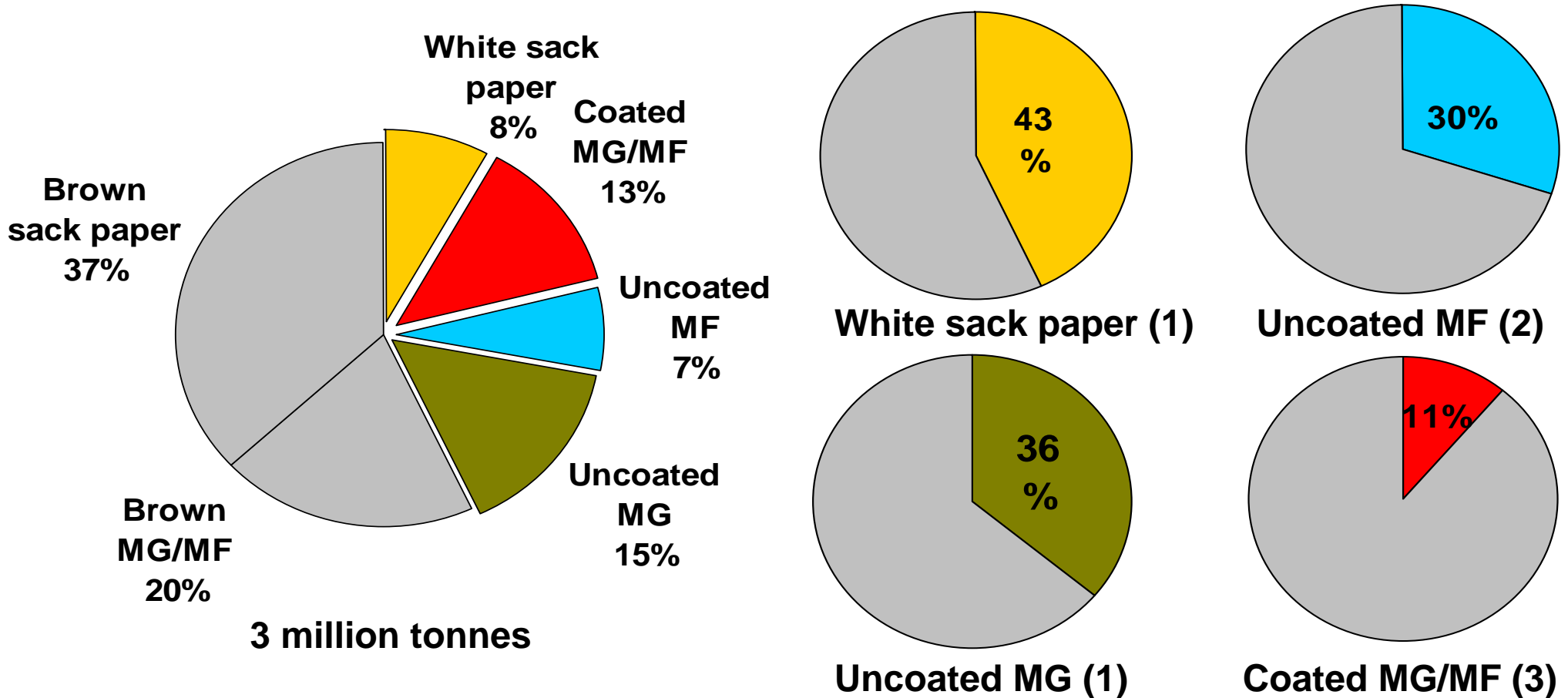


Billerud in brief

- Producer of packaging paper (kraft paper and containerboard)
- Niche oriented with strong market positions in small but attractive segments
- Integration from pulp into paper, no forestry or converting operations
- Capacity 1.4 million tonnes of paper and pulp and about 2,600 employees
- Net sales of SEK 7 billion and an EBIT margin of 3 percent 2005 (excl. non-recurring costs)

Kraft paper

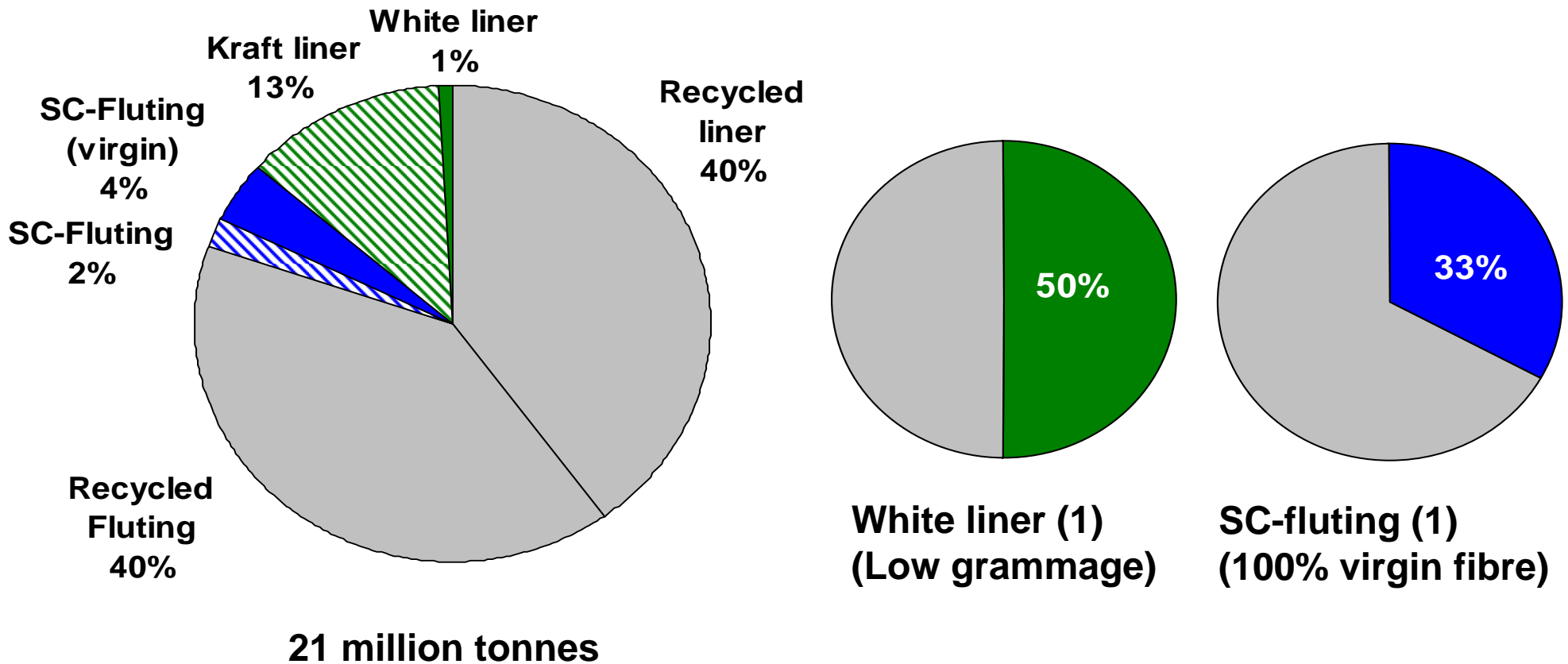
– Billerud's European market shares and position



