



# BILLERUDKORSNÄS

Annual and Sustainability Report 2018

We challenge  
conventional  
packaging for a  
sustainable future



# A leading packaging innovator

BillerudKorsnäs provides leading packaging materials and innovative solutions that challenge conventional packaging in order to create a more sustainable future. The company is listed on Nasdaq Stockholm.

The description of BillerudKorsnäs' business on the following pages is based on the structure adopted from 1 January 2019, in order to better illustrate the organisation within which BillerudKorsnäs operates. However,

the information presented in the Directors' Report, Financial Statements and Notes in this Annual Report reflects the business area structure that applied up until 31 December 2018. For more information, see page 53.

Net sales, SEK bn

23.7

EBITDA, SEK bn

2.9

Average no. of employees, approx.

4 500



Net sales by division, %

- Division Board, 54
- Division Paper, 36
- Division Solutions, 4
- Other, 6



EBITDA split by division<sup>1</sup>, %

- Division Board, 62
- Division Paper, 38
- Division Solutions, 0

<sup>1</sup>Excluding distribution from other

## Division Board

Division Board manufactures liquid packaging board and cartonboard, plus fluting and liner. All its customers demand high

quality and expect materials and service solutions that add value.

**Growth target**  
4–5% per year

**Net sales**  
SEKm 12 679

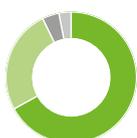
**EBITDA**  
SEKm 2 456

**EBITDA margin**  
19%



Net sales by market segment, %

- Food & Beverages, 77
- Consumer & Luxury Goods, 17
- Industrial, 5



Net sales by region, %

- Europe, 67
- Asia, 26
- Africa, 4
- America, 3

## Division Paper

Division Paper manufactures and sells high-performance, premium-grade kraft and sack paper to selected segments in the

**Growth target**  
0–2% per year

**Net sales**  
SEKm 8 523



Net sales by market segment, %

- Industrial, 57
- Food & Beverages, 24
- Medical & Hygiene, 14
- Consumer & Luxury Goods, 5%





● Production units  
● Offices

### Global market

BillerudKorsnäs' sales organisation meets customers' needs for packaging solutions all over the world. Our 2 000 customers are packaging manufacturers, brand owners and large retail and supermarket chains in more than 100 countries. We have offices in the Netherlands, France, Italy, Germany, Spain, India, Turkey, Dubai, Bangladesh, Vietnam, Singapore, the UK, Thailand, the Baltic States, China and the USA.

The company's headquarters are situated in Stockholm and the Group's eight production units are located in Sweden, Finland and the UK.



manufacturing, medical equipment and consumer segments. The division also sells surplus paper pulp on the open market.

EBITDA SEKm 1 516  
EBITDA margin 18%



### Division Solutions

Division Solutions meets brand owners' growing demand for sustainable and effective packaging solutions and systems. The division's business is

Growth target 15–25% per year  
Net sales SEKm 980



growing in three areas, the largest of which is currently Managed Packaging, which offers tailored packaging solutions and services to global brand owners.

EBITDA SEKm 14  
EBITDA margin 1%



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*GRI index [www.billerudkorsnas.com/Sustainability/](http://www.billerudkorsnas.com/Sustainability/)*

## **This year's Annual Report and Sustainability Report**

BillerudKorsnäs reports the Group's financial and non-financial information in a joint report. The report reflects BillerudKorsnäs' mission and integrates financial, sustainability and corporate governance information to provide a full and cohesive description. BillerudKorsnäs' statutory annual report, which includes the Directors' report and financial statements, can be found on pages 53–117.

The BillerudKorsnäs sustainability report is prepared in accordance with the Global Reporting Initiative (GRI) guidelines for sustainability reporting, GRI Standards version, and is externally audited. It comprises pages 6–9, 27–51, 74–79 and 121–127, plus the GRI index which is available at <http://billerudkorsnas.com/Sustainability>.

Sustainability reporting also includes the statutory sustainability report under Chapter 6 Section 11 of the Annual Accounts Act.



**WHAT IF** the oceans  
were full of plankton.  
Not plastic.

# Our strengths

BillerudKorsnäs' mission "We challenge conventional packaging for a sustainable future" clearly sets out why we exist and how we view our role in society. The Group offers innovative and sustainable packaging materials and solutions, and challenges existing business models. This creates value for customers and owners.

Challenging the conventional and thinking outside the box also creates value for the wider society and contributes towards sustainable development for future generations. Particularly because it also means that we constantly challenge ourselves to develop and to strengthen our positive contribution. This clear compass gives meaning to everything we do at BillerudKorsnäs.

We see no contradiction between high sustainability ambitions and profitable growth. With BillerudKorsnäs' innovative and sustainable packaging offer for the growing and increasingly conscious consumer market, profitable growth will become a prerequisite for, and a result of, allowing our mission to guide us.



## Drivers



Global megatrends such as urbanisation and e-commerce are driving long-term demand for packaging materials



Growing awareness of sustainability is creating increased demand for primary fibre-based packaging materials

3.0%

per year is the expected growth in the global packaging market

76%

of BillerudKorsnäs' sales relate to the growing consumer market

## Position

#1

We are number one or two in the markets in our niches, such as kraft paper, sack paper, liquid packaging board and containerboard



Long history of award-winning packaging innovations

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM

BillerudKorsnäs is an industry leader in the Dow Jones category Containers & Packaging

## Return/Investments

11%

is the average yearly total shareholder return over the past five years

1.3

billion SEK has been invested in Skärblacka

7.6

billion SEK is being invested in Gruvön

550 000

tonnes/year is the capacity of the new board machine in Gruvön

# Key events 2018

## New organisation into divisions

October saw the introduction of a new organisation, with three divisions that have full responsibility for their financial results. The purpose of the change is to create an organisation that can draw maximum benefit from the favourable conditions for profitable growth that BillerudKorsnäs has identified.

## New members of Executive Leadership Team

Alongside the organisational change, Group management's roles and composition have also been overhauled.

In August **Mikael Andersson**, former head of the business area Corrugated Solutions, was appointed head of Division Board. In October **Helene Biström**, former CEO of Infranord, was made head of Division Paper, a post that she will take up by April 2019. November saw **Ivar Vatne**, formerly CFO at Arla UK Ltd, appointed the new CFO at BillerudKorsnäs. He will be in post by 1 June 2019. In January 2019 **Anders Lundin** became head of Division Solutions, having previously run efficiency work and business development as well as being responsible for initiatives within BillerudKorsnäs Venture. Anders takes up his new position on 1 February 2019.



## Acquisition to secure stable wood flow

In November a binding agreement was signed for the acquisition of Bergvik Skog Öst AB, which will help to secure a future wood supply for BillerudKorsnäs and make the management of internal and external wood flows more efficient. The acquisition relates to around 350 000 hectares of Swedish forest land and is expected to be completed in the first half of 2019. As a next step, BillerudKorsnäs intends to investigate the possibility of bringing in one or more partners as co-owners of the forest assets.



## Gruvön ready for launch

Intensive work has continued over the year to ensure that our biggest investment ever, a board machine in Gruvön, is ready to come on stream in March–April 2019. The investment amounts to SEK 7.6 billion in total. Production is expected to

gradually increase so that by 2023 the machine's maximum output will be 550 000 tonnes of paperboard per year. This will make the machine one of the largest of its kind in the world.



**World-class paper machine in Skärblacksa begins production**

Spring 2018 saw the launch of production on PM10, the new MG paper machine in Skärblacksa. The aim is for production to reach full capacity in the first quarter of 2019. At that point, the machine will produce a total of 90 000 tonnes annually, making it the largest and most efficient manufacturer of machine glazed kraft paper in Europe.



**Joint fight against plastics pollution in the oceans**

In July, BillerudKorsnäs and its partner Tara Expeditions organised an event in Portland, USA, that brought together business leaders, politicians and researchers to discuss research reports on the health of the world's oceans and the importance of packaging for a sustainable future. Similar events were also held in Boston and New York in September. Tara Expeditions is a French ocean research platform that focuses in part on how plastics consumption can be reduced.

**Recognition for sustainability**

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM

Since 2017, BillerudKorsnäs has been listed on the **Dow Jones Sustainability World Index**, one of the world's most prestigious indexes, which features the top 10% of the world's most sustainable companies according to Dow Jones. In 2018, BillerudKorsnäs was also named industry leader in the Containers & Packaging category, based on the company's climate strategy, management of customer relations, logistics chain and ability to attract and retain talent.



BillerudKorsnäs has been highlighted as a world leader in combating deforestation

and has been awarded a place on the **CDP Forests A List**. BillerudKorsnäs achieved the highest scores for its reported initiatives in 2018, which included tackling deforestation in the supply chain through sustainable purchases of key raw materials associated with global deforestation.



For the fifth consecutive year, BillerudKorsnäs has been awarded a Gold rating by **EcoVadis**, a

system for evaluation of suppliers to global companies. The annual evaluation by EcoVadis puts BillerudKorsnäs among the very top level of all the companies assessed.

**Science-based climate targets**

As a pioneer in the global packaging industry, BillerudKorsnäs has had its climate targets approved by Science Based Targets, an initiative aimed at encouraging the world's businesses to adopt climate targets in line with the UN's Paris Agreement. Read more on page 34.

# Targets and target fulfilment

To support BillerudKorsnäs' target for profitable growth and a good return for shareholders, the company has established five financial targets, as well as a number of sustainability targets within its respective commitments.

## Growth target



Long-term target for growth of 3–4% per year. The full year 2018 saw strong growth and the target was achieved due to higher selling prices and a positive currency impact.

## EBITDA margin



The EBITDA margin should exceed 17%. The target was not achieved for the full year 2018 mainly due to higher raw material costs. If adjusted EBITDA is used the margin would be 15% (note 6 and page 128-129).

## Return on capital employed



Return on capital employed (ROCE) should exceed 13%. The target was not achieved for the full year 2018 due to higher raw material costs and large investments, mainly related to the new board machine KM7.

## Interest-bearing net debt/EBITDA

**Target <2.5**



Long-term interest-bearing net debt in relation to EBITDA should be less than a multiple of 2.5. At the end of 2018 this multiple was 3.17, if adjusted EBITDA is used the number would be 2.68 (note 6). The multiple has increased mainly due to increased debt related to investments in the new board machine in Gruvön.

## Dividend policy



The dividend should amount to 50% of net profit. The Board's proposed dividend of SEK 4.30 per share for 2018 entails fulfilment of the dividend target through paying out 86% of net income as dividend, and 59% using adjusted net profit (note 6).

<sup>1</sup> For comparable units



Sustainability is a natural part of Billerud-Korsnäs' core business and strategy, and a driving force for profitable growth.

### Certified wood raw materials Target 160



**Outcome 175**

No. of group-certified forest owners in BillerudKorsnäs' group certificates for FSC® and PEFC™. The target was reached through internal development of working methods for timber purchases.

### Workplace safety Target <5.8



**Outcome 7.2**

Lost time injuries per million worked hours, LTIFR. The target was not reached but the number of work place injuries decreased compared to 2017 and is getting closer to the target.

### Female employees Target 22.5%



**Outcome 23%**

Proportion of female employees of total number of employees, in percent. The target was met and the gender balance was improved compared with 2017.

### Level of innovation for products Target 5%



**Outcome 6.3%**

Proportion of sales accounted for by new products, %. The target was reached and we are well equipped to accelerate the level of innovation in the years ahead.

### Energy efficiency Target <5.2



**Outcome 5.26**

Energy consumption. MWh/tonne product, net. The target was not reached due to certain production disruptions during the year.

### Work experience through internships and careers introduction Target 1 500



**Outcome 1 070**

Weeks. The target was not reached and the number of internships decreased compared with 2017.

Read more on pages 33–51

## CEO'S STATEMENT

# Sustainability is the foundation for profitable growth

2018 was the year when BillerudKorsnäs laid the foundation for the future, with focus on safety, stability and organisation. In addition, it marked the final stages of the long investment period which has been ongoing since 2012. We are now accelerating the pace of innovation, in a time where packaging should not be a part of the climate problem – but a part of the solution.

2018 was also my first year as CEO of BillerudKorsnäs. When I took on this challenge, it was with a growing fascination for the way the industry had shifted from an eco-villain with huge carbon emissions to become part of the solution for reducing negative environmental impacts and combating climate change. I am proud of the target-oriented work within the company that has led BillerudKorsnäs to be named an industry leader in this year's Dow Jones Sustainability World Index. The index lists the top 10% most sustainable companies in the world, according to Dow Jones – taking into account not only climate and the environment, but also customer relations, the logistics chain and the ability to attract and retain staff. Accolades like this recognise that we are on the right path, although there is a great deal of work still to be done.

## A global and innovative challenger

During my first year in this position, I have been incredibly impressed by the commitment that employees exhibit towards our mission – to challenge conventional packaging for a sustainable future. It is inspiring to be leading a company where, rather than just being part of the agenda, sustainability truly is the agenda. Pooling our own resources and working in close cooperation with converters, brand owners and other stakeholders makes BillerudKorsnäs perfectly placed to develop innovative packaging solutions that truly are able to challenge traditional packaging. Our continuous development of paper materials is a prerequisite for continuing to replace materials such as glass and fossil-based plastics with paper for a wide range of applications.

We are also challenging through the creation of innovative packaging solutions that are not yet in the commercial market. A paper battery that can be integrated into food packaging is a prime example where we collaborate with some of Sweden's leading researchers. This may provide opportunities to develop smart functions in packaging that provide information regarding for example temperature or air humidity. Another example is our collaborative projects with various brand owners to develop paper bottles for products such as carbonated drinks.

We also challenge through new business models. Managed Packaging, for example, offers customised packaging solutions and services for global brand owners and retail chains with manufacturing in Asia, and has delivered sales growth of almost 30% during the year.

## We need to improve even more

Demand for innovative and sustainable packaging continued to grow in 2018. With such a strong market and leading positions in selected segments, we are able to report record results in parts of the business. Over the year, we also achieved a production record at four of our plants. Nevertheless, we have not reached our own ambitious targets and expectations. Disruptions to production and start-up problems in combination with periodic wood shortages have had a negative impact on the results and caused production losses.

## Stable production and secured wood supply

Production stability is a fundamental factor for our profitability. The aim is for every machine to be run at optimum speed for as many hours of the day as possible, while maintaining superb quality at all times. Every efficiency loss in terms of time, speed or quality is tangible, not only in the financial results but also in the loss of reputation among customers, investors and other stakeholders. It is a universal truth that you need to find the root cause of a problem in order to properly resolve it. This is exactly what our programme for Production Excellence is about: identifying, analysing, minimising and, ideally, eliminating the source of any losses. In our ambitious work to increase production and profitability, it is important to stress that safety must always be given the highest priority. One accident is one too many. All employees share responsibility for a safe work environment, but that responsibility is particularly acute for me and all the other managers in the company.

The cost for our most important raw material, Swedish wood, rose steeply over the year due to strong demand. In a drive to

secure our future wood supply and make the management of all wood flows more efficient, in November we purchased Bergvik Skog Öst AB representing around 350 000 hectares of Swedish forest. A secure wood supply and high production stability are two vital factors that will make us well placed to weather any weakness in the economy.

### Major investments to consolidate an already strong position

Successfully ramping up production on our new board machine at Gruvön is another key factor underpinning our future profitability and growth. This investment, totalling SEK 7.6 billion, is one of the largest in Sweden's industrial history. Bringing on stream a machine that is 350 metres long and weighs 17 000 tonnes is by no means an easy task. However, after several years of intensive preparation, the focus is now on gradually stepping up production over the next few years until the machine is operating at maximum capacity. Our investments in Gruvön and Skärblacka further strengthen our positions and enable us to meet the global demand for primary fibre-based liquid packaging board and white machine glazed paper, among other qualities.

### Three divisions with full profit and loss responsibility

During the year a reorganisation was carried out to create three divisions with full profit and loss responsibility. Our mills are part of Division Board and Division Paper whilst our solution-based offering is represented by Division Solutions, which is expected to grow substantially in the coming years. With clear roles and responsibilities the divisions have the opportunity to increase the pace of change and rapidly carry out improvements which strengthen our deliveries to customers. The reorganisation will increase speed and pave way for the continued successful implementation of our strategy.

### Increased pace for improvements

It is given that we continue to support the principles of the UN Global Compact, and as a leading player we have a major responsibility to reduce our negative impact. It is great that our fuel consumption is already based 96.7% on biofuels, although those last few percentage points remain a challenge. Unfortunately, we fell short of our target for emissions of fossil carbon dioxide, due to production disruptions and biofuel shortages during the year. Our programme for Production Excellence will make a positive contribution in this area.

Issues that indirectly affect our final deliveries to our customers also require attention. In addition to energy consumption, these include active work to increase diversity which we consider vital for our long-term ability to innovate and compete.

During the year we began work on reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), an initiative under which companies can voluntarily opt to disclose how climate risks and opportunities may affect their profitability. We see this as an opportu-



nity to obtain useful data for our strategic choices, but also as a way to increase transparency so that investors can make a fair assessment of our long-term potential for profitable growth.

### Joint struggle for a sustainable society

Global trends are shifting in our favour. One example is the greater awareness of climate change and the growing debate about fossil-based plastics, resource efficiency and recycling. To date, this has prompted many countries and brands to tackle the harmful use of plastics in various ways. The global expansion of e-commerce that continues to utterly disrupt the retail landscape is another example where the role of packaging is becoming increasingly important, not just for distribution but also for the customer experience.

BillerudKorsnäs is now in the final stages of an enormous transformational journey that began with the merger in 2012. As we enter the next phase and accelerate the pace of innovation, success depends on collaboration. Partnership in various forms, open dialogues and active networks are the keys to unlocking existing potentials. Together, we will develop the packaging materials and solutions that our customers need in order to transition to a more circular and bio-based business. With sustainability as an integral part of our business model, we not only benefit the society and the planet – we also drive our own profitable growth and long-term value creation.

A large, stylized handwritten signature in black ink, which appears to read 'Petra Einarsson'.

Petra Einarsson  
President and CEO

STAKEHOLDER DIALOGUE

# Dialogues that promote long-term development

BillerudKorsnäs' various stakeholders have an impact on and are affected by our operations to varying degrees. A transparent, open and responsive dialogue allows us to understand their expectations and needs, so that we can incorporate them into our long-term planning.

BillerudKorsnäs' key stakeholders are customers, employees, investors, business partners and society in general. A deep understanding of the issues that are most important to each stakeholder group provides greater opportunities to act in a way that brings added value for the company and its stakeholders. An open dialogue and collaboration with stakeholders provide valuable input in developing future packaging materials and solutions.

Our ability to analyse the drivers behind the purchasing decisions of end consumers, brand owners and converters generates considerable potential for increased sales. BillerudKorsnäs sees the dialogue with stakeholders as a key element in the drive to produce new and innovative packaging materials and solutions. It is also a way to raise awareness of how existing primary fibre-based materials and solutions help to boost our customers' brands and their contribution to a more sustainable future.

## Collaboration for greater recycling

This year saw the launch of a new organisation rooted in a previous collaboration with the Alliance for Beverage Cartons and the Environment (ACE), which aims to increase the industry's recycling work. The creation of the organisation "EXTR:ACT – Driving value for multimaterial recycling" was initiated by BillerudKorsnäs and four other ACE members: Elopak, SIG Combibloc, Stora Enso and Tetra Pak. EXTR:ACT is to work to increase know-how on recycling packaging in which different materials are combined in layers, such as beverage packaging, to make it easier to recycle as much of these products as possible. This collaborative effort is part of strengthening the industry's focus on circular solutions, in which materials recycling is a central element.



**Customers**

BillerudKorsnäs' approximately 2 000 customers are packaging manufacturers and brand owners in more than 100 countries. Rooted in its sustainable packaging know-how, the Group works to strengthen its customers' business, with a focus on the needs and preferences of the end consumer. Dialogue and collaboration are the key success factors.

**Employees**

BillerudKorsnäs' 4 500 employees are vital to everything we do. An ongoing and transparent dialogue on challenges, opportunities and expectations is important in motivating existing employees. To attract future employees and meet recruitment needs, the company's presence and dialogue in physical and digital arenas is being stepped up.

**Investors**

The confidence of the capital market is important for the Group. BillerudKorsnäs provides analysts, lenders, investors and almost 100 000 shareholders with information about the business and its financial development on an ongoing basis.

Perceived quality at every level, sustainable business, what value "the right" packaging creates, ethics, economics, health and safety, environmental issues such as resource use and recyclability.

Health and safety, skills development, contractual and employment terms, leadership, sustainable products, Code of Conduct and diversity.

Strategy, growth, long-term financial development, available production capacity and investments in this, sustainable innovations, risk analysis and management, UN Sustainable Development Goals and Code of Conduct.

# Examples of issues in the spotlight

Developing sustainable raw materials and packaging, business models, Code of Conduct, reduced negative environmental impact, maximised positive environmental impact and sustainable economic value development.

Developing packaging that increases the level of recycling, reduces food waste and improves distribution efficiency, investments in plants, jobs and work experience placements and the effects of sustainable forestry.

**Business partners**

If BillerudKorsnäs is to retain and consolidate its position in the market, it needs to focus on innovation, continuous improvement, sustainability and collaborations with other actors. Finding lenders to finance vital investments and collaborations with suppliers and partners is crucial in ensuring that the Group achieves its objectives.

**Society**

BillerudKorsnäs' global operations affect many people, sometimes whole communities, but also the development of sustainable cities. The focus is on contributing to local business, social initiatives and the development of renewable, bio-based materials for a society that is sustainable in the long term. City residents, people living near BillerudKorsnäs' production units, local associations, universities, public agencies and industry bodies are examples of key stakeholders.

For a more complete summary of the Group's ongoing dialogue with all the key stakeholders, go to [billerudkorsnas.com](http://billerudkorsnas.com)

# Megatrends driving growth

Urbanisation, digitalisation, globalisation and sustainability are the global megatrends driving long-term demand for sustainable packaging materials and solutions.

Integrating the needs of packaging manufacturers and brand owners into regular innovation and development work will be critical for BillerudKorsnäs' potential to exploit the business opportunities that arise.

## Sustainability focus in tune with the times

Business has a vital role to play in the transition to a more sustainable use of resources, which is essential in ensuring that the world's growth does not occur at the cost of future generations. The 17 Sustainable Development Goals that the UN member states adopted in September 2015 guide the way in the task of making global development sustainable in the long term. Alongside this, conscious consumers are pushing for improvements and increasing the pressure on brand owners and packaging manufacturers to seek out new packaging solutions that are better suited to a circular economy. The packaging industry has its focus on areas such as reduced use of plastics, greater recycling, size optimisation of e-commerce parcels and ecocycle-friendly solutions.

## Demand for primary fibre outstrips supply

Customers demand resource-efficient, lightweight packaging solutions that are still fully able to protect the content and keep it intact along the whole production and logistics chain. The role of packaging as a marketing tool has grown, setting high expectations concerning printability and design, so that the packaging stands out from competitors.

In addition to the extra demands placed on packaging as a marketing tool, brand owners are increasingly asking for packaging based on materials that are renewable, recyclable and/or compostable.

These factors are combining to drive up demand for fibre-based materials. In global terms, this trend is a challenge, since the supply of primary fibre is insufficient to meet the growing demand, and this in turn is pushing up demand for recycled fibre-based material. Primary fibre is a fundamental component in this chain of demand, since it is stronger and provides products with the best protection, while also forming the foundation of the recycled fibre loop.

## Strong market position as basis for growth

BillerudKorsnäs leads the way in primary fibre-based materials. Renewability, increased opportunities for efficient recycling and reduced waste are some of the aspects where paper and board based on fibre from responsible forestry form a good foundation for being part of the solution to global challenges.

BillerudKorsnäs also has broad and deep knowledge of how packaging materials can be used and how packaging should be designed and constructed to best fulfil its purpose. Our potential to further consolidate our position by expanding in the value chains is therefore good. The proportion of overall growth that comes from packaging solutions is expected to increase in the years ahead. Read more on page 21–23.

## International ambition to reduce harmful plastics use

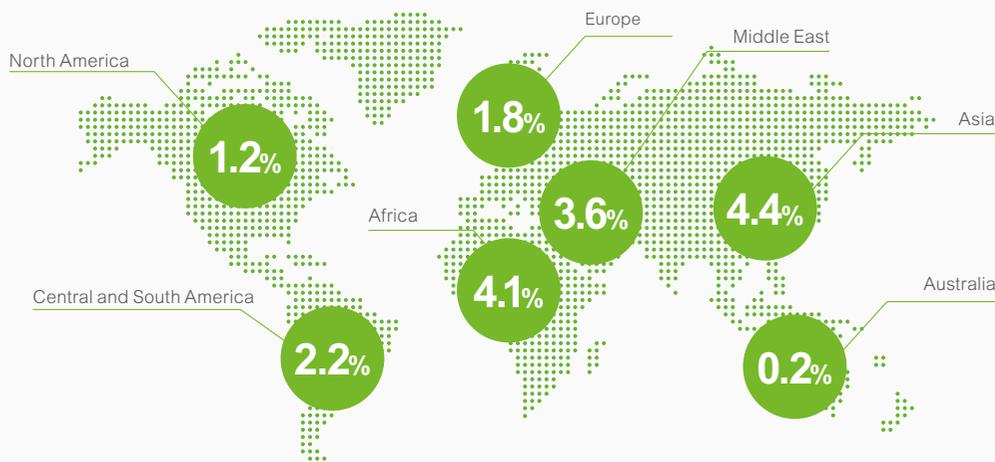
The drive to phase out fossil-based plastics is a clear example of what countries and multinational companies are doing to reduce negative impacts on the climate and the environment. According to the UN<sup>1</sup>, over 60 countries have banned or restricted the use of plastics. The European Commission has also proposed a ban on ten common disposable plastic items that often end up polluting our oceans. On the corporate front, international giants such as IKEA, Nestlé, Disney, Starbucks, McDonalds and Unilever have committed to limit plastics that are harmful to the environment.

<sup>1</sup> <https://www.unenvironment.org/resources/report/single-use-plastics-roadmap-sustainability>



### Good potential for primary fibre-based packaging

The global packaging market as a whole, including other materials such as plastic, is growing by 2.9%<sup>1</sup> annually. Growth in materials that are reusable, recycled or biodegradable is forecast to run at an annual rate of 7%<sup>2</sup> from 2016–2021.



<sup>1</sup> Estimated annual growth in 2017–2022 for all packaging materials. Source Smithers Pira.

<sup>2</sup> Source: <https://www.zionmarketresearch.com/market-analysis/green-packaging-market>.

#### Drivers

#### Consequences for the industry Market effects and business opportunities

##### Demographics and urbanisation



- An urban population explosion and an expanding middle class in growth markets are increasing demand for packaging materials
- Greater demand for packaged consumer goods such as food, drink and consumables
- Greater demand for functional and convenient on-the-go and stay-fresh packaging
- Expansion in the construction and chemical industry, particularly in growth markets
- Packaging needs to be safe, effective and recyclable in order to form part of future circular systems in cities

##### Greater awareness of sustainability



- Conscious consumers and new legislation are driving market developments
- Brand owners are raising their ambitions in the area of sustainability
- Renewable and recyclable materials are replacing fossil-based materials
- Countries are legislating against disposable plastic products and brand owners are seeking alternative packaging that is renewable and recyclable

##### Digitalisation



- Permanently connected devices offer opportunities for new functionality built into packaging and new business, logistics and distribution models, not least within retail
- Packaging needs to be adapted for developments such as automated warehouses, driverless vehicles and robots
- E-commerce is increasing demand for packaging material. The materials used need to be able to survive transport and provide a positive unboxing experience for the consumer
- Demand for resource-efficient packaging (that still offers the same high quality in terms of strength and presentation options) is rising
- New services linked to new business, logistics and distribution models

##### Globalisation



- Greater range of suppliers
- Global standards are emerging
- Increased competition
- Brands are focusing on consistency across markets
- Greater international trade increases demand for packaging materials and adapted packaging products
- International deliveries are increasing demand for adapted packaging

## World-class liquid packaging board

BillerdKorsnäs supplies taste and odour-neutral liquid packaging board to the world's leading packaging manufacturers. With over 60 years of experience in developing liquid packaging board for both aseptic packaged and chilled foods, we work tirelessly to develop our innovations and to meet the growing demand in the global market. We have long-term and proactive partnerships with a number of key customers. As the importance of such collaborative forms rises, it is vital that we take our cooperation on innovation to new levels with these actors.



DIVISION BOARD

# Increased production capacity to meet demand

Over the year, intensive work continued to complete our new board machine KM7 in Gruvön, which will be brought online in March-April 2019. Our focus for the coming year is on ensuring production stability so that the increased capacity meets customer demand in the best possible way.

The strong demand for primary fibre-based material is driven in part by the global growth in e-commerce. In this context packaging has a key role to play in protecting the goods in transit while also delivering a positive unboxing experience for customers and consumers. The purpose of the investment in the new KM7 board machine in Gruvön is to be able to produce the higher volumes that the market requires. From March–April 2019, when the machine becomes operational, we will gradually be able to step up production, reaching full utilisation by 2023. The board machine will then have an annual capacity of 550 000 tonnes of board, making it one of the largest of its type in the world.

Advanced research and development at Division Board’s development centre and laboratories is vital in enabling us to constantly develop and improve materials and services so that they meet customers’ high expectations. Extensive expertise is available in areas including packaging optimisation and printing and converting support. This activity underpins the division’s scope to drive up growth within the product segments described below.

### Liquid packaging board for food and beverages

Liquid packaging board accounts for 59% of Division Board’s sales. Packaging for food is subject to stringent requirements and product safety is paramount when delivering materials for food packaging. Many markets also require extended durability, even at fluctuating temperatures. BillerudKorsnäs has over 60 years of experience in developing liquid packaging board for both aseptic packaged and chilled food, plus liquid packaging board for effective packaging solutions.

Liquid packaging board has stable growth of 2%. The greatest growth in demand is forecast to come from Asia. In Western Europe, growth is dependent on innovations, with a focus on new packaging types and applications for liquid packaging board. Demand is expected to increase in developing markets due to demographic changes and the establishment of a cohesive food supply chain.

Division Board manufactures liquid packaging board and cartonboard, plus fluting and liner. The material is sold primarily to packaging manufacturers. The division comprises the business segments Liquid Packaging Board, Cartonboard and Containerboard. The size and requirements of customers vary, but they all demand high quality and expect materials and service solutions that add value.

4–5%  
is the annual growth target

54%  
of net sales

62%  
of EBITDA



### Growth strategy

- Increased volumes in attractive segments, driven primarily by the new KM7 board machine in Gruvön
- Secure production stability
- Innovation in collaboration with packaging manufacturers and brand owners

### Focus 2019

- Bring KM7 in Gruvön online
- Production stability
- Draw commercial benefits from a strong product portfolio and set a new market standard
- Continue to create customer value from fibre to packaging
- Quickly meet increased regulatory requirements for packaging in prioritised growth markets

**Cartonboard for premium products**

Cartonboard accounts for 12% of the division’s sales and is used to package products in premium segments, where the packaging is often integral to the brand. Function, design, material choice and printability are important factors that allow for differentiation of products, which strengthens the customers’ brands. Speed and reliability of delivery are other essential elements that actors in premium segments value. Tightening up on precision deliveries may therefore present opportunities for higher margins and greater volumes.

Global demand for cartonboard is predicted to grow by 3.9% per year. South and South-East Asia and Africa are the fastest-growing markets. Growth is focused mostly on the packaging segments of cosmetics, medical products and dry and frozen foods. Economic growth is driving demand, particularly in cosmetics, medical products and food in the premium segment.

**Fluting and liner for fragile goods and demanding distribution systems**

Sales of fluting and liner account for 29% of Division Board’s sales. Corrugated board manufacturers demand strong, light and pure materials that are used in corrugated boxes for fragile goods and often demanding distribution systems. Globalisation and e-commerce are driving up demand for lightweight packaging that optimises distribution costs, particularly within expensive and environmentally damaging modes of transport such as air. The packaging has to be tailored to complex and frequently long distribution chains. In addition to being robust enough to handle tough transport conditions, the packaging also has to help reduce wastage, even in humid climates.

Demand for liner is being driven by the battle of brand owners to differentiate their products and brand, where the appearance and design of the packaging becomes increasingly significant.

**Production units**



**Gävle**

Produces liquid packaging board and white top kraftliner, the outer, printable layer of corrugated board boxes. Each day the plant produces material for 200 million drink packages (single portion size), which means that a quarter of the portioned drinks in the world use liquid packaging board made by Billerud-Korsnäs in Gävle.

**740 000**  
tonnes per year capacity  
Number of employees:  
900

Liquid packaging board: 90%  
Liner: 10%



**Gruvön**

Produces cup stock, fluting, formable paper, kraft paper, liner, sack paper and liquid packaging board. Gruvön also produces market pulp. In addition, it has a development centre with expertise in packaging optimisation, where all the properties of the packaging can be studied in the minutest detail.

**710 000**  
tonnes per year capacity  
Number of employees:  
900

Fluting: 42%  
Liner: 21%  
Kraft paper: 10%  
Liquid packaging board: 8%  
Cup Stock 4%  
Sack paper: 1%



**Frövi/Rockhammar**

Produces cartonboard and liquid packaging board. Rockhammar produces unbleached and bleached CTMP<sup>1</sup> for delivery in baled form to Frövi. Frövi/Rockhammar also has a development centre and laboratory that offers expert help with packaging optimisation, printing support and converting support.

**470 000**  
tonnes per year capacity  
Number of employees:  
640

Liquid packaging board: 74%  
Cartonboard: 26%

<sup>1</sup> Chemo Thermo Mechanical Pulp.



### Major investments to meet long-term demand

Against the backdrop of high demand for liquid packaging board and other premium products, we believe the growth outlook in these segments is good. Totalling SEK 7.6 billion, our investment in the new KM7 board machine in Gruvön is our largest ever. KM7 will manufacture liquid packaging board, cartonboard for food and other consumables, liner for heavy duty boxes and food service board for paper plates, cups and so on.

#### Annual estimated growth in demand for liquid packaging board

Annual volume growth 2016–2024<sup>1</sup>, %



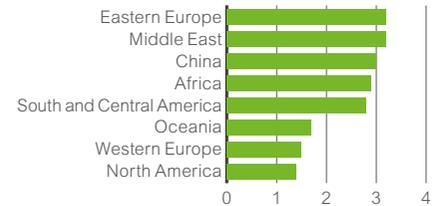
#### Annual estimated growth in demand for cartonboard

Annual volume growth 2017–2022<sup>2</sup>, %



#### Annual estimated growth in demand for corrugated materials (fluting and liner)

Annual volume growth 2016–2030<sup>3</sup>, %



<sup>1</sup> BillerudKorsnäs analysis, Pöyry, Vision Hunters, Zenith <sup>2</sup> Smithers Pira, The Future of Folding Cartons to 2022 <sup>3</sup> Pöyry, World Paper Market 2017

### Division Board sells

### Applications

#### Liquid packaging board

Liquid packaging board is used primarily in packaging for beverages and other liquid foods.

**Competition:** Primary fibre-based liquid packaging board competes mainly with plastic but also with other packaging materials.

**Other major manufacturers:** Stora Enso, Klabin, Evergreen Packaging and WestRock.

Sealed packaging  
**#1**  
globally

All packaging types  
**#2**  
globally



- Milk
- Juice
- Sports drinks
- Smoothies
- Preserved foods such as chopped tomatoes, beans and sauces.

#### Cartonboard

Cartonboard is used for products in premium segments, where the packaging is often part of the brand's image. Materials and surfaces that allow for unique designs and graphics, print quality, flexibility and moisture resistance are just some of the functions that are in demand.

**Competition:** Other packaging materials, mainly plastic.

**Other major manufacturers:** Iggesund, Metsä Board, Stora Enso, WestRock and International Paper.

Pure white primary fibre-based liner  
**#2**  
Europe

Coated primary fibre-based liner  
**#1**  
Europe



- Exclusive drinks
- Perfumes
- Beauty and healthcare products
- Confectionery
- Household products and industrial goods in the premium segment
- Fashion articles
- Food in the premium segment

#### Fluting

Fluting is the wavy layer in corrugated board, which is used for fragile and heavy industrial products and in food packaging.

**Competition:** recycled fibre-based fluting and other materials in plastic and wood compete with primary fibre-based fluting.

**Other major manufacturers:** Stora Enso and Mondi/Powerflute.

Primary fibre-based NSSC<sup>1</sup> Fluting  
**#1**  
Europe



- Fruit and vegetables
  - Heavy duty components for the automotive industry, white goods and electronics
- <sup>1</sup> NSSC is a semi-chemical pulp used as the raw material for fluting.

#### Liner

Liner is used in cartonboard and is the outer, printable layer on corrugated board boxes.

**Competition:** The main competition comes from recycled fibre-based coated and uncoated white top testliner.

**Other major manufacturers:** Metsä Board, Mondi and Smurfit Kappa.

- Exclusive drinks
- Beauty and healthcare products
- Confectionery
- Home electronics
- Secondary or store packaging for consumer goods



## Launch of a climate-positive sack

The award-winning D-Sack®, a soluble sack for cement and other building materials, is the first formal BillerudKorsnäs packaging with a positive impact on the climate. In addition to significant work environment benefits such as less cement waste, less dust formation and the elimination of packaging waste compared with conventional cement sacks made from woven plastic, the D-Sack also offers superior climate performance.

According to a life cycle assessment by IVL, Swedish Environmental Research Institute, the sack stores carbon dioxide (CO<sub>2</sub>) over a 100-year time horizon, which makes it climate positive. This is because the carbon dioxide that is absorbed from the atmosphere as the tree grows, and then incorporated into the paper, is stored in the finished concrete structure. The D-Sack is an innovation from BillerudKorsnäs' Packaging Development Center in Karlsborg, in close collaboration with LafargeHolcim.

## DIVISION PAPER

# Kraft and sack paper for a global growth market

Optimising the product mix enables us to enjoy profitable growth while also adding customer value. In collaboration with our customers, we continue to develop high-quality materials with properties that add value to customers' specialist packaging solutions.

Production stability at all the production units and the ability to constantly develop existing and new products are crucial for the division's profitability and its capacity to realise its growth strategy.

## Research and development for greater customer value

Collaboration with packaging manufacturers is a crucial success factor for the research and development work that the division conducts with a view to producing ever better materials with properties that have the potential to challenge conventional packaging. Skärblacka's Barrier Lab, for example, is developing various types of protective barriers that can be used for food packaging, amongst other applications. Karlsborg's Packaging Development Center offers analysis and development of sack packaging with a focus on powdered products such as building materials, chemicals, minerals, flour and sugar. The ongoing development work provides a foundation for the division's growth opportunities within the product segments described below.

## High-quality renewable kraft paper

Kraft paper accounts for around 53% of Division Paper's sales and is used primarily in packaging for various types of dried foods and for medical packaging. In order to sell kraft paper for food uses, the material must be safe and approved for direct contact with food, and it must have a purity that makes it free from odour and taste. Medical packaging requires particularly stringent standards of purity and flexibility. BillerudKorsnäs has developed a medical paper that is strong, with well-balanced porosity, making it a durable protective material for medical equipment and a safe barrier.

Demand for sustainable materials and various national and international initiatives to reduce the use of plastics are driving up demand. In recent years, a wide range of initiatives have been drawn up to cut the use of harmful plastics. Countries, regions and major global brand owners have taken concrete action, such as banning plastic carrier bags. Growing awareness of sustainability issues, not least among consumers, is increasing demand. Population growth in growth markets and an ageing population are further drivers.

Division Paper manufactures and sells high-performance, premium-grade kraft and sack paper to selected segments in the manufacturing, medical equipment and consumer sectors. The core areas of use are dry food, medical applications and the construction industry. The division sells any surplus pulp that BillerudKorsnäs does not use in its own production on the open market. The material is sold primarily to packaging manufacturers.

0–2%

is the annual growth target

36%

of net sales

38%

of EBITDA



### Sales by product category<sup>1</sup>, %

- Kraft paper, 53
- Sack paper, 47

<sup>1</sup> Excluding other products

## Growth strategy

- Optimised product and customer portfolio for increased profitability
- Secure production stability and continued development of existing production units
- Product development

## Focus 2019

- Continued growth and increased presence in growth markets
- Optimise the supply chain – customers, products and segments
- Create business opportunities by continuing to replace unnecessary plastic
- Harness market potential for paper-based cement sacks

The market for food packaging has grown by around 1% per year since 2012. Annual growth up until 2022 is forecast to be around 2.7%, with the highest growth in the Middle East, Africa and Asia, and stable growth in Europe and North America.

**Strong sack paper for sustainable business**

Sack paper accounts for 47% of Division Paper’s sales. High strength is crucial for competitiveness in this market. The brown sack paper, which can be filled without splitting or creating dust, is used in areas such as the construction industry and for packaging of dry, powdered foods such as flour.

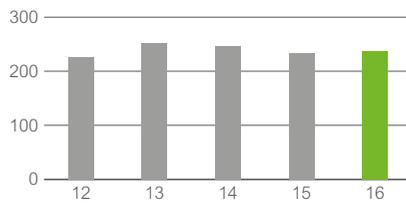
The demand for building materials in Europe is generally higher in May–October. Global demand for cement is expected to grow by around 4.6% per year up until 2022. The greatest growth is expected in regions where cement products are supplied primarily in plastic sacks.

Demand for brown sack paper is driven specifically by major investments in infrastructure and housing, primarily in growth markets outside Europe. Greater awareness among

converters, brand owners and consumers is a strong driver, since the advantages of the sack paper (no dust, renewable material from the forest) are considerable when compared with materials that are not biodegradable.

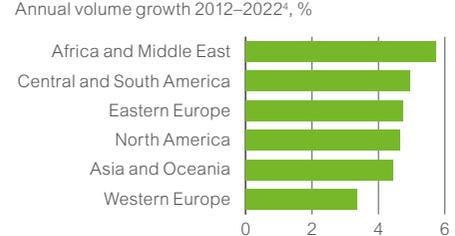
Demand for white sack paper is driven primarily by the self-build and DIY renovation trend in the European consumer market. More advanced product mixes for home renovations create greater demand for good printing surfaces for information and images, something that is also driving the demand for white sack paper, which has an excellent surface for printing statutory warning texts that need to be included on the packaging.

**Global market value of food packaging**  
USD billions<sup>1</sup>



<sup>1</sup> Smithers Pira, The Future of Global Packaging to 2022

**Annual estimated growth in demand for cement**  
Annual volume growth 2012–2022<sup>2</sup>, %



<sup>2</sup> World cement, The Freedonia Group, 2013

**Production units**



**Skärblacksa**

Produces high-quality machine glazed kraft paper, brown sack paper, fluting and market pulp. It has two laboratories, with expertise in barriers and various types of sealing system, for the development of packaging for food and medical products.

460 000  
tonnes per year capacity  
Number of employees:  
690

Sack paper: 41%  
Kraft paper: 26%  
Fluting: 20%  
Market pulp: 13%



**Karlsborg**

Produces kraft paper and sack paper plus market pulp. It has a Packaging Development Center that offers value adding expertise and services in the optimisation of pulp and the development of bags and sack packaging.

320 000  
tonnes per year capacity  
Number of employees:  
380

Sack paper: 36%  
Kraft paper: 1%  
Market pulp: 62%



**Pietarsaari**

Produces kraft and sack paper. The Pietarsaari plant also produces advanced, high-performance paper grades for a range of technical applications such as abrasive papers and reel and ream wrapping.

200 000  
tonnes per year capacity  
Number of employees: 120

Sack paper: 77%  
Kraft paper: 23%



**Beetham**

Produces paper for packaging of medical equipment, food packaging and other types of industrial applications. Specific applications include grease-resistant paper for the fast-food industry and direct-seal sterile barrier paper.

45 000  
tonnes per year capacity  
Number of employees: 140

Kraft paper: 100%



**Expanded capacity for increased growth**

The completed investment in the new MG machine and capacity improvements on the existing machines in Skärblacka, which amounted to SEK 1.3 billion in total, open up opportunities for growth in attractive new and existing market segments. The new machine, which began production in spring 2018, brings an improved product mix and lays the foundation for a broader product portfolio with greater added value. At full capacity utilisation, the machine will produce a total of 90 000 tonnes MG paper per year.

**Division Paper sells**

**Applications**

**Kraft paper**

Kraft paper is used primarily in packaging for medical equipment and food packaging aimed at users that require very high standards of purity, printability, sterilisation, flexibility and strength.

#2 globally

#1 Europe

*Competition:* The primary competition comes from plastic packaging solutions.

*Other major manufacturers:* Mondi, Heinzl Papier and many of Europe's speciality paper manufacturers.



- Dry foods such as flour, sugar and grain
- Carrier bags
- Medical packaging

- Flexible and formable packaging
- Steel interleaving
- Bread bags
- Greaseproof paper
- Release liner for hygiene products

**Sack paper**

High strength is crucial for competitiveness in this market. The sack paper can be filled without splitting or creating dust, which not only protects the content but also contributes to a clean and healthy work environment.

#2 globally

*Competition:* Mainly sack solutions in plastic and bulk distribution.

*Other major manufacturers:* Mondi, Canfor, Segezha, KapStone and Smurfit Kappa.



- Building materials (e.g. cement)
- Industrial minerals

- Chemicals
- Food
- Animal feed



## Sustainable Solution, Better Bottom Line



Each year, HP produces nearly 40 million notebooks in China, of which a large proportion are shipped to the U.S. and European markets via increasingly costly airfreight. To address challenges such as expensive locally sourced packaging and unsatisfactory protection of notebooks in transit, HP partnered with BillerudKorsnäs. A joint team studied the box design, material usage and production processes.

By reducing the fluting and inside liner with primary fiber from BillerudKorsnäs, the material needed was reduced by 29 percent and weight by 35 percent – resulting in lower shipping costs.

“Working with BillerudKorsnäs has enabled us to offer a notebook box that weighs less, reduces our global carbon footprint and lowers costs, while protecting our products during shipment. This partnership supports our efforts to develop products, as well as the packaging used to ship them, that are more sustainable for our company and our customers,” says Erik Troelsen, HP’s director of packaging design and procurement.

## DIVISION SOLUTIONS

# Focus on solutions

Division Solutions meets brand owners' growing demand for sustainable and effective packaging solutions and systems. Brand owners and retail chains have a pressing need to differentiate themselves from the competition.

The proportion of BillerudKorsnäs' overall growth that comes from packaging solutions is expected to increase in the years ahead. Division Solutions works strategically towards the growth target by growing our business in existing packaging solutions while also creating entirely new solutions. Demand for sustainable and resource-efficient solutions is a growing trend, currently manifesting itself most noticeably and significantly in the desire among brand owners to reduce the use of fossil-based plastics. The solution-focused offering has leveraged strong sales growth in a division with an annual growth target of 15–25%. This growth will be focused on three areas, the largest of which is Managed Packaging. The growth is expected to occur both organically and through acquisitions.

### Managed Packaging for global brands

Many global brand owners and retail chains with manufacturing in Asia are seeking to strengthen control over their packaging. They also want to reduce their resource consumption and are looking for sustainable alternatives to regular packaging materials and solutions. With 20 years' experience of packaging production in Asia and a network of over 50 production partners, Managed Packaging offers custom packaging solutions and services to global brand owners. Via a single contact, customers gain full transparency and control over the whole packaging chain, since Managed Packaging

handles coordination of suppliers, designs packaging, monitors quality and measures performance. Demand is also driven by the brand owners' need for standardisation and efficiencies in order to ensure quality and cost-efficiency.

**Strong growth for Managed Packaging**  
Sales, SEKm



The main markets for the business are China, Vietnam, Indonesia, Cambodia, Bangladesh and India. Managed Packaging also operates in many other countries and has the potential to expand into further territories. Its global development centres, the largest of which is located in the Chinese city of Shenzhen, offer access to innovative design opportunities, expertise in packaging performance and high-tech equipment. Managed Packaging grew its sales by 46% in 2017 and 27% in 2018. In order to grow efficiently with a business that spans three continents, processes and tools have been optimised. The teams in Europe, the USA and Asia make effective use of the same infrastructure and the time zone differences. In a move to manage the Asian expansion responsibly, not least along the supply chain, further resources will be allocated for inspec-

Division Solutions meets brand owners' growing demand for sustainable and effective packaging solutions and systems. The division's business is growing in three areas, the largest of which is currently Managed Packaging. The other two areas relate to system sales and the development of brand new, innovative solutions. Division Solutions' customers are primarily brand owners.

**15–25%**  
is the annual growth target

**4%**  
of net sales

**0%**  
of EBITDA

### Growth strategy

Profitable growth in

- Managed Packaging, within new and existing segments and territories
- Formable paper (FibreForm®)
- System solutions, such as FreeFormPack and Sealed Paper Packaging
- Innovative new solutions, such as the paper bottle

### Focus 2019

- Expand collaboration with brand owners in attractive markets
- Increased investment in innovation

**Managed Packaging offers benefits in:**



**Management simplicity**

With a single contact, you have full control over your packaging.



**Operational savings**

10–30% savings along the whole supply chain.



**Sustainability performance**

15–30% lower CO<sub>2</sub> and material use.



**Revenue generation**

Rapid implementation and improved sales.

tions, audits, compliance checks and other such work. Read more about BillerudKorsnäs’ work with suppliers in Asia on page 40.

The competition comprises independent wholesalers of packaging and major packaging manufacturers with converting in Asia.

**Formable paper for eco-aware brands**

FibreForm® accounts for 15% of Division Solutions’ sales. Since the paper is cold-formable, energy consumption is lower than for plastic converting. Alongside its lower energy use in converting, the material is also renewable which means that FibreForm® can help to reduce the climate impact. In addition, the paper offers the option of ten times deeper embossing than regular paper.

Demand is driven by eco-aware brand owners who wish to reduce their use of plastics, invest in more sustainable packaging solutions and cut their energy consumption. Packaging manufacturers are usually able to use FibreForm® in their existing machines for plastic products and so there is no need to replace the whole production line simply because the material has been changed.

The food and consumer goods industry, which previously lacked access to renewable material choices for deep drawing, can now manufacture trays and blister packs, for example, using the market’s existing thermoforming lines and forming presses.

FibreForm® can also be used as an insulating sleeve on paper cups. The global growth rate is 3.4%. The Asian markets are driving this growth. However, demand is greatest in the US market, which accounts for almost half of the demand. Demographic changes in growth markets are driving demand, along with a growing on-the-go culture in food and beverages.

**Systems that challenge plastic packaging**

Packaging systems are a concept where we work in close collaboration with machine manufacturers and converters to develop packaging solutions that are optimised for brand owners. Based on primary fibre, our system solutions offer eco-aware brand owners an alternative to packaging that is currently made from plastic. Division Solutions works on an ongoing basis to develop new system solutions. System solutions include:

*Axello ZAP*

The packaging system Sealed Paper Packaging, which uses BillerudKorsnäs’ Axello ZAP packaging material, offers an



**FibreForm® (formable paper)**

BillerudKorsnäs’ FibreForm® is a formable paper that offers a renewable, biodegradable and food-safe alternative to compression moulded plastic packaging.

*Competition:* Mainly plastic

*Applications:*

- Insulated paper cups
- Stand up pouches
- Cards
- Boxes
- Formed containers
- Food trays



### Stand up pouches – with a natural feel

BillerudKorsnäs' FibreForm® paper is constantly steering the global food and consumer packaging market away from plastic in favour of flexible paper solutions. One of the products launched in 2018 was the stand up pouch, which is food-safe and can be laminated with a wide range of barriers. A stand up paper pouch with more stiffness and the option of embossing is a sustainable alternative to limp and saggy plastic pouches, as well as providing an unparalleled haptic feel and a desirably natural look.

effective alternative to plastic packaging for dry foods. The paper packaging is climate smart<sup>1</sup>, recyclable and impervious to dust and insects. The concept was launched in 2016 in partnership with Bosch Packaging Technology. Our specially developed kraft paper Axello ZAP is tailored for the ZAP module from Bosch and the paper's natural strength, elasticity and surface properties make it perfect for use in the demanding Vertical Form, Fill and Seal (VFFS) process. Amongst others, two European pasta manufacturers, Wolf Nudeln and Alb-Gold, have replaced their plastic-based packaging with Axello ZAP during the year.

### Entirely new solutions

Innovation is one of our strategic cornerstones. We strive not only to introduce new materials but to develop whole new products. A key factor for success is collaboration internally within the Group and with industry actors such as converters, brand owners and machine suppliers, not to mention entrepreneurs and innovators. One prime collaboration involved the machine supplier Bosch Packaging Technology, branding agency Grow and a number of brand owners, with a focus on developing small portion packaging for jams, beauty products and other items.

### Investing in the packaging solutions of the future

Through investments in promising start-ups, BillerudKorsnäs' wholly owned subsidiary BillerudKorsnäs Venture is paving the way for new packaging solutions which in the longer term will be able to grow Division's Solutions offering; packaging solutions that contribute towards meeting the challenges posed by modern society while providing growth opportunities for innovative players for example in e-commerce and logistics or through digital solutions, to achieve greater transparency, safety and efficiency. Adopting a long-term perspective, BillerudKorsnäs Venture cooperates with the portfolio companies by supporting them during development and commercialisation. The portfolio consists of five companies. One of the companies invested in, Kezzler, has developed a software platform that can assign all the packaging in the world a unique code. This then lays the foundation for a wealth of applications in areas such as protection against counterfeiting, transparency in logistics flows and direct communication between brand owners and consumers via smartphones. Another example is Vericool, which has developed a sustainable solution to replace expanded polystyrene boxes in refrigerated transport.

<sup>1</sup> According to a life cycle analysis, Axello ZAP packaging generates 65% lower carbon emissions than the equivalent plastic packaging (source: Life cycle assessment, Report U5052, IVL, 2015).

