



**BILLERUD**

# **INTERIM REPORT**

## **JANUARY - DECEMBER 2008**

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Further research and development with new investment in labs

## **Further research and development with new investment in labs**

**Billerud continues to focus on its research and development laboratories. The latest expansion is at Billerud Box Lab, which has received new equipment and bigger premises. Billerud Box Lab is the only development centre in the world for containerboard boxes.**

Billerud currently operates three R&D laboratories. Sack Lab tests sack paper and sacks; Pack Lab focuses on developing the performance of different packaging and barrier solutions; and Box Lab aims to develop a global standard for containerboard boxes that can withstand the toughest conditions. These activities have been carried out for over a year and the market response has been very positive. Expanding Box Lab also means increased opportunities for packaging development in both internal projects and those managed by customers.

	Quarter			Full year	
	2008 IV	2008 III	2007 IV	2008	2007
Net turnover, MSEK	1 709	2 038	2 068	7 792	7 758
Operating profit/loss, MSEK	-165	126	243	289	590
Operating margin, %	-10	6	12	4	8
Profit/loss after financial items, MSEK	-222	89	209	124	473
Net profit/loss, MSEK	-98	63	153	152	336
Earnings per share, SEK	-1.89	1.22	2.96	2.96	6.52

#### Full year 2008 compared with 2007

- Net turnover was MSEK 7,792 (7,758).
- Net profit was MSEK 152 (336), and earnings per share were SEK 2.96 (6.52).
- Operating profit was MSEK 289 (590), a decrease of 51% or MSEK 301.
- The operating margin was 4% (8).
- Cash flow from operating activities increased to MSEK 791 (730).

#### Final quarter 2008

- Operating loss was MSEK -165, compared with an operating profit of MSEK 126 in the third quarter.
- Markets for long-fibre sulphate pulp and sack paper deteriorated strongly, which led to a decision to implement a market-related production stop at the end of the quarter.
- A planned maintenance stop was carried out at Gruvön mill.
- A new three-year syndicated credit facility of MSEK 450 was agreed.

#### Proposed dividend

The Board proposes that this year's profits be used to strengthen the company's equity and no dividend be paid for 2008.

#### Outlook for 2009

- There is great uncertainty about market development. The situation for sack paper and market pulp weakened considerably in the final quarter, 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.

For further information in connection with this report, please contact Per Lindberg, President and CEO, +46 8 553 335 01 or +46 70 248 15 17 and Bertil Carlsén, CFO, +46 8 553 335 07 or +46 730 211 092

**Billerud's President Per Lindberg and CFO Bertil Carlsén will present the financial statement at a press conference for analysts and journalists today at 3 p.m. Location: Lecture Hall, Salénhuset, Norrlandsgatan 15, Stockholm. You can see the conference at [www.billerud.se](http://www.billerud.se)**

Billerud AB (publ) Box 703, 169 27 Solna Org. nr. 556025-5001

Tel +46 (0)8-553 335 00 Fax +46 (0)8-553 335 60 E-post: [ir@billerud.com](mailto:ir@billerud.com)

*Billerud is a packaging paper company with a business concept to supply customers with innovative and high quality packaging paper. A consistent concentration on attractive market segments and a strong customer focus are cornerstones of Billerud's strategy. Billerud focuses on kraft paper and containerboard and has a world-leading position within several product segments.*

*The company's production units are among the most cost-efficient in Europe for these products.*

## **Comment by Per Lindberg, Billerud CEO**

*For the full year in 2008 we delivered an operating margin of 4% with a 5% return on capital employed. This is clearly below our target and it reflects the increasingly harsh market in the second half of the year. Our profitability in the final quarter decreased considerably, while we also carried out a planned maintenance stop at Gruvön, which affected results negatively.*

