



Interim report January-June 2006

	Quarter			January-June	
	2006 II	2006 I	2005 II	2006	2005
Net turnover, MSEK	1 839	1 785	1 704	3 624	3 443
Operating profit/loss, MSEK	107	64	20	171	86
Operating margin, %	6	4	1	5	2
Profit/loss after financial items, MSEK	85	43	3	128	52
Net profit/loss, MSEK	61	32	2	93	37
Earnings per share, SEK	1.18	0.63	0.04	1.81	0.72

January-June 2006 compared with same period in 2005

- Net turnover reached MSEK 3,624 (3,443).
- Net profit was MSEK 93 (37).
- Earnings per share were SEK 1.81 (0.72).
- Improvements in market situation continued to enable price rises for certain products.
- Operating profit reached MSEK 171 (86). The improvement was due to higher prices, the effects of currency hedging and lower fixed costs.
- Two of three steam turbines for internal generation of electricity came as planned into operation at the end of the quarter.

Outlook for full year 2006

- Programme of cost reductions for energy and organisation continues according to plan.
- Effects of cost increases from higher electricity price will be countered in the second half of the year by energy investments coming into full operation, raising Billerud's self-sufficiency in electricity from 30% to 60%.
- Improved market situation should enable continued positive price development in the respective sales currencies.

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Billerud's President Per Lindberg and CFO Bertil Carlsén will present the interim report live at a press conference today at 3 p.m. Location: Spårvagnshallarna, Birger Jarlsgatan 57 A, Stockholm.

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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.

Billerud Group

Market

The market situation for Billerud's packaging paper remained good. The price rises announced during the first quarter made an impact during the second quarter for several of Billerud's products.

Billerud's total deliveries during the second quarter of 2006 amounted to 345,000 tonnes, up 1% on the first quarter. Deliveries in the first six months of 2006 amounted to 687,000 tonnes, by and large at the same level as the same period in 2005.

Deliveries of packaging paper during the second quarter amounted to 263,000 tonnes, which by and large was unchanged compared with the previous quarter. Deliveries of packaging paper in the first six months of 2006 amounted to 527,000 tonnes compared with 531,000 tonnes in the same period in 2005. The overall order situation for packaging paper improved slightly.

Demand for long fibre sulphate pulp during the quarter remained good and prices rose as a result. At the start of 2006 the price of long fibre sulphate pulp was USD 600 per tonne and rose to reach around USD 690 per tonne during the second quarter. Billerud's deliveries of market pulp amounted to 82,000 tonnes during the quarter, up 5% on the previous quarter and up 9% on the second quarter of 2005.

Sales and results

Second quarter compared with first quarter

Net turnover for the second quarter was MSEK 1,839, up 3% on the previous quarter. The rise was primarily due to higher prices in local currencies and currency hedging that compensated for less favourable exchange rates during the first quarter.

The operating profit was MSEK 107, up MSEK 43, or 67%, on the previous quarter mainly due to better prices and currency hedging.

Production volumes and production costs were affected negatively in the second quarter by a shortage of electricity supplied by Fortum to Billerud's Gruvön mill. Faults in Fortum's supply led to an uncontrolled complete stop at Gruvön at the end of the quarter, which meant extra costs of around MSEK 13.

Earnings for each product area are commented on in greater detail on page 5.

Net financial items were MSEK -22. The profit after financial items was MSEK 85.

January-June 2006 compared with previous year

Net turnover reached MSEK 3,624, up 5% on the same period in 2005 mainly due to positive currency contracts and higher prices.

The operating profit was MSEK 171, up MSEK 85 or 99% on the same period last year. The difference is explained by the following components (figures in MSEK):

Delivery and production volumes, including product mix	+26
Sales prices (in respective sales currency)	+60
Increased variable costs	-115
Lower fixed costs	+44
Increased depreciation	-20
Effects of exchange rate changes, including hedging	+90
Total change in profit	+85

The increase in variable costs mainly comprises higher electricity and energy prices amounting to MSEK 90 and higher wood prices amounting to MSEK 20. Higher variable costs were countered by price rises and lower fixed costs.

