

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 therefore 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 be 'Petra Einarsson'.

Petra Einarsson
President and CEO