*The downturn during the final quarter of 2008 affected many of our segments, with the most significant weakening within industrial customers in the building and steel industry. We decided to curtail production of primarily sack paper and pulp in order to balance supply and demand, which has had a significant negative impact on our profitability during the quarter. It contributed to stabilising the sack paper market and a reduction in the company's inventory of finished products. The pulp market has however continued to deteriorate. Despite significant production curtailments throughout the industry global inventories increased, leading to prices falling strongly.*

*The cost reduction efforts continue to deliver results. In the final quarter we achieved savings of MSEK 115 annually out of the target MSEK 150 in the variable cost reduction programme. I am convinced that our savings at the end of 2009 will exceed our target. The cost of wood raw material continued to increase also during 2008. In the current economic conditions, however, the wood prices must substantially be adjusted downwards and should come back to 2006 years price levels.*

*The reduction in fixed costs of MSEK 100 annually includes staff redundancies, and this is proceeding according to plan. Our fixed costs were reduced during the quarter, primarily due to increased use of internal resources for maintenance work.*

*We will do what is necessary to meet the challenging business conditions. Our efforts to cut costs, develop Billerud's products and work closer to end-users will therefore become increasingly important in the near future.*

## **Billerud Group**

### **Market**

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 and has 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 amounting to around 10% of Billerud's total production capacity, primarily affecting the sack paper segment.

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 also valid 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 respective sales currency. Volumes for Billerud's fully bleached liner and medical kraft paper increased during the year.

During the year, 1,278,000 tonnes of packaging paper and long-fibre sulphate pulp were delivered, a decrease of 4% compared with 2007.

During the full year of 2008, 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. Deliveries of packaging paper amounted to 211,000 tonnes in the fourth quarter, a decrease of 15% compared with the third quarter.

During the full year 2008, 327,000 tonnes of market pulp were delivered, which was around the same level as in 2007. Billerud's deliveries of market pulp amounted to 78,000 tonnes in the fourth quarter of 2008, a decrease of 8% compared with the third quarter.

## Sales and results

### Full year 2008

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:

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

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

	Jan-Dec 08/ Jan-Dec 07
Delivery and production volumes, including product mix	-259
Sales prices (in respective sales currency)	310
Change in variable costs	-326
Change in fixed costs	19
Change in depreciation	-34
Effects of exchange rate changes, including hedging	-11
Total change in operating profit	-301

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 stops.

Net financial items were MSEK -165, which means an increased net cost of MSEK 48 compared with 2007 mainly due to a higher interest rate level.

The profit before tax was MSEK 124. Tax for the year amounted to MSEK 28. Tax for the year includes a positive effect of recalculating deferred tax at year-end to the lower corporate tax rate of 26.3%, which comes into effect from 2009. Before this adjustment, the tax cost amounted to MSEK 42, corresponding to a tax rate of 34%.

The return on shareholders' equity for the period was 5% (12) and the return on capital employed was 5% (11). The Board proposes that this years profits be used to strengthen the companys' equity and no dividend be paid for 2008.

#### **Fourth quarter**

Net turnover for the fourth quarter was MSEK 1,709, down 16% on the same period in 2007. The reduction was due to a 15% decline in sales volumes and a decrease in prices, primarily for market pulp.

The operating loss was MSEK -165, a decline of MSEK 408 on the same period in 2007. The decline compared with last year is distributed approximately as follows:

Maintenance stop at Gruvön performed in Q4 2008 but not Q4 2007	-70 MSEK
Decline in earnings due to market-related stop in Q4 2008	-90 MSEK
Decline in earnings for market pulp	-132 MSEK
One-off effects in Q4 2007	-38 MSEK
Worse outcome of currency hedging, etc.	-70 MSEK
Other effects, net	-8 MSEK
<hr/> Total	<hr/> -408 MSEK

Net financial items were MSEK -57, a deterioration of MSEK 23 compared with the same period in 2007, mainly due to a higher interest rate level.

Estimated tax was MSEK +124 due to an adjustment of the previous quarter's tax cost and a one-off effect of recalculating deferred tax using the new, lower corporate tax rate.