Source: Jaakko Pöyry and Billerud

Containerboard

– Billerud's European market shares and position



Source: Jaakko Pöyry and Billerud

Customer segments drive business focus



- Medical
- Fashion carrier bags
- Fruits / vegetables
- Powders

...



- Technical kraft paper
- Sack paper
- White liner
- Liquid Packaging Boards
- Fluting

...



- Packaging boards
- Packaging and speciality papers
- Market pulp

Technical kraft papers – Segments (examples)

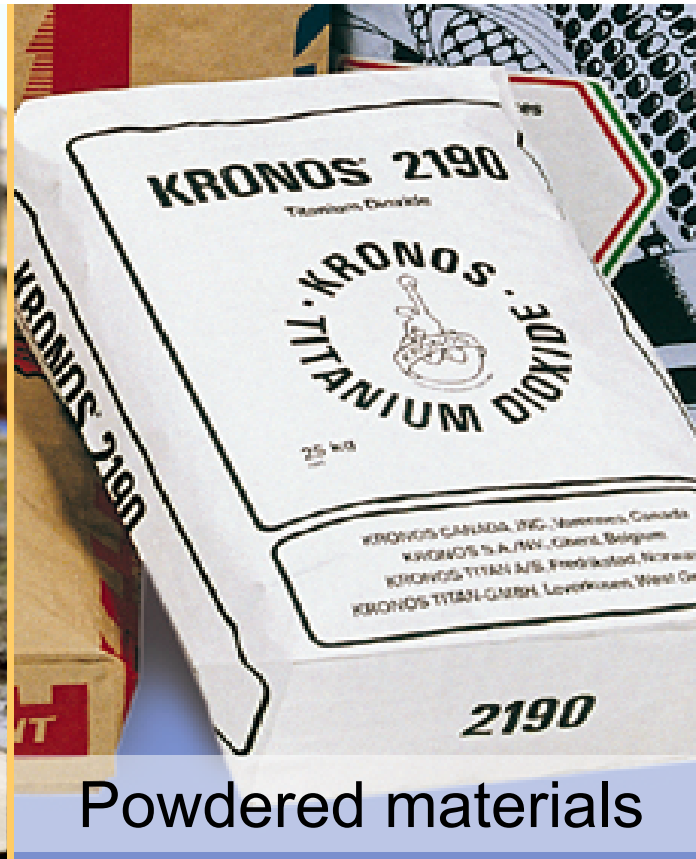


Medical packaging



Flexible packaging

Sack paper - segments



Fluting and liner - segments



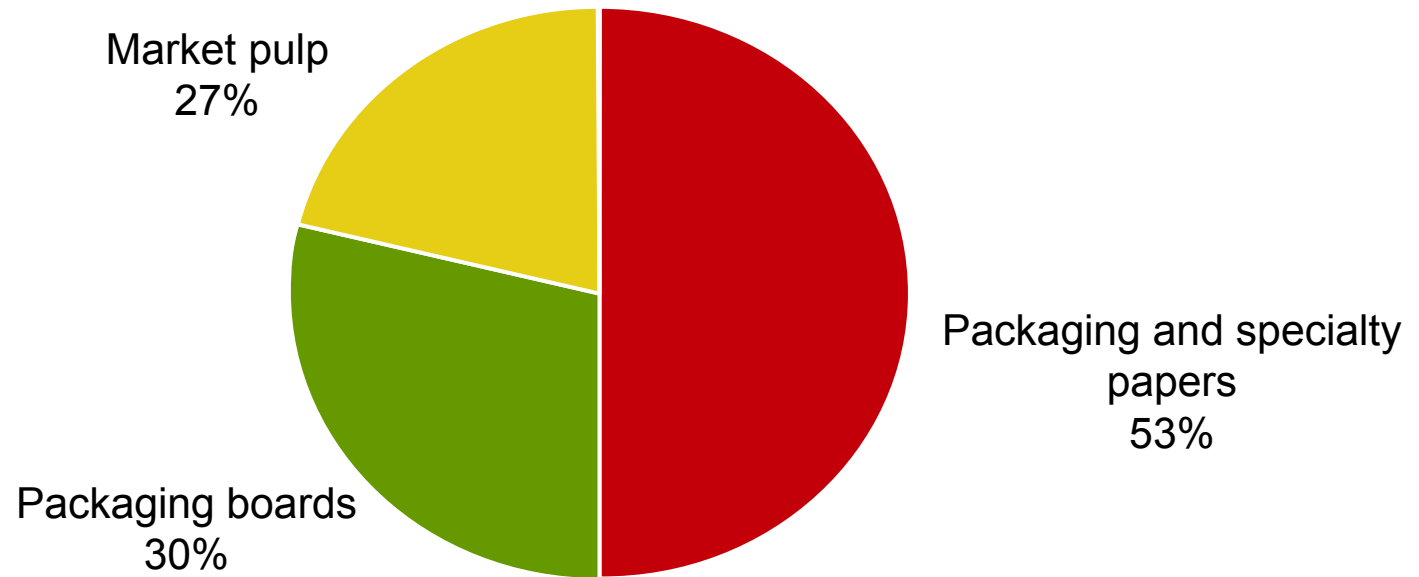
Fruit & vegetables



Promotion packaging



Business areas – share of net sales 2005



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Financial objectives

	Target	2001 - 2005	2005
Return on capital employed	≥ 15% ¹⁾	18%	-3%
Debt/equity ratio	0.6 – 0.9	0.57	0.99
