

# Billerud

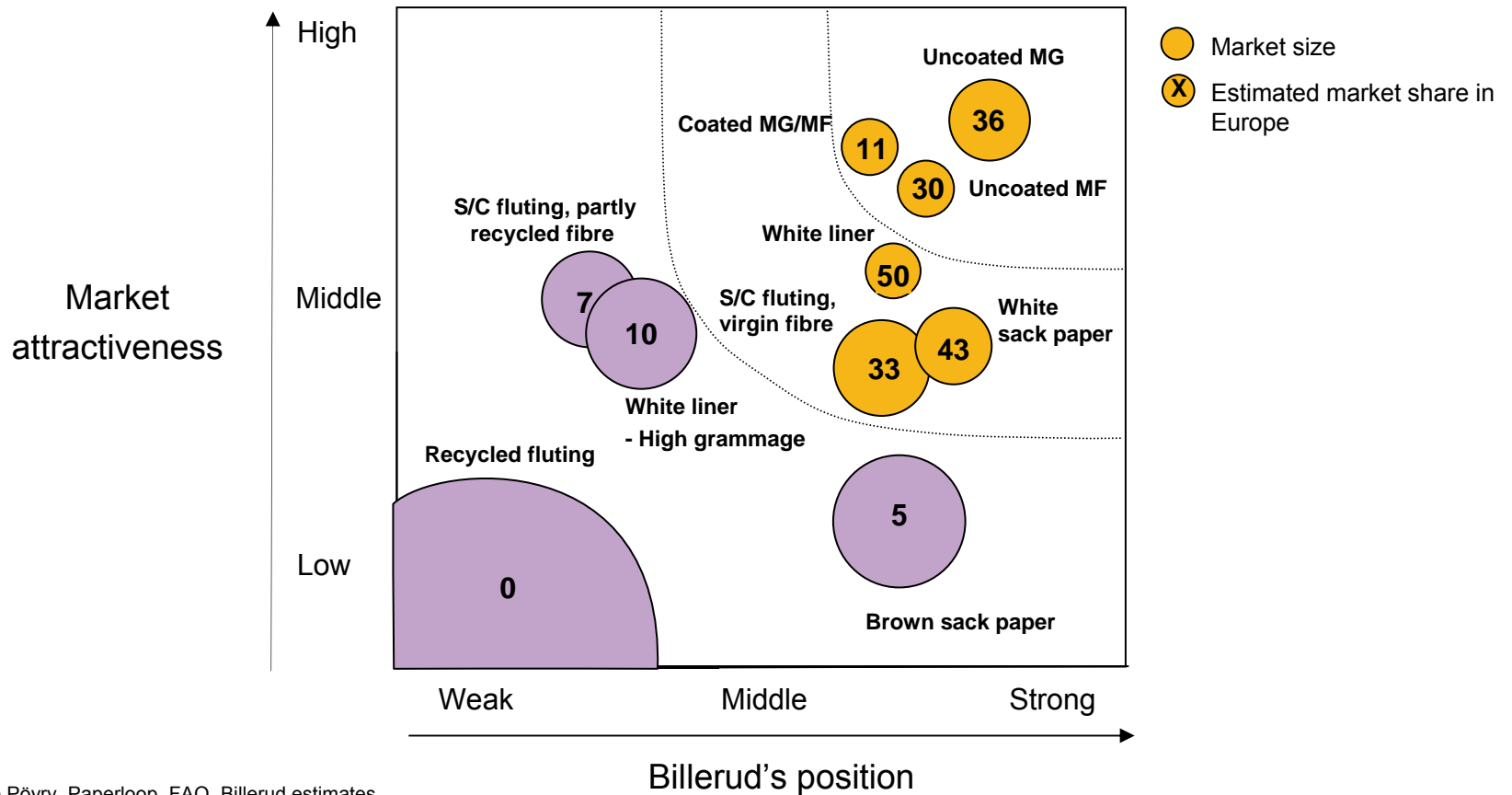
**Handelsbanken  
Nordic Basic Industry Seminar  
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# Billerud in brief