Net financial items were MSEK -43, down MSEK 9 or 26% on the same period in 2005. Higher borrowings for energy investments compared with the previous year explain the decline in net financial items.

The estimated tax expense was MSEK 35, corresponding to a tax rate of 27%.

Currency hedging

During the first half of 2006 net flows were hedged at the following rates: EUR/SEK 9.38 (9.20), USD/SEK 7.33 (7.19), GBP/SEK 13.38 (13.12) and DKK/SEK 1.25 (1.21). Currency hedging had an overall effect on profits of MSEK 43 (-60) (compared with if no hedging had been performed).

Billerud's outstanding currency contracts as of 30 June 2006 had a market value of MSEK 79. The share of contracts corresponding to accounts receivable affected results during the period. Other contracts had a market value of MSEK 52.

Currently, Billerud has hedged around 54% of estimated net flows in EUR over 12 months, around 50% of estimated net flows in USD over 12 months, around 51% of estimated net flows in GBP over 12 months and around 51% of estimated net flows in DKK over 12 months. The hedged amount of flows and the hedged rates for 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.

Hedged amount of currency flows for EUR, USD and GBP and exchange rate for SEK

Currency		Aug-Sept 2006	Oct-Dec 2006	Jan-June 2007	Jul-Dec 2007	Total 12 months
EUR	Proportion of total flow	98%	78%	35%	-	54%
	Rate	9.42	9.51	9.42	-	9.46
USD	Proportion of total flow	99%	72%	31%	-	50%
	Rate	7.65	7.55	7.20	-	7.47
GBP	Proportion of total flow	90%	73%	34%	-	51%
	Rate	13.59	13.47	13.41	-	13.49

Investments and capital employed

Gross investments amounted to MSEK 384, of which MSEK 193 was for energy investments as described below on page 6, and the remainder, MSEK 191, was for other investments.

Depreciation in the first half of 2006 reached MSEK 228. Billerud has an investment framework corresponding to the depreciation level. The company's energy projects lie outside this investment framework, however.

Billerud's capital employed amounted to MSEK 5,351 as of 30 June 2006, compared with MSEK 5,029 at the end of 2005.

The return on capital employed over the most recent 12 months was -2%, compared with -4% for the full year in 2005. The return on shareholders' equity after tax was -5%. Discounting the effects of MSEK 400 in one-off costs from the Billerud 2007 project, the return on capital employed was 6% over the past 12 months.

Cash flow and financial position

Cash flow from current activities in the first half of 2006 amounted to MSEK 186, compared with MSEK 241 in the same period last year. Lower cash flow was mainly due to the effects of payments in connection with the implementation of Billerud's current programme of organisational changes. Investment activity cash flow was MSEK -370.

Operating cash flow amounted to MSEK -184, compared with MSEK -198 in the first half of 2005. The dividend of SEK 3.25 per share, a total of MSEK 167, was paid out in May. Net debt rose by MSEK 346 in the first half of 2006.

On 30 June 2006 interest-bearing net debt amounted to MSEK 2,849, compared with MSEK 2,503 on 31 December 2005 and MSEK 2,039 on 30 June 2005.

The Group's net debt/equity ratio at the end of the period was 1.14, compared with 0.99 at the end of 2005 and 0.76 on 30 June 2005. The target is between 0.6 and 0.9. The current investments in energy projects are expected to take the net debt/equity ratio over 0.9 during 2006.

Cash flow summary

MSEK (positive figure indicates a reduction in debt)	Jan-June 2006	Jan-March 2006	April-June 2006	Jan-June 2005
Current activities	186	215	-29	241
Current net investments, excluding energy projects	-177		-62	-201
Energy project investments	-193	-115	-103	-238
Operating cash flow	-184	10	-194	-198
Dividend	-167	-	-167	-334
Other items not affecting cash flow	5	1	4	-38
Change in net debt during the period	-346	11	-357	-570

Financing

Interest-bearing loans as of 30 June 2006 amounted to MSEK 3,139. This includes utilisation of MSEK 632 of a syndicated bank loan, utilisation of MSEK 1,681 of bond loans and utilisation of MSEK 797 of Billerud's certificate programme (of a maximum MSEK 1,000). There is also a convertible debenture with a market value of MSEK 29.

