



# BILLERUDKORSNÄS

Annual and Sustainability Report 2016



We challenge  
conventional  
packaging for a  
sustainable  
future

# BillerudKorsnäs

– a leading player in primary fibre-based packaging materials and packaging solutions

Net sales, SEK bn

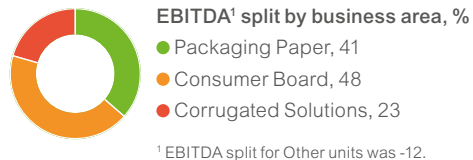
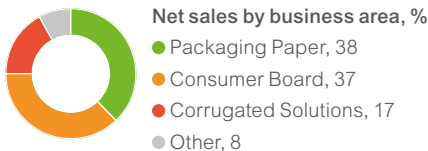
21.7

EBITDA, SEK bn

3.6

Number of employees, approx.

4 300



## A leading player with a sustainability focus

BillerudKorsnäs was formed on 29 November 2012 with the merger of Billerud AB and Korsnäs AB. The company is listed and traded on the Large Cap list of Nasdaq Stockholm. The already successful businesses of Billerud and Korsnäs have been further strengthened by the merger in packaging materials and packaging solutions, creating a strong international player in the

packaging industry. There are three cornerstones to the Group's offering – packaging materials made from primary fibre, innovative packaging solutions and a global network of partners, who are driven by a passion to develop smarter packaging solutions based on renewable materials.

## Packaging Paper

### Kraft and sack paper for customers with tough demands

Packaging Paper offers kraft and sack paper of premium quality plus smart solutions for customers in the industrial, medical equipment and consumer

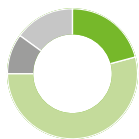
segments. The business area also sells any surplus of pulp that BillerudKorsnäs does not use in its own production.

**Selective growth**  
Growth target:  
2–4%/year

**Net sales**  
SEKm 8 339

**EBITDA**  
SEKm 1 486

**EBITDA margin**  
18%



**Net sales by market segment, %**

- Food & Beverages, 21
- Industrial, 54
- Consumer & Luxury Goods 10
- Medical & Hygiene, 15



**Net sales by region, %**

- Europe, 69
- Asia, 15
- Africa, 7
- South America, 4
- Middle East, 1
- Other, 4



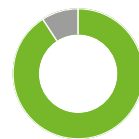
## Consumer Board

### Liquid packaging board and cartonboard

Consumer Board delivers packaging materials in high-quality board made from primary fibre for beverages, food products and various other consumer

**Volume growth**  
Growth target:  
4–5%/year

**Net sales**  
SEKm 8 015



**Net sales by market segment, %**

- Food & Beverages, 91
- Consumer & Luxury Goods 9





### BillerudKorsnäs in the world

BillerudKorsnäs' sales organization is committed to efficiently serving all of its customers around the world. The company's headquarters are situated in Stockholm and our eight production facilities are located in Sweden, Finland and the UK. Our 2 000 customers are packaging manufacturers, brand owners and large retail and supermarket chains in over 100 countries.

### Customer Service Centers

China, France, Germany, India, Indonesia, Italy, Malaysia, Singapore, South Africa, Spain, Sweden, Thailand, Turkey, United Arab Emirates, United Kingdom and the USA.

### Production

Since 2012 BillerudKorsnäs has, over and above ongoing investments, invested SEK 2.9 billion in its production structure to improve efficiency, quality and sustainability performance. The pace of investment is set to increase over the coming years, with the implementation of two major projects that were decided in 2016: the investment in a new board machine in Gruvön and the further development of MG paper production in Skärblacka.

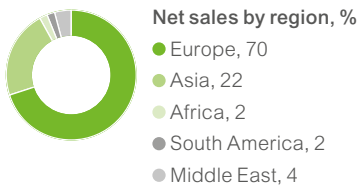


### with unique properties

goods. Smart solutions in terms of function, design and material selection create added value for customers.

**EBITDA**  
SEKm 1 723

**EBITDA margin**  
21%



### Corrugated Solutions

#### Fluting and liner add value

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.

**Value growth**  
Growth target:  
2–4%/year

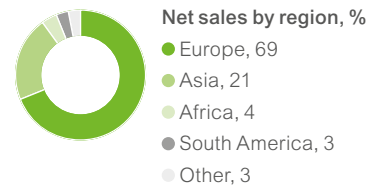
**Net sales**  
SEKm 3 620



Smart packaging is delivered via the Managed Packaging concept, which delivers supply chain solutions and packaging optimisations for brand owners, with a view to challenging conventional solutions.

**EBITDA**  
SEKm 829

**EBITDA margin**  
23%



## This year's Annual and Sustainability Report

Sustainability is an important part in BillerudKorsnäs' core business. For 2016, financial and non-financial information is being reported in a joint report. The report reflects BillerudKorsnäs' mission – to challenge conventional packaging for a sustainable future – and integrates financial, sustainability and corporate governance information to provide a full and cohesive description of the company. BillerudKorsnäs' statutory Annual Report, which includes the Directors' report and financial statements, can be found on pages 63-124. The scope of the Sustainability Report is set out in the GRI Content Index. The Sustainability Report follows the guidelines of GRI G4, Core level, and is externally audited. *This English version is a translation of the Swedish original.*

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# BillerudKorsnäs – challenges conventional packaging for a sustainable future

BillerudKorsnäs offers the global packaging market world-leading paper and board material and smart solutions for optimal and sustainable packaging.

## We challenge conventional packaging for a sustainable future

BillerudKorsnäs offers the packaging market sustainable materials and solutions that increase customers' profitability while at the same time reducing the overall environmental impact.

## Leading position in growth markets

The company has leading global and regional positions in growing product segments. Our 2 000 customers are packaging manufacturers, brand owners and large retail and super-market chains in over 100 countries.

## Innovation a priority area

We challenge conventional packaging by leading industry development and bringing new products and solutions to market. Our ambition is constantly to push the boundary of what paper-based products can be used for.

## Clear growth strategy

BillerudKorsnäs will grow faster than the market for packaging paper and board as a whole. We will achieve this by

broadening our position geographically and in the value chain, developing new products, making our production more efficient and being a driver of sustainability along the whole value chain.

## Sustainability drives the business

BillerudKorsnäs is driven by sustainability as a natural and integral part of the whole business and value chain. The raw material comes from sustainably managed forests and manufacturing takes place in resource-efficient production units that are constantly improved to minimise their environmental impact. Through our products and solutions, we aim to be part of the response to major challenges that the world currently faces, such as climate change and dumping of plastic in the oceans.

## Focus on long-term value for shareholders

Our financial strength gives us the necessary basis for investment in our own structure as well as strategic acquisitions. BillerudKorsnäs has established five financial targets, as well as a number of non-financial targets, to promote profitable growth and return for our shareholders.

## Historical overview

| SEKm  | 2016              | 2015   | 2014   | 2013   | 2012   |
|---|-------------------|--------|--------|--------|--------|
| Net sales   | 21 657            | 21 814 | 20 853 | 19 689 | 10 427 |
| Operating profit/loss   | 2 045             | 2 586  | 1 901  | 1 137  | 489    |
| EBITDA  | 3 606             | 4 003  | 3 279  | 2 576  | 1 198  |
| EBITDA, %   | 17%               | 18%    | 16%    | 13%    | 11%    |
| Return on capital employed, %                                       | 12%               | 15%    | 11%    | 6%     | 8%     |
| Interest-bearing net debt/EBITDA, multiple                          | 1.1               | 1.2    | 2.2    | 3.3    | 7.3    |
| Dividend (for the financial year) per share, SEK                    | 4.30 <sup>1</sup> | 4.25   | 3.15   | 2.25   | 2.00   |
| Investments in non-current assets                                   | 1 645             | 1 710  | 1 384  | 1 337  | 965    |
| Average number of employees   | 4 274             | 4 223  | 4 194  | 4 272  | 2 548  |
| Innovation level for products, %                                    | 13%               | 17%    | 14%    | 10%    | .      |
| Emissions of fossil CO <sub>2</sub> in production, kg/tonne product | 29.2              | 28.3   | 31.1   | 38.0   | .      |
| Energy efficiency, MWh/tonne  | 5.35              | 5.44   | 5.36   | 5.48   | .      |

<sup>1</sup> Board's proposal.

# Key events 2016



## Multi-billion investment in Gruvön

In order to meet the growing demand for sustainable packaging solutions for food and beverages around the world, the decision was taken to make the largest investment in the company's history – a new board machine at the production unit in Gruvön. The machine will have a capacity of 550 000 tonnes and will produce liquid packaging board, cartonboard, food service board and liner. The investment amounts to SEK 5.7 billion and production is expected to start in 2019.



## The packaging world's finest prize

BillerudKorsnäs won both gold and bronze at this year's Pentawards, through its subsidiary NINE (page 27).



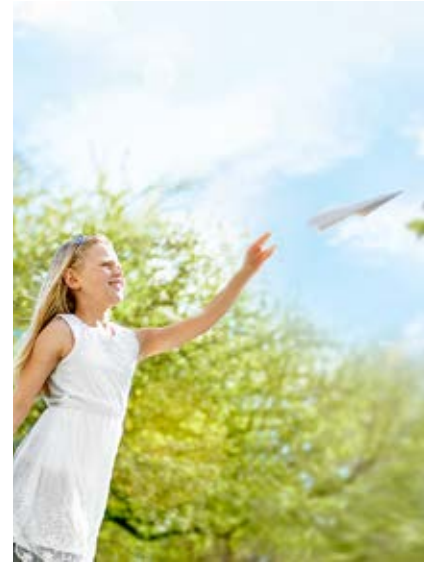
## Joining forces to reduce plastic littering

BillerudKorsnäs organised a seminar in Miami, in partnership with Tara Expeditions, with a focus on the UN's Sustainable Development Goals. The topics discussed included how fibre-based packaging solutions can help to reduce plastic littering in the oceans. The solutions could potentially make a positive contribution to UN Sustainable Development Goal 14: Life below water.



### Major investment in Skärblacka consolidates leading position

As part of BillerudKorsnäs' investments for increased growth and efficiency, the company has decided on an investment project to develop Skärblacka into a world-beating centre for the manufacture of MG (machine glazed) paper. One element of the project is to move the MG machine from Tervasaari in Finland to Skärblacka, where it will be integrated with the pulp production.



### External recognition for sustainability

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

BillerudKorsnäs is included in the prestigious Dow Jones Sustainability Europe Index. The Group achieved high marks in the environmental field, not least for its climate strategy, environmental management and environmental reporting, and was also named Sustainability Leader in the Containers & Packaging category.



For the second year in a row, the Group's extensive climate work was recognised with a place on CDP's Climate A List of companies, which reflects global leadership in actions to mitigate climate change.



For the third 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.



### Focus on the "Internet of Packaging"

BillerudKorsnäs acquired a minority stake in the Norwegian innovation company Kezzler AS, a global leader in digital mass encryption for secure product identification. The technology is a strategically interesting area of development.



### Packaging concept of the year

BillerudKorsnäs launched Axello ZAP, a renewable, recyclable, dust-tight and insect-proof paper packaging for dry food (page 26).

# On the offensive!

2016 saw BillerudKorsnäs deliver strong results and good margins, in a year that was also marked by a historic decision to invest in a new board machine in Gruvön. This multi-billion investment is proof of our conviction that we need to be challenging and go on the offensive in order to deliver the changes that the future demands.

Summing up a year like 2016 is no easy task. As CEO of BillerudKorsnäs, I ask myself whether the most important feature of the year was the results we achieved, the market trends, the bold decisions we took or developments on the geopolitical front. Of course, it can reasonably be argued that all of these things are important, but their significance differs in terms of the company's position and its future. However, let me begin by reflecting on this year's results.

## Strong progress despite availability problems

Our financial targets for the business are challenging, but in our view they are entirely realistic and should be attained regardless of economic conditions. We exceeded our targets in 2016 (adjusted for items affecting comparability), with the exception of the growth target. Despite the limited growth, overall I am obviously pleased with the year. The margins are high and steady, the return on capital employed remains high and operating cash flow is strong. Our growth was hit not by deteriorating market conditions but by our own production. At the end of 2015 we had problems with availability following some major refits, and this also affected deliveries in 2016. There were also certain unforeseen incidents at the production units in Gävle and Frövi in the fourth quarter. However, we have overcome some production challenges to set production records at all the plants. I can only be happy with such an outcome.

We have ambitious targets for production, and we have already started on intensive work aimed at ensuring maximum availability. At the same time, our focus on continuous improvements, in production and the other parts of the business, is taking our efficiency levels to new heights. I would obviously like us to make faster progress, but there is no doubt that we are on the right track. Our goal is to return to the planned growth rate in 2017. The conditions are in place, since our markets are generally stable and showing good growth.

“By far the year's biggest decision was to invest in a new board machine in Gruvön. The investment amounts to SEK 5.7 billion.”

## Profitable growth

Europe remains our largest market, but the bulk of the growth is occurring in other territories. In order to exploit the opportunities offered by this growth, we have continued to expand our presence outside Europe in the form of strengthened sales and technical resources. We are continuing to recruit personnel and establish offices primarily in Asia and North America, in order to better meet customers' needs. We also expect these markets to be the main source of increased demand for our materials and services. In addition to geographic expansion, we are also noting growth opportunities within the value chain, where demand for competitive packaging and total solutions offers potential.

## Sustainable solutions for the future

It is only right that I summarise the results for BillerudKorsnäs in more than just economic and market terms. Our sustainability work continues to receive recognition, as exemplified by our inclusion on the Dow Jones Sustainability Europe Index for 2016. It makes me particularly proud to see BillerudKorsnäs recognised as an international leader within our industry. We will continue to drive development in the relevant sustainability areas, with our sights set on fulfilling our sustainability targets. In the area of climate change, for example, we have a keen focus on achieving fossil-free production, where our carbon emissions at present stand at 29.2 kg/tonne product. We support the principles set out in the UN Global Compact and over the year we have analysed how our company can best contribute to the global Sustainable Development Goals. Our innovation work and our drive for development and renewal continue unabated. In 2016, we stepped up our investment in R&D by almost 50%, and I have no doubt that the need to continue to increase development resources will persist. We aim to become the world's leading supplier of high-quality and sustainable fibre-based packaging solutions.



This year, in partnership with Bosch Packaging, we launched the packaging system Axello ZAP, and the response from customers has been overwhelming. The system offers an effective alternative to plastic packaging for dry foods. In 2016, we also set up the subsidiary BillerudKorsnäs Venture AB, which aims to invest in companies with promising new technologies and skills that could be the future of sustainable packaging solutions. The investment portfolio looks promising, and it will be interesting to monitor and build on these investments, which I firmly believe will result in good development and growth opportunities moving forward.

### Multi-billion investment increases capacity

And so to the major decisions. Back in autumn 2015 we announced that we were considering making significant investments in our Swedish production structure, and several decisions to this end were taken in 2016. One investment of over SEK 1.2 billion involves moving a machine for machine glazed (MG) paper from Tervasaari in Finland to Skärblacka in Sweden. One of the largest of its kind in Europe, the machine will be integrated with the existing pulp production in Skärblacka, bringing substantial efficiency gains. At the same time, we are upgrading the quality on a second MG machine and building up the production unit's development resources. On completion in 2018, Skärblacka will be the world's leading centre for MG paper. I would also like to thank our fantastic colleagues in Tervasaari who, despite the decision to move the machine and close the plant, continued to deliver high quality and productivity right to the end. This is a clear sign of their impressive integrity and professional pride.

By far the year's biggest decision was to invest in a new board machine in Gruvön. As well as bringing significant changes to Gruvön as a production unit, this investment of SEK 5.7 billion will also mean a major restructuring of the whole Group's production. Significant parts of present-day production in Gruvön will be moved to other production facilities in the Group, improving both product mix and profitability at other units. The machine in Gruvön will be, when it is completed in early 2019, the biggest of its kind in the world, with capacity for liquid packaging board, cartonboard and liner. The scale of the decision is unprecedented in the history of the company.

In total, we will be investing almost SEK 7 billion in the next three years, over and above ongoing investments. I believe we are doing our utmost to help society transition to a green bio-economy. My hope is that the political decisions made concerning forestry, transport and research will support and reinforce the effect of our ambition.



### Sustainability pays

I believe 2016 shows that we are living up to our mission to challenge conventional packaging for a sustainable future. We have the courage to challenge, to make big decisions, to lead the way, as we seek active and progressive growth for future-focused materials and solutions. The geopolitical situation in 2016 has not exactly provided any clarity on where the world is heading. War, mass migration and election results are making it more difficult to forecast future scenarios, and that concerns me. However, none of this has an effect on the fundamental drivers of demand for our products: urbanisation, demographic changes, digitalisation and sustainability. I therefore remain optimistic about the outlook for BillerudKorsnäs. I believe in our products, I believe in our expertise and I believe in our ability to meet customers' expectations. We have the courage to go on the offensive even in uncertain times. This will pay dividends, not only for our shareholders, but also for our other stakeholders.

Solna, March 2017

A handwritten signature in black ink, which appears to read 'Per Lindberg'. The signature is stylized and fluid, with a large loop at the end. Below the signature, the name and title are printed in a serif font.

Per Lindberg  
President and CEO

# Management by objectives for long-term value creation

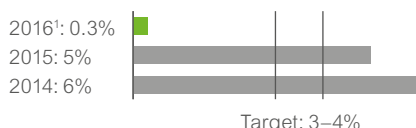
To support BillerudKorsnäs' target for profitable growth and a good return for shareholders, the company has established five financial targets, as well as a number of non-financial targets relating to sustainable development in particular focus areas.

## Financial targets

### 0.3%

#### Growth target

Long-term target for growth of 3–4% per year.



The target was not reached despite record production and sales volumes, primarily due to disruptions to production and supply.

### 17%

#### EBITDA margin

The EBITDA margin should exceed 17%.



Excluding restructuring costs related to the investment in Gruvön, the target was achieved. The results for 2015 were affected by the capital gain from the disposal of Latgran.

### 12%

#### Return on capital employed

Return on capital employed (ROCE) should exceed 13%.



Excluding restructuring costs related to the investment in Gruvön, the target was achieved. The results for 2015 were affected by the capital gain from the disposal of Latgran.