# Steps towards a sustainable future

In collaboration with brand owners and other stakeholders, we are challenging conventional packaging for a sustainable future. Here is a selection of our products and initiatives that contribute towards that mission.

## Winner in the “Save the Planet” category

BillerudKorsnäs' board won “Carton of the Year” and “Save the Planet” at the Carton Excellence Award, a prestigious European cartonboard competition. The entry that won the Save the Planet category came from brand owner Sealpac and is called FlatSkin®. The packaging solution is made from a cartonboard combined with plastic for food packaging. The two materials are simple to separate for easy recycling and the solution uses 75% less plastic than a conventional tray.



## Paper tray for easy recycling

For brand owners that want to reduce their carbon footprint and encourage recycling, Billerud-Korsnäs offers the renewable material FibreForm® which can be formed into paper trays. FibreForm® is a strong, stable and food-safe option that offers the same functional benefits as single-use plastic trays, but with the environmental advantages provided by a high-quality paper product made using primary fibre. Atria, one of Northern Europe's leading food companies, is just one of the companies that has chosen paper trays for the sake of the environment, and now markets products tagged with phrases such as “A healthy choice – chicken breast in climate-smart packaging”.

## Challenge from a paper bottle

In 2015 BillerudKorsnäs began a collaborative project with the vision of creating a 100% bio-based and recyclable paper bottle for carbonated drinks and other contents. Now the project has been expanded and different variants of the paper bottle have been developed in close partnership with leading brand owners in a range of segments.

Collaboration with internal and external actors that possess a variety of expertise is the key to development success, as we challenge both production and process systems and just what can be done with paper both technically and in design terms.



## Unboxing – this year's theme for design competition

Unboxing, the moment when packaging is opened for the first time, is becoming an increasingly important opportunity for a brand to make a first impression with the consumer. Unboxing was the chosen theme for the 14th iteration of our international Packaging Impact Design Award (PIDA), a competition that we organise along with leading universities in Germany, France and Sweden. The aim of the competition is to turn the spotlight on packaging and show how important packaging is for the product and also for the environment. The brief to entrants therefore went deeper than just the first impression to also include the question of sustainability.

## Collaboration to challenge conventional solutions

For the past two years, BillerudKorsnäs and the machine manufacturer Bosch have been running a project in which selected brand owners are invited to join in creating future applications in sustainable single-use packaging. The project was presented at InterPack 2017 with the "grow" concept, an attractively designed conceptualisation of sustainability in a three-dimensional, physical, formed paper packaging solution. The response was overwhelming, and we are now continuing to work with selected brand owners on developing sustainable and relevant packaging solutions based on the unique formability in the FibreForm® material. The project is based on interaction between design, material, machine and customer, where all the parties involved invest in development.

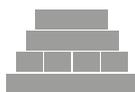


## A paper battery – important steps towards commercial manufacture

Cheap, bio-based paper batteries may emerge from a unique collaboration between Billerud-Korsnäs and one of Sweden's foremost research groups at Uppsala University. Together they have produced a solution in which electrodes based on cellulose from primary fibre enable energy to be stored in paper, thus also enabling recycling and the production of new packaging and a new battery. The circular approach is entirely in line with BillerudKorsnäs' mission. Development has so far been at the laboratory stage but there are hopes of being able to run test production in a factory in 2019.



In the long term, the paper battery also means an opportunity to develop smart packaging with functions that tell users that food is fresh, show the temperature medicines have been stored at during transport or track packaging through the transport chain.



STRATEGIC PLATFORM

# Strategy for sustainable solutions and profitable growth

The mission – to challenge conventional packaging for a sustainable future – describes the purpose of BillerudKorsnäs’ business. Profitable growth is a crucial factor in challenging less sustainable packaging materials and solutions over time. In order to deliver profitable growth of 3–4% annually, goal-oriented and intensive work is being undertaken in four

strategic areas: position, innovation, sustainability and efficiency. Maintaining a customer focus at all times, BillerudKorsnäs’ 4 500 employees are the people driving the change that is needed to realise the strategy and achieve our ultimate purpose – a sustainable future.



The mission – to challenge conventional packaging for a sustainable future – describes the purpose of BillerudKorsnäs’ business and governs how we think, what we do and how we communicate. Sustainable packaging materials and solutions are a competitive advantage and a business opportunity, for today and tomorrow.



Long-term profitable growth enables continued investments to strengthen future competitiveness as the challenger of conventional packaging.



Profitable growth is created by BillerudKorsnäs expanding in the value chains, transforming good ideas into new solutions and materials, integrating sustainability into everything we do, and working on continuous improvements based on a customer-focused approach.



BillerudKorsnäs’ 4 500 employees drive the change and improvement work. A safe and secure workplace is a must. A clear purpose and established values generate commitment. Communicative leadership and a good employer brand create motivation. Customer, shareholder and social value is created through innovative solutions and close collaboration.



# Better equipped to drive change

Every single employee has a role to play in the change management work being carried out by BillerudKorsnäs. During the year, we boosted our capacity to take responsibility with a new organisation and by being clearer about what is expected of the company's management and employees.

The organisational change put in place during the year is the biggest structural change in the Group since the merger between Billerud and Korsnäs in 2012. The new organisation, comprising three divisions with full responsibility for results, is an important step in deriving maximum benefit from the good conditions for profitable growth that the company has identified.

## Clear expectations of management

Our mission remains the same and is extremely well embedded in the organisation. People being on board with change and their relationship to change is our most important driver in attaining it. Our values: Think new, Feel responsibility, Cooperate and Create value, are at the heart of everyone challenging themselves and challenging the conventional.

Our managers are the people who foster a climate of change, which is why in spring 2018 we began work to set out in more detail what is expected of BillerudKorsnäs' managers. 150 of our managers from around the world were involved in the work carried out with the aim of ensuring that we are always the best employer we can be – attracting, engaging and developing managers and employees. The result was the Sustainable Leadership concept, in which all managers in the Group will be trained in 2019. Our leadership academy will also be developed to focus on Sustainable Leadership.

## Employee survey encourages change

The major Group-wide employee survey conducted every two years was carried out in 2018. The survey shows a stable result with satisfactory outcomes on most parameters. Identified areas for improvement include information and communication from management. We are working to improve communication through the company by improving internal information flows. Our strategic focus on Sustainable Leadership and on building tools, processes and training that equip our managers to meet these expectations is also a way of working actively to strengthen other aspects of leadership. Another development area is to better follow up the results of



the employee survey, as there are strong links between working with the results and employee engagement.

## Skills for the future

During the year a survey was carried out to identify the skills needed to be able to focus our strategic work with employer branding and recruitment towards the right target groups. In 2018, we also employed our own recruiters who are proactively seeking potential candidates for our vacancies, started a trainee programme for specific occupations and graduates, tailored mentorships, development and leadership programmes for all levels and offered work placements and summer jobs.

Tekniksprånget, Jobbsprånget and targeted initiatives such as Introduce a Girl to Engineering day, (IGEday) are just some examples of what we are doing to recruit and develop our employees. Greater awareness of sustainability in society means sustainability is something that more and more people value in an employer, and our active work on sustainability and our ambitious goals see us aiming to meet these expectations to the best of our ability. Read more about how we take responsibility as an employer on pages 41–43.



POSITION

# We are upping the pace of expansion in the value chain

BillerudKorsnäs' target is to increase sales by 3–4% a year. Growth is to be generated within the existing business and by expanding further in the value chain. The proportion of overall growth that comes from packaging solutions is expected to increase in the years ahead.

## Strong position facilitates expansion

BillerudKorsnäs leads the way on several high-quality packaging materials. The company is one of the world's leading liquid packaging board manufacturers and a global leader in high-porosity sack paper from primary fibre. In Europe, the Group has a leading position in primary fibre-based kraft paper, fluting and white liner, as well as being a major producer of primary fibre-based cartonboard in the premium segment.

## Moving up the value chain

From our strong position in materials, we want to expand our offering and our networks to cover more stakeholders than packaging manufacturers, such as brand owners. Every part of the business has a sound understanding of how the different materials can be designed and constructed such that packaging is optimised for varying needs. Knowledge of different market conditions and what different players in the value chain require will enable BillerudKorsnäs to fully exploit the growth opportunities in the global market.

## New divisions speed the pace of growth

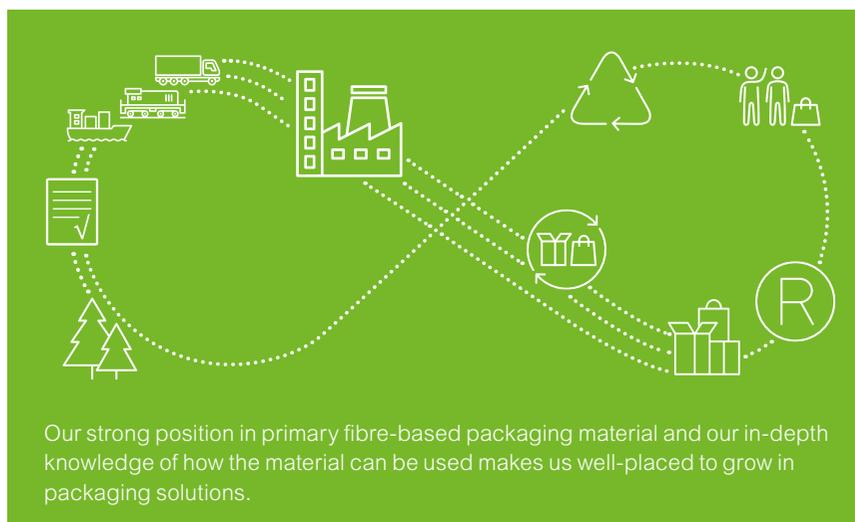
The reorganisation into three divisions with full responsibility for results carried out in 2018 is part of BillerudKorsnäs' gear change to speed up development and move up the value chain. Division Solutions spots opportunities to up the pace in our targeted offerings to stakeholders such as brand owners and retail chains. Read more about Division Solutions and how we work on different types of packaging solutions on pages 20–23.

## High demand for total solutions

In Managed Packaging we offer various types of packaging solutions and services to global brand owners and retail chains with manufacturing in Asia. Managed Packaging's solution-based offering has delivered strong sales growth, 46% in 2017 and 27% in 2018. In new markets, total solutions are often crucial for the introduction of new materials. Managed Packaging's focus is mainly on segments in which BillerudKorsnäs' own primary-fibre based material has the potential to create unique advantages in the long term.

## Geographic expansion

BillerudKorsnäs' products are sold globally via our sales offices in 16 (16) countries. The European market, which is BillerudKorsnäs' largest at 68 (71)% of sales, is stable. Although growth is relatively low compared with Asia, for example, demand for sustainable solutions means there are opportunities to grow by capturing market share in materials and by expanding in solutions.





# Higher pace of innovation for increased customer value

A higher pace of innovation is necessary to meet the demand among customers and consumers for sustainable packaging materials and solutions. Innovative packaging solutions that help to solve global challenges are not just a strategically important question for us but for our whole planet.

We believe that every aspect of packaging can be improved – from protecting and preserving goods to creating exciting, interactive consumer experiences and increasing recycling. Our innovation activity is founded on our ongoing research and development work and the development of completely new business models. Collaboration internally and with other industry actors and partners is vital to successfully driving development work. Resource-efficient and smart packaging solutions that, for example, reduce the amount of food waste, improve the food supply and minimise littering give us the potential to contribute towards a more sustainable world.

### Products with new functionality

BillerudKorsnäs’ product innovation is the result of advanced material development from forest raw material and technological breakthroughs. The key is to make the materials lighter, stronger and stiffer while also improving barrier properties and printability, as well as introducing new functions into the packaging material. The technologies deemed to be strategically important to our growth are new functionalities in packaging surfaces and the structure of the fibre material. BillerudKorsnäs’ tech centres and product development units are sited alongside our biggest production plants. Gruvön, for example, has a development centre with expertise in packaging optimisation, where all the properties of the packaging

can be studied in detail. This is also where our revolutionary formable paper, BillerudKorsnäs FibreForm®, was developed.

In addition to constantly developing materials, we strive to find new areas of use, where our paper can provide an alternative to conventional materials such as plastic and aluminium. Creating a paper-based bottle for carbonated drinks or a commercial paper battery are just some examples of groundbreaking innovations with the potential to transform the market.

Our ambition is now to accelerate our rate of innovation to meet demand with the target of new products making up 15% of our sales by 2023. Read more on pages 46–47.

### Innovative business becoming more important

Alongside our product innovation, which is a natural and important part of our operations, our business innovation is also rapidly growing in importance. Business innovation is about the development of the packaging industry and commercialisation of new offerings hand in hand with implementing the new business models thus generated.

Both business and product innovation are based on a deep understanding of the end user’s needs and wishes and demand a holistic approach to packaging. Structured work on innovation sees us increasing customer value while challenging conventional packaging for a sustainable future.

### BillerudKorsnäs’ innovation process

Running continuous research and development work and planning for new material and product launches within three to five years forms the basis of the company’s innovation work.





# Focus on production stability

High efficiency is vital for us to attain profitable growth. We have put a great deal of investment into increasing production capacity in the past few years. The focus now lies on systematically optimising and improving efficiency so that each machine’s production is as effective as possible.

BillerudKorsnäs has a total production capacity of approximately 3 million tonnes per year. Effectively maximising the capacity of our eight production units is key to delivering quality products to our customers.

### Investments in the future meet demand

Since 2013, in addition to ongoing investments, approximately SEK 15 billion has been invested in our mills. The purpose of these investments is to ensure that we can meet the demands of existing and future customers for sustainable packaging materials and solutions.

During the year we commissioned the largest paper machine in Europe for manufacturing machine glazed paper (MG paper) in Skärblacka. Our investment in a new board machine in Gruvön, which is the biggest investment for the future in the company’s history, is set to start production in March–April 2019. Ensuring start-up in Gruvön is therefore of the highest priority. Read more on pages 13–15.

### Focus on stability

Despite production hitting record levels at several of our existing plants in the past few years, we have not realised our ambitious expectations. Unplanned production shutdowns and

### Production development – five years



start-up problems in conjunction with planned maintenance shutdowns proved troublesome during the year. Production losses due to a shortage of wood were likewise problematic.

All losses in the form of time, speed or quality bring significant costs and, not least, a less than satisfactory experience for our customers. To resolve the problems, we have carried out internal and external activities and analysed our production disruptions in detail. The aim is for all our machines to be run at optimum production speed for as many hours of the day as possible with the highest quality manufacturing.

### Implementation according to plan

The new board machine at Gruvön is planned to be commissioned in March–April 2019 and production will gradually be stepped up until 2023 when it is expected to reach full capacity. Initially liner will be the main product, followed by liquid packaging board and a number of other premium products.



<sup>1</sup> Final inspection March 2019.

**Production Excellence for greater profitability**

Overall Equipment Efficiency (OEE), Percentage points

**Ambitious improved efficiency target**

Our Production Excellence programme is about constantly finding improvements that lead to all machines producing with as high efficiency as possible. We see potential in further intensifying our work on improvements and increasing our Overall Equipment Efficiency (OEE) by four percentage points in the next two years.

**Constant improvement**

All employees who work at our production units have a responsibility to constantly attempt to identify areas that are causing losses, analyse the causes of the losses and find ways of minimising these losses or eliminating them entirely. New technical solutions or improved processes and procedures are examples of actions that can be taken.

Leadership is an important aspect of creating a working environment and culture in which every employee feels safe and where problem-solving within the team fosters engagement. The Group's target of increasing OEE has been broken down by production unit so that each and every employee is able to understand the target and monitor their unit's contribution towards it.

**Improvements that last**

Systematic work based on the company's values, principles, processes and tools is the cornerstone of finding the reason behind every deviation so that it is not repeated. Digitalisation and automation bring opportunities to exploit and use all available data in a smarter way.

Using information technology to produce easily accessible, visual data for use in making decisions by our operators, for

example, is one of the tools that form part of our work on improvements. Improvements can involve optimising regular maintenance, standardising different elements of the production process and increasing the stability of core processes.

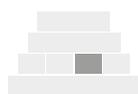
**Resource-efficient production without accidents**

Striving for an entirely accident-free workplace that also has as little impact on the environment as possible, we drive the industry forward and facilitate production stability and growth. We work proactively to minimise accidents and injuries and have stepped up our work to reduce the number of accidents during the year. Read more on pages 41–43.

In terms of the production process, optimising material consumption and reducing waste are examples of two vital aspects that increase profitability while reducing resource consumption and thus our environmental impact and climate footprint. Another important area for minimising our negative environmental impact is energy consumption, where we already use 96.7 (97.2)% biofuel and have a target of being entirely fossil-free. The production of paper, board and pulp is the step in the value chain where the Group's direct impact is greatest of all. Read more on pages 36–40.

**Business-critical efficiency**

Efficiency in sales, services and logistics is another factor that in many cases is business-critical. In the premium segment for cartonboard, for example, where the packaging is a vital component that helps the brand and the product stand out, the customer's need for fast and reliable delivery is a key factor. For BillerudKorsnäs, this presents opportunities for improved profitability and greater volumes, and for optimised deliveries.



## SUSTAINABILITY

# Strategy for driving a faster transition

BillerudKorsnäs' strategic approach to sustainability is crystal clear; our ambition is to drive proactive work on sustainability in every way, increasing our capacity to minimise our negative impact while further maximising our positive impact.

The benefit, and thus the value, of BillerudKorsnäs' products and solutions is rooted in their relationship with the wider world, the customers and their products and businesses. In pace with growing consumer awareness of sustainability issues, it is becoming increasingly business-critical for brand owners to use packaging made from renewable, sustainably-produced, recyclable materials. When our materials and packaging solutions are used to replace less sustainable alternatives on the market, it gives brand owners in the next phase of the supply chain an opportunity to cut their climate footprint while increasing opportunities to attain sustainability targets set.

### Strategic choices to mitigate climate change

In many ways, climate change is the critical issue of our age, and it affects every single one of us. The ambitious climate

targets set by BillerudKorsnäs for 2030 and 2050 as part of Science Based Targets, show what we believe will be demanded of us in order to take our share of responsibility in the transition towards a more bio-based society.

### Consolidating an already leading position on the Dow Jones Sustainability Index

In 2018 BillerudKorsnäs was designated an industry leader in the category Containers & Packaging and is on the Dow Jones Sustainability World Index. The company's climate strategy, customer relations management, logistics chain and our capacity to attract and retain employees are strong contributing factors underlying this superb result and BillerudKorsnäs' placing among the 10% most sustainable companies in the world according to DJSI.

### Three focus areas where we can make a difference

BillerudKorsnäs' sustainability work is focused on three strategically important areas: Increased customer value, Sustainable and bio-based society and Responsible value chain. Each area has associated commitments and targets which seek to either maximise the positive impact of operations or reduce their negative impact.

#### Commitment 3

Improve our customers' business using our knowledge on sustainable packaging solutions, *see page 44.*

#### Commitment 4

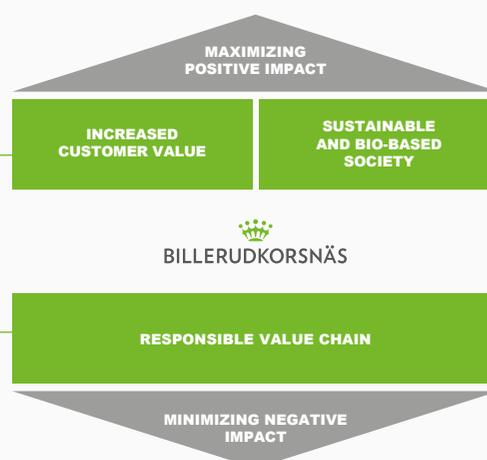
Through innovation expand the market of renewable packaging materials, *see page 46.*

#### Commitment 1

Promote responsibility from raw material supply and production to recycling, *see page 38.*

#### Commitment 2

Provide engaging workplaces where safety, diversity and human rights are a priority, *see page 41.*



#### Commitment 5

Combat climate change throughout the value chain, *see page 48.*

#### Commitment 6

Generate value for society through collaboration, both locally and globally, *see page 50.*

SUSTAINABILITY

# Targets that reflect our high aspirations

BillerudKorsnäs' sustainability work is all about taking responsibility through the entire value chain, creating greater customer value and contributing to the transition to a sustainable and bio-based society. Each of these three areas is coupled with a number of tangible, goal-oriented commitments to effectively drive our work on sustainability.

The three focus areas gather together the most important sustainability aspects that BillerudKorsnäs has to manage, follow up and communicate. Two commitments are linked to each focus area. The commitments include measurable targets in the short and the long term and are important tools in continuing to develop the Group's work on sustainability. This is also an approach that seeks to provide a transparent picture of challenges and opportunities on the way towards a sustainable future. BillerudKorsnäs' performance and target fulfilment are reported in line with established systems and standards. Third party audits are also carried out.

### A summary of target fulfilment in 2018

BillerudKorsnäs both reached and exceeded a number of the targets set for 2018, including the proportion of purchasing value with supplier assessment, the new target for safeguarding biodiversity in the forest, and a continued rise in the number of private forest owners who are certified through BillerudKorsnäs. The percentage of female managers also rose, with the proportion of women generally in the Group increasing slowly but surely. Dedicated work continues to ensure a safe work

### Our work on Agenda 2030

The 17 Sustainable Development Goals adopted by the Member States of the UN in September 2015 guide efforts towards ensuring that global development will be sustainable in the long term. The business community has an important role to play, and the rapidly growing awareness that a switch to more sustainable use of resources is needed makes completely new demands on the packaging industry.



THE GLOBAL GOALS

The goals that BillerudKorsnäs is best placed to influence are SDGs 8, 12, 13, 14 and 15. Our existing goals and activities are also linked to specific sub-goals within these. Read more on pages 38–51 and at [billerudkorsnas.se](http://billerudkorsnas.se)

environment, increase innovation and cut emissions from production and transport. More information about developments over the year can be found on the following pages.

### Science Based Targets – aims for 2030 and 2050

The climate targets set by BillerudKorsnäs linked to the Science Based Targets initiative show how we need to run our operations to prevent global warming of more than 2°C, in line with the 2015 Paris Agreement.

The Science Based Targets initiative is based on a partnership between CDP, the UN Global Compact, the World Resources Institute and the WWF.

#### Science Based Targets

	Outcome 2018	Target 2030	Target 2050
<b>Target scope 1 and 2<sup>1</sup></b>			
Reduction of total greenhouse gas emissions from production and purchased energy, % (base year 2016)	3	59	74
<b>Target scope 3<sup>2</sup></b>			
Reduced emissions of greenhouse gases from sources not owned or controlled by BillerudKorsnäs, % (base year 2016)	25	30	70

<sup>1</sup> Direct emissions from own operations and indirect emissions from purchased energy.

<sup>2</sup> Indirect emissions from purchasing goods and services, such as transport and business travel.



### Acquisition of forest land

A purchase agreement was entered into with Bergvik Skog Öst AB at the end of 2018. The acquisition covers 350 000 hectares of Swedish forest land and helps to safeguard our future wood supply and improve the efficiency of our wood flows.

## Sustainability targets

Area/KPI/Key Figures	Out- come 2016	Out- come 2017	Out- come 2018	Target 2018	Target 2019	Target 2020	Target 2023
<b>RESPONSIBLE VALUE CHAIN</b>							
<b>Commitment 1 – Promote responsibility from raw material supply and production to recycling.</b> <span style="float: right;">See page 38</span>							
<b>Sustainability in the supply chain</b>							
✓ Proportion of purchase value covered by supplier assessment of Purchasing, Supply Chain and Pulp over a three-year cycle, %, base year <sup>1</sup> 2014	60.7	70.2	76.6	72.0	73.0	75.0	80.0
<b>Forestry</b>							
✓ Biodiversity index <sup>2</sup> for nature conservation measures, %, base year <sup>1</sup> 2018	–	–	100	100	100	100	100
✓ No. of group-certified forest owners in BillerudKorsnäs' group certificates for FSC® and PEFC™(n), base year <sup>1</sup> 2013	122	152	175	160	180	200	–
<b>Commitment 2 – Provide engaging workplaces, where safety, diversity and human rights are a priority.</b> <span style="float: right;">See page 41</span>							
<b>Workplace safety</b>							
Accidents resulting in absence per million hours worked, LTIFR <sup>3</sup> , base year <sup>1</sup> 2013	8.1	7.7	7.2	5.8	4.3	3.2	1.5
<b>Gender equality</b>							
✓ Proportion of women in total, %, base year <sup>1</sup> 2013	21.0	22.1	23.1	22.5	24	25 <sup>4</sup>	28
Proportion of female managers, %, base year <sup>1</sup> 2013	21.9	21.1	23	24.5	24	25 <sup>5</sup>	29
<b>INCREASED CUSTOMER VALUE</b>							
<b>Commitment 3 – Improve our customers' business using our knowledge on sustainable packaging solutions.</b> <span style="float: right;">See page 44</span>							
<b>Sustainability as customer value</b>							
Proportion of customers who consider that BillerudKorsnäs' work on sustainability creates value, %, base year <sup>1</sup> 2016	89	89	87	92	92	95	–
<b>Commitment 4 – Through innovation expand the market of renewable packaging materials.</b> <span style="float: right;">See page 46</span>							
<b>High level of innovation for products</b>							
✓ Proportion of sales accounted for by new products, %, base year <sup>1</sup> 2013	13	8	6.3	5	17	–	15
<b>SUSTAINABLE AND BIO-BASED SOCIETY</b>							
<b>Commitment 5 – Combat climate change throughout the value chain.</b> <span style="float: right;">See page 48</span>							
<b>Energy efficiency</b>							
Energy consumption (MWh/tonne product), base year <sup>1</sup> 2013	5.35	5.34	5.26	5.20	5.20	5.10	–
<b>Fossil-free production</b>							
Emissions of fossil CO <sub>2</sub> in the manufacturing process (kg/tonne product), base year <sup>1</sup> 2013	29.2	30.6	38.1	26.0	30.0	25.0	–
✓ Transport of wood raw material and finished products, g CO <sub>2</sub> eq/tonne km, base year <sup>1</sup> 2016	20.1	19.5	11.8	18.6	17.5	17.0	–
<b>Commitment 6 – Generate value for society through collaboration, both locally and globally.</b> <span style="float: right;">See page 50</span>							
<b>Work experience through internships and introduction programmes</b>							
Every year, BillerudKorsnäs offers work placements and careers-focused introduction programmes with the aim of providing work experience, no. of weeks of internships, base year <sup>1</sup> 2014	1 512	1 324	1 070	1 500	1 500	1 500	–

<sup>1</sup> Base year refers to the year in which the target began to be measured.

<sup>2</sup> The biodiversity index is based on how our forest management measures achieved the targets for the most important parameters – nature conservation, burning, deciduous-dominated forests, dead wood, buffer zones, and biotopes and areas requiring special consideration. In-depth information is available on our website.

<sup>3</sup> The business' key figures for accident statistics have been modified to make them better comparable with the sector and other industries.

<sup>4</sup> The target for 2020 has been revised from 23% to 25%. <sup>5</sup> The target for 2020 has been revised from 30% to 25%.

# Responsibility and influence throughout the value chain

Products made from renewable fibre from forest raw material help to reduce fossil dependence and further the transition to a bio-based society.

We work actively to maximise positive and minimise negative impacts along the value chain. Collaboration with business partners and other stakeholders is essential to drive change where it makes the biggest difference.

**Capacity to influence**

● High ● Medium ● Low

**1. Forest raw material ●**

The forest is a resource that meets many needs. Our production units transform about 10 million cubic metres of wood raw material into packaging material every year. Managing the forest affects it in different ways.

**Our impact:**

- Changing the carbon balance. Harvesting increases the breakdown of the biomaterial in the soil, which increases emissions. When new trees start to grow, they bind carbon dioxide in again, plus more besides.
- Taking into account the way the forest is a social and cultural asset as an area for recreation.
- The forest is home to many species of fungi, flora and fauna, some of which are affected positively, others negatively.

**Value creation**

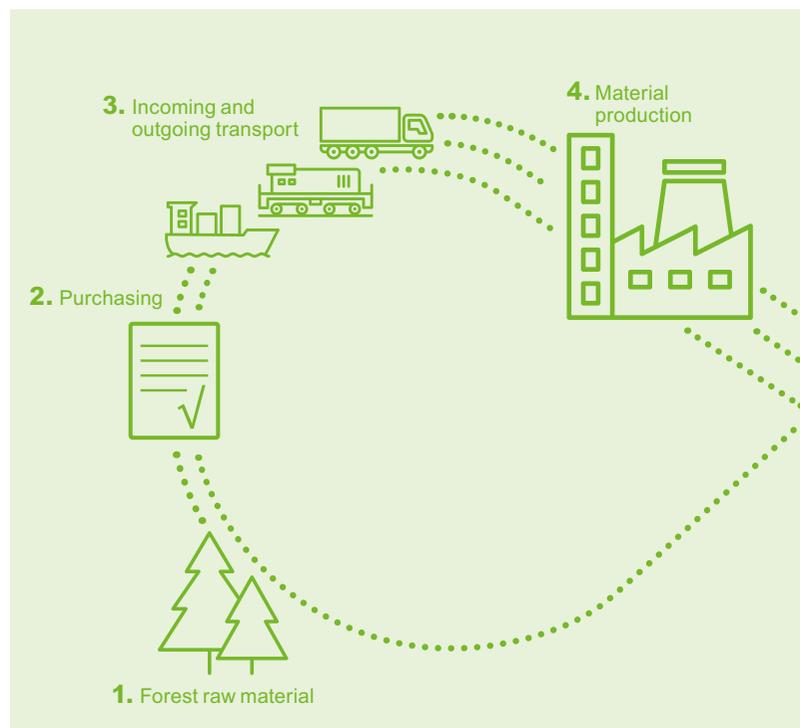
We carry out sustainable forestry taking into account biodiversity and the forest's capacity to bind carbon. We also work actively to increase the proportion of certified privately owned forest in Sweden.

**2. Purchasing ●**

The business purchases raw materials, products, energy and services, mainly in Europe. The general assessment is that our risk exposure is low as the overwhelming majority of the total purchasing volume is in Europe. Three-quarters of wood raw material in Europe is of Swedish origin. Pulp used for production in Finland and the UK is bought in both internally and from external suppliers. There is also purchasing in Asia, for the business segment Managed Packaging (see page 40).

**Our impact:**

- Making high demands of suppliers, planners and timber purchasers.
- Improving the supplier evaluation and follow-up process.
- General transition to fossil-free production.



**Value creation**

We take responsibility for ensuring that the wood raw material we buy in and harvest is produced responsibly. We set strict competence requirements for our planners and timber purchasers to ensure that high conservation values in the forest can be identified and the right environmental conservation action taken. We also buy in electricity with certificates of origin. Billerud-Korsnäs has set ambitious climate targets in line with Science Based Targets which include climate impact from purchased energy, chemicals and other indirect emissions.

**3. Incoming and outgoing transport ●**

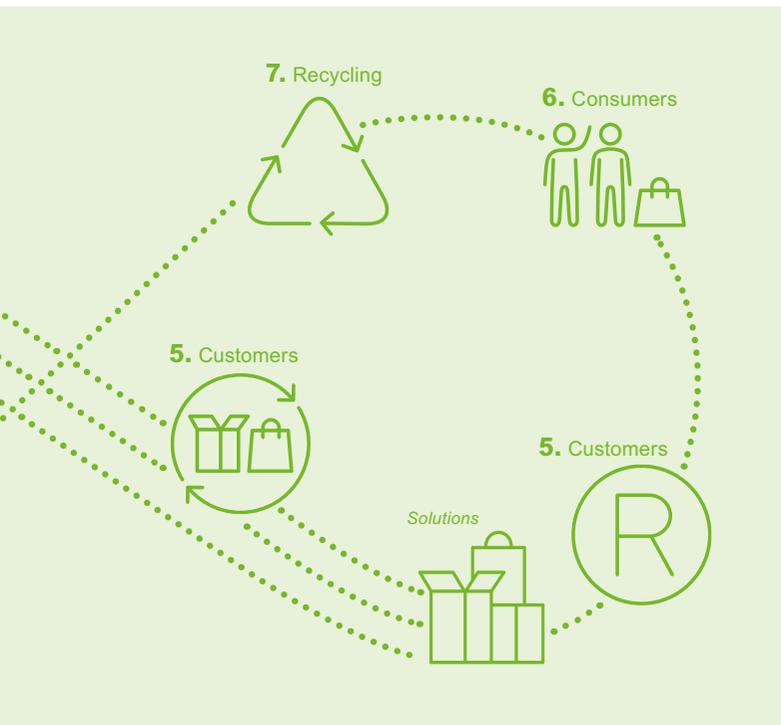
BillerudKorsnäs' transport mainly comprises incoming transport of raw materials to the production units and outgoing transport of products to customers from the production units.

**Our impact:**

- Emissions of greenhouse gases and other substances to air from incoming and outgoing transport.

**Value creation**

The way forward is to work with transporters to phase out fossil fuels, and to secure efficient transport optimisation and logistics that allow active choices of modes of transport in order to gradually increase the proportion of transport by rail and sea. Billerud-Korsnäs has set climate targets in line with Science Based Targets which include reducing emissions from transport.



#### 4. Material production ●

BillerudKorsnäs' production units account for the company's most significant impact from its production of pulp, paper and board.

##### Our impact:

- Direct impact through the production units' emissions to air and water.
- Indirect impact through energy consumption and use of materials, such as chemicals, in production.

##### Value creation

All our production units are quality and environmentally certified in accordance with ISO 90001 and ISO 14001 and our Swedish units are also certified in accordance with ISO 50001. We are working to phase out fossil fuels and work constantly on energy-saving measures and ambitious climate targets. We carry out extensive product development and innovation work to reduce our consumption of resources and our emissions, improve logistics efficiency and encourage recycling.

We offer work placements for students and summer jobs for local young people. The production plants are located in small communities, where we offer high-quality jobs that contribute towards long-term local development.

#### 5. Customers ●

BillerudKorsnäs' customers are in the international packaging market and comprise packaging manufacturers and brand owners.

##### Our impact:

- We offer packaging material and solutions based on fibre from forest raw material, giving customers an opportunity to reduce their climate footprint by replacing material based on fossil plastic, aluminium and glass.

##### Value creation

Our customers mainly operate in consumer markets. Our in-depth insight into consumer attitudes to packaging can help to strengthen relationships. Our responsibility lies in continuing to refine materials and packaging solutions that help the customers' business and reduce their carbon footprint.

#### 6. Consumers ●

Consumers encounter BillerudKorsnäs' packaging material practically everywhere – on the store shelf, in the frozen foods aisle, in the fridge and on the move.

##### Our impact:

- Providing packaging materials and solutions that are renewable, preserve the contents well, reduce waste and enable efficient recycling of the material means consumers can make a greater contribution towards more sustainable development.

##### Value creation

We are constantly honing our skills and innovative capacity to meet the needs and wishes of end users. It is also vital to spread awareness in different geographic markets of the opportunities offered by safe packaging based on primary fibre.

#### 7. Recycling ●

BillerudKorsnäs' products are based on renewable material and, as recycled fibre, become an important element in the manufacture of fluting and liner, for example. Paper fibres can be sent for material recovery five to seven times, after which they can be used for energy recovery. Constant input of primary fibre is therefore necessary in order to keep the recycling loop going.

##### Our impact:

- Enabling the transition to a circular economy based on renewable and recycled raw materials.

##### Value creation

Our responsibility lies in driving the development of recyclable products that can form part of a cost-effective recycling system.

More about targets and development on pages 38–51 and 121–124.

RESPONSIBLE VALUE CHAIN – COMMITMENT 1

# Promote responsibility from raw material supply and production to recycling

**Target 2018**

- Proportion of purchasing value with supplier assessment: 72.0% per three-year cycle.
- Biodiversity index for nature conservation measures (%), base year 2018: 100%.
- Number of private forest owners certified through BillerudKorsnäs: 160.

**Outcome 2018**

- Proportion of purchasing value with supplier assessment: 76.6% per three-year cycle.
- Biodiversity index for nature conservation measures (%): 100%.
- Number of private forest owners certified through BillerudKorsnäs: 175.

remaining wood raw material is imported, mostly from Finland, Norway, Estonia, Latvia and Lithuania.

The need to safeguard long-term and stable access to wood raw material is central to our operations. 2018 was challenging in terms of a lack of wood raw material caused by both strong demand and extreme weather. Ongoing work to secure stable access has therefore been supplemented by a number of additional concrete measures. These include improving information on each production unit's supply of and need for wood raw materials, so as to be able to re-route transport much more efficiently. This year, the company will expand its own team of timber purchasers. The acquisition of Bergvik Skog Öst, which covers approximately 350 000 hectares of forest land, will also be an important element in securing BillerudKorsnäs' long-term access to a competitive and stable flow of timber.

**Initiatives to ensure a safe working environment in the forest**

Health and safety is of the utmost priority at BillerudKorsnäs, and forest harvesting and forest management can involve risk. Therefore, in 2017 a targeted training initiative was carried out for our forest contractors with a focus on health and safety in practice. The training initiative was followed up in our internal audits, which show that awareness of work-related risks has increased, as has preventive work. From 2018 our forest contractors are also obliged to report any accidents and serious near-misses to us as part of our greater focus on health and safety at work. This information is included in our reporting on accidents leading to absence per million hours worked, (LTIFR).

**More and more private forest owners with certified forests**

BillerudKorsnäs buys its wood raw material from forest companies, sawmills and private forest owners. In 2018 we bought

**2030 Agenda**



BillerudKorsnäs takes far-reaching responsibility throughout the value chain – from extraction of raw materials to production and recycling. Working for responsible forest management, sustainable transport solutions and safeguarding processes to evaluate and follow-up the supply chain are vital elements in our commitment.

**Prioritised measures to safeguard a stable supply of raw materials**

BillerudKorsnäs annually buys about 10 million cubic metres of wood raw material for the Swedish production plants. Three-quarters of raw materials are of Swedish origin. The

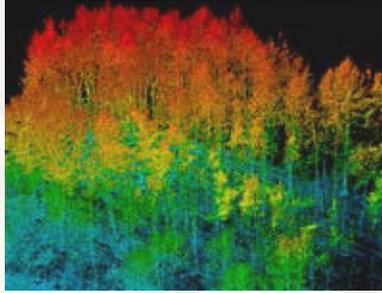
Managed Swedish forest land with areas set aside for biological diversity 2018

Forest owners and timber suppliers	Managed productive area, ha	Productive area voluntarily set aside, ha	Proportion voluntarily set aside out of total productive area, %
Bergvik Skog AB	293 424	25 981	7.6
Private, certified forest owners	76 691	5 379	7.0

Wood supply 2018, %



<sup>1)</sup> Brazil, Russia, Uruguay, Poland, UK, Ireland, Czech Republic, Germany.



### Working together on digital forestry

From 2018, BillerudKorsnäs has been part of a consortium which works with education establishments and research institutes to make Swedish forestry more digital. For the consortium, which comprises several major forest companies, the research programme opens up opportunities to add value from forest to customer. It is hoped that digitalisation will see the forest managed more effectively, with an eye to conservation and the right products, so as to play a part in a carbon-neutral Sweden.



timber from 1 871 forest owners, for example. A training initiative on responsible forestry was run for our own timber purchasers and active efforts to encourage more private forest owners to certify their forest through the company's FSC® and PEFC™ group certification have produced results. The number of private forest owners certified through BillerudKorsnäs totalled 175 by the end of 2018.

### Targets that safeguard biological diversity

With the help of clear targets linked to action plans and follow-ups on these plans, BillerudKorsnäs is closely monitoring its work on preserving biodiversity in the forest. Taking 2018 as the base year, we are reporting on how well we succeed in taking the environment into consideration in our forestry work. The report is summarised as an index based on six

parameters central to the forest's biodiversity: dead wood, burning, deciduous-dominated forests, regard for biotopes requiring special consideration, and buffer zones and forestry measures in designated forests that require some kind of management in order for their natural assets to be preserved.

### Consultation and public opinion on sustainable forestry

Responsible forestry involves conducting an ongoing dialogue with local communities and local residents. A few issues were raised locally during the year. These included poor maintenance or ploughing of roads used by forest vehicles.

In May 2018 a consultation was carried out at Lövstabruk to discuss and listen to the views of local residents in conjunction with planned harvesting in the area.

No forest operations affecting areas important to reindeer grazing were carried out in 2018. This means that no consultation was carried out with reindeer herders this year.

### **Purchasing wood raw material and assessing transporters**

Purchasing wood raw material takes place under the FSC® and PEFC™ Chain of Custody standards, and procedures are in place to check the origin of wood under the standard FSC® Controlled Wood, the clauses on Controlled Sources in PEFC™ Chain of Custody and the EU Timber Regulation (EUTR).

A modified version of the supplier assessment is used for the 22 transporters of wood raw material from the forest to production units. This requires that transporters have safe unloading procedures, and environmental and drug and alcohol policies in place. Opportunities for drug testing were offered via BillerudKorsnäs' programme and since 2017 checks have also been carried out to ensure that transporters have complete insurance cover. All transporters of wood raw material were evaluated at the end of 2018 and no deviations were noted.

### **Result of supplier assessments for the year**

The supplier assessment process is carried out in three-yearly cycles and covers all purchases that the company makes for more than SEK 100 000, excluding purchasing wood raw material (described above) and purchases related to Managed Packaging (described below).

The fundamental requirements that cover our suppliers are compliance with BillerudKorsnäs' Code of Conduct together with international standards, current legislation and regulations. Our membership of the UN's Global Compact sees us commit to the ethical guidelines laid down for companies active in a global world. This ensures that scrutiny and follow-up of suppliers includes the risks of what is termed modern slavery.

In 2018, BillerudKorsnäs assessed a total of 129 suppliers, 26 of them new, with a purchasing value of more than SEK 100 000. This is equivalent to a purchasing value of 76.6% in our three-year cycle.

In no case did assessments show any indications of child labour, forced labour or lack of freedom of association. Nor did the company terminate any supplier agreements as a consequence of this year's supplier assessments.

### **Special focus on audits in the Asian market**

In pace with growing business in Managed Packaging, work has also intensified on developing audit processes and audit implementation. A new system for approving and following up production partners was developed and established during the year. The starting point is not merely to seek improvements and remedy any deficiencies but also to train our partners in management systems and long-term work on improvements. The audits, which are conducted by Billerud-

Korsnäs and independent third parties, take place on site under a standardised process which includes an extensive battery of questions, mainly on social aspects for employees, such as labour law, freedom of association, working hours, pay and safety.

A total of 79 audits were carried out in 2018 across China, India and South-East Asia, 38 of which related to new suppliers. These audits showed no serious breaches (zero tolerance) regarding child labour, forced labour or a lack of freedom of association. However, deficiencies were found regarding documentation of the age of some employees. Poor or inaccurate labelling of emergency exits and a lack of warning signs were also found. A total of 14 suppliers were deemed to have serious health and safety deficiencies and cooperation was only continued if fully satisfactory action was taken. The relationship with three suppliers was terminated due to sufficient action not being taken. Where less serious deficiencies were found or a need for improvement noted, a dialogue on an action plan was entered into with the production partner concerned, with a clear deadline for when the issue needed to be resolved.

### **Investments in improved water quality**

Our production units are constantly working to reduce their environmental impact, e.g. reducing emissions to water. In 2018 the production units in Karlsborg and Frövi invested in disc filters with the aim of improving the water quality of the paper and board machines, reducing the need for chemically treated water and reducing discharge of suspended solids to the external treatment unit of the respective plant. Since 2017, Rockhammar's external treatment plant has been improved thanks to biological treatment measures and improved sludge dewatering capacity.

### **Summary/conclusion**

Clear targets and action plans have enabled us to start following up our work to preserve forest biodiversity, with 2018 as our base year. A number of consultations have been conducted with the general public. A total of 175 private forest owners have certified their forest using the company's FSC® and PEFC™ group certification, exceeding our target (160) for 2018. Audits in the Asian market were stepped up and a total of 79 suppliers were audited, up 126% on the previous year (35).

### **Looking ahead to 2019**

- Safeguard a long-term, stable supply of wood raw material, including expanding our own organisation with new skills and more resources.
- Develop a programme to include environmental criteria in evaluations of wood raw material transporters.
- Make Swedish forestry more digital in partnership with forest companies, education establishments and research institutions.

## RESPONSIBLE VALUE CHAIN – COMMITMENT 2

# Provide engaging workplaces, where safety, diversity and human rights are a priority

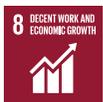
## Target 2018

- Accidents resulting in absence per million hours worked (LTIFR): 5.8.
- Proportion of women in total and female managers: 22.5% and 24.5% respectively.

## Outcome 2018

- Accidents resulting in absence per million hours worked (LTIFR): 7.2.
- Proportion of women in total and female managers: 23.1% and 23% respectively.

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8.5, 8.8

The skills, experience and commitment of employees are key to our ability to achieve our mission. We work together to build a BillerudKorsnäs that is characterised throughout by a safe working environment, good leadership and an ethical business approach. Developing and reinforcing the organisation with new skills is therefore an essential part of our business strategy.

## Sustainable leadership is crucial

Creating good leaders with the energy to drive efforts over time and encourage enthusiasm in their employees is essential to generate profitable growth and ultimately attain our mission. Towards the end of the year the Sustainable Leadership programme began to be rolled out at the BillerudKorsnäs Leadership Academy, geared towards new and more senior managers alike. The programme involves building sustainable leadership with leaders who are secure in their roles and capable of meeting the expectations placed on them in terms of communicating effectively and ensuring a safe working environment.

## Health and safety priority reaches new heights

Developing a safe working environment is top priority for BillerudKorsnäs and work is being driven forward along two parallel tracks. The first is creating an organised system with the help of robust regulations and clear procedures for how different jobs are to be performed. The second is working to develop the attitudes and behaviours needed for all of us to

take responsibility and act so as to guarantee our own safety and that of our colleagues.

From 2018 onwards there has been a Group-wide safety framework, in other words a BillerudKorsnäs health and safety standard. This clearly sets out what each production unit is to attain in terms of safety, procedures for working safely and control and follow-up processes. The next mission for production units is to identify breaches of the standard in order to draw up and implement action plans. The Incident and Injury Free programme continues to form the basis of work on the less tangible issues surrounding attitudes and developing a safety culture, characterised by proactive behaviour that calls out risky behaviours and situations that may arise.

## Goal underlying our high ambitions

To increase comparability with the sector and other industries, the key figure for the business' accident statistics has been modified to measure the number of accidents leading to absence per million hours worked, i.e. lost time injury frequency rate, LTIFR. Looking ahead to 2023, the absolute goal is an LTIFR of a maximum 1.5 per million hours worked. This in turn will require an annual reduction in accidents of at least 25% (base year 2017). The outcome for 2018 is 7.2 LTIFR per million hours worked, which is better than the previous year (7.7) but higher than the target for the year (5.8). A number of programmes were initiated to improve health and safety during the year. These are expected to yield results in the years to come.

By the end of the year, a total of 88.9% of all BillerudKorsnäs employees were covered by some form of formal grouping, such as collaboration councils, safety committees or safety groups.

Contractors are naturally covered by the same rules and procedures to ensure a safe workplace as our own employees. However, at the moment not all contractor accidents leading to absence are included in the LTIFR statistics due to poor quality data.

## Dialogue drives efforts

The employee survey carried out during the spring largely showed stable results. In total, 85% of employees responded to the survey. The results were then broken down to location and team level and will form the starting point for work on the



**Safety top priority**

Developing a safe working environment is of the utmost priority for BillerudKorsnäs. We create a predictable, orderly environment with the help of robust regulations and clear procedures and develop the attitudes and behaviours needed to ensure that all of us take responsibility and guarantee safety.

ground on the areas for improvement identified. Read more about the results on page 28.

In 2018, 75% of employees had at least one performance review with their line manager. The formal discussion was also supplemented by manager-employee check-ins on an ongoing basis to swiftly identify needs for additional support to attain individual targets set.

**Diversity and inclusion boost our competitiveness**

We are convinced that employees of different sexes, ages, backgrounds and experiences bring new perspectives and innovative solutions. During the year, the executive leadership team decided on a new diversity and inclusion action plan, which will run to the end of 2020.

It incorporates a number of activities, including all divisions and Group-wide functions breaking down their diversity

targets and producing their own action plans for attaining greater diversity and inclusion. Diversity workshops for all employees will also be held, starting in 2018. One aim of the workshops is to attain a higher degree of inclusion by thinking about how we communicate and express our values and culture. Diversity is also a permanent item on the agenda at internal management conferences and other internal events, and in recruitment to attain a broader spread when it comes to sex, age, background and previous experience.

**Increase the proportion of women**

A number of different initiatives are needed to solve the problem of under-representation of women, not least on the operational side. BillerudKorsnäs is implementing long-term initiatives that seek to increase interest in technology among young women, which may lead to them applying for degrees and courses relevant to us. Introduce a Girl to Engineering day (IGEday) is an

initiative by and for female engineers and engineering students, and BillerudKorsnäs is its main sponsor. In spring 2018 we invited female students aged 13–19 to visit the Swedish production units for a day of lectures and guided tours. In total about 100 young women took up the opportunity to visit the business. On top of this, BillerudKorsnäs has been actively involved in network meetings for female engineers working in Stockholm and Linköping, which are excellent opportunities to talk about our business and build relationships for the future.

Increasing the proportion of women within the Group also requires initiatives that make a difference here and now. These include our ambition for 50% of our annual summer workers to be women and also for trainee posts to be equally distributed between men and women. 40% of participants in the current Graduate Trainee programme are women. Of the 4 787 applicants for our summer jobs in 2018, 383 were offered work in various parts of the business, of whom 39% were women.

For 2018, the proportion of female employees was 23.1% and the proportion of female managers 23%. This is an increase compared with figures for 2017 and this year's target for the proportion of women in total was met. The target for the proportion of female managers was not attained. We are working further to reach the target by means of short and long-term activities set out in BillerudKorsnäs' diversity and inclusion action plan.

A Group-wide pay survey process was introduced in 2017. In 2018 this did not reveal any unjustified pay differences between women and men for comparable occupational groups. Read more on page 124.

### **Ethical business approach in everything we do**

BillerudKorsnäs has absolute zero tolerance of corruption and behaviours that conflict with applicable regulations under competition legislation. This work is founded on our Code of Conduct and stance against corruption, which is also reiterated in a policy statement that forms part of the new policy framework. Read more about the policies included on page 126. In 2016 BillerudKorsnäs introduced online training as part of efforts to train relevant occupational groups/positions in the company in anti-corruption and competition law. The number of employees who have completed online training in anti-corruption in the past three years is now 770 people in total, 16 of whom did so in 2018. A total of 224 employees completed online training in competition law in the past three years.

### **Pragmatic risk management for establishment in new markets**

As BillerudKorsnäs expands internationally and business grows, primarily in Division Solutions, there is also a growing need for a more robust process to tackle the compliance and sustainability risks that can arise with presence in new, and in some cases complex, markets. Work continued during the year on securely putting in place a process for identifying and tackling corruption risks, for example, in the relationship between BillerudKorsnäs and our business partners, i.e. customers, suppliers and agents.

### **Compliance with legislation and whistleblower system**

No significant fines or other sanctions due to breaches of the law were imposed on the company during 2018. No legal action was taken against the company regarding anti-competitive behaviour, cartels or monopolies. See page 121 to read about the corporate fine due to a major discharge of white liquor in conjunction with the annual maintenance shutdown on Gruvön in spring 2015.

In 2018 six cases were reported to the company's whistleblower system, which was more than in the previous year (one). The cases concerned complaints regarding potential age discrimination, poor conduct/leadership, and working conditions. The cases were judged to be HR issues and were investigated by the company's HR department. In one case the investigation led to a reprimand. Other than this, no case resulted in disciplinary measures. No reports on potential incidents regarding corruption, child labour or slave labour were received during the year, neither through the whistleblower system or through another reporting channel.

An updated version of the whistleblower function was launched in 2018. As in the earlier system, BillerudKorsnäs' "Speak-Up Line" enables suspected serious irregularities to be reported anonymously. One improvement is that the updated channel is now also available to external parties and enables anonymous dialogue between the person reporting and the recipient of the report.

### **Summary/conclusion**

The number of accidents resulting in absence has fallen, but the outcome was higher than the target for the year (5,8). A number of programmes were launched to improve health and safety during the year and these are expected to have an effect in the years to come. The number of female employees in total at BillerudKorsnäs increased, while the number of female managers needs to rise to meet the target. A new diversity and inclusion action plan has been drawn up and contains concrete activities to steer work in the future.

### **Looking ahead to 2019**

- Continued focus on implementing Sustainable Leadership in all relevant processes in parallel with ongoing training initiatives.
- BillerudKorsnäs' standard for a safe working environment will be implemented Group-wide together with follow-up of local action plans.
- Implementing Group-wide risk assessment on corruption and ongoing employee training.
- Establishment and implementation of the Responsible Business Compliance programme.
- Strengthen the process of reporting to the board and Group management on anti-corruption.
- Continued roll-out of diversity workshops set to be completed by 2020.

## INCREASED CUSTOMER VALUE – COMMITMENT 3

# Improve our customers' business using our knowledge on sustainable packaging solutions

## Target 2018

- Proportion of customers who consider that Billerud-Korsnäs' work on sustainability creates added value: 92%.

## Outcome 2018

- Proportion of customers who consider that Billerud-Korsnäs' work on sustainability creates added value: 87%.

## 2030 Agenda



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Based on solid expertise and innovation, BillerudKorsnäs offers packaging materials and solutions that are resource-efficient, reduce waste, improve logistics efficiency and strengthen brands. By challenging conventional packaging we create tangible benefits for our customers and society.

## Time to unleash the potential of our offering

In 2018 and on into 2019 we are working intensively to realise our huge investments and extensive restructuring. The new paper machine (PM10) commissioned in spring 2018, is now making Skärblacka a world-leading centre for the manufacture of machine glazed paper (MG paper). The aim is for PM10 to be running at full speed in 2019 with an annual capacity of 90 000 tonnes MG paper, which in principle will double MG production at Skärblacka to a total of 180 000 tonnes.

