

CEO's statement

Dear Shareholders,

The year 2020 was an extraordinary period in which the COVID-19 pandemic threatened people's health, lives and livelihoods around the world. Our hearts go out to all those who have been affected by serious illness, the passing of loved ones or financial hardship. At BillerudKorsnäs, we have been relatively unscathed and are humbled by the resilience of our business and our employees' ability to handle challenges and adapt to new working conditions. In the past year, we have taken precautionary measures to prevent the spread of infection and to secure our operations and deliveries. The packaging industry has been relatively less affected by the pandemic and BillerudKorsnäs' largest market segment, packaging materials for food and beverages, has been resilient.

Good basis for value creation

The global packaging market is growing and BillerudKorsnäs is well positioned to capture a share of that growth. The world is undergoing a rapid transformational shift towards environmentally friendly packaging and e-commerce, and we are perfectly placed to capture values in that transformation. We have strong positions in attractive niche segments and our materials' strength and purity mean they are lightweight and have a smaller environmental footprint than alternatives.

In recent years, the company has invested heavily in paper and board production in Skärblacka and Gruvön, and has divested 90% of its holding in Bergvik Skog Öst. Following these structural changes, BillerudKorsnäs is a pure packaging company, providing materials made from fibre and innovative packaging solutions. The ramp-up of the new board machine at Gruvön has come a long way and is now at the stage of commercializing and certifying high-value qualities. We are also taking a proactive lead on sustainability. Nevertheless, we also face challenges, such as increased competition for wood supply and regulations on single-use packaging, and renewable and recyclable materials.

Review of 2020

Demand declined for some of our product segments due to lower industrial activity and changes in consumer behaviour as people

spent more time at home. Net sales for the year declined by 2% due to lower market prices for sack and kraft paper, while our sales volumes increased by 4% to around 2.8 million tonnes. Lower raw material costs and savings had a positive impact on profitability but did not offset the effects of lower market prices and the ramp-up of our new board machine at Gruvön. The EBITDA margin was 11%. The company's financial position remains healthy and the Board proposes a dividend of SEK 4.30 per share.

Key activities and achievements

Although challenging market conditions, we continued to develop our offering. Our board offering strengthened with the CrownBoard product portfolio and the launch of Pure Performance, a white top kraftliner that combines high strength, excellent printability and purity in a single material. Within the product area Paper, reusable carrier bags made from our FibreForm® material were introduced in UK supermarkets, and packaging made from our Xpression E-com paper attracted increased interest from global retailers. We also launched Recyclable Flow-Wrap, a packaging solution for fast-moving consumer goods that meets barrier requirements, which enables a shift from plastics to paper and can be installed on existing flow-wrapping machines.

Demand for Managed Packaging's services also declined as a result of the pandemic. Strict cost controls were put in place to mitigate lower sales in this business unit, and we expanded our service offering by introducing a digital life cycle assessment tool to show customers the amount of carbon dioxide emissions and water used during the lifespan of packaging.

Within operations, we made progress in our efforts to achieve stable production and our production volumes increased. In terms of health and safety, however, the accident rate was unacceptably high. Due to the pandemic, we carried out all annual maintenance shutdowns in the autumn, a challenging task that went well thanks to robust safety preparations. At the same time, upgrades were made to our flagship board machine at Gruvön, which increased its production volumes, and the machine started delivering coated material with very positive feedback from customers.



Our cost and efficiency programme, initiated in 2019, progressed and delivered structural savings of SEK 335 million related to operational efficiencies, procurement and fixed costs.

Our wood supply was stable and market prices for pulp wood declined in the second half of the year. The spruce bark beetle situation was a challenge for many forest owners, and we worked together with other forest operators to minimize damage and inform forest owners about what measures they can take to prevent the insect from spreading.

For the third year in a row we maintained our leading position in the containers and packaging category of the Dow Jones Sustainability Index. This achievement is the result of many years of integrated sustainability work, covering everything from human rights to climate strategy.

Prospects for 2021

Thanks to government support and the widespread roll-out of vaccines, 2021 is looking brighter than last year. It is, however still too early to celebrate, as coronavirus continues to affect life in large parts of the world and the macro-economic situation remains uncertain. As market conditions are hard to predict, we are ensuring that we are prepared for difficulties that may arise. At the time of writing, we are seeing continued stable demand for most of our materials, along with price improvements for some segments. Demand in some segments will, however, continue to be affected by the pandemic.

It goes without saying that we will strengthen further our efforts to reduce the accident rate and accident severity in our operation. While we took many and successful precautions for the pandemic, we could only deliver a flat performance in 2020 on operational health and safety. We will do everything we can to bring a step change in 2021.

Priorities for the current year

First, we will prioritize our quality management work to further increase customer satisfaction. BillerudKorsnäs has a reputation for reliability and high-quality products and we intend to maintain this. We will constantly work to improve our offering and increase customer value, ensuring good profitability.

The commercial ramp-up of our new board machine at Gruvön will continue to be a top priority in 2021. We will take important steps in certifying liquid board qualities together with our customers, and we aim to grow our cartonboard business. The machine's output will increase

and the product mix will be gradually improved to produce a higher percentage of premium qualities.

Investing in a new recovery boiler at Frövi will be an important project, as the current boiler will not meet emissions requirements in a few years' time. A new recovery boiler will ensure continued long-term operation of the Frövi site, and will also improve production stability and efficiency. This project will be financed by cash flow from operating activities.

Competition for raw materials from the forests is growing and we must therefore focus on ensuring a competitive wood supply by establishing and developing long-term relationships with forest owners and sawmills.

We will also continue to pursue efficiency measures throughout our operations. Our cost and efficiency programme aims to achieve annual run-rate savings of an additional SEK 315 million by the end of 2021. This would result in total structural savings of SEK 650 million under the programme.

Future outlook

Our ambition is to further increase sales and profitability. The backbone of our current strategy is securing a competitive wood supply and ensuring safe and stable production. We expect that by 2025 we will have realized the majority of the currently visible growth and profit opportunities. Over the next few years, we will further develop opportunities that deliver this growth and profitability beyond 2025.

Climate change and plastic pollution is increasingly driving political agendas on sustainability and the need for a circular economy. Sustainability issues in which we have a significant impact, such as safety and the climate, will undoubtedly remain integral parts of our strategy. We support the 10 principles of the UN Global Compact and are endeavouring to reduce our carbon footprint to achieve our targets set in accordance with Science Based Targets. Our longer-term outlook will also encompass initiatives to strengthen our production capabilities and capture opportunities offered by the growing fibre packaging market, including developing innovative and commercially viable packaging solutions that meet new customer needs.



Christoph Michalski
President and CEO

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Christoph Michalski,
President and CEO