



Interim report January-June 2003

Corporate Identity No. 556025-5001

www.billerud.com

	Quarter			January-June	
	2003 II	2003 I	2002 II	2003	2002
Net turnover, MSEK	1 731	1 844	1 772	3 575	3 528
Operating profit, MSEK	284	297	251	581	519
Operating margin, %	16	16	14	16	15
Profit after financial items, MSEK	266	276	228	542	475
Earnings per share, SEK	3.30	3.45	2.64	6.75	5.46

- Demand deteriorated gradually during the second quarter.
- The operating profit for the January to June period was MSEK 581, up 12% on last year. The increase was mainly due to higher prices.
- Compared with the first quarter, earnings fell during the second quarter by 4% to MSEK 284. The decline was mainly due to lower delivery volumes.
- The profit after financial items was MSEK 542 and the return on capital employed over the most recent 12-month period was 27%. Excluding the effects of currency hedging, the return was 17%.
- Operating cash flow was MSEK 311.
- Deliveries amounted to 639,000 tonnes, down 4% on last year. Planned maintenance stoppages were carried out at Skärblacka and Karlsborg.
- The Board has decided to continue buying back Billerud shares.
- Based on the current demand, Billerud's assessment is that operating profit for the full year 2003 will be approximately 10-15% lower than in 2002.

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Billerud Group

Market

Demand deteriorated gradually during the second quarter. However, market related production curtailment has not taken place. Deliveries during the second quarter amounted to 305,000 tonnes, down 9% on the first quarter. During the first six months of the year deliveries amounted to 639,000 tonnes, down 4% on last year. Stocks of finished products were unchanged compared to year end 2002. Annual maintenance stoppages were carried out at Skärblacka in March and at Karlsborg in May. The stoppage in Karlsborg was extended due to the completion of an investment aimed at increasing pulp and paper capacity. During the first six months of last year maintenance stoppages took place only in Skärblacka.

Demand for Billerud's packaging paper fell gradually during the second quarter. This led to a reduction in orders received, which is not normal at this time of the year. Price levels were relatively stable for both kraft paper and containerboard. Sharper competition within containerboard, which was noted in the first quarter, is continuing at present. Deliveries of packaging paper amounted to a total of 236,000 tonnes during the second quarter, down 6% on the first quarter. A total of 487,000 tonnes were delivered in the first six months of 2003, down 3% on the same period in 2002.

At the start of Q2 the price of long-fibre market pulp was USD 560 per tonne. The price fell throughout the quarter and now stands at around USD 520 per tonne. Billerud's pulp deliveries were restricted by the rebuild at Karlsborg that is raising capacity. Billerud's deliveries of market pulp fell 17% compared with the first quarter and reached 69,000 tonnes. A total of 152,000 tonnes were delivered during the first half of the year, down 8% on the same period last year.

Sales and results

Second quarter

Net turnover for the second quarter reached MSEK 1,731, down 6% on the first quarter. The fall was primarily due to lower volumes for kraft paper and market pulp, which were countered by higher prices for market pulp.

The operating profit was MSEK 284, down MSEK 13, or 4%, on the previous quarter. The fall was due to lower delivery volumes during the second quarter and negative currency effects, which were partly compensated for by lower energy costs and higher pulp prices.

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

Net financial items were MSEK -18 and consisted mainly of interest costs on Billerud's syndicated bank loan. The profit after financial items was MSEK 266.

January-June

Net turnover reached MSEK 3,575, up 1% on the same period in 2002. The increase was due to higher prices, primarily for kraft paper and market pulp. The increase was countered by a 4% fall in delivery volumes.

The operating profit was MSEK 581, down MSEK 62, or 12%, on the same period in 2002. The increase was due to higher prices, which were only partly countered by lower delivery volumes and higher costs.

Net financial items were MSEK -39, up MSEK 5, or 11%, on the same period in 2002. The improvement is completely due to lower net debt.

The calculated tax expense was MSEK 152, representing a tax rate of 28%.

Synergies

When Billerud was formed, co-ordination effects of around MSEK 200 were predicted. A streamlining project was started in early 2001 aimed at realising these effects.

The investments that were planned for this project have now been completed and new equipment is being run in. The planned transfer of products between mills is almost complete. Billerud continues to predict that co-ordination effects worth MSEK 200 per year will be achieved starting after the end of 2003.

Foreign exchange exposure

Billerud has currently hedged around 100% of estimated net flows over 15 months in EUR, and over 13 months in USD and GBP, at the rates listed below. Of the current hedged amount, 64% is in EUR, 31% in USD and 5% in GBP.