- 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 11 percent 2004

# Product strategy



Source : Jaakko Pöyry, Paperloop, FAO, Billerud estimates

# Capacity increase 2000 - 2003

 Growth products +15%

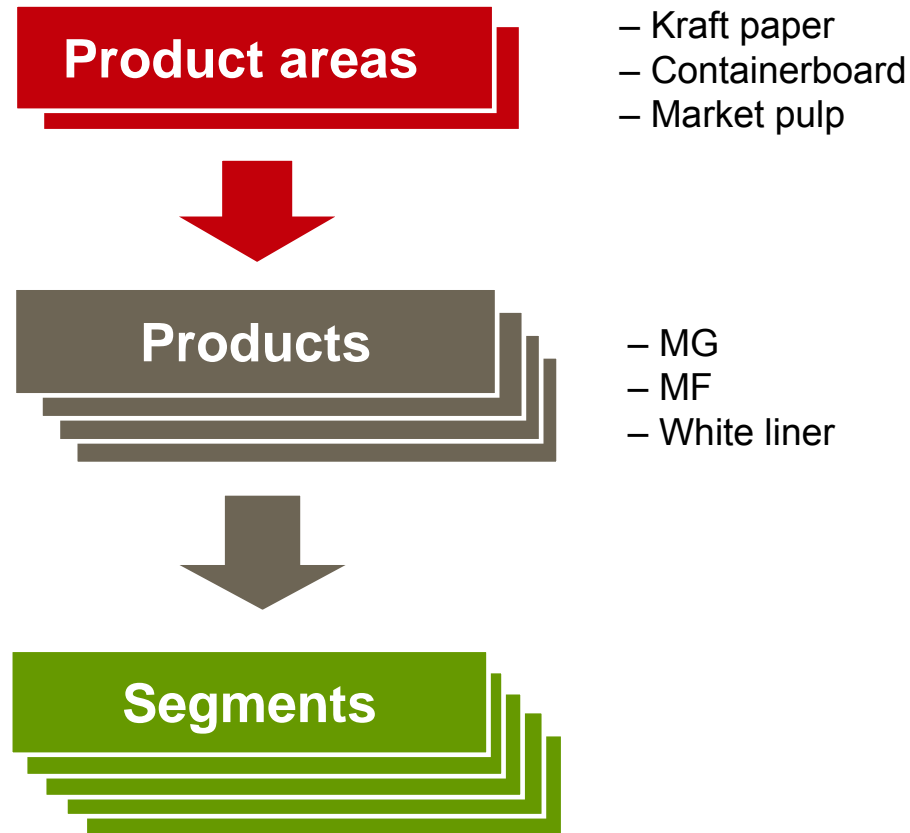
 Cash flow products -5%

Market pulp +5%

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**Total +10%**

# Segment focus



# Technical kraft papers – Segments



Medical packaging



Flexible packaging



Protective envelopes

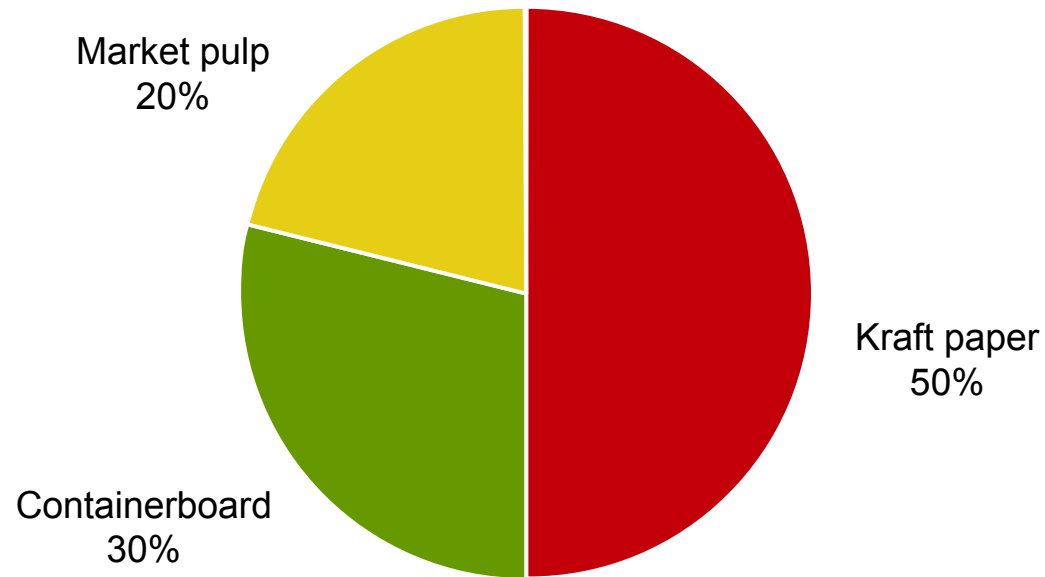
# Sack paper - segments



# Containerboard - segments



# Products areas – share of net sales 2004



# Financial objectives

|                            | Target                    | 2001 - 2004 | 2004                                    |
|----------------------------|---------------------------|-------------|---|
| Return on capital employed | $\geq 15\%^{1)}$          | 23%         | 17%                                     |
| Debt/equity ratio          | 0.6 – 0.9                 | 0.56        | 0.47                                    |
| Investments                | In line with depreciation | Yes         | Yes, but energy investments in addition |
| Pay-out ratio              | 50% <sup>1)</sup>         | 46%         | 65%                                     |

1) Average over a business cycle

# Future investments

## Four different kinds of Investments

- Maintenance
  - Fluctuates, difficult to influence
- Environmental
- “Grow with the market” (*secure competitiveness*)
  - Keep current market positions within core areas

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- Growth

# Growth = Growth in profits

- By reduced cost
- By increased income
  - Product/segment mix
  - Increased volume
  - Acquisitions
- Focus today on reduced costs and mix changes
  - Energy
  - Organisation
  - Continue move to prioritized segments