Investment in the new board machine (KM7) at Gruvön has become more expensive, partly for technical construction reasons, but is otherwise proceeding to plan with production set to start in spring 2019. The new board machine will be one of the largest machines of its kind in the world. With a view to the premium segment and the major liquid packaging board converters as customers, KM7 is estimated to be capable of producing 550 000 tonnes of paperboard annually for liquid packaging board, cartonboard, food service board and liner.

## Stable production and high product quality for greater customer benefit

In the past few years we have carried out intensive preventive work on safety, high production accessibility and the production of sustainable packaging solutions of the highest quality. When these three aspects interact, they also provide the best conditions for improving the customer's business with a focus on the needs and wishes of end consumers.

Systematic work on improvement sees us calibrating all machines to produce with minimum efficiency losses. As part of Production Excellence, we work proactively to prevent deviations and quality assure products. For our customers, this means that they can always expect the same high product and delivery quality irrespective of the manufacturing production unit.

## Product responsibility follow-up during 2018

Each division is responsible for ensuring that the right product is sold for the intended purpose, while the production units are responsible for product safety in manufacturing. Monitoring of product responsibility in 2018 shows that no breaches of legislation or voluntary codes of practice occurred regarding health and safety, product information and labelling or market communication. No complaints regarding breaches of customer privacy or confidentiality were made and no fines relating to product responsibility were imposed.

## More resources allocated to operational sustainability work

87 (89)% of customers consider that BillerudKorsnäs' work on sustainability creates added value. We also believe that opportunities to further improve work on sustainability will emerge with the new, clearer and more efficient organisation put in place from 1 October 2018. The three divisions will gain more resources and skills, tasked with developing, driving and monitoring operational work on sustainability across the business.



“Constant improvement demands systematic work and the mindset that it is possible to eliminate all losses. It is the employees that have the power to ensure that our machines produce with the best possible efficiency and so create value.”

Ulf Eliasson, Chief Technology Officer

### Life cycle assessments and environmental product declarations show the environmental impact of products

Our work on life cycle assessments (LCA) and environmental product declarations (EPD) provides us with sound information on the environmental impact of products for those that require this. Through these assessments and declarations, we get a solid basis for our ongoing climate work. At the same time, it becomes easier for our customers to assess the performance of our products from an environmental perspective. We have published several assessments and declarations on our webpage. Read more at [www.billerudkorsnas.com/sustainability](http://www.billerudkorsnas.com/sustainability).

#### Summary/conclusion

At the end of the year, additional resources were allocated to the organisation's divisions to improve work on sustainability.

The customer survey carried out showed that BillerudKorsnäs did not attain its target for the proportion of customers who consider that the company's work on sustainability creates value. Part of the explanation may be that the survey covered a much larger number of customers than before.

#### Looking ahead to 2019

- Focus on safeguarding stable production and accessibility, highest product quality and ensuring the success of our investments.
- New life cycle assessments for packaging produced using BillerudKorsnäs' material compared with conventional packaging.

INCREASED CUSTOMER VALUE – COMMITMENT 4

# Through innovation expand the market of renewable packaging materials

**Target 2018**

- Proportion of sales accounted for by new products: 5%.

**Outcome 2018**

- Proportion of sales accounted for by new products: 6.3%.

**2030 Agenda**



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For BillerudKorsnäs, innovation is about creative work to strengthen the role of renewable packaging materials and develop packaging solutions that efficiently meet the challenges of the future. Our goal is to accelerate both the proportion of new products and the development of new business models with the help of innovation.



**Developing functional surfaces**

BillerudKorsnäs tests and develops functional surfaces for existing and new products at our Tech Center Functional Surfaces in Frövi. Printing surfaces, barriers that prevent water, vapour and oxygen from entering the packaging, as well as printed electronics, are examples of surfaces tested and analysed in a laboratory environment.

### **An organisation that effectively reduces time-to-market**

In line with the new organisation, our R&D operations have gained a new structure. Overall, this means that product development is decentralised to the three divisions. Each division is responsible for decisions on investments, development and launch of new products and applications to the market. It is hoped that this will provide a more efficient process for seizing on ideas, taking decisions, carrying out product development and quickly getting it out to market and to the customer.

We also have a more long-term approach, working on research. This firstly takes the form of our two tech centres in Gruvön and Frövi, both with a focus on technology development. Secondly, it involves a number of strategic partnerships with customers and suppliers, which include product and business development.

### **Well equipped to accelerate the level of innovation**

The outcome for proportion of sales accounted for by new products was 6.3% in 2018. This means that we met our target for the year, which was set at a cautious level in view of the necessary efforts to safeguard the implementation of investments and stable production. Realising investments in infrastructure coupled with the organisational change makes us well equipped to take the next step and accelerate our level of innovation. We see good opportunities ahead to reach a level for proportion of sales accounted for by new products of at least 15% a year.

### **Flagship projects**

BillerudKorsnäs is injecting extra resources and money specifically into innovative flagship projects. The aim is to develop packaging that is an alternative to oil, plastic and aluminium. The current flagship project focuses on developing paperboard properties with the help of microfibrillated cellulose (MFC), which is capable of attaining the same strength properties as ordinary paperboard using less material.

The ambition in the coming year is to invest in an additional one or two flagship projects. One strong candidate is a commercial paper battery, which is currently being developed in a research partnership with Uppsala University. The paper battery is a central piece of the jigsaw in work to produce smart packaging which needs small, sustainable power sources, enabling packaging that can be tracked throughout the transport chain using sensors. This includes, for example, packaging that measures temperature or position in real time and provides information on what is happening to an item during transport.

One clear sustainability advantage is that because the battery is based on cellulose from wood fibre, it can also be part of a circular system. The aim is for the paper battery to be recycled along with the paperboard and turned into a new box or paper battery.

### **Investments that challenge and foster growth**

The wholly-owned subsidiary BillerudKorsnäs Venture AB invests money and resources in companies in an early growth phase whose innovative solutions create fertile ground for

growth and exciting new future offerings from BillerudKorsnäs. Today the investment portfolio consists of Hanhaa, Vericool, Kezzler, EcoXpac and Biobag; five companies with great potential to transform and add new value to packaging, so contributing towards profitability, increased sustainability, satisfied customers and end users.

### **Together we do good in broad collaborative projects**

During the year BillerudKorsnäs became a member of FPIInnovation, a Canadian collaborative body with a focus on products from the forest with a broad base in the international arena. BillerudKorsnäs' commitment to the national platform Treesearch for new materials and specialist chemicals from forest raw material remains strong. This is an initiative between industry and universities with financial support from the Knut and Alice Wallenberg Foundation and the Swedish State's research financiers, focused on research and cooperation for a bio-based economy.

Together with industry colleagues, KTH Royal Institute of Technology and Chalmers, BillerudKorsnäs is also active in the pilot study for ForMAX – a new wood research portal – at Max IV in Lund. This is a collaboration run under the Wallenberg Wood Science Center with the aim of generating forest-based products that will suit a bio-based economy. The idea behind ForMAX is for it to be an instrument specially adapted to resolve research questions on biocomposites, nanocellulose, dissolving wood and the pulp process.

Cooperation also continues with the national research institute RISE which, with its broad multi-tech skills base and its test and demonstration environments, forms an important complement to our own research and development.

### **Summary/conclusion**

The proportion of sales accounted for by new products in 2018 was 6.3 %, which means that we attained our target for the year. We are well equipped to accelerate the level of innovation in the years ahead. Innovation work on products and materials continues both at R&D's two technology centres and in broad collaborative projects with industry and academia. In line with the new organisation, R&D operations have gained a new structure that improves the efficiency of the innovation process and reduces the time from product development to market and customer.

### **Looking ahead to 2019**

- Realise and deliver on the opportunities of the new organisation for R&D.
- Invest in one or more additional flagship products.
- Continued intensive collaboration with research institutes and innovation partners to develop climate-smart and recyclable products.

SUSTAINABLE AND BIO-BASED SOCIETY – COMMITMENT 5

# Combat climate change throughout the value chain

## Target 2018

- Emissions of fossil carbon dioxide from fuels in production: 26.0 kg per tonne of product.
- Emissions of greenhouse gases from transport of wood raw material and finished products: 18.6 g per tonne km.
- Energy consumption: 5.20 MWh per tonne of product.

## Outcome 2018

- Emissions of fossil carbon dioxide from fuels in production: 38.1 kg per tonne of product.
- Emissions of greenhouse gases from transport of wood raw material and finished products: 11.8 g per tonne km.
- Energy consumption: 5.26 MWh per tonne of product.

## Cutting greenhouse gases



## Science Based Targets – long-term targets that help to tackle climate change

The climate targets that BillerudKorsnäs decided in 2017, were approved in 2018 by the partner organisation behind Science Based Targets. This year's work has mainly been focused on embedding the targets in the organisation and drawing up action plans that drive work ahead towards, initially, 2030. For an overview of progress, see page 34.

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## Challenging years that demand action and investment

Consumption of fuel in our production amounted to 96.7 % of renewable bioenergy in 2018. Work on phasing out the remaining 3.3% of fossil fuel in the form of natural gas, oil and LPG continues all the time. We can state that the past year has been challenging with production disruptions and periods of a shortage of renewable alternative fuels on the market, which means that fossil fuels have been used as temporary solutions. One effect of

this is overshooting the target for fossil carbon dioxide for 2018. Safeguarding stable and effective production with high security will be the basis for attaining the targets set in the future.

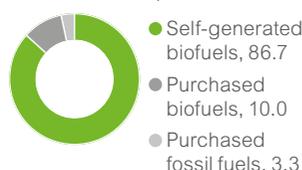
The pilot study carried out, using Skärblacka as an example, aimed to evaluate the fossil-free alternatives that exist and the investments needed to make the transition. This has generated a valuable theoretical picture of how we can progress in work

to reduce our use of fossil fuels. What these measures have in common is that all of them demand investment to various extents. Decisions on investments should be able to be taken in 2019 and thus constitute an important step in attaining our carbon target for 2020.

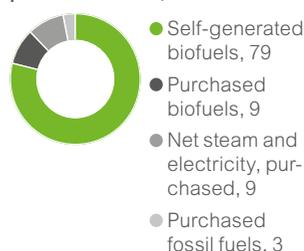
## Identifying climate risks and opportunities

The switch that climate change necessitates presents the business with both risks and opportunities. During the year, BillerudKorsnäs began identifying climate risks and opportunities, with an initial analysis examining a number of external factors, their extent, the likelihood of them occurring and, if they do, how this will affect the business from a Group perspec-

Use of fuel 2018, %



Energy consumption and production 2018, %



Transport to production units 2018, %



Transport from production units 2018, %





#### Optimised investments save energy

One prime example of good effects is the dedicated work carried out at the production unit in Gävle, backed by the investment budget. A focus on making investments where they have the most benefit enabled the production unit to cut its energy use in 2018 such that it is already in line with the local target for 2020.

tive. This in-depth analysis makes it possible to quantify both risks and opportunities in financial terms in a following stage. This work is being conducted in accordance with Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the scenario analyses prepared will provide valuable input into the company's strategic choices of path.

#### Examination of where investments will have the greatest benefit

The business' energy consumption in 2018 was 5.26 MWh per tonne of product, which means that the target was not met. It is central to continued development that the business drives work to examine where investments will have the greatest benefit. The energy survey is an important tool for identifying differences and deviations, so as to subsequently be able to reach informed decisions on which actions will have the greatest impact. To be able to realise these decisions, a significant sum is budgeted for energy investment at Group level. For 2017 and 2018 this amount was SEK 20 million, and the same amount has been set budgeted for 2019.

The energy-saving investments carried out in 2017 have so far led to a reduction in energy consumption of 41 GWh in 2018. Investments approved in 2018 are estimated to be capable of cutting energy use by a further 37 GWh in 2019.

#### More than half of transport by rail

The sustainability strategy for transport and logistics formulated in 2017 clearly sets out ambitions and key figures for follow-up and is the starting point for work to constantly reduce emissions and contribute to the company's climate targets. The long-term target is to cut our emissions from outgoing transport by 3% per year up to 2050, when they are to be down to zero. The 2018 target for emissions of greenhouse gases

from transport of wood raw materials and finished products was 18.6 grams per tonne km and the outcome for the year was 11.8 grams per tonne km, which means that the target was reached. Improvements in emissions from sea transport are a contributory factor.

Every day an average of 108 goods wagons and 118 trucks leave the production units carrying products on their way to customers. In terms of land transport for products from the production units, the ambition is for 75% to go by rail by 2030 at the latest. In 2018, more than half of the transports, 55%, was by rail.

#### Summary/conclusion

The new climate targets approved by the Science Based Targets initiative and the analysis according to TCFD are important in illustrating BillerudKorsnäs' continued commitment to reducing its impact and in analysing the impact climate change may have on the company. A year of disruptions to production and periodic shortages of biofuel meant that the target for fossil carbon dioxide was not met. Energy efficiency improved in comparison with the previous year, and emissions from transport decreased, partly due to lower emissions from maritime transport.

#### Looking ahead to 2019

- Implement measures to attain the target of 25 kg fossil CO<sub>2</sub>/tonne in 2020.
- Intensify work to cut energy consumption and steer investments to where they do the most good.
- Continue the dialogue with transporters to deliver on the sustainability strategy for transport and logistics.

SUSTAINABLE AND BIO-BASED SOCIETY – COMMITMENT 6

# Generate value for society through collaboration, both locally and globally

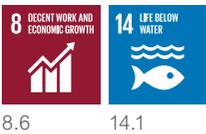
**Target 2018**

- Provide work experience by arranging placements and careers introduction: 1 500 weeks of work experience per year.

**Outcome 2018**

- Provide work experience by arranging placements and careers introduction: 1 070 weeks of work experience.

2030 Agenda



BillerudKorsnäs' business concerns and affects many people, sometimes entire local communities. Our ambition is to contribute to local business, social initiatives and the development of renewable, bio-based packaging materials for a society that is sustainable in the long term.

**Conscious of the role the business plays in the local community**

As one of the largest actors in the Swedish paper industry, BillerudKorsnäs employs 13% of the people who work in the sector. We are the largest private employer in four of the five communities in which the Swedish production plants are located. About 77% of employees also live in the community in which they work.<sup>1</sup> Our position as the dominant private employer in an area gives us a significant indirect impact by creating a market for local goods and services, fundamental social services and investments in infrastructure.

Another aspect is that a number of locations near the production units can use surplus heat from production, provided through co-owned companies or supply agreements. In 2018 the company sold 886 GWh, which would be enough to heat approximately 44 300 homes.

<sup>1</sup>BillerudKorsnäs' social and economic contribution to society, 2016–2017.

**Several routes to jobs in industry**

To further enhance BillerudKorsnäs' reputation as an attractive employer and encourage more candidates onto our trainee programme, the production unit in Gävle took a new approach to recruitment this year. In a careers trainee day, 35 potential candidates had the chance to find out more about the company, health and safety and the trainee programme, so widening our sample of candidates and also the number of potential future employees.



### Good relations with local residents

A number of channels are provided for stakeholders wishing to give their views on our operations, e.g. via the website, direct contact and consultation meetings. All incoming views and opinions are taken on board in internal systems in order to conduct an active dialogue on a situation or relevant measure where appropriate. Over the year, local residents lodged 53 complaints, the majority of which concerned odours. In Gävle a reference panel was launched in 2018 comprising residents local to the factory. The panel is to report on everything that deviates from normal regarding e.g. odours or noise, and thus facilitate work to minimise negative impacts on the local community. Skärblacka has had a similar panel working actively for some time.

### We want to encourage more people to find work

BillerudKorsnäs is involved in a number of projects to create new jobs, including the work experience programmes Tekniksprånget and Jobbsprånget. The former is a trainee programme aimed at young people under 21 years of age, qualified to start an engineering degree, which offers a few months of work experience as an introduction to the engineering role. The latter matches the skills of newly arrived graduates with the needs of employers. In 2018 a total of 111 young people and newly arrived migrants completed work placements, together with 23 students doing their degree projects with us. This amounted to 1 070 weeks of work experience in total.

### Popular trainee places attract high numbers of applicants

In autumn 2018 we started our Group-wide Graduate Trainee programme geared towards new graduates from universities and higher education colleges. Of the approximately 750 graduates who applied, 15 were accepted on this year's trainee programme. The participants, 40% of whom were women, are an important part of BillerudKorsnäs' future skills supply, bringing us new skills and perspectives on the business. The year-long programme is designed to give participants a complete picture of the Group and an understanding of the entire value chain. The 2018 trainee programme is the third since the merger of Billerud and Korsnäs.

Local trainee programmes are run in Gävle and Gruvön with a total of 20 participants. Six months long, the programme is geared towards future operators and includes theory and work experience in the respective production unit.

### Combating plastic in the oceans and greater biological diversity

In the past two years, BillerudKorsnäs' partner Tara Expeditions has sailed across the Atlantic and the Pacific to draw attention to the appalling plastic littering suffered by the world's oceans. In 2018 Tara Expeditions made a number of stops to share their current research, including in Portland and New York in the USA,

where they and BillerudKorsnäs met a number of decision-makers and opinion-formers to discuss the state of the oceans and how consumption of plastics can be swiftly reduced.

BillerudKorsnäs' commitment to the severely endangered white-backed woodpecker takes place via financial support to the Swedish Society for Nature Conservation, which in a dedicated project works on release, feeding and measures to improve habitats in Swedish forests. As part of this project, BillerudKorsnäs also carries out targeted forest conservation measures to improve the habitat of the woodpecker in selected geographical areas.

### Directives that facilitate the transition to a circular economy

The dialogue with decision-makers at European and national level during the year has revolved a great deal around various measures to reduce the impact of plastic products on the environment. These are questions that not only occupy our industry; they are also central for customers and brand owners. They have a continued need for disposable packaging for their products, which must simultaneously meet the regulatory requirements set. A proposed EU ban on certain disposable items made from plastic was negotiated in the autumn, for example, which means that brand owners will need to review their packaging choices.

Additional important issues with which we are engaging are investments in and developing rail and more sustainable transport to drive development in a sustainable direction.

### Summary/conclusion

Direct dialogue with the local community was carried out via a number of different channels throughout the year and resulted in important input which will help us to make further improvements.

Our involvement in the work experience programmes Tekniksprånget and Jobbsprånget saw us continue our work to get more people into the job market. Together with our partner Tara Expeditions, we drew attention to the problem of marine plastic debris and highlighted solutions for rapidly reducing the consumption of plastic.

### Looking ahead to 2019

- Offer work placements and careers introduction in line with established models.
- Continued engagement in partnership with Tara Expeditions to tackle plastic pollution in our oceans.
- Continue to drive a switch to sustainable packaging alternatives to facilitate the transition to a circular economy.

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# Directors' report

The Board and CEO of BillerudKorsnäs AB (publ), corporate identity number 556025-5001, herewith submit the annual report and consolidated annual accounts for the 2018 financial year. Figures for the previous year are stated in brackets, 2018 (2017).

*This English version is a translation of the Swedish original.*

BillerudKorsnäs' EBITDA and operating profit declined in 2018, by SEK 817 million and SEK 811 million or 22% and 36% compared with 2017. The decrease was principally due to increased fibre and chemical costs, a provision of SEK 452 million in the second quarter of 2018 and the effects of wood shortage and higher costs of planned maintenance shutdowns.

## Market

BillerudKorsnäs offers the global packaging market innovative and sustainable products and services. The Group has a leading position in primary fibre-based packaging paper and cartonboard. The packaging market is showing a continued positive long-term trend driven by greater awareness of sustainability, urbanisation and new business models based on digitisation and logistics. We anticipate continued strong demand for our products and expect stable order levels. In addition to packaging materials, BillerudKorsnäs sells surplus long-fibre pulp, Northern Bleached Softwood Kraft (NBSK), which is not used in its own production. BillerudKorsnäs' base is in Europe, but we are continuing to become established in other markets, including in Asia.

During 2018 operations were divided into the three business areas: Packaging Paper, Consumer Board and Corrugated Solutions.

Packaging Paper offers premium-quality kraft and sack paper, plus smart solutions for customers in the industrial, medical equipment and consumer segments. The business area also sells any surplus of pulp that BillerudKorsnäs does not use in its own production.

Consumer Board delivers packaging materials in high-quality board made from primary fibre for beverages, food products and various other consumer goods. Smart solutions in terms of function, design and material selection create added value for customers.

Corrugated Solutions supplies materials to corrugated board manufacturers and packaging solutions to brand owners. The strong and light materials – fluting and liner – are used in corrugated boxes for fragile goods and demanding distribution systems. Smart packaging is delivered via the Managed Packaging concept, which provides supply chain solutions and packaging optimisation for brand owners, with a view to challenging conventional solutions.

## Sales volumes by business area

ktonnes	2018	2017
Packaging Paper	1 050	1 152
Consumer Board	1 084	1 081
Corrugated Solutions	507	542
<b>Total</b>	<b>2 641</b>	<b>2 775</b>

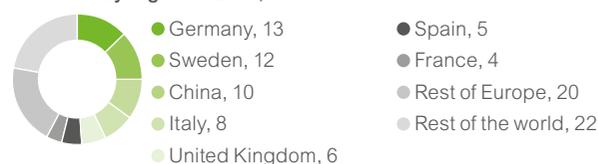
## Net sales 2018, %



## Net sales by business area

SEKm	2018	2017
Packaging Paper	9 256	8 529
Consumer Board	8 453	8 189
Corrugated Solutions	4 251	3 856
Other units	1 941	1 807
Currency hedging, etc.	-209	-36
<b>Total</b>	<b>23 692</b>	<b>22 345</b>

## Net sales by region in 2018, %



## Net sales by region

SEKm	2018	2017
Sweden	2 889	3 128
Germany	3 133	2 900
China	2 473	1 970
Italy	1 990	1 935
United Kingdom	1 329	1 196
Spain	1 158	1 174
France	1 042	1 041
Rest of Europe	4 567	4 568
Rest of the world	5 111	4 433
<b>Total</b>	<b>23 692</b>	<b>22 345</b>

**Financial targets**

To support BillerudKorsnäs' target for profitable growth and return for shareholders, the following financial targets are established:

- Long-term target for growth of 3–4% per year.
- The EBITDA margin should exceed 17%.
- Return on capital employed (ROCE) should exceed 13%.
- Long-term target for interest-bearing net debt in relation to EBITDA should be less than a multiple of 2.5.
- The dividend policy is that the dividend should be 50% of net profit.

**Sales and earnings**

Net sales for 2018 were 6% higher than in the previous year, principally due to higher selling prices in Packaging Paper and Corrugated Solutions, combined with a better sales mix for Packaging Paper and Consumer Board and a positive currency effect. Consumer Board prices in local currency were largely unchanged due to long-term customer contracts.

Sales volumes fell by 5% despite good market conditions in all segments. The decrease was principally due to stock build-up to ensure a stable supply situation, as well as the weather-related shortage of wood. Sales volumes for Consumer Board were in line with the previous year. Around 33% of combined sales volume in 2018 took place outside Europe, representing a small rise compared with 2017.

EBITDA declined by SEK 817 million, after increases in fibre and chemical costs, a provision of SEK 452 million in the second quarter of 2018, the effects of wood shortage and higher costs of planned maintenance shutdowns. Adjusted EBITDA fell by SEK 374 million compared with the previous year, from SEK 3 850 million to SEK 3 476 million.

Net financial items totalled SEK –89 million (–138). Profit before tax was SEK 1 341 million (2 103) and estimated tax was SEK –304 million (–465). Net profit totalled SEK 1 037 million (1 638).

Return on equity for the period was 7% (12) and return on capital employed was 7% (12). Return on capital employed adjusted for items affecting comparability (Note 6) which had an impact on operating profit of SEK 591 (150) million was 9% (13). A dividend of SEK 4.30 per share is proposed (4.30).

**EBITDA and EBITDA %**



**Summary**

	2018	2017
Net sales, SEKm	23 692	22 345
Operating profit before depreciation/amortisation (EBITDA), SEKm	2 943	3 760
Gross margin (EBITDA), %	12	17
Operating profit/loss, SEKm	1 430	2 241
Operating margin, %	6	10
Return on capital employed, %	7	12
Profit/loss before tax, SEKm	1 341	2 103
Net profit/loss, SEKm	1 037	1 638
Earnings per share, SEK	5.01	7.91

**EBITDA<sup>1</sup> split by business area in 2018, %**



**EBITDA-margin by business area**

	2018		2017	
	SEKm	%	SEKm	%
Packaging Paper	1 667	18	1 499	18
Consumer Board	1 363	16	1 767	22
Corrugated Solutions	874	21	834	22
Other	–751		–303	
Currency hedging, etc.	–210		–37	
<b>Total</b>	<b>2 943</b>	<b>12</b>	<b>3 760</b>	<b>17</b>

For quarterly data, see pages 130-131.

**Operating segments**

BillerudKorsnäs' operating segments in accordance with IFRS 8 have been identified and reflect its three business areas: Packaging Paper, Consumer Board and Corrugated Solutions. See 'Significant accounting policies' from page 90. With effect from 2019, the business areas are replaced by three divisions, which will become BillerudKorsnäs' new operating segments.

**Packaging Paper**

Packaging Paper offers kraft and sack paper of premium quality plus smart solutions for customers with exacting demands in the industrial, medical equipment and consumer sectors. The business area also sells any surplus of pulp that BillerudKorsnäs does not use in its own production. The business area's largest markets are in Europe and Asia.

**EBITDA and EBITDA %**

**Packaging Paper**

SEKm	2018	2017
Net sales	9 256	8 529
Operating expenses, net	-7 589	-7 030
<b>EBITDA</b>	<b>1 667</b>	<b>1 499</b>
EBITDA, %	18%	18%
Depreciation, amortisation and impairment losses	-480	-464
<b>Operating profit/loss</b>	<b>1 187</b>	<b>1 035</b>
Operating margin	13%	12%
<b>Sales volumes, ktonnes</b>	<b>1 050</b>	<b>1 152</b>

**Profit trend**

EBITDA increased by SEK 168 million to SEK 1 667 million, and operating profit increased by SEK 152 million to SEK 1 187 million, representing an increase of 11% and 15%. The increase was primarily due to strong demand for sack and kraft paper, higher prices, a better sales mix and favourable currency effects. Sales volumes were lower than in the previous year due to problems with wood supply during the first half of the year and lower allocation of volumes in Gruvön during the second half of the year. Prices for packaging paper in local currency rose sharply during the year. Prices in local currency for market pulp rose during the year to USD 1 200 per tonne at year-end.

**Market trend**

Order levels and the demand for both sack and kraft paper were strong throughout the year.

The market for NBSK pulp was stable over the year, with a rising price level in Europe at the end of the year.

**Key events in 2018**
*Investment programme for efficiency*

The investment in Skärblacka with the aim of making Skärblacka a world-leading centre for manufacturing of white machine glazed kraft paper (MG paper) progressed according to plan. Start-up of the machine relocated from Tervasaari, Skärblacka PM10, took place during the first quarter of 2018. The Skärblacka PM10 machine is one of the largest MG paper machines in the world and is fully integrated with pulp production, providing a very competitive position in the market for white MG paper. Surface treatment capacity on Skärblacka PM7 will enable additional functionality that can be used in the areas of food packaging, medical packaging and release liners.

*Relocation of products*

The decision to restructure and invest in a new board machine in Gruvön and close MF and MG machines at the same time means that products from Gruvön are being relocated to Skärblacka and Pietarsaari. Qualification of products and relocation of the products were carried out successfully during the year.

*Launch of products*

Introduction of BillerudKorsnäs' Axello Swan to the Kenyan market in particular with improved strength and a new launch of BillerudKorsnäs' D-Sack concept, where the sack disappears in the cement mixer were the main product launches carried out during the year.

**Consumer Board**

Consumer Board delivers packaging materials in high-quality board made from primary fibre for beverages, food products and various other consumer goods. Smart solutions in terms of function, design and material selection create added value for customers.

**EBITDA and EBITDA %**

**Consumer Board**

SEKm	2018	2017
Net sales	8 453	8 189
Operating expenses, net	-7 090	-6 422
<b>EBITDA</b>	<b>1 363</b>	<b>1 767</b>
EBITDA, %	16%	22%
Depreciation, amortisation and impairment losses	-765	-784
<b>Operating profit/loss</b>	<b>598</b>	<b>983</b>
Operating margin	7%	12%
<b>Sales volumes, ktonnes</b>	<b>1 084</b>	<b>1 081</b>

**Profit trend**

Compared with the full year 2017, net sales rose by 3%. The rise is principally due to a more favourable product mix and positive currency effects.

EBITDA fell by 23% compared with the full year 2017. The decrease is principally due to increased costs of raw materials due to higher cost of wood, a higher price for externally purchased pulp and higher prices for chemicals.

**Market trend**

Market conditions for our products are expected to continue to be good, with normal seasonal variations. The long-term contracts with our major customers in liquid packaging board have been renewed, which will have a positive impact on margins.

**Key events in 2018**

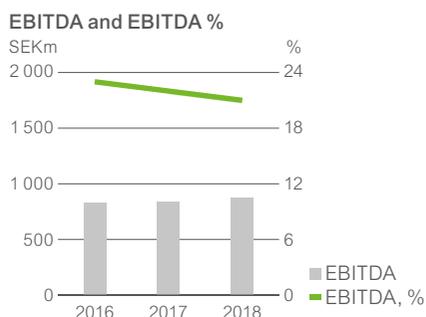
*Next generation*

A decision made at the end of 2016 on an investment programme totalling SEK 5.7 billion to meet the increasing demand for liquid packaging board and cartonboard. The investment is now expected to amount to SEK 7.6 billion. The investment will result in the construction of a new board machine at the Gruvön production plant and in refits at existing pulp mills. The board machine will have an annual capacity of 550 000 tonnes of board, making it one of the largest of its type in the world. The machine will produce liquid packaging board, cartonboard, food service board and liner. Work on the investment was under way during the year and it is estimated that the machine will start operating in March/April 2019.

Efforts to improve production stability continued in 2018, and production was more stable during the year than it had been previously. The production units in both Gävle and Frövi broke several production records during the year, in both monthly and annual terms.

**Corrugated Solutions**

Corrugated Solutions supplies materials to corrugated board manufacturers and packaging solutions to brand owners. Strong and light materials, fluting and liner, are used in corrugated boxes for fragile goods and demanding distribution systems. Smart packaging is delivered via the Managed Packaging concept, which provides supply-chain solutions and packaging optimisation, with a view to challenging conventional solutions.



**Corrugated Solutions**

SEKm	2018	2017
Net sales	4 251	3 856
Operating expenses, net	-3 377	-3 022
<b>EBITDA</b>	<b>874</b>	<b>834</b>
EBITDA, %	21%	22%
Depreciation, amortisation and impairment losses	-180	-178
<b>Operating profit/loss</b>	<b>694</b>	<b>656</b>
Operating margin	16%	17%
<b>Sales volumes, ktonnes</b>	<b>507</b>	<b>542</b>

**Profit trend**

Net sales for the full year 2018 were 10% higher than in 2017 owing to increased Managed Packaging sales, improved prices in local currency for fluting and liner and favourable exchange rates.

EBITDA rose by SEK 40 million, and operating profit rose by SEK 38 million compared with the previous year, corresponding to an increase of 5% and 6% respectively. The improvement is primarily due to improved pricing and positive currency effects, as well as improved profit in Managed Packaging. Higher variable costs, principally for wood and chemicals, as well as increased fixed costs, limited the improvement in profit.

**Market trend**

The year began strongly with price rises for both fluting and liner, driven by high demand in the European market. The market stabilised somewhat towards the end of the year, principally in recovered fibre-based segments, while demand for Billerud-Korsnäs' niche products such as primary fibre-based fluting and white kraftliner remained high.

**Key events in 2018**

*Continued work on stabilisation of production volumes and value-based sale*

Work on achieving the desired production capacity for fluting in Gruvön in particular continued during the year. This was despite the fact that we had a number of disruptions during the year with an adverse impact on production outturn, resulting in a lower volume of production than in 2017. The shortage of wood at the start of the year in particular is part of the explanation for lower production than expected.

Work on value-based sale of material continued during the year and, together with a strong market, contributed to higher average prices during the second half of 2018, offsetting the adverse effect of disruptions to production and rising costs of raw materials.

Thorough efforts to prepare the launch of a new White Top Kraftliner grade 2019 were initiated during the year, and the Pure Liners product family was created. BillerudFlute and its unique material properties continued to be an important success factor for value-adding packaging solutions in Managed Packaging.

*Optimal packaging solutions for brand owners*

BillerudKorsnäs Managed Packaging, whose business model is based on adding value through integrated solutions, continuously analyses opportunities to optimise packaging for brand owners who have outsourced their production to Asia. An example from 2018 is optimisation of a packaging programme for Hewlett Packard in China. Managed Packaging adds value by offering a solution with lower weight per box, saving resources in air freight to Europe and the United States. Another example is an optimisation programme for an American supplier of barbecues. This unique solution replaces polystyrene as a shock absorber in packaging with unique solutions of corrugated board. The business expanded sharply during the year in its six core markets in Asia, China and Vietnam being the two largest. Stable supply of packaging solutions in Asia has been established.

**Safety and production stability**

Work on safety and production stability was stepped up during the year, and long-term objectives have been set. The objective for safety is LTIFR < 1.5 in 2023 and for production stability is an improvement of +4% in OEE in 2020. In the area of safety, an audit was performed in 2018 that will provide the basis for future

improvement efforts. In production stability, extensive work has been done to establish a structure (= PEX, Production Excellence) for future systematic improvement efforts.

### Growth

Growth, which is measured as the increase in net sales adjusted for additions and deductions with amounts corresponding to the net sales of acquired and divested operations, was 6% in 2018.

SEKm	2018	2017
Net sales	23 692	22 345
Nine AB	–	–14
SIA Freja	–	–1
<b>Net sales for comparable units</b>	<b>23 692</b>	<b>22 330</b>

### Investments and capital employed

Gross investments in 2018 totalled SEK 5 142 million (4 261).

The focus in 2018 was on completing and starting up the investments in Skärblacka and designing, building and installing the new board machine in Gruvön (KM7). With these investments in place, the company is starting implement the highly intensive investment programme of around SEK 9 billion to streamline and lift the Group's plant structure, which means that production of high-quality packaging paper and cartonboard grades can increase.

The MG machine relocated from Tervasaari in Finland to Skärblacka was started according to plan in April and its production capacity as gradually increased in 2018. The new surface treatment equipment, which was installed on an existing MG machine, makes it possible to produce more advanced coated MG products.

In 2018 the company announced that the cost of investment for the new board machine in Gruvön is estimated at SEK 7.6 billion. The cost increase is principally due to higher costs of the building contract. It is anticipated that the board machine will start up according to plan in March/April 2019.

BillerudKorsnäs' capital employed at 31 December 2018 totalled SEK 23 687 million (19 548). Return on capital employed (ROCE), calculated over the past 12-month period, was 7% (12). Return on equity was 7% (12). ROCE calculated using adjusted operating profit amounted to 9% (13).

Working capital in the fourth quarter was 9% (9) in relation to net sales.

### Gross investments and depreciation/amortisation



### Cash flow and financial position

#### Summary Cash Flow Statement

SEKm	2018	2017
Operating surplus, etc.	3 219	3 650
Change in working capital, etc.	–267	242
Net financial items, taxes, etc.	–450	–576
<b>Cash flow from operating activities</b>	<b>2 502</b>	<b>3 316</b>
Current net investments	–5 135	–4 259
<b>Operating cash flow</b>	<b>–2 633</b>	<b>–943</b>

Cash flow from operating activities in 2018 totalled SEK 2 502 million (3 316) and operating cash flow was SEK -2 633 million (-943). The decrease was mainly due to the level of investment increasing as a result of investment at Gruvön.

Net interest-bearing debt at 31 December 2018 was SEK 9 333 million (5 737). The ratio of Group net interest-bearing debt to EBITDA at the end of the period was 3.17 (1.53). If adjusted EBITDA were used in the calculation, the ratio would be 2.68 (1.49). BillerudKorsnäs' long-term financial target for its net debt/EBITDA ratio is that it should be less than 2.50.

### Financing

At 31 December 2018, interest-bearing loans totalled SEK 9 024 million (5 137). Of the interest-bearing loans, bond loans totalled SEK 4 700 million (3 500), commercial papers SEK 1 600 (0) and other interest-bearing debts SEK 2 724 million (1 637). Of the bond loans, SEK 400 million is due in 2020, SEK 800 million in 2021, SEK 1 700 million in 2022 and SEK 1 800 million in 2023.

The syndicated credit facility with a maximum limit of SEK 5 500 million falling due in 2023 was unused at year-end.

### Capital Structure, Summary

31 December	2018	2017
Capital employed, SEKm	23 687	19 548
<b>Financing:</b>		
Interest-bearing net debt, SEKm	9 333	5 737
Interest-bearing net debt/EBITDA, multiple	3.17	1.53
Equity, SEKm	14 355	13 811
Net debt/equity ratio, multiple	0.65	0.42

### Currency hedging

The currency hedging policy is to hedge 0–80% of net flows over the next 15 months. Any deviations from the policy must be approved by the Board of Directors. During the year, the Board of Directors of BillerudKorsnäs approved a hedging horizon for EUR/SEK of May 2020.

Currency hedging had a combined earnings impact of SEK -323 million (4) for 2018 (compared with if no hedging had taken place).

BillerudKorsnäs' outstanding foreign exchange contracts at 31 December 2018 had a market value of SEK -71 million, of which SEK -44 million is the portion of the contracts corresponding to accounts receivable that has affected earnings. Other contracts had a market value of SEK -27 million.

The hedged proportion of currency flows and the SEK exchange rates for EUR, USD and GBP at 31 December 2018 are shown in the table below.

**Hedged proportions of currency flows for EUR, USD and GBP and exchange rates against SEK<sup>1</sup>**

Currency	Q1 -19	Q2 -19	Q3 -19	Q4 -19	Q1 -20	Total 15 months	Q2 -20
EUR							
Proportion of net flow	81%	80%	79%	81%	79%	80%	53%
Exchange rate	9.63	9.90	10.36	10.35	10.38	10.14	10.38
USD							
Proportion of net flow	64%	65%	64%	65%	–	51%	–
Exchange rate	8.58	8.64	8.78	8.75	–	8.69	–
GBP							
Proportion of net flow	14%	–	–	–	–	3%	–
Exchange rate	11.47	–	–	–	–	11.47	–
Market value of currency contracts <sup>1</sup>	-55	-34	3	4	7	-75	4

<sup>1</sup> At 31 December 2018.

**Tax situation**

BillerudKorsnäs' effective tax rate is estimated normally at 21–23%. The tax expense for 2018 was SEK 304 million, equivalent to a tax rate of 23%. The tax expense for 2017 was SEK 465 million, equivalent to 22%.

SEK 79 million of the total tax expense for 2018 relates to Italian tax attributable to previous years (2011-2016). The increase in expense for the Group was offset by positive effects of revaluation of deferred tax, principally attributable to the lowered rate of tax in Sweden. The rate of tax in Sweden is 22% and will be lowered to 21.4% in 2019 and to 20.6% in 2021.

**Environmental and permit issues**

BillerudKorsnäs has six production units in Sweden, one in Finland and one in the UK that require permits under environmental legislation. These permits apply to the production of pulp and paper. BillerudKorsnäs has all the official permits necessary to conduct operations at the volumes produced in 2018. The environmental impact of operations is mainly in the form of emissions to air and water and the creation of waste and noise.

BillerudKorsnäs' Swedish production units have been awarded emission rights for carbon dioxide within the EU. The allocation for the eight-year period that began in 2013 exceeds total projected emissions.

Under Chapter 6 Section 11 of the Annual Accounts Act, BillerudKorsnäs AB (publ) has chosen to prepare the statutory sustain-

ability report as a separate report from the annual accounts on pages 6-9, 27-51, 74-79, 121-127 and a GRI index available at <https://www.billerudkorsnas.com/sustainability>. The report has been prepared in accordance with the Global Reporting Initiative (GRI) guidelines for sustainability reporting, GRI Standard.

**Product and process development**

The costs of product and process development, to the extent attributable to research activities, are charged to profit in the year that they arise. In the past year, such costs accounted for approximately 0.5% (0.6) of BillerudKorsnäs' operating costs.

**Seasonal effects**

BillerudKorsnäs' business is to a relatively limited extent subject to seasonal fluctuations. Periodical maintenance shutdowns have the largest impact, as each production unit stops production for around one week. The loss of production results in somewhat lower deliveries over an extended period before, during and after the shutdown. BillerudKorsnäs' costs are relatively stable throughout the year. Fixed costs are slightly lower in the summer, however, due to fewer maintenance projects and holidays. Energy costs are slightly higher in the winter because of higher energy consumption and normally higher energy prices, especially for electricity.

**Maintenance shutdowns**

In addition to ongoing maintenance during production, BillerudKorsnäs' production units normally also require more extensive maintenance at some point during the year. In order to carry out maintenance, production of pulp and paper is stopped. The principal cost items in a maintenance shutdown are loss of volumes arising from the shutdown and fixed costs, mainly maintenance and overtime costs, as well as a certain portion of variable costs including higher consumption of electricity and wood when production is restarted. The effects of shutdowns on earnings vary depending on the extent of measures carried out, their nature and the actual length of the shutdown. The estimated cost of shutdown is an assessment of the impact on earnings of a normal shutdown, compared to a quarter during which no periodic maintenance shutdown takes place.

**Other seasonal effects**

A considerable share of volumes for BillerudKorsnäs Flute® are used for packaging for exporting fruit from the Mediterranean area. Demand by this group of customers varies with the fruit export season and is usually highest in September–March.

A considerable share of BillerudKorsnäs' sack paper and Quick-Fill® sack paper goes to packaging for cement and building

**Maintenance shutdowns**

Production unit	Shutdown cost in 2018	Estimated shutdown cost	Estimated distribution of shutdown cost by business area			Planned times for maintenance shutdowns		
	SEKm	SEKm	Packaging Paper	Consumer Board	Corrugated Solutions	2019	2018	2017
Gävle	159	~ 150	~ 5%	~ 80%	~ 15%	Q2	Q3	Q3
Gruvön <sup>1</sup>	250	~ 140	~ 40%	~ 10%	~ 50%	Q3	Q2	Q2
Frövi	117	~ 110	–	100%	–	Q4	Q4	Q4
Skärblacka	151	~ 150	~ 85%	–	~ 15%	Q2	Q2	Q2
Karlsborg	49	~ 55	100%	–	–	Q3	Q3	Q3
Pietarsaari	14	~ 15	100%	–	–	–	Q4	Q2
Rockhammar	17	~ 15	–	100%	–	Q4	Q4	Q4
<b>Total</b>	<b>757</b>	<b>~ 635</b>						

Maintenance shutdowns at Beetham have an insignificant effect on BillerudKorsnäs' total earnings.

<sup>1</sup> In addition to the planned maintenance shutdown in 2018, Gruvön had an extended maintenance shutdown for refits linked to the new board machine KM7 at a cost of SEK 75 million.

materials. The demand for building materials in Europe is generally higher in May–October.

### Share structure

At 31 December 2018, share capital totalled SEK 1 537 642 792, represented by 208 219 834 shares. The number of shares on the market totalled 206 700 643.

At 31 December 2018, BillerudKorsnäs' holdings of treasury shares totalled 1 519 191, representing an increase of 256 025 shares compared with 31 December 2017. These bought-back shares are held as security for conditional rights in the long-term incentive programme.

A total of 335 000 shares were repurchased in 2018. A total of 78 975 shares were allocated under the long-term incentive programme in 2017.

### Distribution of shares

31 December	2018
Registered number of shares at start of year	208 219 834
Repurchased shares in Company treasury	-1 519 191
Shares on the market	206 700 643

### BillerudKorsnäs shares

The share capital of BillerudKorsnäs AB is represented by 208 219 834 ordinary shares, of which 1 519 191 are owned by BillerudKorsnäs AB. Each share carries an entitlement to one vote at the AGM. Transfer of shares is not restricted by law or by the Company's articles of association.

The largest shareholder, Frapag Beteiligungsholding AG, owned 31 300 000 shares, corresponding to 15.1% of shares in the market. No other shareholder owned 10% or more of the total number of shares at 31 December 2018. The Company knows of no agreements between shareholders that may restrict the right to transfer shares. Appointment and dismissal of Board members, and changes to the articles of association, are subject to approval by the AGM. Agreements between the Company and other employees that regulate their own resignation or dismissal by the Company conform with normal labour market practice.

### Parent company

The parent company BillerudKorsnäs includes the head office and support functions.

Operating profit for 2018 was SEK -458 million, compared with SEK -121 million for 2017. The decrease was mainly due to the negative impact from hedging contracts and revaluations of trade receivables.

The parent company hedges both its own and the Group's net currency flows. The parent company's earnings include the results of these hedging measures. These earnings were SEK -323 million (4) in 2018.

The parent company is responsible for the Group's financing issues, and most of the Group's external interest-bearing debt is raised by the parent company.

The average number of employees was 115 (107). Cash and bank balances, and short-term investments totalled SEK 292 million (18).

### Risk management in parent company

For a description of the Group's risk management, see the 'Risk management and sensitivity analysis' section. The description applies, where appropriate, to both the Group and parent company. Specific differences concerning the parent company are commented on under this heading.

For an understanding of the risk exposure in the parent company, the following should be taken into account:

#### Customer credit

The parent company's accounts receivable represent more than 80% of the Group's accounts receivable, because a large share of the production units accounts receivable are taken over by the parent company after invoicing and are collected by the parent company. However, the risk of any bad debt losses remains with the invoicing company. Of total provision within the Group for doubtful accounts receivable in 2018, SEK 0 million (0) was attributable to the parent company.

#### Exchange rate exposure

All forward foreign exchange contracts for the Swedish operations are taken out by the parent company, while the exposure to payment flows in foreign currency is borne by all the Swedish, Finnish and British production units. Exposure for the parent company is thus lower than that of the forward contracts signed. This applies up to the invoicing date, because the parent company takes over the accounts receivable for the Swedish, Finnish and British production units. At year-end 2018, foreign exchange contracts not yet recognised in profit/loss for the parent company nominally totalled SEK 4 881 million (4 422), of which SEK 3 978 million will be recognised in profit/loss in 2019 and SEK 903 million in 2020.

#### Interest rate risk

The Group's borrowing is conducted primarily via the parent company and accounted for 95% (90%) of the Group's total borrowing at 31 December 2018. As a result, the parent company has largely the same exposure to changes in interest rates as the Group.

#### Proposed allocation of profit

As shown in Note 19, non-restricted equity in the parent company, BillerudKorsnäs AB, totalled SEK 5 570 million at 31 December 2018.

BillerudKorsnäs' financial targets state that dividend is to be 50% of net profit and that the long term ratio of interest-bearing net debt to EBITDA is to be less than 2.5. Group interest-bearing net debt in relation to EBITDA at the end of 2018 was 3.17 (1.53) times. Interest bearing net debt in relation to adjusted EBITDA was 2.68 (1.49). BillerudKorsnäs' Board of Directors proposes that, of the earnings per share of SEK 5.01, SEK 4.30 per share be paid to shareholders and that the remaining amount be carried forward. The proposal corresponds to approximately 86% of the Group's net profit, and 59% after considering items affecting comparability comparability (Note 6).

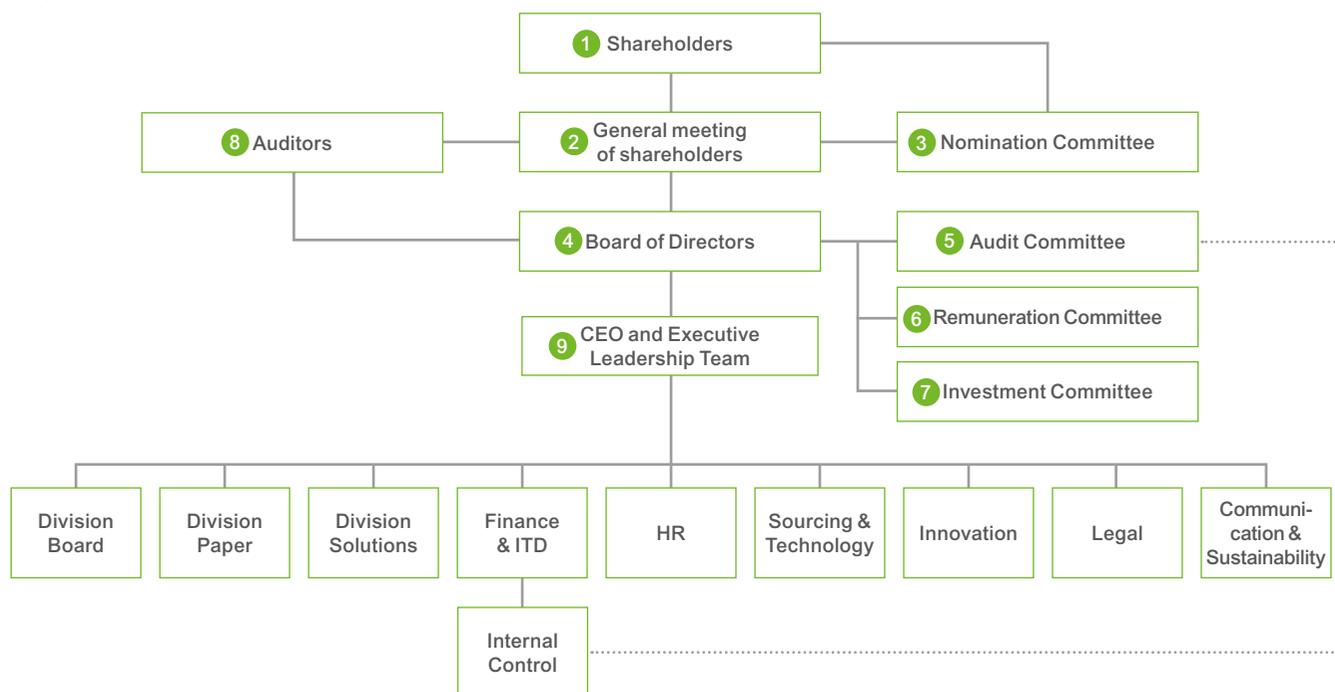
#### Events after the close of the financial year

See Note 29 for Events after the close of the financial year.

## Corporate governance in BillerudKorsnäs

Corporate governance relates to decision-making systems by which the shareholders, directly or indirectly, control the company. The following section provides details about corporate governance within BillerudKorsnäs. This report on BillerudKorsnäs' corporate governance in 2018 has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance. The report has been reviewed by BillerudKorsnäs' auditor, see pages 118-120.

### Organisation from 1 October 2018



#### Corporate governance in BillerudKorsnäs

Examples of external regulations affecting BillerudKorsnäs' governance:

- The Swedish Companies Act
- Accounting legislation, including the Swedish Annual Accounts Act and IFRS
- Nasdaq Stockholm's Rulebook for Issuers
- The Swedish Code of Corporate Governance

Examples of internal regulations affecting BillerudKorsnäs' governance:

- Articles of association
- Board of Directors' instructions and rules of procedure
- BillerudKorsnäs' Code of Conduct
- BillerudKorsnäs' internal governing documents

As a publicly traded Swedish company listed on Nasdaq Stockholm, BillerudKorsnäs applies the Swedish Code of Corporate Governance ('the Code'). The Code is available at [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se), where a description of the Swedish model for corporate governance is also provided.

The Code is based on the principle of "comply or explain". This means that a company that applies the Code may deviate from particular rules but will then have to provide an explanation giving the reasons for the deviation. In 2018, as in previous years, BillerudKorsnäs deviated from the Code's rules that Board members should not also be the chairman of the Nomination Committee. This deviation from the Code is explained in more detail in the Nomination Committee section below. No other deviation from the Code occurred. During the year, BillerudKorsnäs complied with Nasdaq Stockholm's Rulebook for Issuers and good stock market practice.

#### 1 Shareholders

BillerudKorsnäs' shares are listed on Nasdaq Stockholm. At year-end 2018, the total number of shareholders was 97 563, compared

with 97 469 at the previous year-end. Each share carries an entitlement to one vote. The proportion of foreign ownership was 36.4% (39.1) of the number of shares on the market. Other groups of shareholders consisted of private individuals' holdings in Sweden, at 21.6% (20.8), and legal entities in Sweden, at 42.0% (40.1). The largest shareholder, Frapag Beteiligungsholding AG, owned 31 300 000 shares, corresponding to 15.1% of shares on the market. No other shareholder owned 10% or more of the number of shares at the end of 2018. Further details about the company's shares, shareholders, and the like are presented in the section "BillerudKorsnas shares", and on the company's website, [www.billerudkorsnas.com](http://www.billerudkorsnas.com).

## 2 General meeting of shareholders

The general meeting of shareholders in BillerudKorsnäs is the company's highest decision-making body. Shareholders exercise their voting rights at general meetings of shareholders. Notice of general meetings of shareholders is posted on the Company's website and published as an advertisement in The Official Swedish Gazette. An announcement that the notice has been issued is published simultaneously in Svenska Dagbladet.

Normally, the Annual General Meeting (AGM) is held in April or May. The AGM decides on matters such as the adoption of the Company's annual accounts, appropriation of the Company's profits and the discharge of Board members and the CEO from liability for the year. The AGM also elects members of the Board and auditors and votes on the establishment of a Nomination Committee, fees for the Board of Directors and auditors and guidelines for determining the salaries and other remuneration for the CEO and Executive Leadership Team. Shareholders attending the AGM also have the opportunity to ask questions about the Group's activities. Resolutions passed at a meeting of shareholders are disclosed after the meeting in a press release, and the minutes of the meeting are published on the Company's website.