### 1.1

#### Interest-bearing net debt/EBITDA

Interest-bearing net debt in relation to EBITDA should be less than a multiple of 2.5.



The target was reached, in part due to lower interest-bearing net debt.

### 59%

#### Dividend policy

The dividend should amount to 50% of net profit.



The Board's proposed dividend of SEK 4.30 per share for 2016 entails fulfilment of the dividend target.

<sup>1</sup> For comparable units  
<sup>2</sup> Board's proposal

## Non-financial targets

# 122

### Certified wood raw materials

No. of group-certified forest owners in BillerudKorsnäs' group certificates for FSC® and PEFC™. (No.)



The target was reached. Internal development of working methods for timber purchasers contributed towards the result.

# 1.5

### Workplace safety

Work-related accidents with sick leave. (No./100 employees)



The target was not met, but the number of work-related accidents fell compared with 2015 thanks to internal cooperation, management and prioritisation.

# 21%

### Gender equality

Female employees. (%)



The targets were partly reached. The proportion of female employees increased but the proportion of female managers fell somewhat.

# 13%

### High level of innovation for products

Proportion of sales accounted for by new products. (%)

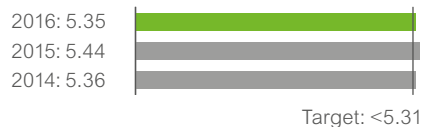


The target was not reached, due in part to postponed product launches.

# 5.35

### Energy efficiency

Energy consumption. (MWh/tonne product, net)



The target was not reached due to certain production disruptions at the end of the year.

# 29.2

### Fossil free production

Emissions of fossil CO<sub>2</sub> in the manufacturing process. (Kg/tonne product)



The target was not fully reached due to certain production disruptions at the end of the year.

### UN Sustainable Development Goals

The 17 Sustainable Development Goals, which the UN's members adopted in September 2015, now inform countries' commitments to establish a clear plan for the work that needs to be done by 2030, in order to achieve long-term sustainable development. The role and commitment of the business world is key to these efforts.

Over the year, BillerudKorsnäs analysed which of the global Sustainable Development Goals the company is best placed to contribute towards. In its in-depth analysis of the goals and their targets, BillerudKorsnäs was able to identify the goals that best matched the scope for the business to maximise its impact. These goals are 8, 12, 13, 14 and 15.

BillerudKorsnäs' business has an overriding ambition – to challenge conventional packaging for a sustainable future. In



short, the existing sustainability targets remain relevant and can now also be connected to the UN Sustainable Development Goals. For more detailed information on the sustainability targets, see page 56.

# We challenge conventional packaging for a sustainable future

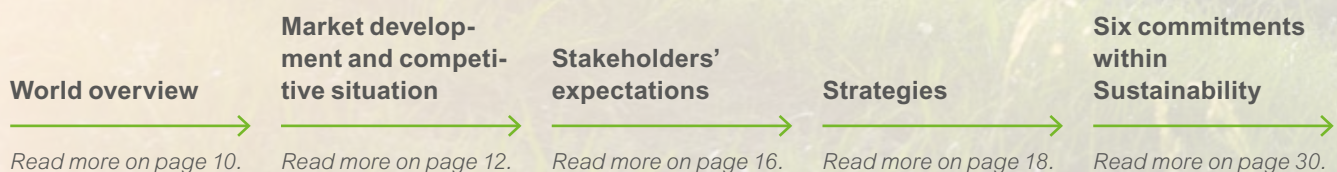
BillerudKorsnäs' mission – to challenge conventional packaging for a sustainable future – describes the purpose of our business. It guides the way we think, what we do and how we communicate.

We challenge on many fronts. We think outside the box to create innovative packaging solutions that don't yet exist. We develop our paper materials so that they can be used even smarter and more efficient with the aim of replacing other materials.

We create new business models and revenue streams. A close collaboration with converters, brand owners and other stakeholders is essential in finding the solutions needed for sustainable development over the long term.

Challenging conventional packaging for a sustainable future is the goal of everything we do – for us sustainability is not just necessary for the world's development but also a business opportunity.

Over the next few pages, we will examine the situation in the wider world and how it affects our industry and our strategic work.



# ional nable future



# Global trends are increasing the need for sustainable solutions

Business has a key role to play in finding solutions to the major challenges that developments in the modern-day world are presenting us with. The opportunities lie in taking responsibility along the value chain, as well as focusing on innovation and strategic collaborations.

## Global megatrends



### Urbanisation

Seven out of ten people will live in cities with populations in the millions by 2050. The most rapid urbanisation is currently being seen in Asia, Latin America and Africa, where an urban middle class is emerging. Urbanisation places significant demands on the surrounding ecosystems, with consumption patterns in the cities defined by a rapid pace and many single-person households.



### Sustainability – in action everywhere

The focus has moved from discussing sustainability issues to concrete agreements and measures. One example is the UN's 17 Sustainable Development Goals, which were adopted by the world's heads of state and government in September 2015. Achieving these goals requires sustainable action from society and companies alike. The role of business in fulfilment of these goals is much more prominent than for the previous Millennium Development Goals. In December 2015, at the COP21 summit in Paris, the world's nations also signed up to a new global and legally binding climate change agreement.



### Mobility revolution

Globalisation, internationalisation and growing global trade are increasing the need for efficient personal and goods transport with the least possible impact on traffic and the environment. For national and regional transport, the trend is for large distribution centres and warehouses, where much of the work is already automated. The shorter distances to the end consumer require innovative technical solutions that allow the consumer more influence than before.



### Digitalisation & connectivity

Digitalisation is affecting the whole of society and redefining the landscape for everything and everyone. A digital world with devices that are always connected offers opportunities to optimise and improve the efficiency of operations and processes, through the exchange and analysis of relevant data. Digitalisation also offers scope for increased dialogue between companies and customers. The Internet of Things (IoT) enables information to be generated and distributed on a constant basis, and the challenges and opportunities lie in the smart use of relevant data. Consumers now have as much access to data as companies do, which puts more power in the hands of the consumer.



### Transformation of traditional value chains

The concept of the traditional value chain is changing in the face of digitalisation, globalisation and global trade. These global trends are leading to brand new value chains, with more of a focus on networks than before. More start-ups than ever before are proof of how quickly entrepreneurs can now bring an idea to market. Established companies need to adjust their thinking and constantly focus on innovation in order to retain a lasting and relevant role on the new playing field.



### Beyond demographics

Demographic factors such as age, gender and background are no longer the sole markers of what defines a consumer. Today, consumers demand more individually tailored offers, based on individual needs, values and preferences. The focus therefore needs to be placed on understanding how products and services contribute to a positive experience for each individual.



Read more in Billerud-Korsnäs' publication "Challenging Conventional Packaging – Trends that shape Future Business Perspectives", which can be found at [www.challenge-conventional.com](http://www.challenge-conventional.com)

As the global megatrends continue to shape our world, they are also affecting the way we do business, not just in the packaging industry but in every sector. BillerudKorsnäs' report "Challenging Conventional Packaging – Trends that shape Future Business Perspectives" identifies six Future Business Perspectives, each of which relates to one, or often more, of the megatrends. This is only natural, since there is never just one force driving commercial change and development.

## Future business perspectives and packaging opportunities

**Integrating the needs and wishes of customers and customers' customers into ongoing innovation and development work will be crucial for the packaging industry's ability to exploit the potential opened up by a changing world.**

**#1 Problem-solving for megacities** Since large cities primarily consume rather than contributing to production, urbanisation is increasing the need for innovative solutions that contribute to sustainable development in and around the cities. The challenges surrounding transport, consumption and waste management are only going to grow. Packaging can meet these challenges by being safe, effective and an integral part of the cities' circular systems.

**#2 Enable helpful brands to succeed** There are growing expectations on companies to contribute to sustainable development, not simply through individual activities but by making sustainability the basis for their strategy and business development. Consumers are looking for brands that enable them to be part of the solution. Packaging that protects, reduces waste and cuts environmental impact can transform the view of packaging from a necessary evil to a strategic tool for brands that want to do their bit for a sustainable future.

**#3 Design for no humans** Already, large swathes of logistics and distribution are being replaced by machines and more future activities are likely to be performed without any human intervention. Packaging

tailored to new logistical and distribution networks, such as driverless cars or automated warehouses, is part and parcel of meeting demand from consumers who want rapid deliveries wherever they may be.

**#4 Generate, share and profit from data** Digitalisation is generating growing quantities of data which, if used properly, can prove invaluable. Consumers encounter packaging several times a day and intelligent packaging can be used as a strategic communication and dialogue tool, from production to aftermarket. This creates huge opportunities for stronger supplier and customer relations.

**#5 Capture the real value** Identifying the stakeholder that will benefit most from a specific product or service will be a key success factor. When the focus shifts from cost to value, it is important to identify which values are on offer and for whom they hold the highest value. Changing business models and value chains present opportunities for new solutions and collaborations in the packaging industry, where the packaging delivers value to more than one actor in the value chain.

**#6 Make it user-oriented for real** The focus is shifting from the technical properties of a product to ensuring that users understand and can make full use of products. With new patterns of consumption, such as e-commerce, on a steep rise, packaging is well placed to play a major role in creating loyalty to brands by giving the consumer an exciting experience, even when the product is not purchased in a bricks and mortar store.

# Position with potential

BillerudKorsnäs' production, based on primary fibre from responsible forestry, provides a sound basis for meeting global challenges and challenging conventional packaging for a sustainable future. With sustainability at the heart of our business, we can meet the high expectations of customers and the wider world.

## A strong and sustainable challenger

BillerudKorsnäs is a global leader in several product segments. Primary fibre-based packaging material is the basis of the business, but collaborations on the development of different packaging solutions are growing and supplementing that offer. The global packaging market as a whole, including other materials such as plastic, is growing faster than primary fibre-based products. In terms of demand, we therefore believe there are good conditions to challenge less sustainable packaging, as the world increases its focus on sustainability. Our focus on total solutions in Asia, for example, will also contribute in the long term to the introduction of more sustainable materials there.

## Global demand for sustainable solutions

Global trends are driving up demand for sustainable products and solutions. Renewable raw materials, recyclability, reduced waste and efficient waste management are just some of the aspects where BillerudKorsnäs' position can be part of the solution to some of the world's greatest challenges. Political initiatives to reduce the use of plastics (for example in the EU, American states, Kenya and China) increase BillerudKorsnäs' competitiveness, as they increase the opportunities to replace less sustainable solutions. The global megatrends affect the whole business and, on closer inspection of the business segments, it is clear that a number of factors are driving demand for specific products.

Global trends are affecting all the segments. In addition, there are specific trends and drivers that influence demand, as



### Packaging Paper

#### Kraft paper

EU Directive on reducing the use of disposable plastic carrier bags.

Political initiatives to reduce the use of plastics.

An ageing population is driving demand for kraft paper for medical purposes.

#### Brown sack paper

Major investments in infrastructure and housing, primarily in growth markets outside Europe.

Greater awareness of sack paper's advantages (no dust, renewable production source) compared with the disadvantages of plastic.

#### White sack paper

Self-build and renovation trend in the consumer market, primarily in Europe.

More advanced product mixes for home renovations require good print surfaces for information and images, for example for the statutory warning texts that need to appear on the packaging.

### Consumer Board

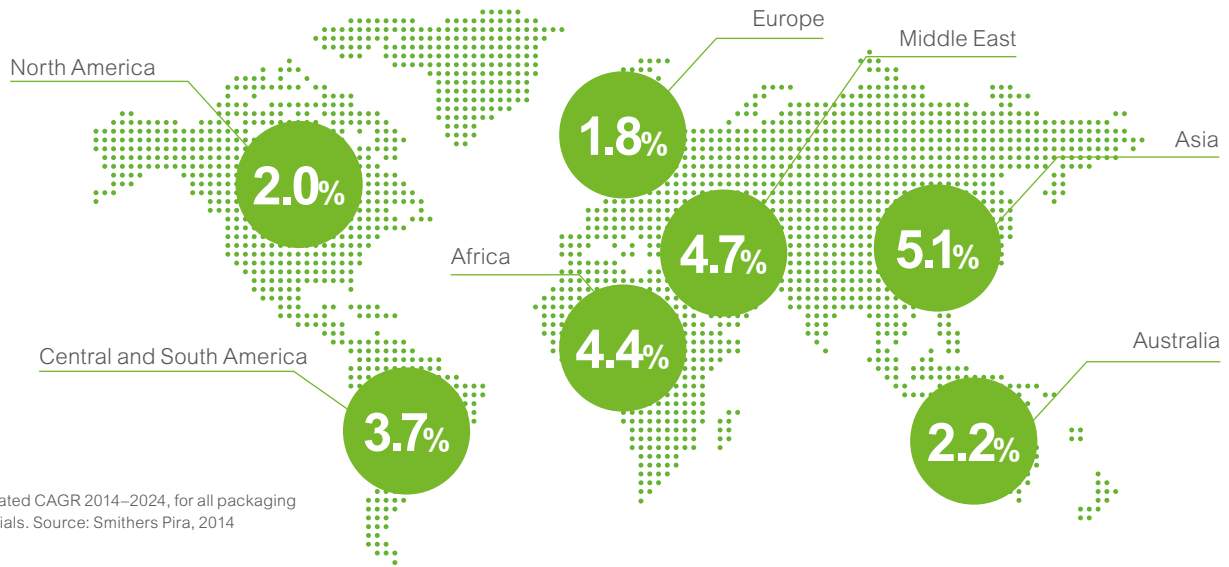
#### Liquid packaging board

Rising demand in developing markets due to demographic changes and the establishment of a food supply chain.

Focus on product safety and the need for extended durability, even at fluctuating temperatures.



We are strengthening our position in the global packaging market – which is growing by 3.4%



described below.



#### Cartonboard

Economic growth is driving demand, particularly in cosmetics, medical products and food in the premium segment.

Greater interest in packaging's appearance and design in the premium segment, with companies keen to differentiate their products and strengthen their brand.

#### Corrugated Solutions

##### Fluting

Increased demand for light-weight packaging that reduces distribution and transport costs by air or in complex and long distribution chains.

Greater demand for packaging that tolerates tough distribution systems and reduces food waste, even in humid climatic conditions.

##### Liner

Growing interest in the appearance, design and feel of the packaging as a way of differentiating the product and strengthening the brand

Greater demand for product safety in the food chain.

##### Managed Packaging

Concentration of manufacturing in Asia.

Demand for simpler logistics, reliable quality and cost-efficiency.

Demand for standardisation and efficiencies.

# Market overview

|                                   | Packaging Paper <sup>1</sup>  | Consumer Board   |   |
|-----------------------------------|---|--|---|
| <b>Growth strategy</b>            | <p><b>Selective growth</b><br/>Sustainable and profitable growth in chosen segments, primarily dry foods and medical applications, plus the construction industry in growth markets.</p> <p><b>Growth target:</b><br/>2–4% per year</p>                   | <p><b>Volume growth</b><br/>Sustainable and profitable volume growth in the key markets.</p> <p><b>Growth target:</b><br/>4–5% per year</p>  |   |
| <b>BillerudKorsnäs products</b>   | <p><b>Kraft paper</b><br/>15% of sales volume</p>   | <p><b>Liquid packaging board</b><br/>34% of sales volume</p>   |   |
| <b>Key applications</b>           | <p><i>Packaging for:</i></p> <ul style="list-style-type: none"> <li>• Flour, sugar, grain, etc.</li> <li>• Carrier bags</li> <li>• Flexible packaging</li> <li>• Formable packaging</li> <li>• Medical packaging</li> <li>• Steel interleaving</li> </ul> | <p><i>Packaging for:</i></p> <ul style="list-style-type: none"> <li>• Milk</li> <li>• Juice</li> <li>• Other drinks and liquid foods</li> <li>• Preserved foods</li> </ul>   |   |
|                                   | <p><b>Global market value of food packaging</b><br/>USD billions<sup>2</sup></p>  | <p><b>Annual estimated growth in demand for cement</b><br/>Annual volume growth 2012–2022<sup>4</sup>, %</p>   | <p><b>Annual estimated growth in demand for liquid packaging board</b><br/>Annual volume growth 2014–2022<sup>6</sup>, %</p>  |
|                                   | <p>The market for food packaging has grown by around 3% per year since 2008. Growth is forecast at around 3.5% per year up until 2024, with the highest rate in the Middle East, Africa and Asia.<sup>2</sup></p>   | <p>Global demand for cement is expected to grow by around 4.6% per year up until 2022<sup>4</sup>. The greatest growth is expected in regions where cement products are supplied primarily in paper and plastic sacks.</p> | <p>Over 60% of the growth in demand is forecast to come from Asia, incl. China. In Western Europe, growth is dependent on innovations, with a focus on new packaging types and applications for liquid packaging board.<sup>6</sup></p> |
| <b>Billerud-Korsnäs' position</b> | <p>Leading producer of strong, high-quality kraft paper from primary fibre in Europe.<sup>3</sup></p>   | <p>Global leader in high-porosity sack paper from primary fibre.<sup>5</sup></p>   | <p>One of the world's leading manufacturers of liquid packaging board.<sup>7</sup></p>  |
| <b>Competition</b>                | <p>The primary competition comes from plastic packaging solutions.</p>  | <p>Mainly sack solutions in plastic and from bulk distribution.</p>  | <p>Other packaging materials, mainly plastic.</p>   |
| <b>Other major manufacturers</b>  | <p>Mondi and many of Europe's speciality paper manufacturers.</p>   | <p>Mondi, Canfor, Segezha, KapStone and Smurfit Kappa.</p>   | <p>Stora Enso, Klabin, Evergreen Packaging, WestRock and International Paper.</p>   |

<sup>1</sup> Packaging Paper includes market pulp, which accounts for around 15% of the sales volume

<sup>2</sup> Smithers Pira, The future of packaging, long-term strategic forecast to 2024, 2014

<sup>3</sup> Based on statistics from Pöyry Management Consulting and EurokraftSack paper

<sup>4</sup> World cement, The Freedonia Group, 2013

<sup>5</sup> BillerudKorsnäs' assessment.

