

# Year-End Report 2006

Per Lindberg, CEO  
Bertil Carlsén, CFO



# Quarterly update & news

- Highlights
- Development by Business area
- Ongoing projects
- Financials
- Outlook



## Highlights 2006

- Strong market conditions throughout 2006
- Price increases exceeds increase in variable costs
- Reduction of fixed costs
- Savings programs on track during 2006
  
- EBIT MSEK 552, an increase of 176% (7% EBIT margin)
- Return on capital employed 11%
- Return on equity 12%



# Key figures

## 2006 vs 2005

	2006	2005	Change
Deliveries ('000 tonnes)	1,364	1,351	+1%
Net sales, MSEK	7,369	6,823	+8%
Operating profit, MSEK	552	-200	+752
Operating margin	7%	-3%	+10
Profit/share, SEK	6.08	-3.56	+9.64
Debt/Equity ratio	0.94	0.99	-0.05

## Highlights Q4, 2006

- Continued strong demand
- Increased maintenance costs vs. Q3
- Negative currency effect on operating results



# Key figures

Q4 vs. Q3 2006

	Q4 2006	Q3 2006	vs. Q3 2006
Deliveries ('000 tonnes)	339	338	+/-0%
Net sales, MSEK	1,867	1,878	-0.6%
Operating profit, MSEK	176	205	-14%
Operating margin	9%	11%	-2
Profit/share, SEK	1.75	2.52	-31%
Debt/Equity ratio	0.94	0.98	-0.04

# Business areas and segments

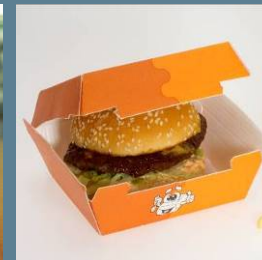
## Packaging & Speciality Paper

MG, MF & Sack Paper



## Packaging Boards

S/C Fluting, Liner, Liquid Board



## Market Pulp

Nordic Bleached Softwood Kraft Pulp



# Packaging & Speciality Paper

## Market situation

### Q4

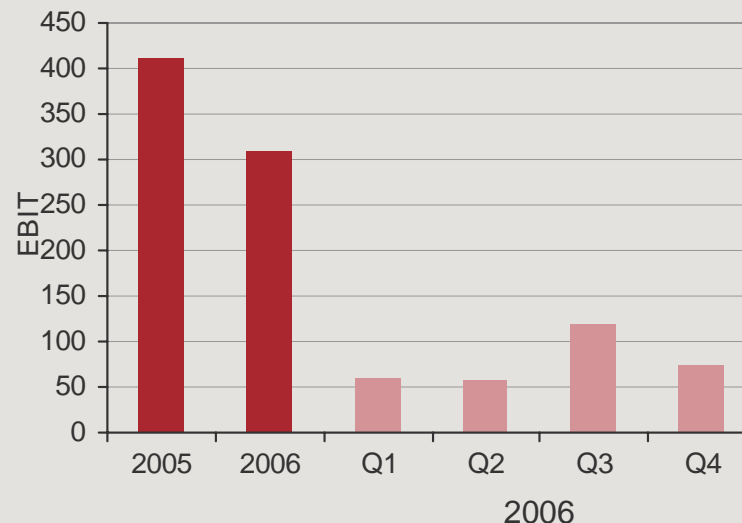
- Demand varies by segment, but in average good order book
- Continued healthy supply and demand balance in brown sack paper
- Announced price increases in October only marginally implemented – will impact Q1, 2007



# Packaging & Speciality Paper

## Financials

- Deliveries -1% vs. Q3-06, +/- 0% 2006 vs. 2005
- Turnover -1% 2006 vs. 2005
- Prices + 3% in 2006 (local currencies)



	Q4 2006	Q3 2006	2006	2005
Net sales, MSEK	908	950	3,709	3,751
Operating profit, MSEK	73	118	309	411
Operating margin	8	12	8	11