### 2018 Annual General Meeting

The 2018 AGM took place on 15 May 2018, and addressed matters customarily dealt with at the AGM. The AGM also voted to introduce a long-term incentive programme (LTIP 2018). The minutes and other documents from the AGM are available on the Company's website.

### 2019 Annual General Meeting

BillerudKorsnäs' 2019 AGM will take place on 9 May 2019 in Stockholm, and notice of the AGM will be issued in April 2018. Shareholders wishing to add an item to the agenda of the AGM may, in accordance with the instructions on the Company's website, propose the item to the Company no later than seven weeks before the meeting.

A full text of the notice of the 2019 AGM, including details of how to register for attendance at the meeting, is posted on the Company's website.

## 3 Nomination Committee

The main task of the Nomination Committee is to produce proposals for Board members and auditors, for remuneration to such persons, and a proposal for a chairman for the AGM, prior to the AGM. The current Nomination Committee instructions require BillerudKorsnäs to have a Nomination Committee consisting of four people appointed by the Company's major shareholders. Please see the table below for the composition of the Nomination Committee for

the 2019 AGM. For further information about the Nomination Committee instructions, see [www.billerudkorsnas.com](http://www.billerudkorsnas.com).

The Nomination Committee held several meetings prior to the 2019 Annual General Meeting, as well as contacts between meetings by telephone and e-mail. In accordance with instructions on the company's website, shareholders were welcome to present proposals and opinions to the Nomination Committee by e-mail or post.

Under the Code, the Nomination Committee's reasoned statement concerning the Nomination Committee's proposal to the Board should include a brief description of the diversity policy which the Nomination Committee has applied in drawing up its proposal to the Board. The Nomination Committee has stated that it has applied rule 4.1 of the Code as diversity policy. There is a special section on the company's website [www.billerudkorsnas.com](http://www.billerudkorsnas.com) headed "Nomination Committee" containing further information about the Nomination Committee and its proposals to the AGM.

### Composition of and voting representation on the Nomination Committee

Representative	Shareholder	Share of voting power, % <sup>1</sup>
Michael M.F. Kaufmann	Frapag Beteiligungsholding AG	15.1
Tomas Risbecker	AMF Insurance and Funds	9.0
Thomas Wuolikainen	Fourth AP Fund	6.3
Lennart Francke	Swedbank Robur funds	5.8

<sup>1</sup> At 31 December 2018.

Board member Michael M.F. Kaufmann was appointed Chairman of the Nomination Committee prior to the 2019 Annual General Meeting. This is a deviation from the stipulation by the Code that a Board member may not be chairman of the Nomination Committee, but in the interests of the Company and all shareholders it is natural that the Board member appointed by the Company's major shareholder be chairman of the Nomination Committee. Under the Nomination Committee guidelines determined by the 2019 AGM, the chairman of the Nomination Committee should be the Board member appointed by the major shareholder. Michael M.F. Kaufmann has directed the work of the Nomination Committee in recent years.

## 4 Board of Directors

### Composition

The articles of association stipulate that the Board of Directors of BillerudKorsnäs has to consist of not fewer than six members and not more than ten members, with no more than six deputies.

The 2018 AGM established that the Board of Directors should consist of eight members and voted to re-elect the Board members Andrea Gisle Joosen, Bengt Hammar, Lennart Holm, Michael M.F. Kaufmann, Kristina Schauman and Victoria Van Camp and to elect Tobias Auchli and Jan Åström as new board members. The annual general meeting also decided to re-elect Lennart Holm as chairman of the board and Michael M.F. Kaufmann as vice chairman of the board. In addition, the employee organisations have appointed two employee representatives to serve on the Board. These are Gunnevi Lehtinen Johansson and Nicklas Johansson, and as deputies, Ulrika Gustafsson and Bo Knöös. Other than the employee representatives and their deputies, none of the Board members are employed by the Group, except for Kristina Schauman who have the assignment as acting CFO starting in November 2018. Of the Board members elected by the AGM, three are women and five are men.

## DIRECTORS' REPORT

The composition of the Board meets the Code's requirements as to independence in relation to the Company, the Company's management and the Company's major shareholders. For further details about the Board of Directors and information on the independence of the Board members, their duties outside the Group and their holdings of shares in BillerudKorsnäs, see the section "Board of Directors" on pages 72 – 73.

### Organisation of the work of the Board

The Board of Directors is the Company's highest administrative body below the AGM. The Board of Directors is charged with the organisation of the Company and management of the Company's affairs, ensuring that the Company's organisation is structured such that accounting, asset management and the Company's financial affairs otherwise are supervised in a satisfactory manner and with assessing the Company's financial situation on an ongoing basis.

The work of the Board follows written rules of procedure to ensure that the Board obtains information on all issues, and that all aspects of the Company's activities relating to the Board are addressed. The Board has also established a number of general policies for the Company's activities. They include the Company's code of conduct, which summarises the Company's responsibilities, values and goals.

The Board's work follows an annual cycle in order for it to optimally accomplish its tasks. At the beginning of the year, the Board considers the year-end report and the annual report, as well as matters to be submitted to the AGM. At the end of the year, the Board considers the budget for the year ahead. Every quarter, the Board reviews the Group's earnings, and interim reports are approved for publication. A constitutive Board meeting is held in connection with the AGM at which members of the Board's committees are appointed and the Board decides on matters such as the right to sign on behalf of the Company. Once a year, the Board has an extra meeting primarily dedicated to strategy issues.

### Work of the Board in 2018

The Board held 16 meetings in 2018, including the constitutive meeting. For information on attendance at these meetings, see

table below. Before each meeting, Board members received an approved meeting agenda and written material concerning issues to be addressed at the meeting.

The Board addressed, on an ongoing basis, strategic issues relating to the Company's operations and focus, follow-up of previous acquisitions, investments above a certain level, and other matters. An important aspect of the Board's work are the financial reports that are presented at each ordinary Board meeting. The Board also receives regular reports on the Company's financial position. At ordinary meetings, reports are submitted about ongoing work relating to the business areas/divisions and Group functions.

During the year, the Board focused strongly on production-related issues and on safety issues, with regard both to measures to achieve improved stability and safety in existing production capacity and to follow-up and monitoring of the major new investment projects in progress. These relate to the investment in a cartonboard machine at the Gruvön production facility and the investment at Skärblacka into a world-leading centre for the manufacturing of machine-glazed kraft paper (MG paper). The Board also worked on strategically important issues, such as potential company acquisitions, including the acquisition of Bergvik Skog Öst and the strategic aspects thereof. The Board has also focused on the re-organization of the Company that has been implemented during the year. Other recurring issues on the Board's agenda are the company's work on sustainability and innovation.

In addition to participating in the audit committee meetings, the Company's auditor also participated in a Board meeting at which Board members had the opportunity to ask the auditor questions without representatives of the Company's management being present.

### Assessment of the Board and the CEO

BillerudKorsnäs has procedures for assessing the work of the Chairman and members of the Board each year. The assessment serves as input for an action plan for improvements and as background to the Nomination Committee's work as they assemble a Board. With respect to 2018, a detailed internal assess-

### Attendance at board meetings and committee meetings

Member	Position	Board meetings <sup>1</sup>	Audit Committee meetings <sup>2</sup>	Remuneration Committee meetings <sup>3</sup>	Investment Committee meetings <sup>4</sup>
Lennart Holm	Chairman	16/16		9/9	1/1
Michael Kaufmann	Deputy chairman	14/16		9/9	1/1
Tobias Auchli	Member	10/10	3/3		2/2
Andrea Gisle Joosen	Member	16/16	5/5		
Bengt Hammar	Member	15/16			3/3
Gunnevi Lehtinen Johansson	Member	15/16			
Nicklas Johansson	Member	16/16			
Kristina Schauman	Member	16/16	4/4		
Victoria Van Camp	Member	16/16			3/3
Jan Åström	Member	10/10		6/6	2/2

<sup>1</sup> Mikael Hellberg was a member of the Board until the 2018 AGM. Mikael Hellberg was absent from one (1) Board meeting during 2018. Tobias Auchli and Jan Åström were elected as new Board members at the 2018 AGM, and the Board has held ten (10) meetings since AGM.

<sup>2</sup> Mikael Hellberg was a member of the Audit Committee until the 2018 AGM. Mikael Hellberg was not absent from any meeting during this period. Since the AGM 2018 the Audit Committee consisted of Kristina Schauman, Andrea Gisle Joosen and Tobias Auchli and held three (3) meetings. Kristina Schauman stepped out of the Audit Committee in November 2018 when she was appointed acting CFO.

<sup>3</sup> Until the AGM 2018, the Remuneration Committee consisted of Mikael Hellberg, Michael Kaufmann and Lennart Holm and held three meetings where all members were present. Since the AGM 2018 the Committee has consisted of Jan Åström, Michael Kaufmann and Lennart Holm and has held six (6) meetings.

<sup>4</sup> Until the AGM 2018, the investment Committee consisted of Lennart Holm, Michael Kaufmann, Bengt Hammar and Victoria Van Camp held one (1) meeting where all members were present. Since the AGM 2018, the investment Committee has consisted of Bengt Hammar, Victoria Van Camp, Tobias Auchli, Jan Åström and has held two (2) meetings.

ment of the Board's work was conducted, including interviews with each member of the Board. The purpose of the assessment is to gain an understanding of Board members' views about how the Board's work is conducted and what measures could be taken to make the work of the Board more effective. It also aims to gain an understanding of what type of issues the Board believes should be accorded more scope and what areas may require additional capabilities within the Board. The results of the assessment were discussed by the Board and presented to the Nomination Committee. The Board also continuously assesses the work of the CEO. Once a year, an assessment is made of the CEO without the CEO being present.

### Board committees

The Board currently has three Board committees as part of efforts to streamline and strengthen the work of the Board on certain issues: a remuneration committee, an audit committee and an investment committee. The committee members are appointed for one year at a time at the constitutive Board meeting and the work and authority of the committees are regulated by the committee instructions, which are established annually.

The committees have a preparatory and administrative role. Issues addressed at committee meetings are minuted and reported at the following Board meeting.

### 5 Audit Committee

To support the Board in its role in supervising auditing issues, the Board has appointed a separate audit committee. The audit committee's main role is to contribute to a good standard of financial reporting and ensure that the Company is audited in an expert, efficient and independent way. Without having an impact on the Board's other responsibilities and tasks, the audit committee is charged with addressing all important accounting issues and general taxation issues that affect the quality of the Company's financial reporting. With regard to financial reporting, particular attention is to be paid to the effectiveness of the Company's internal control and risk management. The audit committee is also charged with assisting in the preparation of proposals for decisions by general meetings on the election and remuneration of auditors.

To ensure that the work of the Board and the audit committee is performed in a structured manner, and to satisfy the Board's information requirements, the Company auditor reports directly to committees and the Board on certain occasions. The committee continuously reports the results of its work, in the form of observations, recommendations and proposed resolutions and action to the Board, which makes any decisions that result from the committee's work. Until the 1 of November 2018 the audit committee consisted of Kristina Schauman (Chairman), Andrea Gisle Joosen and Tobias Auchli. When Kristina Schauman was appointed acting CFO the composition changed. The audit committee then consists of the members Andrea Gisle Joosen (Chairman) and Tobias Auchli. An employee representative attends the meetings of the audit committee.

#### Work in 2018

The committee held five meetings in 2018. During the year, the committee addressed auditing issues, audit plan for 2018, enterprise risk management, internal control, financing issues, currency hedging issues and tax issues. The committee met prior to each interim report and the year-end report. These meetings addressed accounting and reporting issues related to

the reports. The chairman of the audit committee reported regularly to the Board regarding issues reported on the audit committee meetings. The Board's work on internal control related to financial reporting is summarised in "Internal control and risk management for financial reporting".

### 6 Remuneration Committee

The principal function of the remuneration committee is to prepare the Board's decisions on issues relating to remuneration principles, remuneration amounts and other employment terms for members of the Executive Leadership Team. The committee shall monitor and evaluate programmes for variable compensation to the Executive Leadership Team and to monitor and evaluate the implementation of guidelines for remuneration to senior executives, remuneration structures and remuneration levels. More specifically, the committee's tasks include proposing a general policy on salaries, remuneration and other employment terms generally within BillerudKorsnäs, guidelines on remuneration to senior executives and to approve the CEO's proposal for salaries and remuneration for the Executive Leadership Team. The committee also makes proposals to the Board, which decides on the salary and other remuneration for the CEO. The remuneration committee consists of Board members Jan Åström (Chairman), Michael M.F. Kaufmann and Lennart Holm.

#### Work in 2018

The committee held nine meetings in 2018. In 2018, the committee considered bonus payments in 2017, and salary reviews for the Executive Leadership Team in 2019. The committee also together with the Board, decided to change the titles and bonus targets for the Executive Leadership Team for 2019. Further, the committee evaluated the LTIP incentive program and prepared a proposal for LTIP 2019 to be proposed to the Annual General Meeting. In addition, the committee also handled remuneration for newly recruited members of the Executive Leadership Team and the CEO. The guidelines on remuneration to the CEO and other senior executives, as well as the actual figures, are contained in Note 26.

### 7 Investment Committee

The Board has established a special investment committee whose main task is, on behalf of the Board, to examine and prepare certain issues relating to the Company's agenda regarding investments, corporate acquisitions and research and development, as well as assisting management with these issues.

The committee consists of Board members Bengt Hammar (Chairman), Victoria van Camp, Tobias Auchli and Jan Åström.

#### Work in 2018

The committee held three meetings in 2018. In 2018, the committee focused primarily on matters related to the investment project in Gruvön, strategic wood supply and the thereto related acquisition of Bergvik Skog Öst, as well as the company's production excellence project.

### 8 Auditors

The Company's auditors are appointed by the general meeting of shareholders. At the 2018 AGM, the audit firm KPMG AB, with principal auditor Ingrid Hornberg Román, was elected as the Company's auditor for the period until the end of the 2019 AGM. Ingrid Hornberg Román is currently also auditor for Apoteket,

Apotek Produktion och Laboratorier, EQT Partners, Linas matkasse och RISE Research Institute of Sweden.

The auditor's duties include keeping the Board informed regarding the planning, scope and content of the annual audit, auditing interim reports and the year-end accounts in order to assess their accuracy and comprehensiveness and compliance of the accounts with generally accepted accounting practices and relevant accounting policies. Duties also include informing the Board about services provided over and above auditing services, the compensation for such services, and other circumstances affecting the independence of the auditors. To ensure that the work of the Board and the audit committee is performed in a structured manner, and to satisfy the Board's information requirements, BillerudKorsnäs' auditors met with the audit committee on five occasions and the Board, without the presence of the senior management, on one occasion in 2018.

### 9 CEO and Executive Leadership Team

The Company's Chief Executive Officer (CEO) is appointed by the Board of Directors. Petra Einarsson is the CEO of the Company. The CEO is responsible for the ongoing management of the Company's and Group's business operations in accordance with instructions and regulations established by the Board. These instructions include responsibility for financial reporting, preparation of information and input for decisions, and ensuring that agreements and other measures do not conflict with applicable legislation or regulations.

The CEO and the Executive Leadership Team (ELT) are jointly responsible for daily operations. The CEO has appointed an ELT that is responsible for different parts of the business. The ELT consists of the CEO, the heads of the three business divisions (Board, Paper and Solutions) and the heads of group functions (Sourcing & Technology, Innovation & Strategic Projects, Finance & ITD, Legal, Communication & Sustainability and HR). For further information about the members of the ELT, see pages 70–71.

The role of the ELT is to establish Group-wide values and a long-term vision, as well as strategies and policies for the Group based on the objectives set by the Board. The ELT sets targets for operational activities, allocates resources and monitors the business' earnings. The ELT is also responsible for investment planning and follow-up, acquisitions and divestments, and for preparations for Board meetings. The ELT is taking active measures to involve employees in developing the corporate culture and to fulfil its values.

The CEO chairs ELT meetings and makes decisions in consultation with the other senior executives. The ELT usually meets monthly to review the financial performance of the preceding month, update forecasts and plans, as well as to discuss strategic issues. In addition, the ELT meets once a week for short telephone conferences, and as necessary.

### BillerudKorsnäs Way of Working

During 2018, the Company underwent a re-organization resulting in the creation of three new business divisions and a number of supporting corporate functions. In connection with this, the Company has made a review and update of the Company's governance framework to ensure alignment and efficiency throughout our organization. The new framework, called Way of Working, unites our organization through common governing principles, standards and selected processes.

Way of Working aligns our strategy and operation by setting objectives and principles under the following main headings; Governance, Culture and Corporate Values, Corporate Processes, Group Strategy & Risk Management, Policies & Directives, Performance Management, Organization, Reviews, Controls and Audits and Tools.

Each division is responsible for the profit and loss and has the mandate to independently run the business operations within the boundaries of BillerudKorsnäs' Way of Working. The divisions implement strategies and develop processes and procedures as needed for effective execution of the strategy. The status and improvements of key performance indicators are monitored and reported to relevant functions within BillerudKorsnäs. Divisions are responsible for implementing mandatory standards, processes and adhere to BillerudKorsnäs Way of Working as applicable.

Corporate functions are responsible for maintaining, developing and supporting implementation of BillerudKorsnäs' Way of Working, focusing on group and governance matters to support the overall success of BillerudKorsnäs operations.

Service functions are responsible for exploring synergies and economies of scale in selected areas and processes. Service functions can reside in corporate functions or divisions with mandate to operate for the whole group.

An important element of our Way of Working is the steering document framework, which ensures that governing documents in BillerudKorsnäs are established, implemented, applied, monitored and reviewed consistently and appropriately across the group. The Board has adopted a specific set of seven policies that steer the company on the top level (however below our Code of Conduct); Governance Policy, Responsible Business Policy, Operations & Quality Policy, Communication & Information Policy, Finance Policy and People Policy.

### Guidelines for remuneration to senior executives

The 2018 AGM adopted guidelines on the remuneration of senior executives in the Group. The guidelines state, for example, that BillerudKorsnäs has to apply market-related remuneration levels and employment terms that are appropriate in order to recruit and retain a management team with a high level of expertise and capacity to achieve set goals. Remuneration may be in the form of fixed or variable salary, long-term incentive programmes and other benefits such as company car and pension. Fixed and variable salary shall be determined in relation to competence, area of responsibility and performance. Variable remuneration is paid depending on actual results measured against detailed targets, up to a set maximum percentage of a fixed annual salary. The maximum percentage is 33.75% of the annual fixed salary for the Executive Leadership Team and a maximum of 70% for the CEO. However, variable remuneration is to be paid only if the BillerudKorsnäs Groups's operating result is positive. Notice of termination is normally 6–12 months, and if the Company gives notice, severance pay is to be a maximum of 12 months' salary.

For the complete resolution on principles for remuneration, see Note 26. The Board's proposal for guidelines in 2019 is presented in the section "Remuneration at BillerudKorsnäs".

## Remuneration at BillerudKorsnäs

BillerudKorsnäs endeavours to attract, retain and develop the brightest talent through competitive remuneration clearly linked to performance. BillerudKorsnäs' short- and long-term incentive plans are closely linked to the Group's strategic and financial targets and are designed to deliver sustainable value for shareholders and in so doing support the realisation of the company's strategy.

BillerudKorsnäs has a clear approach to remuneration that is based on principles of competitive national and regional pay levels that help attract, retain and develop the brightest talent. The approach to remuneration is intended to support BillerudKorsnäs, the Group's managers and the employees in realising BillerudKorsnäs' vision and operating targets.

The purpose of long-term incentive programmes and guidelines for remuneration is to support BillerudKorsnäs by encouraging employees in key roles to feel a clear sense of ownership regarding fulfilment of the Group's overall objectives and strategies. The remuneration committee aims for remuneration to not be set in an overly automated way and for decisions to not be perceived as arbitrary or unfair.

### Components of remuneration in BillerudKorsnäs

#### Fixed salary

Fixed salary is based on market pay levels and is set on the basis of a pay scale taking account of experience, skills and area of responsibility. Fixed salary is reviewed annually in the

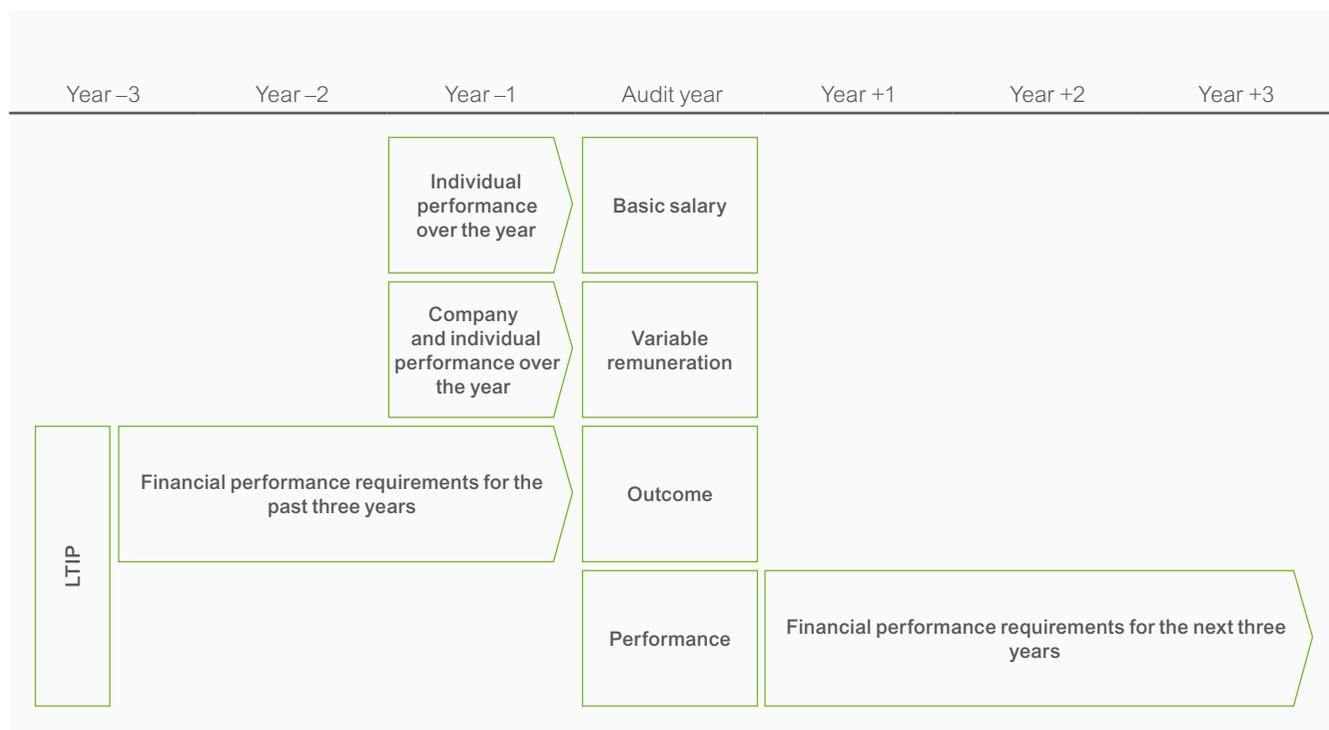
pay review, where pay is considered in accordance with performance and relative pay levels for the role in relation to the external market.

#### Variable remuneration

Variable remuneration is paid depending on actual results measured against detailed targets, up to a set maximum percentage of fixed annual salary. The Company uses general variable remuneration for all staff to highlight the link between individual performance the Company's earnings. Variable remuneration is paid only if the BillerudKorsnäs Group makes an operating profit.

#### Long-term share-based incentive programme (LTIP)

The purpose of an LTIP is partly to increase BillerudKorsnäs' ability to retain its most talented employees for key positions, and partly to encourage increased efforts among participants by linking their financial interests to those of the shareholders. To participate in the programme, participants must make their own invest in BillerudKorsnäs shares. The LTIP runs over three years



**Long-term incentive programme (LTIP)**

Pro-gramme	Number of partic- ipants	Savings shares	Max. allocation of BillerudKorsnäs shares	Percentage of total number of shares/ votes	Estimated cost (of which social secu- rity costs), SEKm	Maximum cost (of which social secu- rity costs), SEKm	Operating profit for 2018 is charged with, SEKm
2016	74	48 571	196 887	0.1%	17 (5)	53 (34)	5
2017	74	47 757	197 028	0.1%	13 (3)	50 (33)	4
2018	76	46 735	197 332	0.1%	14 (5)	43 (30)	3

and the outcome depends on the achievement of various financial and share price-linked performance requirements.

**Retirement**

BillerudKorsnäs offers pension benefits under a collective agreement (i.e. ITP1, ITP2 and SAF-LO) and offers a solution for employees with fixed pay above 10 income base amounts in terms of special advice and, where appropriate, a managerial pension plan.

**Other benefits**

These are set according to role and market-based remuneration and mainly take the form of car allowance and private medical insurance.

**Long-term incentive programme (LTIP)**

The 2010–2018 AGMs approved the introduction of long-term incentive programmes (LTIP 2010–2018) for BillerudKorsnäs and, in conjunction with this, a transfer of its own holding of treasury shares. The programme extends to senior executives and other key individuals within the BillerudKorsnäs Group. LTIP has a term of three years, and the outcome depends on meeting different financial and share price performance requirements that are deemed to be of considerable significance in terms of the future development of the Group. To take part in the LTIP, the participants are required to own BillerudKorsnäs shares, known as savings shares. The general rule for the LTIP is that for each savings share that participants invest in, participants will be allocated, at no charge, one matching share right and three performance share rights. For LTIP 2013–2018, however, the CEO has been allocated one matching share right and five performance share rights for each savings share, and the Executive Vice President (until LTIP 2017) and the CFO had the possibility to have been allocated one matching share right and four performance share rights for each savings share they allocate to the programmes.

Provided that the terms of the respective programme are met, the share rights entitle holders to receive BillerudKorsnäs shares as follows: The allocation of BillerudKorsnäs shares takes place free of charge after the end of the three-year vesting period for the respective programme. For both rights, participants throughout the vesting period must remain an employee of the BillerudKorsnäs Group and must not sell their savings shares dedicated to the programme concerned. The rights are assigned to an individual and cannot be transferred or pledged. They do not grant shareholder rights and no adjustment for dividend is made. For half (50%) of the Matching share rights allocated to participants under LTIP 2016, LTIP 2017 and LTIP 2018, the total share return on BillerudKorsnäs shares (TSR) for the period of measurement must exceed 0% in order for them to entitle holders to be allocated BillerudKorsnäs shares.

For rights to performance shares under LTIP 2016 to LTIP 2018, the following financial performance targets must be met.

The requirements are based on:

- (a) BillerudKorsnäs' annual organic growth,
- (b) BillerudKorsnäs' average adjusted EBITDA margin.

Performance requirements (a) and (b) grant shares on a straight-line basis between minimum and maximum levels. LTIP 2017 and LTIP 2018 are also dependent on total share return (TSR).

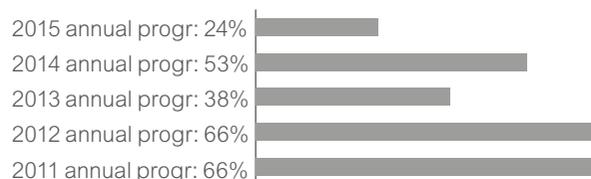
**Completed long-term incentive programmes (LTIP 2010, LTIP 2011, LTIP 2012, LTIP 2013, LTIP 2014 and LTIP 2015)**

The AGMs held in 2010, 2011, 2012, 2013, 2014 and 2015 resolved to introduce long-term incentive programmes (LTIP 2010, LTIP 2011, LTIP 2012, LTIP 2013, LTIP 2014, LTIP 2015) for BillerudKorsnäs for the period 2010–2012, 2011–2013, 2012–2014, 2013–2015, 2014–2016 and 2015–2017 respectively, and 218 802, 68 472, 162 991, 138 184, 176 099 and 79 001 shares respectively were allocated to the participants under the programmes. The proportion of performance targets met for the

programme was 75%, 66%, 66%, 38%, 53% and 24% respectively. Dilution of outstanding shares was less than 0.1% per programme. The total cost of the programmes has been carried as an expense on an ongoing basis in 2010–2018.

**Historical data, completed long-term incentive programmes**

Percentage of performance criteria set



**Guidelines for remuneration of senior executives 2019**

The board proposes that the 2019 AGM resolves upon the adoption of the following guidelines for remuneration to the members of the group's Executive Leadership Team (ELT members) (the CEO and the other members of the ELT members).

BillerudKorsnäs shall apply remuneration levels and employment terms that are in line with market practice in order to recruit and maintain a management team with a high level of competence and the capability of achieving established goals. The remuneration shall motivate executives to do their utmost to secure the shareholders' interests. The remuneration may be in the form of fixed salary, variable salary, long term incentive programs and other benefits such as a company car and pension. Fixed and variable salaries shall be set in relation to competence, area of responsibility and performance. The variable remuneration to the ELT members in the group is based on outcomes in relation to clearly established goals, and shall be set to a maximum in relation to their respective fixed salary and may vary between 30 and 70 per cent. However, the variable

remuneration shall only be paid on condition that the Billerud-Korsnäs group's operating result is positive. Long term incentive programs in the company shall primarily be linked to certain pre-determined financial and share price related performance criteria. The programs shall ensure long term commitment to the development of the company and shall be implemented on market terms. Long term incentive programs shall run for at least three years. For more information about the existing long term incentive programs, see the company's annual report and website.

Pension benefits shall either be defined-benefit or defined-contribution, and normally entitle to pension from the age of 65. In some cases the retirement age may be lower, although 62 is the lowest age of retirement. Six to 12 months is the normal notification period for termination of employment, and severance pay shall be set to a maximum of 12 months' salary in the event that the employment is terminated by the company.

Remuneration and employment terms for the CEO are prepared by the remuneration committee and resolved upon by the board. Remuneration and employment terms for members of the ELT members are resolved upon by the CEO, subject to the approval of the remuneration committee.

Board members, elected at general meetings of Billerud-Korsnäs, may in certain cases receive a remuneration for services performed within their respective areas of expertise, outside such board duties. Compensation for these services shall be paid at market terms and be approved by the board.

The board of BillerudKorsnäs has the right to deviate from these guidelines in individual cases in the event of special reason granting such deviation.

See Note 26 for the 2018 guidelines.

## Internal control and risk management for financial reporting

BillerudKorsnäs' internal control and risk management for financial reporting is designed to manage risks and ensure a high level of reliability in the processes relating to the preparation of financial reports and to ensure that applicable accounting requirements and other requirements of BillerudKorsnäs as a publicly listed company are fulfilled.

### Financial reporting

The Board is ultimately responsible for the internal control of financial reporting. Responsibility for maintaining an effective control environment is delegated to the CEO, who is responsible for ensuring that a process and organisational structure are in place to ensure the internal control and quality of financial reporting. Specifically for financial reporting, the Board has established an Audit Committee that assists the Board in regard to relevant guidelines and policies and significant reporting principles.

BillerudKorsnäs' internal control work is based on the internal control principles developed by the Committee of Sponsoring Organizations of the Tradeway Commission (COSO). These principles consist of the following five components:

1. Control Environment
2. Risk Assessments
3. Control Activities
4. Information and Communication
5. Monitoring

For more information about BillerudKorsnäs' corporate governance work, please see the section Corporate Governance in BillerudKorsnäs on pages 60–64.

#### 1 Control Environment

Control environment encompasses matters such as how targets are set, how valuations are monitored and how risks are managed. A good control environment is based on an organisational structure with clear decision-making paths and a corporate culture with shared values and an awareness among individuals of their role in maintaining good internal control.

For the Board of Directors, the CEO and all BillerudKorsnäs business areas and Group functions, there are steering documents aimed at ensuring the clear division of roles and responsibilities to aid the effective and efficient management of risks identified within the business. The audit committee's main role is to contribute to a good standard of financial reporting and ensure that the Company is audited in an expert, efficient and independent way. The work of the audit committee is described in more detail on page 63.

The Executive Leadership Team reports regularly to the Board based on predetermined procedures. The audit committee also reports to the Board. The Executive Leadership Team is responsible for ensuring that essential internal controls are implemented as necessary to manage significant risks in day-to-day activities. This includes Group-wide steering documents to enable individual employees to understand their role in the work in maintaining adequate internal control. Examples are a Code of Conduct, Governance Policy and Financial Policy. BillerudKorsnäs' shared service centre ensures effective and uniform management of financial processes through the development of uniform procedures and control system, and creates the necessary documentation. This documentation is updated annually or as necessary to reflect changes to processes and ensure that applicable laws and regulations are followed.

#### 2 3 Risk Assessment and Control Activities

Risk assessments are made regularly to identify risks that may arise within BillerudKorsnäs if the internal controls in the financial processes are not effective.

Control activities aim at preventing, detecting and correcting errors and deviations in financial reporting at each time of reporting. The Company's control activities are part of these



accounting and financial reporting processes and include authorisation procedures, bank and account reconciliation, earnings analysis, automated and manual controls and the division of administrative and implementing units.

The Company has an internal control function whose purpose is to ensure good internal control and quality in financial reporting. This function implements processes and regulations that ensure the internal control and quality of financial reporting. This internal control function works to ensure that steering documents are complied with, which is the basis for effective control activities within the main financial reporting processes. As part of the internal control work, a self-assessment is made of internal controls which means that the person responsible for control in each case assesses effectiveness in their controls. Improvement measures are introduced according to a plan which is prepared with the internal control function. The measures are then followed up during the coming financial year, when a new self-assessment is carried out. The results of this work are included in the annual reporting of the internal control function to the Audit Committee, which in turn reports to the Board of Directors. The internal control function therefore constitutes an important tool in the Board's monitoring of internal controls relating to financial reporting.

The Company has a Group Risk Management function with responsibility for Enterprise Risk Management (ERM), loss prevention and Group-wide insurance programmes. Within the framework of ERM, material risks of errors in financial reporting are continuously identified and it is ensured that adequate controls are in place.

Material risks are reported to the Board of Directors.

For information regarding financial risks and important items subject to appraisal and assessment, please see the Risk Management and Sensitivity Analysis section and Note 35.

A new group - Corporate Assurance – was formed in 2018. Corporate Assurance contains among others the internal control function. The task of Corporate Assurance is to design, ensure implementation of, monitor and support BillerudKorsnäs' governance, risk and compliance management and include material risks, including financial risks, in an integrated and effective manner. The formation of Corporate Assurance is part of the reorganisation and change to the governance model implemented in 2018 – BillerudKorsnäs Way of Working (see also Corporate Governance Report).

As part of BillerudKorsnäs Way of Working, the Governance, Risk and Compliance Council (GRC Council) has been formed. The task of the GRC Council is to guide and decide on Group-wide issues related to Governance, Risk and Compliance.

#### 4 Information and Communication

Material governing documents that are of significance to financial reporting are available on BillerudKorsnäs' intranet and management system. Relevant employees are regularly informed of amendments and updates to these.

Work continued during the year to develop the Group's policy framework for the purpose of ensuring completeness and uniformity on formulation, ownership and responsibility for updates. Thorough work has been done to update policies. The Board has adopted seven new policies which will start to be implemented at the start of 2019. Updating of directives has also been initiated and will continue in 2019.

Both formal and informal information channels carry important information from staff to the Executive Leadership Team and the Board. For example, BillerudKorsnäs has a whistleblower function through which employees can report suspected irregularities anonymously. The whistleblower function was updated during the year so that it will also be available to external target groups such as customers and suppliers, and include the option of an anonymous dialogue between the person reporting and the person receiving reports. The channel is known as "The Speak-Up Line".

There is a Communication & Information policy for external communication that ensures that the Company meets strict requirements on accurate information for financial markets.

#### 5 Monitoring

The Audit Committee carries out preparatory work prior to the Board's assessment of the information submitted by the Executive Leadership Team and the company's auditors. The Audit Committee's tasks also include ensuring, on behalf of the Board, that actions are taken concerning the deficiencies and proposed actions identified in the external audit and by the internal control function. See the section "Corporate Governance in BillerudKorsnäs" for further information about the Audit Committee and its work.

##### *Internal audit*

In accordance with paragraph 7.3 of the Swedish Code of Corporate Governance, the Board has evaluated the need for a separate review function. In view of the structural organisation of internal control and the monitoring performed by the functions within Corporate Assurance and by the financial management and controller organisation, the Board has decided that a separate internal audit or review function is not necessary at present. The issue of a separate internal audit function is reviewed annually.



Kristina Schauman

Christopher Casselblad

Ulf Eliasson

Paulina Ekvall

Petra Einarsson

## Executive Leadership Team

### **Petra Einarsson**

*President & Chief Executive Officer*

*Education:* MSc in Economics and Business, Uppsala University.

*Year employed:* 2017

*Year born:* 1967

*Other assignments:* Member of the Board of SSAB and the Confederation of Swedish Enterprise.

*Background:* CEO of Sandvik Materials Technology. Chairman of the Board of the Swedish Association of Industrial Employers.

*Shareholding<sup>1</sup>:* 13 000

### **Mikael Andersson**

*Executive Vice President Division Board*

*Education:* MSc in Chemistry, Karlstad University. Executive MBA, Mgruppen.

*Year employed:* 2016

*Year born:* 1968

*Other assignments:* –

*Background:* Area VP, Nalco Water, Sales Director BillerudKorsnäs AB, VD Bycosin AB.

*Shareholding<sup>1</sup>:* 8 825

### **Helene Biström**

*Executive Vice President Division Paper*

*Education:* MSc in Mechanical Engineering, Royal Institute of Technology, Stockholm.

*Year employed:* 2019

*Year born:* 1962

*Other assignments:* –

*Background:* CEO Infranord AB, CEO Norrenergi AB, Deputy CEO Vattenfall AB.

*Shareholding<sup>1</sup>:* –

### **Christopher Casselblad**

*Executive Vice President Communication and Sustainability*

*Education:* MSc in Economics and Business, School of Business, Economics and Law, Gothenburg University.

*Year employed:* 2018

*Year born:* 1975

*Other assignments:* –

*Background:* Head of Investor Relations BillerudKorsnäs, Head of Group Planning & Control Folksam, Investor Relations Manager Folksam, Investor Relations Officer Nordea.

*Shareholding<sup>1</sup>:* 1 000

### **Paulina Ekvall**

*Executive Vice President Human Resources*

*Education:* HR and Working Life Issues Programme, Lund University

*Year employed:* 2017

*Year born:* 1968

*Other assignments:* –

*Background:* Sr Dir HR Arla Foods AB, VP HR Unilever Nordics, HR Director Nordics Johnson&Johnson Consumer, HR Director Pfizer Health AB, Head of HR Swedish Prison and Probation Service.

*Shareholding<sup>1</sup>:* 3 000



Helene Biström

Mikael Andersson

Magnus Wikström

Andreas Mattsson

Anders Lundin

**Ulf Eliasson**

*Executive Vice President & Chief Technology Officer*  
*Education:* MSc, Chalmers University of Technology, Gothenburg.  
*Year employed:* 2012  
*Year born:* 1962  
*Other assignments:* –  
*Background:* Senior Vice President Production BillerudKorsnäs AB, Senior Vice President Consumer Board BillerudKorsnäs AB, Mill Manager Korsnäs AB, Vice-President & Site Manager Rolls-Royce AB, Senior Vice-President & CEO Stora Enso Skoghall AB.  
*Shareholding<sup>1</sup>:* 4 893

**Anders Lundin**

*Executive Vice President Division Solutions*  
*Education:* MSc in Economics and Business, Lund University  
*Year employed:* 2015  
*Year born:* 1960  
*Other assignments:* Member of the Board in ExoXPac A/S  
*Background:* President Mergers & Acquisition BillerudKorsnäs, Executive Vice President Transformation Projects Perstorp Group, Executive Vice President of Business Group Perstorp Performance Products.  
*Shareholding<sup>1</sup>:* 4 111

**Andreas Mattsson**

*Executive Vice President & General Counsel*  
*Education:* Master of law Lund University.  
*Year employed:* 2013  
*Year born:* 1978  
*Other assignments:* Member of the Board of Bergvik Skog AB.  
*Background:* Senior Associate, law firm Ced-erquist.  
*Shareholding<sup>1</sup>:* 3 565

**Kristina Schauman**

*Acting Executive Vice President & Chief Financial Officer*  
*Education:* MSc in Economics and Business, Stockholm School of Economics.  
*Year employed:* 2018  
*Year born:* 1965  
*Other assignments:* Member of the Boards of ÅF AB, Orexo AB, Coor Service Management AB, Ellos Group Holding AB, BEWiSynbra Group AB and Nordic Entertainment Group AB.  
*Background:* Various financial managerial positions in Stora Enso, ABB and Investor and top executive positions in OMX AB, Carnegie Investment bank and Apoteket AB.  
*Shareholding<sup>1</sup>:* 4 000

**Magnus Wikström**

*Executive Vice President Innovation*  
*Education:* MSc and PhD in Engineering, Royal Institute of Technology, Stockholm. Executive MBA, Mgruppen.  
*Year employed:* 2006  
*Year born:* 1963  
*Other assignments:* Member of the Boards of Wallenberg Wood Science Center, Tree-search and EcoXpac A/S.  
*Background:* CTO BillerudKorsnäs AB, Vice President Technology Billerud AB, R&D Director Korsnäs AB, Head of project area STFI.  
*Shareholding<sup>1</sup>:* 8 887

<sup>1</sup> Own and related parties shares at 15 February 2019.

challenge  
 nional packaging  
 sustainable future



Bo Knöös   Gunnevi Lehtinen Johansson   Victoria van Camp   Jan Åström   Lennart Holm   Michael M.F. Kaufmann

## Board

### Lennart Holm

Chairman of the board since 2014, board member since 2012, member of the remuneration committee  
*Education:* MSc in chemical engineering, Chalmers University of Technology, Gothenburg.  
*Year born:* 1960

*Other assignments:* Chairman of the Board of Axolot Solutions AB, Hamnkrogen i Helsingborg Holding AB, Nexam Chemical Holding AB and Wellbo Group AB. Board member of Holm och Gross Holding AB, Polygiene AB and Preventic Group AB.

*Background:* Chairman of the Board and CEO of the Perstorp Group, active at Stora Enso and partner in PAI Partners SAS.

*Shareholding:* 4 000

*Independent/Not independent:* Independent of the Company and management, independent of the Company's major shareholders.

### Michael M.F. Kaufmann

Board member since 2005, Deputy Chairman of the Board and member of the remuneration committee

*Education:* MBA, Universities of Stuttgart and Erlangen-Nürnberg.

*Year born:* 1948

*Other assignments:* Chairman of Frapag Beteiligungsholding AG, Frapag America, Inc., By Out Europe II, Frapag Slovakia and Grimming Holding Romania. CEO of Hartmann Liegenschaftsverwaltung GmbH, Kleinsölk Forstwirtschaftsverwaltung GmbH, MIKA Classic Cars GmbH and MIKA Privatstiftung

*Background:* Formerly held various managerial positions in Frantschach/Mondi, Vienna, Austria.

*Shareholding:* 17 250

*Independent/Not independent:* Independent of the Company and management, not independent of the Company's major shareholders.

### Tobias Auchli

Member of the Board since 2018, member of the audit and investment committees

*Education:* MA HSG, University of St Gallen.

*Year born:* 1972

*Other assignments:* Chairman of the Board and CEO of Verlumenda SA

*Background:* Head Innovation and R&D, Global Ice Cream Division, Nestlé SA, Director Corp. Marketing & Innovation Acceleration, Nestlé SA and General Manager Liquid & Dairy Culinary Milks, Nestlé Greater China Region.

*Shareholding:* –

*Independent/Not independent:* Independent of the Company and management, independent of the Company's major shareholders.

### Andrea Gisle Joosen

Board member since 2015, chairman of the Audit Committee

*Education:* MSc International Business, Copenhagen Business School.

*Year born:* 1964

*Other assignments:* Chairman of Acast AB, Board member of Dixons Carphone PLC, ICA Gruppen AB and James Hardie Industries PLC.

*Background:* CEO of Boxer TV Access AB, Nordic Managing Director of Panasonic, Chantelle and Twentieth Century Fox Home Entertainment. Previously held management positions at Johnson & Johnson and Procter & Gamble. Chairman of the Board of Teknikmagasinet AB, Member of the Board of Mr Green & Co AB.

*Shareholding:* 2 350

*Independent/Not independent:* Independent of the Company and management, independent of the Company's major shareholders.

### Bengt Hammar

Board member since 2014, Chairman of the investment committee

*Education:* BA and MA in International Economics and Politics, Princeton University, New Jersey, United States

*Year born:* 1951

*Other assignments:* Director and senior adviser, Pöyry Capital Ltd.

*Background:* Managing Director, Head of Global Forest Products & Packaging, Barclays De Zoete Wedd Ltd. Executive Director, Head of European Forest Products & Packaging, Morgan Stanley & Co. Int.

*Shareholding:* 2 000

*Independent/Not independent:* Independent of the Company and management, independent of the Company's major shareholders.



Andrea Gisle Joosen Gunnevi Lehtinen Johansson Bengt Hammar Kristina Schauman Nicklas Johansson Tobias Auchli

#### Kristina Schauman

Board member since 2014

*Education:* MSc in Economics and Business, Stockholm School of Economics.

*Year born:* 1965

*Other assignments:* Acting CFO in BillerudKorsnäs AB. Member of the Boards of ÅF AB, Orexo AB, Coor Service Management AB, Ellos Group Holding AB, BEWiSynbra Group AB and Nordic Entertainment Group AB.

*Background:* Various financial managerial positions in Stora Enso, ABB and Investor and top executive positions in OMX AB, Carnegie Investment bank and Apoteket AB.

*Shareholding<sup>1</sup>:* 4 000

*Independent/Not independent:* Not independent of the Company and management (acting CFO in the Company), independent of the Company's major shareholders.

#### Victoria van Camp

Board member since 2017, member of the Investment Committee

*Education:* MSc in mechanical engineering and doctorate in machine elements, Luleå University of Technology

*Year born:* 1966

*Other assignments:* CTO and President, Innovation and Business Development at AB SKF.

*Background:* Board member of VBG Group AB and PREERA. Director of Industrial Market Technology & Solutions, Director of Product Innovation Lubrication BU and several other positions in SKF Group.

*Shareholding<sup>1</sup>:* 400

*Independent/Not independent:* Independent of the Company and management, independent of the Company's major shareholders.

#### Jan Åström

Board member since 2018, chairman of the Remuneration Committee, member of the Investment Committee.

*Education:* MSc in Chemical Engineering, Royal Institute of Technology, Stockholm.

*Year born:* 1956

*Other assignments:* Member of the Board of ECO Development AB and Frill Holding AB (publ). Chairman of the foundation Central Fund for Employees in Forestry and the Forest Industry, as well as Chairman of the Swedish Wrestling Federation

*Background:* President and CEO of Ahlstrom Munksjö Oyj, SCA AB, Modo Paper AB. Head of Business Group for SCA Fine Paper and Head of SCA Packaging Munksund.

*Shareholding<sup>1</sup>:* 111

*Independent/Not independent:* Independent of the Company and management, independent of the Company's major shareholders.

#### Nicklas Johansson

Board member since 2017, employee representative Swedish Paper Workers Union

*Year born:* 1968

*Other assignments:* Chair, Swedish Paper Workers Union local branch 165

*Background:* –

*Shareholding<sup>1</sup>:* –

#### Gunnevi Lehtinen Johansson

Board member since 2016, co-opted member of the audit committee, employee representative PTK

*Education:* Chemistry studies at Åbo Akademi University, Turku.

*Year born:* 1969

*Other assignments:* Production controller in BillerudKorsnäs, Vice President of Junis.

*Background:* –

*Shareholding<sup>1</sup>:* 450

#### Ulrika Gustafsson

Deputy Board member since 2016, employee representative PTK

*Education:* Upper secondary school qualification in engineering, Chemistry, various tertiary-level courses

*Year born:* 1967

*Other assignments:* Chair of Unionen branch BillerudKorsnäs Gävle. Various assignments for Unionen at regional and central level.

Board member of Korsnäs Social Fund Foundation.

*Background:* –

*Shareholding<sup>1</sup>:* –

#### Bo Knöös

Deputy Board member since 2017, employee representative Swedish Paper Workers Union

*Year born:* 1964

*Other assignments:* Chair, Swedish Paper Workers Union local branch 96

*Background:* –

*Shareholding<sup>1</sup>:* –

<sup>1</sup> Own and related parties' shares at 15 February 2019.

# Risk management and sensitivity analysis

BillerudKorsnäs' risk management is to be an integral part of the company's operational planning and an important strategic competition factor. Effective risk management contributes to the company being able to implement its strategies and achieve its business objectives as well as possible. To strengthen the way it manages risk, BillerudKorsnäs has introduced a risk management model based on the international standard for risk management, ISO 31000.

BillerudKorsnäs is affected by the general economic climate, changes in exchange rates and other risks and external factors specific to the company. BillerudKorsnäs goal is to identify, analyse and assess systematically risks that may have an impact on the company's set targets and to act to protect the company against loss, uncertainty and missed opportunities.

Risk management is governed at overall level by the Board of Directors and audit committee, and at operational level by the CEO, Executive Leadership Team and other staff. The majority of all risk analyses are performed in the line organisations, which are also responsible for managing the risks. Significant risks are reported to the Executive Leadership Team, which makes decisions on action to be taken.

BillerudKorsnäs' Enterprise Risk Management (ERM) process is focused at present on the greatest risks and opportunities the company faces and on making risk management an integral part of operational planning. As part of this work, a number of risks have been identified, and activities to manage these are under way. Significant risks and uncertainties are presented below, together with brief information about how they are managed. The overall risk management process according to ERM is shown in the illustration on the right.

Risk management process



## Operational risks

### Risks related to facilities

#### Description of risks

BillerudKorsnäs has production facilities for paper, cardboard and pulp production at eight sites in three countries. Sudden and unforeseen disruptions may affect each facility's capacity to produce as planned, which, in addition to a direct financial impact, may affect customer relationships and the company's long-term competitiveness.

#### Risk management

Preventive work to avoid sudden and unforeseen disruptions to production is given top priority and undertaken through internal planning and control carried out by an independent inspection body, and in

collaboration with insurance companies. Investments are constantly being made to improve the status of facilities. BillerudKorsnäs insures its facilities to their full value with respect to property and interruption.

#### Comments 2018

Work on eradicating risks and preventing and minimising the consequences of damage is continuing. There was a strong focus during the year on ensuring that attention is paid to measures to prevent damage in the large projects the Group has run at Skärblacka (FPMG), and is running at Gruvön (NextGen).

### Cost of wood raw material

#### Description of risks

Market prices for wood vary over time, which can affect BillerudKorsnäs' earnings. Prices are influenced by demand from the pulp industry, indicating that changes in output for the pulp industry as a whole in the Nordic countries may lead to long-term changes in the cost of wood raw materials. Increased use of, for example, sawn timber and wood as a combustion material, especially in connection with the use of biofuel for electricity and heat generation, may also indirectly affect the price of pulp wood. Changes in customs duties may also impact on the price of imported timber.

Changes in transport costs also have an impact on the price of wood, as, in the long term, do political decisions on how the forests as a natural resource should and may be utilised.

#### Risk management

In general, prices in contracts with major suppliers are set on a periodic basis. This may create problems with deliveries to BillerudKorsnäs if the parties cannot reach agreement on the market price that is to apply. Continuous efforts are made to keep logistics as efficient as possible.

#### Comments 2018

As well as the increasingly tough competition in the wood market, the year saw an impact on supplies from weather-related problems such as extremely heavy snowfalls during the winter and then extreme heat with an attendant very high risk of fire and a number of forest fires, impacted the opportunities for felling of forest. BillerudKorsnäs has taken part in joint industry efforts to respond to this situation. The cooperation has led to closer contact between industry representatives and the county administrative boards, the Swedish Civil Contingencies Agency (MSB) and the Swedish Meteorological and Hydrological Institute (SMHI). This cooperation also means a joint follow-up and collation of experience from the summer's major forest fires, so that in future

incipient fires can be extinguished quickly and do not spread so far with related detrimental effects for society and for the industry.

In response to the increasingly tough competition in the market and the restrictions on flows mentioned, new sources of timber have also started to be used, both in the Baltic Sea area and from sources further afield.

Continued initiatives to reduce logistics costs in the transportation of wood raw material have been studied. To increase interest and understanding in the forests and all their assets, as well as what modern and sustainable forestry means, BillerudKorsnäs took part in a number of educational initiatives for schoolchildren in Sweden and also, through the Swedish Forest Industries Federation, in the information campaign "The Swedish Forest".

BillerudKorsnäs' continued intention is to increase the proportion of purchases of certified wood raw material, which can also imply an increased risk since the supply of certified wood raw material is limited.

#### Wood price index



Rolling 12 months

Source: BillerudKorsnäs

### New technology and changed patterns of consumption

#### Description of risks

New technology and products may lead to reduced demand for packaging paper. These risks include changed or improved methods for producing plastic-based packaging solutions, collecting and recycling the plastics. There are also risks linked to substantial changes in management of the transportation of food products and changed behaviour and preferences among consumers, for example in the view they take of sustainability performance between different packaging solutions or to avoid packaging altogether. In the longer term, these risks may lead to restructuring of the packaging industry, reduced revenue and loss of key individuals and visionaries within the company.

#### Risk management

One of the strategy areas for BillerudKorsnäs with a view to attaining profitable growth is to actively search for and work on know-how further along the value chain. It means that BillerudKorsnäs makes a strong

commitment to interacting with players and consumers further along the packaging value chain. This is done both through cooperation projects with brand owners and through the company's own studies on consumer preferences. In that way BillerudKorsnäs learns about future requirements for packaging and can then enhance its offering.