<sup>6</sup> BillerudKorsnäs analysis of data by Zenith International, 2015 and Pöyry, 2015

<sup>7</sup> Statistics from Pöyry Management Consulting

## Corrugated Solutions

### Focus on:

- Attractive marketing opportunities
- Investments for growth
- Innovations in partnership with customers and brand owners

### Cartonboard

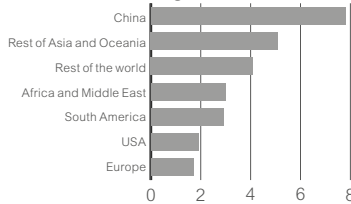
4% of sales volume

#### Packaging for:

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

### Annual estimated growth in demand for cartonboard

Annual volume growth 2015–2020<sup>8</sup>, %



Global demand for cartonboard is predicted to grow by 3.9%, most quickly in China and the rest of Asia. Growth is focused mostly on packaging for cosmetics, pharmaceuticals and packaging for dry and frozen food.

One of the leading manufacturers of primary fibre-based cartonboard for the premium segment in Europe.<sup>7</sup>

Other packaging materials, mainly plastic.

In the premium segment: Iggesund, Metsä Board, Stora Enso, WestRock and International Paper.

### Value growth

Sustainable and profitable growth is to be achieved through value growth, without necessarily investing in the existing production capacity for paper.

### Growth target:

2–4% per year

### Focus on:

- Strong product portfolio
- Integrating new business model
- Expanded collaboration with brand owners in attractive markets

### Fluting

13% of sales volume

#### Packaging for:

- Fruit and vegetables
- Components for the automotive industry, white goods and electronics
- Transport

### Liner

7% of sales volume

#### Primary packaging for:

- Exclusive drinks
- Beauty and healthcare products
- Confectionery
- Home electronics

#### Secondary packaging for:

- Consumer goods

#### Shelf-ready packaging for:

- Consumer goods

### Managed Packaging

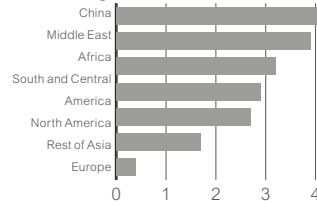
Packaging solutions and services for brand owners with international packaging programmes and logistics.

Managed Packaging offers the following benefits:

- Operational savings
- Management simplicity
- Revenue generation
- Sustainability performance

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

Annual volume growth 2013–2025<sup>9</sup>, %



Global demand for corrugated materials is forecast to grow by 2.9% per year up until 2025. The greatest growth is expected in China, the Middle East and Asia, due to the concentration of manufacturing in these regions.<sup>9</sup>

Quality<sup>5</sup> and market-leading producer<sup>10</sup> in Europe in the top segment with a strong position in fruit and vegetables.

Recycled fibre-based fluting and other materials in plastic and wood.

In primary fibre-based fluting: Stora Enso, Mondi and Powerflute.

One of the market leaders in Europe for pure white primary fibre-based liner<sup>5</sup> and one of the leaders in coated primary fibre-based liner globally.

Coated and uncoated white top testliner (based on recycled fibre).

Metsä Board, Mondi and Smurfit Kappa.

Unique packaging concept based on a network of production partners for flexibility and market coverage, combined with in-depth material know-how for maximum packaging optimisation and efficiencies.

Independent wholesalers of packaging and major packaging manufacturers with converting in Asia.

<sup>8</sup> BillerudKorsnäs analysis of data from Vision Hunters, 2015

<sup>9</sup> Pöyry, 2014

<sup>10</sup> Pöyry, 2017

# Stakeholders help us to challenge the market

Awareness of sustainability issues among end consumers, customers and other stakeholders increases the Group's opportunities to position itself as the more sustainable alternative to conventional packaging. An open dialogue and collaboration with stakeholders provide valuable input in developing future materials and solutions.

BillerudKorsnäs' key stakeholders are investors, customers, suppliers, employees, 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, as well as wider society.

## Stakeholder analyses drive up sales

BillerudKorsnäs' ability to analyse the drivers behind the purchasing decisions of end consumers, brand owners and converters generates potential for increased sales. There are

collaborations across various customer segments on innovative solutions that challenge conventional packaging, and with other stakeholders such as research organisations. BillerudKorsnäs sees the dialogue with stakeholders as a key element in developing brand new solutions, but also as a way of raising awareness about how existing primary fibre-based materials and solutions contribute to a more sustainable future.

## Ongoing stakeholder dialogue

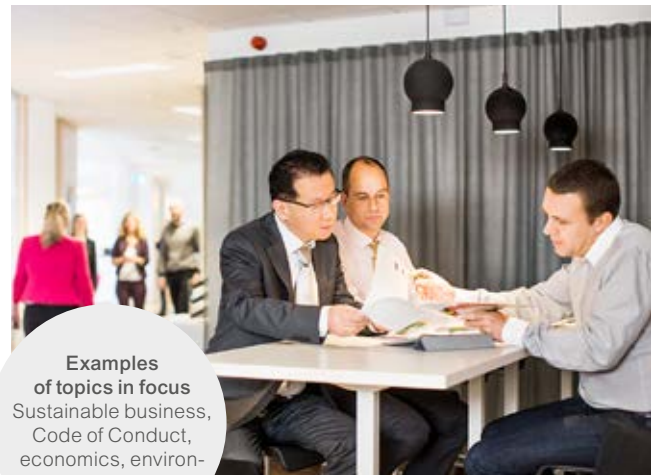
For a more complete summary of the Group's ongoing dialogue with all the key stakeholders, see pages 59-60.



**Examples of topics in focus**  
Sustainable economic value development, strategies, risk management, climate change, Code of Conduct.

## Investors

The confidence of the capital market is important for the Group. Shareholders, analysts and potential investors are constantly informed about BillerudKorsnäs' business and financial performance.



**Examples of topics in focus**  
Sustainable business, Code of Conduct, economics, environmental issues

## Customers

BillerudKorsnäs' approximately 2 000 customers are packaging manufacturers, brand owners and large retail and supermarket chains in over 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.

**Examples of topics in focus**  
Code of Conduct, skills development, health & safety, diversity, contracts and terms of employment, sustainable products.



## Employees

BillerudKorsnäs' 4 300 employees are the people driving the Group's essential change management work. A transparent dialogue is important in engaging and motivating existing employees, but also in attracting future employees, in order to meet upcoming generational succession and recruitment needs. Collective agreements and cooperation form the basis of dialogue between the company and unions.



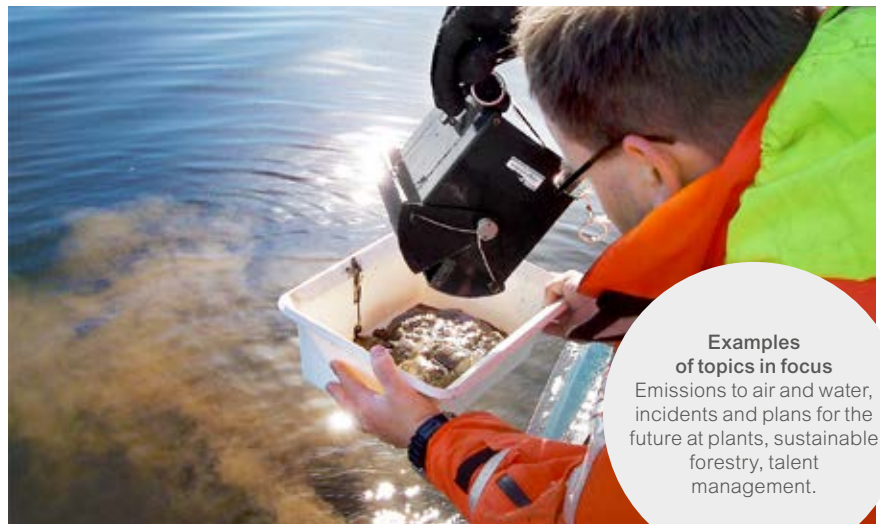
**Examples of topics in focus**  
Development of sustainable packaging, business models, Code of Conduct, reduced environmental impact, sustainable economic value development.

## Business partners

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

## Society

BillerudKorsnäs is a global company with local roots. BillerudKorsnäs' business concerns and affects many people, sometimes entire local communities. The focus is on contributing to local business, social initiatives and the development of renewable, bio-based materials for a sustainable society. Local residents and associations, universities, public agencies and industry bodies are examples of key stakeholders.



**Examples of topics in focus**  
Emissions to air and water, incidents and plans for the future at plants, sustainable forestry, talent management.

# Strategy for a sustainable future

BillerudKorsnäs' mission – to challenge conventional packaging for a sustainable future – describes the purpose of our business. Profitable growth is a crucial factor in challenging less sustainable packaging solutions over time. To achieve profitable growth, we are intensifying our work within four strategic areas. BillerudKorsnäs' 4 300 employees are the people driving the change that is needed to realise the strategy and achieve our ultimate purpose – a sustainable future.



**Why is BillerudKorsnäs here?**  
Our mission – to challenge conventional packaging for a sustainable future – describes the purpose of our business. It guides the way we think, what we do and how we communicate. For us, sustainability is the business opportunity of the future.



**How will the mission be achieved?**  
Long-term, profitable growth in materials and solutions is crucial for the Group's ability to continue investing in the future – investments that challenge and enable growth in our primary fibre-based materials and packaging solutions.



**What drives profitable growth?**  
Our strategy, split into four categories, is a driver of profitability and growth.

- Position – Expand geographically and in the value chain
- Innovation – Improve the company's leading position
- Sustainability – Drive sustainability throughout the value chain
- Efficiency – Continuously improve



**Who will drive change?**  
The employees will drive the work on managing change. Engaging the workforce and getting everyone on board requires a clear set of values, communicative leadership and an attractive and safe workplace with good diversity. Innovation and openness to other people's ideas are crucial for the success of the development and change management work.

## Growth within both materials and solutions lays the foundation for future investments.

### Solutions

#### Selection of growth areas

- System sales: For example, Axello ZAP, a unique packaging solution for dry foods (see page 26), and FreeForm-Pack®, based on FibreForm®, an extremely elastic paper that paves the way for new food packaging solutions.
- Efficient, customised service solutions for the world's leading converters and brand owners.
- BillerudKorsnäs Managed Packaging, whose business model is based on total packaging solutions (see page 23).

#### Potential growth areas

- BillerudKorsnäs is striving to find revolutionary new packaging solutions to introduce to the market, not least through the wholly owned subsidiary BillerudKorsnäs Venture AB (Venture), which is currently focusing on fibre-based bottles, digitalised packaging solutions and packaging in cold chains.



### Materials

#### Investments:

- Moving the paper machine from Tervasaari will make Skärblacka a global leader in the manufacture of white machine glazed kraft paper (MG paper).
- Investment in a new board machine in Gruvön. The machine will produce liquid packaging board, cartonboard, food service board and liner, with a capacity of 550 000 tonnes per year. Production is scheduled to begin in 2019.

### The right packaging for the right product

Global trends are changing the rules of engagement for BillerudKorsnäs. The role of packaging as a strategic competitive advantage has the potential to grow as efficiency, quality and sustainability profile become a focus for many end consumers. Packaging can help to drive up sales for brand owners who actively take part in optimising the packaging based on consumer needs and preferences.

### Profitable dual growth

BillerudKorsnäs' extensive experience and strong expertise in the packaging field provides opportunities to aid brand owners in their drive to optimise packaging for each individual product. Complementing our offer with packaging solutions is therefore a natural progression. It is also often the case that new markets require total solutions in order to be able to introduce new materials.

The development and production of high-quality primary fibre-based packaging material remains the fundamental basis of our business. Since 2012, the company has, over and above

ongoing investments, invested SEK 2.9 billion in the production structure, with the aim of increasing efficiency, quality, sustainability performance, profitability and growth. In the coming years, the pace of investment is set to rise with the implementation of two major projects that were decided on in 2016. Through profitable dual growth – in materials and in packaging solutions – we can create new revenues and expand our customer base. Much of our overall growth is expected to come from packaging solutions over the next few years.

### Management by objectives

To clarify the link between BillerudKorsnäs' profitable dual growth and dividends for shareholders, the company's financial targets for 2016 have been amended. A review of the Group's sustainability targets was also launched in 2016 in order to establish even clearer links to the relevant focus areas. Overall, the targets will ensure that the company progresses in line with its mission.

For more information about BillerudKorsnäs' targets, see pages 6-7.

# Innovation that challenges conventional packaging

BillerudKorsnäs' primary fibre-based materials and packaging solutions have the potential to meet end consumers' demand for sustainable products.

Innovation is rooted in ongoing research and development work. In close partnership with various customers and partners, the Group is simultaneously developing solutions and packaging for a more sustainable world.

## Continuous development of high-performance materials and products

BillerudKorsnäs' packaging materials are used every day, all over the world. The Group is a leading global supplier of primary fibre-based packaging materials that have good environmental credentials, unique properties and the requisite strength. The long list of applications includes packaging for foods, construction materials and exclusive goods such as jewellery, perfumes and wine.

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. To ensure continuous development, BillerudKorsnäs measures the proportion of new products in the overall sales for each segment. Read more on page 43.

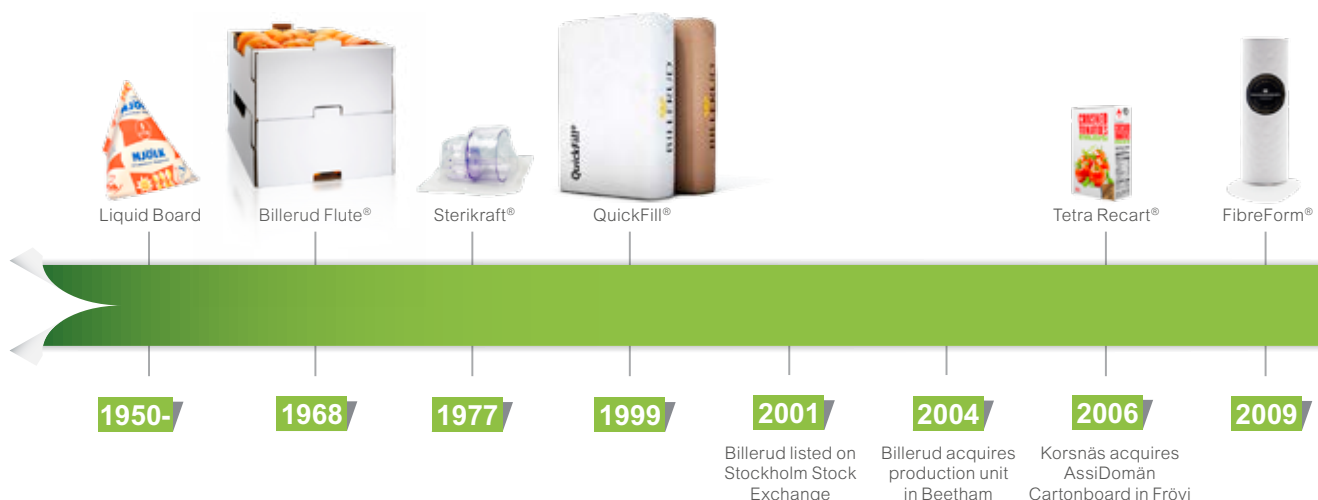
## Strategic technology development

Green material technologies are a focus area for the Group's innovation work, which aims to make the materials lighter, stronger and stiffer, as well as improving barrier performance and printability.

Over the year, BillerudKorsnäs set up two technology centres to increase the emphasis on developing technologies that are judged to be strategically important for the Group's growth opportunities. The current focus is on creating new functionalities in the surface of the packaging and in the fibre-based packaging material.

## Challenger projects

Challenging conventional packaging requires the constant development of our materials and of new applications for paper. In its drive to boost innovation work and find revolutionary solutions that challenge plastic, glass and aluminium,





the Group continues to invest in challenger projects in a handful of areas – a paper bottle for drinks that have never before been packaged in paper, interactive packaging and packaging in cold chains. These projects are run within the subsidiary BillerudKorsnäs Venture AB (Venture). Venture accelerates the transformation of packaging solutions by investing in innovative start-up companies. Taking a long-term perspective, BillerudKorsnäs works closely and actively with the companies to ensure that they develop and grow. Once the companies are more mature, they can be incorporated into the Group or further developed as independent enterprises.

In addition to the projects run within Venture, there is a consolidation of our innovation work on barriers for dry and wet foods, and on the use of the exciting additive microfibrillated cellulose, for example to create lighter and stronger board.

### Packaging as a competitive advantage

Innovation is about more than material and product innovation for BillerudKorsnäs. Technological breakthroughs are a significant factor, but business innovation is also growing in importance, with new business models creating opportunities for the packaging industry. A deeper understanding of the end user's needs and wishes makes it necessary to take a holistic approach to packaging. This holistic approach includes looking at the role of the packaging for the end user, for the business and for society and the planet. When packaging takes on the role of a valuable information carrier or a driver of increased efficiency, quality and sustainability, it becomes a strategic competitive advantage. Find out more about how BillerudKorsnäs is increasing its focus on services and offers further up the value chain on pages 40–44.

### Collaboration the key to success

BillerudKorsnäs is managing change through collaborations both internally and externally.

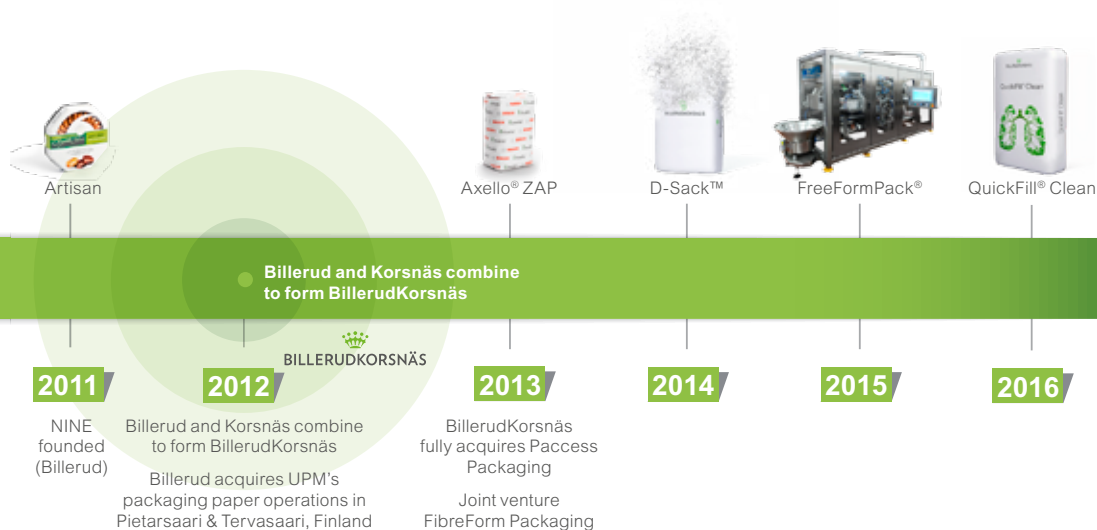


### Cooperation on innovation for a sustainable future

One of the challenges taken on by BillerudKorsnäs is the ability to manufacture a beverage bottle made entirely of paper. The acquisition during the year of a minority interest in the Danish company EcoXpac, which has specialised in advanced 3D forming of fibre-based structures, has created the basis for cooperation on innovation with potential to respond to this challenge.

