



INTERIM REPORT January-September 2004

Corporate Identity No. 556025-5001

www.billerud.com

	Quarter			January-September	
	2004 III	2004 II	2003 III	2004	2003
Net turnover, MSEK	1 822	1 764	1 728	5 406	5 303
Operating profit, MSEK	269	161	282	655	863
Operating margin, %	15	9	16	12	16
Profit after financial items, MSEK	251	140	262	596	804
Net profit, MSEK	181	101	186	429	577
Earnings per share, SEK	3.46	1.91	3.28	8.09	10.03

- The operating profit in the January-September period was MSEK 655, down 24% on the same period last year, mainly due to lower prices and changed exchange rates.
- Compared with the second quarter of 2004, the operating profit soared 67% to MSEK 269, mainly due to higher delivery volumes and lower costs.
- The profit after financial items was MSEK 596 and the return on capital employed over the past 12-month period was 20%. Excluding the effects of currency hedging the return was 13%.
- The operating cash flow in the January-September period was MSEK 600, of which MSEK 209 was in the third quarter.
- Deliveries amounted to 1,019,000 tonnes, up 6% on last year. Maintenance stoppages have been completed at all of Billerud's mills.
- The Board has decided to continue buying back the company's shares.
- Billerud's profit after financial items is expected to be around MSEK 750 for the full year in 2004. The difference compared with the previous forecast, MSEK 800, depends on lower pulp prices.

Billerud's CEO Bert Östlund will present the Financial Statement live at a press conference on Friday 22 October at 10.00 a.m.
Location: Spårvagnshallarna, Birger Jarlsgatan 57 A, Stockholm.
The press conference will be transmitted live at www.billerud.se

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Billerud Group

Market

Deliveries during the third quarter amounted to 339,000 tonnes, up 5% on the second quarter. During the first nine months of 2004 deliveries amounted to 1,019,000 tonnes, up 6% on the same period in 2003. The increase is due to Billerud's higher production capability.

Deliveries of packaging paper in the third quarter reached 266,000 tonnes, up 7% on the second quarter. During the first nine months of the year deliveries totalled 785,000 tonnes, up 8% on the same period in 2003. The acquisition of Billerud Beetham accounted for around three percentage points of the increase.

The price of long fibre sulphate pulp was USD 660 per tonne at the start of July and then fell to USD 590 per tonne at the end of the quarter. Billerud's deliveries of market pulp amounted to 73,000 tonnes during the third quarter, down 1% on the previous quarter. During the first nine months of the year deliveries totalled 234,000 tonnes, down 1% on the same period in 2003.

Sales and results

Third quarter

Net turnover for the quarter was MSEK 1,822, up 3% on the previous quarter, mainly due to increased delivery volumes.

The operating profit was MSEK 269, up MSEK 108, or 67%, on the previous quarter. The increase was due to higher delivery volumes and lower costs. Lower costs are attributable to maintenance stoppages being less extensive than the previous quarter and to seasonal factors. Higher fibre costs had an impact during the quarter, but they were offset by cost reductions in the energy field.

Comments on the earnings trend for each product area are made on page 5.

Net financial items amounted to MSEK -18, which mainly comprises interest costs for Billerud's syndicated bank loan and other loans. The profit after financial items amounted to MSEK 251 and the net profit was MSEK 181.

January-September

Net turnover amounted to MSEK 5,406, up 2% on the same period last year. During the period Beetham's net effect on Group turnover was around MSEK 180 while deliveries amounted to around 12,000 tonnes. The acquisition has thus boosted turnover by around 3%. In addition, higher delivery volumes were countered by lower average prices and less favourable exchange rates.

The operating profit was MSEK 655, down MSEK 208, or 24%, on the same period last year due to lower prices for packaging paper and a lower currency hedging effect. Higher prices for market pulp and increased delivery volumes for packaging paper partly offset the reduction. Costs have been kept relatively stable. Net financial items were MSEK -59, a level that was unchanged compared with 2003. The estimated tax cost was MSEK 167, corresponding to a tax rate of 28.0%.