Investments	In line with depreciation	Yes, but energy investments in addition	Yes, but energy investments in addition
Pay-out ratio	50% ¹⁾	53%	3,25 ²⁾

1) Average over a business cycle

2) Proposal for 2005

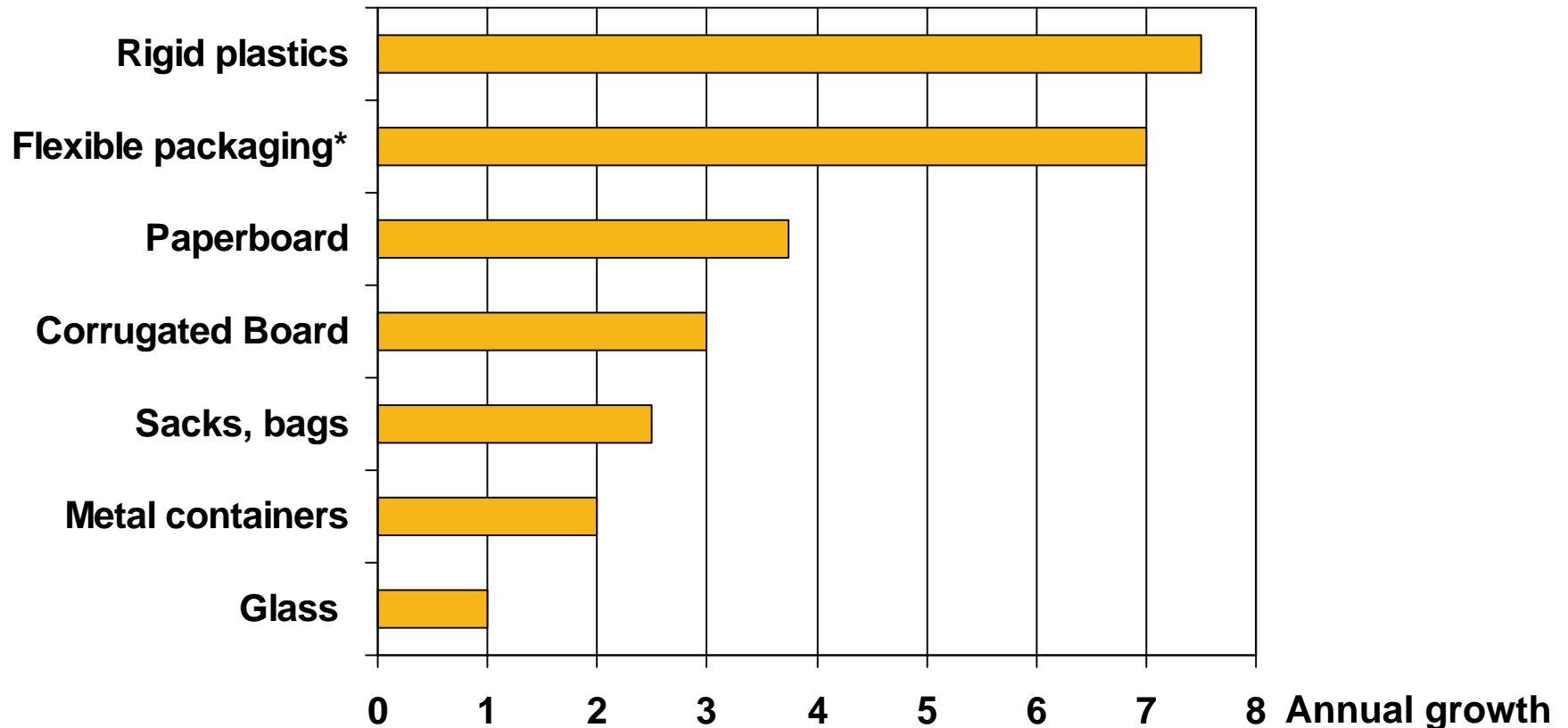
Strategic challenges

Characteristics of the global packaging market

- Large and mature
 - USD 420 bn in value, average growth as GDP
- Complex
 - Due to strong national/regional differences in usage
 - *(MG almost only in Europe, plastics for same purpose in Asia)*
- Fragmented and competitive
 - Some 100 000 companies, rivalry between materials
- Commoditised
 - Few unique brands or proprietary technologies
- Cyclical
 - Affected by raw material and economic cycles

Source: Packforsk and Billerud

Global growth per material



* Flexible packaging made from paper, plastics, aluminium foil or any combination. Providing a barrier against moisture, air, aroma, etc