#### *Fourth quarter compared with third quarter*

Net turnover decreased by 16% due to lower volumes (-13%) and a worse outcome of currency hedging.

Operating profit decreased by MSEK 291, from a profit of MSEK 126 to a loss of MSEK -165.

The decline compared with previous quarter is distributed approximately as follows:

Maintenance stop at Gruvön in Q4 compared with Karlsborg in Q3	-30 MSEK
Decline in earnings due to market-related stop in Q4 compared with Q3	-63 MSEK
Decline in earnings for market pulp	-71 MSEK
Worse outcome of currency hedging, etc.	-71 MSEK
Write down in value of wood inventories	-13 MSEK
Other effects, net	-43 MSEK
<hr/> Total	<hr/> -291 MSEK

#### **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 most costs are incurred in SEK.

Billerud's mills have higher capacity for sulphate pulp production than is used to produce packaging paper. In order to produce cost-effectively, Billerud is largely dependent on being able to sell the surplus of sulphate pulp as market pulp. The market for pulp is currently out of balance and prices are unsatisfactorily low, which is why sales of market pulp are generating losses. A lengthy unbalanced period for the pulp market and unchanged cost levels may mean a deteriorating financial position for Billerud.

For an analysis of business sensitivity and further details of risks, see pages 57-61 of Billerud's 2007 Annual Report.

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. During the third quarter 2008 a similar case was considered at the Växjö environmental court and the verdict was that the defendant should pay a fine. This verdict is not prejudicial and Billerud considers that its earlier assessment is unchanged.

### Transactions with related parties

No transactions have been carried out between Billerud and related parties that would significantly affect the position and results of the company.

### 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) during 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 during the period. Other contracts had a market value of MSEK -211.

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. The table shows the situation as of 31 December 2008.

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

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 the hedged level in USD was also increased. The hedged amount of flows and hedged rates for EUR, USD and GBP as of 26 January 2009 are shown in the table below.

### Hedged amount of currency flows and exchange rate for SEK in relation to EUR, USD and GBP as of 26 January 2009

Currency		Jan-June 2009	Jul-Dec 2009	Total 2009	Jan-Mar 2010
EUR	Proportion of total flow	82%	81%	82%	81%
	Rate	9.72	9.94	9.82	11.01
USD	Proportion of total flow	84%	49%	66%	10%
	Rate	7.13	7.85	7.39	8.39
GBP	Proportion of total flow	82%	25%	54%	
	Rate	12.14	12.33	12.18	

## Investments and capital employed

Gross investment amounted to MSEK 622 (657).

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 operating 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.

## Cash flow summary

MSEK (positive figure indicates a reduction in debt)	Jan-Dec 2008	Jan-Sep 2008	Oct-Dec 2008	Jan-Dec 2007
Operating surplus etc	716	773	-57	960
Change in working capital etc.	244	-177	421	-102
Net financial items, taxes, etc.	-169	-110	-59	-128
<b>Cash flow from operating activities</b>	<b>791</b>	<b>486</b>	<b>305</b>	<b>730</b>
Current net investments, excluding energy projects	-612	-494	-118	-650
Energy project investments	-	-	-	-6
Acquisition of shares in Group companies	-9	0	-9	-
<b>Operating cash flow</b>	<b>170</b>	<b>-8</b>	<b>178</b>	<b>74</b>
Dividend	-180	-180	-	-180
Other items not affecting cash flow	0	-6	6	12
<b>Change in net debt during the period</b>	<b>-10</b>	<b>-194</b>	<b>184</b>	<b>-94</b>

## 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	1 800	1 168	Sept 2010
Syndicated credit facility	450	-	Dec 2011
Commercial paper		224	1-6 mån
Bond loan 1		350	Juni 2009
Bond loan 5		150	April 2010
Bond loan 6		250	Juni 2010
Bond loan 2		150	Sept 2011
Bond loan 4		300	Feb 2013
Bond loan 7		225	Juni 2013
Bond loan 8		150	Mars 2016
<b>Total</b>		<b>2 967</b>	

## Personnel

The average number of employees during the year was 2,322, compared with 2,364 last year, i.e. a reduction of 42. The number of employees as of 31 December 2008 was 2,281, compared with 2,352 on 31 December 2007, i.e. a reduction of 71.