#### Comments 2018

A significant trend towards reducing the use of disposable products made of plastic such as mugs, plates, cutlery and straws has been noted, creating opportunities for renewable materials such as paper and board. This trend is being driven both by the market and by the lawmakers. Brand owners in a large number of different sectors such as fast food, cafés, hotels, groceries, retailing and entertainment have set themselves an objective of switching to other materials. Towards the end of the year, the European Parliament voted to introduce a ban in the area from 2021.

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## Competition

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**Description of risks**

A constantly present risk is increased competition in BillerudKorsnäs' existing markets. This can take place through existing market players acting more aggressively than in the past, for example as a result of expanded capacity, or through new players entering the market.

**Risk management**

BillerudKorsnäs' strategy for minimising the impact of increased competition in its existing markets is to continuously improve its own competitiveness. This is done through efficiency efforts and by enhancing the production structure. For this purpose, the company positions its

products in segments where a greater effort is required, both financially and in terms of knowledge, in order to compete.

**Comments 2018**

BillerudKorsnäs continuously works on market analysis in order to make decisions on the company's development based on an accurate picture of the world in which it operates. A project focused on strengthening the company's competitive position in the area of MG paper was completed in 2018 with the development of the mill in Skärblacka into an MG centre and commissioning of the largest MG machine in Europe. Work on the investment in a new board machine at Gruvön Mill continued, with operation targeted for the period March/April 2019.

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## Political and regulatory risk

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**Description of risks**

BillerudKorsnäs' business can be affected by various political decisions and legislative measures, for example in the areas of forestry, research policy, environmental policy, trade policy, transport policy, energy policy and recycling issues. It is crucially important to BillerudKorsnäs' opportunities for development that political decision-makers understand the forest and packaging industries. There is a risk of legislators failing to understand the industry or focusing solely on one part of the value chain.

**Risk management**

BillerudKorsnäs' Department of Sustainability & Public Affairs is responsible for the company's dialogue with decision-makers in relevant areas, in close cooperation with area specialists within the company. The focus is on political processes in Sweden and in the EU. The department monitors development, identifies issues of particular

significance to BillerudKorsnäs and acts in a suitable way on these individual issues. The dialogue with decision-makers often takes place together with or in any case in coordination with, other players with the same interests as BillerudKorsnäs, for example in the Swedish Forest Industries Federation or in the two Brussels-based industry associations CEPI and ACE.

**Comments 2018**

Several legislative processes with an impact on BillerudKorsnäs' operations were under way in 2018. The Circular Economy Package was adopted at EU level and is now awaiting an implementation period of two years. The European Commission presented its plastics strategy in early 2018, and the proposed Directive banning single-use plastic articles, which in the longer term will also have an impact on the paper industry, was negotiated during the second half of the year.

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## Establishment in new markets

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**Description of risks**

There are several types of risks linked to the establishment of new markets. BillerudKorsnäs may, for example, lack adequate understanding of the local culture and/or have insufficient knowledge of local legislation and business codes. There is also the risk of there being a shortage of local professional expertise and it being difficult to recruit competent staff. Further risks are of a shortage of knowledge about local agreements and it taking too long for new employees to learn BillerudKorsnäs' corporate culture. Taken together, these risks can lead to BillerudKorsnäs not meeting requirements and expectations on the domestic market, risking higher costs of establishment, fines, legal costs, damage to reputation, lower revenues than expected in the lower market and loss of customers.

**Risk management**

BillerudKorsnäs has a process for establishing a presence in new markets. The process contains a risk assessment of significant factors that may affect the business situation. BillerudKorsnäs employs local skills and makes use of external experts to ensure sufficient knowledge of local circumstances and compliance with laws and regulations. BillerudKorsnäs has a code of conduct covering all employees. To clarify and endorse the code of conduct, BillerudKorsnäs holds regular internal training courses. The code describes the obligations and rights of employees. Employees can report suspected irregularities and actions that breach the code of conduct through the BillerudKorsnäs whistleblower function. BillerudKorsnäs has training courses in Anti-bribery and Preventing Anti-Competitive Practices which the staff at the local offices have to undergo.

**Comments 2018**

Internal Control carried out audits during the year to ensure compliance with the code of conduct and make sure that other rules are being followed.

## Product safety

### Description of risks

BillerudKorsnäs produces material for a large quantity of packaging in a short time. This makes product safety issues and compensation claims for neglect (for example in relation to contamination of foods or beverages, damage caused by packaging leaks, etc.) a risk. This can lead to complaint costs, harm to reputation, loss of customer trust, lower revenue, withdrawal of consumer products and legal expenses.

### Risk management

There is a framework of materials with food contact in the EU today, but there is no harmonised legislation for paper and cartonboard in contact with foods. The German regulations (BfR) and US FDA rules are instead regarded as best practice and serve as guidance for minimum criteria for product safety within BillerudKorsnäs. Compliance with other important rules, such as the Chinese standards and medical regulations, are also important in this context.

The risk management covers quality controls during production of the packaging material and the finished product leaving the warehouse.

Reported non-compliances both in production and at customers are systematically followed up. BillerudKorsnäs also controls its exposure to this risk by insurance and agreements with customers and packaging partners.

### Comments 2018

There is increasing interest and activity on product safety from our customers with regard to analysis of ingredients, future tightening of legislation on chemicals and legal aspects. There is also an ever greater need for product safety internally in research and development for new packaging materials, new areas of use for our materials and development of converted packaging materials. A project was therefore under way during the year to find out whether the organisation is equipped for the future in terms of product safety. Recommendations were presented, and decisions were made to appoint a central product safety specialist. The specialist on product safety issues will focus on joint processes, assist in answering customer queries and prepare the organisation for future changes in legislation.

## Implementation of strategy

### Description of risks

Ineffective implementation of strategic plans, incorrect investment decisions and failure in fostering commitment among staff for the strategic focus can lead to a gradual downturn in revenue and profitability and adversely affect the balance sheet. Incorrectly targeted investments can result in immediate, large and/or long-term losses, reduced scope for investment, harm to reputation and increased capital costs. Regarding the strategic decision to invest in a new board machine KM7 in Gruvön, the project is now in the final stage and the start-up will be in March/April 2019.

### Risk management

BillerudKorsnäs pursues ongoing development of strategies for the divisions in which areas for development and improvement are defined, prioritised and analysed. Alternative scenarios are assessed financially, to clarify effects, opportunities and risks with different choices. A deci-

sion on an adjusted focus in the next stage represents a framework for planning and implementation in the company's various organisational units. Activity plans for more important strategic initiatives are regularly followed up to ensure implementation in accordance with the objectives decided upon. Regarding KM7 an ongoing risk work are carried out to identify and manage risk, which purpose is that the project and the start-up of the machine should go according to plan.

### Comments 2018

The focus in 2018 was on safeguarding capability and resources for successful implementation of strategic initiatives decided upon by the company in the areas of materials and solutions. At the end of 2018, BillerudKorsnäs strengthened the area of strategy by recruitment. Scrutiny of the strategic process and follow-up of implementation of the strategy were started to ensure a clear strategic direction and execution in accordance with adopted objectives.

## Energy price risk

### Description of risks

BillerudKorsnäs uses electricity, biofuels, oil and LPG, and these energy products account for a significant percentage of its manufacturing costs. Higher energy prices result in higher operating expenses and have an adverse impact on operating profit.

The biggest factor affecting energy costs is the price of electricity in the STO (SE3) electricity area in Sweden. Areas LUL (SE1), Sweden, and HEL (Fi), Finland, also have production units that pose a certain electricity price risk. In total, BillerudKorsnäs consumes around 3.1 TWh/year, 1.4 TWh/year of which is produced in the company's own back pressure facilities, and 1.7 TWh/year is bought in.

### Risk management

In principle, all in-company electricity generation is biofuel-based and the cost of in-company generation follows the trend in biofuel prices.

The cost of electricity is managed through financial electricity trading in standard contracts on NASDAQ. The company's trading strategy

is to purchase financial contracts corresponding to the majority of the physical volume exposed to the spot price. The pace of trading is linear and begins three years before delivery.

The company is also taking active measures to increase energy efficiency.

### Comments 2018

In 2018, total electricity consumption was about 3.12 (3.11) TWh, of which approximately 44% (46%) was generated in-company, and about 56% (40%) was purchased on the spot market (in 2017, 14% was also purchased under a fixed-price contract). At the end of the year, financial hedging for purchases of electricity exposed to spot price was:

2019	68%
2020	45%
2021	22%

## Risks related to employees

**Description of risks**

Access to employees with the right skills, our ability to persuade these to choose BillerudKorsnäs as an employer and inspirational managers with the ability are crucial if the goals set by BillerudKorsnäs are to be attained.

Personnel costs represent the third-largest expense item.

During the year, BillerudKorsnäs carried out a major reorganisation involving a switch from a functional organisation to a decentralised P&L organisation.

**Risk management**

BillerudKorsnäs works continually to manage skills transfer and succession planning at its facilities. To ensure that we attract talent and people with the skills for which there is demand, the company works in a structured and focused manner on strengthening the brand as an employer. In order proactively to minimise risk regarding abuse and doubtful background, we carry out background checks for critical and relevant positions and drug tests for all recruited staff.

Payroll costs are principally dictated by applicable collective agreements and employer's expenses. A work evaluation of various positions in BillerudKorsnäs has been carried out and a 'reward framework' has been implemented. Market pay statistics are used to ensure that pay is set at an adequate level.

HR and senior managers have been proactive in ensuring critical expertise during the reorganisation and providing an opportunity for internal mobility through internal advertising of new positions.

**Comments 2018**

Staffing plans are continually ongoing. An updated Group-wide trainee programme was launched in September 2018 and is under way in 2019, along with local professional trainee programmes.

BillerudKorsnäs works strategically on employer branding, which aims to showcase the Company as an attractive employer. The company is cooperating with more partners to increase visibility and has also implemented a new employee value proposition. The company has further strengthened skills in the area of people development (attract, recruit, retain and develop).

## Environmental impact and renewal of licences

**Description of risks**

BillerudKorsnäs production is governed by extensive environmental legislation, and the operation is subject to licenses being granted. Operating licences in Sweden are issued by land and environment courts following a comprehensive legal review during which the government's interests are safeguarded by the Swedish Environmental Protection Agency and county administrative boards.

In Sweden, supervision is exercised in the form of officers appointed by the county administrative boards, who continually verify compliance with licences, conditions and all generally applicable environmental legislation. In serious contraventions of conditions which may have a significant negative environmental impact, the matter may be passed to a prosecutor for investigation as a suspected environmental crime. A conviction may lead to personal criminal liability on the part of the staff concerned or corporate penalties.

Environmental legislation requires that any operator causing environmental damage bear strict and joint liability to rectify the damage caused. The issue most relevant to BillerudKorsnäs' Swedish production units is soil pollution. Breaches of environmental legislation may lead to the imposition of environmental sanction charges.

The EU's Industrial Emissions Directive, which was implemented in Swedish legislation in 2013, has introduced industry-wide emissions limits throughout the EU. BillerudKorsnäs has taken measures to meet the requirements.

The Group is also affected by various economic instruments relating to the environment, including energy taxes, greenhouse gas emissions trading, nitrogen oxide taxes and waste management taxes.

Global warming is one of the greatest challenges of our time. BillerudKorsnäs is affected through the production of paper, pulp and board causing fossil carbon dioxide emissions, while there is a positive impact on the business when the world at large is looking for renewable, climate-smart alternatives to fossil materials. The switch that climate change necessitates presents the business with both risks and opportunities.

**Risk management**

The environmental standard at BillerudKorsnäs' production units is high, due to ongoing initiatives over many years. All production units have certified management systems for environment and quality, and, in Sweden, for energy. The units have environment functions that are responsible for contact with supervisory authorities. The production units work together in an environmental network.

Employees at BillerudKorsnäs have undergone training in basic environmental knowledge, and this also forms part of the induction training for new employees. Key staff are given more in-depth environmental training to enable them to continually address environmental issues.

**Comments 2018**

Environmental work at the production facilities continued to be extensive, largely linked to the increases in production and large investments decided upon.

- Karlsborg on 20 April 2017 submitted an application to modify the licence for expanded sulphate pulp production from 320 ktonnes to 350 ktonnes. The Land and Environment Court in a part judgement on 8 November 2017 granted a licence for expanded pulp production for 2017 to 328 ktonnes with unchanged environmental conditions, and another part judgement on 29 August 2018 granted a licence for expanded pulp production for 2018 to 335 ktonnes. The main hearing on the application for an amended licence took place in December 2018.
- Gävle received final terms for releases to water from the Land and Environment Court on 18 November. As the judgement contains some elements that may limit the mill's production, it has been appealed to the Land and Environment Court of Appeal, which has not yet heard the case.
- Frövi submitted an application for continued and expanded production in December 2017. The application is divided into two stages, the first of which relates to expanded cartonboard production and the second to expanded pulp production. The application has not yet been considered by the Land and Environment Court.
- Skärblacka on 30 December 2017 submitted an application for an amended licence to increase production from 200 ktonnes of bleached sulphate pulp to 210 tonnes. The change is being made to increase flexibility in production and enable the facility to be utilised to its full capacity. A licence for this was issued on 24 August 2018.
- The paper machine at Pietarsaari in Finland was granted its own environmental licence at the end of 2017 after previously having shared a licence with UPM.

During the year, BillerudKorsnäs began identifying risks and opportunities related to climate change, and in a first stage a number of external factors, their extent, the likelihood of them occurring and, if they do, how this will affect the business from a Group perspective were analysed. This in-depth analysis makes it possible to quantify both risks and opportunities in financial terms in a next stage. This work takes place in accordance with Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the scenario analyses that are prepared will provide valuable input into the company's strategic choices of path.

In 2018, BillerudKorsnäs' new climate targets were approved by the Science Based Targets Initiative, which ensures that the targets are in accordance with the Paris Agreement.

## Protection of information and personal privacy

### Description of risks

The community and BillerudKorsnäs' operations are supported consist to an ever greater degree of digital tools and services. Greater digital exposure also increases the risk of unauthorised access to and use of the company's and stakeholders' information. Methods employed to access company's internal systems and information resources are becoming increasingly sophisticated and are used more and more intensively by various operators with malicious intent. With greater digital exposure it is also becoming easier to unintentionally make the information of the company and its stakeholders available to unauthorised persons. Information that ends up in the wrong hands can be used in several ways that can harm BillerudKorsnäs and its stakeholders. This may involve blackmail, fraud, damage to information and fixed assets, spreading of share price-sensitive information, etc.

### Risk management

BillerudKorsnäs has chosen a systematic way of working to protect its own and its stakeholders' information assets and privacy based on the information security standard ISO27001. Checks have also been

added to the information security management system to make sure that the company fulfils the requirements of the European General Data Protection Regulation (GDPR). The checks and their prioritisation are based on analysis of the identified risks. Risk analysis is carried out at several levels in the company, and the risks are addressed in governance and management forums for the company's information and system resources.

### Comments 2018

BillerudKorsnäs increased its activity in the field of information security in 2018. The rapid growth of cyber crime has created a clear need to move away from adequate IT security towards focused information security efforts on a new level. There has been a strong focus on GDPR and putting mechanisms and working practices in place ahead of the entry into force of the new legislation. Further efforts have been made to ensure that these working practices become a natural part of the business operation. Dedicated roles and forums have been formalised to direct and coordinate information security efforts, and objectives have been set for the strategy period.

## Financial risks

The following section describes BillerudKorsnäs' financial risk management policies, which correspond to the policies adopted before and during 2018.

### Currency risk – transaction exposure

#### Description of risks

Transaction exposure is the risk of changes in exchange rates for export revenues and import expenses negatively affecting BillerudKorsnäs' operating profit and the cost of its fixed assets. The Group's net currency exposure is considerable; the main currencies involved are EUR, USD and GBP. However, the majority of operating expenses are in SEK. The main exceptions are production costs in Finland and the UK, shipping costs and the costs of imported wood raw materials and chemicals, which are primarily affected by EUR and USD exchange rates.

#### Risk management

To reduce the consequences of currency exposure, the Group can hedge forecast net flows in foreign currencies. The financial policy adopted by the Board states guidelines for currency hedging, which means that between 0% and 80% of net flows over the coming 15-month period can be hedged. Hedging beyond this must be determined by the Board.

The main target for each business area is EBITDA, %, and follow-up of operating margin, which is measured excluding the earnings effects of hedging currency flows. The earnings effects of changes in exchange rates in operating capital are managed at Group level and matched against corresponding earnings for currency hedging.

#### Comments 2018

At the end of 2018, foreign exchange contracts not yet recognised in profit/loss nominally totalled SEK 4 881 million (4 422). These will be recognised in profit/loss in 2019 and 2020. Net currency flows, excluding currency flows due to the investment in a cartonboard machine at the Gruvön production unit, are estimated to total around SEK 6 200 million (6 800) in 2019.

Of forecast net flows over the coming 15-month period in EUR, USD and GBP, 80%, 51% and 3%, respectively, were hedged at year-end. During the year, the Board decided to hedge EUR/SEK net flows to May 2020. Net flows for EUR/SEK are thus hedged for the next 17-month period.

As at 31 December 2018, the market value of BillerudKorsnäs' outstanding foreign exchange contracts was SEK –71 million (–51).

Nominal amount of foreign exchange derivatives	2018	2017
EUR million	410	459
USD million	152	100
GBP million	2	4
<b>Market value of foreign exchange derivatives, SEKm</b>		
Forward foreign exchange contracts	–71	–51

### Currency risk – translation exposure

#### Description of risks

Translation exposure is the risk to which BillerudKorsnäs is exposed when foreign subsidiaries' income statements and balance sheets are translated into SEK.

#### Risk management

BillerudKorsnäs has assets in foreign currency, mainly through owning assets in Finland, the UK and the US.

#### Comments 2018

At 31 December 2018, total capital employed in foreign currency was SEK 747 million (774), of which SEK 1 315 million (1 429) was financed by shareholders' equity. No net assets are currently hedged.

SEKm	Capital employed	Net borrowings	Net assets
GBP	101	–2	103
EUR	694	–509	1 203
USD	–12	10	–22
Other currencies	–36	–67	31
<b>Total</b>	<b>747</b>	<b>–568</b>	<b>1 315</b>

## Financing risk

**Description of risks**

The financing risk is the risk of failure to obtain financing, or of obtaining financing only at a sharply increased cost. Access to further financing will be affected by a number of factors, including market conditions, the general availability of credit and BillerudKorsnäs' creditworthiness and credit capacity. In addition, access to further financing depends on customers, suppliers or lenders not being affected by negative perceptions about BillerudKorsnäs' long and short-term financial prospects. Disruptions and uncertainty on the capital and credit markets may also limit access to the capital required to run the business.

**Risk management**

In order to ensure that the Group always has access to external financing, the finance department must ensure access to short and long-term credit facilities. The Company aims to achieve cost-efficiency within established limits. The actions of the finance department are governed by the financial policy, which is reviewed annually.

The lender base must also be reasonably diversified to avoid excessive dependence on individual sources of financing. The repayment structure for the Group's loans must be arranged so that loan maturity is evenly spread over time. The Company also aims for access to liquidity over the next 12 months to exceed utilisation by a minimum of 1.2 times.

**Comments 2018**

Financing opportunities for the Group remained very good in 2018, with good liquidity on both the commercial paper and bond markets.

BillerudKorsnäs has a syndicated credit facility of SEK 5 500 million, which falls due in May 2023. The credit facility was unused at year-end. At 31 December 2018, BillerudKorsnäs' net interest-bearing debt totalled SEK 9 333 million (5 737). Interest-bearing debt increased by SEK 3 887 million in 2018. The increase was principally due to increased borrowing requirements in connection with ongoing investment programmes at the Gruvön production unit. Of interest-bearing borrowings, SEK 1 894 million was short-term, which represented an increase of SEK 343 million during the year. At the end of the year, corporate bonds totalling SEK 1 500 million and bilateral loans totalling SEK 48 million had been repaid compared with the start of the year. At the same time, bilateral loans totalling SEK 1 135 million, corporate bonds totalling SEK 2 700 million and corporate certificates totalling SEK 1 600 million had been raised during the year. Long-term interest-bearing net borrowings totalled SEK 7 130 million at the end of the year, of which SEK 6 393 million falls due in 2021 or later.

Financial assets and liabilities are recognised in Note 25.

## Interest rate risk

**Description of risks**

Interest rate risk is the possible effect that a change in interest rates may have on earnings. The speed with which a change in the interest rate trend affects earnings depends on the fixed interest term on loans and investments.

**Risk management**

The Group uses derivatives to manage interest rate risk. The average fixed interest term (duration) for the entire loan portfolio should be between 1 and 36 months. The fixed interest term for an individual loan or interest rate swap may not exceed 10 years. The Board may, however, determine a longer fixed interest term. To achieve this standard, interest rate derivatives, preferably interest rate swaps and fixed interest loans, are used. Price risk is defined as the effect on earnings that may be caused by changes in the price of outstanding capital instruments. Financial investments are made at short fixed interest terms, which limits interest rate risk in investments.

**Comments 2018**

If the Group's entire borrowing portfolio had a variable interest rate, the effect on earnings for one year from a 1 percentage point change in interest rates would be SEK 90 million (51), based on the total interest-bearing liability of SEK 9 024 (5 137) million at year-end.

The Group's average fixed-interest term was 10 months (9) at year-end. The increase in fixed interest term is due in particular to increased long-term financing during the year. A 1 percentage point change in interest rates would have an annualised effect of SEK 66 million (39) on earnings, given the current fixed interest term.

Nominal value of interest rate derivatives, SEKm	2018	2017
Interest rate swaps:		
Maturity of less than 1 year	–	700
Maturity of 1–2 years	–	–
Maturity of more than 2 years	444	486
<b>Total</b>	<b>444</b>	<b>1 186</b>
<b>Market value of interest derivatives, SEKm</b>		
Interest rate swaps	–21	–24
<b>Nominal amount, fixed interest loans</b>		
Maturity of less than 1 year	–	500
Maturity of 1–2 years	400	–
Maturity of more than 2 years	1 550	250
<b>Total</b>	<b>1 950</b>	<b>750</b>

## Financial credit risk

**Description of risks**

Credit risk refers to situations such as when a counterparty in a financial transaction cannot meet its undertakings. If measures taken by BillerudKorsnäs to minimise credit and counterparty risk are inadequate, this may have an adverse effect on BillerudKorsnäs' financial position and earnings.

**Risk management**

In order to reduce credit and counterparty risk, BillerudKorsnäs' finance policy has defined the size of the counterparty risk that is

accepted based, among other things, on the counterparty's credit rating. BillerudKorsnäs also has ISDA agreements with relevant banks.

When calculating credit risks, the positive effects on earnings of derivative contracts with counterparties are also taken into account. BillerudKorsnäs' maximum credit risk exposure is equal to the fair value of financial assets, disclosed in Note 25.

**Comments 2018**

At year-end, the total net credit exposure was SEK 383 million (116).

## Customer dependence and customer credit risk

**Description of risks**

BillerudKorsnäs has approximately 2 000 customers and packaging partners in more than 100 countries; the Company's five largest customers account for approximately one-third of the Group's sales. If BillerudKorsnäs cannot meet the demands made by its largest customers, and if customers do not fulfil their payment obligations, BillerudKorsnäs may be adversely affected.

**Risk management**

Customers mainly consist of packaging producers, and the relationship with the customer is usually long-lasting. BillerudKorsnäs is increasingly offering packaging solutions directly to end-customers and brand owners. By expanding its customer base, BillerudKorsnäs can reduce its dependence on a small number of customers.

The granting of credit to customers varies, depending on the market and the product. The Group has developed guidelines to control customer credit, in which the basic policy is to insure all customer credit that can be insured. Exemptions are made for certain major long-standing customers and buyers of raw timber. In certain markets,

where it is not possible to insure customer credit, letters of credit, advance payments or bank guarantees are used to guarantee payments.

**Comments 2018**

Accounts receivable totalled SEK 2 807 million (2 713) at 31 December 2018. Accounts receivable averaged SEK 2 812 million (2 634) in 2018, representing an average customer credit period of around 43 days (42). Bad debt losses totalled SEK –14 million (–17) in 2018.

**Provision for doubtful debts**

Group, SEKm	2018	2017
Provision at start of year	32	44
Provision for anticipated bad debt losses	16	5
Provision for the general reserv, according to IFRS9	5	–
Confirmed bad debt losses	–14	–17
<b>Provision at year-end</b>	<b>39</b>	<b>32</b>

**Breakdown of accounts receivable by age**

Group, SEKm	2018			2017		
	Gross	Impairment	Net	Gross	Impairment	Net
Accounts receivable not due	2 420	–9	2 411	2 372	–	2 372
Accounts receivable overdue 0–30 days	358	–	358	313	–	313
Accounts receivable overdue >30–90 days	16	–3	13	9	–1	9
Accounts receivable overdue >90–180 days	11	–3	8	4	–1	3
Accounts receivable overdue >180–360 days	9	–2	7	–	–1	–1
Accounts receivable overdue >360 days	32	–22	10	46	–29	17
<b>Total</b>	<b>2 846</b>	<b>–39</b>	<b>2 807</b>	<b>2 744</b>	<b>–32</b>	<b>2 713</b>

## Sensitivity analysis

**Impact on profit/loss before tax**

Variable	Change	SEKm
Sales volume	+/- 10%	+/-925
Exchange rates, SEK <sup>1</sup>	+/- 10%	–/+620
Fibre price	+/- 10%	–/+815
Electricity price <sup>2</sup>	+/- 10%	–/+95
Loan rate <sup>3</sup>	+/- 1 percentage point	–/+70

1 Excluding effects of currency hedging and currency flows relating to investment at Gruvön.

2 Excluding effects of electricity price hedging.

3 Excluding effects of interest hedging.

**Breakdown of operating costs, %**

- Fibre (wood and external pulp), 35
- Chemicals, 9
- Delivery expenses, 10
- Energy, 3
- Other variable costs, 6
- Employee benefit costs, 16
- Depreciation/amortisation, 7
- Other fixed costs, 14

# Financial statements

## Consolidated income statement

SEKm	Note	2018	2017
Net sales	2	23 692	22 345
Other operating income	3	230	220
<b>Total operating income</b>		<b>23 922</b>	<b>22 565</b>
<b>Operating expenses</b>			
Change in inventories		633	-182
Raw materials and consumables		-12 556	-10 567
Other external costs	4	-5 473	-4 626
Employee benefit costs	5, 26	-3 595	-3 423
Depreciation, amortisation and impairment of non-current assets	11, 12	-1 513	-1 519
Share of profit/loss of associates	15	12	-7
<b>Total operating expenses</b>		<b>-22 492</b>	<b>-20 324</b>
<b>Operating profit/loss</b>	2, 6	<b>1 430</b>	<b>2 241</b>
<b>Financial items</b>	7		
Finance income		15	16
Finance costs		-104	-154
<b>Net financial items</b>		<b>-89</b>	<b>-138</b>
<b>Profit/loss before tax</b>		<b>1 341</b>	<b>2 103</b>
Tax	9	-304	-465
<b>Profit/loss for the year</b>		<b>1 037</b>	<b>1 638</b>
<b>Profit/loss attributable to:</b>			
Owners of the parent company		1 037	1 638
Non-controlling interests		-	-
<b>Profit/loss for the year</b>		<b>1 037</b>	<b>1 638</b>
Earnings per share, SEK	10	5.01	7.91
Diluted earnings per share, SEK	10	5.00	7.90

Dividend per share is shown in Notes 18 and 19.

## Consolidated statement of Other comprehensive income

SEKm	Note	2018	2017
<b>Profit/loss for the year</b>		<b>1 037</b>	<b>1 638</b>
<b>Items that cannot be transferred to profit/loss for the period</b>			
Revaluation of defined-benefit pensions		-24	-29
Change for the period in fair value relating to shareholdings in Other holdings <sup>1</sup>		103	50
Change for the period in fair value of shareholdings in Other holdings recognised in the income statement		-12	-7
Tax that can be attributed to items that cannot be transferred to profit/loss for the period		5	6
<b>Total items that cannot be transferred to profit/loss for the period</b>		<b>72</b>	<b>20</b>
<b>Items that have been or can be transferred to profit/loss for the period</b>			
Translation differences for the period arising from translation of foreign operations		60	31
Translation differences for the period transferred to profit/loss for the year		-	1
Changes in fair value of cash flow hedges during the period		222	67
Changes in fair value of cash flow hedges transferred to profit/loss for the year		154	-39
Tax attributable to items that have been or can be transferred to profit/loss for the period		-80	-6
<b>Total items that have been or can be transferred to profit/loss for the period</b>		<b>356</b>	<b>54</b>
<b>Total comprehensive income for the year</b>		<b>1 465</b>	<b>1 712</b>
<b>Attributable to:</b>			
Owners of the parent company		1 465	1 712
Non-controlling interests		-	-
<b>Total comprehensive income for the year</b>		<b>1 465</b>	<b>1 712</b>

<sup>1</sup> The classification has been changed from Items that have been or can be transferred to profit/loss for the period to Items that cannot be transferred to profit/loss for the period as a result of the introduction of IFRS 9.

## Consolidated balance sheet

SEKm	Note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>	1, 25		
<b>Non-current assets</b>			
Non-current intangible assets	11	2 185	2 248
Property, plant and equipment	12	21 429	17 690
Participations in associated companies and joint ventures	15	16	8
Other holdings	16	1 530	1 429
Non-current receivables from associates	14	17	16
Deferred tax assets	9	118	107
Non-current receivables		186	6
<b>Total non-current assets</b>		<b>25 481</b>	<b>21 504</b>
<b>Current assets</b>			
Inventories	17	3 633	2 912
Accounts receivable		2 807	2 713
Tax receivables		220	15
Other receivables		902	617
Prepaid expenses and accrued income		215	267
Cash and cash equivalents	27	456	168
<b>Total current assets</b>		<b>8 233</b>	<b>6 692</b>
<b>Total assets</b>		<b>33 714</b>	<b>28 196</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	1, 25		
<b>Shareholders' equity</b>	18		
Share capital		1 537	1 537
Other contributed capital		4 484	4 484
Reserves		1 189	742
Retained earnings incl. profit/loss for the year		7 145	7 048
<b>Total equity attributable to owners of the parent company</b>		<b>14 355</b>	<b>13 811</b>
Non-controlling interests		–	–
<b>Total shareholders' equity</b>		<b>14 355</b>	<b>13 811</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	22	7 130	3 586
Provisions for pensions	20	784	784
Other provisions	21	262	227
Deferred tax liabilities	9	3 633	3 392
Other liabilities		22	–
<b>Total non-current liabilities</b>		<b>11 831</b>	<b>7 989</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	22	1 894	1 551
Accounts payable		3 825	3 294
Tax liabilities		8	72
Other liabilities		353	259
Accrued expenses and deferred income	24	1 323	1 197
Provisions	21	125	23
<b>Total current liabilities</b>		<b>7 528</b>	<b>6 396</b>
<b>Total liabilities</b>		<b>19 359</b>	<b>14 385</b>
<b>Total shareholders' equity and liabilities</b>		<b>33 714</b>	<b>28 196</b>

## Consolidated statement of changes in equity

SEKm	Note	Equity attributable to owners of the parent company						Total	Non-controlling interests	Total shareholders' equity
		Share capital	Other contributed capital	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings and profit/loss for the year			
<b>Opening balance, 1 Jan 2018</b>	18	1 537	4 484	133	589	20	7 048	13 811	–	13 811
Total comprehensive income for the year				60	91	296	1 018	1 465		1 465
Dividend to owners of the parent company							–890	–890		–890
Buy-back of own shares							–41	–41		–41
Share-based payments to be settled in equity instruments, IFRS 2							10	10		10
<b>Closing balance, 31 Dec 2018</b>		1 537	4 484	193	680	316	7 145	14 355	–	14 355

SEKm	Note	Equity attributable to owners of the parent company						Total	Non-controlling interests	Total shareholders' equity
		Share capital	Other contributed capital	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings and profit/loss for the year			
<b>Opening balance, 1 Jan 2017</b>	18	1 537	4 484	101	546	–2	6 355	13 021	1	13 022
Total comprehensive income for the year				32	43	22	1 615	1 712		1 712
Dividend to owners of the parent company							–891	–891		–891
Dividend to non-controlling interests									–1	–1
Buy-back of own shares							–41	–41		–41
Share-based payments to be settled in equity instruments, IFRS 2							10	10		10
<b>Closing balance, 31 Dec 2017</b>		1 537	4 484	133	589	20	7 048	13 811	–	13 811

## Consolidated statement of cash flows

SEKm	Note	2018	2017
<b>Operating activities</b>	27		
Profit/loss after financial items		1 341	2 103
Adjustments for items not included in cash flow		1 829	1 444
Tax paid		-401	-472
<b>Cash flow from operating activities before changes in working capital</b>		<b>2 769</b>	<b>3 075</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/decrease (+) in inventories		-877	233
Increase (-)/decrease (+) in operating receivables		-84	-306
Increase (+)/decrease (-) in operating liabilities		694	314
<b>Cash flow from operating activities</b>		<b>2 502</b>	<b>3 316</b>
<b>Investing activities</b>			
Acquisition of non-current intangible assets		-	-2
Acquisition of property, plant and equipment		-5 120	-4 194
Sale of property, plant and equipment		2	2
Acquisition of subsidiaries	33	-36	-
Sale of subsidiaries	34	-1	15
Acquisition of financial assets <sup>1</sup> / shareholder contributions to Other holdings and associates		-22	-65
Sale of financial assets		5	-
<b>Cash flow from investing activities</b>		<b>-5 172</b>	<b>-4 244</b>
<b>Cash flow after investing activities</b>		<b>-2 670</b>	<b>-928</b>
<b>Financing activities</b>			
Changes in interest-bearing receivables		-3	-
Borrowings		5 411	2 447
Debt repayment		-1 548	-1 139
Buy-back of own shares		-41	-41
Dividend		-890	-891
Dividend to non-controlling interests		-	-1
<b>Cash flow from financing activities</b>		<b>2 929</b>	<b>375</b>
<b>Cash flow for the period</b>		<b>259</b>	<b>-553</b>
<b>Cash and cash equivalents at start of year</b>		<b>168</b>	<b>708</b>
<b>Translation difference in cash and cash equivalents</b>		<b>29</b>	<b>13</b>
<b>Cash and cash equivalents at year-end</b>		<b>456</b>	<b>168</b>

<sup>1</sup> Relates mainly to shares in Other holdings.

## Parent company income statement

SEKm	Note	2018	2017
Net sales	2	127	395
Other operating income	3	23	7
<b>Total operating income</b>		<b>150</b>	<b>402</b>
<b>Operating expenses</b>			
Other external costs	4	-336	-290
Employee benefit costs	5, 26	-271	-232
Depreciation, amortisation and impairment of non-current assets	12	-1	-1
<b>Total operating expenses</b>		<b>-608</b>	<b>-523</b>
<b>Operating profit/loss</b>	2, 6	<b>-458</b>	<b>-121</b>
<b>Financial items</b>	7		
Profit/Loss from investments in Group companies		14	81
Profit/loss from other participations		5	14
Interest income and similar profit/loss items		4	8
Interest expense and similar profit/loss items		-363	-226
<b>Total financial items</b>		<b>-340</b>	<b>-123</b>
<b>Profit/loss after financial items</b>		<b>-798</b>	<b>-244</b>
Appropriations	8	756	2 635
<b>Profit/loss before tax</b>		<b>-42</b>	<b>2 391</b>
Tax	9	-31	-511
<b>Profit/loss for the year</b>		<b>-73</b>	<b>1 880</b>

## Parent company statement of Other comprehensive income

SEKm	Note	2018	2017
<b>Profit/loss for the year</b>		<b>-73</b>	<b>1 880</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income</b>		<b>-73</b>	<b>1 880</b>

## Parent company balance sheet

SEKm	Note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>	1, 25		
<b>Non-current assets</b>			
Property, plant and equipment	12	11	12
Investments in Group companies	13	10 612	10 669
Participations in associated companies and joint ventures	15	–	–
Other holdings	16	13	26
Non-current receivables from associates	14	17	16
Deferred tax asset	9	20	2
Other non-current receivables		26	23
<b>Total non-current assets</b>		<b>10 699</b>	<b>10 748</b>
<b>Current assets</b>			
Accounts receivable		2 307	2 188
Receivables from Group companies	14	9 672	8 069
Tax receivables		199	–
Other receivables		38	29
Prepaid expenses and accrued income		46	54
Cash and bank balances	27	292	18
<b>Total current assets</b>		<b>12 554</b>	<b>10 358</b>
<b>Total assets</b>		<b>23 253</b>	<b>21 106</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	1, 25		
<b>Shareholders' equity</b>	18, 19		
<b>Restricted equity</b>			
Share capital		1 537	1 537
Statutory reserve		149	149
<b>Total restricted equity</b>		<b>1 686</b>	<b>1 686</b>
<b>Non-restricted equity</b>			
Share premium reserve		4 408	4 408
Retained earnings		1 235	277
Profit/loss for the year		–73	1 880
<b>Total non-restricted equity</b>		<b>5 570</b>	<b>6 565</b>
<b>Total shareholders' equity</b>		<b>7 256</b>	<b>8 251</b>
<b>Untaxed reserves</b>	28	<b>1 526</b>	<b>1 586</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	20	210	208
Provisions	21	25	–
<b>Total provisions</b>		<b>235</b>	<b>208</b>
<b>Non-current liabilities</b>			
Bond loans	23	4 700	2 000
Other interest-bearing non-current liabilities	23	2 031	1 141
<b>Total non-current liabilities</b>		<b>6 731</b>	<b>3 141</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	23	1 846	1 506
Accounts payable		40	30
Liabilities to Group companies	14	5 491	6 216
Tax liabilities		–	52
Other liabilities		28	25
Accrued expenses and deferred income	24	100	91
<b>Total current liabilities</b>		<b>7 505</b>	<b>7 920</b>
<b>Total shareholders' equity and liabilities</b>		<b>23 253</b>	<b>21 106</b>

## Parent company statement of changes in equity

SEKm	Note	Restricted equity		Non-restricted equity			Total share-holders' equity
		Share capital	Statutory reserve	Share premium reserve	Retained earnings	Profit/loss for the year	
<b>Opening balance, 1 Jan 2018</b>	18	<b>1 537</b>	<b>149</b>	<b>4 408</b>	<b>277</b>	<b>1 880</b>	<b>8 251</b>
Previous year's profit/loss brought forward					1 880	-1 880	-
Profit/loss for the year						-73	-73
Dividends paid					-890		-890
Buy-back of own shares					-41		-41
Share-based payments to be settled in equity instruments					9		9
<b>Closing balance, 31 Dec 2018</b>		<b>1 537</b>	<b>149</b>	<b>4 408</b>	<b>1 235</b>	<b>-73</b>	<b>7 256</b>

SEKm	Note	Restricted equity		Non-restricted equity			Total share-holders' equity
		Share capital	Statutory reserve	Share premium reserve	Retained earnings	Profit/loss for the year	
<b>Opening balance, 1 Jan 2017</b>	18	<b>1 537</b>	<b>149</b>	<b>4 408</b>	<b>300</b>	<b>898</b>	<b>7 292</b>
Previous year's profit/loss brought forward					898	-898	-
Profit/loss for the year						1 880	1 880
Dividends paid					-891		-891
Buy-back of own shares					-41		-41
Share-based payments to be settled in equity instruments					11		11
<b>Closing balance, 31 Dec 2017</b>		<b>1 537</b>	<b>149</b>	<b>4 408</b>	<b>277</b>	<b>1 880</b>	<b>8 251</b>

## Parent company cash flow statement

SEKm	Note	2018	2017
<b>Operating activities</b>	27		
Profit/loss after financial items		-798	-244
Adjustments for items not included in cash flow		265	52
Tax paid		-301	-445
<b>Cash flow from operating activities before changes in working capital</b>		<b>-834</b>	<b>-637</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/decrease (+) in operating receivables		-2 979	-3 597
Increase (+)/decrease (-) in operating liabilities		-1 945	1 690
<b>Cash flow from operating activities</b>		<b>-5 758</b>	<b>-2 544</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		-	-3
Acquisition of shares and shareholder contributions to subsidiaries		-120	-20
Sale of shares in subsidiaries	34	-1	-
Acquisition of shares in associates and shareholder contributions		-4	-6
Acquisition of shares in Other holdings		-14	-
Sale of shares in Other holdings		5	9
Change in financial receivables		-4	-11
<b>Cash flow from investing activities</b>		<b>-138</b>	<b>-31</b>
<b>Cash flow after investing activities</b>		<b>-5 896</b>	<b>-2 575</b>
<b>Financing activities</b>			
Borrowings		5 417	2 447
Repayment of borrowings		-1 506	-1 100
Buy-back of own shares		-41	-41
Dividend		-890	-891
Settled Group contributions		3 190	1 662
<b>Cash flow from financing activities</b>		<b>6 170</b>	<b>2 077</b>
<b>Cash flow for the year</b>		<b>274</b>	<b>-498</b>
<b>Cash and cash equivalents at start of year</b>		<b>18</b>	<b>516</b>
<b>Cash and cash equivalents at year-end</b>		<b>292</b>	<b>18</b>

(Amount in SEKm unless stated otherwise)

## 1 Significant accounting policies

### Statement of compliance

The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and interpretations made by the IFRS Interpretations Committee (IFRIC) as endorsed by the European Commission for application within the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 concerning supplementary accounting rules for Groups has been applied.

The parent company applies the same accounting policies as the Group except in the cases indicated under "Parent company's accounting policies".

### Basis of measurement in preparing the financial reports

Assets and liabilities are stated at historical cost, except for certain financial assets and liabilities that are measured at fair value or amortised cost. Financial assets and liabilities measured at fair value consist of derivatives as well as financial assets classified either as financial assets recognised at fair value through profit and loss or other comprehensive income.

### Functional and presentation currencies

The functional currency of the parent company is SEK, which is also the presentation currency used for the accounts of both the parent company and the Group. Thus financial reports are presented in SEK. All amounts, unless stated otherwise, are rounded to the nearest million.

### Use of estimates and judgments in the financial reports

Preparing financial reports in accordance with IFRS requires company management to make judgments and estimates as well as assumptions that affect the application of accounting policies and the amounts disclosed for assets, liabilities, income and expenses. The actual outcome can differ from the assumptions and estimates.

Assumptions and estimates are reviewed on an ongoing basis. Revisions to estimates are recognised in the period the change occurs if the change only affects that period, or in the period the change occurs and in future periods if the change affects both current and future periods.

Judgements made by the Company's management when applying IFRS that have a significant impact on financial reports and estimates made that may involve significant adjustments to subsequent financial reports are described in more detail in note 35.

### Accounting policies applied in the reports

The accounting policies specified below, excepting those described in greater detail, have been applied consistently when reporting and consolidating the parent company and subsidiaries as well as when incorporating associated companies and joint ventures in the consolidated accounts.

### Changes in accounting policies

The new and amended standards and interpretations that are applicable from 2018 have not had any material effect on BillerudKorsnäs' accounting. No amended standards or interpretations due to be implemented in the next few years have been applied in advance.

### New IFRS and interpretations coming into effect in the next few years

#### • IFRS 16 Leases

This standard will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, and related rules with application from 2019. For lessees this means that all contracts that meet the definition in this standard of a lease must be recognised as an asset and liability in the balance sheet, with recognition of depreciation and interest expense in profit and loss, with a few exceptions. Agreements regarding the rental of premises, machinery and similar which currently constitute operating leases (see Note 12) under the present-day standard IAS 17 are not recognised in the balance sheet as an asset and liability, besides those interim items that arise at

period-end. In 2018, BillerudKorsnäs continued to work on analysing existing lease contracts to assess which contracts are covered by IFRS 16, and to implement system support for the calculation of lease contracts. BillerudKorsnäs has chosen a simplified modified method on transition to IFRS 16, which means that amounts for the comparative year 2018 will not be remeasured. This means that the opening balance at 1 January 2019 will recognise increased non-current assets linked to IFRS 16 through a right-of-use asset amounting to SEK 261m and an interest-bearing lease liability of SEK 266m, which results in a negative net effect after deferred tax on equity of SEK 4m. The principal differences with the disclosures in Note 12 are that Note 12 does not contain discounted values, and that Note 12 also includes newly signed lease contracts where BillerudKorsnäs is not yet able to use the asset. BillerudKorsnäs has chosen to apply the relief rules relating to leases shorter than 12 months and low-value leases. Under the relief rules, leases not covered by these rules are not included in the recognised lease liability or right-of-use asset. BillerudKorsnäs' leases principally consist of trucks, company cars and office rents, the vehicle category accounting for around 75% of the right-of-use asset.

No other issued new or amended standards and interpretations with future application are expected to significantly impact BillerudKorsnäs' reporting.

### Classifications etc.

Non-current assets and liabilities in the parent company and the Group consist largely only of amounts that are expected to be recovered or paid more than 12 months after the end of the reporting period. Current assets and liabilities in the parent company and the Group consist largely only of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.

### Operating segments

BillerudKorsnäs' operations are divided into operating segments based on which parts of the operations the Company's ultimate executive decision makers monitor, that is, according to the "management approach". The Group's operations are organised so that the Executive Leadership Team monitors the profit or loss, EBITDA and the operating margin generated by the Group's various goods and services. Each operating segment has a manager responsible for the operations who periodically reports to the Executive Leadership Team the outcome of the operating segment's efforts and its resource requirements. The Executive Leadership Team monitors the operation's profit or loss and determines resource allocations based on the goods and services the Group manufactures and sells, so these constitute the Group's operating segments. BillerudKorsnäs has identified its operating segments in accordance with IFRS 8, and they consist of Packaging Paper, Consumer Board and Corrugated Solutions. Starting January 1, 2019 operating segments will consist of Paper, Board and Solutions.

### Basis of consolidation

#### Subsidiaries

Subsidiaries are companies in which BillerudKorsnäs AB has a controlling influence. Controlling influence means that BillerudKorsnäs is exposed to returns from a subsidiary and can have an influence on returns through its control. This usually means that BillerudKorsnäs controls more than 50% of the voting rights. In determining whether one company has a control influence over another, all the facts and circumstances, such as potential shares with voting rights, must be taken into account.

Subsidiaries are recognised using the purchase method. By this method, the acquisition of a subsidiary is considered a transaction in which the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. The acquisition cost upon consolidation is determined using a purchase price allocation analysis in connection with the acquisition. This analysis establishes the acquisition cost for the participation or business and the fair value at the acquisition date of the acquired identifiable assets as well as assumed liabilities and any contingent liabilities. The acquisition cost of the subsidiary company's shares and the business consists of the total of the fair values at the acquisition date for assets provided, liabilities arising or assumed, and equity instruments on issue that are provided as consideration in exchange for the net assets acquired. Transaction costs

directly attributable to the acquisition are recognised as an expense in the Group. If the acquisition cost exceeds the fair value of assets acquired, assumed liabilities and contingent liabilities recognised separately, the difference is recognised as goodwill. When the difference is negative, it is charged directly to profit and loss.

Financial statements of subsidiaries are included in the consolidated accounts from the date of acquisition up to the date when control ceases.

#### **Associates and Joint Arrangements**

Associates are companies in which the Group has a significant influence, but not control, over operating and financial strategies, usually via a shareholding corresponding to 20–50% of voting rights. From the time when the Group gains its significant influence, participations in the associated company are recognised in accordance with the equity method.

By the equity method, the carrying amount of participations in associated companies recognised in the consolidated accounts corresponds to the Group's participation in the associated companies' equity, any consolidated goodwill and any other remaining consolidated fair value adjustments. In the consolidated income statement, the Group's share in the profit or loss after tax of the associated companies is reported as "Share of profit/loss of associates". Joint arrangements are entities in which BillerudKorsnäs and one or more other owners have joint control. Joint arrangements will be recognised as a joint operation, where BillerudKorsnäs recognises its share of the joint operation's revenue, expenses, assets and liabilities.

#### **Transactions eliminated on consolidation**

Intra-Group balances, income and expenses, and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains from transactions with associated companies are eliminated to the extent that they correspond to the Group's interest in the entity. Unrealised losses are similarly eliminated, but only insofar as there is no impairment requirement.

#### **Foreign currency**

##### **Foreign currency transactions**

Transactions in foreign currency are translated into the functional currency at the exchange rate prevailing on the transaction date. The functional currency is the currency of the primary economic environments in which the companies operate. Monetary assets and liabilities in foreign currency are translated to the functional currency using the exchange rate prevailing at the end of the reporting period. Exchange rate differences arising from translation are recognised in the profit and loss accounts. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the time of the transaction. Non-monetary assets and liabilities reported at fair values are translated into the functional currency at the exchange rate prevailing on the date the fair value was determined.

##### **Financial statements of foreign operations**

Assets and liabilities of foreign operations, including goodwill and other consolidated fair value adjustments, are translated from foreign operations' functional currency to the Group's reporting currency, SEK, using the exchange rate prevailing at the end of the reporting period. Revenue and expenses of foreign operations are translated to SEK using an average rate approximating the rates on each transaction date.

Translation differences that arise when translating the financial statements of foreign operations are recognised directly in other comprehensive income as a translation reserve. When a foreign operation is sold, the accumulated translation differences attributable to the operation are recognised in the consolidated profit and loss accounts.

#### **Revenue**

##### **Revenue from contracts with customers**

Revenue is recognised in accordance with the control-based five-step model;

- Identify the contract
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price
- Fulfill the performance obligation

BillerudKorsnäs identifies the contract among other things by being able to determine the right of each party, terms of payment, and by it being probable that the BillerudKorsnäs will collect the consideration to which it will be entitled to in exchange for goods and/or services transferred to a customer. The performance obligation consists primarily in the supply of goods, as well as services to a limited extent. The transaction price is the consideration BillerudKorsnäs expects to be entitled to in exchange for transferring promised goods or services to a customer. The transaction price includes both fixed and variable amounts, for example discounts, returns and other similar items. Allocation of the transaction price is usually not necessary as BillerudKorsnäs does not supply goods and services composed of more than one performance obligation. Fulfilment of a performance obligation does not differ between goods and services.

##### **Fulfilment of performance obligation for goods**

Revenue has to be recognised when (or as) BillerudKorsnäs fulfils the performance obligation by transferring control of an item of goods, which is made up of packaging material and products of virgin fibre, to a customer. Control is transferred at the time when the customer has the ability to guide use of, and largely to receive all remaining benefits from the asset. BillerudKorsnäs takes into account, among other things, of the following indicators in transfer of control: transfer of the physical holding of the asset, right to payment for the asset and the customer having the significant risks and benefits associated with ownership of the asset.

##### **Fulfilment of performance obligation for services**

Services within BillerudKorsnäs are principally made up of transport services, forestry and services in Managed Packaging. As customers receive and consume all the benefits provided through BillerudKorsnäs' services, revenue is recognised over time in conjunction with fulfilment of the performance obligation.

##### **Government support**

Government grants are recognised in the balance sheet as deferred income when there is reason to assume that the conditions connected with receiving a grant will be fulfilled and that the grant will be paid out. Grants are distributed systematically in the profit and loss accounts in the same way and over the same periods as the costs that the grants are intended to compensate. Government grants related to assets are recognised in the balance sheet as deferred income and are distributed as other operating income over the useful life of the asset, or by the grant reducing the carrying value of the asset.

##### **Financial income and expenses**

Financial income consists of interest income on invested funds, dividend income, gains on changes in the value of financial assets measured at fair value through profit and loss, and gains on hedge instruments recognised in the profit and loss accounts.

Interest income from financial instruments is recognised using the effective interest method (see below). Dividend income is recognised when the right to the received payment is established. Gains on the disposal of financial instruments are recognised when the risks and benefits associated with owning the instrument are transferred to the buyer and the Group no longer controls the instrument.

Financial expenses comprise interest costs for loans, the effects of reversals of present value estimates for provisions, losses on the change in value of financial assets measured at fair value through profit and loss, impairment of financial assets, and losses on hedge instruments that are recognised in the profit and loss accounts.

All borrowing costs are recognised in profit/loss with the application of the effective interest rate method regardless of how the borrowed funds have been used. Borrowing costs are not recognised in profit/loss in the proportion that they are directly attributable to the acquisition, construction or production of assets that take considerable time to complete for intended use or sale. In these cases, they are included in the assets' acquisition costs.

Exchange rate gains and losses are recognised net. Effective interest is the rate used to discount future receipts and disbursements during the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The calculation includes all fees paid or received by contracted parties that are part of the effective interest, transaction costs and all other fair value adjustments.

**Taxes**

Income taxes comprise current tax and deferred tax. Income taxes are recognised in the profit and loss accounts except when the underlying transaction is recognised in other comprehensive income or directly in equity whereupon the associated tax effect is also recognised in other comprehensive income or equity, respectively.

Current tax is tax to be paid or recovered for the current year using the tax rates already enacted or substantially enacted at the end of the reporting period; adjustments of current tax attributable to earlier periods is included.

Deferred tax is calculated using the balance sheet method starting with the temporary differences between the recognised and taxable values of assets and liabilities. Temporary differences are not considered when the temporary differences arise from the initial recognition of goodwill nor when temporary differences arise from initial recognition of assets and liabilities in a transaction which is not a business combination and, at the time of the transaction, affects neither recognised nor taxable earnings. In addition, temporary differences are not recognised when attributable to participations in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Measurement of deferred tax is based on how the carrying amount of underlying assets and liabilities is expected to be recovered or settled. Deferred tax is calculated using the tax rates and regulations enacted or substantially enacted at the end of the reporting period.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are recognised only to the extent it is probable that they can be utilised. The value of deferred tax assets is reduced when it is no longer probable that they can be utilised.

Any additional income tax relating to the dividend is recognised at the same time as the dividend is recognised as a liability.

**Financial instruments – recognition from 1 January 2018**

Financial instruments recognised in the balance sheet include, on the assets side, cash and cash equivalents, accounts receivable, financial investments and derivatives. The liabilities side has accounts payable, borrowings and derivatives.