# Packaging Boards

## Market situation

Q4

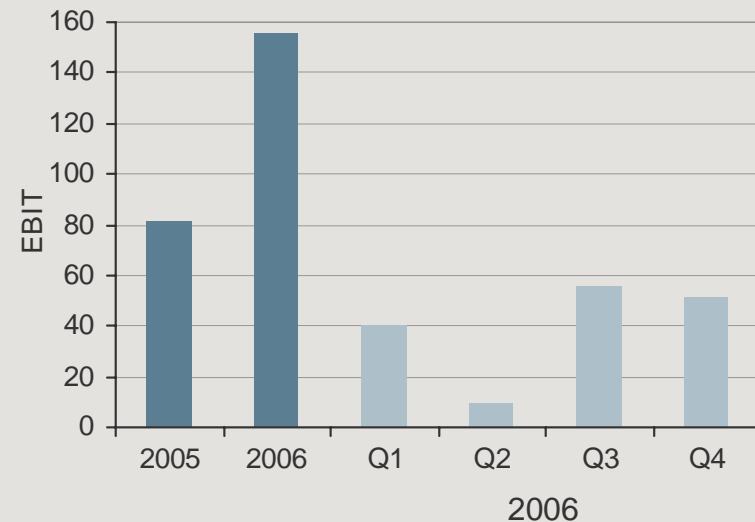
- Continued strong order book for S/C fluting, stable situation for white liner
- Improved prices and market mix
- New Billerud Flute® at 65% adoption



# Packaging Boards

## Financials

- Deliveries +3% vs. Q3-06, +/-0% 2006 vs. 2005
- Turnover +5% 2006 vs. 2005
- Prices +13% in 2006 (local currencies)



	Q4 2006	Q3 2006	<b>2006</b>	<b>2005</b>
Net sales, MSEK	552	541	<b>2,169</b>	<b>2,058</b>
Operating profit, MSEK	51	56	<b>156</b>	<b>81</b>
Operating margin	9	10	<b>7</b>	<b>4</b>

# Market Pulp

## Market situation

Q4

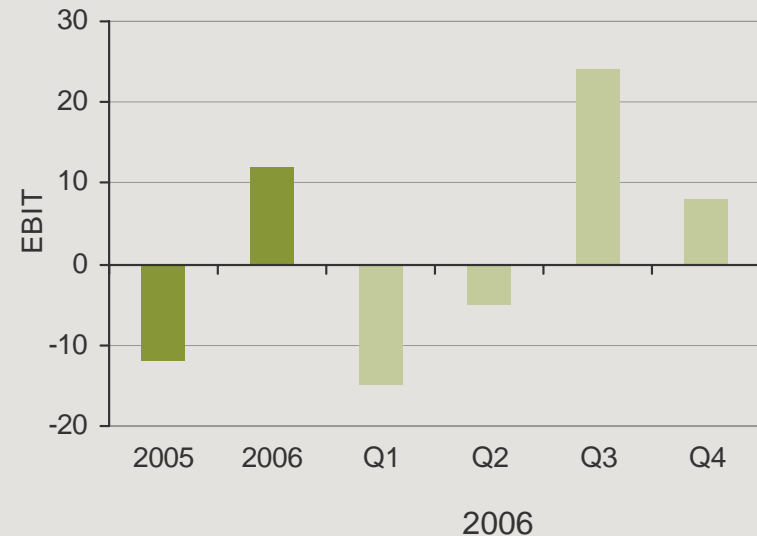
- Good demand situation
- Price increase from USD 710 end of September to USD 730



# Market Pulp

## Financials

- Deliveries -3% vs. Q3-06, +5% 2006 vs. 2005
- Turnover +13% 2006 vs. 2005
- Prices + 20% in 2006 (USD)



	Q4 2006	Q3 2006	<b>2006</b>	<b>2005</b>
Net sales, MSEK	338	356	<b>1,348</b>	<b>1,197</b>
Operating profit, MSEK	8	24	<b>12</b>	<b>-12</b>
Operating margin	2	7	<b>1</b>	<b>-1</b>

# Cost reduction programs

- Energy program
  - » On track
  - » Investment 1050 MSEK, total savings above 250 MSEK
  - » Savings of 90 MSEK expected in 2007
  - » Increased depreciation 50 MSEK
  
- Billerud 2007
  - » On track 2006
  - » Total savings 250 MSEK (vs. 2004)
  - » Program partly delayed in Grevön and Beetham
  - » Full effect expected Q4, 2007