# Cost structure and currency

## Cost structure % of total cost

|                    |          |
|--------------------|----------|
| Wood fibre         | 29       |
| Staff              | 21       |
| Freight            | 12       |
| Chemicals          | 8        |
| Other materials    | 6        |
| Energy             | 6        |
| Depreciation       | 6        |
| Purchased services | 5        |
| <u>Other</u>       | <u>7</u> |
|                    | 100      |

## Currency situation

- Revenues mainly in EUR (2/3) and USD (1/3)
- Main cost items in SEK
- Hedging policy
  - Constant hedgings approx 6 months future net flow
  - If ROCE  $\geq$  20%, increased to 15 months future net flow

# Wood fibre use in Billerud

- Consumed approx 5.3 million m<sup>3</sup> in 2004, whereof 25% hardwood
- 15% imported, mainly from the Baltic countries
- Long term supply contracts, market prices

# Wood fibre situation in Sweden after the January storm

- Changes in wood fibre flows; in three phases
  - Reduced and distorted wood flows short term (winter -05)
  - Surplus of wood fibre mid term (rest of -05)
  - Reduced supply some years thereafter
- Price decreases announced for softwood, but higher prices for hardwood and higher transport costs

# Wood fibre conclusions

- Long term balances in Sweden ok.
- Billerud will limit total wood fibre use in Sweden to today's level (approx)
- Growth in value through
  - More from pulp to paper
  - More to prioritized segments within packaging papers

# Organizational Review - targets

- Establish **one Billerud** with common world class way of working and ability to be an industry leader
- Secure resources and competencies to achieve **lasting higher profitability** than industry peers
- Achieve **highest possible efficiency in all processes and procedures** with the goal to reduce costs with SEK 250 million (EUR ~25 million)