**Recognition in and derecognition from the balance sheet**

A financial asset or liability is recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument. Accounts receivable are recognised in the balance sheet when an invoice has been sent. Liabilities are recognised when the counterparty has performed and there is a contractual liability to pay, even if the invoice has not yet been received. Accounts payable are recognised when the invoice is received.

A financial asset is removed from the balance sheet when the rights in the agreement are realised or expire or the company loses control over them. The same applies for portions of a financial asset.

A financial liability is removed from the balance sheet when the obligation in the agreement is discharged or otherwise expires. The same applies for portions of a financial liability.

A financial asset and a financial liability are offset against each other and recognised as a net sum on the balance sheet only when there exists a legal right to offset the amounts and an intention to settle the items with a net amount or to simultaneously realise the asset and settle the liability.

Acquisitions and sales of financial assets are recognised at the trade date, which is the date when the company commits to acquire or sell the asset.

**Classification and measurement**

Financial instruments that are not derivatives are initially recognised at the acquisition cost, corresponding to the instrument's fair value including direct transaction costs for all financial instruments except those belonging to the category financial assets measured at fair value through profit and loss, which are recognised at fair value excluding transaction costs.

The classification of a financial instrument determines how it is measured after initial recognition. A financial asset that constitutes a liability for the counterparty (e.g. accounts receivable) are classified on first recognition on the basis of what the business model for the holding is and whether the cash flows received consist only of capital amounts and interest. As accounts receivable for the Group constitute the material financial assets which are a liability for the counterparty, and as the Group's business model for these is to receive capital amounts, the assessments of the type mentioned are normally not critical. Holdings in instruments which constitute equity for the counterparty (e.g. shareholdings) are classified as recognised at fair value through profit or loss if they are held for trading. A choice is otherwise made to recognise the instrument at fair value through profit or loss or through other comprehensive income. See description below for the Group's classifications.

The Group's financial liabilities are recognised at amortised cost or fair value through profit or loss, in accordance with the descriptions below.

Derivative instruments are initially reported at fair value, meaning that transaction costs are charged to profit/loss for the period. After the initial recognition, derivative instruments are recognised as follows. If the derivative is used for hedge accounting, then to the extent that it is effective changes in value reclassified from the hedge reserve are recognised on the same line in the income statement as the hedged item. Even if hedge accounting is not used, increases and decreases in the value of the derivative are recognised as income or expense in operating profit/loss or in financial income and expenses based on what the derivative is used for and to what extent the use is related to an operating item or financial item. In hedge accounting, ineffective portion is recognised in the same way as changes in value of derivatives not used for hedge accounting. If hedge accounting is not used for interest swaps, then the interest coupon is recognised as interest, and other changes in value of the interest swap are recognised as other financial income or other financial expenses.

Cash and cash equivalents comprise cash and funds immediately available at banks and similar institutions as well as current investments with terms of less than three months at the acquisition date and which are exposed to an insignificant risk of changes in value.

**Financial assets are recognised at amortised cost**

Financial assets recognised at amortised cost are financial assets that are not derivatives, and the business model is to collect payments that are or can be determined with respect to amounts of capital and outstanding interest relating to capital amounts. Loan receivables and accounts receivable in particular are recognised in this category. The amortised cost is determined based on the effective rate of interest estimated at the time of acquisition. Receivables shorter than three months are recognised at acquisition cost. Accounts receivable are recognised at the amounts expected to be received, that is, after deductions for doubtful receivables.

**Financial assets recognised at fair value through other comprehensive income**

The Group has chosen to recognise its holdings of shares and participations not reported as subsidiaries or associates. Assets in this category are measured continuously at fair value, with changes in value recognised in other comprehensive income and accumulated in the fair value reserve in equity. Dividends received are recognised in the income statement. Shares and participations of insignificant value are recognised at acquisition cost. On disposal of the asset, accumulated gain/loss is transferred to retained earnings and is not allocated to the profit and loss accounts.

**Financial assets measured at fair value through the profit and loss accounts**

The Group does not expect to have any material holdings in this category. The type that may occur is derivatives with positive value, for which hedge accounting is not applied.

**Financial liabilities are recognised at amortised cost**

Loans and other financial liabilities, such as accounts payable, are included in this category. Liabilities are measured at amortised cost. Liabilities shorter than three months are recognised at acquisition cost.

*Financial liabilities recognised at fair value through the profit and loss accounts*

The Group does not expect to have any material holdings in this category. The type that may occur is derivatives with negative value, for which hedge accounting is not applied, or conditional additional purchase sums in business acquisitions.

The categories to which the Group's financial assets and liabilities belong are explained in note 25, Financial assets and liabilities.

**Derivatives and hedge accounting**

The Group's derivative instruments have primarily been acquired to hedge the interest rate and currency risk exposure of the Group.

To meet the requirements of hedge accounting in accordance with IFRS 9 there must be a clear connection to the hedged item. Furthermore, the hedging must protect the hedged item efficiently, hedging documents must be prepared and the efficiency must be measurable. Gains and losses on hedging instruments are recognised in the profit and loss accounts at the same time that profit and loss are recognised for the items being hedged.

**Receivables and liabilities denominated in foreign currencies**

Forward contracts are used to hedge receivables and liabilities against foreign exchange risk. Hedge accounting is not used to protect against currency risks, because a financial hedge is reflected in the accounts by recognising the underlying receivable or liability and its hedge instrument at the rate at the end of the reporting period and by recognising changes arising from exchange rate fluctuations in the profit and loss accounts.

**Hedging of foreign currency – cash flow hedging**

Foreign exchange contracts used to hedge future cash flows and forecast sales, and purchases in foreign currency are recognised at fair value on the balance sheet. Changes in value are recognised in other comprehensive income and accumulate in the hedge reserve in equity until the time when the hedged flow is recognised in the profit and loss, at which time the hedging instrument's accumulated changes in value are transferred to the profit and loss accounts, where they then meet and match the profit/loss effects of the hedged transaction.

If the hedged future cash flow relates to a non-financial asset or liability that is capitalised in the balance sheet, the hedge reserve is transferred from equity to the asset or liability to which the hedge relates when the value of the asset or liability is first set. If the hedged item is a financial asset or liability, the hedge reserve is reversed gradually in the profit and loss accounts at the same rate as the hedged item affects profit/loss.

When a hedging instrument expires, is sold, terminated or exercised, or the company revokes the designation of the hedge relationship before the hedged transaction occurs and the forecast transaction is still expected to occur, the accumulated profit/loss remains in the hedge reserve in equity and is recognised in the same way as above when the transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated gains or losses on the hedge instrument are reversed immediately into the profit and loss accounts in accordance with the principles described above for derivatives.

**Hedging of fixed interest – cash flow hedging**

Interest rate swaps are used to hedge against the uncertainty of future interest flows related to loans carrying variable rates of interest. Swaps are measured at fair value on the balance sheet. The interest coupon is recognised in the profit and loss accounts continually as interest income or expense. Other value changes in interest rate swaps are recognised in other comprehensive income and accumulated in the hedge reserve in equity until the hedged item affects the profit and loss accounts and as long as the criteria for hedge accounting and efficiency are fulfilled. The gain or loss attributable to the ineffective portion is recognised in the profit and loss accounts.

**Electricity derivatives**

BillerudKorsnäs buys electricity from external suppliers. To continually hedge the electricity price, BillerudKorsnäs enters into derivative contracts for electricity. Electricity derivatives that protect the forecast outward flow of electricity expenses are recognised in the balance sheet at fair value. Changes in value are recognised in other compre-

hensive income and accumulate in the hedge reserve in equity until the time when the hedged flow is recognised in the profit and loss, at which time the hedging instrument's accumulated changes in value are transferred to the profit and loss accounts, where they then meet and match the profit/ loss effects of the hedged transaction.

The gains or losses realised on these contracts are recognised continuously in operating profit/loss as a correction of electricity costs.

**Pulp derivatives**

BillerudKorsnäs sells pulp to external customers. In order to continually hedge pulp prices, BillerudKorsnäs may enter into pulp derivative contracts. Pulp derivatives that protect the forecast revenues from the sale of pulp are recognised in the balance sheet at fair value. Changes in value are recognised in other comprehensive income and accumulate in the hedge reserve in equity until the time when the hedged flow is recognised in the profit and loss, at which time the hedging instrument's accumulated changes in value are transferred to the profit and loss accounts, where they then meet and match the profit/ loss effects of the hedged transaction.

The gains or losses realised on these pulp contracts are recognised continuously in operating profit/loss as a correction of operating income.

**Financial instruments – recognition prior to 1 January 2018**

The following section corresponds to Financial assets

*Financial assets measured at fair value through the profit and loss accounts*

This category consists of two subcategories: financial assets held for trading and other financial assets that the Company initially chooses to put in this category. A financial asset is classified as held for trading if it is acquired with the aim of being sold in the short term. Derivatives that are independent, as well as embedded derivatives, are classified as held for trading. Assets in this category are measured continually at fair value, and the changes in value are recognised in the profit and loss accounts, except for derivatives that are identified as effective hedge instruments.

*Loans and receivables*

Loan receivables and accounts receivable are non-derivative financial assets with payments that are fixed or can be determined and that are not listed on an active market. These assets are measured at amortised cost. The amortised cost is determined based on the effective rate of interest estimated at the time of acquisition. Receivables shorter than three months are recognised at acquisition cost. Accounts receivable are recognised at the amounts expected to be received, that is, after deductions for doubtful receivables.

*Available-for-sale financial assets*

The category of available-for-sale financial assets includes financial assets not included in any other category or financial assets that the company initially chooses to put in this category. Holdings of shares and participations not reported as subsidiaries or associated companies are recognised here. The holding of this type of shares and participations is recognised in principle as financial, with the exception of holdings that to a large extent are integrated into our operating activities and are therefore regarded as operating holdings. Assets in this category are measured continually at fair value, with changes in value recognised in other comprehensive income and accumulated in the fair value reserve in equity. However, this does not apply to those changes relating to impairment (see accounting policies for impairment), nor to interest on receivables instruments or dividend income, nor to exchange rate differences for monetary items, which are recognised in profit and loss. Shares and participations of insignificant value are recognised at acquisition cost. When the investment is sold, accumulated gains or losses previously recognised in equity are transferred to the profit and loss accounts.

**Property, plant and equipment**

**Owned assets**

The Group recognises property, plant and equipment at cost less deductions for accumulated depreciation and any impairment losses. Acquisition cost includes the purchase price and costs directly attributable to the asset in order to bring it into place in the right condition to be used as intended. Examples of directly attributable costs are costs for delivery and handling, installation, title registration, consulting ser-

vices and legal services. Borrowing costs directly attributable to the purchase, construction or production of assets that take considerable time to complete for intended use or sale are capitalised.

The acquisition cost of internally produced non-current assets includes costs for materials, employee benefits, other production overheads directly attributable to the assets and estimated outlays for dismantling and removing the assets and restoring the site or area where they are located. Property, plant and equipment that consist of parts with different useful lives are treated as separate components of property, plant and equipment.

The carrying amount of property, plant and equipment is removed from the balance sheet upon scrapping or disposal or when no future economic benefit is expected from its use, scrapping or disposal. Any gain or loss arising from the scrapping or disposal of an asset is the difference between the sale proceeds and the asset's carrying amount less deductions for direct selling costs. Gains and losses are recognised as other operating income or expense.

The accounting policies for impairment are explained below.

**Leased assets**

Leases are classified in the consolidated accounts either as finance leases or operating leases. A finance lease substantially transfers the economic risks and rewards associated with ownership to the lessee; any other case is an operating lease.

Assets leased under finance leases are recognised as assets on the balance sheet and are initially measured at the lease object's fair value or the present value of minimum leasing payments at the start of the agreement, whichever is less. The obligation to pay future leasing charges is recognised as non-current and current liabilities. The leased assets are depreciated over the period of use of each asset, while leasing payments are recognised as interest and repayment of liabilities.

Assets hired in accordance with operating leases are not normally recognised as assets on the balance sheet. Operating leases do not result in a liability either.

**Subsequent costs**

Subsequent costs are added to the acquisition cost of an asset only if it is probable that the future economic benefits associated with the asset will accrue to the company and the acquisition cost can be measured reliably. All other subsequent costs are recognised as expenses in the period when they occur.

A subsequent cost is added to the acquisition cost if the expenditure relates to the replacement of identified components or parts thereof. Even if new components are created, the expenditure is added to the cost of the asset. Any remaining carrying amount for replaced components, or parts of them, is scrapped and recognised as an expense in connection with the replacement. Repairs are recognised as an expense as incurred.

**Borrowing costs**

Borrowing costs directly attributable to the construction of so called qualified assets are capitalised as a part of the qualified assets' acquisition cost. A qualified asset is an asset that normally take a substantial amount of time to finalize. First are borrowing costs capitalised that are attributed to the specific qualified asset. Second are borrowing costs capitalised that are related to the general loan situation, which are not attributed to another specific qualified asset.

**Depreciation policies**

Assets are depreciated on a straight-line basis over the estimated useful life of the asset, though land is not depreciated. The Group applies component depreciation, which means that each component's estimated useful life forms the basis for depreciation.

*The following depreciation periods are applied:*

Industrial buildings	20–33 years
Residential and office buildings	30–50 years
Land improvements	20–25 years
Machinery used for pulp and paper	20–25 years
Other machinery	10 years
Vehicles, equipment and components	3–5 years

The residual value and useful life of each asset is assessed annually.

**Non-current intangible assets**

**Goodwill**

Goodwill is measured at acquisition cost less any accumulated impairment. Goodwill is distributed among cash-generating units and tested for impairment at least once a year (see the accounting policies for Impairment of property, plant and equipment and intangible assets as well as participations in subsidiaries and associated companies). Goodwill arising upon the acquisition of associated companies is included in the carrying amount of the participations.

**Research and development**

BillerudKorsnäs' product and process development focuses primarily on meeting customer requirements on product characteristics and adaptations. Activities are divided into a research phase and a development phase. Examples of expenditure included in the research phase are costs related to acquiring new knowledge and costs for the evaluation of and search for alternative grades and processes. Costs for the research phase are recognised as an expense continually in the profit and loss accounts in accordance with IAS 38.

Costs for development, where research results or other knowledge is applied to achieve new or improved products or processes, are recognised as an asset on the balance sheet, if the product or process is technically and commercially feasible and the company has sufficient resources to complete the development and then use or sell the intangible asset. The carrying amount includes costs for materials, direct costs for salaries and indirect costs that can be attributed to the asset. Other development costs are recognised as expense in the income statement as they arise.

**Other non-current intangible assets**

Other intangible assets include customer contracts and brands relating to corporate acquisitions and software. Costs for the development and maintenance of software are recognised as an expense as they arise. Costs that are directly linked with the development of identifiable and unique software products controlled by the Group and likely to have economic benefits for more than one year that exceed the costs, are recognised as intangible assets.

**Electricity certificates**

Electricity certificates are allocated against in-company production of renewable electricity. Electricity certificates are valued at the estimated market value and recognised as a current intangible asset included in other receivables in the balance sheet. Production entitled to electricity certificates but which had not yet been awarded certificates at the end of the reporting period is recognised as accrued income and initially measured at the estimated market price. Corresponding income is recognised in operating profit/loss as a correction of electricity costs.

**Emission rights**

BillerudKorsnäs' Swedish mills have been allocated carbon dioxide emission rights within the EU. When emission rights are received, they are recognised at market value as a current intangible asset under other receivables in the balance sheet, and treated as a liability and recognised as a grant received.

The allocation was gradually taken up as revenue over the year, while emissions generated were carried as an expense.

**Subsequent costs**

Subsequent costs are added to the acquisition cost of an asset only if it is probable that the future economic benefits associated with the asset will accrue to the company and the acquisition cost can be measured reliably. All other subsequent costs are recognised as expenses in the period when they occur.

**Depreciation policies**

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of an intangible asset, unless this period is indeterminable. Useful life is tested at least once a year. Goodwill and other intangible assets with an indeterminable useful life or intangible assets not yet ready for use are tested for impairment annually and are also tested as soon as there is an indication that the value of the asset has decreased. An intangible asset with a determinable useful life is depreciated from the time it is available for use.

*The expected useful life is:*

Customer contracts	8 years
Brands	8 years
Capitalised development expenditure and software	3–7 years

The residual value and useful life of each asset is assessed annually.

#### **Inventories**

Inventories are stated at the lower of acquisition cost and net realisable value. The FIFO (first in, first out) method is used to calculate the cost of inventories. This includes costs arising upon the acquisition of the assets and transport to the current site in their current condition. If it is not possible in practice to apply FIFO, a weighted average calculation can be used as it provides a good approximation of the FIFO method. For manufactured goods and work in progress, the cost includes a reasonable portion of indirect costs based on normal capacity.

The net realisable value is the expected selling price in the ordinary course of business less expected costs for completion and selling.

#### **Impairment losses**

The carrying amounts of Group assets are tested at the end of each reporting period to determine whether there is any indication of impairment. IAS 36 is applied to test if an impairment loss shall be recognised for assets other than financial assets, which are recognised in accordance with IFRS 9, assets for sale, inventories and deferred tax assets. For the excluded assets above, the carrying amount is assessed in accordance with the relevant standard.

#### **Impairment of property, plant and equipment and intangible assets as well as participations in subsidiaries**

If there is an indication that an asset is impaired, the recoverable amount of the asset is calculated (see below). For goodwill and other intangible assets with indefinite useful lives and intangible assets not yet ready for use, the recoverable amount is assessed annually or as soon as the need is indicated. If it is not possible to establish significantly independent cash flows for an individual asset, and if its fair value less selling costs cannot be used, the assets are grouped to test impairment at the lowest level at which it is possible to identify significantly independent cash flows (a cash-generating entity).

An impairment loss is recognised when the carrying amount of an asset, cash-generating entity or group of entities exceeds the recoverable amount. Impairment is recognised as an expense in the profit and loss accounts. When a need for impairment has been identified for cash-generating entity or group of entities, the need for impairment is firstly allocated to goodwill. Proportional impairment of other assets included in the entity or group of entities is then carried out.

The recoverable amount is the higher of the fair value less selling costs and value in use. When calculating the value in use, future cash flows are discounted using a discount factor taking into account risk-free interest and the risk associated with the specific asset.

#### **Impairment of financial assets – recognition from 1 January 2018**

The Group recognises loss reserves for expected credit losses in all material respects on accounts receivable. The Group does not have any holdings in debt instruments recognised at fair value through other comprehensive income, and for assets other than accounts receivable which are valued at amortised cost possible expected credit losses are deemed to be negligible. The loss reserve for accounts receivable is always measured at an amount corresponding to expected credit losses throughout the life of the receivable.

Doubtful receivables are based on expected credit losses and consist of a general reserve and an individual assessment. A percentage is calculated for the general reserve based on historical credit losses and forward-looking assumptions. The individual assessment takes account of the customer's current situation and other relevant circumstances, for example credit insurance status, historical situation, geographical/political situation.

Impairment is recognised as an expense in profit/loss.

#### **Impairment of financial assets – recognition prior to 1 January 2018**

At the end of each accounting period, the Company assesses whether there is any objective evidence of impairment of a financial asset or group of assets. Objective evidence may consist of observable events

that have occurred and that have a negative impact on the feasibility of recovering the acquisition cost, or may consist of a significant or prolonged reduction in the fair value of a financial investment classified as a financial asset available for sale.

The value reduction recognised in profit and loss is the difference between the acquisition cost and the current fair value, less deductions for any previously recognised impairment.

The recoverable amount of assets belonging to the categories held-to-maturity, loan receivables and accounts receivable that are recognised at amortised cost is calculated as the present value of future cash flows discounted by the effective interest rate applied when the asset was initially recognised. Assets of short maturity are not discounted. Impairment is recognised as an expense in profit/loss.

#### **Reversal of impairment losses**

Impairment of assets covered by IAS 36 is reversed if there is an indication that impairment no longer exists and there has also been a change in the assumptions on which the estimate of recoverable value was based. However, impairment recognised on goodwill is never reversed. A reversal is only performed to the extent that the asset's carrying amount after reversal does not exceed the carrying amount that would have been recognised, minus appropriate depreciation, if no impairment loss had been recognised.

#### **Capital payments to shareholders**

##### **Buy-back of own shares**

Acquisition of the Company's own shares is recognised as a deduction from equity. Consideration received from the sale of such equity instruments is recognised as an increase in equity. Any transaction costs are recognised directly in equity.

##### **Dividends**

Dividends are recognised as a liability after the AGM has approved the dividend.

#### **Earnings per share**

Calculation of earnings per share is based on the consolidated profit/loss attributable to parent company shareholders and on the weighted average number of shares outstanding during the year. When calculating diluted earnings per share, profit/loss and the average number of shares are adjusted to take account of the effects of diluted potential ordinary shares, which during the reporting period are linked to share-based payments to be settled in equity instruments.

#### **Employee benefits**

##### **Defined-contribution plans**

Pension plans in which the company's commitments are restricted to the fees the company has undertaken to pay are classified as defined-contribution pension plans. In those cases, the size of an employee's pension depends on the fees the company pays into the pension plan or to an insurance company and the capital return on those fees. Consequently it is the employee who bears the actuarial risk (that the benefit is less than expected) and the investment risk (that the invested assets will be insufficient to support the expected benefit). The company's commitments concerning fees paid to defined-contribution pension plans are recognised as a cost in the profit and loss accounts at the rate at which they are earned through the employee performing services for the company during a period.

##### **Defined-benefit plans**

The Group's net commitments for defined-benefit plans are calculated separately for each plan by estimating the future benefit that each employee has earned through employment both in the current period and previous periods; this benefit is discounted to its present value. The discount rate is the interest rate at the end of the reporting period for a first class corporate bond, including mortgage bonds, with a duration corresponding to the duration of the Group's pension commitments. When there is no active market for such corporate bonds, the market rate for government bonds of corresponding duration is used instead. In addition to these there is a supplement which is the difference between interest on mortgage bonds and nominal government bond with a similar duration. The calculation is made by a qualified actuary using the projected unit credit method. In addition, the fair value of any plan assets is calculated at the report date.

In the determination of the present value of the commitment, actuarial gains or losses may arise. They arise either because the fair value deviates from earlier assumptions or because the assumptions change. Actuarial gains and losses are recognised in other comprehensive income.

In the balance sheet the carrying amount of pensions and similar commitments represents the present value of commitments at the end of the period. Interest on pension liabilities is recognised in financial items. No new earnings occur in the plans. Correction of previous years' earnings as well as gains and losses due to changes in pension plans are recognised in operating income.

The commitments for retirement and family pensions for salaried employees in Sweden are secured through an insurance policy with Alecta. This is a multi-employer defined-benefit plan. BillerudKorsnäs has not had access to such information as to make it possible to recognise this plan as a defined-benefit plan for the 2018 financial year. ITP pension plans secured via insurance with Alecta are therefore disclosed as defined-contribution plans.

#### **Termination benefits**

A provision is recognised in connection with termination of staff only if the company is clearly committed, without a realistic possibility of reversal, to a formal and detailed plan to terminate employment before the normal time.

When a termination benefit is offered to encourage voluntary redundancy, a cost is recognised if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

#### **Short-term benefits**

Short-term benefits to employees are calculated without discounting and are recognised as a cost when the related services are received.

#### **Share-based payments**

Share incentive programmes are recognised as share-based payments settled with equity instruments in accordance with IFRS 2. This means that their fair value is calculated based on forecast achievement of targets set for the measurement period. The value is distributed over the vesting period. Revaluation once the fair value has been set is only done for performance terms.

Social fees attributable to share-based payments are recognised as per the Swedish Financial Reporting Board's statement UFR 7, which states that the cost shall be distributed among the periods when services are performed. The resulting provision is revalued at the end of each period to correspond to the estimated fees that will be paid at the end of the vesting period.

#### **Provisions**

Provisions are different from other liabilities, because the time of payment or the size of the payment are uncertain. A provision is posted on the balance sheet when the Group has an existing legal or informal commitment as the result of a past event and it is probable that an outlay of resources will be required to settle the commitment and so that a reliable estimate of the amount can be made.

A provision is made based on the best estimate of what will be required to settle the existing commitment at the end of the reporting period. In cases where the effect of when in time the payment is made is material, the amount of the provision is calculated by discounting forecast cash flows using a pre-tax interest rate that reflects current market assessments of the time value of money and, if applicable, the risks specific to the liability.

#### **Warranties**

If a provision is made for warranties, they are recognised when the underlying products or services are sold. The provision is based on historic data on warranties and a weighing of possible outcomes in relation to the probability of these outcomes occurring.

#### **Restructuring**

A provision for restructuring is recognised when the Group has established a detailed and formal restructuring plan, and the restructuring has either started or been publicly announced. No provisions are made for future operating expenses.

#### **Restoration of contaminated land**

In accordance with the Group's publicised environmental principles and appropriate legal requirements, a provision is recognised for restoration of land when it becomes contaminated.

#### **Contingent liabilities**

A contingent liability is recognised whenever there is a possible obligation arising from past events and whose existence is confirmed only by one or more uncertain future events, or there is an obligation not reported as a liability or provision because it is not probable that resources will have to be used to settle the obligation or the obligation cannot be calculated sufficiently reliably.

#### **Parent Company's accounting policies**

The parent company prepares its annual report in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's standard RFR 2 Reporting by legal entities. Statements on listed companies published by the Swedish Financial Reporting Board are also followed. Under RFR 2, the parent company in its annual report for the legal entity shall apply all IFRS and interpretations endorsed by the EU as far as possible within the limitations of the Annual Accounts Act, the Swedish law safeguarding pension commitments and with consideration for the connection between accounting and taxation.

#### **Differences between the Group's accounting policies and those of the parent company**

The differences between the Group's accounting policies and those of the parent company are set out below. The accounting policies of the parent company described below have been applied consistently in all periods presented in the parent company's financial statements.

#### **Classification and presentation**

The parent company's profit and loss accounts and balance sheet are presented based on the schedule in the Swedish Annual Accounts Act. The differences from IAS 1 Presentation of Financial Statements, which is applied when structuring the consolidated accounts, mainly concern reporting of financial income and expenses, non-current assets and equity.

#### **Subsidiaries and associated companies**

Participations in subsidiaries and associated companies are recognised in the parent company in accordance with the cost method. All dividends from subsidiaries and associated companies are recognised in the profit and loss accounts for the parent company. Under special circumstances, such dividends can serve as an indication that the shares have declined in value and thus a test for impairment should be performed.

#### **Financial instruments and hedge accounting**

Because of the connection between accounting and taxation, the rules in IFRS 9 concerning financial instruments and hedge accounting are not applied by the parent company as a legal entity.

The parent company measures non-current financial assets at acquisition cost less any impairment losses and current financial assets at the lesser of cost or market. The cost of interest-bearing instruments is adjusted for the accrued difference between the amount originally paid, after deducting transaction costs, and the amount paid on the due date (at a discount or premium).

In currency hedging of receivables and liabilities denominated in foreign currencies using a forward contract, the forward rate is normally used in measuring a hedged receivable or liability. If the difference between forward rate and spot rate on entering into the contract (forward premium) is assessed as material, however, a hedged receivable or liability is instead hedged at the spot rate when the forward contract was entered into. The forward premium is allocated in such cases over the duration of the forward contract as interest income or interest expense. The forward amounts are not recognised at fair value in the balance sheet.

Interest swaps that effectively hedge cash flow risks in interest payments for liabilities are measured at the net of accrued receivables at variable interest and accrued liabilities with regard to fixed interest, and the difference is recognised as either interest income or expense. Interest swaps are not recognised at fair value in the balance sheet.

Hedging is effective if the economic outcome of hedging and the liability is the same as if the liability had instead been reported at a fixed market interest rate when the hedge was made. Any premium paid for a swap agreement is allocated across the contract period as interest.

In order to continuously hedge pulp prices, BillerudKorsnäs may enter into pulp derivative contracts for pulp sold externally by Group companies. The pulp derivative contract is measured at the rate applicable on the day when the pulp derivative contract is entered into, which is usually zero. The gains or losses realised on these pulp derivative contracts are recognised continuously in operating profit/loss as a correction of operating income.

Derivatives not used for hedging are measured in the parent company according to the lower of cost or market. Recognition of derivatives used for hedging is governed by the hedged item. This means that the derivative is treated as an off-balance-sheet item as long as the hedged item is not on the balance sheet or recognised on the balance sheet at cost.

#### ***Anticipated dividends***

Anticipated dividends from subsidiaries are recognised if the parent company has the sole right to determine the size of the dividend and has determined the size of the dividend before publishing its financial statements.

#### ***Employee benefits – Defined-benefit plans***

The parent company uses different assumptions than those set out in IAS 19 when calculating defined-benefit pension plans. The parent company follows the Swedish law on safeguarding pension commitments and the Swedish Financial Supervisory Authority's rules, because they are a condition for tax deductions. The most material differences compared to the IAS 19 rules are how the discount rate is determined, that the calculation of the defined benefit commitment is based on current salary levels with no consideration of future increases and that all actuarial gains and losses are recognised in the profit and loss accounts as they occur.

#### ***Taxes***

In the parent company, untaxed reserves are recognised on the balance sheet without dividing them into equity and deferred tax liabilities, unlike in the consolidated accounts. Correspondingly, the parent company does not recognise in its profit and loss accounts deferred tax expense as a part of appropriations.

#### ***Shareholder contributions***

Shareholder contributions are recognised directly in the equity of the recipient and are capitalised in shares and participations for the contributor, as far as no impairment is determined.

#### ***Group contributions paid***

BillerudKorsnäs has elected to apply the alternative rule in accordance with RFR 2, which means that all group contributions are recognised in appropriations.

## 2 Operating profit/loss by segment and net sales by market

The Group's business is managed and reported in three business areas – Packaging Paper, Consumer Board and Corrugated Solutions. Non-current assets and capital investments cannot be broken down by business area since the business areas are highly integrated in terms of production. The main targets for each business area are EBITDA, % and follow-up of operating margin.

Currency hedging etc. includes results from hedging of the Group's net currency flows and revaluation of accounts receivable and payments from customers. The part of the currency exposure that relates to changes in exchange rates for invoicing is included in the business area's profit/loss.

Other units consist of profit/loss from timber supply, Nine AB (up to Q4 -17), Scandifibre Logistics AB, leasing operators, dormant companies, capital gain/loss from sale of companies, items affecting comparability (Note 6) and costs due to major investments in the production structure. Other units also includes Group-wide functions, Group eliminations and profit/loss from participations in associates

Earnings from sales organisations and Bomhus Energi AB are allocated to the business areas.

Starting on January 1, 2019 BillerudKorsnäs business will be reported in three divisions, Paper, Board and Solutions.

### Profit/loss by operating segment

SEKm	Packaging Paper		Consumer Board		Corrugated Solutions		Currency hedging, etc.		Other units		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Group</b>												
Net sales	9 256	8 529	8 453	8 189	4 251	3 856	-209	-36	1 941	1 807	23 692	22 345
<i>Product area</i>												
Kraft paper	3 727	3 685									3 727	3 685
Sack paper	3 279	2 631									3 279	2 631
Liquid packaging board			7 006	6 936							7 006	6 936
Cartonboard			1 427	1 245							1 427	1 245
Fluting					1 971	1 779					1 971	1 779
Liner					1 441	1 389					1 441	1 389
Managed Packaging					839	662					839	662
Other	2 250	2 213	20	8	0	26	-209	-36	1 941	1 807	4 002	4 018
<i>Region</i>												
Sweden	686	690	575	553	273	260	-209	-36	1 564	1 661	2 889	3 128
Germany	1 208	1 077	1 490	1 401	435	422					3 133	2 900
China	467	352	1 268	1 100	671	517			67		2 473	1 969
Italy	568	595	593	603	778	737			51		1 990	1 935
United Kingdom	724	657	334	274	271	265					1 329	1 196
Spain	528	535	287	319	343	320					1 158	1 174
France	421	366	528	562	93	113					1 042	1 041
Rest of Europe	2 011	2 044	1 928	1 980	379	398			249	146	4 567	4 568
Rest of the world	2 643	2 213	1 450	1 397	1 008	824			10		5 111	4 434
Other income and operating expenses	-7 589	-7 030	-7 090	-6 422	-3 377	-3 022	-1	-1	-2 692	-2 110	-20 749	-18 585
Depreciation, amortisation and impairment losses	-480	-464	-765	-784	-180	-178			-88	-93	-1 513	-1 519
<b>Operating profit/loss</b>	<b>1 187</b>	<b>1 035</b>	<b>598</b>	<b>983</b>	<b>694</b>	<b>656</b>	<b>-210</b>	<b>-37</b>	<b>-839</b>	<b>-396</b>	<b>1 430</b>	<b>2 241</b>
EBITDA, %	18	18	16	22	21	22			-39	-17	12	17
Operating margin, %	13	12	7	12	16	17			-43	-22	6	10
Financial items											-89	-138
Tax											-304	-465
<b>Profit/loss for the period</b>											<b>1 037</b>	<b>1 638</b>

Of net sales of SEK 23 692 million (22 345), SEK 645 million (640) was sales of services.

The Group has one customer in the Consumer Board segment which accounts for more than 10% of the Group's sales.

### Parent company

Net sales							-287	-8	414	403	127	395
<b>Operating profit/loss</b>							<b>-289</b>	<b>-8</b>	<b>-169</b>	<b>-113</b>	<b>-458</b>	<b>-121</b>
Financial items											-340	-123
Appropriations											756	2 635
Tax											-31	-511
<b>Profit/loss for the period</b>											<b>-73</b>	<b>1 880</b>

Of net sales of SEK 127 million (395), SEK 414 million (403) was sales of services.

## Non-current assets by country

SEKm	Group	
	2018	2017
Sweden	22 920	19 254
Finland	594	576
United Kingdom	59	58
Latvia	30	22
Other	11	28
	<b>23 614</b>	<b>19 938</b>

Non-current assets include intangible assets and property, plant and equipment

### 3 Other operating income

SEKm	2018	2017
<b>Group</b>		
Services sold	30	33
Capitalised work for own account	67	60
Other	133	127
<b>Group total</b>	<b>230</b>	<b>220</b>
<b>Parent company</b>		
Other	23	7
<b>Parent company total</b>	<b>23</b>	<b>7</b>

### 4 Fees and expenses to auditors

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>KPMG</b>				
Auditing assignments	3	3	–	1
Auditing activities besides audit assignments	1	1	1	1
Tax consultancy	–	–	–	–
Other services	–	–	–	–
<b>Total</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>2</b>
<b>Other auditors</b>				
Auditing assignments	2	1	–	–
Tax consultancy	1	1	–	–
Other services	–	–	–	–
<b>Total</b>	<b>3</b>	<b>2</b>	<b>–</b>	<b>–</b>

Audit assignments refer to the audit of the annual report and accounting records as well as the Board of Directors' and CEO's administration of the Company, other tasks incumbent on the Company's auditor and advice or other assistance resulting from observations made during audits or the performance of such tasks. Auditing activities besides audit assignments relate to reviews of attestations, interim reports, etc. that resulted in reports from the auditor. Tax consultancy relates to assignments performed in regard to taxes and other charges. Other services relate to all other assignments not included in the above.

The general meeting of shareholders held on 15 May 2018 resolved that KPMG AB would be appointed as auditor for the period extending up until the end of the 2019 AGM.

## 5 Employees and employee benefits expense

## Average number of employees

	2018	Of which men, %	2017	Of which men, %
<b>Parent company</b>				
Sweden	104	48	97	52
Other countries	11	100	10	100
<b>Parent company total</b>	<b>115</b>	<b>53</b>	<b>107</b>	<b>56</b>
<b>Subsidiaries</b>				
Sweden	3 720	80	3 637	81
Finland	120	82	118	84
United Kingdom	174	88	158	89
China	132	33	129	33
Latvia	68	79	69	80
USA	46	54	47	62
Germany	33	55	36	56
France	14	43	17	41
Italy	13	38	14	43
Spain	12	42	11	36
Other countries	55	62	52	67
<b>Subsidiaries total</b>	<b>4 387</b>	<b>78</b>	<b>4 288</b>	<b>79</b>
<b>Group total</b>	<b>4 502</b>	<b>77</b>	<b>4 395</b>	<b>78</b>

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>Employee benefit costs</b>				
Wages, salaries and other remuneration				
Board, CEO and Executive Leadership Team <sup>1</sup>	64	61	64	61
of which variable remuneration	9	10	9	10
Other employees	2 447	2 334	117	90
of which variable remuneration	68	87	9	10
<b>Total salaries and other remuneration</b>	<b>2 511</b>	<b>2 395</b>	<b>181</b>	<b>151</b>
<b>Social security costs</b>				
Contractual pensions for the CEO and Executive Leadership Team				
Defined-benefit pensions	–	–	–	–
Defined-contribution pensions	13	10	13	10
Contractual pensions, other				
Defined-benefit pensions	–	–	–	–
Defined-contribution pensions	267	242	20	16
Other social security costs	804	776	57	55
<b>Total social security costs</b>	<b>1 084</b>	<b>1 028</b>	<b>90</b>	<b>81</b>
<b>Total employee benefits expense</b>	<b>3 595</b>	<b>3 423</b>	<b>271</b>	<b>232</b>

<sup>1</sup> CEO and Executive Leadership Team refers to those of both the parent company and the Group, the Group CEO and the Executive Leadership Team. Board refers to the Board of BillerudKorsnäs AB.

## Number of women in management positions, %

%	2018	2017
<b>Group and parent company management</b>		
Board	40	44
CEO and Executive Leadership Team	33	27

For information about the benefits of senior managers in accordance with the Annual Accounts Act, see note 26.

## 6 Items affecting comparability

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>Expenses affecting comparability</b>				
MG investment in Skärblacka (operating expenses)	-3	-74	-	-
New board machine at Gruvön – further expenses (operating expenses)	-61	-36	-	-
New board machine at Gruvön – restructuring (operating expenses)	10	20	-	-
New board machine at Gruvön – depreciation, amortisation and impairment of existing non-current assets (Depreciation, amortisation and impairment of non-current assets).	-58	-60	-	-
Restructuring (Operating expenses)	-27	-	-27	-
Workplace environment (Operating expenses)	-159	-	-	-
Uniform accounting policies – Spare parts and consumables (Operating expenses)	-177	-	-	-
Acquisition expenses Bergvik	-9	-	-	-
Other	-107	-	-37	-
<b>Expenses affecting comparability</b>	<b>-591</b>	<b>-150</b>	<b>-64</b>	<b>-</b>
<b>Net</b>	<b>-591</b>	<b>-150</b>	<b>-64</b>	<b>-</b>

Items affecting comparability presented to enable an adjustment of the result that better reflects the underlying business.

Items affecting comparability can include additional project costs for major projects, major restructuring/write-downs, litigations, specific impact due to strategic decisions, and significant earnings effects from acquisition and disposals.

## 7 Net financial items

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>Finance income</b>				
Dividends from Group companies	-	-	14	81
Dividends from other participations	12	8	-	-
Net change in exchange rates	-	-	-	-
Capital gain/loss from sale of Other holdings	-	-	5	14
Interest income, Group companies	-	-	2	-
Interest income, other	3	8	2	8
<b>Finance income</b>	<b>15</b>	<b>16</b>	<b>23</b>	<b>103</b>
<b>Finance costs</b>				
Interest expense for financial liabilities measured at amortised cost	-45	-75	-77	-107
Impairment losses, subsidiaries	-	-	-174	-30
Impairment losses, associates/ Other holdings	-	-14	-23	-6
Capital gain/loss, Other holdings	-	-	-8	-
Capital gain/loss, subsidiaries	-	-	-2	-
Interest expense for pension provision	-18	-18	-7	-7
Net interest income on derivatives in hedge accounting	-	-	-29	-26
Net change in exchange rates	-21	-22	-22	-22
Other financial expenses	-20	-25	-21	-28
<b>Finance costs</b>	<b>-104</b>	<b>-154</b>	<b>-363</b>	<b>-226</b>
<b>Net financial items</b>	<b>-89</b>	<b>-138</b>	<b>-340</b>	<b>-123</b>

## 8 Appropriations

SEKm	Parent company	
	2018	2017
Group contributions, received	1 935	3 190
Group contributions, paid	-1 240	-
Tax allocation reserve, resolved	131	215
Tax allocation reserve, provided	-70	-770
<b>Parent company total</b>	<b>756</b>	<b>2 635</b>

## 9 Tax

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>Profit/loss before tax</b>				
Sweden, Group companies	1 570	2 127	-42	2 391
Rest of world, Group companies	-229	-24	-	-
<b>Total profit/loss before tax</b>	<b>1 341</b>	<b>2 103</b>	<b>-42</b>	<b>2 391</b>
<b>Tax expense</b>				
<b>Current tax</b>				
Tax expense for the period	-75	-526	-49	-514
Tax attributable to previous period	-73	1	-	-
<b>Total current tax</b>	<b>-148</b>	<b>-525</b>	<b>-49</b>	<b>-514</b>
<b>Deferred tax</b>				
Deferred tax income/expense related to temporary differences	-156	60	18	3
<b>Total tax expense</b>	<b>-304</b>	<b>-465</b>	<b>-31</b>	<b>-511</b>

### Tax attributable to previous period

%	Group		Parent company	
	2018	2017	2018	2017
<b>Reconciliation, effective tax rate</b>				
Swedish income tax rate	22.0	22.0	22.0	22.0
Effect of other tax rates for foreign subsidiaries	0.1	-0.3	-	-
Revaluation of deferred tax relating to changed rate of tax in Sweden	-7.7	-	-1.9	-
Tax-exempt dividends	-0.2	-0.1	7.3	-0.7
Tax attributable to previous period	5.4	0.6	2.0	-
Impairment of shares	0.1	0.1	-103.0	0.3
Tax effect of non-deductible expenses	1.4	0.2	-9.5	-
Tax effect of tax-exempt income	-0.5	-0.2	-	-0.1
Tax effect of taxable non-booked income	0.2	-	-4.1	-
Tax effect of companies taxed on commissions	-0.5	-	12.6	-
Utilised tax deficit not recognised in previous years	-1.4	-	-	-
New tax losses for which deferred tax asset is not recognised	4.1	-	-	-
Deductions for allocation of shares in incentive programmes	-	-0.1	-	-0.1
Other	-0.3	-0.1	-	-
<b>Tax rate according to income statement</b>	<b>22.7</b>	<b>22.1</b>	<b>-74.6</b>	<b>21.4</b>

SEK 79 million of the total tax expense for 2018 relates to Italian tax attributable to previous years (2011–2016).

The increase in expense for the Group was offset by positive effects of revaluation of deferred tax, principally attributable to the lowered rate of tax in Sweden.

The rate of tax in Sweden is 22% but will be lowered to 21.4% for the financial years 2019 and 2020 and then to 20.6% from the financial year 2021.

Tax in the parent company is mainly explained by impairment of participations in subsidiaries, partly linked to capital contributions.

## Change in deferred tax in temporary differences and loss carry-forwards

SEKm	Opening balance, 1 January		Recognised in profit and loss		Recognised directly in equity		Closing balance, 31 December	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>GROUP</b>								
<b>Deferred tax liability</b>								
Non-current assets	3 115	3 304	192	-190	-	1	3 307	3 115
Tax allocation reserve	349	227	23	122	-	-	372	349
Hedging reserve	6	-	-9	-	80	6	77	6
<b>Total deferred tax liability</b>	<b>3 470</b>	<b>3 531</b>	<b>206</b>	<b>-68</b>	<b>80</b>	<b>7</b>	<b>3 756</b>	<b>3 470</b>
<b>Deferred tax asset</b>								
Inventories	10	4	10	6	-	-	20	10
Accounts receivable	1	7	3	-6	-	-	4	1
Provisions	103	104	15	-7	5	6	123	103
Loss	72	73	22	-1	-	-	94	72
<b>Total deferred tax asset</b>	<b>186</b>	<b>188</b>	<b>50</b>	<b>-8</b>	<b>5</b>	<b>6</b>	<b>241</b>	<b>186</b>
<b>Total net deferred tax liability</b>	<b>3 284</b>	<b>3 343</b>	<b>156</b>	<b>-60</b>	<b>75</b>	<b>1</b>	<b>3 515</b>	<b>3 284</b>
Portion recognised as deferred tax asset	107	67					118	107
Portion recognised as deferred tax liability	3 392	3 410					3 633	3 392

Temporary differences and/or loss carry-forwards that are not balanced by recognised deferred tax assets total SEK 289 million (92). The assessment was made based on uncertainty about whether this tax asset can be recovered.

**PARENT COMPANY**

<b>Deferred tax liability</b>								
Other non-current assets	5	5	-5				-	5
<b>Total deferred tax liability</b>	<b>5</b>	<b>5</b>	<b>-5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>Deferred tax asset</b>								
Accounts receivable			9				9	-
Provisions	7	4	4	3			11	7
<b>Total deferred tax asset</b>	<b>7</b>	<b>4</b>	<b>13</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>7</b>
<b>Total net deferred tax asset</b>	<b>2</b>	<b>-1</b>	<b>18</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>2</b>

There are no significant temporary differences in participations in subsidiaries.

## 10 Earnings per share

	2018	2017
<b>Basic earnings per share</b>		
Profit/loss for the period, SEKm	1 037	1 638
Weighted number of outstanding ordinary shares	206 962 008	207 113 788
<b>Basic earnings per share, SEK</b>	<b>5.01</b>	<b>7.91</b>
<b>Diluted earnings per share</b>		
Profit/loss for the period, SEKm	1 037	1 638
Weighted number of outstanding ordinary shares	206 962 008	207 113 788
Adjustment for assumed dilution through incentive programme	330 663	342 064
Number of shares included in calculation of earnings per share	207 292 671	207 455 852
<b>Diluted earnings per share, SEK</b>	<b>5.00</b>	<b>7.90</b>

## 11 Intangible assets

SEKm	Acquired intangible assets									
	Goodwill		Customer contracts		Brand		Other intangible assets		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>GROUP</b>										
<b>Acquisition value</b>										
Carrying amount at start of year	1 981	1 980	567	567	115	120	168	157	2 831	2 824
Investments								2	–	2
Acquisition of business	60								60	–
Divestments and disposals							–48	–4	–48	–4
Reclassification							7	14	7	14
Translation differences	1	1				–5	1	–1	2	–5
<b>Carrying amount at year-end</b>	<b>2 042</b>	<b>1 981</b>	<b>567</b>	<b>567</b>	<b>115</b>	<b>115</b>	<b>128</b>	<b>168</b>	<b>2 852</b>	<b>2 831</b>
<b>Accumulated depreciation/amortisation</b>										
Carrying amount at start of year			–359	–289	–79	–64	–114	–104	–552	–457
Depreciation/amortisation			–71	–70	–11	–18	–9	–13	–91	–101
Acquisition of business									–	–
Divestments and disposals							20	4	20	4
Translation differences						3	–1	–1	–1	2
<b>Carrying amount at year-end</b>	<b>–</b>	<b>–</b>	<b>–430</b>	<b>–359</b>	<b>–90</b>	<b>–79</b>	<b>–104</b>	<b>–114</b>	<b>–624</b>	<b>–552</b>
<b>Accumulated impairment losses</b>										
Carrying amount at start of year	–31	–31							–31	–31
Impairment losses					–12				–12	–
<b>Carrying amount at year-end</b>	<b>–31</b>	<b>–31</b>	<b>–</b>	<b>–</b>	<b>–12</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–43</b>	<b>–31</b>
<b>Carrying amounts according to balance sheet</b>	<b>2 011</b>	<b>1 950</b>	<b>137</b>	<b>208</b>	<b>13</b>	<b>36</b>	<b>24</b>	<b>54</b>	<b>2 185</b>	<b>2 248</b>

The Group's goodwill of SEK 2 011 million consists of SEK 1 951 million that arose in connection with the Korsnäs acquisition in 2012 and has been allocated to the Consumer Board business area, which is a cash-generating unit in line with the BillerudKorsnäs organisational structure. Remaining goodwill is related to the acquisition of the Marma Skog group during the year.

With regard to impairment testing of the goodwill related to the acquisition of Korsnäs, the recoverable amount has been calculated as value in use. The calculations use cash flow based on the multi-year plan approved by the Company's management for the period 2019–2028. A long forecast plan (10 years) have been used due to fact that this is a long term business. The assumptions in the multi-year plan are based on historical experience and forecasts regarding market performance

and other factors. The main assumptions relate to volume growth, EBITDA margin, operating capital and investment needs. Forecasts are made on management's assessments which are based on both internal and external sources.

An annual growth rate of 2% (2) was used to extrapolate cash flows beyond 2028. The discount rate before tax that was used is 10% (10). An impairment test was performed and no need for impairment was identified.

The Company's management believes that no reasonable changes in any of the major assumptions would result in any impairment.

## 12 Property, plant and equipment

SEKm	Buildings and land <sup>1</sup>		Plant and equipment <sup>2</sup>		Leased fixed assets		Construction in progress <sup>4</sup>		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>GROUP</b>										
<b>Acquisition value</b>										
Carrying amount at start of year	4 239	4 145	34 859	34 091	7	7	4 105	853	43 210	39 096
Investments	4	2	18	18			5 097	4 174	5 119	4 194
Acquisition of business	15								15	–
Revaluation	2								2	–
Reclassification	331	127	2 041	780			–2 379	–923	–7	–16
Divestments and disposals	–3	–29	–47	–49		–1	–6		–56	–79
Disposals via divestment of business <sup>3</sup>		–6	–1	–2					–1	–8
Translation differences			49	21		1		1	49	23
<b>Carrying amount at year-end</b>	<b>4 588</b>	<b>4 239</b>	<b>36 919</b>	<b>34 859</b>	<b>7</b>	<b>7</b>	<b>6 817</b>	<b>4 105</b>	<b>48 331</b>	<b>43 210</b>
<b>Accumulated depreciation/amortisation</b>										
Carrying amount at start of year	–2 723	–2 634	–20 755	–19 483	–6	–6			–23 484	–22 123
Depreciation/amortisation	–120	–111	–1 289	–1 306	–1	–1			–1 410	–1 418
Divestments and disposals	3	22	46	39		1			49	62
Translation differences			–21	–5					–21	–5
<b>Carrying amount at year-end</b>	<b>–2 840</b>	<b>–2 723</b>	<b>–22 019</b>	<b>–20 755</b>	<b>–7</b>	<b>–6</b>	<b>–</b>	<b>–</b>	<b>–24 866</b>	<b>–23 484</b>
<b>Accumulated impairment losses</b>										
Carrying amount at start of year	–111	–111	–1 925	–1 925					–2 036	–2 036
Impairment losses									–	–
<b>Carrying amount at year-end</b>	<b>–111</b>	<b>–111</b>	<b>–1 925</b>	<b>–1 925</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–2 036</b>	<b>–2 036</b>
<b>Carrying amounts according to balance sheet</b>	<b>1 637</b>	<b>1 405</b>	<b>12 975</b>	<b>12 179</b>	<b>–</b>	<b>1</b>	<b>6 817</b>	<b>4 105</b>	<b>21 429</b>	<b>17 690</b>
<b>PARENT COMPANY</b>										
<b>Acquisition value</b>										
Carrying amount at start of year	7	7	9	6			1	1	17	14
Investments				3					–	3
Reclassification			1				–1		–	–
<b>Carrying amount at year-end</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>17</b>	<b>17</b>
<b>Accumulated depreciation/amortisation</b>										
Carrying amount at start of year			–5	–4					–5	–4
Depreciation/amortisation			–1	–1					–1	–1
<b>Carrying amount at year-end</b>	<b>–</b>	<b>–</b>	<b>–6</b>	<b>–5</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–6</b>	<b>–5</b>
<b>Carrying amounts according to balance sheet</b>	<b>7</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>11</b>	<b>12</b>

1 Of which land is SEK 85 million (67) in the Group and SEK 6 (6) million in the parent company.

2 Light machinery and equipment represent only a minor proportion of the value of plant and equipment and thus are not disclosed separately.

3 Relates to the divestment of Nine AB in 2018 and Sia Freja in 2017.

4 Capitalised loan expenditure included in cost of acquisition totalled SEK 47 million (45) in 2018, and the interest rate used in determining loan expenditure was 1% (4) in 2018.

### Leases

Future contractual lease commitments for the Group totalled SEK 297 million (296), of which SEK 100 million (99) is payable within one year and SEK 184 million (162) within two to five years. The corresponding figure for the parent company was SEK 8 million (15), of which SEK 6 million (8) is payable within one year and SEK 3 million (7) within two to five years. Leasing costs in the Group in 2018 were SEK 119 million (95). For the parent company, the total corresponding costs were SEK 9 million (10).

## 13 Investments in Group companies

SEKm	2018	2017
<b>Acquisition value</b>		
Opening balance at start of year	10 820	10 847
Investments <sup>1</sup>	120	20
Sale of subsidiaries <sup>2</sup>	-30	-47
<b>Closing balance at year-end</b>	<b>10 910</b>	<b>10 820</b>
<b>Accumulated impairment losses</b>		
Opening balance at start of year	-151	-166
Impairment losses <sup>3</sup>	-175	-30
Sale of subsidiaries <sup>2</sup>	28	45
<b>Closing balance at year-end</b>	<b>-298</b>	<b>-151</b>
<b>Carrying amount on the balance sheet</b>	<b>10 612</b>	<b>10 669</b>

<sup>1</sup> Investment in 2018 relates to shareholder contributions to BillerudKorsnäs Venture AB of SEK 35 million, BillerudKorsnäs Italy S.r.l of SEK 79 million and NimblePacc Packaging Private Ltd of SEK 6 million. Investment in 2017 relates to shareholder contributions to Nine AB of SEK 6 million, BillerudKorsnäs Venture AB of SEK 9 million, NimblePacc Packaging Private Ltd of SEK 2 million and the newly formed company BillerudKorsnäs Vietnam LLC of SEK 3 million.

<sup>2</sup> Sale of subsidiaries related to Nine AB in 2018 and Billerud Tenova Bioplastics AB in 2017.