In the first half of 2006 Billerud signed a new bond loan worth MSEK 150 with a duration of ten years. The money raised will be used to finance Billerud's investment in energy projects. Billerud's existing credit framework covers the current investment programme with a good margin.

Personnel

The average number of employees in the first quarter was 2,523, compared with 2,571 in the first half of last year, a reduction of 48 employees.

Business areas

Billerud's net turnover and operating profit/loss per business area are reported below. The results of the business areas are reported starting from the first quarter of 2006 and excluding the effects of currency hedging, which are now reported on a separate line.

Following the introduction of a new organisation in March 2006, Billerud will to a greater extent be monitored and controlled operationally from the perspective of the business areas. This applies for sales, operating profit/loss 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					
	Q 2 2006	Q 1 2006	% Chan- -ge.	Jan- June 2006	Jan- June 2005	% Chan- -ge.	Q 2 2006	Q 1 2006	% Chan- -ge.	Jan- June 2006	Jan- June 2005	% Chan- -ge.
Packaging & Speciality												
Paper	905	946	-4	1 851	1 870	-1	58	60	-3	118	156	-24
Packaging Boards	533	543	-2	1 076	1 019	6	9	40	-78	49	68	-28
Market Pulp	345	309	12	654	614	7	-5	-15		-20	-14	
Currency hedging	56	-13		43	-60		56	-13		43	-60	
Other and eliminations							-11	-8		-19	-64	
Group total	1 839	1 785	3	3 624	3 443	5	107	64	67	171	86	99

Markets

Packaging & Speciality Paper

Second quarter

The operating profit for the period was MSEK 58. Compared with the same period last year, profit fell by MSEK 2 or 3%. Lower turnover due to a deteriorated currency situation was countered by lower production costs. The operating margin, 6%, was unchanged on the first quarter.

January-June

The operating profit fell by MSEK 38, or 24%, to MSEK 118, mainly due to higher costs that were not fully countered by higher prices.

Market development

The market for sack paper, especially brown sack paper, remained strong. One explanation for this is the capacity reductions expected on the market in 2007. Demand for other products remains good. Price rises have been announced for brown sack paper in certain segments ahead of the third quarter.

A number of alternatives for refining the business and improving profitability are currently being assessed at Beetham, Billerud's mill for specialist MG paper in the UK. Difficulties in countering higher energy costs with price rises have led to unsatisfactory profits at Beetham.

Packaging Boards

Second quarter

The operating profit for the period was MSEK 9. Compared with the same period last year, profit fell by MSEK 31 or 78%, mainly due to a deteriorated currency situation and higher production costs relating to production disruptions at the Gruvön mill. The operating margin fell to 2%.

January-June

The operating profit fell by MSEK 19, or 28%, to MSEK 49, mainly due to higher costs, which could not be fully countered by higher prices.

Market development

Capacity reductions on the market for S/C fluting have meant that Billerud's order books are currently very strong. Price rises have been announced ahead of the third quarter. The market for white kraft liner is stable.

The introduction of the next generation of S/C fluting, New Billerud Flute®, continues. The new quality is the strongest fluting on the market, with a 20% improvement in technical values and better runnability. The new product further strengthens Billerud's position as the market leader in S/C fluting.

Market Pulp

Second quarter

The operating loss for the period was MSEK 5, an improvement of MSEK 10 on the previous quarter, mainly due to higher volumes. The weakening of the USD exchange rate was countered by higher pulp prices in USD.

January-June

The operating profit fell by MSEK 6, mainly due to higher variable costs not being fully countered by higher prices.

Market development

Demand on the pulp market remained strong during the summer, a period when it usually falters a little. At the start of 2006 the price of long fibre sulphate pulp was USD 600 per tonne and rose to reach around USD 690 per tonne during the second quarter. Pulp prices, as denominated in USD, are expected to rise further during the autumn.