During the first six months of 2003 net flows have been hedged at the following rates: EUR/SEK/ 9.33, USD/SEK 10.52 and GBP/SEK 14.57. Currency hedging boosted profits by around MSEK 250, of which 15% was due to hedging of EUR, 80% to hedging of USD and 5% to hedging of GBP. In the second quarter alone, the positive effect was MSEK 121, of which 7% was due to hedging of EUR, 87% to hedging of USD and 6% to hedging of GBP.

A further effect on profits arises when accounts receivable in foreign currency at the end of the period are assessed at the hedged rates. Including this re-evaluation and other exchange rate effects, changed exchange rates had a negative effect on profits during the second quarter of MSEK 33 compared with the first quarter.

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

Currency	Q 3 2003	Q 4 2003	Q 1 2004	Q 2 2004	Q 3 2004	Average
EUR/SEK	9.31	9.24	9.20	9.31	9.21	9.25
USD/SEK	10.04	9.69	9.28	8.76	8.54	9.33
GBP/SEK	14.40	14.15	13.98	13.58	13.11	13.94

Outstanding contracts, which are not balanced by accounts receivable as of 30 June 2003, have not affected earnings. If these contracts had been redeemed on the balance date it would have had a positive effect on earnings of MSEK 232.

Investments and capital employed

Investments amounted to MSEK 249, while depreciation in the same period amounted to MSEK 190. Investment costs are for environmental improvements and a capacity increase at Karlsborg, the completion of the rebuild of PM 4 at Gruvön and for several smaller maintenance projects.

Due to the timetables of these projects, investment levels were relatively high during the first half of 2003. For the full year, however, investment is expected to be in line with depreciation, i.e. around MSEK 380.

Billerud's capital employed amounted to MSEK 4,740 as of 30 June 2003, compared with MSEK 4,653 at the end of 2002. The return on capital employed, calculated for the most recent 12-month period, was 27%, compared with 25% for the full year in 2002. The return on equity after tax was 27%. The return on capital employed, calculated for the first six months of

2003 and projected over the full year, is 25%. If the positive effects of currency contracts are ignored, the return over the past 12 months was 17%.

Cash flow and financial position

Cash flow from operating activities amounted to MSEK 559 in the first six months of the year. Cash flow was affected by supplementary preliminary tax payments of MSEK 102 concerning tax for 2002. Net investment amounted to MSEK 248. The operating cash flow during the first half of 2003, therefore, was MSEK 311, compared with MSEK 332 in the first half of 2002. Operating cash flow deteriorated (compared with the same period in 2002) mainly due to higher investment costs and higher working capital tied up.

If investments and tax payments are adjusted to a half of the expected full year level, then operating cash flow in the first half of 2003 was around MSEK 430.

During the period MSEK 376 was paid out in share dividends and MSEK 52 was spent buying back Billerud shares. A total of MSEK 428, therefore, was paid in various forms to shareholders. External loans were reduced by MSEK 200 and liquid assets were reduced by MSEK 317.

The interest-bearing net debt amounted to MSEK 1,545 on 30 June 2003, compared with MSEK 1,420 at the end of 2002 and MSEK 1,888 on 30 June 2002. Interest-bearing net debt includes convertible debentures worth MSEK 28. The loan has been assessed at market rates and amounts to a nominal MSEK 31.

During the second quarter Billerud launched a certificate programme with a framework of MSEK 1,000. The aim is to refinance the existing syndicated bank loan and thus reduce interest costs.

The Group's net debt/equity ratio at the end of the period was 0.48 compared with 0.44 at the end of the previous year and 0.64 on 30 June 2002. The increase in the net debt/equity ratio in 2003 was a consequence of the share dividend and share buy-back and was in accordance with Billerud's financial targets.

Personnel

The average number of employees during the first half of 2003 was 2,388, compared with 2,382 during the first half of 2002. The average number of employees was therefore almost unchanged.

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 in the company's judgement form a joint operation. Production costs are divided between the three product areas according to the resources used by each product area.

Net turnover and operating profit

	Net turnover						Operating profit					
	Q 2	Q 1	%	Jan-Jun	Jan-Jun	%	Q 2	Q 1	%	Jan-Jun	Jan-Jun	%
MSEK	2003	2003	change	2003	2002	chang	2003	2003	change	2003	2002	chang
Kraft paper	873	945	-8	1 818	1 735	5	169	202	-16	371	331	12
Containerboard	521	541	-4	1 062	1 095	-3	91	82	11	173	187	-7
Market pulp	337	358	-6	695	699	-1	38	23	65	61	43	42
Other and eliminations	-	-	-	-	-1		-14	-10		-24	-42	
<i>Total Group</i>	1 731	1 844	-6	3 575	3 528	1	284	297	-4	581	519	12

Kraft paper

Second quarter

The operating profit for the quarter was MSEK 169, down MSEK 33, or 16%, on the first quarter mainly due to a 9% fall in delivery volumes. Price levels were largely unchanged.