# Financials



# Key figures

Q4 vs. Q3 2006

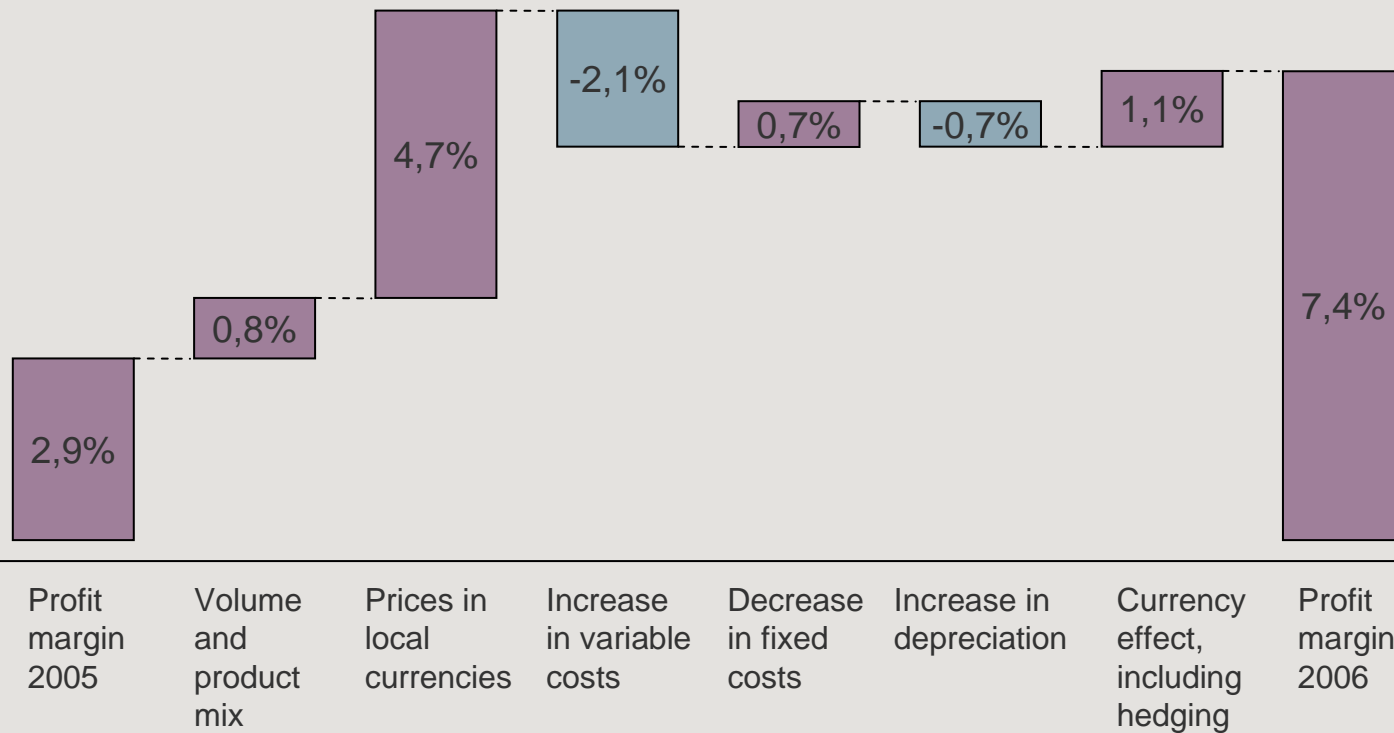
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# Margin improvement 2006 vs. 2005

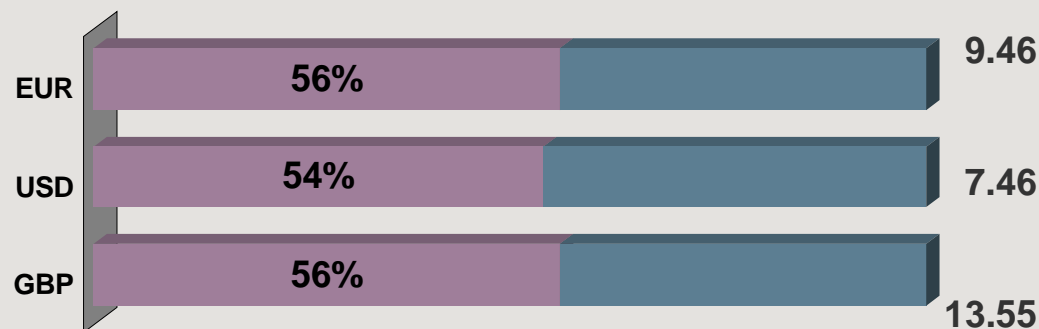


## Currency effects on 2006

MSEK	2006	2005	Change
Currency impact on EBIT of spot rates (weaker USD and stronger SEK)	-244		-244
Result of hedging	+143	-183	+326
Net effect currencies	-101		+82