<sup>3</sup> In 2018, impairment losses related to impairment of the holdings in BillerudKorsnäs Venture AB of SEK 35 million, BillerudKorsnäs Italy S.r.l of SEK 79 million, NimblePacc Packaging Private Ltd of SEK 6 million, Billerud Incorporated of SEK 52 million, BillerudKorsnäs Vietnam LLC of SEK 3 million. In 2017, impairment losses related to impairment of the holdings in Nine AB of SEK 6 million, Billerud Tenova Bioplastics AB of SEK 15 million and BillerudKorsnäs Venture AB of SEK 9 million.

### Specification of parent company's investments in Group companies

Subsidiary/Registered office/Corp. ID no.	Number of shares	Holding in % <sup>1</sup>	Carrying amount
BillerudKorsnäs Venture AB, Solna, 559040-3548	50 000	100	-
Paccess AB, Solna 556459-7572	1 000	100	-
BillerudKorsnäs Sweden AB, Stockholm 556876-2974	2 000	100	1 040
ScandFibre Logistics AB, Örebro, 556253-1474	10 000	100	8
BillerudKorsnäs Asia Holding, Hong Kong	10 000	100	-
BillerudKorsnäs Beetham Ltd, Cumbria	3 500 000	100	80
Billerud Benelux B.V., Amsterdam	200	100	3
BillerudKorsnäs France S.A.S., Paris	25 401	100	-
BillerudKorsnäs Germany GmbH, Jesteburg	2	100	1
BillerudKorsnäs Spain S.L, Barcelona	-	100	1
BillerudKorsnäs Italy S.r.l, Milan	-	100	-
BillerudKorsnäs China Limited, Shanghai	-	100	4
BillerudKorsnäs Lithuania UAB, Klaipeda	200	100	15
BillerudKorsnäs Estonia OÜ, Pärnu	1	100	-
BillerudKorsnäs Latvia SIA, Juanjelgava	5 623	100	43
Billerud Incorporated, Delaware	100	100	-
BillerudKorsnäs Finland OY, Pietarsaari	2 500	100	1 167
BillerudKorsnäs Skog & Industri AB, Gävle 556023-8338	53 613 270	100	8 240
BillerudKorsnäs Packaging India Private Ltd, New Dehli	8 750	100	3
NimblePacc Packaging Private Ltd, New Dehli	11 999	100	4
BillerudKorsnäs Singapore Private Ltd, Singapore	500 000	100	3
BillerudKorsnäs Vietnam LLC, Ho Chi Minh City		100	-
BillerudKorsnäs Bangladesh Limited, Dhaka	998	99.8	-
			<b>10 612</b>

In addition to participations directly owned by the parent company, the following companies are part of the Group

Subsidiaries and joint arrangements/Registered office/Corp. ID no.	Holding in % <sup>1</sup>
BillerudKorsnäs Rockhammar AB, Lindesberg 556761-2436	100
Diacell AB, Gävle 556155-2786	100
Korsnäs Sägverks AB, Gävle 556024-8477	100
AB Stjernsunds Bruk, Gävle 556028-6881	100
Tråvaru AB Dalarna, Gävle 556044-3920	100
BillerudKorsnäs UK Ltd, Stowe	100
BillerudKorsnäs USA LLC, Delaware	100
BillerudKorsnäs International Trading Ltd, Shenzhen	100
Bomhus Energi AB, Gävle 556793-5217 (joint arrangement)	50
Fastighets AB Marma Skog 31, Gävle 556580-2203	100
AB Marma Skog 75, Gävle 556802-4359	100
AB Marma Skog 76, Gävle 556802-4367	100
AB Marma Skog 77, Gävle 556802-4375	100
AB Marma Skog 78, Gävle 556904-3465	100

<sup>1</sup> Participating interest in capital, which is the same as the proportion of votes in the total number of shares.

## 14 Receivables from and liabilities to Group companies, interest-bearing

SEKm	2018	2017	SEKm	2018	2017
<b>GROUP AND PARENT COMPANY</b>			<b>PARENT COMPANY</b>		
<b>Non-current receivables from associates</b>			<b>Current receivables from Group companies</b>		
Carrying amount at start of year	16	15	Carrying amount at start of year	58	33
Change for the year	1	1	Change for the year	29	25
<b>Carrying amount at end of year</b>	<b>17</b>	<b>16</b>	<b>Carrying amount at end of year</b>	<b>87</b>	<b>58</b>
			<b>Liabilities to Group companies</b>		
			Carrying amount at start of year	599	426
			Change for the year	-51	173
			<b>Carrying amount at end of year</b>	<b>548</b>	<b>599</b>

Interest-bearing receivables and liabilities relate to the Group account with an internal rate of return and interest-bearing fixed-term loans and investments.

## 15 Participations in associates

SEKm	2018	2017
<b>GROUP</b>		
Carrying amount at start of year	8	8
Capital contribution to associates <sup>1</sup>	4	7
Divestment of associates <sup>2</sup>	-8	-
Participations in associates' profit/loss after tax	12	-7
<b>Carrying amount at end of year</b>	<b>16</b>	<b>8</b>

### Associates

SEKm	Country	Revenue	Earnings	Assets	Liabilities	Shareholders' equity	Proportion owned, %	Carrying amount
<b>2018</b>								
FreeForm Packaging AB	Sweden	5	-7	24	23	1	50	1
Trätåg AB	Sweden	198	-	37	37	-	50	-
SSG Standard Solutions Group AB	Sweden	105	5	70	17	53	28	15
<b>Total</b>								<b>16</b>
<b>2017</b>								
FreeForm Packaging AB	Sweden	13	-7	22	22	-	37	-
Trätåg AB	Sweden	201	-	43	43	-	50	-
Fastighetsbolaget Marma Skog 31 <sup>2,3</sup>	Sweden	1	-	8	-	8	50	8
SSG Standard Solutions Group AB	Sweden	112	6	69	19	50	28	-
<b>Total</b>								<b>8</b>

SEKm	2018	2017
<b>PARENT COMPANY</b>		
<b>Acquisition value</b>		
At start of year	-	-
Capital contribution to associates <sup>1</sup>	4	6
Divestment of associates	-	-
Impairment losses, associates <sup>4</sup>	-4	-6
<b>Closing balance</b>	<b>-</b>	<b>-</b>

### Specification of participations in associates directly owned by the parent company

Company, corporate ID no. and registered office	Votes and capital, %	Carrying amount
<b>2018</b>		
<b>Associates</b>		
FreeForm Packaging AB, 556928-2873 Norrköping	50	-
<b>Parent company total</b>		<b>-</b>
<b>2017</b>		
<b>Associates</b>		
FreeForm Packaging AB, 556928-2873 Norrköping	37	-
<b>Parent company total</b>		<b>-</b>

1 Capital contributions in 2017 and 2018 related to FreeForm Packaging AB.

2 BillerudKorsnäs AB acquired all the shares in Fastighets AB Marma Skog 31 in 2018, which means that the company is recognised as Participations in associates, see Note 13.

3 The value of biological assets has been taken into account when calculating the share of equity, in accordance with IAS 41.

4 Impairment loss in 2017 and 2018 relates to the impairment of the investment in Fibre Form Packaging AB.

## 16 Other holdings

SEKm Name/Corp. ID no.	Number of shares	Holding in %	Carrying amount
<b>2018</b>			
<b>GROUP</b>			
One tenant-owner property			2
VindIn AB, 556713-5172	200	10	13
BioBag International AS, 966 534 281	360	10	9
Bergvik Skog AB, 556610-2959	353	5	1 424
Radio Skog AB, 556137-85065	400	10	–
RK Returkartong AB, 556483-8828	28	4	–
EcoXPac A/S, Denmark	128 580	19.6	7
Kezzler AS, Norway, 983 594 123	528 049	10	47
Hanhaa Ltd, UK	21 336	13	8
Vericool Inc, USA	288 983	11	20
IUC Norr AB	200	3	–
<b>Total</b>			<b>1 530</b>
<b>PARENT COMPANY</b>			
One tenant-owner property			2
SSG Standard Solutions Group AB, 556403-1523	7 143	14	–
VindIn AB, 556713-5172	100	9	11
<b>Total</b>			<b>13</b>
<b>2017</b>			
<b>GROUP</b>			
Two tenant-owner properties			2
BasEl i Sverige AB, 556672-5858	100	10	1
VindIn AB, 556713-5172	200	10	32
Kalix Vindkraft AB, 556686-1729	20 000	10	–
BioBag International AS, 966 534 281	360	10	9
Bergvik Skog AB, 556610-2959	353	5	1 273
Radio Skog AB, 556137-8505	400	10	–
RK Returkartong AB, 556483-8828	28	4	–
Innventia Fastighets AB, 559099-8711	12	11	–
Ljusfors Kraft AB, 556042-3351	11	1	–
EcoXPac A/S, Denmark	128 580	19.6	32
Kezzler AS, Norway, 983 594 123	474 892	10	42
Hanhaa Ltd, UK	21 336	13	18
Vericool Inc, USA	288 983	9	20
<b>Total</b>			<b>1 429</b>
<b>PARENT COMPANY</b>			
One tenant-owner property			2
BasEl i Sverige AB, 556672-5858	50	5	–
SSG Standard Solutions Group AB, 556403-1523	7 143	14	–
VindIn AB, 556713-5172	100	9	24
<b>Total</b>			<b>26</b>

Changes regarding Group Other holdings are stated in Note 25.

In 2018 the parent company bought and sold the holding in Grow Holding AB, the company BasEl i Sverige AB went into liquidation and Kalix Vindkraft went bankrupt.

## 17 Inventories

SEKm	Group	
	2018	2017
Raw materials and consumables	1 131	1 046
Finished goods	2 275	1 632
Work in progress	40	79
Advances to suppliers	187	155
<b>Total</b>	<b>3 633</b>	<b>2 912</b>

Of the inventory of finished goods, SEK 138 million (217) has been measured at net realisable value.

Operating costs include SEK 206 million (52) for impairment of inventories.

## 18 Shareholders' equity

### Share capital

Owners of ordinary shares are entitled to a dividend approved at a later date, and the shareholding entitles the owner to vote at the AGM, with one vote per share. All shares have the same rights to BillerudKorsnäs' remaining net assets. Regarding shares in the Company's treasury (see below), all rights are suspended until the shares are re-issued.

### Other contributed capital

The shares represent equity paid in by the owners. This includes part of share premium reserves transferred to the statutory reserve at 31 December 2005. Allocations to the share premium reserve from 1 January 2006 onward are also recognised as paid-in capital.

### Reserves

#### Translation reserve

The translation reserve comprises all exchange rate differences arising from the translation of financial reports of foreign operations that have prepared their financial reports in a currency other than the currency that is the Group's functional (reporting) currency. The parent company and Group present their financial statements in Swedish kronor. In addition, the translation reserve consists of exchange rate differences arising from the revaluation of debts raised to hedge net investments in foreign operations.

#### Fair value reserve

The fair value reserve includes the accumulated net change in the fair value of financial assets measured at fair value through other comprehensive income until the asset is derecognised from the balance sheet.

#### Hedging reserve

The hedging reserve comprises the effective portion of accumulated net changes in the fair value of a cash flow hedge instrument attributable to hedge transactions that have not yet occurred.

### Retained earnings

Retained earnings including profit/loss for the year includes profit earned by the parent company and its subsidiaries and associates. Previous allocations to the statutory reserve, excluding transferred share premium reserves, are included in this capital item.

### Repurchased shares

Repurchased shares includes the acquisition cost of the Company's treasury shares held by the parent company. At 31 December 2018, the Group's holdings of treasury shares totalled 1 519 191 (1 263 166).

### Dividend

After the end of the reporting period, the Board of Directors proposed to the AGM a dividend of SEK 4.30 per ordinary share, totalling SEK 889 million. This proposal will be voted on at the AGM on 9 May 2019.

	2018	2017
Dividend, SEKm	890	891
Recognised dividend per ordinary share, SEK	4.30	4.30

### Financial position

BillerudKorsnäs' financial target for its financial position is for the long-term ratio of net interest-bearing debt to EBITDA to be less than 2.5. Group interest-bearing net indebtedness in relation to EBITDA at the end of 2018 was 3.17 (1.53) times. Interest bearing net debt in relation to adjusted EBITDA was 2.68 (1.49), see more information in Note 6 regarding items affecting comparability.

### PARENT COMPANY

#### Restricted reserves

Restricted reserves may not be reduced by the distribution of profits.

#### Share capital

The share capital at year-end consists of 208 219 834 (208 219 834) ordinary shares with a quotient value of SEK 7.38 (7.38) and entitling holders to one vote per share.

#### Statutory reserve

The purpose of the statutory reserve is to save a part of net earnings that is not needed to cover retained losses.

#### Non-restricted equity

##### Share premium reserve

When shares are issued at a premium, that is, at a price that is greater than the shares' quotient value, an amount corresponding to the amount received in excess of the quotient value of the shares must be transferred to the share premium reserve.

##### Retained earnings

These consist of the preceding year's non-restricted equity after payment of dividends, if any. Together with profit/loss for the year this constitutes total non-restricted equity, that is, the amount available for distribution as a dividend to shareholders.

## 19 Proposed allocation of profit

### Non-restricted equity in the parent company consists of:

SEK	
Share premium reserve	4 407 645 318
Retained earnings	1 235 734 042
Profit/loss for the year	-73 496 886
<b>Total</b>	<b>5 569 882 474</b>

### The Board proposes that:

SEK	
Dividend to shareholders, 206 700 643 shares at SEK 4.30 per share <sup>1</sup>	888 812 765
and that the remaining amount be retained	4 681 069 709
<b>Total</b>	<b>5 569 882 474</b>

<sup>1</sup> Allocation of shares under the LTIP programme in April, if any, not taken into account.

## 20 Provisions for pensions and similar commitments

BillerudKorsnäs has defined-benefit pension plans for office-based staff in Sweden (ITP plan). BillerudKorsnäs also has defined-contribution pension plans.

In addition to this, there are defined-benefit pensions secured through endowment insurance, along with a provision for non-vested pensions of SEK 26 million (27) in the subsidiary BillerudKorsnäs Skog & Industri AB.

Parts of the ITP plan's pension commitments are secured through provisions on the balance sheet in accordance with the FPG/PRI system.

All newly earned pension contributions within the ITP 2 plan are secured through pension insurance with Alecta. Alecta cannot provide sufficient information to recognise the ITP plan as a defined-benefit plan, and the plan is therefore recognised as a defined-contribution plan in accordance with UFR 10.

The ITP plan secured with Alecta is a multi-employer defined-benefit plan. Alecta's collective consolidation ratio was 142% (154) at year-end. The collective consolidation ratio consists of the market value of Alecta's assets in relation to the insurance undertakings calculated as per Alecta's actuarial assumptions, which do not correspond to IAS 19. BillerudKorsnäs' pension undertakings secured with Alecta constitute a marginal proportion of total undertakings secured with Alecta.

This means that no pension costs for newly earned defined-benefit pension are recognised as defined-benefit.

The recognised defined-benefit pension costs are attributable to previous periods.

Fees for pension insurance with Alecta totalled SEK 117 million (106) for the year.

GROUP	2018	2017
<b>SEKm</b>		
<b>Pension costs</b>		
Pension costs in profit/loss for the year		
Employee benefit costs		
Defined-contribution plans	280	252
Defined-benefit plans	–	–
Special payroll tax	73	59
Finance costs	18	18
<b>Total</b>	<b>371</b>	<b>329</b>
<b>Pension costs in other comprehensive income</b>		
Actuarial changes	24	29
<b>Provisions for pensions in balance sheet</b>		
Provisions at start of year	784	778
Pension costs	1	1
Finance costs	18	18
IFRS adjustment		
Actuarial changes		
Change in financial assumptions	23	23
Change in demographic assumptions	–	–
Experience-based adjustments	2	6
Payments	–44	–42
<b>Provisions at end of year</b>	<b>784</b>	<b>784</b>
of which covered by credit insurance with FPG/PRI	744	747

Of the provision, SEK 44 million (43) is expected to be paid within 12 months. As collateral for pension commitments, the Group has pledged endowment insurance totalling SEK 33 million (31).

	31 Dec 2018	31 Dec 2017
<b>Actuarial assumptions</b>		
The following material actuarial assumptions have been applied in the calculation of commitments (weighted averages).		
Discount rate	2.3%	2.5%
Future increases in pensions	1.9%	1.9%
Lifetime	DUS 14	DUS 14

### Sensitivity analysis actuarial assumptions

Parameter	Change	Impact on pension liability
Discount rate	+0.5%	–54
Discount rate	–0.5%	61
Inflation	+0.5%	58
Inflation	–0.5%	–53
Lifetime	+1 year	39
Lifetime	–1 year	–38

The sensitivity analysis is based on a change in an individual actuarial assumption while other assumptions remain unchanged. This method shows the sensitivity of the undertaking to a single assumption. This is a simplified method as the actuarial assumptions are usually correlated. The average maturity of pension undertakings is around 13 years.

### PARENT COMPANY

SEKm	2018	2017
<b>Pension costs</b>		
Employee benefit costs	33	26
Special payroll tax	9	7
Finance costs	7	6
<b>Total cost of direct pensions</b>	<b>49</b>	<b>39</b>
<b>Provisions for pensions in balance sheet</b>		
Present value of pension commitments related to retirement under the management of the company at start of year	179	181
Pension costs	3	2
Finance costs	7	6
Pensions paid	–11	–10
<b>Present value of pension commitments related to retirement under the management of the Company at year-end</b>	<b>178</b>	<b>179</b>
Commitments paid to endowment insurance held by BillerudKorsnäs	26	23
Other provisions	6	6
<b>Provisions for pensions in balance sheet</b>	<b>210</b>	<b>208</b>
of which covered by credit insurance with FPG/PRI	178	179

Of the provision, SEK 12 million (11) is expected to be paid within 12 months. As collateral for pension commitments, the parent company has pledged endowment insurance totalling SEK 26 million (23).

## 21 Provisions

SEKm	Severance pay, redundancy pay		Costs of restructuring measures		Working environment costs		Total carrying amount	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>GROUP</b>								
<b>Change for the year</b>								
Carrying amount at start of year	150	185	60	115	40	38	250	338
Provisions made during the year	40	6	46	–	161	2	247	8
Unutilised amount reversed during the year	–10	–20	–13	–	–	–	–23	–20
Amount utilised during the year	–34	–21	–34	–55	–19	–	–87	–76
<b>Carrying amount at end of year</b>	<b>146</b>	<b>150</b>	<b>59</b>	<b>60</b>	<b>182</b>	<b>40</b>	<b>387</b>	<b>250</b>
of which current portion of provisions	34	19	4	4	87	–	125	23
<b>PARENT COMPANY</b>								
<b>Change for the year</b>								
Carrying amount at start of year	–	5	–	–	–	–	–	5
Provisions made during the year	35	–	46	–	–	–	81	–
Unutilised amount reversed during the year	–	–	–13	–	–	–	–13	–
Amount utilised during the year	–14	–5	–29	–	–	–	–43	–5
<b>Carrying amount at end of year</b>	<b>21</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>25</b>	<b>–</b>
of which current portion of provisions	21	–	4	–	–	–	25	–

## 22 Interest-bearing liabilities

SEKm	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>GROUP</b>				
<b>Non-current liabilities</b>				
Syndicated loans	–	–	–	–
Bilateral loans	2 031	2 031	1 141	1 141
Bond loans	4 700	4 713	2 000	2 008
Other interest-bearing liabilities	399	399	445	445
<b>Carrying amount at year-end</b>	<b>7 130</b>	<b>7 143</b>	<b>3 586</b>	<b>3 594</b>
<b>Current liabilities</b>				
Syndicated loans	–	–	–	–
Bond loans	–	–	1 500	1 522
Commercial papers	1 600	1 600	–	–
Bilateral loans	246	246	–	–
Other interest-bearing liabilities	48	48	51	51
<b>Carrying amount at year-end</b>	<b>1 894</b>	<b>1 894</b>	<b>1 551</b>	<b>1 573</b>
<b>Repayment periods and future interest payments on loans contracted</b>				
(number of years from 31 Dec 2018)	0–1	1–2	2–	Total
Bilateral loans	246	291	1 739	2 276
Bond loans	–	400	4 300	4 700
Commercial papers	1 600	–	–	1 600
Other interest-bearing liabilities	48	46	354	448
<b>Group total</b>	<b>1 894</b>	<b>737</b>	<b>6 393</b>	<b>9 024</b>
<b>Future interest payments</b>	<b>62</b>	<b>57</b>	<b>123</b>	<b>242</b>

The majority of the liabilities are due for payment within five years of the end of the reporting period.

The difference between carrying amount and fair value is due to the liabilities not being marked to market in the balance sheet and instead being recognised at amortised cost. The Group has no loans recognised at fair value through profit or loss. The fair value of interest-bearing liabilities is established according to value hierarchy Level 2. For a definition of value hierarchy please see Note 25.

### Terms and repayment periods

The agreements for the syndicated loans and bilateral loans contain financial covenants which must be met for them to be available. These covenants primarily relate to the net debt/equity ratio and interest coverage ratio. All covenants were met throughout 2018. The syndicated loans, which are a revolving credit facility of SEK 5 500 million, were unutilised as of 31 December 2018. The credit facility falls due in May 2023. The bilateral loans fall due from 2019 onwards. The syndicated loans and bilateral loans have variable interest rates.

BillerudKorsnäs had seven outstanding bond loans totalling SEK 4 700 million as of 31 December 2018. Of the outstanding bond loans, SEK 2 750 million have variable interest and SEK 1 950 million fixed interest. The bonds were issued under the MTN programme, which was established in 2013. Of the outstanding SEK 4 700 million, SEK 400 million matures in 2020, SEK 800 million in 2021, SEK 1 700 million in 2022 and SEK 1 800 million in 2023. Two bond loans totalling SEK 1 500 million were repaid in 2018.

Commercial papers are issued under the programme originally established in 2003. The commercial paper programme has a framework amount of SEK 3 000 million. Commercial papers have a minimum maturity of one day and a maximum maturity of one year. As of 31 December 2018, commercial papers nominally of SEK 1 600 million had been issued.

## 23 Liabilities to credit institutions

SEKm	31 Dec 2018	31 Dec 2017
<b>PARENT COMPANY</b>		
<b>Non-current liabilities</b>		
Syndicated loans	–	–
Bilateral loans	2 031	1 141
Bond loans	4 700	2 000
Other interest-bearing liabilities	–	–
<b>Carrying amount at year-end</b>	<b>6 731</b>	<b>3 141</b>
<b>Current liabilities</b>		
Syndicated loans	–	–
Bilateral loans	246	–
Bond loans	–	1 500
Commercial papers	1 600	–
Other interest-bearing liabilities	–	6
<b>Carrying amount at year-end</b>	<b>1 846</b>	<b>1 506</b>

### Repayment periods

(number of years from 31 Dec 2018)	0–1	1–2	2–	Total
Syndicated loans	–	–	–	–
Bilateral loans	246	291	1 739	2 276
Bond loans	–	400	4 300	4 700
Commercial papers	1 600	–	–	1 600
Other interest-bearing liabilities	–	–	–	–
<b>Total</b>	<b>1 846</b>	<b>691</b>	<b>6 039</b>	<b>8 576</b>

The majority of the liabilities are due for payment within five years after the closing date.

## 24 Accrued expenses and deferred income

SEKm	Group		Parent company	
	2018	2017	2018	2017
Employee benefit expenses, including social security costs	621	622	47	51
Excise duties	3	3	–	–
Delivery expenses	147	135	–	–
Wood expenses	87	57	–	–
Energy expenses	77	26	–	–
Other	388	354	53	40
<b>Total</b>	<b>1 323</b>	<b>1 197</b>	<b>100</b>	<b>91</b>

## 25 Financial assets and liabilities

SEKm	Fair value through profit/loss – hedge accounting		Amortised cost		Fair value through other comprehensive income		Financial liabilities valued at amortised cost		Total carrying amount		Fair value	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Valuation classification	Level 2				Level 3							
<b>GROUP</b>												
Other shares and participations					1 530	1 429			1 530	1 429	1 530	1 429
Non-current receivables	177		26	22					203	22	203	22
Accounts receivable			2 807	2 713					2 807	2 713	2 807	2 713
Other receivables	307	150	568	449					875	599	875	599
Cash and cash equivalents <sup>1</sup>			456	168					456	168	456	168
<b>Total</b>	<b>484</b>	<b>150</b>	<b>3 857</b>	<b>3 352</b>	<b>1 530</b>	<b>1 429</b>			<b>5 871</b>	<b>4 931</b>	<b>5 871</b>	<b>4 931</b>
Non-current interest-bearing liabilities							7 130	3 586	7 130	3 586	7 143	3 594
Current interest-bearing liabilities							1 894	1 551	1 894	1 551	1 894	1 573
Accounts payable							3 825	3 294	3 825	3 294	3 825	3 294
Other liabilities	121	115					250	144	371	259	371	259
<b>Total</b>	<b>121</b>	<b>115</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13 099</b>	<b>8 575</b>	<b>13 220</b>	<b>8 690</b>	<b>13 233</b>	<b>8 720</b>

NOTES

SEKm	Fair value through profit/loss – hedge accounting		Amortised cost		Fair value through other comprehensive income		Financial liabilities valued at amortised cost		Total carrying amount		Fair value	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Valuation classification	Level 2				Level 3							
<b>PARENT COMPANY</b>												
Other shares and participations					13	26			13	26	13	26
Other non-current receivables			26	23					26	23	34	23
Accounts receivable			2 307	2 188					2 307	2 188	2 307	2 188
Other receivables			38	29					38	29	57	51
Cash and bank balances <sup>2</sup>			292	18					292	18	292	18
<b>Total</b>	<b>–</b>	<b>–</b>	<b>2 663</b>	<b>2 258</b>	<b>13</b>	<b>26</b>	<b>–</b>	<b>–</b>	<b>2 676</b>	<b>2 284</b>	<b>2 703</b>	<b>2 306</b>
Bond and syndicated loan							4 700	2 000	4 700	2 000	4 713	2 030
Other interest-bearing non-current liabilities							2 031	1 141	2 031	1 141	2 031	1 141
Liabilities to credit institutions							1 846	1 506	1 846	1 506	1 846	1 506
Accounts payable							40	30	40	30	40	30
Other liabilities							28	25	28	25	109	137
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8 645</b>	<b>4 702</b>	<b>8 645</b>	<b>4 702</b>	<b>8 739</b>	<b>4 844</b>

1 Short-term investments are classified as 'Cash and cash equivalents' when they mature less than three months after the acquisition date and are exposed to only a minor risk of fluctuation in value.

2 Short-term investments are classified as 'Cash and bank balances' when they mature less than three months after the acquisition date and are exposed to only a minor risk of fluctuation in value.

The categories above have changed as a result of the introduction of IFRS 9 – Financial instruments. The following categorisation applies with effect from 2018:

- Accounts receivable and loan receivables are recognised in the category of Amortised cost.
- Interest swaps and derivatives in hedge accounting are recognised in the category of fair value through profit or loss – hedge accounting.
- Available-for-sale financial assets are recognised in the category of fair value through Other comprehensive income.
- Financial liabilities measured at amortised cost are unchanged compared with previous years.

Net changes in the value of cash flow hedges recognised in operating profit/loss total SEK –154 million (40) in 2018, of which SEK –424 million (4) are recognised in 'Net sales'. In the section Financial Risks, risks related to cash flow hedges are described.

The Group enters into derivatives contracts under International Swaps and Derivatives Association (ISDA) master netting agreements. These agreements mean that when a counterparty is unable to settle its commitments for all transactions, the agreement is discontinued and the net amount of all outstanding balances have to be settled. These ISDA agreements do not meet the criteria for set-off, as set-off of ISDA contracts is only permitted if the counterparty or the Group is unable to settle its commitments. There is no intention to settle these balances on a net basis.

The net amount of interest rate swaps in hedge accounting covered by netting agreements is SEK 0 (0) in other receivables and SEK 21 million (24) in other debt.

The net amount of other derivatives in hedge accounting covered by netting agreements is SEK 457 million (115) in other receivables and SEK 74 million (57) in other debt.

**Fair value hierarchy**

- Level 1. Valuation based on fully observable data, unadjusted listed prices on an active market for identical assets and liabilities that the Company has access to at the valuation date.
- Level 2. Valuation based on data other than listed prices in level 1 that are directly or indirectly observable.
- Level 3. Valuation is based essentially on non-observable data for the asset or liability.

Reconciliation of Level 3 fair values	2018	2017
<b>GROUP</b>		
Carrying amount at start of year	1 429	1 343
Acquisition, Kezzler AS	4	14
Acquisition, Hanhaa Ltd	–	8
Acquisition, EcoXPac A/S	–	16
Acquisition, Vericool	–	20
Acquisition, Grow Holding AB	14	–
Acquisition, IUC Norr AB	–	–
Impairment of carrying amount in other comprehensive income, Grow Holding AB	–6	–
Divestment, Grow Holding AB	–8	–
Change in valuation of Kalix Vindkraft AB	–	–5
Impairment of carrying amount in other comprehensive income, ExoXpac A/S	–25	–8
Impairment of carrying amount in other comprehensive income, Hanhaa	–10	–
Impairment of carrying amount in other comprehensive income, BasEI	–1	–
Change in fair value/impairment recognised in other comprehensive income, Vindin	–18	–2
Change in fair value recognised in other comprehensive income	163	50
Fair value transferred to profit/loss for the year, Bergvik	–12	–7
	<b>1 530</b>	<b>1 429</b>

Valuation of other shares and participations is based primarily on the proportion of the Company's equity. Holding in Bergvik Skog AB included in this item, SEK 1 424 million (1 273) contains equity valuation of biological assets performed by an external party based on generally accepted valuation methods.

**Maturity structure**

(number of years from 31 Dec 2018)	0–1	1–2	2–	Total
Bilateral loans	246	291	1 739	2 276
Bond loans	–	400	4 300	4 700
Commercial papers	1 600	–	–	1 600
Other interest-bearing liabilities	48	46	354	448
Accounts payable	3 825	–	–	3 825
Other liabilities	250	–	–	250
Interest rate swaps in hedge accounting	–	–	21	21
Derivatives in hedge accounting	99	1	–	100
<b>Group total</b>	<b>6 068</b>	<b>738</b>	<b>6 414</b>	<b>13 220</b>
<b>Future interest payments</b>	<b>62</b>	<b>57</b>	<b>123</b>	<b>242</b>

For more information on currency hedging, see separate section in the Director's Report, for hedging of interest rate swaps and electricity see section on interest rate risk and energy price risk respectively in the section on risk management and sensitivity analysis.

## 26 Remuneration to senior management

### Remuneration to the Board of Directors

The Chairman and members of the Board receive remuneration in accordance with resolutions by the Annual General Meeting. Additional fees are paid for work on committees. The Chairman of the Board received SEK 1 315 (1 315) thousand in 2018, as well as

SEK 25 thousand (75) for committee work. Total remuneration to other Board members was SEK 4 176 (3 805) thousand, of which SEK 543 (530) thousand was for committee work.

Board fees, SEK thousand Name	Fee for year		Fee for audit committee		Fee for remuneration committee		Fee for investment committee		Fee for	
	2018–2019	2017–2018	2018–2019	2017–2018	2018–2019	2017–2018	2018–2019	2017–2018	2018	2017
Michael M.F. Kaufmann	855	825			25	25		50	880	900
Lennart Holm	1 290	1 240			25	25		50	1 315	1 315
Bengt Hammar	505	490					50	50	555	540
Mikael Hellberg	–	490		75		50			–	615
Kristina Schauman <sup>1</sup>	253	490	78	155					331	645
Andrea Gisle Joosen	505	490	115	75					620	565
Victoria Van Camp	505	490					50	50	555	540
Jan Åström	505	–			50		50		605	–
Tobias Auchli	505	–	75				50		630	–
<b>Total</b>	<b>4 923</b>	<b>4 515</b>	<b>268</b>	<b>305</b>	<b>100</b>	<b>100</b>	<b>200</b>	<b>200</b>	<b>5 491</b>	<b>5 120</b>

<sup>1</sup> Kristina Schuaman receives no board remuneration for the time when she works as acting CFO. Kristina have invoiced SEK 646 thousand in fees, through an own company for her work as acting CFO during 2018.

### Remuneration to the CEO and Executive Leadership Team

The 2018 Annual General Meeting approved the following guidelines for remuneration to senior executives. Senior executives includes the CEO and other members of the Executive Leadership Team.

BillerudKorsnäs shall apply remuneration levels and employment terms that are in line with market practice in order to recruit and maintain a management team with a high level of competence and the capability of achieving established goals. The remuneration shall motivate executives to do their utmost to secure the shareholders' interests. The remuneration may be in the form of fixed salary, variable salary, long term incentive programs and other benefits such as a company car and pension. Fixed and variable salaries shall be set in relation to competence, area of responsibility and performance. The variable remuneration is based on outcomes in relation to clearly established goals and shall be set to a maximum of 33.75 per cent of the annual fixed salary for the management team and a maximum of 70 per cent for the CEO. However, the variable remuneration shall only be paid on condition that the BillerudKorsnäs group's operating result is positive. Long term incentive programs in the company shall primarily be linked to certain pre-determined financial and share price related performance criteria. The programs shall ensure long term commitment to the development of the company and shall be implemented on market terms. Long term incentive programs shall run for at least three years. For more information about the existing long term incentive programs adopted by the 2016, 2017 and 2018 AGMs, see the company's website and the section on "Long term incentive Programme (LTIP)".

Pension benefits shall either be defined-benefit or defined-contribution, and normally entitle to pension from the age of 65. In some cases the retirement age may be lower, although 62 is the lowest age of retirement. Six to 12 months is the normal notification period for termination of employment, and severance pay shall be set to a maximum of 12 months' salary in the event that the employment is terminated by the company.

Remuneration and employment terms for the CEO are prepared by the remuneration committee and resolved upon by the board. Remuneration and employment terms for members of the Executive Leadership Team are resolved upon by the CEO, subject to the approval of the remuneration committee.

Board members, elected at general meetings of BillerudKorsnäs, may in certain cases receive a remuneration for services performed within their respective areas of expertise, outside such board duties. Compensation for these services shall be paid at market terms and be approved by the board.

The board of BillerudKorsnäs has the right to deviate from these guidelines in individual cases in the event of special reason granting such deviation.

### Exception from the guidelines adopted by the general meeting

During 2018, BillerudKorsnäs has with two exceptions followed the guidelines for remuneration to senior executives adopted by the annual general meetings in 2017 and 2018. When recruiting two new Executive Leadership Team members during the second half of 2018, the Board have approved agreements with a variable remuneration of maximum 50% of the annual fixed salary (compared to 33.75% in the guidelines). The reason for the deviation is to meet market compensation terms.

SEK 000 Year	Gross salary	Variable remuneration	LTIP	Other benefits	Pension costs	Total
<b>Remuneration and benefits to the CEO</b>						
2018	7 317 <sup>1</sup>	991	–	272	2 541	11 121
2017	9 242 <sup>2</sup>	2 316	5 123	196	2 601	19 478
<b>Remuneration and benefits to rest of Executive Leadership Team</b>						
2018	41 711	1 806	5 616	1 793	10 874	61 800 <sup>3</sup>
2017	29 105	6 392	6 825	1 163	7 497	50 982

<sup>1</sup> This amount includes paid holiday days, holiday supplement, allowances for expenses and lunch coupons totalling SEK 17 thousand in addition to fixed salary.

<sup>2</sup> This amount includes paid holiday days, holiday supplement, allowances for expenses and lunch coupons totalling SEK 265 thousand in addition to fixed salary.

<sup>3</sup> Remuneration of four prior persons in Executive Management Team that were noticed during the year due to the reorganisation amounted to SEK 25 486, of which gross salary SEK 16 887, variable remuneration SEK 897 million, LTIP SEK 1 879 million, other benefits SEK 880 and pension costs SEK 4 943. Acting CFO receives fees through own company, SEK 644 thousand which is not included in the table above.

### Comments on the tables

- Variable remuneration for 2018 refers to amounts to be paid out in 2019 but charged to 2018, while variable remuneration for 2017 refers to remuneration paid out in 2018 but charged to 2017. The actual amounts are based on financial and individual targets linked to the development of the business and based on profit for 2018 and 2017.
- The LTIP for 2018 relates to the benefit value of the outcome of LTIP 2015, and the LTIP for 2017 relates to the benefit value of the outcome for LTIP 2014.
- Other benefits include car allowance, accommodation allowance and other taxable benefits.
- Pension costs refers to the costs charged to profit/loss for the year.

## NOTES

- In BillerudKorsnäs' long-term incentive programmes participants are allocated a certain number of BillerudKorsnäs shares free of charge after a three-year vesting period, provided certain criteria are met. The CEO and Executive Leadership Team have taken part in all available programmes.

The CEO participates in LTIP 2018 with 5 196 BillerudKorsnäs shares, known as 'savings shares'.

Other members of the Executive Leadership Team participate with 10 522 savings shares.

The CEO has an exchange ratio of 6x.

Each savings share entitles the holder to:

1 Right to matching shares

5 Rights to performance shares

The CFO has an exchange ratio of 5x.

Each savings share entitles the holder to:

1 Right to matching shares

4 Rights to performance shares

Other members of the Executive Leadership Team have an exchange ratio of 4x.

Each savings share entitles the holder to:

1 Right to matching shares

3 Rights to performance shares

## 27 Additional disclosures for the cash flow statement

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>Interest paid and received and dividend</b>				
Interest and dividends received	15	16	18	89
Interest paid	-87	-119	-149	-184
<b>Total</b>	<b>-72</b>	<b>-103</b>	<b>-131</b>	<b>-95</b>
<b>Adjustments for items not included in cash flow, etc.</b>				
Depreciation, amortisation and impairment of assets	1 513	1 519	1	1
Interest adjustment	17	22	11	6
Impairment of shares in subsidiaries	-	-	175	30
Pensions and other provisions	94	-131	20	-1
Unrealised earnings, electricity certificates and emission allowances	2	-1	-	-
Profit/loss from sale of subsidiaries	3	-5	3	-
Share of profit/loss in associates/impairment of investments	-12	8	4	6
Impairment of Other holdings	-	14	21	-
Share-based payments	10	10	10	10
Revaluation of biological assets	-2	-	-	-
Unified accounting policies	177	-	-	-
Unrealised exchange rate differences	21	-	19	-
Capital gain/loss Marmaskog	-30	8	-	-
Disposal of non-current assets	35	-	-	-
Capital gain/loss				
Other holdings	2	-	-	-
Other	-1	-	1	-
<b>Total</b>	<b>1 829</b>	<b>1 444</b>	<b>265</b>	<b>52</b>
Cash and cash equivalents <sup>1</sup>				
The following are included in cash and cash equivalents:				
Short-term investments	17	13	-	4
Cash and bank balances	439	155	292	14
<b>Total</b>	<b>456</b>	<b>168</b>	<b>292</b>	<b>18</b>

<sup>1</sup> Short-term investments are classified as 'Cash and cash equivalents' when they mature less than three months after the acquisition date and are exposed to only a minor risk of fluctuation in value.

SEKm	2017	Cash flows	Changes not affecting cash flow		2018
			Business combinations	Changes in exchange rates	
<b>GROUP</b>					
Non-current interest-bearing liabilities	3 586	3 525	-	19	7 130
Current interest-bearing liabilities	1 551	343	-	-	1 894
	<b>5 137</b>	<b>3 868</b>	-	19	<b>9 024</b>

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Non-current interest-bearing liabilities	3 141	3 571	-	19	6 731
Current interest-bearing liabilities	1 506	340	-	-	1 846
	<b>4 647</b>	<b>3 911</b>	-	19	<b>8 577</b>

SEKm	2016	Cash flows	Changes not affecting cash flow		2017
			Business combinations	Changes in exchange rates	
<b>GROUP</b>					
Non-current interest-bearing liabilities	2 687	899	-	-	3 586
Current interest-bearing liabilities	1 142	409	-	-	1 551
	<b>3 829</b>	<b>1 308</b>	-	-	<b>5 137</b>

### PARENT COMPANY

Non-current interest-bearing liabilities	2 200	941	-	-	3 141
Current interest-bearing liabilities	1 100	406	-	-	1 506
	<b>3 300</b>	<b>1 347</b>	-	-	<b>4 647</b>

## 28 Untaxed reserves

SEKm	2018	2017
<b>PARENT COMPANY</b>		
<b>Tax allocation reserve</b>		
Carrying amount at start of year	1 586	1 031
Resolved	-130	-215
Provided	70	770
<b>Carrying amount at year-end</b>	<b>1 526</b>	<b>1 586</b>

## 29 Events after the end of the period

On 15 January, BillerudKorsnäs announced that Anders Lundin had been appointed as the new head of division for Solutions, one of the company's three divisions in the new organisation.

## 30 Investment commitments

### Group

In 2018, the Group signed agreements on the future acquisition of property, plant and equipment for SEK 419 million (2 186). Of these commitments, it is expected that SEK 225 million (2 186) will be settled in 2019. Of previously signed agreements on acquisition of property, plant and equipment, SEK 1 678 million is expected to be settled in 2019.

### Parent company

The parent company has not entered into any agreements regarding future acquisitions of property, plant or equipment.

## 31 Pledged assets and contingent liabilities

SEKm	Group		Parent company	
	2018	2017	2018	2017
<b>Pledged assets for own liabilities and provisions</b>				
Pledged endowment insurance	33	31	26	23
Pledged shares, joint arrangements	322	313	-	-
<b>Total pledged assets</b>	<b>355</b>	<b>344</b>	<b>26</b>	<b>23</b>
<b>Contingent liabilities</b>				
Guarantee commitment, FPG/PRI	11	11	4	4
Other guarantees	130	91	114	85
Guarantees for associates	1	1	-	-
Guarantees for Group companies	-	-	411	510
<b>Total contingent liabilities</b>	<b>142</b>	<b>103</b>	<b>529</b>	<b>599</b>

The shares in Bomhus Energi are pledged as security for Bomhus Energi's loans.

The parent company's guarantee commitments for Group companies include BillerudKorsnäs Skog & Industri AB's PRI liability of 351 (362).

There are no indications that any pledged securities or contingent liabilities will lead to any outflow of resources.

## 32 Related parties

### Relationships

The parent company has related-party relationships with its subsidiaries, see Note 14.

### Summary of related-party transactions

SEKm	Year	Sales of goods and services to related parties	Procurement of goods and services from related parties	Liabilities to related parties	Receivables from related parties
<b>GROUP</b>					
<b>Relationship</b>					
Associates and joint ventures	2018	-	51	-	17
Associates and joint ventures	2017	-	46	-	16
<b>PARENT COMPANY</b>					
<b>Relationship</b>					
Subsidiaries	2018	407	62	5 492	9 673
Subsidiaries	2017	402	69	6 216	8 069
Associates and joint ventures	2018	-	-	-	17
Associates and joint ventures	2017	-	-	-	16

BillerudKorsnäs have during the year sold packaging paper to a customer owned by Frapag, 49%, to an amount of SEK 22 million (22). At 31 of December 2018 account receivables amounted to SEK 2 million (2). The transactions were based on normal business conditions.

### Transactions with key individuals in executive positions

Salaries, remuneration and other benefits are accounted for in Notes 5 and 26.

## 33 Business combinations

SEKm	2018
<b>GROUP</b>	
<b>Acquisition balance sheet, Fastighets AB Marma Skog 31</b>	
Goodwill	60
Non-current assets	15
Current assets	3
<b>Total assets</b>	<b>78</b>
Deferred tax liability	-2
<b>Total liabilities</b>	<b>-2</b>
<b>Purchase consideration</b>	
Purchase consideration, less transaction costs	-38
Cash and cash equivalents (acquired)	2
<b>Net effect on cash and cash equivalents</b>	<b>-36</b>

100% of shares in Fastighets AB Marma Skog 31 were acquired on 23 May 2018. Before the acquisition, the BillerudKorsnäs Group owned 50% of the shares.

## 34 Divestment of subsidiaries

SEKm	2018
<b>GROUP</b>	
<b>Divested assets and liabilities</b>	
Non-current assets	1
Accounts receivable and other receivables	4
<b>Total assets</b>	<b>5</b>
Accounts payable and other liabilities	3
<b>Total liabilities</b>	<b>3</b>
<b>Selling price</b>	
Consideration received, less selling costs	-1
<b>Capital loss</b>	
Purchase consideration received	-1
Assets sold	-5
Liabilities sold	3
<b>Capital loss</b>	<b>-3</b>

The divested subsidiary relates to the entire holding of Nine AB, which was owned to 90.4% by BillerudKorsnäs AB. The company was divested on 4 January 2018. The capital loss is recognised as other external cost in the income statement.

SEKm	2017
<b>GROUP</b>	
<b>Divested assets and liabilities</b>	
Property, plant and equipment	8
Accounts receivable and other receivables	2
<b>Total assets</b>	<b>10</b>
Accounts payable and other liabilities	1
<b>Total liabilities</b>	<b>1</b>
<b>Selling price</b>	
Consideration received, less selling costs	15
<b>Capital gain</b>	
Purchase consideration received	15
Assets sold	-10
Liabilities sold	1
Translation difference transferred to profit/loss for the year	-1
<b>Capital gain</b>	<b>5</b>

Divested subsidiaries relate to the entire holding of SIA Freja in Riga, which was wholly owned by BillerudKorsnäs Skog & Industri AB. The company was divested on 10 February 2017. The capital gain was accounted for as Other operating income in the Income Statement.

BillerudKorsnäs AB disposed of Billerud Tenova Bioplastics AB, Korsnäs Advanced Systems AB and Latgran Biofuels AB on 21 December 2017. The transactions are, however, of an immaterial nature.

## 35 Critical accounting estimates and judgements

The audit committee has discussed the application of the Group's accounting policies and made assessments and estimates in connection with the application of these policies. The following critical accounting estimates and judgements should be noted.

### Pension liabilities

A discount rate of 2.3% (2.5) has been applied in calculating the obligation in relation to BillerudKorsnäs' defined-benefit plans. Future increases in pension in the form of inflation adjustment have been assumed to be 1.9% (1.9). BillerudKorsnäs applies a demographic assumption in accordance with DUS 14. For further information about pensions, see Note 20.

### Valuation of other holdings

Bergvik Skog AB has been recognised at BillerudKorsnäs' proportion of equity, that is, SEK 1 424 million (1 273). Bergvik Skog AB's equity includes the valuation of biological assets performed by an external party based on generally accepted valuation methods. Changes in the valuation of Bergvik Skog are reported in other comprehensive income. Bergvik Skog has applied a WACC of 5.0% (5.1) after tax in valuing its biological assets. For further information about other holdings, see Notes 16 and 25.

### Property, plant and equipment

The value of non-current assets includes identified surplus value for non-current assets at the acquisition of Korsnäs. This surplus value was tested for impairment together with goodwill within Division Board. No need for impairment was identified. For further information about property, plant and equipment, see Note 12.

### Goodwill

Impairment testing was conducted with respect to goodwill. No need for impairment was identified. For further information about goodwill, see Note 11.

## 36 information about the parent company

BillerudKorsnäs AB is a Swedish limited liability company with registered office in Stockholm. The shares of the parent company are registered with NASDAQ OMX Stockholm AB. The address of the head office is Box 703, SE-169 27 Solna, Sweden. The consolidated accounts for 2018 comprise the parent company, its subsidiaries and 50% of joint arrangements regarding Bomhus Energi AB, which together form the Group. The Group also includes owned participations in associates.

## Signatures

The undersigned affirm that the consolidated accounts and the annual accounts, respectively, have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and generally accepted accounting practices and give a true and fair view of the financial position and results for the Group and parent company, respectively.

The directors' report for the Group and parent company, respectively, provides a true and fair view of the Group's and parent company's

operations, financial position and performance, and describes material risks and uncertainties faced by the parent company and Group companies.

The annual accounts and consolidated accounts were approved for publication by the Board on 21 March 2019.

The consolidated statement of income and comprehensive income and consolidated balance sheet as well as the parent company's statement of comprehensive income and balance sheet will be subject to adoption by the Annual General Meeting of Shareholders on 9 May 2019.

Solna, 21 March 2019

Lennart Holm  
Chairman

Michael M. F. Kaufmann  
Member

Bengt Hammar  
Member

Kristina Schauman  
Member

Andrea Gisle Joosen  
Member

Victoria Van Camp  
Member

Jan Åström  
Member

Tobias Auchli  
Member

Nicklas Johansson  
Member

Gunnevi Lehtinen Johansson  
Member

Petra Einarsson  
Chief Executive Officer

Our audit report was issued on 21 March 2019  
KPMG AB

Ingrid Hornberg Román  
Authorised Public Accountant

## Auditor's report

To the general meeting of the shareholders of BillerudKorsnäs AB (publ), corp. id 556025-5001

Translation of the Swedish original.

### Report on the Annual Accounts and Consolidated Accounts Opinions

We have audited the annual accounts and consolidated accounts of BillerudKorsnäs AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 53–117 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the contents of the additional report submitted to the audit committee of the parent company in accordance with Article 11 of the Audit Regulation (537/2014).

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility under these standards is described more closely in the section Responsibilities of the Auditor. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have fulfilled our ethical responsibilities under these requirements. This means that, based on our best knowledge and conviction, no prohibited services as referred to in Article 5(1) of the Audit Regulation (537/2014) has been provided to the audited company or, where applicable its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts for the period concerned. All of these key audit matters were addressed in the context of our audit of the annual accounts and consolidated accounts, but we do not provide a separate opinion on these matters.

#### Valuation of goodwill

See Note 11 and the accounting policies on pages 90–97 of the annual accounts and consolidated accounts for detailed disclosures and description of the area.

#### Description of the area

At 31 December 2018, the Group recognises goodwill of SEK 2 011 million.

Goodwill has to be the subject of at least one impairment test annually. Group goodwill is attributable to the business area and segment Consumer Board.

Testing of the carrying amount contains both complexity and the Group's future estimates of the internal and external conditions and plans of the business.

Examples of such estimates are future cash flows, which among other things requires assumptions to be made on future development and market conditions.

Another important assumption concerns the discount rate to be applied to reflect market estimates of the time value of money and the specific risks faced by the business.

#### How the area has been taken into account in the audit

We have assessed whether the impairment testing of goodwill has been prepared in accordance with the specified technique for discounted cash flows.

We have further assessed the reasonableness of assumptions on future cash flows (such as volume growth, development of EBITDA margin, working capital and investments) as well as the discount rate applied by studying and evaluating the Group's written documentation and plans.

An important element of our work has been studying the Group's sensitivity analysis of the valuation in order to be able to assess how reasonable changes in assumptions may affect the valuation.

We have also checked the completeness of the disclosures and have assessed whether they agree with the assumptions made by the Group in its impairment testing and that they materially correspond to the disclosures to be made under current regulations.

#### Property, plant and equipment

See Note 12 and the accounting policies on pages 90–97 of the annual accounts and consolidated accounts for detailed disclosures and description of the area.

#### Description of the area

At 31 December 2018, the Group reports ongoing new facilities to a value of SEK 6.8 billion, of which SEK 6.3 billion relates to a large investment in a new board machine at Gruvön, KM7. The investment in KM7 is estimated at present to total approximately 7.6 billion and is expected to enter service during the spring of 2019.

The ongoing investment is material in size and complex in nature. In projects of this scope it is important that there are well-defined processes and checks to ensure continuously correct valuation of reporting, in accordance with applicable regulations.

#### How the area has been taken into account in the audit

We have visited the facility and held meetings with the project organisation and have scrutinised the project follow-up.

We have evaluated certain selected checks in processes linked to project reporting, which subsequently lead to reporting of property, plant and equipment. In addition, we have verified reported items on a random sample basis against actual supplier invoices. We have assessed with the reporting is consistent with applicable rules.

**Information other than the report on the annual accounts and consolidated accounts**

This document also contains information other than the annual accounts and consolidated accounts, which can be found on pages 1–53 and 121–136.

The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Board's Audit Committee is, among other things, to monitor the company's financial reporting, without this affecting the responsibilities and tasks of the Board in other respects.

**Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. In addition:

- identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstate-

ment resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

**Report on other legal and regulatory requirements**

**Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of BillerudKorsnäs AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### **Basis of opinion**

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibility under these standards is described more closely in the section Auditor's responsibility. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have fulfilled our ethical responsibilities under these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### **Auditor's responsibility**

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The review of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on the auditor's professional judgment guided by risk and materiality. This means that the auditor focuses the review on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We review and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to the opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of BillerudKorsnäs AB (publ) by the general meeting of shareholders on 15 May 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2015.

Stockholm 21 March 2019  
KPMG AB

Ingrid Hornberg Román  
Authorised Public Accountant

## About the sustainability report 2018

This is the sixth sustainability report for BillerudKorsnäs. We have chosen to follow GRI Standards in line with the 'In-accordance' criterion at 'Core' level. We conducted a materiality analysis in 2017 which still is valid. Our material topics are presented in our GRI index which is available at <http://billerudkorsnas.com/Sustainability>.

### Scope

The sustainability report is included in this Annual and Sustainability Report 2018. The report covers all the companies in which BillerudKorsnäs has operational control, i.e. majority-owned companies in line with BillerudKorsnäs' Annual Report and Sustainability Report 2018.

The BillerudKorsnäs sustainability report is prepared in accordance with the Global Reporting Initiative (GRI) guidelines for sustainability reporting, GRI Standards version, and comprises pages 6–9, 27–51, 74–79 and 121–127, plus the GRI index which is available at <http://billerudkorsnas.com/Sustainability>. Sustainability reporting also includes the statutory sustainability report under Chapter 6 Section 11 of the Annual Accounts Act.

### Annual reporting

Sustainability reporting is done annually. The most recent sustainability report, the Annual Report and Sustainability Report 2017, was published in April 2018. The report also constitutes reporting to the UN Global Compact, Communication on Progress.