Foreign exchange exposure

During the first nine months of 2004 net flows were hedged at the following rates: EUR/SEK 9.24, USD/SEK 8.83 and GBP/SEK 13.63. Currency hedging had an overall positive effect on net turnover and thus the operating profit of MSEK 250, of which 10% was due to EUR, 89% to USD and 1% to GBP. For the third quarter alone the positive effect of currency hedging was MSEK 56, of which 12% was due to EUR and 91% to USD, while GBP had a negative effect of 3%.

Changes in change exchange rates had a negative effect on profits during the January-September period of around MSEK 204 compared with the same period in 2003.

Billerud has hedged around 85% of estimated net flows in EUR over 13 months, around 50% of estimated net flows in USD over 12 months and around 48% of estimated net flows in GBP over 12 months at the rates shown below. At present, 74% off hedged amounts are in EUR, 23% in USD and 3% in GBP.

Hedged exchange rates for the next 15 months (five quarters)

Currency	Q 4 2004	Q 1 2005	Q 2 2005	Q 3 2005	Q 4 2005	Average
EUR/SEK	9.28	9.14	9.22	9.18	9.20	9.21
USD/SEK	8.15	7.55	7.61	7.43	-	7.84
GBP/SEK	13.29	13.43	13.50	13.42	-	13.37

Outstanding contracts, not matched by accounts receivable, as of 30 September 2004, had no effect on profits. If these contracts had been redeemed on the closing date it would have had a positive effect on profits of MSEK 53. Of this unrealised amount around MSEK 17 is expected to affect profits in the final quarter of 2004.

Investments and capital employed

Investments amounted to MSEK 362, while depreciation in the same period was MSEK 311. The main investments were in the biological treatment plant at Gruvön, in higher capacity for sack paper and kraft paper at Skärblacka and in energy cost-reduction measures at all three mills in Sweden.

The investment amount for the energy projects, which are described in more detail on page 6 of this report, was MSEK 72 during the third quarter. Billerud has established an investment framework that corresponds to the depreciation level. The energy investments, however, are outside this framework.

Billerud's capital employed amounted to MSEK 4,477 as of 30 September 2004, compared with MSEK 4,424 at the end of 2003. The increase is mainly due to the acquisition of Billerud Beetham.

The return on capital employed, calculated over the latest 12-month period, was 20%, compared with 24% for the full year in 2003. The return on shareholders' equity was 19%. If the positive effects of currency contracts are excluded, the return over the latest 12-month period was 13%.

Cash flow and financial position

Cash flow from current activities during the January-September period amounted to MSEK 959. Cash flow has been affected positively by lower tax payments in 2004, compared to 2003. Ongoing investments are somewhat higher than in the previous year. In total, operating cash flow amounted to MSEK 600, which was down MSEK 66 on the same period in 2003.

The acquisition of Billerud Beetham affected cash flow by MSEK 222, of which MSEK 209 was payment for shares and the assumption of net debt. The remaining amount is due to costs of around MSEK 6 in connection with the take-over and costs of around MSEK 7 for changes in the sales organisation. Cash flow in the company from the acquisition date is reported in the cash flow statement.

During the period MSEK 346 was paid in dividends and MSEK 229 in share buy-backs. A total of MSEK 575 was therefore paid out to shareholders.

External borrowings increased by MSEK 433 during the period and liquid assets increased by MSEK 235. Net debt increased by MSEK 210.

The Group's net debt/equity ratio at the end of the period was 0.47, compared with 0.38 at the end of 2003 and 0.54 on 30 June 2004. The increase in the net debt/equity ratio during 2004 was a consequence of dividend and share buy-back payments and the acquisition of Billerud Beetham and is in accordance with Billerud's financial goals.