January-June

The operating profit climbed 12% to MSEK 371 mainly due to higher prices. Delivery volumes were largely unchanged.

Containerboard

Second quarter

The operating profit for the quarter was MSEK 91, an increase of MSEK 9, or 11%, compared with the previous quarter. Delivery volumes fell by 3% and prices were approximately unchanged. Lower costs and a changed product mix explain the rise in earnings.

January-June

The operating profit was MSEK 173, down 7% on last year, mainly due to a 4% fall in delivery volumes.

Market pulp

Second quarter

The operating profit soared to MSEK 38, up MSEK 15, or 65%, on the first quarter, due to higher prices. The increase was restricted by 17% lower delivery volumes and higher costs caused by the rebuild at Karlsborg.

January-June

The operating profit climbed to MSEK 61, up MSEK 18, or 42%, compared with last year, due to higher prices. Delivery volumes were down 8%, which, together with higher costs, had a negative effect on earnings.

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 six months of 2003 amounted to MSEK 1,687. Profit after financial items amounted to MSEK 235. Fixed-asset investments, excluding shares, amounted to MSEK 81. The average number of employees was 1,113. Liquid assets and short-term investments amounted to MSEK 218.

Buy-back of shares and reduction of share capital

Billerud's Board of Directors has decided to continue buying back Billerud shares. This decision is part of the change to the company's capital structure in accordance with financial targets, i.e. that the net debt/equity ratio shall be between 0.6 and 0.9. Shares will be bought at the Stock Exchange at market prices at each moment.

In the period 12 May to 12 June 2003 Billerud bought back 536,000 shares at an average price of SEK 96.13 per share. After the buy-back the holding of Billerud shares is 5,367,000 shares, which represents around 8.6% of the total number of shares.

On 6 May 2003 the Annual General Meeting decided to reduce the company's share capital by SEK 60,387,500 through the withdrawal, without repayment, of the 4,831,000 shares that the company bought back at the time of the meeting. An application for permission to do this has been made to the Swedish courts and a verdict is expected in September 2003.

The total holding of the company's own shares can amount to a maximum of 6,274,000 shares, corresponding to 10% of the total number of shares. Up to the date of permission from the court, therefore, a maximum further 907,000 shares can be bought back. After the reduction of the share capital is completed, a maximum of 5,255,000 shares can be bought back up to the date of the next Annual General Meeting.

Largest shareholders

According to the register kept by VPC AB (the Swedish Securities Register Centre) and other information, as of 30 June 2003 the ten largest owners of Billerud were as follows (excluding Billerud's own holding of 5.4 million shares and deposit banks):

Owner	No. of shares (millions)
GMO Fonder	4.0
Janus Capital	3.2
AFA Försäkringar	2.9
Skandia Fonder	1.7
DWS Investment	1.6
SEB Fonder	1.3
Fidelity Funds	1.3
AMF Pensionsförsäkring	1.3
Putnam Fonder	1.1
Andra AP-Fonden	0.8

The proportion of foreign ownership was 35% of the total number of shares on the market. The total number of owners (including nominee shareholders) was around 171,000.

Distribution of shares

As of 30 June 2003 the distribution of shares was as follows:

Registered amount of shares	62 740 998
<u>Bought-back shares in company ownership</u>	<u>- 5 367 000</u>
Shares on the market	57 373 998
<u>Convertible debenture loan (on full conversion)</u>	<u>268 047</u>
Shares on the market (after full conversion)	58 642 045

Outlook

Weaker demand for Billerud's packaging paper is expected to continue during next coming months. Price decreased could be expected on certain markets and within certain segments. Prices for market pulp fell during the second quarter. Further reductions are possible during and after the summer.

Production capacity and the delivery capability of Billerud's mills will improve during the second half of the year, following the recent machine rebuilds and start-ups that were part of the company's streamlining project. The maintenance stoppage at Gruvön will take place according to plan in the third quarter.

Based on the current demand, Billerud's assessment is that operating profit for the full year 2003 will be approximately 10-15 % lower than in 2002.

Stockholm, Sweden
17 July 2003
Billerud AB (publ)

Board of Directors

This interim report has not been subjected to a general check by the company's auditors

Future financial statements

Third quarter 2003	21 October 2003
Financial statement 2003	27 January 2004

The next Annual General Meeting will be held on 5 May 2004.