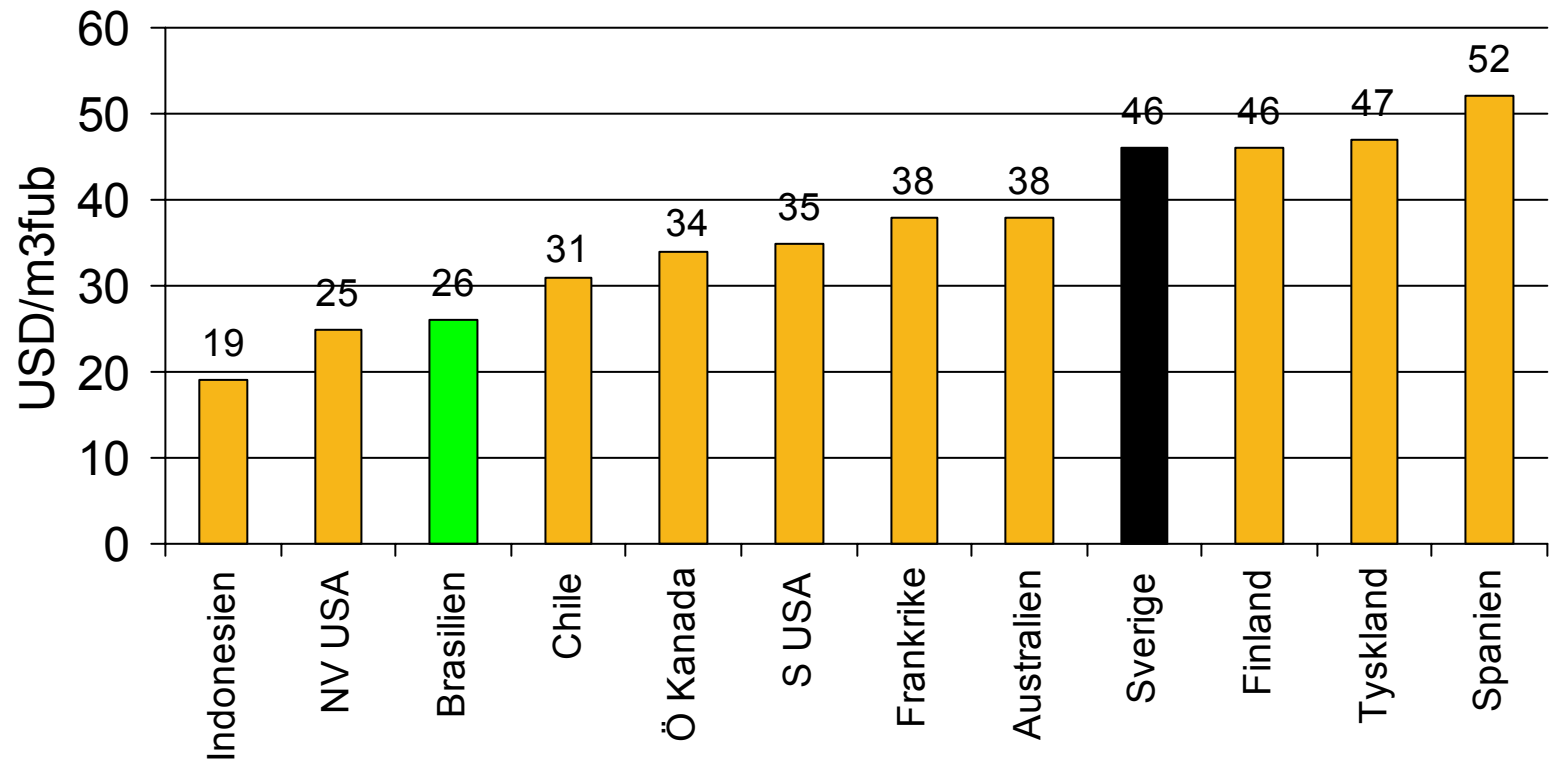
Source: Packforsk "Paper versus plastics in flexible packaging" 2003-05-07

Strategic issues

- Global cost trends
 - Fibre, energy, oil
- High cyclicality
 - “Boom and bust” investment pattern
 - Unpredictable earnings capacity
- Commoditization and cost competition
 - Overcapacity
 - Low differentiation
 - Fragmented value chains

Hardwood (Birch)