Parent company

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

Net sales in the first half of 2006 reached MSEK 1,596. The profit after financial items was MSEK 57. Investment in fixed assets, excluding shares, amounted to MSEK 164. The average number of employees was 1,115. Liquid funds and current investments totalled MSEK 349.

Cost reduction measures

Energy

Since the autumn 2004 Billerud has been implementing measures to increase its own energy production and thus reduce energy costs. These measures include investment in new turbines for back-pressure and the rebuild of bark boilers at all three Swedish mills and new electricity supply for the Gruvön mill. The total investment sum is MSEK 1,050, of which MSEK 978 has been spent up to the end of June 2006. The bark boilers were taken into operation at the end of 2005. Towards the end of the second quarter of 2006, two of the three steam turbines came into operation. This project is proceeding according to plan.

The investments meet Billerud's return requirements with a good margin and have a repayment period of less than five years. The projects will reduce consumption of external energy, which is expected to increase Billerud's earnings before depreciation by MSEK 250 per year from 2007. In 2006 the effect is estimated at MSEK100. The projects will also increase depreciation by around MSEK 50 per year. In addition to these measures, Billerud is affected by changes in market energy prices.

Organisation

On 8 June 2005 the Board decided to implement a programme of changes to Billerud's organisation. This will include a reduction of 450 full-time jobs compared with the existing organisation. The proposed staff changes affect all four of the Group's mills; Gruvön, Karlsborg and Skärblacka in Sweden and Beetham in the UK. Staff reductions will be achieved primarily through early retirement.

The programme will reduce annual costs by at least MSEK 250 compared with cost levels in 2004. Implementation started in 2005, and should be completed during 2006. The project is proceeding according to plan. The full effect on earnings should be noted in 2007. Around one third of the effect on profits will be noted in 2006. One-off costs for implementation amount to MSEK 400, which were charged to the 2005 accounts.

Largest shareholders

Billerud's ten largest shareholders according to the register of VPC (the Swedish Securities Register Centre) and Sanderson Asset Management as of 30 June 2006 (excluding banks and the 1.9 million shares owned by the company itself):

Owner	No. of shares (million) (shares = votes)	Proportion of shares on market, %
Frapag Vermögensverwaltung GmbH	9.1	17.7
Sanderson Asset Management/Northern Trust	2.7	5.3
SEB Fonder/SEB Trygg Liv/Securities	2.3	4.5
JP Morgan Chase	1.5	2.9
Robur Fonder	1.4	2.7
DFA	0.8	1.6
Morgan Stanley	0.6	1.2
Nordea	0.5	1.0
Första AP-fonden	0.5	1.1
Mellon	0.4	0.8
Total, 10 largest	19.8	38.7
Total no. of shares on the market	51.3	100

The proportion of foreign ownership was 38% of the total number of shares on the market. The total number of owners (including nominee shareholders) is around 155,000.

Share distribution

As of 30 June 2006 the distribution of shares was as follows:

Registered amount of shares	53 263 699
<u>Bought-back shares in company ownership</u>	<u>- 1 910 000</u>
Shares on the market	51 353 699
<u>Convertible debenture loan (on full conversion)</u>	<u>257 346</u>
Shares on the market (after full conversion)	51 611 045

No share buy-backs have been carried out since the end of 2004.

On 18 May 2006 a new share issue was performed due to the redemption of convertible debentures and amounting to 10,701 shares. This increased the total amount of shares registered to 53,263,699.

Outlook

The market situation for Billerud's products is expected to remain good. The order situation is also expected to remain good, especially in the areas where capacity reductions on the market have been announced. Further price rises in local currencies are planned for several products. The currency situation remains turbulent, especially for USD. Currency hedging will tone down the effects of this turbulence on earnings over the short term. Billerud's programme of cost-cutting measures is expected to continue according to plan.

Stockholm, Sweden
27 July 2006
Billerud AB (publ)

The Board of Directors

This report has not been verified by Billerud's auditors.