# Currency situation

- Positive profit effect of net flow hedging MSEK 69 for Q4 2006
- Hedge level 12 months forward:



	Jan-Dec 2006		Q4 2006		Q1 2007
	Average hedged currency rates	Average current rates	Average hedged currency rates	Average current rates	Average hedged currency rates
			Q4	Q4	Q1
EUR	9.46	9.25	9.52	9.13	9.27
USD	7.46	7.38	7.46	7.08	7.06
GBP	13.55	13.58	13.51	13.57	13.53

# Currency exposure management

## Currency situation

- Revenues mainly in EUR (2/3) and USD (1/3)
- Main cost items in SEK

## Hedging policy

- Policy to hedge at least 50% of net currency exposure the coming 12 months

## Operative management and steering

- Business areas evaluated on spot rates
- EBIT margin objectives
  - » Price increase objective is to cover both increased variable costs and currency costs of stronger SEK

# Cash Flow

MSEK	Q4 2006	Q3 2006	2006	2005
Operating surplus etc	+297	+327	+1021	+622
Cash effect of Billerud 2007	-53	-59	-219	-67
Working capital change	-82	+186	+42	-44
Finance net, taxes	+47	-55	-50	-98
Cash flow from operating activities	+209	+399	+794	+413
Capex, excl. energy investments	-104	-78	-359	-399
Capex (energy inv.)	-52	-24	-269	-670
Capex	-156	-102	-628	-1 069
Operating cash flow	+53	+297	+166	-656
Dividends/share buy-backs			-167	-334
Other	-4	-10	-9	-44
Change in net debt <sup>1)</sup>	+49	+287	-10	-1 034

<sup>1)</sup> Minus equals increase in net debt

## New financial objectives in Q4

- » 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
  
- » Net debt to equity 0,6-0,9
- » Dividends 50% of net profits over a business cycle