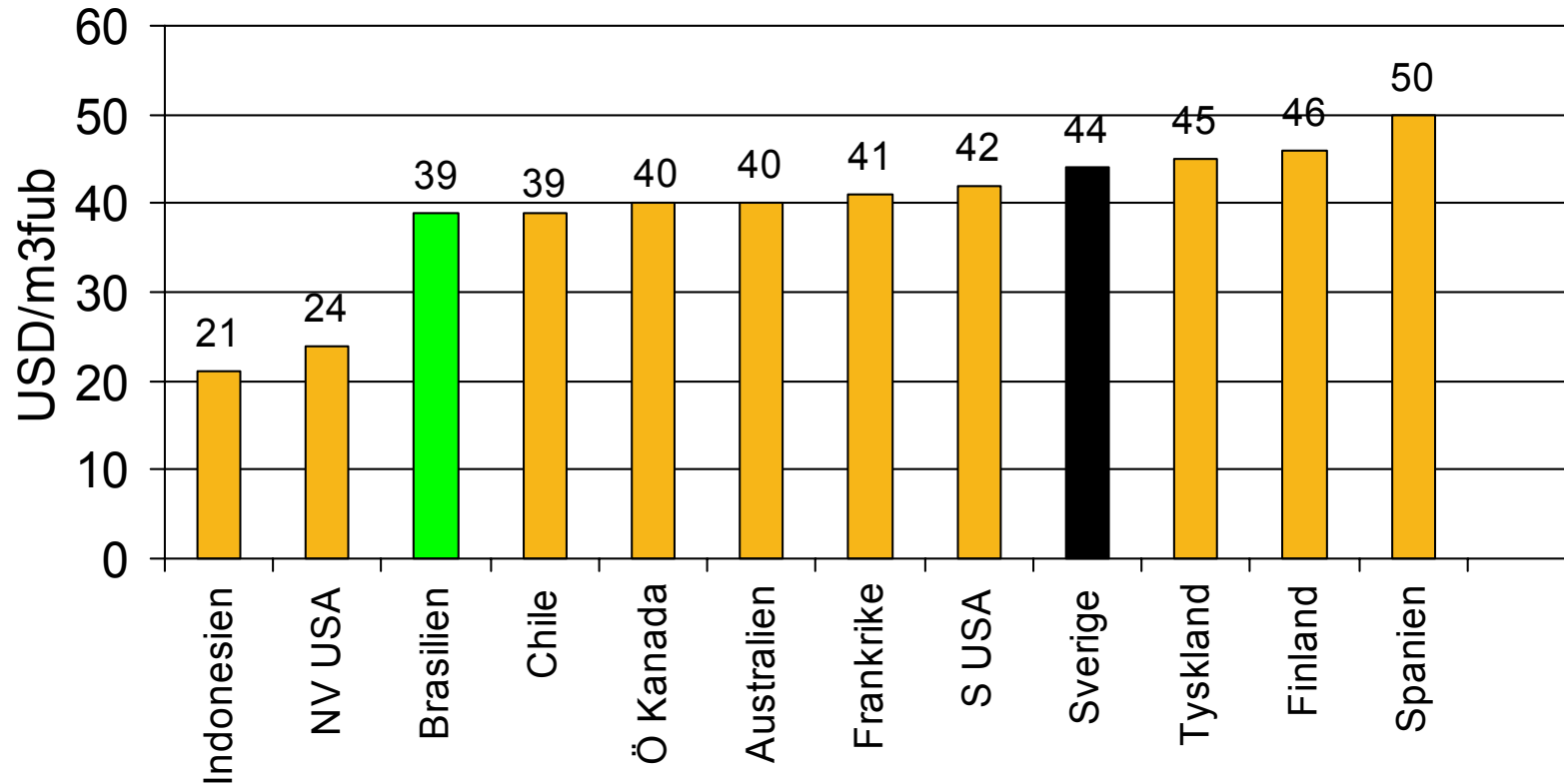
- Average cost at mill gate, Q 2 2004



Source: Wood Resources International Ltd.

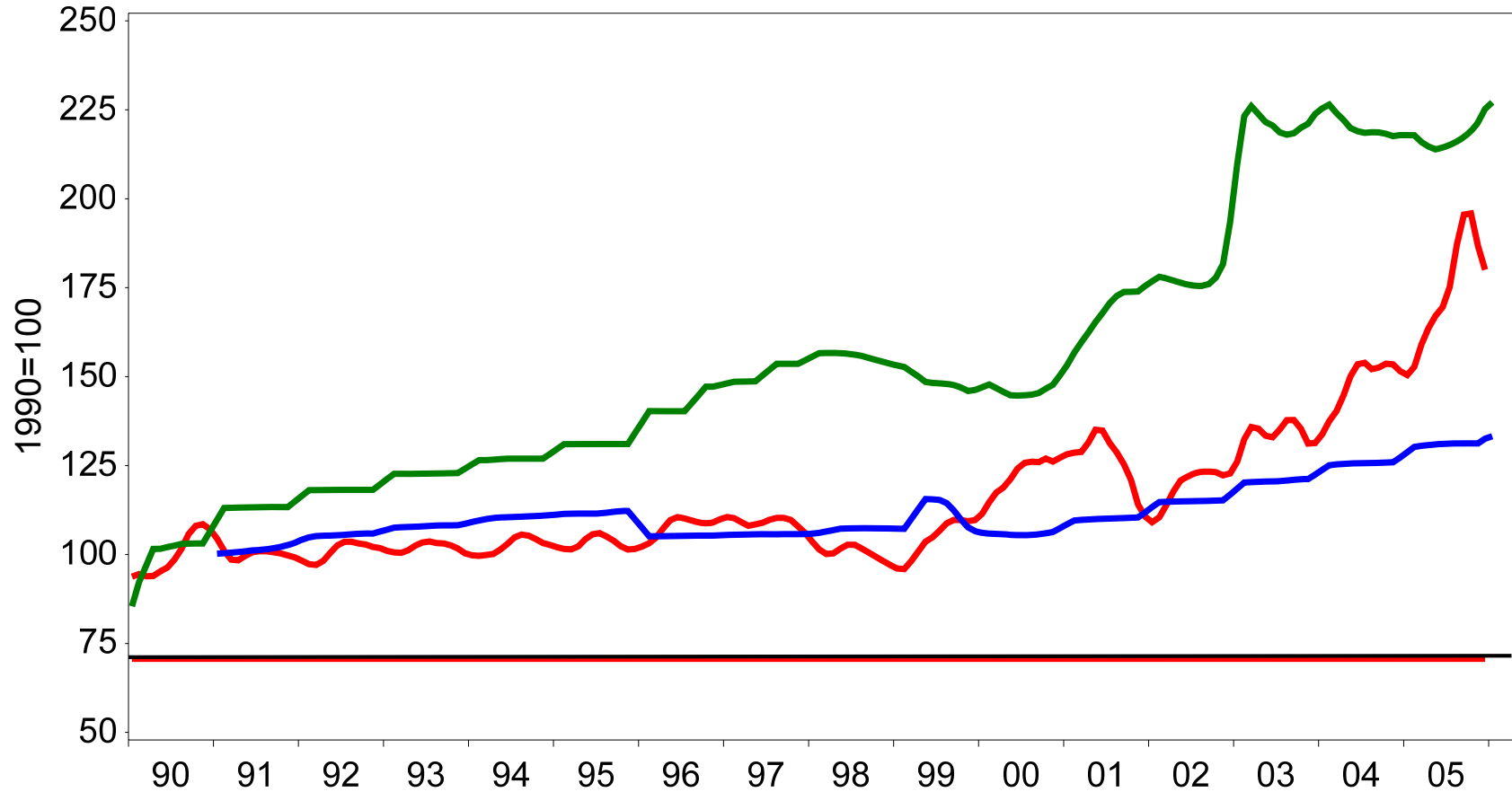
Hardwood (Birch)

- Average cost at mill gate, Q 4 2005



Source: Wood Resources International Ltd.