Curiosity and openness to other people's ideas are crucial in finding synergies and creating joint development projects with converters, brand owners and other actors.

Broad collaborative projects are invaluable in laying the foundation for more radical research results. A prime example is BillerudKorsnäs' involvement in a national research platform aimed at increasing the pace of development in the Swedish forest industry. The platform is a joint initiative between industry, universities and the Swedish state. The aim is to generate groundbreaking research results that can translate into high-tech solutions for the forest industry and help to meet the climate challenge. The building blocks of the Swedish forest have potential, not least to incorporate primary fibre into a new generation of packaging solutions.



# Sustainability is the business opportunity of the future

Sustainability has long been an integral part of BillerudKorsnäs' core business. Acting responsibly is essential. The great opportunity moving forward is to help converters, brand owners and retailers to meet the growing sustainability standards that their customers demand and to contribute to the transition to a more sustainable and bio-based society.

## Strategically strong starting point

The way that BillerudKorsnäs integrates sustainability into its core business is reflected in widespread external recognition of the Group's sustainability work. In autumn 2016, for example, the Group was included on the Dow Jones Sustainability Europe Index, one of the world's most prestigious sustainability indexes. It is positive to have external confirmation that the Group's sustainability work is on the right path.

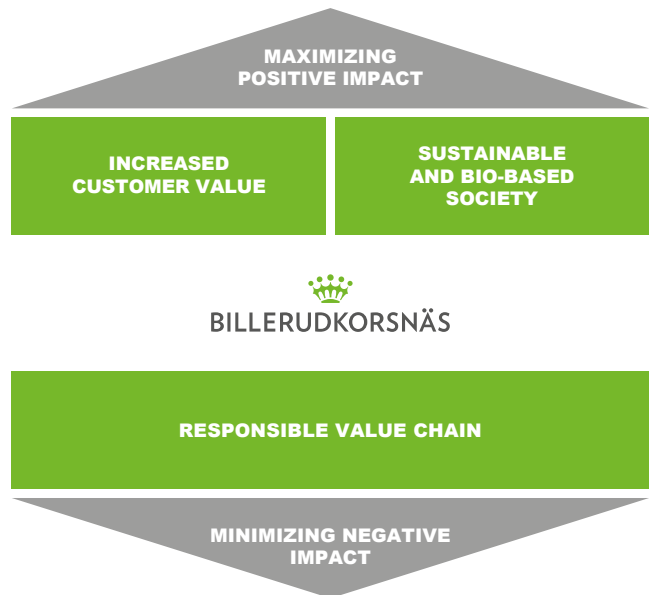
## Three focus areas for BillerudKorsnäs' sustainability work

Achieving our vision requires continuous improvements in every part of the value chain; to maximise the company's positive impact and minimise its negative impact.

The Group's work on sustainability focuses on three areas: creating customer value, contributing towards a sustainable and bio-based society, and taking responsibility throughout the value chain. Associated with the focus areas are a number of concrete commitments on the way we steer, manage and monitor the most important elements of our sustainability work. Read more on pages 34–49.

## Brand owners want to show they are sustainable

Consumers are becoming increasingly aware of sustainability issues. For brand owners that want to attract aware consumers, it is therefore important to show that the product and the packaging are made in a sustainable way. For BillerudKorsnäs, with its primary fibre-based production, this offers a competitive advantage compared with those companies that base their materials and solutions on fossil plastics, aluminium and glass. When BillerudKorsnäs' materials and packaging solutions replace less sustainable alternatives on the market, their



sale helps to maximise the positive impact of the company's products and services. Similarly, they also contribute to the brand owners' own sustainability targets.

Converters place high demands on BillerudKorsnäs and other material suppliers. Price, terms of delivery and payment, and delivery reliability are crucial. An increasingly key issue is reducing any impact on the climate not only for the converters, but also for their customers, the brand owners. Our knowledge of renewable packaging materials and solutions can help them to perform better on the environmental front.

# Growth markets and a focus on solutions strengthen position

BillerudKorsnäs has a growth target of 3–4% per year. In-depth knowledge of different market conditions and what different actors in the value chain truly value are essential for our growth. We see opportunities to further strengthen our position by expanding the market geographically and forwards along the value chain.

## A strong starting position

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, BillerudKorsnäs 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. BillerudKorsnäs also has broad and deep knowledge of how packaging should be designed and constructed to fulfil its purpose.

## Geographic expansion

Europe is BillerudKorsnäs' largest market, with around 72% of sales. The European market is stable, but with relatively low overall growth. However, an increase of just a few percent in such a large market represents high volumes.

In order to expand geographically, the Group is continuing to establish its offering in growth markets outside Europe, where global trends are driving up demand for sustainable products and solutions. With a growth forecast of 4.4%, the Asian market is expected to see the greatest increases. BillerudKorsnäs' products are sold globally via its sales offices in 16 countries.

## Expansion in the value chain

Converters currently account for a large proportion of BillerudKorsnäs' sales. However, the company's experience and expertise in the field of packaging also offers BillerudKorsnäs an opportunity to make a greater contribution to brand owners' competitiveness. This may be anything from providing input on material choices and designs to producing solutions that attract more consumers, increase productiv-



ity, reduce transport costs and cut waste and environmental impact. Expansion in the value chain provides BillerudKorsnäs with the potential for new revenues and more customers. The proportion of overall growth that comes from packaging solutions is expected to increase in coming years.

## Total solutions in new markets

New markets often require total solutions in order to be able to introduce new materials.

Managed Packaging, whose whole business model is based on total packaging solutions, is part of the Corrugated Solutions business area. The business focuses primarily on Asia, where the company offers global brand owners and retail chains with manufacturing in Asia various types of packaging solutions and services. The business model creates opportunities to grow the concept of global solutions to include customers in many different countries. The focus is on segments where BillerudKorsnäs' materials have the long-term potential to create unique benefits.

# Continuous improvements across the business

Working on continuous improvements throughout the business helps to ensure effective production and ongoing optimisation of processes.

High efficiency is crucial for profitable growth and thus also for BillerudKorsnäs' opportunities to continue investing for the future.

## Efficient production

The company's profitability depends on the efficient utilisation of capacity at BillerudKorsnäs' eight production units. Start-up problems and disruptions to production directly hit the bottom line. Ongoing maintenance and efficient production are therefore of the utmost importance.

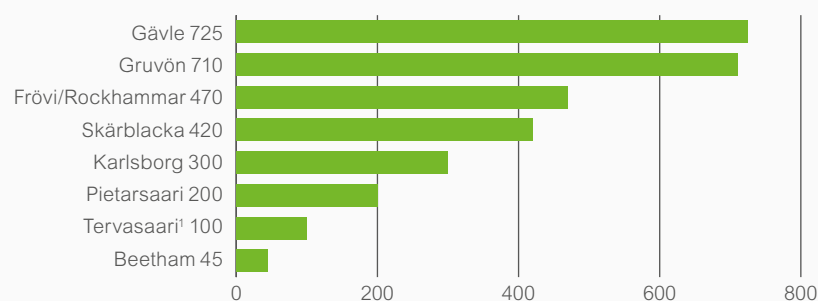
## Operational Excellence creates lasting change

BillerudKorsnäs has a long-standing focus on improving efficiency and optimising various processes. The work on Operational Excellence continued in 2016, providing support for the change management initiatives across the whole organisation. Systematic work, based on the company's core values, principles, processes and tools, forms a sound platform for creating lasting change.

Production-related improvements such as optimising the use of materials and reducing waste are key factors for profitability within production. They are also key to ensuring resource efficiency and reducing unnecessary impacts on the climate and the environment. 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 32-33.

Efficiency in sales and services is another factor that in many cases is business-critical. In the premium segment for carton-board, 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 higher margins and greater volumes, and for tightening up on precision deliveries.

Production units and production capacity 2016, ktonnes



<sup>1</sup> The production unit closed in 2016

## Investments for the future

In the second quarter of 2016, BillerudKorsnäs took the decision to develop and invest in production at Skärblacka. The investment will allow further growth in attractive market segments, while at the same time streamlining the production structure within the company. The investment will turn the unit in Skärblacka into a global leader in the manufacture of white machine glazed kraft paper (MG paper), and create a competitive platform for growth. The project includes moving the paper machine from Tervasaari to Skärblacka, which will see the closure of Tervasaari.

At the end of the year, the decision was also taken to invest in a new board machine in Gruvön – a move that represents the largest investment for the future in the company's history. The investment decision has been made in view of growing demand for sustainable packaging solutions for food and beverages globally. The machine will produce liquid packaging board, carton-board, food service board and liner, with a capacity of 550 000 tonnes per year. Production is scheduled to begin in 2019.

# Committed employees drive change

The employees are the drivers of the vital change management work that is so crucial to the Group's competitiveness in both the short and long term. Commitment, competence and a capacity for teamwork are essential in incorporating the Group's strategy into everyday operations.

Engaging the workforce and getting everyone on board for the Group's journey of change requires a clear set of values, communicative leadership and an attractive workplace. Furthermore, the overarching strategy is broken down into business and operational plans, which makes it possible for everyone to put the strategy into practice in their daily work and see how meeting the targets gradually leads towards fulfilment of the mission.

## Talent management for the future

BillerudKorsnäs works strategically on talent management, which is essential in order to meet imminent generational succession needs in large parts of the Group. A key step in this work is to plan for continuity, while also observing opportunities for change and renewal. As part of the international expansion, recruitment within the business areas will be based on the skills required locally.

A task that has become increasingly important is employer branding, an activity aimed at attracting the employees of tomorrow. The best ambassadors when it comes to marketing BillerudKorsnäs as an employer are the existing employees. An authentic picture is formed from the way they behave, act and talk about the Group.

## Personality key

The formal skills required in the various parts of the company vary, since the business is broad and includes jobs in everything from production to sales. One common emphasis in recruitment is, however, personality. The success of BillerudKorsnäs relies on employees who are keen to join in with developments and improvements. The Group's core values – Think new, Feel responsibility, Cooperate and Create value – form the foundation for achieving change. This means, in practice, that all employee should dare to challenge themselves and think along new lines. Always working to achieve continuous improvements and to develop the business is essential and requires commitment from everyone. The managers within the Group have a vital role to play, as they focus on communicative leadership to create clarity and motivation regarding the company's targets.

## Employee commitment rising

The latest Group-wide employee survey, a biennial event, was conducted in 2016. The survey shows that employee commitment has risen since the 2014 survey. Among several areas that have seen a rise, three factors relating to commitment stand out: motivation 82% (75%), pride 88% (86%) and clear targets 86% (82%). Two areas for improvement were identified: clear feedback from managers to employees, and more constructively designed performance reviews. We are now drawing up action plans based on the results, in order to achieve further improvements.

## A responsible employer

As part of the Group's work to provide involving workplaces, where priority is accorded to safety, diversity and human rights, BillerudKorsnäs have targets aimed at ensuring that progress is made in this area. Read more on pages 37–39.

## AN ATTRACTIVE EMPLOYER – THIS YEAR'S ACCOLADES

### Industry no. 1 in the Engineer Barometer

For the third consecutive year, BillerudKorsnäs was named the most attractive employer in the Forest and Wood category.

### Shooting Star in Universum's survey

BillerudKorsnäs climbed a huge 98 places and was thus declared a Shooting Star in Universum's survey, the Career Barometer. The company was also named one of Sweden's 100 most attractive employers by engineering students in the Company Barometer.

### Career Company 2016

Career Companies annually announces Sweden's most exciting companies with which to forge a career, and BillerudKorsnäs can proudly call itself a Career Company for the fourth year in a row. From a survey of over 1 000 companies, a list of the best 100 is drawn up each year.

# We challenge conventional packaging for a sustainable future



## Axello ZAP – packaging concept of the year

**A renewable, recyclable, dust-tight and insect-proof paper packaging for dry food is BillerudKorsnäs' new packaging concept for 2016. The packaging was developed in partnership with Bosch and is estimated to produce 65% less<sup>1</sup> carbon dioxide emissions than equivalent plastic packaging.**

The seal, which is also entirely plastic-free, keeps the food in and contaminants and insects out during distribution and on the store shelf. The packaging is suitable for foods such as pasta, oats, flour, rice and sugar. Clean shelves, less environmental impact and a better customer experience are the benefits that

BillerudKorsnäs and its partner Bosch Packaging Technology are promoting. The packaging is made from a specially developed, strong and durable paper, Axello ZAP, which is the only paper that is adapted to run in Vertical Form, Fill and Seal (VFFS) with the Bosch PME ZAP module.

The packaging is yet another step in BillerudKorsnäs' drive to challenge conventional packaging and provide opportunities to replace plastics with a more sustainable alternative. It is also part of the company's commitment to the UN's Sustainable Development Goals.

<sup>1</sup> Read more about the life cycle analysis: <http://billerudkorsnas.com/Sustainability/>



## Renewable packaging solutions awarded gold and bronze

**BillerudKorsnäs' subsidiary, innovation and design agency NINE, won both gold and bronze at this year's Pentawards, a global competition in packaging design. The award is a clear indication that BillerudKorsnäs' strategic work to achieve its mission is generating good results.**

NINE offers services in packaging innovation and design to brand owners. At the Pentawards, NINE won gold for a trav-

el-size packaging concept for organic beauty products. The packaging is based on BillerudKorsnäs' elastic paper Fibre-Form®. The concept introduces a renewable material as an alternative in a product area that is otherwise dominated by fossil materials.

BillerudKorsnäs' new concept for a paper bottle for carbonated drinks secured the bronze medal. This is an ongoing innovation project with the potential to challenge the entire global market, which is currently dominated by plastic bottles, glass bottles and aluminium cans.

## Challenge accepted – from PET to corrugated board

**With a complete packaging portfolio in corrugated board, the American barbecue equipment company has now been able to reduce its use of fossil materials, while also strengthening its brand, resulting in increased sales.**

The goal for the American barbecue equipment company was to improve its brand position and at the same time cut its carbon emissions. A strong contributor to its carbon footprint was the manufacture and use of PET packaging. BillerudKorsnäs took on the challenge and designed an entirely new packaging portfolio for the customer, replacing the PET packaging with printable corrugated board packaging with low carbon emissions. The packaging was designed and optimised for each product, helping the entire series to stand out on the store shelf.

Thanks to the new corrugated board solution, the customer base has grown to include more retailers, and the brand's value has also risen as a consequence of the optimised packaging design. Last but not least is the company's environmental gain, with around 47 tonnes of fossil PET plastic being replaced with renewable material each year.





## BillerudKorsnäs launches cartonboard in the USA

**Geographic expansion is an integral part of BillerudKorsnäs' growth strategy. The launch of BillerudKorsnäs White at PACK EXPO International in Chicago in November marked the new distribution of a high-quality cartonboard on the American continent.**

PACK EXPO International is a place where brand owners can learn more about innovative and smart packaging solutions. BillerudKorsnäs was on hand to challenge conventional packaging and raise awareness about how packaging materials and

solutions can bring commercial benefits and promote sustainable development. BillerudKorsnäs White is based entirely on primary fibre from responsible forestry, which gives the cartonboard a unique formability and strength. The surface has been developed to allow sophisticated printing, something that is in high demand among premium sector brands in areas such as health and beauty, beverages, chocolates and confectionery.

The launch in the USA gives BillerudKorsnäs an opportunity to support brand owners in their work on achieving optimum commercial impact whilst reducing their negative environmental impact.

## Beetham cuts water consumption by 35%

**BillerudKorsnäs' production unit in Beetham appointed a special team to work on reducing water consumption. Through a host of different process changes, Beetham managed to cut its water consumption by around 35%.**

The Beetham unit produces paper for medical packaging, food packaging and different types of industrial applications. Specific applications include grease-resistant paper for the fast-food industry and paper that can be sterilised for medical applications. Over the year, a range of initiatives were carried out with a view to cutting water consumption. These included:

- Installing a third purification process on PM2, which reduces water and fibre losses in the in-flow and keeps valuable heat within the process.
- Replacing fresh water with white water on both paper machines.
- Using water condensate cooling.



The measures resulted in water use falling in 2016 from 3.4 million litres per day to 2.2 million litres per day – bringing water use down by around 35%. This means that Beetham now extracts and discharges less water from and into the River Bela, bringing substantial energy savings and reducing the impact on the environment.





## Paper bags are the low-carbon choice<sup>1</sup>

**Plastic bags dominate in retail, but there is an alternative that is much better for the climate. A study shows that paper bags made from BillerudKorsnäs' material has the lowest carbon footprint.**

An EU Directive from 2015 seeks to cut the use of plastic carrier bags to 40 per person per year by 2025. A life cycle assessment carried out by IVL Swedish Environmental Research Institute in 2016 on behalf of BillerudKorsnäs compared a primary fibre-based paper carrier bag with carrier bags based on recycled paper, recycled plastic and bioplastic. The outcome of the analy-

sis was that a recycled plastic bag has twice the carbon footprint of a paper carrier bag using material from BillerudKorsnäs.

The study clearly shows the advantages of bio-based material and energy-efficient production. The proportion of renewable energy used in production is a strong contributory factor in making BillerudKorsnäs' material the best low-carbon choice.