Cash flow summary

MSEK (positive figure indicates a reduction in debt)	Jan-Sept 2004	July-Sept 2004	April-June 2004	Jan-Sept 2003
Current activities	959	338	295	970
Investments, excluding energy projects	-287	-57	-152	-304
Investments, energy projects	-72	-72		
Operating cash flow	600	209	143	666
Acquisition of Henry Cooke Ltd	-222			
Cash flow after investments	378	209	143	666
Dividend	-346		-346	-376
Share buy-back	-229	-61	-72	-141
To shareholders	-575	-61	-418	-517
Other, items not affecting cash flow	-13	1	2	-11
Change in net debt during the period	-210	149	-273	138

Financing

Interest-bearing loans as of 30 September 2004 amounted to MSEK 1,898. This includes utilisation of a syndicated bank loan of MSEK 233, bond loans of MSEK 742 and utilisation of Billerud's certificate programme of MSEK 894 (of a maximum MSEK 1,000). There is also a convertible debenture with a market value of MSEK 29.

Bonds have been used for financing to get a better spread of maturity dates. The certificate programme is for a total of MSEK 1,000. Issued certificates are covered by long-term loan guarantees.

Personnel

The average number of employees during the first three quarters of 2004 was 2,628.

Product areas

Billerud's activities consist of three product areas – Kraft paper, Containerboard and Market pulp – which are strongly integrated in terms of production, making them hard to identify for accounting purposes. Risks and opportunities do not differ significantly between the product areas. Billerud has chosen to report and control its activities in these three product areas, which form a joint operation and a primary segment. Markets are not considered to differ significantly in terms of risks and opportunities.

Net turnover and operating profit

MSEK	Net turnover						Operating profit					
	Q 3 2004	Q 2 2004	% change	Jan- Sept 2004	Jan- sept 2003	% change	Q3 2004	Q 2 2004	% change	Jan- Sept 2004	Jan- Sept 2003	% change
Kraft paper	904	929	-3	2 735	2 686	2	150	106	42	394	568	-31
Containerboard	573	470	22	1 563	1 548	1	87	1		122	231	-47
Market pulp	345	365	-5	1 108	1 071	3	54	64	-16	181	112	62
Other and eliminations	-	-		-	-2		-22	-10		-42	-48	
Total Group	1 822	1 764	3	5 406	5 303	2	269	161	67	655	863	-24

Kraft paper

Third quarter

The operating profit for the quarter was MSEK 150, up MSEK 44, or 42%, on the previous quarter mainly due to lower costs.

January-September

Compared with the previous year the operating profit was down 31% to MSEK 394 due to lower prices and reduced effects of currency hedging.

Containerboard

Third quarter

The operating profit for the quarter was MSEK 87, up MSEK 86 on the previous quarter mainly due to higher delivery volumes and lower costs.

January-September

The operating profit reached MSEK 122, down 47% to MSEK 109 due to lower prices and reduced effects of currency hedging.

Market pulp

Third quarter

The operating profit for the quarter was MSEK 54, down MSEK 10, or 16%, on the previous quarter mainly due to lower prices.

January-September

The operating profit reached MSEK 181, up 62% to MSEK 69 due to higher prices in USD.

Parent company

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

Net turnover in the first three quarters of 2004 amounted to MSEK 2,332. The profit after financial items amounted to MSEK 162. Fixed-asset investments, excluding shares, amounted to MSEK 188. The average number of employees was 1,214. Liquid assets and short-term investments amounted to MSEK 542.

Buy-back of shares and share distribution

The Annual General Meeting held on 5 May 2004 voted to write down the company's share capital by withdrawing 4,657,000 bought back shares. This write-down has now been performed and the share capital now amounts to SEK 665,662,475. There are 53,252,998 shares worth a nominal SEK 12.50 each.

Since the AGM Billerud has bought back a further 1,133,00 shares at an average price of around SEK 116.30 per share. This buy-back represents around 2.1% of the total number of shares in the company after the write-down.