Higher energy costs (1990=100)



- United States, Energy, Index [rebase 1990 = 100.0, cma 3]
- United States, Energy, Index [rebase 1990 = 100.0, cma 3, mean]
- Germany, Households and NPISH, CP0451, Electricity, EUR [rebase 1980 = 100.0, cma 3]
- Sweden, By Commodity, Housing, Water, Electricity, Gas and Other Fuels, CP0451, Electricity, Index [rebase 1990 = 100.0, cma 3]

Source:ECOWIN

Source: EcoWin

Billerud action

- Energy cost reduction programme

- Decision to invest around MSEK 1 050. On stream gradually from the second half of 2005 up to the end of 2006
- Includes new turbines for backpressure power and rebuilt bark boilers and new electricity supply at Gruvön
- Profit impact by reduced energy volume
 - 2006 MSEK 100 (before depreciation)
 - 2007 MSEK 250 (full effect, before depreciation)(Depreciation MSEK 50)
- Capex Jan – Dec. 2005 MSEK 670
- Programme develops according to plan

Billerud action

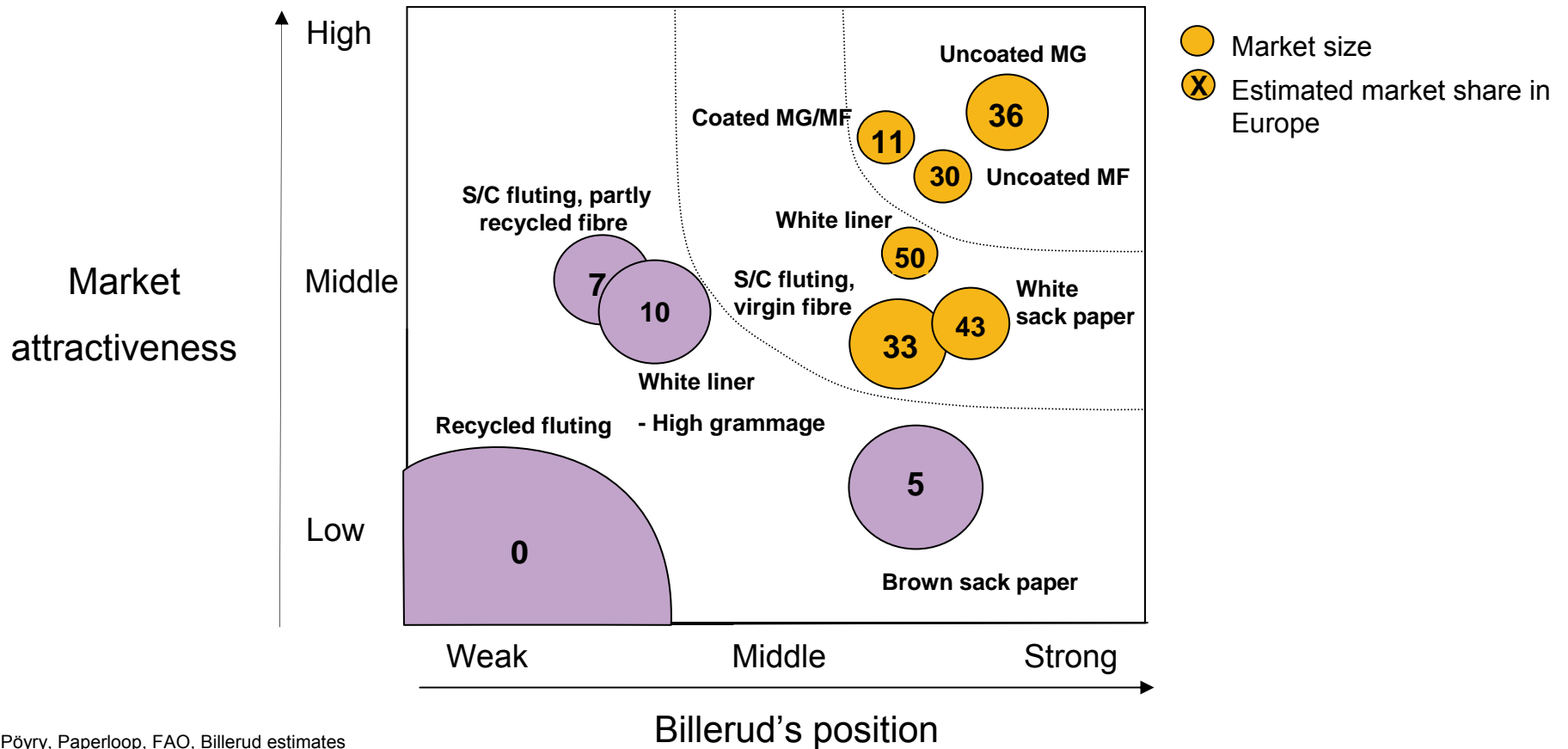
- Organization cost reduction programme

- Organisation cost will be cut by at least MSEK 250 per year
- Reduction of 450 employees
- The programme will come into immediate effect and should be completed by the end of 2006.
 - 2005 MSEK 25
 - 2006 MSEK 80
 - 2007 MSEK 250 (full effect)
- One-off costs for the programme are MSEK 400, included in January – December accounts
- Programme develops according to plan