## Business areas

Billerud's net turnover and operating profit/loss per business area are reported below. The results of the business areas are reported excluding the effects of currency hedging and excluding the effects on profits of revaluation of customer receivables in foreign currency and currency effects in connection with payments. These effects are reported on a separate line, Currency hedging etc. The part of currency exposure relating to changes in invoicing rates continues to be included in the results of the business areas.

Billerud is monitored and controlled operationally from a business area perspective. This applies for sales, operating profit/loss, product development and market investments. With regard to fixed assets and capital investments a division into business areas with the chosen structure is not possible as the business areas are strongly integrated in terms of production. For accounting purposes and with regard to the definition of business segments in IAS 14, the company will continue to conduct its activities in one business segment.

## Net turnover and operating profit

MSEK	Net turnover						Operating profit/loss					
	Q4	Q3	%	Jan-Dec	Jan-Dec	%	Q4	Q3	%	Jan-Dec	Jan-Dec	%
	2008	2008	Change	2008	2007	Change	2008	2008	Change	2008	2007	Change
Packaging & Speciality Paper	815	1 008	-19	3 832	3 989	-4	-23	76		244	355	-31
Packaging Boards	556	598	-7	2 364	2 171	9	29	83	-65	248	179	39
Market Pulp	334	385	-13	1 499	1 556	-4	-110	-39		-145	81	
Currency hedging etc	-33	38		28	42		-33	38		28	42	
Other and eliminations	37	9		69	0		-28	-32		-86	-67	
<b>Group total</b>	<b>1 709</b>	<b>2 038</b>	<b>-16</b>	<b>7 792</b>	<b>7 758</b>	<b>0</b>	<b>-165</b>	<b>126</b>		<b>289</b>	<b>590</b>	<b>-51</b>

## Business area Packaging & Speciality Paper

### Fourth quarter

The operating loss was MSEK -23. Compared with the third quarter of 2008, earnings declined by MSEK 99, mainly due to lower volumes for sack paper and increased costs due to the production stop.

The operating margin was -3%, compared with 8% in the third quarter.

#### *January-December*

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 for kraft paper for the food and medical segments remained stable and unchanged in the fourth quarter. The order situation in these segments is stable and at the same level as last 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.

### **Business area Packaging Boards**

#### *Fourth quarter*

The operating profit was MSEK 29. Compared with the third quarter of 2008, operating profit decreased by MSEK 54, or 65%, mainly due to lower delivery volumes and higher fixed costs relating to the planned maintenance stop at Gruvön. The operating margin was 5%, a decrease of 9 percentage points compared with the third quarter.

#### *January-December*

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 during the quarter. The order situation at the end of the quarter 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 is stable.

### **Business area Market Pulp**

#### *Fourth quarter*

The operating loss was MSEK -110. Compared with the previous quarter, operating profit deteriorated by MSEK 71, mainly due to lower prices, higher variable costs and reduced volumes. Volumes were 8% lower than in the previous quarter.

#### *January-December*

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

#### *Market development*

During the final quarter the pulp market remained unbalanced. 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 in the final quarter from USD 775 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.

## Parent company

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

Net turnover in 2008 amounted to MSEK 3,448 (3,333). The operating profit was MSEK 94 (141), a decrease of MSEK 47 compared with last year, mainly due to higher variable costs. Earnings include Group dividends paid by 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 hedging which also cover flows for the rest of the Group. This result amounted to MSEK -208 (16) and comprises MSEK -208 (47) in operating profit and MSEK 0 (31) in net financial items.

Investment in fixed and intangible assets excluding shares amounted to MSEK 248 (364). The average number of employees was 1,011 (1,061). Liquid assets and current investments amounted to MSEK 443 (652).