Interim reports 2006

Third quarter 2006	15 November 2006
2006 Financial Statement	13 February 2007
First quarter 2007	3 May 2007
Second quarter 2007	26 July 2007
Third quarter 2007	14 November 2007

Billerud Group

Supplement 1

Accounting principles

The accounts are prepared in accordance with IAS 34 Interim reports and RR 31 Group Interim Reports. Concerning IAS 14 Segment reporting, see the comments on the business areas on page 5 of this report. The same accounting principles used in the most recent annual report have been used in this interim report. For definitions of key figures see the 2005 Annual Report pages 53-60 and page 90.

Profit and Loss Account	3 months			6 months		Full year	
	Apr-Jun 2006	Jan-Mar 2006	Apr-Jun 2005	Jan-Jun 2006	Jan-Jun 2005	Jan-Dec 2005	
MSEK							
Net turnover	1 839	1 785	1 704	3 624	3 443	6 823	
Other income	3	8	3	11	5	10	
Operating income	1 842	1 793	1 707	3 635	3 448	6 833	
Raw materials and consumables	-778	-762	-724	-1 540	-1 465	-2 982	
Change in stock	-8	-8	-32	-16	-55	-21	
Other external expenses	-480	-523	-467	-1 003	-927	-1 897	
Staff expenses	-355	-322	-360	-677	-708	-1 720	
Depreciation	-114	-114	-104	-228	-207	-413	
Profit from participations in associated companies	0	0	0	0	0	0	
Operating expenses	-1 735	-1 729	-1 687	-3 464	-3 362	-7 033	
Operating profit	107	64	20	171	86	-200	
Financial items	-22	-21	-17	-43	-34	-78	
Profit after financial items	85	43	3	128	52	-278	
Tax	-24	-11	-1	-35	-15	95	
Net profit for the period	61	32	2	93	37	-183	
Earnings per share, SEK	1.18	0.63	0.04	1.81	0.72	-3.56	
Earnings per share after full conversion, SEK	1.18	0.63	0.04	1.81	0.72	-3.56	
Balance Sheet							
MSEK							
Fixed assets				30 Jun 2006	30 June 2005	31 March 2006	31 Dec 2005
Stocks				5 489	4 951	5 440	5 350
Accounts receivable				734	723	726	739
Other current assets				1 236	1 207	1 204	1 204
Cash, bank balances and short-term investments				309	259	274	282
				445	669	484	182
Total assets				8 213	7 809	8 128	7 757
Shareholders' equity				2 501	2 679	2 598	2 526
Interest-bearing liabilities				3 139	2 566	2 821	2 532
Interest-bearing provisions, pensions				155	164	155	153
Deferred tax liabilities				1 110	1 149	1 107	1 081
Non-interest-bearing provisions				238	10	299	346
Accounts payable				499	542	586	555
Other, non-interest-bearing liabilities				571	699	562	564
Total shareholders' equity, provisions and liabilities				8 213	7 809	8 128	7 757
Specification of change in equity							
MSEK							
Opening equity				Jan-June 2006	Jan-June 2005	Jan-March 2006	Full year 2005
Adjusted opening equity according to IFRS				2 526	3 037	2 526	3 037
Adjustment for new accounting principles, IAS 39				-	43	-	43
Profit/loss for the period				93	37	32	-183
Market value of financial instruments in accordance with IAS 39				48	-107	40	-41
Dividend				-167	-334	-	-334
New share issue via conversion				1	-	-	-
Translation difference in shareholders' equity				-	3	-	4
Closing equity				2 501	2 679	2 598	2 526

Cash Flow Statement	Jan-June	Jan-June	April-June	Jan-Dec
MSEK	2006	2005	2006	2005
Operating surplus, etc 1)	290	305	165	555
Change in working capital, etc.	-62	-4	-188	-44
Net financial items, taxes, etc.	-42	-60	-6	-98
Cash flow from operating activities	186	241	-29	413
Investment in fixed assets	-384	-440	-166	-1 075
Sale of fixed assets	14	1	1	6
Cash flow from operating activities	-370	-439	-165	-1 069
Change in interest-bearing debt	616	819	324	790
Dividend	-167	-334	-167	-334
Cash flow from financing activities	449	485	157	456
Total cash flow (= change in liquid assets)	265	287	-37	-200
Liquid assets at the beginning of the period	182	378	484	378
Translation difference in liquid funds	-2	4	-2	4
Liquid assets at the end of the period	445	669	445	182