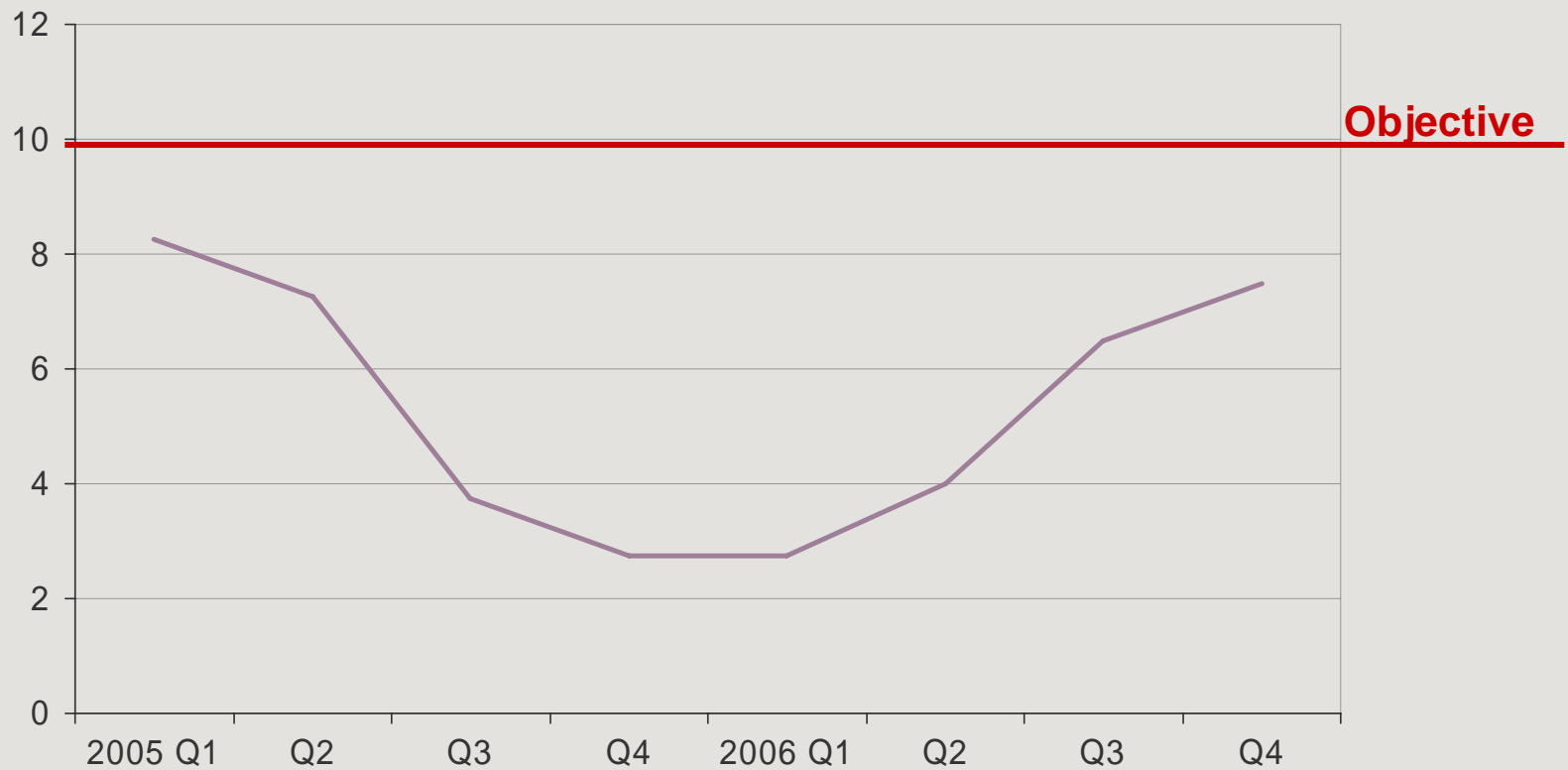
## Organic growth 2006 vs 2005

Volume increase	1%
Product mix improvements	1%
New Business growth	0%
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Long term organic growth	2%
Price recuperation and hedge	6%
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Organic growth 2006	8%



# EBIT-margin is improving

Rolling 12 months figures, excl. one time costs 2005

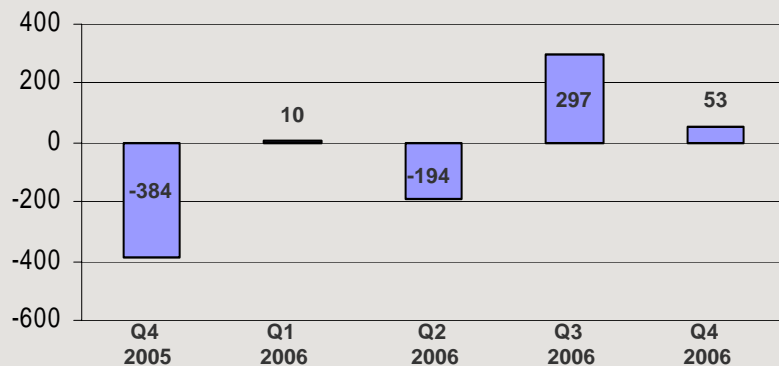


# Good payback on energy investments

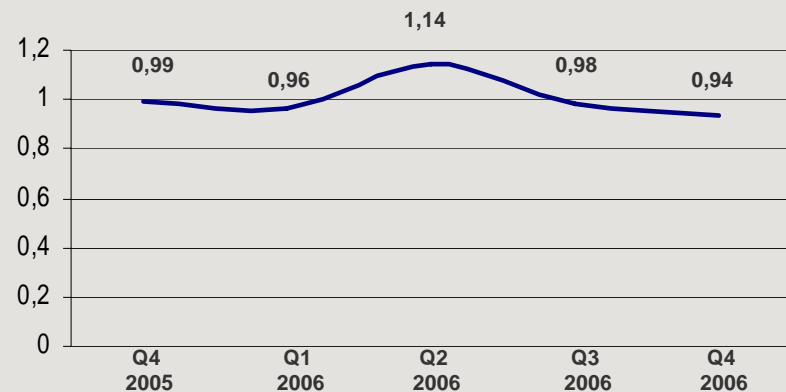
## Positive cash flows and improved D/E ratio

<b>MSEK (positive figure indicates a reduction in debt)</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q2 2006</b>	<b>Q1 2006</b>	<b>Q4 2005</b>
Current activities	209	399	-29	215	-53
Current net investments, excl. energy projects	-104	-78	-62	-115	-105
Energy project investments	-52	-24	-103	-90	-226
<b>Operating cash flow</b>	<b>53</b>	<b>297</b>	<b>-194</b>	<b>10</b>	<b>-384</b>
Dividend	-	-	-167	-	-
Other items not affecting cash flow	-4	-10	4	1	-13
<b>Change in net debt during the period</b>	<b>49</b>	<b>287</b>	<b>-357</b>	<b>11</b>	<b>-397</b>
<b>Net debt ratio</b>	<b>0,94</b>	<b>0,98</b>	<b>1,14</b>	<b>0,96</b>	<b>0,99</b>