## 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.

## Additional measures to reduce costs

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 the business. 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.

## Largest shareholders

As of 31 December 2008 the ten largest shareholders according to the VPC (Swedish Securities Register Centre) register of shares and information from Sanderson Asset Management were as follows (Billerud's ownership of around 1.9 million shares and deposit banks are excluded):

Owner	No. of shares (millions)  (shares = votes)	Proportion of shares on market, %
Frapag Beteiligungsholding AG	10.7	20.8
Sanderson Asset Management	2.9	5.5
Clearstream Banking	1.6	3.0
SEB Fonder/SEB Trygg Liv/Securities	1.2	2.4
Citibank	1.2	2.3
Credit Suisse International	0.8	1.6
Swedbank inkl. Robur fonder	0.8	1.5
Mellon	0.7	1.4
Apoteket AB:s pensionsstiftelse	0.7	1.4
Handelsbanken	0.7	1.3
<b>Total 10 largest</b>	<b>21.2</b>	<b>41.3</b>
<b>Total Billerud including own holdings</b>	<b>51.5</b>	<b>100.0</b>

The share of foreign ownership was 47.9% of the total shares on the market. The total number of owners (including nominee-registered) was around 118,800. More information about the shareholder structure is available at [www.billerud.com](http://www.billerud.com).

## The Billerud share

As of 31 December 2008 the distribution of shares was as follows:

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

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.

## **Dividend**

The Board proposes that this year's profits be used to strengthen the company's equity and no dividend be paid for 2008.

## **2009 Annual General Meeting**

The AGM will take place at Nalen, Regeringsgatan 74, Stockholm at 3 p.m. on 6 May 2009. Notification will be published in the national press at the latest four weeks before the day of the meeting. The Annual Report will be distributed at the start of April and will be made available on the company's website at this time.

The nominations committee for the 2009 Annual General Meeting has been appointed. The chairman is Michael M.F. Kaufmann, representing Frapag Beteiligungs Holding AG. Other members are Anders Oscarsson, representing SEB Fonder and SEB Trygg Liv, and Fredrik Nordström, representing AMF Pension Förvaltning AB. Ingvar Petersson, chairman of Billerud AB, is secretary of the committee.

## **Outlook**

There is great uncertainty about market development. The situation for sack paper and market pulp weakened considerably in the final quarter, 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.

Stockholm  
11 February 2009  
Billerud AB (publ)

The Board of Directors

*This report has not been subject to review by the company's auditors.*

## **Future financial reports**

First quarter 2009	28 April 2009
Second quarter 2009	23 July 2009
Third quarter 2009	28 October 2009

The 2009 AGM will take place at Nalen, Regeringsgatan 74, Stockholm at 3 p.m. on 6 May 2009.

The information is such that under the Securities and Clearing Operations Act, Billerud AB is obligated to publish it.

## The Billerud Group

### Accounting principles

This report is produced in accordance with IAS 34, Interim Financial Reporting, and RR 31, Interim Reporting for Groups. With regard to IAS 14, Segment Reporting, see the comments under business areas on page 6 of this report. This interim report applies the same accounting principles as used in the most recent annual report for 2007, see pages 62-72 and page 87 for definitions of key indicators.