BillerudKorsnäs aims to be a leader in the transition to a sustainable society. Supported by the results from the life cycle assessment, retail chains can now review their choice of carrier bags and thus help to reduce their impact on the climate.

<sup>1</sup> The complete analysis can be seen at <http://billerudkorsnas.com/Sustainability/>

# BillerudKorsnäs' view of sustainability



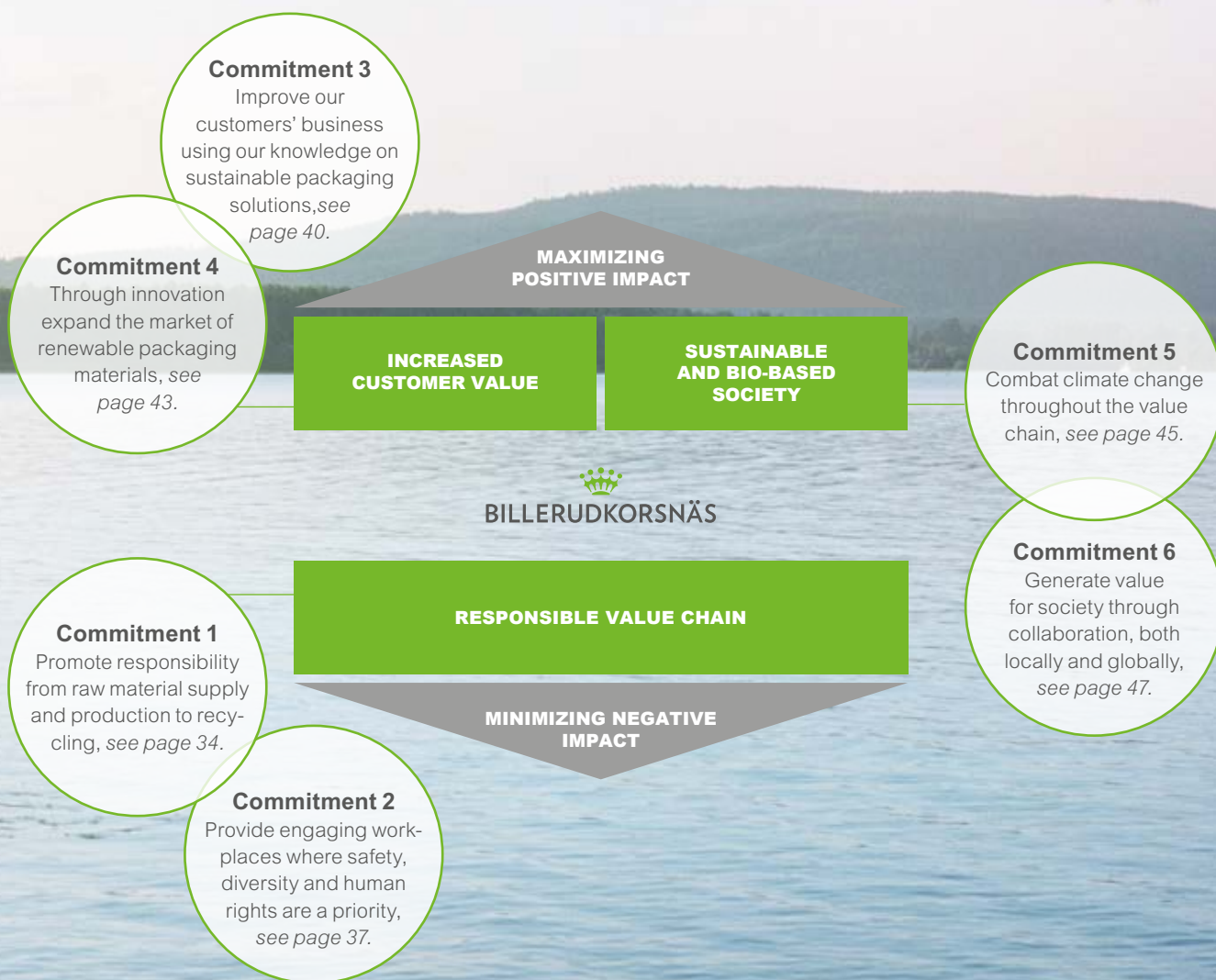
BillerudKorsnäs uses two questions to define sustainability: how can the negative impact of operations be minimised and how can the positive contribution towards a sustainable future be maximised? The answers are summed up in three focus areas with six concrete commitments for active work on sustainability supported by a transparent approach and a clear management structure.

Sustainable operations are a central element of the mission – to challenge conventional packaging for a sustainable future. To pinpoint the most essential sustainability aspects for BillerudKorsnäs' operations, the aspects that are of the greatest strategic importance to the company and those that have the most relevance for stakeholder decision-making are weighed together. The three focus areas gather together the most important sustainability aspects that BillerudKorsnäs has to manage, follow up and communicate. This firstly involves minimising

negative impact by taking responsibility throughout the value chain. Secondly, it is essential to maximise the positive impact of operations by creating greater customer value and contributing to the transition to a sustainable and bio-based society.

#### **Approach that encourages transparency**

The six commitments include measurable targets in the short and the long term, and are important tools in ongoing development of work on sustainability. This is an approach that



seeks to give 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.

### Management for integrated work on sustainability

BillerudKorsnäs' Board of Directors bears ultimate responsibility for the company's work on sustainability. The CEO and management team in turn bear overarching responsibility for ensuring that sustainability is integrated in the company's operations. The senior management team's increased focus on sustainability issues means there is a lesser need for support from the Sustainability Council, which has therefore been abolished. In 2016 BillerudKorsnäs' management team discussed and reached decisions on the company's strategic work on sustainability on four occasions. The purpose is to ensure

that the company's sustainability aspects are integrated elements in the strategy process.

Responsibility for Group-wide sustainability processes rests with the Senior Vice President, Communication & Sustainability and the Sustainability & Public Affairs department. This involves implementing shared targets, initiating activities and following up work and targets.

As part of the company's strategy process, during the year the management team, in consultation with Sustainability & Public Affairs, identified the areas on which the focus is to lie in the years ahead in order to maximise the positive impact of operations and minimise the negative impact. The focus areas include how to attain fossil-free production and how to ensure that the sustainability aspects are integrated in the decision-making processes, e.g. for purchasing and investment, as well as Performance Management, a programme for individual employees to follow up targets and skills development.

## BILLERUDKORSNÄS' VALUE CHAIN

# Drive sustainability throughout the value chain

BillerudKorsnäs' value chain starts with using raw materials, mainly wood raw material. Via transport and production of packaging material, the material is passed on to customers to manufacture packaging. After final use and recycling, the material returns as recovered fibre.



### Raw materials

#### Forestry

BillerudKorsnäs has a stake in and delivery agreements with the forest ownership company Bergvik Skog AB, has a wholly-owned timber purchasing subsidiary in the Baltic countries, carries out services for forest owners and buys in pulpwood and chips for production. Impact is primarily seen from the use of forest land and how conservation value is taken into consideration. In addition, greenhouse gases are emitted in conjunction with harvesting and forestry. However, forests help to counteract climate change by binding carbon dioxide. The social values of forests for employees in companies and for local communities must also be taken into account.

#### Purchased wood raw material

Production is based on primary fibre mainly sourced from the Nordic and Baltic countries. All wood raw material is purchased from forest owners, sawmills and other forest companies. All forests are managed responsibly and are certified in accordance with FSC® or PEFC™ Forest Management standards, or have a controlled origin in accordance with FSC® Controlled Wood and the Controlled Sources clauses in PEFC™ Chain of Custody.

#### Purchased pulp

Pulp and paper manufacture is integrated at the Swedish units and only small amounts of external pulp are bought in. In Finland and the UK, production is based solely on external pulp, which gives rise to emissions to air and water and the consumption of various inputs in the preceding stage.

#### Purchased chemicals

Producing paper, board and pulp demands chemicals derived from natural resources. Production of these chemicals often cause significant emissions of greenhouse gases.

#### Purchased energy

Self-generated biofuels are used in the vast majority of cases, accounting for the majority of overall energy use. This is supplemented by purchased biofuels, electricity, steam and a small proportion of fossil fuel.

#### Transport

In close cooperation with suppliers and transport companies, work is run to transport raw materials as cost-effectively and with as little environmental impact as possible. Significant amounts of greenhouse gases and other substances are still being emitted in transport. The road ahead will involve ongoing efficiency improvements with heavier loads, transport optimisation with shorter average distances and less fossil fuel used in road transport.



### Production of paper, board & pulp

#### Research and development

Significant resources are earmarked for product development and innovation each year. With the support of our own laboratories and in close collaboration with research organisations, customers, brand owners and partners, innovative packaging solutions are developed that cut the use of resources, enable improved logistics efficiency and facilitate recycling.

#### Manufacture

Direct impact along the value chain is greatest of all in the production of paper, board and pulp. All production units in Sweden, Finland and the UK are quality and environmentally certified. Extensive investments are made on an ongoing basis to minimise the negative impact of operations, including increasing resource efficiency and cutting emissions to air and water.



The value chain of which BillerudKorsnäs is part starts with extraction of natural resources, primarily wood raw material. Via transport and our own production of packaging material, the material is passed on to customers to produce packaging. After final use and recycling, the material is returned to the value chain as recovered fibre. The company works with many actors in this chain to create added value. The impact covers the entire field of sustainability and takes place in many locations across the globe. The actors in the value chain are taking clear steps towards a circular economy.



### Product distribution

BillerudKorsnäs works in partnership with transport companies to ensure that the products are transported as cost-effectively and with as little environmental impact as possible, e.g. by increasing the proportion of transport by rail and sea. Long distances and the fuels available today mean that distribution causes relatively high fossil emissions to air.



### Customers

BillerudKorsnäs' customers are in the international packaging market. A local presence via sales offices is key to strengthening the company's offer and improving service. Customers evaluate BillerudKorsnäs' products and services on an ongoing basis, and demand sustainability performance to strengthen their own value chains and the end product.



### Consumers

Consumers encounter BillerudKorsnäs' paper and board at work, at home, at the pizzeria, etc. The aim is for consumers to choose paper-based packaging solutions for their ability to preserve the contents well, reduce waste and cut environmental impact.



### Recycling

The company's producer responsibility means that we are part of recycling efforts and ensure that our products are recyclable. A marginal amount of recycled fibre is used in our own production. On the other hand, material made from primary fibre is an important input for manufacturers of paper using recycled fibre. The proportion of paper products collected for recycling amounts to approximately 72% in Europe<sup>1</sup>. There is potential for more, but the challenges of contamination and collection costs must be tackled for a circular economy based on renewable and recycled raw materials to be developed further.

<sup>1</sup> The European industry organisation CEPI, 2015, [www.cepi.org](http://www.cepi.org)

# Promote responsibility from raw material supply and production to recycling

BillerudKorsnäs takes far-reaching responsibility throughout the value chain; from extraction of raw materials to production and recycling. Working for responsible forestry, sustainable transport solutions and supplier assessment processes is a fundamental element of the commitment.

## Developments in 2016

### *Sustainable forestry*

BillerudKorsnäs' material originates from growing forests. The company's Swedish production units consume about 10 million cubic metres of wood raw material a year, around 80% of which is softwood, with the remainder consisting of hardwood. Purchasing and harvesting is managed by the Forestry unit. 75% of purchasing comprises Swedish raw materials, with the remainder being imported, mainly from Finland and Norway as well as Latvia.

### *Certification – demonstrating responsible forestry*

BillerudKorsnäs' operations are certified under the FSC® and PEFC™ Chain of Custody standards. The proportion of raw materials from certified forest land varies and is adapted to availability and customers' demand for certified products. To avoid purchasing wood raw material from controversial sources, procedures are in place to check the origin of wood under the FSC® Controlled Wood standard, the clauses on Controlled Sources in PEFC™ Chain of Custody and the EU Timber Regulation EUTR.

All major suppliers in Sweden are certified under accepted standards. However, among private forest owners, who own about half of the forest land in Sweden, forest certification is not as widespread. With the aim of increasing the proportion of wood raw material derived from certified forest, BillerudKorsnäs is conducting active work to encourage more private forest owners to certify their forest under the company's FSC® and PEFC™ group certification. During the year, work was carried out to improve the efficiency of internal management of certification, including by improving the systems of timber purchasers and through information material geared towards the private forest owners. The number of private forest owners certified through BillerudKorsnäs reached the target and totalled 122 by the end of 2016.

### *Preventive consultation*

Responsible forestry encompasses carrying out consultation with reindeer herders, a formal procedure that seeks to prevent

conflict in a particular area. In 2016 BillerudKorsnäs carried out consultation with Idre reindeer herding organisation regarding:

- adapted land preparation taking lichens into account.
- areas exempted from harvesting.
- adapting the date of harvesting in line with Sami wishes so as not to disrupt animal husbandry, such as when reindeer are being moved between summer and winter grazing.

In general regarding forestry, five views were received during the year on the environment and three on social aspects. These involved, for example, objections to harvesting in Österbybruk, where harvesting takes place near a lake and a nature trail. As a result, harvesting near the lake will be carried out with extra care. Another example is objections to harvesting pine forest north of Orsa. Here an inventory of the forest was taken by the Swedish Forest Agency, which judged that the environmental values were not sufficiently high to constitute grounds not to carry out harvesting.

### *Training in sustainable forestry*

To ensure good knowledge on conservation, threatened species, cultural conservation and forest management, BillerudKorsnäs' planners and wood purchasers receive ongoing training in nature conservation assessment. The training focuses on areas of particularly important conservation value, known as key biotopes, which are usually exempted from harvesting.

## Target 2020

- Proportion of purchasing value with supplier assessment: 75.0% per three-year cycle.
- Number of private forest owners certified through BillerudKorsnäs: 200

## Outcomes/status 2016

- Proportion of purchasing value with supplier assessment: 60.7%
- 122 private forest owners certified through BillerudKorsnäs.

*For a complete summary of all sustainability targets, see page 51.*

The Forestry unit also organises internal forestry training for employees from other units working on issues concerning wood raw material, forestry and certification systems, such as customer service and Supply Chain. The aim is to provide good knowledge of the raw material with an opportunity to link the sustainability considerations to the source of the raw material, which contributes towards good customer service.

#### Assessing wood raw material transporters

The transporters of wood raw material from forests to production units span everything from sole traders to major global carriers. A total of 18 transporters of wood raw material are involved. Alongside the procedures that are in place for loading, unloading and packing at the production units and that are included in the contracts with the respective transporter, an adapted system of evaluation has been produced. A number of areas relevant to transporters of wood raw material have been identified and are included as part of the contract negotiations between BillerudKorsnäs and the transporter. The requirements include:

- Environmental policy, drug and alcohol policy.
- How BillerudKorsnäs' safe unloading principles are implemented.
- Driver training and authorisation for the goods transported.

Any deviations are reported in a system for further analysis and for measures to be taken if required. All transporters had undergone evaluation by the end of 2016.

#### Intensive development of the supplier assessment process

BillerudKorsnäs needs large amounts of materials, products and services in order to run its business. Suppliers include everything from chemicals and tool suppliers to suppliers of services. Fundamental requirements for all suppliers include compliance with BillerudKorsnäs' Code of Conduct and international standards, and applicable legislation and regulations.

The supplier assessment process, which covers all the purchasing the company carries out with the exception of wood raw material, has been stepped up in the past year. During the three-year cycle 2014–2016, BillerudKorsnäs assessed a total of 317 suppliers, equivalent to a purchasing value of 60.7%. The target for 2016 was 60.0%. 66 new suppliers with a spend of more than SEK 100 000 were assessed in 2016.

In addition, an annual screening is also carried out in partnership with the Swedish Tax Agency in which 100% of all Swedish suppliers (numbering 9 468) are checked, accounting

#### Managed Swedish forest land with areas set aside for biological diversity 2016 (EN11)

| Forest owners and timber suppliers <sup>1</sup> | Managed productive area, ha | Productive area voluntarily set aside, ha | Proportion voluntarily set aside out of total productive area, % |
|---|-----------------------------|---|--|
| Bergvik Skog AB                                 | 318 280 <sup>2</sup>        | 25 631                                    | 8.1  |
| Private, certified forest owners                | 69 007                      | 4 794                                     | 6.9  |

<sup>1</sup> Our own harvesting activities took place within purchased harvesting rights in Sweden and Latvia, where, however, no forest land was held by BillerudKorsnäs. All harvesting activities concerned land use and land-based ecosystems for extracting wood raw material above ground. Current protected status of certain neighbouring areas where the company runs operations were national park and nature reserve (589 000 ha), nature conservation agreement (12 972 ha) and biotope protection area (10 457 ha). At two Swedish production units there are just over 30 ha of land with high protection values that are not managed.

<sup>2</sup> Plus 68 044 ha low-productive forest land, impediment, where no forestry takes place.

#### Wood supply 2016, %



#### Management

BillerudKorsnäs' Senior Management Team is responsible for overarching measures and policies.

The Enterprise Risk Management concept (ERM) is BillerudKorsnäs' overall risk management system, read more about risk management on page 84.

The unit managers, supported by staff and specialists, are responsible for maintaining operations in line with applicable legislation and the company's standards. Responsible functions at the production units work with the support of environmental management systems to ensure that current legislation, production terms and certification requirements are met, and to carry out ongoing improvement work. Specialist groups for chemicals and product safety, working with

the production units and the business areas, are responsible for compliance with relevant requirements.

Forestry is responsible for making sure that forest management and timber purchasing are conducted in line with legislation, certification and guidelines. Forestry and Supply Chain Management are jointly responsible for improving the efficiency and eco-adaptation of transport, where dialogue and contracts with transporters are important tools.

The Purchasing unit is responsible for all purchasing, excluding wood raw material, which is the responsibility of Forestry, and for developing the supplier assessment model further. Read more about our supplier assessment process on our website <http://billerudkorsnas.com/Sustainability/>.

for 80.4% of the total spend. The risk exposure is judged to be low, as 99.6% of our total spend is in Europe.

In no case did assessments show any indications of child labour, forced labour or lack of freedom of association. A summary of 2016 also shows that no supplier contracts were ended as a consequence of the assessment. One proviso is made for purchases of starch from companies where the raw material, primarily industrial potatoes, is partly obtained from family farms. It cannot be ruled out that some work is carried out in agriculture which involves the whole family. All starch deliveries, which amount to just over 2% of total purchasing, come from countries within the EU. Within the framework of supplier assessments, dialogue is in progress to ensure that the work is compatible with legislation.