1) The amount for January-June 2006 includes an operating profit of MSEK 171, returned depreciation of MSEK 228, payment of structural costs of MSEK -108 and other items of MSEK -1. The amount for the period January-June 2005 includes the operating profit of MSEK 86, returned depreciation of MSEK 207, an increase in pension liabilities of MSEK 15 and other items of MSEK -3.

Key figures	Jan-June	Jan-June	Jan-March	Full year
	2006	2005	2006	2005
Margins				
Gross margin, %	11	8	10	3
Operating margin, %	5	2	4	-3
<i>Return (rolling 12 months)</i>				
Return on capital employed, %	-2	11	-4	-4
Return on equity, %	-5	11	-7	-7
Return on equity after full conversion, %	-5	11	-7	-7
<i>Capital structure at end of period</i>				
Capital employed, MSEK	5 351	4 719	5 090	5 029
Shareholders' equity, MSEK	2 501	2 679	2 598	2 526
Interest-bearing net debt, MSEK	2 849	2 039	2 492	2 503
Net debt/equity ratio, times	1.14	0.76	0.96	0.99
Net debt/equity ratio after full conversion, times	1.11	0.74	0.94	0.97
Equity ratio, %	30	34	32	33
Equity ratio after full conversion, %	31	35	32	33
<i>Per share</i>				
Earnings per share, SEK	1.81	0.72	0.63	-3.56
Average no. of shares, '000	51 345	51 343	51 343	51 343
Earnings per share after full conversion, SEK	1.81	0.72	0.63	-3.56
Average no. of shares, '000	51 611	51 611	51 611	51 611
<i>Per share at end of period</i>				
Equity per share, SEK	48.70	52.18	50.61	49.20
No. of shares, '000	51 354	51 343	51 343	51 343
Equity per share after full conversion, SEK	49.02	52.48	50.92	49.52
No. of shares, '000	51 611	51 611	51 611	51 611
Gross investments, MSEK	384	440	218	1 075
Average number of employees	2 523	2 571	2 477	2 600

Product areas

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

	2006		2005				
	II	I	Full year	IV	III	II	I
MSEK							
Packaging & Speciality Paper	905	946	3 751	980	901	943	927
Packaging Boards	533	543	2 058	542	497	517	502
Market Pulp	345	309	1 197	301	282	310	304
Currency hedging	56	-13	-183	-81	-42	-66	6
Other and eliminations	-	-	-	-	-	-	-
Total Group	1 839	1 785	6 823	1 742	1 638	1 704	1 739

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

	2006		2005				
	II	I	Full year	IV	III	II	I
MSEK							
Packaging & Speciality Paper	58	60	411	141	114	83	73
Packaging Boards	9	40	81	40	-27	32	36
Market Pulp	-5	-15	-12	13	-11	-4	-10
Currency hedging	56	-13	-183	-81	-42	-66	6
Other and eliminations	-11	-8	-497	-32	-401	-25	-39
Total Group	107	64	-200	81	-367	20	66

Operating margin per business area and for the Group

	2006		2005				
	II	I	Full year	IV	III	II	I
%							
Packaging & Speciality Paper	6	6	11	14	13	9	8
Packaging Boards	2	7	4	7	-5	6	7
Market Pulp	-1	-5	-1	4	-4	-1	-3
The Group	6	4	-3	5	-22	1	4

Quarterly delivery volumes per business area

	2006		2005				
	II	I	Full year	IV	III	II	I
'000 tonnes							
Packaging & Speciality Paper	132	134	538	138	127	133	140
Packaging Boards	131	130	515	132	125	128	130
Market Pulp	82	78	298	71	73	75	79
Total	345	342	1 351	341	325	336	349