As of 30 September 2004 the distribution of shares was as follows:

Registered amount of shares	53 252 998
<u>Bought-back shares in company ownership</u>	<u>- 1 133 000</u>
Shares on the market	52 119 998
<u>Convertible debenture loan (on full conversion)</u>	<u>268 047</u>
Shares on the market (after full conversion)	52 388 045

Billerud's Board of Directors has decided to continue buying back the company's own shares. The decision is part of changes to the company's capital structure in accordance with the financial goals, which includes maintaining the debt/equity ratio between 0.6 and 0.9. Shares will be acquired on the stock exchange at market rates.

Investment projects

As previously announced the Board has decided to invest MSEK 1,050 in cost-reducing measures within the energy field at the three mills in Sweden. These investments include new turbines for back-pressure power, a rebuild of the bark boilers at all three mills and new electricity supply at the Gruvön mill.

These investments will approximately double the company's generation of electricity and reduce consumption of oil by around two thirds. Oil will be replaced by biofuel. The new equipment will be brought on stream from the second half of 2005 up to the end of 2006. Billerud has established an investment framework that corresponds to the depreciation level. The energy investments, however, are outside this framework but meet Billerud's requirements for financial return by a good margin. The repayment period is less than five years.

Introduction of IFRS

Billerud is affected by the introduction of certain International Accounting Standards (IAS) rules starting in 2005. A survey of the effects of introducing International Financial Reporting Standards (IFRS) is presented in the annual report for 2003 on page 19. In addition to the

information given in the annual report, no further significant differences compared with current accounting principles have been identified.

Nominations committee

A nominations committee has been appointed for the 2005 Annual General Meeting. It consists of Sten L Kottmeier, AMF Pension, Torsten Johansson, Handelsbanken Kapitalförvaltning, and Björn Lind, SEB funds and SEB Trygg Liv. Ingvar Petersson, the chairman of Billerud AB, is convenor and secretary. Shareholders wishing to contact the committee should contact Ingvar Petersson via ingvar.petersson@billerud.com or write to Billerud AB, Box 703, 169 27 Solna, Sweden.

Outlook

Deliveries during the remainder of 2004 are expected to continue at around the current level.

Prices in local currencies for Billerud's kraft paper and containerboard are expected to remain stable. The price of market pulp is expected to climb to USD 620 by the end of the year.

Changes in exchange rates, including hedging contracts already entered into, will have a negative effect on results in the final quarter compared with the previous quarter. Seasonal adjustments in costs and higher wood prices will mean a rise in costs in the final quarter.

Based on the above, the profit after financial items for the full year in 2004 is expected to reach around MSEK 750. The difference compared with previous forecast, MSEK 800, is due to lower pulp prices.

Stockholm, Sweden
21 October 2004
Billerud AB (publ)

The Board of Directors

This interim report has not been subject to verification by the company's authorised public accountants.

Interim reports

Financial Statement 2004	27 January 2005
First quarter 2005	26 April 2005
Second quarter 2005	26 July 2005
Third quarter 2005	26 October 2005
The AGM will be held on 3 May 2005	

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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.

Accounting principles

The accounts are prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council, and this report is drawn up in accordance with the Council's recommendation RR20. Concerning recommendation RR25 (Reporting for segments – line of business and geographic area) see comments under Product areas on page 5 of this report. Most of Billerud's pension plans are benefit-related. From 2004 Billerud will implement recommendation RR29 – Remuneration to employees. These rules are based on IAS 19 and the effect of changing principles has been reported directly under shareholders' equity as of 1 January 2004. Adapting to this recommendation is described in the specification of the change in shareholders' equity below. For details of accounting principles and definitions of key figures, see the 2003 Annual Report pages 46-49 and page 57.