Profit and Loss Account	3 months				Full year		
	Oct-Dec 2008	Juli-Sep 2008	Apr-Jun 2008	Jan-Mar 2008	Oct-Dec 2007	Jan-Dec 2008	Jan-Dec 2007
MSEK							
Net turnover	1 709	2 038	1 949	2 096	2 068	7 792	7 758
Other operating income	5	4	4	2	4	15	12
<b>Total operating income</b>	<b>1 714</b>	<b>2 042</b>	<b>1 953</b>	<b>2 098</b>	<b>2 072</b>	<b>7 807</b>	<b>7 770</b>
Raw materials and consumables	-973	-985	-922	-1 049	-1 041	-3 929	-3 734
Change in inventories	-41	-80	16	59	66	-46	82
Other external costs	-433	-417	-448	-429	-416	-1 727	-1 776
Staff costs	-302	-305	-360	-342	-324	-1 309	-1 277
Depreciation and impairment of fixed assets	-130	-129	-125	-123	-113	-507	-473
Profit/Loss from participation in associated companies	0	0	0	0	-1	0	-2
<b>Total operating expenses</b>	<b>-1 879</b>	<b>-1 916</b>	<b>-1 839</b>	<b>-1 884</b>	<b>-1 829</b>	<b>-7 518</b>	<b>-7 180</b>
<b>Operating profit/loss</b>	<b>-165</b>	<b>126</b>	<b>114</b>	<b>214</b>	<b>243</b>	<b>289</b>	<b>590</b>
Financial items	-57	-37	-37	-34	-34	-165	-117
<b>Profit/Loss after financial items</b>	<b>-222</b>	<b>89</b>	<b>77</b>	<b>180</b>	<b>209</b>	<b>124</b>	<b>473</b>
Tax	124	-26	-20	-50	-56	28	-137
<b>Net profit/loss for the period</b>	<b>-98</b>	<b>63</b>	<b>57</b>	<b>130</b>	<b>153</b>	<b>152</b>	<b>336</b>
<b>Earnings per share. SEK</b>	<b>-1.89</b>	<b>1.22</b>	<b>1.11</b>	<b>2.52</b>	<b>2.96</b>	<b>2.96</b>	<b>6.52</b>
<b>Earnings per share after dilution, SEK</b>	<b>-1.89</b>	<b>1.22</b>	<b>1.11</b>	<b>2.51</b>	<b>2.96</b>	<b>2.96</b>	<b>6.52</b>
<b>Balance Sheet</b>	<b>31 Dec 2008</b>	<b>30 Sep 2008</b>	<b>30 Juni 2008</b>	<b>31 Mar 2008</b>	<b>31 Dec 2007</b>		
MSEK							
Fixed assets	5 824	5 824	5 849	5 744	5 712		
Inventories	1 091	1 034	1 059	1 007	936		
Accounts receivable	1 294	1 449	1 410	1 508	1 486		
Other current assets	270	303	366	307	350		
Liquid funds	542	495	469	410	718		
<b>Total assets</b>	<b>9 021</b>	<b>9 105</b>	<b>9 153</b>	<b>8 976</b>	<b>9 202</b>		
Shareholders' equity	2 638	2 879	2 904	3 021	2 898		
Interest-bearing liabilities	2 976	3 111	3 251	2 942	3 152		
Interest-bearing provisions, pensions	183	184	181	179	173		
Non-interest-bearing provisions	37	36	37	37	42		
Deferred tax liabilities	1 045	1 334	1 370	1 368	1 369		
Accounts payable	1 019	615	546	594	870		
Other, non-interest-bearing liabilities	1 123	946	864	835	698		
<b>Total shareholders' equity and liabilities</b>	<b>9 021</b>	<b>9 105</b>	<b>9 153</b>	<b>8 976</b>	<b>9 202</b>		
<b>Specification of change in equity</b>	<b>Jan-Dec 2008</b>	<b>Jan-Sep 2008</b>	<b>Jan-Jun 2008</b>	<b>Jan-Mar 2008</b>	<b>Full year 2007</b>		
MSEK							
Opening balance	2 898	2 898	2 898	2 898	2 678		
Profit/loss for the period	152	250	187	130	336		
Change in hedging reserve	-235	-90	4	0	52		
Dividend	-180	-180	-180	-	-180		
Convertible loan converted into shares	-	-	-	-	7		
Sale of treasury shares, incentive programme (LTIP)	-	-	-	-	6		
Market value of incentive programme (LTIP)	1	1	1	0	1		
Translation difference in shareholders' equity	2	0	-6	-7	-2		
<b>Closing balance</b>	<b>2 638</b>	<b>2 879</b>	<b>2 904</b>	<b>3 021</b>	<b>2 898</b>		