### Changes to reporting

The 2018 BillerudKorsnäs Annual Report and Sustainability Report is, just as in 2017, in accordance with GRI Standards and no major changes have occurred in BillerudKorsnäs' reporting.

### Target group

The primary target group of the report is investors. Other stakeholders such as customers, suppliers, employees and society will find their most essential questions answered in this report.

### Assurance report

The Sustainability Report has been audited by KPMG, see auditors' report on page 127.

## Environmental statistics

	2018	2017	2016
<b>Production (102-7)</b>			
Paperboard, paper and pulp, ktonnes	2 910	2 930	2 965
<b>Materials used (301-1)</b>			
Wood, km <sup>3</sup> sub	9 869	10 194	10 042
Pulp, purchased externally, ktonnes	298	283	339
Pulp, purchased internally, ktonnes	147	141	146
Chemicals (renewable), ktonnes	70.4	68.6	68.7
<b>Total renewable materials, ktonnes</b>	<b>10 385</b>	<b>10 687</b>	<b>10 595</b>
Chemicals (non-renewable), ktonnes	378	384	411
<b>Total materials used, ktonnes</b>	<b>10 763</b>	<b>11 071</b>	<b>11 006</b>
<b>Air emissions (305-7)</b>			
Sulphur (S), tonnes	353	359	411
Of which various sources, tonnes	257	232	217
Nitrogen oxides (NOx), tonnes	2 991	3 043	3 001
Dust, tonnes	460	612	550
<b>Water usage (303-1)</b>			
Surface water, million m <sup>3</sup>	191	186	194
Groundwater, million m <sup>3</sup>	0	0	0
Municipal water, million m <sup>3</sup>	0.3	0.2	0.2
Total water usage, million m <sup>3</sup>	192	186	194
Recycling water <sup>1</sup> , %	72	75	73

	2018	2017	2016
<b>Emissions to water (306-1)</b>			
Process water, million m <sup>3</sup>	138	140	141
COD (chemical oxygen demand) <sup>2</sup> , tonnes	28 938	30 917	28 808
TSS (total suspended solids), tonnes	3 799	3 787	3 651
Organically bound chlorine (AOX), tonnes	140	155	145
Nitrogen (N), tonnes	490	444	470
Phosphorus (P), tonnes	52	43	46
<b>Waste (306-2)</b>			
Process waste, tonnes	70 188	64 863	61 937
Hazardous waste, tonnes	875	1 106	808

<sup>1</sup> The water is used to wash pulp in several stages during manufacture. In total, virtually all the process water is circulated and reused. How many times the process water is used varies, but according to our examples, it is used 30–50 times before being sent for biological treatment.

<sup>2</sup> COD is calculated from TOC.

### Comments

In 2018 a corporate fine of SEK 200 000 was imposed on Gruvön due to a major discharge of white liquor in conjunction with the annual maintenance shutdown in spring 2015. Due to a handling error, white liquor entered the factory water via a couple of incorrectly set valves. For health and safety reasons and to reduce the risk of serious damage to sensitive equipment, the water containing liquor was released via the biopurification plant over the course of a few days. The biology was temporarily disrupted and it is likely that a short-term pH spike arose in the area near the emission point although a firm of external contractors brought in was unable to find any such urgent effects. There was never any risk of more long-term environmental effects or any risk to the public and changes have been introduced to prevent repetition of the original error. Gruvön met all applicable emission conditions during the year.

SUSTAINABILITY DATA

	2018	2017	2016
<b>Energy consumption (302-1)</b>			
Solid biofuels, self-generated, GWh	1 998	2 188	2 148
Waste liquor, GWh	9 978	10 355	10 511
Raw tall oil, GWh	4	2.81	11.4
Other (e.g. soap, gas, turpentine, methanol), GWh	128	157	171
<b>Total self-generated biofuels, GWh</b>	<b>12 107</b>	<b>12 703</b>	<b>12 842</b>
Solid biofuels, purchased, GWh	541	498	642
Tar oil, GWh	854	854	815
<b>Total purchased biofuels, GWh</b>	<b>1 395</b>	<b>1 352</b>	<b>1 457</b>
<b>Total biofuels, GWh</b>	<b>13 502</b>	<b>14 055</b>	<b>14 299</b>
Heavy and light fuel oil, GWh	227	177	147
LPG, GWh	108	121	98
Natural gas, GWh	128	114	122
<b>Total purchased fossil fuels, GWh</b>	<b>464</b>	<b>412</b>	<b>366</b>
<b>Total fuel consumption, GWh</b>	<b>13 965</b>	<b>14 467</b>	<b>14 665</b>
<b>Proportion fossil fuels used, %</b>	<b>3.3</b>	<b>2.8</b>	<b>2.5</b>
Steam, bio-based (GWh)	255	265	265
Steam, fossil-based (GWh)	1	1	45
Hot water (GWh)	17	15 <sup>1</sup>	15
<b>Total purchased steam, hot water (GWh)</b>	<b>273</b>	<b>281</b>	<b>326</b>
Sold primary energy, GWh	375	395	396
Sold secondary energy (waste heat), GWh	511	572	580
<b>Total sold energy, GWh</b>	<b>886</b>	<b>967</b>	<b>976</b>
Purchased electricity, GWh	1 790	1 700	1 660
Self-generated electricity, GWh	1 365	1 439	1 451
Sold electricity, GWh	56	55	48
<b>Total electricity, GWh</b>	<b>3 098</b>	<b>3 084</b>	<b>3 063</b>
<b>Total energy consumption, GWh</b>	<b>15 304</b>	<b>15 651</b>	<b>15 852</b>
<b>Energy intensity MWh/tonne<sup>2</sup></b>	<b>5.26</b>	<b>5.34</b>	<b>5.346</b>
<b>Transport emissions (305-3)</b>			
<b>Nitrogen oxides, NOx</b>			
Transport of wood raw material, tonnes	471	365	413
Transport of finished products, tonnes	1 863	3 104	3 045
<b>Carbon monoxide, CO</b>			
Transport of wood raw material, tonnes	32	73	85
Transport of finished products, tonnes	146	181	403
<b>Hydrocarbons, HC</b>			
Transport of wood raw material, tonnes	61	54	53
Transport of finished products, tonnes	145	214	211
<b>Sulphur dioxide, SO<sub>2</sub></b>			
Transport of wood raw material, tonnes	50	27	23
Transport of finished products, tonnes	777	1 658	1 629
<b>Particulates, PM</b>			
Transport of wood raw material, tonnes	8	5	4
Transport of finished products, tonnes	91	202	213
<b>Energy consumption</b>			
Transport of wood raw material, GWh	256	256	258
Transport of finished products, GWh	546	736	785

<sup>1</sup> 2017 figures corrected due to error in reporting during 2017.  
<sup>2</sup> Use of electricity and energy minus fuel for self-generated electricity and sold energy.

**Comments**

BillerudKorsnäs used 3.3% fossil fuels in 2018, which is an increase compared to the previous year. The reason are the production disruptions and periods of a shortage of renewable alternative fuels on the market, which means that fossil fuels have been used as temporary solutions.

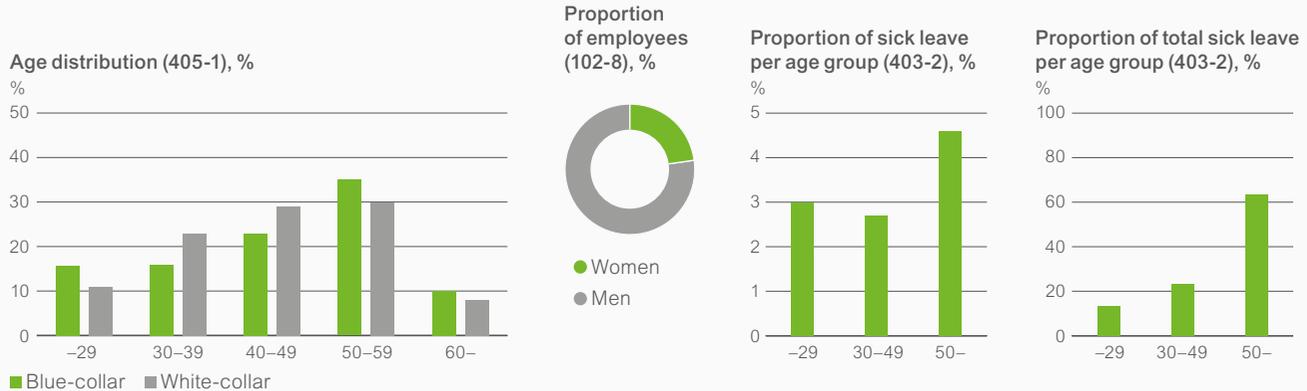
	2018	2017	2016
<b>Greenhouse gas emissions (305-1, 305-2, 305-3)</b>			
Biogenic emissions, ktonnes CO <sub>2</sub> <sup>1</sup>	4 735	5 089	4 080
<b>Scope 1 – Direct emissions</b>			
From biofuels, ktonnes CO <sub>2</sub> eq <sup>2</sup>	37	39	40
From fossil fuels, ktonnes CO <sub>2</sub> <sup>3</sup>	111	89.7	87.0
<b>Total emissions scope 1, ktonnes CO<sub>2</sub>eq</b>	<b>148</b>	<b>129</b>	<b>127</b>
<b>Scope 2 – Indirect emissions</b>			
Purchased electricity and steam (market based), ktonnes CO <sub>2</sub> eq	5	4 <sup>4</sup>	31
Purchased electricity and steam (location based), ktonnes CO <sub>2</sub> eq	123	124	139
<b>Scope 3 – Indirect emissions</b>			
Purchased goods (chemicals), ktonnes CO <sub>2</sub> eq	221	226	309
Upstream transports, ktonnes CO <sub>2</sub> eq	55	51	59
Business trips, air and rail, ktonnes CO <sub>2</sub> eq	2	2	2
Car commuting, employees, ktonnes CO <sub>2</sub> eq	4	4	3
Downstream transports, ktonnes CO <sub>2</sub> eq	130	182	209
<b>Total emissions scope 3</b>	<b>412</b>	<b>465</b>	<b>582</b>
<b>Intensity fossil CO<sub>2</sub>, Scope 1+2 (305-4)</b>			
From fossil fuels, kg CO <sub>2</sub> /tonne <sup>3</sup>	38.1	30.6	29.3
From purchased electricity and energy, kg CO <sub>2</sub> eq/tonne	1.7	1.5 <sup>4</sup>	10.4
<b>Total emissions per tonne of product, kg CO<sub>2</sub>eq/tonne</b>	<b>39.8</b>	<b>32.1</b>	<b>39.7</b>

<sup>1</sup> Bio-generated carbon dioxide only.  
<sup>2</sup> CO<sub>2</sub>eq (nitrous and methane) from biofuels. Bio-generated carbon dioxide from bio-generated fuels is not included in Scope 1.  
<sup>3</sup> CO<sub>2</sub> reported under EU ETS only. The emission factor for fossil CO<sub>2</sub> is 76.2 kg CO<sub>2</sub>/TJ.  
<sup>4</sup> 2017 figures corrected due to error in reporting during 2017.

**Comments**

A direct consequence of the increased consumption of fossil fuels was an increase in direct fossil emissions in production. A major reduction in indirect emissions from transporting finished products was reached during the year, which is partially explained by decreased emissions from marine transport during the year, owing to improved emission factors, i.e. reduced emissions.

## Employee statistics



### Employee statistics 2018 (2017)

	Total	Sweden	Finland	United Kingdom	Baltic Region	Sales offices and other
<b>Employees</b>						
Average number of employees <sup>1</sup> (102-8), no.	4 502 (4 395)	3 824 (3 744)	120 (118)	159 (144)	74 (74)	325 (311)
Employees at year-end, no.	4 580 (4 472)	3 897 (3 813)	122 (119)	164 (152)	74 (74)	323 (311)
of whom women, %	23.1 (22.1)	21.2 (20.3)	18.0 (17.6)	8.5 (9.2)	24.3 (24.3)	55.1 (52.4)
of whom blue-collar, %	57.5 (58)	61 (62)	67.2 (66)	69.1 (68)	83.8 (82)	0.0 (0)
of whom white-collar, %	42.5 (42)	39 (38)	32.8 (34)	30.9 (32)	16.2 (18)	100 (100)
Proportion of female managers <sup>2</sup> , %	23 (21.1)	23.4 (21.4)	6.3 (7.1)	15.0 (12.5)	22.2 (100)	31.3 (25.0)
Average age, years	44.4 (46.2)	46.6 (46.6)	45.0 (47.0)	47.0 (48.0)	49.0 (48.3)	39.5 (39.8)
<b>Sickness absence (403-1)</b>						
Total sick leave as % of hours worked	3.5 (3.2)	3.6 (3.3)	5.5 (2.9)	3.2 (3.8)	5.6 (5.5)	1.2 (0.7)
Sick leave as proportion of hours worked, men %	3.5 (3.1)	3.5 (3.2)	6.4 (3.2)	3.5 (3.5)	5.4 (6.8)	0.5 (0.4)
Sick leave as proportion of hours worked, women %	3.6 (3.4)	3.9 (3.8)	1.3 (1.6)	0.2 (8.4)	6.4 (1.8)	2.1 (1.2)
<b>Work-related accidents (403-2)</b>						
Work-related injuries <sup>3</sup> with sick leave, no.	61 (60)	58 (53)	2 (4)	1 (3)	0 (0)	0 (0)
Work-related injuries with sick leave, no./million hours worked	7.2 (7.7)	8.1 (7.6)	11.1 (22.1)	2.9 (11.9)	0 (0)	0 (0)
Work-related injuries without sick leave, no.	425 (491)	393 (462)	7 (6)	24 (23)	0 (0)	1 (0)

<sup>1</sup> 91.4% of employees in Sweden, Finland, the UK and the Baltic countries are covered by collective agreements (102-41).

<sup>2</sup> 41.6% of the Board of Directors are women. The age breakdown is 17% in the 30–50 age group and 83% over the age of 50. Deputies and employee representatives are included.

<sup>3</sup> The number of work-related injuries was reported monthly in 2018 for the whole company and was compared with the overall target.

### Comments

Changes compared with 2017 are minimal. The number of employees increased by nearly 2%, principally in the Swedish operators.

The proportion of women continued to increase slightly, in both the company and in the managerial group.

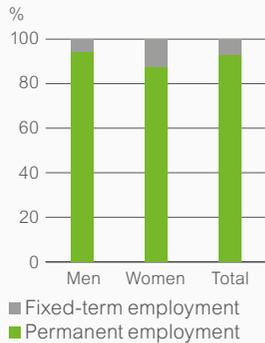
Sick leave increased slightly, compared with last year. As previously, it is in the older group of employees, aged over 50, that sick leave is highest.

Accidents resulting in absence for 2018 is 7.2 LTIFR per million hours worked, which is better than the previous year but higher than the

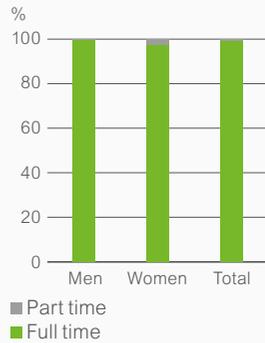
target for the year (5.8). A number of programmes were initiated to improve health and safety during the year. These are expected to yield results in the years to come. Read more on page 41.

The age distribution for white and blue-collar workers is fairly similar, with the smallest proportion of employees among the youngest and oldest age groups. The compilation shows that there is a higher proportion of blue-collar than white-collar employees in the older groups, particularly in the 50–59 age group.

Employees<sup>1</sup> form of employment, (102-8) %



Employees<sup>1</sup> hours of work, (102-8) %



Pay surveys (405-2)

Survey	Corrected average pay, comparable posts, women/men %				
	1	2	3	4	5
Operational section heads, operational managers	102	102	105	96	108
Engineers in production, development, projects, electricity, etc.	108	112	-	94	96
Laboratory personnel					
Planners, purchasers, developers, etc.	104	104	-	99	97
Operators	100	100	100	97	99
<b>Total all employees</b>	<b>103.56</b>	<b>104.35</b>	<b>102.35</b>	<b>96.43</b>	<b>100.11</b>

<sup>1</sup> Relates to employees in Sweden.

Comments

Pay surveys have been conducted together with an external consultant. The reporting here applies to five production units. The report did not find any unjustified pay differences. We saw that there were some deviations in both directions (women and men), but in each of these cases we could confirm that there was an objective explanation for a certain pay difference. Objective grounds and objective causes in this analysis are period of employment, age and history.

Financial statistics

Economic value distributed, per stakeholder, SEKm (201-1)

	2018	2017	2016
<i>Direct economic value generated</i>			
Income	23 937	22 583	21 861
<i>Economic value distributed by:</i>			
Suppliers	-18 006	-15 172	-15 010
Investments in property, plant and equipment and non-current intangible assets	-5 120	-4 196	-1 607
Salaries and employee benefits	-3 595	-3 423	-3 474
Interest to lenders	-104	-154	-153
Dividend to shareholders	-890	-891	-880
Taxes paid	-423	-493	-306
<b>Total</b>	<b>-28 138</b>	<b>-24 329</b>	<b>-21 430</b>
At the company's disposal	-4 201	-1 746	431

Distribution by country, Tax

	2018	2017	2016
Sweden	-332	-482	-296
Italy	-83	-1	-3
China	-	-1	-1
Latvia	-	-2	-1
Lithuania	-	-1	-
Estonia	-	-	-
USA	-4	-2	-2
France	-1	-	-
Netherlands	-	-	-
Germany	-2	-5	-1
United Kingdom	-	2	-2
Spain	-	-	-
Finland	-	-1	-
India	-1	-	-
Singapore	-	-	-
	<b>-423</b>	<b>-493</b>	<b>-306</b>

## UN Global Compact

Since 2009 BillerudKorsnäs has been signed up to the UN's responsible business initiative, Global Compact. This shows the world around us that we have taken a stand on the initiative, support its ten principles and are working for them together with many other large companies worldwide.

### Human rights

#### Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and

#### Principle 2

make sure that they are not complicit in human rights abuses.

### Labour

#### Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

#### Principle 4

the elimination of all forms of forced and compulsory labour;

#### Principle 5

the effective abolition of child labour; and

#### Principle 6

the elimination of discrimination in respect of employment and occupation

### Environmental

#### Principle 7

Businesses should support a precautionary approach to environmental challenges;

#### Principle 8

undertake initiatives to promote greater environmental responsibility; and

#### Principle 9

encourage the development and diffusion of environmentally friendly technologies.

### Anti-corruption

#### Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

### Part of corporate culture

The principles are based on a few central documents in the field of sustainability:

- The Universal Declaration of Human Rights
- The ILO's fundamental conventions on human rights in the workplace
- The Rio Declaration
- The United Nations Convention against Corruption

The companies that have signed the convention undertake to introduce the ten principles in their strategies, work to embed the principles in their corporate culture and undertake to publicly express their support for the UN Global Compact. The company must report on its work on the principles once a year.

### Framework for us

For BillerudKorsnäs the UN Global Compact serves as a framework for the entire business. Our Code of Conduct is founded on the ten principles, which in turn steer policies and the way employees are to act. This Annual and Sustainability Report in line with GRI Standards serves as part of the annual reporting – Communication on Progress – to Global Compact. Our reporting has qualified for Advanced level since 2014.

### The UN's new Development Goals.

In 2016 we examined how our operations can be linked to the UN's 17 global Sustainable Development Goals (SDG). We reached the conclusion that BillerudKorsnäs has the greatest opportunity to influence and contribute towards SDGs 8, 12, 13, 14 and 15. The connection between our sustainability goals and the SDG subgoals can be found on pages 38–51.



## External networks

BillerudKorsnäs is a member of a number of networks of various kinds to learn from, contribute towards and influence development in the forest industry, packaging and sustainability, but also for society as a whole. Working together produces results.

### BillerudKorsnäs is represented on the boards of or helps to fund the following networks:

- Alliance for Beverage Cartons and the Environment (ACE) – European platform for beverage carton manufacturers and their carton suppliers on environmental issues affecting the industry.
- Asian Corrugated Carton Association (ACCA) – international organisation for the corrugated carton industry.
- CEPI Eurokraft – the European organisation for producers of kraft paper for sacks and packaging.
- Confederation of European Paper Industries (CEPI) – European industry organisation for the pulp and paper industry.
- Energiforsk – network for Swedish energy research.
- European Federation of Corrugated Board Manufacturers (FEFCO) – European industry organisation for producers of corrugated board.
- EXTR:ACT – Driving value for multimaterial recycling is an organisation created by the companies in ACE working to increase the industry's recycling work.
- FP Innovation – a Canadian research institute that focuses on products from the forest industry.

- RISE Research Institutes of Sweden AB – state-owned company for Swedish industrial research institutions.
  - RISE Bioeconomy carries out research in areas such as paper, packaging and fuels.
  - Miljöpack – business group within RISE Innventia that works for resource-efficient packaging.
  - Normpack – business group within RISE Innventia that works for safe food packaging.
- Paper Province – company cluster for forest bioeconomy.
- Returkartong – materials company for paper packaging covered by producer responsibility in Sweden.
- Returkartong is one of the owners of the Packaging and Newspaper collection service, FTI.
- Skogforsk – Swedish forest industry research organisation.
- The Swedish Forest Industries Federation – Swedish industry organisation for the pulp, paper and wood mechanical industry.
- SSG Standard Solutions Group – a knowledge centre that helps industry to be more efficient and safer in the field of asset management.
- Svenska FSC® – Sweden's initiative for the Forest Stewardship Council.
- Tresearch – a national research platform for new materials from forest raw material.
- Wallenberg Wood Science Center – a research centre in the new materials sector with the forest as a raw material.

## Policies and management systems

### A new streamlined framework for policies

The decision the Group Executive Management made during the year on a new framework for policies was followed by the issuing of policies by the Board of Directors in December. The new policy framework includes seven policies;

1. Responsible Business Policy
2. Governance Policy
3. Sustainability Policy
4. Communication & Information Policy
5. Finance Policy
6. People Policy

A seventh policy, Operations & Quality Policy, will be issued during the first half of 2019. Each policy has a policy owner who is responsible for implementing respective policy in the organisation. Development of directives and other steering documents, which follow from the policy, is in progress in parallel and is due for completion during 2019.

### Company-wide systems

Today the majority of the production units have their own certificates for quality, the environment, traceability of wood raw material, energy, food safety and health and safety. Work is in progress to coordinate joint processes in management systems.

What was done in 2018:

- Quality (ISO 9001) and environment (ISO 14001). The focus during the year was on implementing new requirements in ISO 9001 and ISO 14001. All the plants are now certified according to new requirements.
- Energy (ISO 50001). With regard to the energy management system, in 2018 we focused on improved energy surveys and achieving greater energy efficiency.
- Food safety (FSSC 22000). Karlsborg was certified for food safety during the year, and all the sites in Sweden now hold food safety certification.
- Forestry (FSC® FM/PEFC™ FM) and traceability (FSC® CoC/PEFC™ CoC). An evaluation of whether BillerudKorsnäs should have a company-wide multisite certificate to further rationalise work began in 2018.

### Development group

Work on management systems is coordinated by the management system development group. It includes representatives of each production unit, Supply Chain, Forestry and central responsible officers at the Corporate Assurance, Finance unit. The group also follows up work on environmental and quality management. Other management systems and forest certification are followed up in more competence-based groupings.

### Certificates at BillerudKorsnäs 2018<sup>1</sup>

	ISO 9001	ISO 14001	ISO 50001	FSSC 22000/ ISO 2000	OHSAS 18001	FSC® FM/ PEFC™ FM	FSC® CoC/ PEFC™ CoC
Frövi	X	X	X	X			X
Gruvön	X	X	X	X			X
Gävle	X	X	X	X			X
Karlsborg	X	X	X				X
Skärblacka	X	X	X	X			X
Pietarsaari	X	X		X	X		X
Beetham	X	X			X		X
Forestry	X	X				X	X

<sup>1</sup>Today there are two differences in the company's certification. All the Swedish production units have energy management systems, but the others do not. These others instead carry health and safety certification, which the Swedish plants do not. For the Swedish production units the motivation for introducing energy management systems was both financial and environmental, while the Swedish Work Environment Agency's regulations for systematic work environment efforts have been seen as sufficiently rigorous to attain ambitious work environment targets. Not all units need food safety certificates, and this therefore varies.

## External evaluation

BillerudKorsnäs is assessed continuously by numerous customers and analysts through surveys about performance and work methods. This is fully in line with our ambition to provide stakeholders with a solid basis for their evaluation of our business. Below are the major, public reviews carried out in 2018.

Dow Jones Sustainability World index. BillerudKorsnäs was included, for the second year in succession, in DJSI World and for the third time in DJSI Europe. The company was named Industry Leader in Containers & Packaging.

CDP Forest. BillerudKorsnäs was included for the first time in CDP Forests A List as a world leader in combatting deforestation.

EcoVadis. A system for annual sustainability assessment of around 20 000 suppliers to global enterprises. For the fourth year in succession, BillerudKorsnäs was rated 'Gold'.

The UN Global Compact. In the 'Communication on Progress' report, which highlights progress in the work with the UN Global Compact, BillerudKorsnäs is classed as 'Advanced'.

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



### Examples of reporting for external evaluation

External systems or initiatives	The focus of reporting
Global Reporting Initiative (GRI)	Sustainability Report
UN Global Compact	Sustainability Report
CDP – Driving Sustainable Economies	Three reports: Climate, Forestry and Water
ISS – Oekom Research	Governance, environmental and social aspects
Environmental Product Declaration (EPD)	Environmental Product Declarations for 9 products
WWF Environmental Paper Company Index 2015.	Environmental performance for the whole of BillerudKorsnäs
WWF Check Your Paper	Environmental data for three unbleached sack papers
EcoVadis	Working conditions, environment, supply chain
Sedex (Supplier Ethical Data Exchange)	Working conditions, environment for individual production units
EU Ecolabel and Nordic Ecolabel	Pulp from Gruvön and Karlsborg
Dow Jones Sustainability Index	Economic, environmental and social aspects

## Assurance report

### Auditor's Limited Assurance Report on BillerudKorsnäs AB's Sustainability Report and statement regarding the Statutory Sustainability Report

To BillerudKorsnäs AB (publ)

#### Introduction

We have been engaged by the Board of Directors of BillerudKorsnäs AB (publ) to undertake a limited assurance engagement of BillerudKorsnäs' Sustainability Report for the year 2018. The sustainability report is accompanied by a separate GRI Index in English available on <http://billerudkorsnas.com/Sustainability/>. BillerudKorsnäs has defined the scopes of the Sustainability Report and the Statutory Sustainability Report on page 121 in this document.

#### Responsibilities of the Board of Directors and the Group Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on pages 121–124 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of the Sustainability Report that is free from material misstatements, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report. Our assignment is limited to the historical information that is presented and does not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of financial information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting

standard RevR12 The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of BillerudKorsnäs in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our conclusions below.

#### Conclusions

Based on the limited assurance procedures performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and the Group Management.

A Statutory Sustainability Report has been prepared.

Stockholm, 21 March 2019

KPMG AB

Ingrid Hornberg Román      Torbjörn Westman

Authorised Public Accountant    Expert Member of FAR

## Five-year summary and Alternative performance measures (APM)

In addition to the financial measures defined in IFRS, certain key figures, which qualify as alternative performance measures (APM) are presented to reflect the underlying business performance and enhance comparability from period to period. These APMs should not be considered as a substitute for measures in accordance with IFRS. In Note 6 items affecting comparability are presented, which also make it possible to adjust the result to better show the underlying business performance.

From 2014 Bomhus Energi AB is recognised as a joint arrangement and BillerudKorsnäs reports its share of Bomhus Energi AB's revenue, expenses, assets and liabilities. Figures and key ratios for comparison years have been restated.

### Summary income statement

SEKm	2018	2017	2016	2015	2014
Net sales	23 692	22 345	21 657	21 814	20 853
Other income	230	220	155	594	118
Operating income	23 922	22 565	21 812	22 408	20 971
Operating expenses	-20 979	-18 805	-18 206	-18 405	-17 692
<b>EBITDA</b>	<b>2 943</b>	<b>3 760</b>	<b>3 606</b>	<b>4 003</b>	<b>3 279</b>
Depreciation/amortisation	-1 513	-1 519	-1 561	-1 417	-1 378
Operating profit/loss	1 430	2 241	2 045	2 586	1 901
Net financial items	-89	-138	-108	-175	-248
Profit/loss before tax	1 341	2 103	1 937	2 411	1 653
Tax	-304	-465	-419	-443	-352
<b>Net profit/loss</b>	<b>1 037</b>	<b>1 638</b>	<b>1 518</b>	<b>1 968</b>	<b>1 301</b>

### Summary statement of cash flows

SEKm	2018	2017	2016	2015	2014
Operating surplus	3 219	3 650	3 781	3 622	3 234
Change in working capital	-267	241	332	120	238
Net financial items	-49	-103	-86	-168	-233
Tax paid	-401	-472	-285	84	-124
<b>Cash flow from operating activities</b>	<b>2 502</b>	<b>3 316</b>	<b>3 742</b>	<b>3 658</b>	<b>3 115</b>
Cash flow from investing activities	-5 172	-4 244	-1 647	-760	-1 376
<b>Cash flow after investing activities</b>	<b>-2 670</b>	<b>-928</b>	<b>2 095</b>	<b>2 898</b>	<b>1 739</b>

### Key financial ratios

	2018	2017	2016	2015	2014
<b>Margins</b>					
EBITDA, %	12	17	17	18	16
Operating margin, %	6	10	9	12	9
<b>Return (rolling 12 months)</b>					
Return on capital employed, %	7	12	12	15	11
Return on equity, %	7	12	12	16	13
<b>Capital structure at end of period</b>					
Capital employed, SEKm	23 687	19 548	16 906	17 397	17 828
Working capital, SEKm	2 056	1 760	1 957	2 243	2 286
Equity, SEKm	14 355	13 811	13 022	12 418	10 704
Interest-bearing net debt, SEKm	9 333	5 737	3 884	4 979	7 124
Net debt/equity ratio, multiple	0.65	0.42	0.30	0.40	0.67
Interest-bearing net debt/EBITDA, multiple	3.17	1.5	1.1	1.2	2.2
<b>Investments</b>					
Investments in non-current assets, SEKm	5 142	4 261	1 645	1 710	1 384
Acquisitions, SEKm	36	-	6	-	-
<b>Other key figures</b>					
Capital turnover, multiple	1.1	1.2	1.2	1.2	1.2
Working capital as a percentage of sales	9	9	11	10	11
<b>Human Resources</b>					
Average number of employees	4 502	4 395	4 274	4 223	4 194

**Capital employed**

SEKm, 31 December	2018	2017	2016	2015	2014
Total assets	33 714	28 196	25 854	25 083	25 709
Accounts payable	-3 825	-3 294	-3 049	-2 679	-2 502
Other liabilities and provisions	-2 094	-1 778	-1 766	-1 622	-1 655
Deferred tax liabilities	-3 633	-3 392	-3 410	-3 186	-2 987
Non-current interest-bearing assets	-19	-16	-15	-11	-
Cash and cash equivalents	-456	-168	-708	-188	-737
<b>Capital employed</b>	<b>23 687</b>	<b>19 548</b>	<b>16 906</b>	<b>17 397</b>	<b>17 828</b>

**Working capital**

SEKm, 31 December	2018	2017	2016	2015	2014
Inventories	3 633	2 912	3 142	2 842	3 145
Accounts receivable	2 807	2 713	2 612	2 512	2 601
Other current assets	1 337	899	681	1 004	925
Accounts payable	-3 825	-3 294	-3 049	-2 679	-2 502
Other operating liabilities (excl. provisions)	-1 683	-1 527	-1 428	-1 463	-1 589
Tax liabilities, net	-213	57	-1	27	-294
<b>Working capital</b>	<b>2 056</b>	<b>1 760</b>	<b>1 957</b>	<b>2 243</b>	<b>2 286</b>

**Interest-bearing net debt**

SEKm, 31 December	2018	2017	2016	2015	2014
Non-interest-bearing provisions	784	784	778	783	772
Non-current interest-bearing liabilities	7 130	3 586	2 687	3 027	4 672
Current interest-bearing liabilities	1 894	1 551	1 142	1 368	2 417
Non-current interest-bearing assets	-19	-16	-15	-11	-
Cash and cash equivalents	-456	-168	-708	-188	-737
<b>Interest-bearing net debt</b>	<b>9 333</b>	<b>5 737</b>	<b>3 884</b>	<b>4 979</b>	<b>7 124</b>

**Adjusted EBITDA**

SEKm	2018	2017	2016	2015	2014
Operating profit/loss	1 430	2 241	2 045	2 586	1 901
Depreciation, amortisation and impairment of non-current assets	1 513	1 519	1 561	1 417	1 378
<b>EBITDA</b>	<b>2 943</b>	<b>3 760</b>	<b>3 606</b>	<b>4 003</b>	<b>3 279</b>
Items affecting comparability	533	90	230	-342	99
<b>Adjusted EBITDA</b>	<b>3 476</b>	<b>3 850</b>	<b>3 836</b>	<b>3 661</b>	<b>3 378</b>

**Adjusted operating profit/loss**

SEKm	2018	2017	2016	2015	2014
Operating profit/loss	1 430	2 241	2 045	2 586	1 901
Items affecting comparability	591	150	350	-342	99
<b>Adjusted operating profit/loss</b>	<b>2 021</b>	<b>2 391</b>	<b>2 395</b>	<b>2 244</b>	<b>2 000</b>

**Adjusted earnings per share**

SEK	2018	2017	2016	2015	2014
Profit/loss attributable to owners of the parent company, SEK	1 037	1 638	1 518	1 811	1 277
Items affecting comparability attributable to owners of the parent company, SEK	461	117	273	-224	77
<b>Adjusted profit/loss attributable to owners of the parent company, SEK</b>	<b>1 498</b>	<b>1 755</b>	<b>1 791</b>	<b>1 587</b>	<b>1 354</b>
Weighted number of outstanding ordinary shares, thousands	206 962	207 114	207 037	206 889	206 762
<b>Adjusted earnings per share</b>	<b>7.24</b>	<b>8.48</b>	<b>8.65</b>	<b>7.67</b>	<b>6.55</b>

**Adjusted return on capital employed**

SEKm	2018	2017	2016	2015	2014
Adjusted operating profit/loss, months	2 021	2 391	2 395	2 244	2 000
Average capital employed, months	21 530	18 038	17 350	17 678	17 828
<b>Adjusted return on capital employed</b>	<b>9%</b>	<b>13%</b>	<b>14%</b>	<b>13%</b>	<b>11%</b>

**Interest-bearing net debt/Adjusted EBITDA**

multiple	2018	2017	2016	2015	2014
Interest-bearing net debt	9 333	5 737	3 884	4 979	7 124
Adjusted EBITDA, months	3 476	3 850	3 836	3 661	3 378
<b>Interest-bearing net debt/Adjusted EBITDA</b>	<b>2.68</b>	<b>1.49</b>	<b>1.01</b>	<b>1.36</b>	<b>2.11</b>

## Quarterly data

BillierudKorsnäs' net sales and operating profit/loss by business area are presented below. The results of the business areas are reported excluding the effects of currency hedging and excluding the effect on profit/loss of the translation of trade receivables in foreign currency

and currency effects in connection with payments. These effects are reported separately in the item 'Currency hedging etc.' The portion of the currency exposure that relates to changes in invoicing rates is included in the business area's profit/loss.

### Quarterly net sales per business area and for the Group

SEKm	2018					2017				
	Full year	Q4 -18	Q3 -18	Q2 -18	Q1 -18	Full year	Q4 -17	Q3 -17	Q2 -17	Q1 -17
Packaging Paper	9 256	2 264	2 424	2 292	2 276	8 529	2 147	2 090	2 151	2 141
Consumer Board	8 453	2 012	2 145	2 132	2 164	8 189	1 943	2 019	2 099	2 128
Corrugated Solutions	4 251	1 161	1 135	1 002	953	3 856	1 011	1 012	902	931
Other	1 941	482	447	510	502	1 807	437	422	483	465
Currency hedging, etc.	-209	-76	-97	-38	2	-36	27	1	-35	-29
<b>Total Group</b>	<b>23 692</b>	<b>5 843</b>	<b>6 054</b>	<b>5 898</b>	<b>5 897</b>	<b>22 345</b>	<b>5 565</b>	<b>5 544</b>	<b>5 600</b>	<b>5 636</b>

### Quarterly operating profit/loss before depreciation/amortisation (EBITDA) per business area and for the Group

SEKm	2018					2017				
	Full year	Q4 -18	Q3 -18	Q2 -18	Q1 -18	Full year	Q4 -17	Q3 -17	Q2 -17	Q1 -17
Packaging Paper	1 667	411	472	317	467	1 499	401	394	312	392
Consumer Board	1 363	290	278	322	473	1 767	363	466	498	440
Corrugated Solutions	874	278	266	120	210	834	212	269	163	190
Other	-751	-110	-37	-517	-87	-303	-78	-80	-75	-70
Currency hedging, etc.	-210	-75	-98	-39	2	-37	25	2	-35	-29
<b>Total Group</b>	<b>2 943</b>	<b>794</b>	<b>881</b>	<b>203</b>	<b>1 065</b>	<b>3 760</b>	<b>923</b>	<b>1 051</b>	<b>863</b>	<b>923</b>

### EBITDA, %, quarterly per business area and for the Group

%	2018					2017				
	Full year	Q4 -18	Q3 -18	Q2 -18	Q1 -18	Full year	Q4 -17	Q3 -17	Q2 -17	Q1 -17
Packaging Paper	18	18	19	14	21	18	19	19	15	18
Consumer Board	16	14	13	15	22	22	19	23	24	21
Corrugated Solutions	21	24	23	12	22	22	21	27	18	20
<b>Group</b>	<b>12</b>	<b>14</b>	<b>15</b>	<b>3</b>	<b>18</b>	<b>17</b>	<b>17</b>	<b>19</b>	<b>15</b>	<b>16</b>

## Quarterly operating profit/loss per business area and for the Group

SEKm	2018					2017				
	Full year	Q4 -18	Q3 -18	Q2 -18	Q1 -18	Full year	Q4 -17	Q3 -17	Q2 -17	Q1 -17
Packaging Paper	1 187	285	346	198	358	1 035	285	278	196	276
Consumer Board	598	105	95	127	271	983	168	270	299	246
Corrugated Solutions	694	231	219	76	168	656	168	226	117	145
Other	-839	-131	-50	-536	-122	-396	-125	-95	-88	-88
Currency hedging, etc.	-210	-76	-97	-39	2	-37	25	2	-35	-29
<b>Total Group</b>	<b>1 430</b>	<b>414</b>	<b>513</b>	<b>-174</b>	<b>677</b>	<b>2 241</b>	<b>521</b>	<b>681</b>	<b>489</b>	<b>550</b>

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

%	2018					2017				
	Full year	Q4 -18	Q3 -18	Q2 -18	Q1 -18	Full year	Q4 -17	Q3 -17	Q2 -17	Q1 -17
Packaging Paper	13	13	14	9	16	12	13	13	9	13
Consumer Board	7	5	4	6	13	12	9	13	14	12
Corrugated Solutions	16	20	19	8	18	17	17	22	13	16
<b>Group</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>-3</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>12</b>	<b>9</b>	<b>10</b>

## Quarterly sales volumes per business area and for the Group

ktonnes	2018					2017				
	Full year	Q4 -18	Q3 -18	Q2 -18	Q1 -18	Full year	Q4 -17	Q3 -17	Q2 -17	Q1 -17
Packaging Paper	1 050	246	269	257	278	1 152	282	289	288	293
Consumer Board	1 084	254	274	275	281	1 081	252	265	279	285
Corrugated Solutions	507	136	132	112	127	542	132	145	121	144
<b>Total</b>	<b>2 641</b>	<b>636</b>	<b>675</b>	<b>644</b>	<b>686</b>	<b>2 775</b>	<b>666</b>	<b>699</b>	<b>688</b>	<b>722</b>

## BillerudKorsnäs shares

### The shares

BillerudKorsnäs shares have been publicly listed since 20 November 2001 and are traded on the Large Cap list of Nasdaq Stockholm. The share ticker symbol is BILL. At 31 December 2018, the share capital totalled SEK 1 537 642 792, represented by 208 219 834 shares. The number of shares on the market totalled 206 700 643. Each share on the market entitles its holder to an equal right in the Company's earnings and capital.

### Share price performance

BillerudKorsnäs shares closed at SEK 105.50 on 28 December 2018, corresponding to a market capitalisation of around SEK 21.8 billion. BillerudKorsnäs' share price fell by 24.8% in 2018. Over the same

period, the Nasdaq Stockholm forestry and paper products index (OMX Stockholm Forestry & Paper PI) fell by 19.9%, while the Nasdaq Stockholm All Share Index (OMX Stockholm PI) rose by 7.8%. In 2018, the shares recorded their highest closing price, SEK 144.35, on 8 January, and their lowest closing price, SEK 97.72, on 23 July.

### Turnover

In 2018, 263.6 million BillerudKorsnäs shares were traded, corresponding to a value of approximately SEK 31 billion. The average number of shares traded each trading day was about 1 054 500, corresponding to a value of SEK 125 million. On average, about 3 339 trades were made each trading day.

### Dividend

The target is for the dividend to be 50% of net profit. The dividend paid to shareholders will depend, for example, on BillerudKorsnäs' level of profits, its financial position and its future development opportunities. BillerudKorsnäs' Board of Directors proposes a dividend of SEK 4.30 per share for 2018. The proposed dividend corresponds to approximately 86% of net profit for 2018 and 59% of adjusted net profit.

### Shareholder categories, votes, %



- Foreign shareholders, 36.4
- Swedish mutual funds, 23.2
- Swedish individuals incl. closely held companies, 21.6
- Swedish institutions, 18.8

### Geographical distribution of shareholders, votes %



- Sweden, 63.6
- Austria, 15.2
- USA, 13.1
- United Kingdom, 6.4
- Germany, 1.2
- Other, 0.5

### Distribution of shares at 31 December 2018

Registered number of shares	208 219 834
Repurchased shares in Company treasury	-1 519 191
<b>Shares on the market</b>	<b>206 700 643</b>

### Number of shares on the market

	2018	2017	2016	2015	2014
Average number of shares	206 962 008	207 113 788	207 037 234	206 888 635	206 761 898
Average number of shares after dilution	207 292 671	207 455 852	207 509 333	207 408 656	207 297 990
Number of shares at end of period	206 700 643	206 956 668	207 089 336	206 951 152	206 788 161
Number of shares at end of period after dilution	207 031 306	207 298 732	207 561 435	207 471 173	207 324 253

### The 10 largest shareholders

Shareholder	No. of shares, millions	Share of votes, %
FRAPAG Beteiligungsholding AG	31.3	15.1
AMF Insurance & Funds	18.8	9.0
Fourth AP Fund	13.1	6.3
Swedbank Robur funds	12.0	5.8
Schroders	10.7	5.2
AllianceBernstein	10.5	5.1
Alecta	7.4	3.6
Nordea Funds	4.8	2.3
Vanguard	4.7	2.3
Dimensional Fund Advisors	4.5	2.2
<b>Total top 10 shareholders</b>	<b>117.8</b>	<b>56.9</b>

### Ownership structure<sup>1</sup>

Shareholding	No. of shares	%	No. of owners	%
1-100	1 474 013	0.7%	27 069	27.7%
101-500	14 310 343	6.8%	55 641	57.0%
501-10 000	24 116 501	11.6%	14 285	14.7%
10 001-100 000	11 869 809	5.7%	485	0.5%
100 001-	161 126 622	77.4%	83	0.1%
Anonymous ownership	-4 677 454	-2.2%	N/A	N/A
<b>Total</b>	<b>208 219 834</b>	<b>100%</b>	<b>97 563</b>	<b>100%</b>

<sup>1</sup> Including the company's own bought-back shares (1 519 191)

Share price performance 2008–2018



— BillerudKorsnäs  
 — OMX Stockholm PI  
 — OMX Stockholm Forestry & Paper PI

Share price performance 2018



— BillerudKorsnäs  
 — OMX Stockholm PI  
 — OMX Stockholm Forestry & Paper PI

**Key figures per share**

SEK per share, unless stated otherwise	2018	2017	2016	2015	2014
Earnings	5.01	7.91	7.33	8.75	6.18
Diluted earnings	5.00	7.90	7.31	8.73	6.16
Dividend (for each financial year), actual	4.30 <sup>1</sup>	4.30	4.30	4.25	3.15
Dividend as % of					
– share price (dividend yield)	4.1	3.1	2.8	2.7	2.8
– profit	86	54.3	58.7	48.6	51.0
– Equity (closing balance)	6.2	6.4	6.8	7.2	6.1
Cash flow from operating activities	12.09	16.01	18.07	17.68	15.07
Operating cash flow	–12.72	–4.55	10.15	9.46	8.41
Shareholders' equity	69.45	66.74	62.88	59.21	51.34
Diluted equity	69.34	66.63	62.73	59.06	51.20
Share price/closing balance of equity, %	152	211	243	265	219
P/E ratio, multiple	21.1	17.8	20.9	18.0	18.2
EV/EBITDA, multiple	10.6	9.3	9.9	9.4	9.3
Share price (closing price, last trading day)	105.5	140.5	153.00	157.20	112.50

<sup>1</sup> Board's proposal.

**Analysts covering BillerudKorsnäs**

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## Key figure definitions

### Result

#### **EBITDA**

Operating profit before depreciation and amortisation (EBITDA = Earnings before Interest, Taxes, Depreciation and Amortisation). EBITDA is a measure of operating performance. It is a profit measure that is close to the operating cash flow.

#### **Adjusted EBITDA**

Operating profit before depreciation and amortisation adjusted for items affecting comparability.

#### **Adjusted Operating profit**

Operating profit adjusted for items affecting comparability.

### Adjusted key figures

Adjusted key figures on EBITDA, Operating profit, Return on capital employed and Earnings per share provide a better understanding of the underlying business performance and enhance comparability from period to period, when the effect of items affecting comparability are adjusted for. Items affecting comparability can include additional project costs for major projects, major restructuring/write-downs, litigations, specific impact due to strategic decisions, and significant earnings effects from acquisition and disposals.

### Margins

#### **EBITDA, %**

Operating profit before depreciation (EBITDA = Earnings before Interest, Taxes, Depreciation and Amortisation) as a percentage of net sales. The measure is used in business review as well as for benchmarking with peer companies.

#### **Operating margin**

Operating profit as a percentage of net sales. Operating margin shows the percentage of revenue remaining as operating profit after deducting all operating expenses. The measure is used in business review as well as for benchmarking with peer companies.

### Return

#### **Return on equity**

Profit calculated over 12 months, attributable to owners of the parent company, as a percentage of average shareholders' equity calculated per quarter, attributable to owners of the parent company. The measure represents total profitability compared to the equity invested by the parent company's shareholders.

#### **Return on capital employed (ROCE)**

Operating profit calculated over 12 months as a percentage of average capital employed calculated per quarter. The return on capital employed is a measure that shows how effectively net operating assets total are used in order to generate return in the operating business. The measure takes capital invested in the operating activities into account and is used in business review and benchmarking with peer companies.

### Capital structure

#### **Capital employed**

Total assets less non-interest bearing liabilities, non-interest bearing provisions and interest-bearing assets. The measure is used to quantify the net total assets used in the operating business, and is used as a component in measuring operating profitability.

#### **Capital turnover rate**

Net sales divided by average capital employed. The measure shows how effective the capital employed is used in the business.

#### **Diluted equity**

Equity at the end of the period plus the effect of estimated participation in the incentive programs.

#### **Equity**

Equity at the end of the period.

#### **Interest-bearing net debt**

Interest-bearing provisions and liabilities less interest-bearing assets. The measure is used to quantify the debt financing, taken the amount of financial assets into account. The measure is used as a component in measuring financial risk.

#### **Interest-bearing net debt / EBITDA**

Interest bearing net debt at the end of the period divided by EBITDA for the last twelve months. The measure shows the size of the interest-bearing net debt compared to the repayment capacity. A higher (lower) ratio indicates a higher (lower) risk.

#### **Interest-bearing net debt / Adjusted EBITDA**

Interest bearing net debt at the end of the period divided by adjusted EBITDA for the last twelve months.

#### **Net debt/equity ratio**

Interest-bearing net debt divided by equity. The ratio shows the mix between interest-bearing net debt and equity financing. A higher ratio means higher financial leverage and may have positive effects on return on equity, but imply a higher financial risk.

#### **Working capital**

Inventories, accounts receivables and other operating receivables less accounts payables and other operating liabilities. The measure shows the amount of current net assets that is tied up in the business. Together with non-current assets, working capital constitutes the operating capital employed to generate operating returns.

#### **Working capital as percentage of net sales**

Average working capital for the last three months, divided by annual net sales at year end or annualised net sales during interim-quarter (net sales for the quarter multiplied by four). Working capital in relation to net sales shows how effectively the working capital is used. A lower percentage means less capital is tied up to generate a given amount of revenue, and an increased ability to internally finance growth and return to shareholders.

### Per-share data<sup>1</sup>

#### **Cash flow from operating activities**

Cash flow from operating activities divided by the average number of shares on the market during the period.

#### **Diluted Earnings per share**

Profit for the period, attributable to owners of the parent, divided by the average number of shares in the market after estimated participation in the incentive programs.

#### **Diluted equity per share**

Equity at the end of the period, attributable to owners of the parent company, divided by the number of shares on the market at the end of the period plus the effect of estimated participation in the incentive programs.

#### **Earnings per share**

Profit for the period, attributable to owners of the parent, divided by the average number of shares in the market.

#### **Equity per share**

Equity at the end of the period, attributable to owners of the parent company, divided by the number of shares on the market at the end of the period.

#### **Adjusted earnings per share**

Earnings per share adjusted for items affecting comparability after tax attributable to owners of the parent company.

#### **EV/EBITDA**

Market capitalisation plus interest-bearing net debt, divided by operating profit before depreciation, amortization and impairment losses (EBITDA).

#### **Operating cash flow per share**

Cash flow from operating activities including net investments in property, plant and equipment and intangible assets and acquisitions of financial assets, divided by the average number of shares on the market over the period.

#### **P/E-ratio**

Share price at year-end divided by earnings per share.

<sup>1</sup> For number of shares, see section "BillerudKorsnäs shares".

## Glossary

### CDP

Carbon Disclosure Project.

### Corrugated board

Corrugated board is manufactured by gluing together two flat layers of paper (liner) with rippled layer (fluting) in the middle.

### Fluting

The wavy middle layer of corrugated board. Produced from primary or recycled fibre.

### Liquid packaging board

Board used to manufacture packaging for beverages and other liquid foods.

### LTIFR

Lost time injury frequency rate. Accidents resulting in absence per million hours worked.

### MF kraft paper

Machine Finished kraft paper.

### MG kraft paper

Machine Glazed kraft paper.

### NBSK

Northern Bleached Softwood Kraft.

### OEE

Overall Equipment Efficiency.

### Pulpwood

In Sweden this is primary softwood (spruce and pine) and birch used to make paper pulp.

### Sack paper

Paper with high strength properties and used for the production of a sacks. Made from softwood sulphate pulp.

### Sulphate pulp

Chemical pulp produced by cooking wood under pressure and at a high temperature in cooking liquor, known as white liquor (sodium hydroxide and sodium sulphide). Sulphate pulp is also known as kraft pulp.

## Shareholder information and key dates

### Annual General Meeting

The Annual General Meeting of BillerudKorsnäs will take place at 3.00 pm on 9 May 2019 at the City Conference Centre, Drottninggatan 71, Stockholm.

Notice of the 2019 Annual General Meeting is posted on [www.billerudkorsnas.se](http://www.billerudkorsnas.se).

### Notification of attendance

Shareholders wishing to take part in the AGM must be registered in the shareholders' register maintained by Euroclear by no later than 3 May 2019 and must notify the Company by no later than Friday 3 May 2019.

Notification of attendance can be made by telephone on +46 8 402 90 62, at [www.billerudkorsnas.com/register](http://www.billerudkorsnas.com/register) or by post to BillerudKorsnäs AB, Årsstämman, c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden.

To be able to participate at the meeting, shareholders whose shares are registered in the name of a nominee must request that their own names are temporarily registered in the shareholders' register kept by Euroclear. This procedure, referred to as voting right registration, must be completed by Friday 3 May 2019, which means that shareholders must inform the nominee well before this date.

### Financial information

All financial information is available in both Swedish and English and is published on BillerudKorsnäs' website at [www.billerudkorsnas.com](http://www.billerudkorsnas.com).

The Annual Report and Sustainability Report is distributed to shareholders and other interested parties who have registered their interest, either through the Company's website or via the form received by each new shareholder.

The Annual Report and Sustainability Report and other financial reports are available on the website.

### Interim reports

January–March 2019	17 April
January–June 2019	16 July
January–September 2019	24 October

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We challenge conventional packaging for a sustainable future

### THIS IS BILLERUDKORSNÄS

BillerudKorsnäs is one of the world's leading suppliers of high-quality, packaging materials based on renewable raw material. Our wood raw material comes from sustainable managed forests and manufacturing takes place at resource-efficient, integrated production units.

Our customers are packaging manufacturers, brand owners and large retail and supermarket chains. Through close collaboration with customers and partners all over the world, we are able to offer a customised and broad product portfolio that features a high degree of innovation.

Demand is driven by global megatrends, particularly rising urbanisation, a greater focus on sustainability and changing consumption patterns. Consumer segments, primarily food and beverages, account for 76% of sales. While Europe is the core market, BillerudKorsnäs is gradually strengthening its presence in the leading growth markets of Asia.

Smart packaging solutions using paper or board from BillerudKorsnäs reduce the impact on the climate, cut the use of resources along the whole value chain and contribute to a sustainable future.



## BILLERUDKORSNÄS