Strategic issues

- Global cost trends
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- High cyclicalities
 - “Boom and bust” investment pattern
 - Unpredictable earnings capacity
- Commoditization and cost competition
 - Overcapacity
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Billerud Actions - Focus on less volatile and more attractive niches



Source : Jaakko Pöyry, Paperloop, FAO, Billerud estimates

Actions going forward

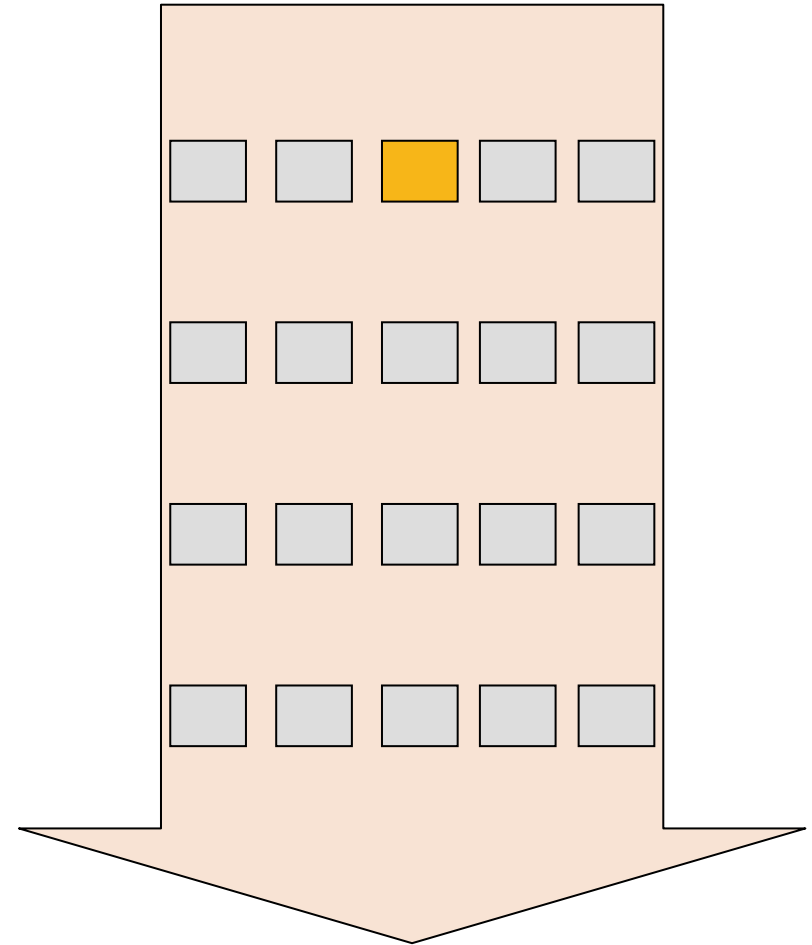
- Decrease net exposure of market pulp
 - Increase of internal paper / board capacity
- Improved product mix
 - By changed market mix to higher value segments
 - Further core market penetration
- Increase of value-adding offerings
 - Products
 - Service

Strategic issues

- Global cost trends
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- High cyclicality
 - “Boom and bust” investment pattern
 - Unpredictable earnings capacity
- **Commoditization and cost competition**
 - Overcapacity
 - Low differentiation
 - Fragmented value chains