<b>Cash Flow Statement</b>	<b>Oct-Dec 2008</b>	July-Sept 2008	April-Jun 2008	Jan-Mar 2008	<b>Jan-Dec 2008</b>	Full year 2007
Operating surplus, etc 1)	-57	229	198	346	<b>716</b>	960
Change in working capital, etc.	<b>421</b>	69	10	-256	<b>244</b>	-102
Net financial items, taxes, etc.	<b>-59</b>	-29	-47	-34	<b>-169</b>	-128
<b>Cash flow from operating activities</b>	<b>305</b>	269	161	56	<b>791</b>	730
Investment in fixed assets	<b>-118</b>	-114	-216	-165	<b>-613</b>	-657
Acquisition of shares in Group companies	<b>-9</b>	0	0	-	<b>-9</b>	-
Disposal of fixed assets	<b>0</b>	0	0	1	<b>1</b>	1
<b>Cash flow from investing activities</b>	<b>-127</b>	-114	-216	-164	<b>-621</b>	-656
Change in interest-bearing liabilities	<b>-136</b>	-132	293	-197	<b>-172</b>	375
Dividend	-	-	-180	-	<b>-180</b>	-180
Sale of treasury shares, incentive programme (LTIP)	-	-	-	-	-	6
<b>Cash flow from financing activities</b>	<b>-136</b>	-132	113	-197	<b>-352</b>	201
<b>Total cash flow (= change in liquid assets)</b>	<b>42</b>	23	58	-305	<b>-182</b>	275
<b>Liquid assets, opening balance</b>	<b>495</b>	469	410	718	<b>718</b>	443
<b>Exchange rate differences in liquid assets</b>	<b>5</b>	3	1	-3	<b>6</b>	0
<b>Liquid assets, closing balance</b>	<b>542</b>	495	469	410	<b>542</b>	718

1) The amount for January-December 2008 includes an operating profit of MSEK 289, reversed depreciation of MSEK 507, net of produced and sold electricity certificates MSEK -79, payment of structural costs of MSEK -5, an increase in pension liabilities of MSEK 2, and other items of MSEK 2. The amount for the period January-December 2007 includes the operating profit of MSEK 590, reversed depreciation of MSEK 473, payment of structural costs of MSEK -106 and an increase in pension liabilities of MSEK 4.

<b>Key indicators</b>	<b>Jan-Dec 2008</b>	Jan-Sep 2008	Jan-Jun 2008	Jan-Mar 2008	Jan-Dec 2007
<i>Margins</i>					
Gross margin, %	<b>10</b>	14	14	16	14
Operating margin, %	<b>4</b>	7	8	10	8
<i>Return (rolling 12 months)</i>					
Return on capital employed, %	<b>5</b>	12	13	12	11
Return on total capital, %	<b>3</b>	8	8	7	7
Return on equity, %	<b>5</b>	14	15	13	12
Return on equity after dilution, %	<b>5</b>	14	15	13	12
<i>Capital structure at end of period</i>					
Capital employed, MSEK	<b>5 255</b>	5 679	5 866	5 731	5 506
Shareholders' equity, MSEK	<b>2 638</b>	2 879	2 904	3 021	2 898
Interest-bearing net debt, MSEK	<b>2 617</b>	2 801	2 962	2 710	2 607
Net debt/equity ratio, times	<b>0.99</b>	0.97	1.02	0.90	0.90
Net debt/equity ratio after dilution, times	<b>0.99</b>	0.97	1.02	0.89	0.90
Equity ratio, %	<b>29</b>	32	32	34	31
Equity ratio after dilution, %	<b>29</b>	32	32	34	31
<i>Per share</i>					
Earnings per share, SEK	<b>2.96</b>	4.85	3.63	2.52	6.52
Average no. of shares, '000	<b>51 492</b>	51 492	51 492	51 492	51 461
Earnings per share after dilution, SEK	<b>2.96</b>	4.84	3.62	2.51	6.52
Average no. of shares after dilution, '000	<b>51 492</b>	51 570	51 570	51 570	51 510
<i>Per share at end of period</i>					
Equity per share, SEK	<b>51.24</b>	55.90	56.40	58.68	56.29
No. of shares, '000	<b>51 492</b>	51 492	51 492	51 492	51 492
Equity per share after dilution, SEK	<b>51.24</b>	55.89	56.38	58.66	56.20
No. of shares, '000	<b>51 492</b>	51 570	51 570	51 570	51 570
Gross investments including company acquisitions, MSEK	<b>622</b>	495	381	165	657
Average no. of employees	<b>2 322</b>	2 347	2 340	2 274	2 364