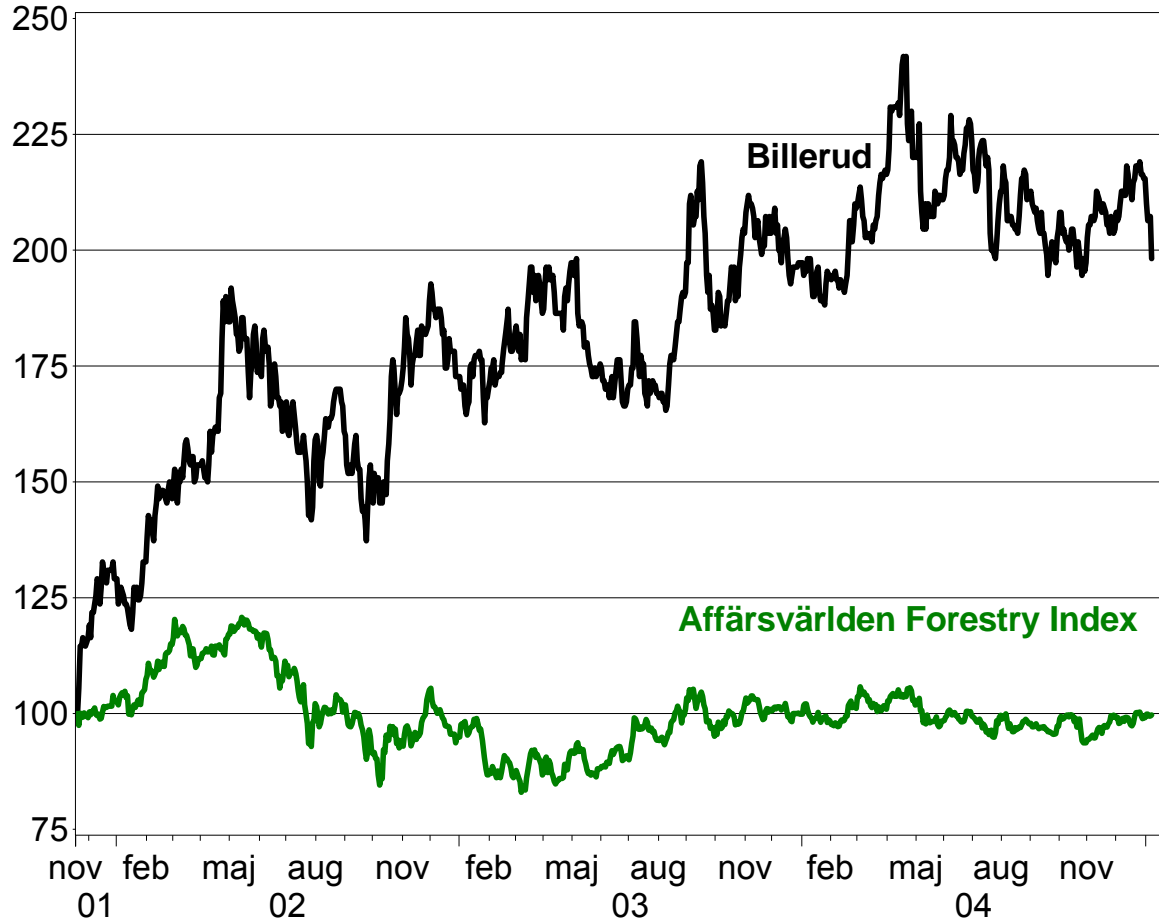
# Billerud invests in cost cutting measures in the energy field

- Decision to invest around MSEK 1 050 in new turbines for backpressure power and rebuilt bark boilers and new electricity supply at Gruvön
- The new equipment will come on stream gradually from the second half of 2005 up to the end of 2006
- Pay-back less than five years
- Outside of “capex in line with depreciations” objective

# Outlook

- Deliveries 2005 about same level as 2004
- Prices for NBSK expected to rise to USD 660 from Feb and continue to increase until at least mid-year
- Pulp price increases normally have a positive effect on packaging papers
- Today difficult to assess the January storm's effect on Billerud's wood cost.
- Other cost item expected to remain at around 2004's level.
- Negative effect of changed exchange rates (if today's rates valid all 2005) approx MSEK 300 on operating profit, compared to 2004

# Billerud vs. Forestry index



Index 100 = 2001-11-20. Updated to 2005-01-07. Source: ECOWIN Source: EcoWin

# Billerud – investments considerations

- Strong market position in attractive segments
  - >50 % of turnover in segments where Billerud is NO. 1 or 2 in Europe
  - Markets with stable growth and low capacity additions
  - Few focused competitors
- Competitive production
  - Well invested mills
  - Economies of scale
  - Integrated production
  - Profit improvement from optimisation of production and past investments
- Significant pay-out to shareholders
  - High profitability
  - Disciplined capital expenditure