#### *Additional resources on the Asian market*

During the year a post was established to assess the company's production partners in Managed Packaging, in the form of a Regional Compliance Officer based at the office in Shenzhen, China. Evaluations of production partners follow a model that uses detailed questions that to a greater extent focus on social issues such as labour law, employee protection, working hours and compensation. The audits carried out by the new function in the Asian market during the year found no indications of child labour, forced labour or a lack of freedom of association.

#### *Clearer requirements made of suppliers*

Work to clarify requirements and procedures regarding deliveries to BillerudKorsnäs' production units continued during 2016. It is important to ensure that the transporter has access to the correct information, for example, regarding the requirements made for gaining authorisation to an area, protective equipment and understanding Swedish or English. In 2016 preparatory work was carried out to ensure that these aspects are part of the basic information, which is then to be supplemented by local procedures for an area.

#### *Improved environmental situation at Swedish paper mills*

In 2016 IVL published a report<sup>1</sup> setting out trends in emissions over 50 years at a large number of Swedish pulp and paper mills and how these trends affected the recipient watercourses. BillerudKorsnäs' production unit at Karlsborg, Frövi and Gävle were included in the report. The general picture is positive and shows that the environmental situation has improved considerably, thanks to process technology developments and expanded waste water treatment have drastically reduced emissions of organic substances and nutrient salts. Emissions of toxic substances have also fallen, as is also reflected in improved health and breeding in fish stocks near the production units.

#### **Looking ahead to 2017**

- Supplier assessments in line with the established three-year cycle.
- Continued work to identify suppliers with a significant impact.
- Adapt the supplier assessment model to expansion in growth markets. To ensure sustainable operations are carried out, additional questions are needed that are more specifically and more concretely able to capture local conditions.
- Repeated internet training on the value of wood raw material from certified forests and how this is best communicated to private forest owners.
- FSC® certification incorporates continued work on social forest management issues with a focus on the company's contractors.

However, the report showed that in some cases the recipient watercourses had not recovered to the same extent as the reduction in emissions. This will be studied further, but the main causes are judged to be remaining effects of earlier emissions and the slowness of the recovery process itself.

#### *External praise strikes gold*

For the third consecutive year BillerudKorsnäs was awarded a Gold rating by EcoVadis, a system for annual evaluation of sustainability at about 20 000 suppliers to global companies. The assessment, which covers environmental aspects, working conditions, corporate social responsibility and subcontractors, shows that BillerudKorsnäs is among the very best of 150 companies in the industry, and is among the top one per cent of all assessed companies.

#### **Summary/conclusion**

The established model for ensuring responsible purchasing with supplier assessments on a three-yearly cycle demonstrates responsibility throughout the value chain. To increase the proportion of wood raw material from private forest owners with certified forest, steps were taken during the year to improve the efficiency of internal processing. Additional relevant areas were added to the assessment of wood raw material transporters as part of contract negotiations. Within sustainable forestry, a number of preventive initiatives were introduced such as consultation with reindeer herders and internet training to ensure good nature conservation assessment skills. In summary, the initiatives led to the targets for the commitment being met in 2016.

<sup>1</sup> <http://www.ivl.se/sidor/publikationer/publikation.html?id=5344>



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

The skills, experience and commitment of BillerudKorsnäs' employees are key to the company's ability to achieve its mission. Retaining and reinforcing the organisation with new skills is therefore an essential part of the business strategy. Together we are building a company characterised by good development opportunities, diversity, good leadership, a safe work environment and an ethical business approach in everything we do.

## Developments in 2016

### *Continuous improvements that last*

The Group-wide Operational Excellence initiative is BillerudKorsnäs' systematic work for continuous improvements throughout the entire business. The initiative encompasses four central areas for improvement: health and safety, quality, improved productivity and cost control. Supported by values, procedures, processes and tools, supplemented by measurable targets, the focus is on minimising losses, e.g. in the form of time, quality or efficiency. Leadership which involves employees in identifying and analysing a loss or a problem is fundamental to this approach. Work then involves tackling the problem in a way that leads to an improvement, in other words reduced losses.

### *Pilot project points the way towards safe workplaces*

The total number of work-related injuries with sick leave at BillerudKorsnäs fell to 1.5 per 100 employees during the year. The target was not met, but the number of work-related accidents fell compared with 2015 thanks to internal cooperation, management and prioritisation.

## Target 2020

- Number of work-related injuries followed by sick leave: 1.0 per 100 employees and year.
- Proportion of women in total and in management: 23.0% and 30.0% respectively.

## Outcomes/status 2016

- 1.5 work-related injuries followed by sick leave per 100 employees.
- 21.0% women in total and 21.9% in management.

*For a complete summary of all sustainability targets, see page 51.*

Guaranteeing a safe workplace is the most fundamental aspect of the Group's work on improvements and crucial to attaining the zero vision for work-related injuries accompanied by sick leave. Many hazards can be designed out or resolved through information, but creating a safe workplace demands an additional element – employees' attitudes in looking out for their own safety and that of their colleagues. As part of the drive to step up the safety culture, a pilot project on eradicating incidents and injuries (Incident and Injury Free – IIF) was launched at the production unit in Gävle. IIF is a programme borrowed from the oil and gas industry and development takes the form of a number of phases, moving from reactive behaviour in the event of accidents to allowing employees' awareness of their own responsibility to prompt responsible actions for their own safety and that of colleagues. The pilot project has been well received in Gävle and will now also serve as a model for other Swedish production units.

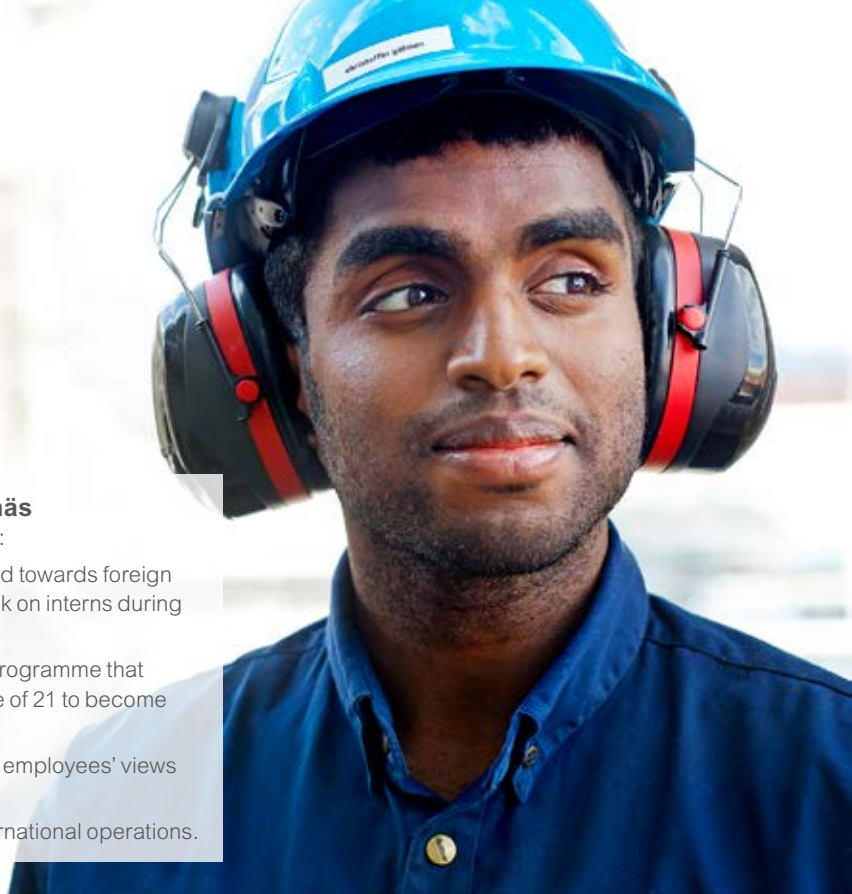
### *A responsible approach to health and safety*

By the end of the year, a total of 89.2% of all BillerudKorsnäs employees were covered by some form of formal grouping, such as collaboration councils, safety committees or safety groups. In cases where accidents or other work-related problems occur, and on returning to work after a long period of sick leave, an active rehabilitation programme is instigated to prevent employees being on sick leave for longer than necessary. Following an inquiry, appropriate measures are introduced, e.g. adapting duties, aids, training or re-assignment.

### *Diversity – an important element in value creation*

Employees with different backgrounds and experiences make BillerudKorsnäs a more innovative, profitable and effective organisation. The key issue is creating a workplace characterised by diversity, in which seeing things from different perspectives is a matter of course, where innovation and curiosity about other people's ideas are crucial to developing materials and solutions capable of replacing conventional packaging. A varied employee make-up is also central to the company's capacity to innovate. BillerudKorsnäs also works actively on inclusion, in other words actions and behaviour that enable everyone to feel involved.

Managers' responsibilities include ensuring that a diversity perspective is incorporated, for example when putting together teams, so that experience, knowledge and personal-



### Diversity projects at BillerudKorsnäs

Examples of initiatives that boost diversity:

- The training course “Korta Vägen” geared towards foreign graduates, in which many operations took on interns during the year.
- Support for the Tekniksprånget trainee programme that encourages young people under the age of 21 to become interested in engineering.
- Monitoring the working environment and employees’ views on diversity in the employee survey.
- Local recruitment for the company’s international operations.

ities are mixed to deliver as creative an environment as possible. Presentations and exercises are available on the intranet as additional support alongside the HR function.

In 2016 workshops on the importance of diversity were carried out with all management teams. Each management team

#### Looking ahead to 2017

- Roll-out of the IIF programme at all Swedish production units.
- Starting in 2017, a survey focusing on safety culture will be held every other year to follow up the effects of IIF.
- Launch a partnership with subcontractors to build the safety culture in the next stage.
- Training initiative in change management.
- Propose methodology to break down overarching targets into clearer sub-targets.
- Implement action plans linked to the results of the employee survey.
- Ensure compliance with new legislation on diversity in general.
- Group-wide process and tools for pay surveys in line with new legislation.
- Additional resources in the form of a Compliance Manager will be added to strengthen work on anti-corruption and in other regulatory compliance areas, based at head office in Solna, Sweden.
- Implement what is known as “Pulse measurement”, a mini-version of the larger employee survey carried out every other year.

is now responsible for taking the discussion further in their respective organisations, and for drawing up action plans that ensure that the diversity perspective is included in everything from recruitment, career development, assessment and performance management, to work day to day.

Guidelines and action plans are already in place showing how victimisation and harassment are to be prevented, tackled and followed up.

#### *A better gender balance*

BillerudKorsnäs operates in an industry that is traditionally dominated by men, which makes work to create a better gender balance challenging. This is a long-term effort where initiatives that can inspire girls and young women to apply for relevant education at an early stage are one key success factor.

BillerudKorsnäs’ goal is to increase the proportion of women, both in general and at managerial level. In 2016, a total 21.0% of employees were women, with 21.9% women in a managerial position.

The pay survey carried out during the year does not show any unjustified pay differences between women and men for comparable occupational groups, see page 54-55. In line with new legislation, a Group-wide pay survey process has been drawn up and will start to be used in 2017.

#### *Dialogue with employees*

BillerudKorsnäs has a Group-wide Performance Management process which forms the basis for performance reviews between employees and their immediate superior, and for how individual Goal and Development plans are to be created and

followed up. During the year the initiative was taken to enable the overall sustainability targets, among others, to be broken down to individual and team level.

In total 83.8% of employees took part in performance reviews in 2016. The aim is for all employees to take part in performance reviews with their immediate superior.

#### *Major organisational changes during the year*

The last day of September was the last working day for employees on BillerudKorsnäs' paper machine in Tervasaari and at the Customer Service Center in Tampere in Finland. Just over 60 people were affected by the closures. When the decision was made to move the paper machine to Skärblacka, the employees affected were also offered the opportunity to relocate to Sweden. By the end of the year six employees had taken up the offer to start working at Skärblacka, just west of Norrköping in Sweden.

#### *Combating corruption and anti-competitive behaviour*

BillerudKorsnäs has absolute zero tolerance of corruption and behaviours that conflict with applicable regulations under competition legislation. To increase risk awareness in operations such as sales and purchasing, a web-based training course was run during 2016 focusing on how employees are to act to combat corruption and anti-competitive behaviours, which 90% of those towards whom the training was targeted completed. The training initiatives will continue in other forms, including more focused and adapted initiatives for specific issues, and by creating forums where practical approaches can be discussed, should a dubious situation arise.

Deviation from BillerudKorsnäs' anti-corruption policy and the policy on compliance with rules under competition law may incur disciplinary consequences for the individual employee.

#### *Whistleblowing channel for serious irregularities*

BillerudKorsnäs' employees can anonymously report serious irregularities via the whistleblower function. During the year, five reports were made via the function, two of which led to further investigation. The other issues were handled within the framework for normal measures for dealing with leadership and information issues. In the long term, the ambition is to further improve the whistleblower function to enable anonymous communication with whistleblowers, and make the function externally accessible for reporting any irregularities.

No complaints about breaches of human rights or incidents linked to discrimination or corruption were reported in our internal systems. No significant fines or other sanctions due to breaches of the law were imposed on the company in 2016. Nor was any legal action taken against the company regarding anti-competitive behaviour, cartels or monopolies.

#### **Conclusions/summary**

In 2016 the number of work-related accidents fell, although the target was not met. As part of systematic health and safety work towards a zero vision, a pilot project was carried out, which will now serve as the model for continued work to embed the safety culture. The workshops held with the company's management teams during the year on the importance of diversity will now continue with action plans being drawn up to ensure that diversity is more clearly incorporated in operations. In efforts to create a better gender balance, an increased proportion of female employees was noted, while the proportion of female managers fell. The company's absolute zero tolerance of corruption and anti-competitive behaviour was emphasised by a web-based training initiative. Ambitions for 2017 show a continued strong focus on the issues covered by this commitment.

#### **Management**

The HR unit has overall responsibility for ensuring that support systems for the HR processes are in place on the ground.

The unit managers, supported by specialist functions, bear operational responsibility for ensuring that safety, talent management, diversity and working conditions are upheld in the business.

Developing employees and working methods takes place with the support of the overarching structure for Operational Excellence. Collective agreements and cooperation form the basis of dialogue between the company and unions.

Ultimate responsibility for ensuring compliance with the company's Code of Conduct and communication of the Code of Conduct rests with the CEO. Every employee is then responsible for familiarising themselves with and following the Code of Conduct.

The whistleblower function supplements the Code of Conduct by constituting an important channel for individuals to draw the company's attention to breaches of the Code of Conduct or other serious irregularities in operations. The function is managed by the company's chief legal counsel and those responsible for internal audits jointly with the chair of the Board of Directors' Audit Committee. The whistleblower is allowed to remain anonymous and to report directly to the chair of the Audit Committee.

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

By challenging conventional packaging, BillerudKorsnäs creates tangible business and sustainability benefits for customers and society. Based on solid expertise and innovation, packaging material and solutions are chosen that are resource-efficient, reduce waste, improve logistics efficiency and strengthen the brand.

## Developments in 2016

### *Results of the customer survey*

A new customer survey was carried out during 2016. The result showed an increase in BillerudKorsnäs' cNPS (customer Net Promoter Score) since 2014, from 30 to 37. The proportion of customers who considered that BillerudKorsnäs' work on sustainability creates value was 89%.

### *Stronger products with lower consumption of materials*

Focusing on New Billerud Flute, the development of fluting has resulted in a material with improved strength, which in turn increases customer value by enabling an equally strong corrugated box to be manufactured using less material. There are also advantages in that heavy wooden or plywood crates can

## Target 2020

- Proportion of customers who consider that BillerudKorsnäs' work on sustainability creates added value, 95%.

## Outcomes/status 2016

- 89% of customers consider that BillerudKorsnäs' work on sustainability creates added value.

*For a complete summary of all sustainability targets, see page 51.*

be replaced with considerably lighter corrugated packaging. According to our own measurements, the upgraded New Billerud Flute is 5–8% stronger than its predecessor, which means that customers can manufacture equally strong packaging using less material. Compared with local packaging material on the Asian market, New Billerud Flute also has up to 30% lower basis weight.

### *Significant increase in capacity*

The upgrade to the paper machine in Skärblacka carried out in 2015 is now contributing more efficient manufacturing and improved product quality, especially in delivering sack paper of even and high quality. The potential capacity of the machine has also considerably increased, from 160 000 tonnes to 180 000 tonnes per year. In the second quarter of the year the Group took the decision to continue investment in Skärblacka with the aim of making the production unit a world-leading centre for manufacturing machine glazed kraft paper (MG paper). The investment will see the paper machine in Tervasaari in Finland move to Skärblacka in 2017.

### *Investments that meet new needs*

The major investments made in Gävle (2012–2014) and being made in Frövi/Rockhammar (2013–2017) are helping to increase BillerudKorsnäs' production volumes for carton-board and liquid packaging board by up to 25%. This provides good opportunities to meet customers' needs for greater

## Management

The Communication & Sustainability unit is responsible for general information, training and reporting on the company's sustainability work and the performance of the products.

Each respective business area is responsible for communication on the performance and the opportunities that the company's materials and packaging solutions offer. In turn, the Forestry unit contributes by providing knowledge and information on sustainable forestry and the responsible supply of wood raw material.

The production units contribute by providing knowledge and information on environmental adaptation and performance in the industrial processes. The Supply Chain Management unit contributes transport solutions that support customers' business in terms of logistics, costs and lower environmental impact.



volumes with retained efficiency. At the end of 2016 the Group decided to invest SEK 5.7 billion in a new board machine at Gruvön. With an annual capacity of 550 000 tonnes of liquid packaging board, cartonboard, food service board and liner, the machine will be one of the biggest in its class in the world.

#### *Towards closer relationships with brand owners*

Shaping strategic partnerships with converters and brand owners is an important step in positioning ourselves further up the value chain. Partnerships may also involve exchanging knowledge, for example on consumer trends, packaging needs, insight studies and trend-spotting.