Operating cash flow



Net debt ratio



## Dividend proposal 2006

- Proposed dividend SEK 3,50 per share
- An increase of 4% compared to last year (3.25)
- A payout ratio of 58% of net profit
- Dividend yield of 3% (at SEK 116/share)



# Cost structure

% of total costs 2006

Wood fibre	30
Staff	18
Freight	12
Chemicals	8
Energy	7
Depreciation	7
Other materials	5
Purchased services	5
Other	8
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Total	100



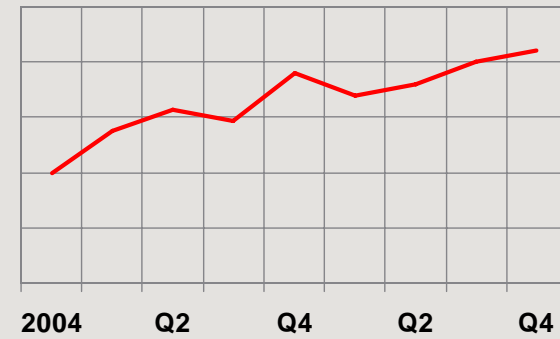
# Market prices affecting result

## Electricity index (Sweden\*)



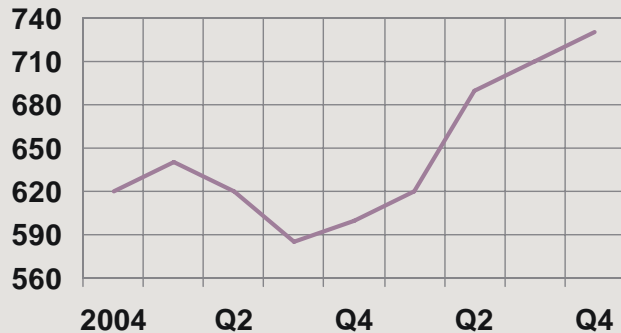
Source: Nordpool. \*Price area Sweden

## Wood price index

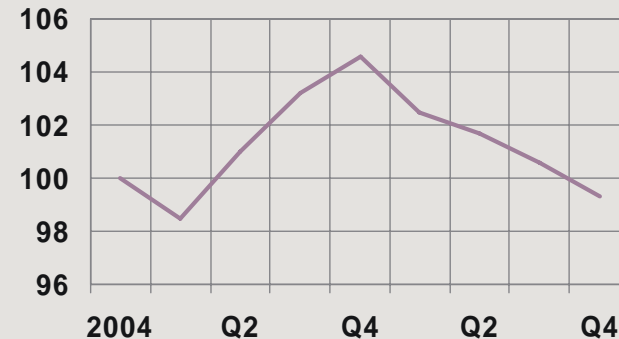


Source: Billerud

## Market Pulp (USD/t)



## TCW index



Source: Riksbanken

# Outlook



# Wood

## Raw material supplies

- Increased prices during 2006
- Difficult supply situation due to warm winter in beginning of 2007.
- Cost increase for Q1 2007 estimated to 50 MSEK compared to Q4.
- Total consumption 5,4 million m<sup>3</sup>fub
- Import share around 20-25%
- Main import from Latvia, Lithuania, Estonia, Finland and Norway