Profit and Loss Account	3 months			9 months		Full year	
	July- Sept 2004	Apr- Jun 2004	Jan- March 2004	July- Sept 2003	Jan- Sept 2004	Jan- Sept 2003	Jan- Dec 2003
MSEK							
Net turnover	1 822	1 764	1 820	1 728	5 406	5 303	6 992
Other income	2	2	2	4	6	8	10
Operating income	1 824	1 766	1 822	1 732	5 412	5 311	7 002
Raw materials and consumables	-709	-651	-665	-603	-2 025	-1 819	-2 439
Change in stock	36	-11	-36	-13	-11	-15	28
Other external expenses	-464	-472	-476	-447	-1 412	-1411	-1 869
Staff expenses	-312	-367	-319	-293	-998	-919	-1 224
Depreciation	-106	-104	-101	-94	-311	-284	-380
Operating expenses	-1 555	-1 605	-1 597	-1 450	-4 757	-4 448	-5 884
Operating profit	269	161	225	282	655	863	1 118
Financial items	-18	-21	-20	-20	-59	-59	-76
Profit after financial items	251	140	205	262	596	804	1 042
Tax	-70	-39	-58	-76	-167	-227	-294
Net profit for the period	181	101	147	186	429	577	748
Earnings per share, SEK	3.46	1.91	2.73	3.28	8.09	10.03	13.13
Earnings per share after full conversion, SEK	3.44	1.90	2.72	3.27	8.06	10.00	13.09
Balance Sheet		30 Sept 2004	30 Sept 2003	30 Sept 2003	30 Jun 2004	31 March 2004	31 Dec 2003
MSEK							
Fixed assets		4 585	4 379	4 567	4 520	4 520	4 364
Stocks		703	638	710	704	704	690
Accounts receivable		1 244	1 162	1 197	1 226	1 226	1 083
Other current assets		198	184	183	155	155	154
Cash, bank balances and short-term investments		588	543	543	679	679	353
Total assets		7 318	6 906	7 200	7 284	7 284	6 644
Shareholders' equity		3 047	3 293	2 928	3 245	3 245	3 204
Interest-bearing provisions		124	99	121	123	123	108
Non-interest-bearing provisions		1 150	688	1 006	1 017	1 017	973
Interest-bearing liabilities		1 898	1 726	2 006	1 867	1 867	1 470
Accounts payable		528	361	495	414	414	383
Other, non-interest-bearing liabilities		571	739	644	618	618	506
Total shareholders' equity, provisions and liabilities		7 318	6 906	7 200	7 284	7 284	6 644
Specification of change in equity		Jan- Sept 2004	Jan-Sept 2003	Jan-Jun 2004	Jan- March 2004	Jan- March 2004	Full year 2003
MSEK							
Opening equity		3 204	3 233	3 204	3 204	3 204	3 233
Adapting to recommendation RR 29 of the Swedish Financial Accounting Standards Council		-10	-	-10	-10	-10	-
Adjusted opening equity		3 194	3 233	3 194	3 194	3 194	3 233
Net profit for the period		429	577	248	147	147	748
Dividend		-346	-376	-346	-	-	-376
Share buy-back		-229	-141	-168	-96	-96	-401
Exchange rate differences in equity		-1	-	-	-	-	-
Closing equity		3 047	3 293	2 928	3 245	3 245	3 204

Cash Flow Statement MSEK	Jan-Sept 2004	Jan-Sept 2003	July-Sept 2004	Full year 2003
Operating surplus, etc 1)	966	1 145	375	1 494
Change in working capital, etc.	68	22	-27	79
Net financial items, taxes, etc.	-75	-197	-10	-201
Cash flow from operating activities	959	970	338	1 372
Investment in fixed assets	-362	-305	-130	-381
Acquisition of Henry Cooke Ltd	-222	-	-	-
Disposal of fixed assets	3	1	1	1
Cash flow from investment activities	-581	-304	-129	-380
Change in interest-bearing debt	433	-202	-102	-458
Dividend	-346	-376		-376
Share buy-back	-229	-141	-61	-401
Cash flow from financing activities	-142	-719	-163	-1 235
Total cash flow (= change in liquid assets)	236	-53	46	-243
Liquid assets at the beginning of the year	353	596	543	596
Total cash flow	236	-53	46	-243
Exchange rate differences in liquid assets	-1	-	-1	-
Liquid assets at the end of the period	588	543	588	353

1) The amount for the January-September period includes an operating profit of MSEK 655, returned depreciation of MSEK 311.