One example is Solution Services, which are geared towards customers with a need for improved packaging solutions. Improvements can cover everything from design to printing, manufacture, filling, logistics, end use and environmental performance. For support BillerudKorsnäs has application laboratories where tests, analyses and measurements can be carried out. Another example of partnership is the Carlsberg Circular Community (CCC), which BillerudKorsnäs joined

in early 2017, with the aim of developing a bottle made of paper from the innovation phase into a commercial product.

#### *Product responsibility at every stage*

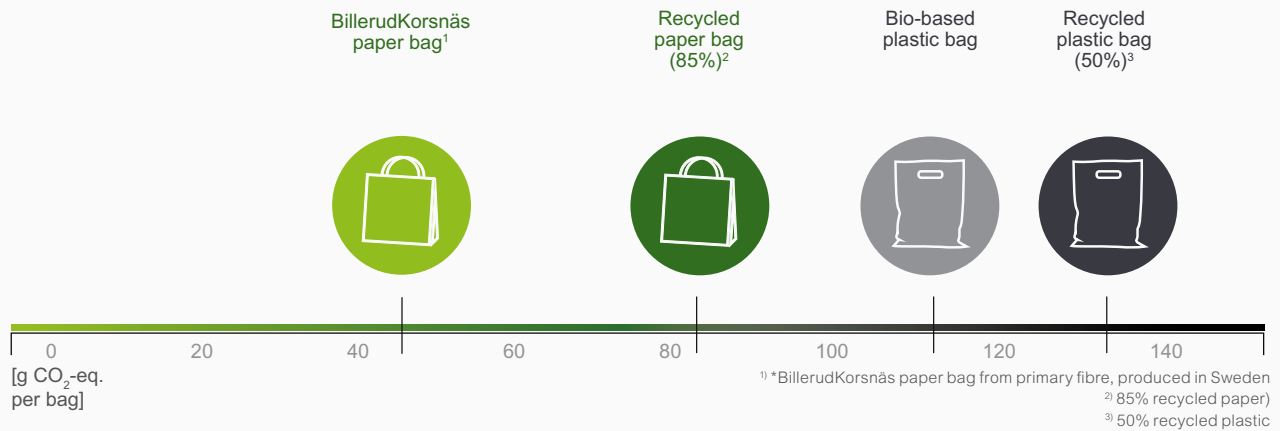
One important element in creating customer value is safeguarding a process that ensures product safety at every stage. Continuous monitoring, control and verification plus information on the use of the products form the basis of the work, which includes the whole of the BillerudKorsnäs chain – development work, manufacturing, marketing, distribution and use of the finished product and waste management or recycling. Each business area then owns responsibility for ensuring that the right product is sold for the intended purpose, while the production units are responsible for product safety in manufacturing.

#### *Product liability follow-up during 2016 shows*

That no breaches of legislation or voluntary codes of practice occurred regarding health and safety, product information and labelling or market communication. Complaints

## Life cycle analysis of carrier bags

Emissions from a paper bag made by BillerudKorsnäs and from equivalent products on the market.



regarding breaches of customer privacy or confidentiality did not occur. No fines relating to product responsibility were imposed.

*A new life cycle assessment shows the advantages of the paper bag...*

An EU Directive from 2015 seeks to cut the use of plastic carrier bags to 40 per person per year by 2025. One way ahead to reduce consumption of plastic bags is to choose paper bags made from renewable material. During the year IVL Swedish Environmental Institute was commissioned by BillerudKorsnäs to carry out a comparative life cycle assessment of the emissions of greenhouse gases and other substances from paper and plastic bags. The study points out the advantages of BillerudKorsnäs' paper and energy-efficient production, in which the high proportion of renewable energy in production is a strong contributor to the company's position as best in test from a climate perspective. Among other things, a recycled plastic bag has more than twice the carbon footprint of a paper carrier bag using material from BillerudKorsnäs.

*... and that the D-Sack® binds carbon*

The most recent life cycle assessment also compared D-Sack®, a cement sack that does not need to be opened but dissolves seamlessly in the cement mixer, with a generic cement sack. The analysis shows that when end-of-life, in other words what happens to the product after use, is included, the D-sack® binds carbon over a 100-year perspective. The explanation is that the carbon absorbed by the trees and used to make the

### Looking ahead to 2017

- The paper machine in Tervasaari will be moved to Skärblacka (see page 24).
- Construction begins on a new board machine at the production unit in Gruvön (see page 24).
- Broadened focus on more segments in Managed Packaging.
- New and updated Environmental Product Declarations for selected products.

sack binds into the concrete, which means that the product works as a carbon sink in this sense.

The complete analysis can be seen at <http://billerudkorsnas.com/Sustainability/>

### Conclusions/summary

The target set for the commitment now clarifies the company's ambition to create concrete business and sustainability benefit for customers. The comparative life cycle analysis of the emissions of paper and plastic bags demonstrated the advantages of BillerudKorsnäs' paper and energy-efficient production. The initiatives to create strategic partnerships with converters and brand owners contributed towards the company's ambition to shift its position forward in the value chain. The company's biggest investment in the future in the form of a new board machine at Gruvön added an important piece of the jigsaw to support the commitment.

# Through innovation expand the market of renewable packaging materials

Through innovation, BillerudKorsnäs challenges conventional packaging choices. Innovation is also essential to change the driving forces in the market by reinforcing the role of renewable packaging materials, and developing packaging solutions that efficiently meet the sustainability challenges of the future.

## Developments in 2016

### *Investments for the packaging solutions of the future*

BillerudKorsnäs' ambitious investments in innovation continued during the year. Since 2013 the company has increased its economic resources in R&D by 180%. Read more about this and our two new technology centres on page 20.

BillerudKorsnäs already has a strong position on formability, applications and packaging solutions. A great deal of progress has been made in developing microfibrillated cellulose and barriers and continued investments will help to further advance the company's positions. The investments made in innovation will make a clear impression on BillerudKorsnäs' profitability and in stakeholders' views of the company in the longer term too.

### *Level of innovation measures renewal*

R&D and product development are about producing completely new products and about improving existing ones. The result of BillerudKorsnäs' work on innovation is measured primarily in the proportion of sales accounted for by new products. The target for 2020 is for 20% of sales to come from new products. The target for 2016 was set at >15%. This was

not attained as the proportion of sales accounted for by new products amounted to 13%. This can be attributed to planned product launches not being completed or being postponed.

### *Investments in innovative start-ups*

New packaging solutions are often challengers on many fronts, technical and commercial. For example, paper packaging may be used for products where paper was not previously a possible alternative. One effect of developing new solutions is a need for new business models that shift BillerudKorsnäs' position further up the value chain.

The subsidiary BillerudKorsnäs Venture is a move in creating conditions for more radical innovation breakthroughs. Read more about BillerudKorsnäs Venture on page 21.



### *The material of the future comes from the forest*

R&D also encompasses responsibility for working with external research and partnerships with research institutions, universities, government agencies, politicians and other stakeholders.

Ongoing collaboration with the research institute Innventia and the agency VINNOVA is one example in which work to develop board properties using microfibrillated cellulose (MFC) at the portable demonstration factory in Frövi continued during the year.

Together with industry, universities and the Swedish state, BillerudKorsnäs is working on a national research platform linked to the Wallenberg Wood Science Center (WWSC). The aim is to generate groundbreaking research results that can translate into high-tech solutions for the forest industry. For additional information about this project, see page 21.

## Target 2020

- Proportion of sales accounted for by new products: 20%.

## Outcomes/status 2016

- New products account for 13% of sales.

*For a complete summary of all sustainability targets, see page 51.*

## Management

The Strategic Development unit, which includes the R&D and Investment Management functions, is responsible for BillerudKorsnäs' work on product innovation.



### Conclusion/summary

In line with the commitment, innovation work was further strengthened during the year. The target for the proportion of sales accounted for by new products could not be attained, however, partly caused by product launches being postponed. In work to grow the market for renewable packaging material, the number of projects was multiplied five times and the financial resources in R&D were increased by 180% (compared with 2013). The important partnership with external research and cooperation with research institutions, universities, etc. continued during the year. Continued investment in R&D and challenging projects bears witness to the ambition to challenge conventional packaging choices through innovation.

### Looking ahead to 2017

- Continued investments in R&D and recruitment to the unit in line with a growth plan of 10–15 people per year.
- Group-wide challenging projects in which R&D and the business areas join forces in the area of barriers for dry and wet foods and implement the use of the additive microfibrillated cellulose to create lighter and stronger board.
- Build a national research platform for forest-based material.
- Continued full-scale production tests at Frövi on using microfibrillated cellulose in board production.



# Combat climate change throughout the whole value chain

BillerudKorsnäs is working on the transition to fossil-free production and to minimise emissions throughout the value chain. Together with energy efficiency and transport optimisation investments, the climate strategy adopted is a central tool in working to phase out fossil fuels.

## Developments in 2016

### *Spurred on by external affirmation*

For the second year in a row, BillerudKorsnäs' work to combat climate change was noted by CDP. A position on CDP's Climate A List sees BillerudKorsnäs qualify as one of the 9% of companies that show global leadership on climate improvement measures. BillerudKorsnäs is seen as strong in every aspect of CDP's analysis and is considered to have high awareness of how climate change can affect business. Furthermore, the company shows clear strategies for the initiatives needed to reduce emissions and a desire to take on a leadership role in these challenging efforts.

During the year attention has been drawn to BillerudKorsnäs' work on sustainability in several ways and more information about awards can be found on page 61.

### *Initiatives to minimise emissions with a climate impact*

BillerudKorsnäs was one of three companies invited to the Swedish government's presentation of a new national coordinator for the Fossil-free Sweden initiative. As a member of the initiative, BillerudKorsnäs is actively involved in the practical transition to a

## Management

The BillerudKorsnäs management team is responsible for investment decisions and carrying out overarching initiatives. The Sustainability & Public Affairs department has operational responsibility for implementing the climate strategy and supporting and driving continuous improvement work, together with specialists in the business. Identification and analysis of technical and economic initiatives to continue to reduce emissions are carried out systematically by specialists in the respective production units, supported by central expert groups.

The Energy Council coordinates the units' work on energy use and improving efficiency, backed by the management systems and a steering group on strategic issues.

Transport optimisation to cut greenhouse gas emissions is carried out within the Forestry and Supply Chain Management units through supplier dialogue, management and follow-up.

fossil-free society, which is completely in line with the company's vision to phase out fossil fuel entirely from its own production.

The company has undertaken to set Science Based Targets aimed at helping to slow the rise in global temperatures. Work began during the year on setting a long-term target for direct and indirect emissions from the company's own operations (scope 1 and 2), which will be complete in 2017.

Renewable bio-energy accounts for 97.5% of BillerudKorsnäs' fuel use in production. Work will be focused on the last 2.5% of fossil fuels used, and what it would take to phase out oil and LPG in favour of other fuel alternatives or new technical solutions. The target for 2016 for emissions of fossil carbon from fuel, at 27 kg per tonne of product, was exceeded due to production disruptions at the end of the year.

### *Improving efficiency with a shared energy solution*

An energy survey was launched in 2016 in line with an EU Directive. However, BillerudKorsnäs' ambition is to do more than the law demands by comparing the production units, in order to produce a detailed survey of energy production. Identifying differences and deviations will enable the next step to analyse where investments and improvement measures can produce the greatest benefit. The survey will continue throughout 2017, before then being repeated every four years.

## Target 2020

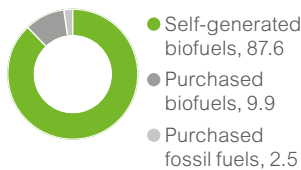
- Emissions of fossil carbon dioxide from fuels in production: 25.0 kg per tonne of product.
- Emissions of greenhouse gases from transport of products: 19.2 g per tonne km.
- Energy consumption: 5.10 MWh per tonne of product.

## Outcomes/status 2016

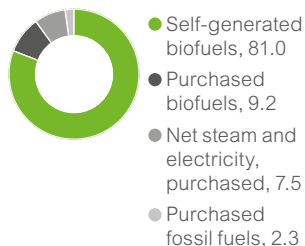
- 29.2 kg of fossil carbon dioxide per tonne of product from fuels in production.
- 21.8 g per tonne km of greenhouse gases from transport of products.
- Energy consumption of 5.35 MWh per tonne of product.

*For a complete summary of all sustainability targets, see page 51.*

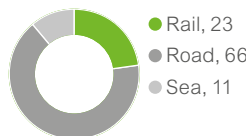
Fuel consumption 2016, %



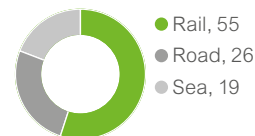
Energy consumption 2016, %



Transport to production units 2016, %



Transport from production units 2016, %



2016's energy consumption target, 5.3 MWh per tonne of product, was not attained due to certain production disruption at the end of the year.

#### Transport optimisation for lower emissions

As a global actor, there are many transport challenges, with a clear trend towards higher demands for punctual deliveries, as well as smaller orders. This poses difficulties in coordinating transport to reduce emissions. One important tool for achieving improvements is the work on transport optimisation and combining different modes of transport, with as high a proportion of goods as possible going by rail. The company's ambition is for 75% of land transport from the mills to be by rail. The outcome for 2016 shows that 55% (54%) of product deliveries from the mills were by rail.

The target for 2016 and the more long-term target for 2020 are both ambitious and more extensive than previous targets. Emissions from product transport for 2016 were 21.8 g per tonne km. The target was almost attained and is in line with our expectations and long-term plans to considerably reduce our fossil emissions from transport.

#### Patient work drives change

BillerudKorsnäs has long promoted the benefits of very long, heavy goods trains, from 620 metres to 730 metres, in reducing transport costs. During the year ScandFibre Logistics (wholly-owned by BillerudKorsnäs since 2016) received the go-ahead to start daytime transport with trains of this length once a week. In addition, BillerudKorsnäs is actively lobbying the Swedish Transport Administration and affected municipalities to electrify the railway all the way to the production units. Otherwise the final stretch has to be completed with diesel engines, with associated fossil emissions.

In 2015 the lobbying work carried out to attain a change in the rules on maximum gross tonnage for lorries led to approved gross tonnage being increased from 60 to 64 tonnes for correctly configured vehicles. An additional increase in maximum gross tonnage to 74 tonnes in March 2017 was decided on in 2016. This provides scope for more efficient transport with larger volumes of goods and lower emissions per transported tonne. In dialogue with the transporters, e.g. in contract negotiations, the company is also pursuing the issue of how the transition to alternative fuels, such as bio-diesel, can be speeded up.

#### Looking ahead to 2017

- Design a strategy that brings together plans, ambitions and follow-up to reduce the direct and indirect emissions from operations from production, transport and use of chemicals.
- Set targets for direct and indirect emissions from own operations (scope 1 and 2).
- Set targets for the dominant sources of emissions among suppliers (scope 3), in other words the transport and production of chemicals.
- The energy survey in line with new legislation will continue throughout 2017.
- Work to increase the number of departures using trains 730 metres long will continue.
- Launch an innovative new sustainable transport service in which customers are offered the use of lorries on return journeys to optimise transport and prevent lorries being driven empty.
- Rail goods wagons are to be fitted with GPS transmitters to add customer value in the form of greater traceability for cargo.

When it comes to transporting wood raw material, swapping is an important part of transport optimisation and improving cost-efficiency. Swaps are carried out to minimise transport distances by timber purchasers selling and swapping wood raw material with each other so that the material can be transported to the closest mill.

#### Conclusion/summary

During the year operations developed in line with the commitment and in line with the climate strategy laid down. Due to production disruptions at the end of the year, the targets on energy efficiency and reduced emissions of fossil carbon from fuel in production were not met, however. Deviation from the target for emissions from transport of products was marginal though. Continuous initiatives to reduce the direct and indirect emissions from operations, surveying energy consumption in detail and transport optimisation show that good opportunities exist to continue to combat climate change throughout the value chain.

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

BillerudKorsnäs' business concerns and affects many people, sometimes entire local communities. The focus is on contributing to local business, social initiatives and the development of renewable, bio-based materials for a sustainable society.

## Developments in 2016

### *Local commitment has a positive impact*

BillerudKorsnäs is the dominant private employer in several of the locations in which the company operates. This not only means that the company has a direct impact on employment in its immediate vicinity, but also that it has an important indirect impact by creating a market for local goods and services, and for basic services and investment in infrastructure.

### *Dialogue with local communities*

A number of channels are provided through which stakeholders can make their views on BillerudKorsnäs' activities known, e.g. via the website, direct contact and consultation. Views and questions are entered in internal systems, analysed and resolved through dialogue where possible. The number of community-related opinions received from local residents in 2016 totalled 41 and these mainly concerned odours. The majority of opinions were submitted in Skärblacka, where a group of local residents help the company to monitor odours, providing extra evidence for improvement work. 2016 saw the lowest number of opinions on odours received since the environmental panel was set up. The second most common topic was noise, with a total of four complaints.

A number of channels are provided for stakeholders wishing to give their views on BillerudKorsnäs' operations, e.g. via

## Target 2020

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

## Outcomes/status 2016

- A total of 1 512 weeks of work experience were completed during the year.

*For a complete summary of all sustainability targets, see page 51.*

## Governance

Overarching responsibility for cooperation with communities and their organisations rests with the HR unit and Communication & Sustainability.

Responsibility for direct contact and cooperation in local communities primarily lies with the site and HR managers, as well as those responsible for the environment and communications at the production units and the Forestry unit.

the website, direct contact and consultation meetings. Views and questions are registered in internal systems, analysed and resolved through dialogue if possible.

### *Work experience and careers introduction*

The work experience and careers introduction that BillerudKorsnäs provides are tangible examples of initiatives to increase experience of the world of work. In 2016, a total of 389 young people and newly arrived migrants received work experience for a total of 1 512 weeks. In partnership with the Swedish employment service, BillerudKorsnäs takes part in the "Korta Vägen" (Shortcut) project, which involves getting foreign graduates more quickly into work by offering work experience placements for six months. Placements were provided at Gruvön and in Solna in 2016.

### *Warm local partnerships*

A number of communities near the production units make use of excess heat from production. This takes place through co-owned companies or delivery agreements which in 2016 supplied the local district heating network with 976 GWh for residential heating, equivalent to about 49 000 houses.