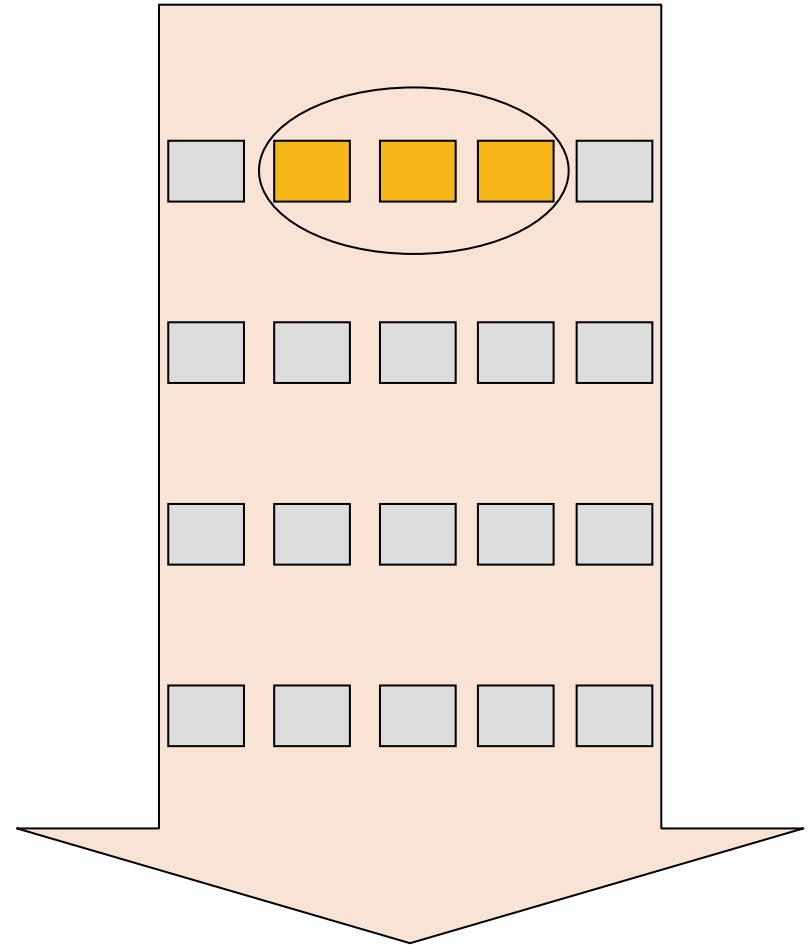
Commoditization and cost competition

- Overcapacity
- Low differentiation
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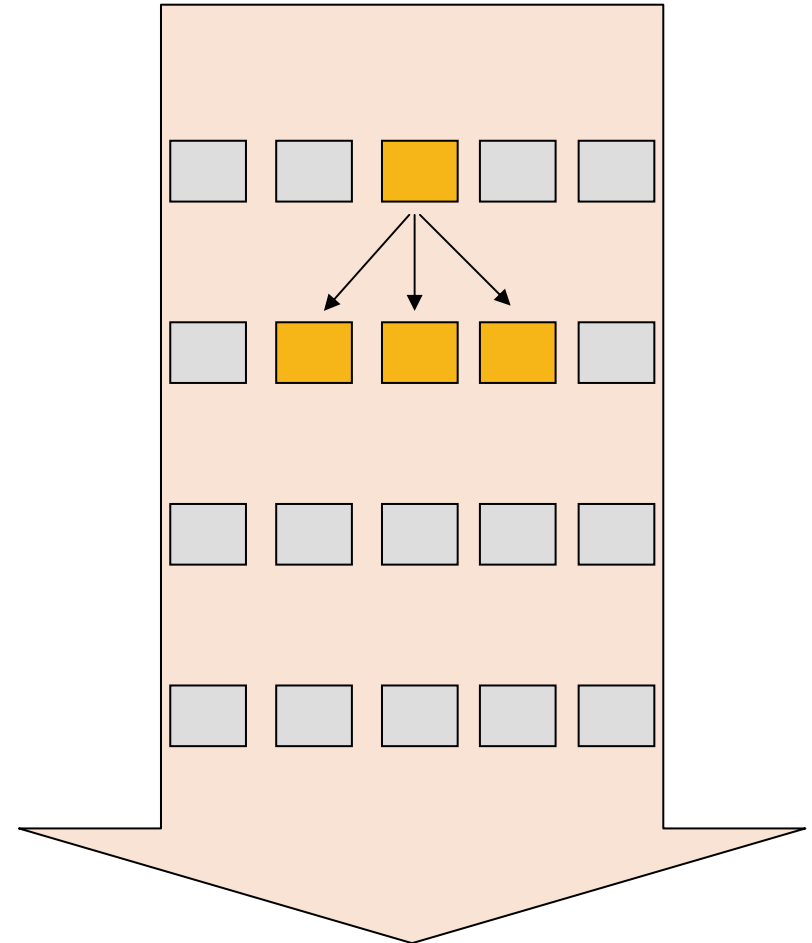
Strategic option 1

- Increased horizontal scale
 - Addition of similar capacity / products
 - Assumes economy of scale and capacity control
 - Assumes pricing power through market share



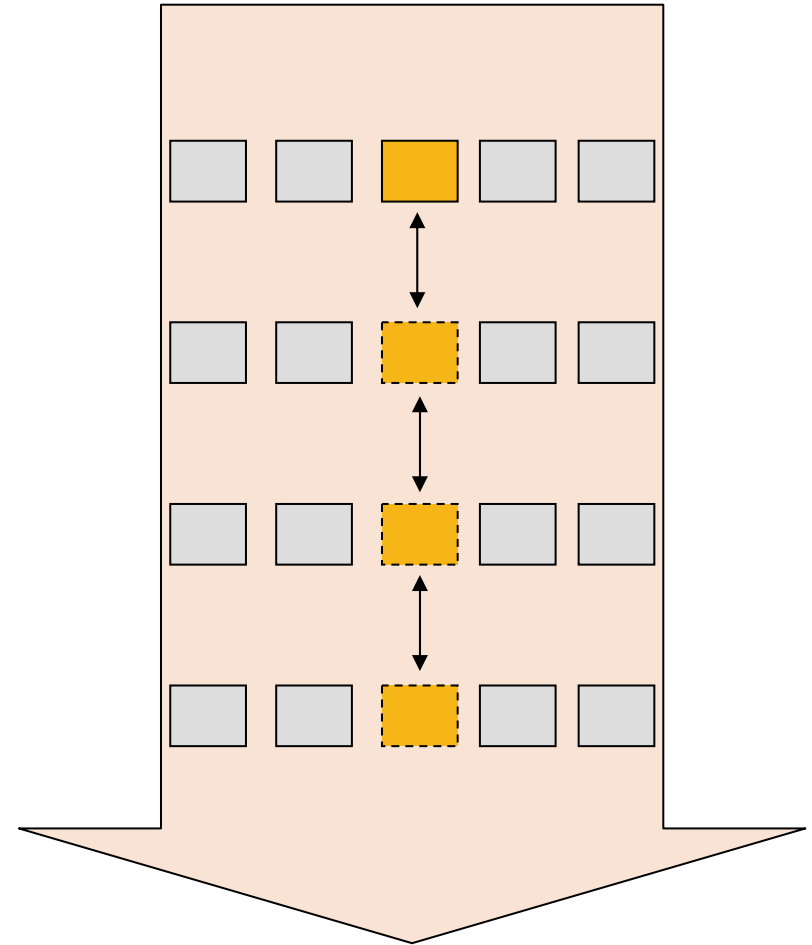
Strategic option 2

- Downstream integration
 - Conversion capacity
 - Assumes increased margins through supply integration
 - Assumes better adaptability through downstream integration



Strategic option 3

- Improved cooperation throughout value chain
 - Higher value added and differentiation through coordination of value chain
 - Assumes better product / service positioning through better value chain information



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Q & A

Per Lindberg, CEO