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Billerud manufactures and markets packaging paper in the form of kraft paper and containerboard, and market pulp. Production is carried out at the Group's integrated pulp and paper mills in Gruvön, Karlsborg and Skärblacka. Billerud has a world-leading position within several well-defined product segments. The main customer base is in Europe but also includes the rest of the world. Billerud has annual sales of approximately SEK 7 billion and around 2,400 employees.

Billerud Group

Accounting principles

The accounts are prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council, including the new recommendations that came into effect on 1 January 2003. The new recommendations are not judged to have any material impact on the accounts. Concerning recommendation RR25 (Reporting for segments – line of business and geographic area) see comments under Products areas on page 5 of this report. The interim report is prepared in accordance with recommendation RR20 of the Swedish Financial Accounting Standards Council. For details of accounting principles and definitions of key figures, see the 2002 Annual Report pages 19 and 44-45.

Profit and Loss Account	3 months			6 months		Full year
	Apr-Jun 2003	Jan-Mar 2003	Apr-Jun 2002	Jan-Jun 2003	Jan-Jun 2002	Jan-Dec 2002
MSEK						
Net turnover	1 731	1 844	1 772	3 575	3 528	7 067
Other income	2	2	4	4	5	10
Operating income	1 733	1 846	1 776	3 579	3 533	7 077
Raw materials and consumables	-605	-611	-592	-1 216	-1 212	-2 417
Change in stock	31	-33	-73	-2	-84	-38
Staff expenses	-334	-292	-311	-626	-595	-1 171
Other external expenses	-446	-518	-459	-964	-942	-1 872
Depreciation	-95	-95	-90	-190	-181	-365
Operating expenses	-1 449	-1 549	-1 525	-2 998	-3 014	-5 863
Operating profit	284	297	251	581	519	1 214
Financial items	-18	-21	-23	-39	-44	-98
Profit after financial items	266	276	228	542	475	1 116
Tax	-76	-76	-64	-152	-134	-316
Net profit for the period	190	200	164	390	341	800
Earnings per share, SEK	3.30	3.45	2.64	6.75	5.46	13.25
Earnings per share after full conversion, SEK	3.29	3.44	2.64	6.73	5.46	13.23
Balance Sheet						
			30 Jun 2003	30 Jun 2002	31 Mar 2003	31 Dec 2002
MSEK						
Fixed assets			4 419	4 360	4 428	4 360
Stocks			688	620	654	669
Accounts receivable			1 143	1 229	1 143	1 107
Other current assets			178	142	171	141
Cash, bank balances and short-term investments			279	416	491	596
Total assets			6 707	6 767	6 887	6 873
Shareholders' equity			3 195	2 943	3 433	3 233
Interest-bearing provisions			96	77	91	88
Non-interest-bearing provisions			694	504	696	699
Interest-bearing liabilities			1 728	2 227	1 728	1 928
Accounts payable			354	361	384	372
Other, non-interest-bearing liabilities			640	655	555	553
Total shareholders' equity, provisions and liabilities			6 707	6 767	6 887	6 873
Specification of change in equity						
			Jan-Jun 2003	Jan-Jun 2002	Jan-Mar 2003	Full year 2002
MSEK						
Opening equity			3 233	3 091	3 233	3 091
Net profit for the period			390	341	200	800
Dividend			-376	-220	-	-220
Share buy-back			-52	-272	-	-441
Convertible subordinated debenture, difference in value market rate/nominal rate			-	3	-	3
Closing equity			3 195	2 943	3 433	3 233

Product areas

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

MSEK	2003		2002				
	II	I	Full year	IV	III	II	I
Kraft paper	873	945	3 507	894	878	860	875
Containerboard	521	541	2 162	507	560	552	543
Market pulp	337	358	1 400	334	367	361	338
Other and eliminations	-	-	-2	0	-1	-1	-
Total Group	1 731	1 844	7 067	1 735	1 804	1 772	1 756

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

MSEK	2003		2002				
	II	I	Full year	IV	III	II	I
Kraft paper	169	202	707	189	187	151	180
Containerboard	91	82	413	110	116	91	96
Market pulp	38	23	158	48	67	28	15
Other and eliminations	- 14	-10	-64	-6	-16	-19	-23
Total Group	284	297	1 214	341	354	251	268

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

%	2003		2002				
	II	I	Full year	IV	III	II	I
Kraft paper	19	21	20	21	21	18	21
Containerboard	18	15	19	22	21	16	18
Market pulp	11	6	11	14	18	8	5
The Group	16	16	17	20	20	14	15

Quarterly breakdown of deliveries by product area

'000 tonnes	2003		2002				
	II	I	Full year	IV	III	II	I
Kraft paper	115	126	482	118	120	120	124
Containerboard	121	125	494	112	126	129	127
Market pulp	69	83	316	75	75	84	82
Total	305	334	1 292	305	321	333	333