

Focus on delivery and value creation

2019 was an eventful and challenging year. We sold a majority share of Bergvik Skog Öst and the new board machine at Gruvön was commissioned and started delivering material to customers. The second half of the year saw a weakening in the market for several of our products. As acting CEO since the beginning of November, I have focused on delivering on our immediate targets with the aim of creating value for our various stakeholders.

Net sales increased primarily as a result of positive currency effects, but we also benefitted from price rises in certain product segments. Operating profit was weighed down by higher raw material costs as well as negative effects of around SEK 640 million from the start-up of our new board machine and the three older machines that were thus shut down in Gruvön. In the second half of the year, we were forced to recognise a significant downturn in the market situation for Division Paper, which impacted negatively on the results.

Successful sale of Bergvik Skog Öst

One of the year's key events was the divestment of Bergvik Skog Öst. The process began with us buying back forest land as part of dividing up Bergvik Skog AB. Our core business is packaging material, which is why the Board judged that we should not tie up capital in low yielding forest assets; we believe the best returns are achieved by focusing on our core business, where we already have an extremely strong position. As a consequence of this, we sold around 90% of Bergvik Skog Öst to AMF at the end of August. At the same time, we secured a long-term supply agreement for wood from this forest holding, which accounts for around a tenth of our annual wood needs.

The sale of Bergvik Skog Öst lay behind the year's strong net profit, and a very solid balance sheet. The year-end report presented the Board's proposal for an ordinary dividend of SEK 4.30 per share and an extra dividend of the same amount. However, in view of the increased uncertainty resulting from the coronavirus outbreak, the Board of Directors decided on 25 March 2020 to prioritise the company's strong financial position and maneuverability, and therefore to withdraw the proposal for an extra dividend. The Board's proposal for a dividend of SEK 4.30 remains, as does the proposal that a mandate be granted for the buy-back of the company's own shares. Provided that the uncertainty has decreased and the visibility in the market has improved, the Board of Directors has the ambition to summon the shareholders to an extraordinary general meeting later this year to resolve on an extra dividend.

As regards capital requirements going forward, we intend to rein in large-scale investments in our facilities over the next few years and focus on delivery from recently completed investments, which are expected to contribute positively to operating cash flow.

Value creation rooted in sustainability

Although we achieved our targets concerning growth and financial position, we cannot be satisfied with the underlying operating profit. In the future, we can and must become better at benefiting from the growth potential that undoubtedly exists. BillerudKorsnäs has a historic opportunity to capture a share of the increasing demand for high-quality packaging materials. With sustainability and quality as the foundation, we will capitalise on the potential for growth and create value for customers, shareholders and other stakeholders. Our mission – to challenge conventional packaging for a sustainable future – is more timely and relevant than ever. The concept of sustainability is an integral part of our strategy and we support the ten principles of the UN Global Compact. We are proud to once again have been named industry leader in the Container & Packaging category and one of the 10% most sustainable companies in the world in the Dow Jones Sustainability Index.

Over the next few years, our stated goal is to optimize the use of the company's resources and benefit from investments already completed, with the target of returning to an EBITDA margin of over 17%. Profitability is to be improved by maximising customer value, cutting costs, driving up efficiency and increasing production.

World-class board machine

The continued ramping up of KM7 at our Gruvön production unit is our foremost priority for 2020. We can conclude that the project to build the world's most modern board machine has proved a resource-intensive challenge. 2019 marked the completion of all the construction and installation work, allowing the new machine to begin operating. KM7 is an enormous, highly

automated and flexible board machine with a production capacity of 550 000 tonnes per year, which equates to around 100 million milk cartons every 24 hours. On 3 October, proud employees, suppliers and customers celebrated the commissioning of the machine with a joyous launch show, making it a day to remember.

KM7 reinforces our leading position in liquid packaging board and cartonboard, creates the conditions for profitable growth and an optimised production structure, and secures jobs in Grums for many years to come. During the first half of 2020, we will begin production of more high-quality grades, alongside the process of certifying materials for liquid packaging board. KM7 is also going to impact negatively on the current financial year. However, as production volumes and the proportion of high-value products grow, KM7 is expected to make a steadily increasing contribution to profits.

Safe and stable production

We attach a great deal of importance to high levels of safety in our workplaces. In recent years, we have conducted structured safety work with focused targets, and that work is continuing at full throttle. Every employee shares responsibility for making the working environment safe, and we are convinced that all accidents are preventable.

This intensified safety work also underpins our initiatives to ensure efficient and stable production. The aim is for each unit and machine to run under conditions that are as near optimum as possible in terms of production volume, quality and product mix, for as many hours of the year as possible. Ensuring that our employees have the right conditions, that we are working proactively on preventive maintenance work and that we have structured cooperation between our mills will enable us to further enhance availability on the production lines.

Efficiency in a tougher market

The market for liquid packaging board and premium cartonboard remained stable during the year, but the second half of the year saw growing uncertainty in the global market and market conditions for several of our product segments deteriorated. This applied in particular to sack paper and certain grades of kraft paper – areas in which both volumes and prices saw significant drops.

We have introduced a cost reduction and efficiency programme in order to ensure long-term efficiency and profitability. Scheduled to run until the end of 2021, the programme involves personnel reductions, purchasing savings and efficiency improvements across the entire business, and is expected to generate savings of SEK 250 million in 2020.

Outlook

At the time of writing, the pandemic of the virus disease Covid-19 and its consequences is a major cause of concern for our industry, our employees and the society at large. As a consequence of Covid-19 the planned maintenance shutdown at Gruvön, which would have taken place in March, has been postponed until the third quarter of 2020, which is expected to have a negative effect



on earnings of around SEK 140–200 million during the current year. Other financial effects of Covid-19 have so far been relatively limited, but we must assume that it can have a significant impact in 2020. It is currently impossible to assess the extent to which Covid-19 will affect BillerudKorsnäs' operations, but our strong balance sheet makes us well-equipped to meet any difficulties that may arise. Our strong position in relatively resilient market segments such as packaging materials for consumer goods, medical and hygiene also provides a certain degree of stability in times of increased uncertainty and economic downturn.

2020 is set to be a challenging, but also exciting year. We are facing a tougher market with lower price levels for the product segments in Division Paper than at the beginning of last year, but the company's success is also largely in our own hands. Our focus will be on delivering our strategy, the three key priorities of which are ramping up production on KM7, initiatives to ensure a safe and stable production, and actions across the whole business to strengthen profits and efficiency. What makes us likely to succeed is our knowledgeable and dedicated employees as well as supporting customers and suppliers. Together, we will take on the challenges with confidence.

Lennart Holm
Acting President and CEO