<b>Key indicators, historical</b>	Full year 2008	Full year 2007	Full year 2006	Full year 2005	Full year 2004	Full year 2003*
Net earnings, MSEK	<b>152</b>	336	312	-183	509	748
Earnings per share, SEK	<b>2.96</b>	6.52	6.08	-3.56	9.66	13.33
Return on capital employed, %	<b>5</b>	11	11	-4	17	24
Return on total capital, %	<b>3</b>	7	7	-3	11	16
Return on equity, %	<b>5</b>	12	12	-7	16	23
Equity ratio, %	<b>29</b>	31	33	33	43	48

\* Figures not according to IFRS

## Parent company

<b>Summarised income statement</b>	<b>Oct-Dec</b>	Oct-Dec	<b>Jan-Dec</b>	Jan-Dec
MSEK	<b>2008</b>	2007	<b>2008</b>	2007
Total operating income	<b>710</b>	943	<b>3 443</b>	3 423
Total operating expenses	<b>-807</b>	-874	<b>-3 349</b>	-3 282
<b>Operating profit/loss</b>	<b>-97</b>	69	<b>94</b>	141
Financial items	<b>-47</b>	324	<b>-147</b>	227
<b>Profit/loss after financial items</b>	<b>-144</b>	393	<b>-53</b>	368
Appropriations	<b>-390</b>	-1 900	<b>-390</b>	-1 900
<b>Profit/loss before tax</b>	<b>-534</b>	-1 507	<b>-443</b>	-1 532
Tax	<b>151</b>	522	<b>126</b>	531
<b>Net profit/loss</b>	<b>-383</b>	-985	<b>-317</b>	-1 001

<b>Summarised balance sheet</b>	<b>31 Dec</b>	30 Sep	31 Dec
MSEK	<b>2008</b>	2008	2007
Fixed assets	<b>4 162</b>	4 137	4 114
Current assets	<b>3 746</b>	3 360	4 103
<b>Total assets</b>	<b>7 908</b>	7 497	8 217
Shareholders' equity	<b>1 409</b>	1 251	1 365
Untaxed reserves	<b>2 290</b>	1 900	1 900
Provisions	<b>298</b>	424	419
Interest-bearing liabilities	<b>2 959</b>	3 098	3 522
Other liabilities	<b>952</b>	824	1 011
<b>Total shareholders' equity and liabilities</b>	<b>7 908</b>	7 497	8 217



## Business areas

### Quarterly breakdown of net turnover by business area and for the Group

	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
MSEK										
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	-	-	-
Total Group	7 792	1 709	2 038	1 949	2 096	7 758	2 068	1 874	1 884	1 932

### Quarterly breakdown of operating profit/loss by business area and for the Group

	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
MSEK										
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
Total Group	289	-165	126	114	214	590	243	153	17	177

### Quarterly operating margin per business area and for the Group

	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
The Group	4	-10	6	6	10	8	12	8	1	9

### Quarterly delivery volumes per business area

	2008					2007				
	Full year	IV	III	II	I	Full year	IV	III	II	I
'000 tonnes										
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
Total	1 278	289	334	315	340	1 333	341	318	331	343