Key figures	Jan-Sept 2004	Jan-Sept 2003	Jan-Jun 2004	Jan- March 2004	Full year 2003
Margins					
Gross margin, %	18	22	16	18	21
Operating margin, %	12	16	11	12	16
<i>Return (rolling 12 months)</i>					
Return on capital employed, %	20	26	20	23	24
Return on equity, %	19	25	19	21	23
Return on equity after full conversion, %	19	25	19	21	23
<i>Capital structure at end of period</i>					
Capital employed, MSEK	4 477	4 574	4 506	4 551	4 424
Shareholders' equity, MSEK	3 047	3 293	2 928	3 245	3 204
Interest-bearing net debt, MSEK	1 430	1 282	1 579	1 306	1 220
Net debt/equity ratio, times	0.47	0.39	0.54	0.40	0.38
Net debt/equity ratio after full conversion, times	0.46	0.38	0.52	0.39	0.37
Equity ratio, %	42	48	41	45	48
Equity ratio after full conversion, %	42	48	41	45	49
<i>Per share</i>					
Earnings per share, SEK	8.09	10.03	4.64	2.73	13.13
Average no. of shares, '000	53 064	57 491	53 393	53 800	56 990
Earnings per share after full conversion, SEK	8.06	10.00	4.63	2.72	13.09
Average no. of shares, '000	53 332	57 759	53 661	54 068	57 258
<i>Per share at end of period</i>					
Equity per share, SEK	58.46	58.31	55.61	60.93	58.19
No. of shares, '000	52 120	56 467	52 650	53 253	54 128
Equity per share after full conversion, SEK	58.72	58.53	55.87	61.16	59.42
No. of shares, '000	52 388	56 735	52 918	53 521	54 396
Gross investments, MSEK	363	305	232	79	381
Acquisition of Henry Cooke Ltd	222	-	222	222	-
Average number of employees	2 628	2 415	2 558	2 463	2 418

Product areas

Quarterly breakdown of net turnover by product area and for the Group

MSEK	2004			2003				
	III	II	I	Full year	IV	III	II	I
Kraft paper	904	929	902	3 474	788	868	873	945
Containerboard	573	470	520	2 067	519	486	521	541
Market pulp	345	365	398	1 454	383	376	337	358
Other and eliminations		-	-	-3	-1	-2	-	-
Total Group	1 822	1 764	1820	6 992	1 689	1 728	1 731	1 844

Quarterly breakdown of operating profit by product area and for the Group

MSEK	2004			2003				
	III	II	I	Full year	IV	III	II	I
Kraft paper	150	106	138	718	150	197	169	202
Containerboard	87	1	34	287	56	58	91	82
Market pulp	54	64	63	175	63	51	38	23
Other and eliminations	-22	-10	-10	-62	-14	-24	- 14	-10
Total Group	269	161	225	1 118	255	282	284	297

Quarterly breakdown of operating margin by product area and for the Group

%	2004			2003				
	III	II	I	Full year	IV	III	II	I
Kraft paper	17	11	15	21	19	23	19	21
Containerboard	15	0	7	14	11	12	18	15
Market pulp	16	18	16	12	16	14	11	6
The Group	15	9	12	16	15	16	16	16

Quarterly delivery volumes per product area

'000 tonnes	2004			2003				
	III	II	I	Full year	IV	III	II	I
Kraft paper	129	132	136	476	113	122	115	126
Containerboard	137	117	134	489	128	115	121	125
Market pulp	73	74	87	323	86	85	69	83
Total	339	323	357	1 288	327	322	305	334