## Outlook

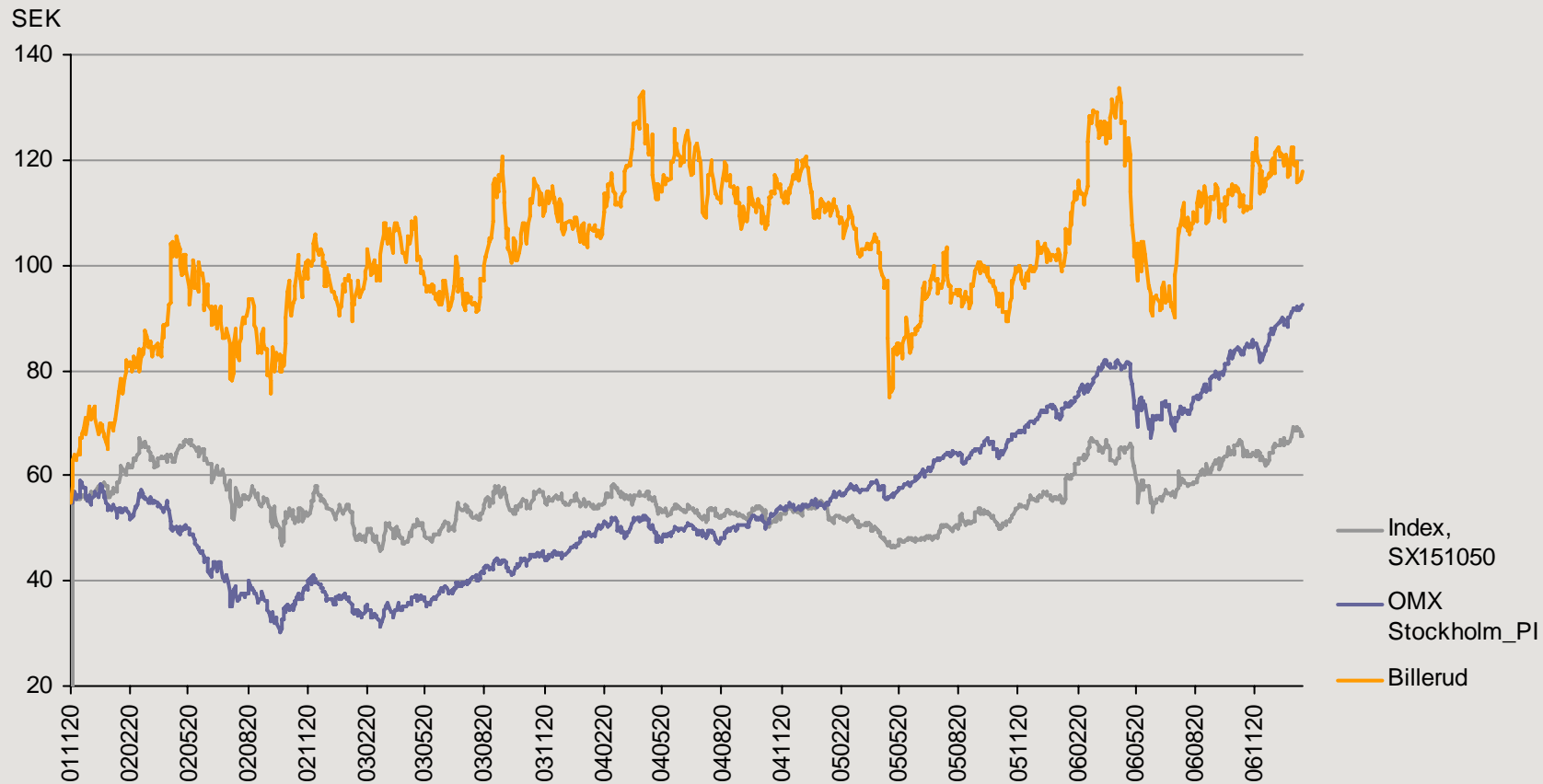
- A continued strong market in 2007 is expected, with potentials for further price increases in local currencies.
- At current price levels, wood costs will increase 50 MSEK in Q1, 2007
- Cost-saving programs will continue to decrease costs



# Q&A



# Share price performance



# Reasons for EBIT development

## Jan–Dec 2006 vs. Jan–Dec 2005

Deliveries and prod. volumes, incl. product mix	+65
Sales prices (in local currencies)	+364
Increased variable costs	–160
Decreased fixed costs	+53
Increase in depreciations	–52
Effect of exchange rates, including hedging	+82
<b>Total effect on results</b>	<b>+352</b>

## Billerud weighted currency index

	2002	2003	2004	2005	Ave. 2006	Hedged 2006	Spot rate Feb 12 2007
EUR/SEK	9.16	9.12	9.13	9.28	9.25	9.45	9.11
USD/SEK	9.72	8.25	7.35	7.48	7.38	7.46	7.03
GBP/SEK	14.58	13.27	13.46	13.58	13.58	13.52	13.69
EUR/USD	0.94	1.11	1.24	1.24	1.25	1.27	1.30
Billerud weighted index*	109	102	99	101	100	102	97

\* Index 100=1998