### *Challenging with the packaging of the future*

The challenge in the 2016 Pack Challenge was to develop packaging that would reduce food waste. Vocobox, the winning entry, becomes part of the table setting as its smart shape and appealing design make taking leftovers home an obvious choice for restaurant guests.

Pack Challenge is run jointly by BillerudKorsnäs and Berghs School of Communication and the competition is now an integrated part of Berghs' courses in graphic design and production management. The aim is to obtain students' opinions on packaging and generate interest in packaging solutions among future designers, communicators and decision-makers.

#### *Important boost for creativity*

The Packaging Impact Design Award (PIDA) is a competition run annually by BillerudKorsnäs with leading designers in Germany, France and Sweden. The aim is partly to encourage creativity and arouse interest in the packaging design of the future, so supporting training in this area. Another aim is to highlight new, young talent and bring them together with various actors in the industry.

#### *This year's volunteering trip went to Cambodia*

BillerudKorsnäs has long supported ActionAid, a global organisation working to combat poverty. ActionAid works for the right to food, an area that is important to BillerudKorsnäs as a large proportion of the company's products and packaging solutions contribute towards safe food, drink and distribution. This year four employees joined ActionAid on a trip to Cambodia to help extend the Jang Hoan Primary School in Kampot province. The voluntary work mainly involved building foundations and mixing cement.

#### *Together against plastic in the oceans*

The partnership with the French ocean research platform, the Tara Expeditions Foundation, developed further during the year with a joint initiative in the US market. En route to an 18 month-long expedition in the Pacific, Tara Expeditions stopped off in Miami to invite American stakeholders to join BillerudKorsnäs in a discussion about plastic marine litter as

#### **Looking ahead to 2017**

- Activities in international markets with Tara Expeditions will continue during their expedition in the Pacific in 2017–2018.
- Continued projects with the Swedish Society for Nature Conservation to increase the white-backed woodpecker population.
- A new IGEday is planned for March 2017. BillerudKorsnäs will be the main sponsor of the initiative as a "Gold engineer".
- Continued development of the dialogue with decision-makers with a focus on national and EU level.
- Continued partnership with ActionAid, including a new trip for volunteers.
- The BillerudKorsnäs Sustainability Challenge, a competition for students, is running from Q4 2016 to Q1 2017.

one of the greatest environmental problems of our time, and about how the packaging industry can help by challenging conventional packaging.

#### *Targeted initiative to protect biodiversity*

The white-backed woodpecker is severely endangered as its natural habitat – deciduous forests with large amounts of dead wood – has been replaced with spruce and pine. To safeguard the future white-backed woodpecker population in Sweden, since 2016 BillerudKorsnäs has been involved in the Swedish Society for Nature Conservation's White-Backed Woodpecker project. The company financially supports the construction of breeding cages for the white-backed woodpecker, as well as a rearing facility at Järvzoo in Hälsingland. Here

#### **Economic value distributed, per stakeholder, SEKm (EC1)**

|  | 2016           | 2015           | 2014           |
|--|----------------|----------------|----------------|
| <i>Direct economic value generated</i>   |                |                |                |
| Revenue  | 21 861         | 22 441         | 20 990         |
| <i>Economic value distributed by:</i>  |                |                |                |
| Suppliers  | -15 010        | -14 998        | -14 715        |
| Investments in property, plant and equipment and non-current intangible assets | -1 607         | -1 672         | -1 382         |
| Salaries and employee benefits   | -3 474         | -3 167         | -3 020         |
| Interest to lenders  | -153           | -199           | -259           |
| Dividend to shareholders   | -880           | -727           | -465           |
| Taxes paid   | -306           | 64             | -37            |
| <b>Total</b>   | <b>-21 430</b> | <b>-20 699</b> | <b>-19 878</b> |
| At the company's disposal  | 431            | 1 742          | 1 112          |

#### **Distribution by country, Tax SEKm**

| SEKm                | 2016        | 2015      | 2014       |
|---------------------|-------------|-----------|------------|
| Sweden <sup>1</sup> | -296        | 103       | -18        |
| Italy               | -3          | -9        | -6         |
| China               | -1          | -4        | 0          |
| Latvia              | -1          | -19       | -8         |
| Lithuania           | -           | -         | -          |
| Estonia             | -           | -1        | -          |
| USA                 | -2          | -2        | -2         |
| France              | -           | -         | -          |
| Netherlands         | -           | -1        | -1         |
| Germany             | -1          | -2        | -1         |
| UK                  | -2          | -1        | -1         |
| Spain               | -           | -         | -          |
| Switzerland         | -           | -         | -          |
| <b>Total</b>        | <b>-306</b> | <b>64</b> | <b>-37</b> |

<sup>1</sup> In Sweden the Swedish Tax Agency repaid preliminary tax of approximately SEK 300 million in 2015, resulting in a repaid net amount of SEK 103 million in Sweden in 2015.



**Jobs created in addition to own employees**

- 389 people on work experience for 1500 weeks, equivalent to 37 school years
- 480 summer jobs in production

chicks are reared before then being placed in suitable deciduous woodland with plenty of dead wood. BillerudKorsnäs is involved in restoring these woodland areas, which are also important for many other bird and insect species.

*Important voices in society*

Political decisions affect BillerudKorsnäs, and political discussions within the EU are becoming increasingly important. The company therefore strengthened its dialogue with decision-makers both at national and European level during the year. The focus was on the European Commission's circular economy proposal, together with questions on the climate, research and transport policy.

At European level, lobbying work is carried out in close collaboration with ACE and CEPI. In February, for example, BillerudKorsnäs' CEO attended the seminar "EU Circular Economy. Making it work", held at the European Parliament. Read more about our external networks on page 58. During the year several Swedish ministers and other decision-makers visited our plants, and BillerudKorsnäs attended a number of seminars during the Almedalen Week political forum in 2016.

*Initiative to increase interest in technology*

IGEday (Introduce a Girl to Engineering day) is an initiative from female engineers and engineering students aimed at boosting interest in technology among young girls. BillerudKorsnäs is now part of the initiative and carried out activities around the Swedish operations. Activities during the day

included designing packaging for an imaginary customer, creating paper sacks to be tested in our Sack Lab and experimenting with pulp. In total BillerudKorsnäs was visited by about 60 girls aged 13 to 19.

*Continued cooperation with the National Museum of Science and Technology in Stockholm*

Following cooperation between BillerudKorsnäs and the National Museum of Science and Technology, in 2016 about 3 600 children took part in teacher-led activities on sustainable packaging in the museum's Pack Lab. This lab is part of the museum's Megamind initiative, which encourages children to explore and experiment to come up with new ideas.

**Conclusion/summary**

BillerudKorsnäs' model for work experience and careers introduction is now established. This is shown by meeting the commitment's target of more than 1 500 weeks of work experience being met during the year. Dialogue with the local community continued in which the company met local residents in direct dialogue and gathered their viewpoints on relevant issues to serve as a basis for ongoing work on improvements. The company stepped up its dialogue with decision-makers at national and European level on a number of political questions. In addition, the company was involved in a number of creative contexts that sought to challenge the packaging of the future, and highlight the opportunities of the packaging industry to reduce marine littering from plastics.

# About sustainability reporting

This is the fourth sustainability report for BillerudKorsnäs. We have chosen to follow GRI G4 in line with the 'In-accordance' criteria at 'Core' level.

## Scope

The sustainability report is included in this Annual and Sustainability Report 2016. The scope of the sustainability reporting is shown by the GRI index, which can be downloaded from the company's website <http://billerudkorsnas.com/Sustainability/>.

The report covers all the companies in which BillerudKorsnäs has operational control, i.e. majority-owned companies in line with BillerudKorsnäs' Annual and Sustainability Report 2016.

To ensure that the sustainability report covers all key areas, since the first analysis in 2013 it has been expanded with a total of eight GRI indicators. This year's report thus covers 35 aspects (approximately 78%) and 43 indicators in the GRI system (about 47%).

## Annual reporting

Sustainability reporting is carried out annually and the most recent report, the Sustainability Report 2015, was published in April 2016. The report also constitutes reporting to the UN Global Compact, Communication on Progress.

## Comparable years

To provide a holistic picture of BillerudKorsnäs' impact, strategies and approach in the field of sustainability, the most relevant aspects to the company and its stakeholders have been included in this report.

## The same indicators in this year's report

The extensive materiality analysis carried out before the 2013 report was updated in 2014 and 2015. No update to reported indicators was carried out in 2016 as an extensive materiality analysis will be carried out in 2017 as part of the transition to GRI standards. The reported indicators in this year's report are thus the same as in the report for 2015.

## Changes to reporting

The major change in the reporting is the transition from a separate Sustainability Report to a combined Annual and Sustainability Report. Another change is that the unit in Tervasaari was closed on 15 September 2016, which affects certain production and emissions figures.

## 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.

## External review

The Sustainability Report has been externally audited by KPMG, see auditor's report on page 62.

# Sustainability targets

| Type                              | Key performance indicators (KPI)   | Outcome 2013 base year | Outcome 2016    | Target 2016     | Target 2017     | Target 2020     | Target fulfilment | Link to UN Sustainability targets | Comments on outcome 2016  |
|-----------------------------------|--|------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------------------------|---|
| Responsible value chain           | <b>Sustainability in the supply chain</b><br>Proportion of purchase value covered by supplier assessment of Purchase, Supply Chain and Pulp (%)  | 10 visits              | 60.7% (3 years) | 60.0% (3 years) | 70.0% (3 years) | 75.0% (3 years) | ✓                 | 8.7, 8.8, 12.4                    | The target was reached. Follow-up in three-yearly cycles is now established.  |
|                                   | <b>Certified wood raw materials</b><br>No. of group-certified forest owners in BillerudKorsnäs' group certificates for FSC® and PEFC™ (n)  | 71                     | 122             | 120             | 140             | 200             | ✓                 | 12.2, 15.2                        | The target was reached. Internal development of working methods for timber purchasers contributed towards the result.                                   |
|                                   | <b>Workplace safety</b><br>Work-related accidents with sick leave (no./100 employees)  | 1.5                    | 1.5             | 1.0             | 1.0             | 1               | -                 | 8.8                               | The target was not met, but the number of work-related accidents fell compared with 2015 thanks to internal cooperation, management and prioritisation. |
|                                   | <b>Gender equality</b><br>Female employees (%)   | 18.0                   | 21.0            | 20.5            | 21.5            | 23.0            | ✓                 | 8.5                               | The target was reached. The proportion of female employees increased.   |
|                                   | Female managers (%)  | 20.4                   | 21.9            | 25.0            | 26.5            | 30.0            | -                 | 8.5                               | The target was not met. The proportion of female employees increased but the proportion of female managers fell slightly.                               |
| Increased customer value          | <b>Sustainability as customer value<sup>1</sup></b><br>Proportion of customers who think that BillerudKorsnäs contributes towards a sustainable future (%) base year 2016  | -                      | 89              | -               | 92              | 95              | ✓                 | 12.2                              | New target for 2017 with base year 2016. There was no target for 2016 but the outcome was reported.   |
|                                   | <b>High level of innovation for products<sup>2</sup></b><br>Proportion of sales accounted for by new products (%)  | 10                     | 13              | 15              | 15              | 20              | -                 | 12.2                              | The target was not reached due to postponed product launches.   |
| Sustainable and bio-based society | <b>Energy efficiency</b><br>Energy consumption (MWh/tonne product, net)  | 5.48                   | 5.35            | 5.31            | 5.28            | 5.10            | -                 | 12.2, 13                          | The target was not reached due to certain production disruptions at the end of the year.  |
|                                   | <b>Fossil free production</b><br>Emissions of fossil CO <sub>2</sub> in the manufacturing process (kg/tonne product) <sup>3</sup>  | 38.0                   | 29.2            | 27.0            | 25.0            | 25.0            | -                 | 12.2, 13                          | The target was not reached due to certain production disruptions at the end of the year.  |
|                                   | Emissions of fossil CO <sub>2</sub> in the manufacturing process (tonnes total)  | 106 000                | 86 500          | -               | 75 000          | 72 500          | -                 | 12.2, 13                          | New target for 2017 with base year 2013. There was no target for 2016 but the outcome was reported.   |
|                                   | <b>Fossil free transport<sup>4</sup></b><br>Transport of products (g CO <sub>2</sub> e/tonne km) base year 2015  | -                      | 21.8            | 21.7            | 21.1            | 19.2            | (✓)               | 13                                | The target was almost reached, with a deviation of only 0.08 g/tonne km equivalent to 0.4%.   |
|                                   | <b>Work experience through internships and occupational introduction<sup>5</sup></b><br>Every year BillerudKorsnäs offers work placements and careers-focused introduction programmes with the aim of providing work experience (no. of weeks of work internships) | 1 123                  | 1 512           | 1 350           | 1 500           | 1 500           | ✓                 | 8.6                               | The target was reached. The model of work experience placements and projects mainly for young people started to become well established.                |

<sup>1</sup> The timing of the target 92% may be moved to 2018 instead of 2017.

<sup>2</sup> The key ratio for innovation level refers to sales of paper and board, which excludes pulp. Definition: (Innovation factor x novelty value x sales)/total sales. A product is judged to be new for the first five years.

<sup>3</sup> The targets for 2017 and 2020 are the same. This is because it is estimated that emissions will be lower in 2017 as the move of one paper machine from Tervasaari to Skärblacka means that the machine will be out of operation during 2017.

<sup>4</sup> The targets for global transport have been tightened up compared with the report for the previous year.

<sup>5</sup> Weeks of internships may include projects such as Tekniksprånget for technicians, Korta vägen for immigrants and occupational introduction for different categories.

# Environmental statistics

|   | Unit                   | 2016          | 2015          | 2014          |
|---|------------------------|---------------|---------------|---------------|
| <b>Production (G4-9)</b>                              |                        |               |               |               |
| Paperboard, paper and pulp                            | ktonnes                | 2 965         | 2 908         | 2 881         |
| Wood pellets  | ktonnes                | -             | -             | 498           |
| <b>Total production</b>                               | <b>ktonnes</b>         | <b>2 965</b>  | <b>2 908</b>  | <b>2 881</b>  |
| <b>Materials used (EN1)</b>                           |                        |               |               |               |
| Wood  | km <sup>3</sup> sub    | 10 042        | 9 900         | 11 038        |
| Pulp, purchased externally                            | ktonnes                | 339           | 318           | 356           |
| Pulp, purchased internally                            | ktonnes                | 146           | 125           | 115           |
| Chemicals (renewable)                                 | ktonnes                | 68.7          | 70.2          | 70.9          |
| <b>Total renewable materials</b>                      | <b>ktonnes</b>         | <b>10 595</b> | <b>10 413</b> | <b>11 580</b> |
| Chemicals (non-renewable)                             | ktonnes                | 411           | 381           | 428           |
| <b>Total materials used</b>                           | <b>ktonnes</b>         | <b>11 006</b> | <b>10 794</b> | <b>12 008</b> |
| <b>Air emissions (EN21)</b>                           |                        |               |               |               |
| Sulphur (S)   | tonnes                 | 411           | 411           | 404           |
| Of which various sources                              | tonnes                 | 217           | 164           | 202           |
| Nitrogen oxides (NO <sub>x</sub> )                    | tonnes                 | 3 001         | 3 098         | 3 231         |
| Dust  | tonnes                 | 550           | 688           | 1 168         |
| <b>Water withdrawal (EN8)<sup>1</sup></b>             |                        |               |               |               |
| Surface water   | million m <sup>3</sup> | 194           | 203           | 215           |
| <b>Water discharge (EN22)</b>                         |                        |               |               |               |
| Process water   | million m <sup>3</sup> | 141           | 148           | 152           |
| COD (oxygen-consuming organic compounds) <sup>2</sup> | tonnes                 | 28 808        | 30 132        | 31 891        |
| TSS (suspended solids)                                | tonnes                 | 3 651         | 3 906         | 3 674         |
| Organically bound chlorine (AO <sub>x</sub> )         | tonnes                 | 145           | 165           | 160           |
| Nitrogen (N) [t]                                      | tonnes                 | 470           | 499           | 447           |
| Phosphorus (P) [t]                                    | tonnes                 | 46            | 46            | 47            |
| <b>Waste (EN23)</b>                                   |                        |               |               |               |
| Process waste [t] <sup>3</sup>                        | tonnes                 | 61 937        | 59 802        |               |
| Hazardous waste [t] <sup>3</sup>                      | tonnes                 | 808           | 793           |               |

## Comments

BillerudKorsnäs used 2.5% fossil fuels in 2016, which is a small increase in the proportion of fossil fuels. This was a consequence of production disruptions at the end of the year and also led to an increase in direct emissions of carbon dioxide.

Indirect emissions of fossil carbon dioxide increased. The main causes were a changed emission factor and higher steam consumption at the unit in Tervasaari. The closure of Tervasaari will result in lower indirect emissions in 2017. In addition the company will buy all electricity with guarantees of origin for 2017, which will further reduce indirect emissions.

During the year there were no economic sanctions due to breach of environmental legislation.

|   | 2016          | 2015          | 2014          |
|---|---------------|---------------|---------------|
| <b>Energy consumption (EN3)</b>                                   |               |               |               |
| Solid biofuels, self-generated, GWh                               | 2 148         | 1 988         | 2 044         |
| Waste liquor, GWh   | 10 511        | 10 371        | 10 018        |
| Raw tall oil, GWh   | 11.4          | 117           | 113           |
| Other (e.g. soap, gas, turpentine, methanol), GWh                 | 171           | 167           | 154           |
| <b>Total self-generated biofuels, GWh</b>                         | <b>12 842</b> | <b>12 643</b> | <b>12 329</b> |
| Solid biofuels, purchased, GWh <sup>4</sup>                       | 642           | 767           | 961           |
| Tar oil, GWh <sup>4</sup>   | 815           | 721           | 737           |
| <b>Total purchased biofuels, GWh<sup>4</sup></b>                  | <b>1 457</b>  | <b>1 488</b>  | <b>1 698</b>  |
| <b>Total biofuels, GWh</b>  | <b>14 299</b> | <b>14 131</b> | <b>14 028</b> |
| Heavy and light fuel oil, GWh                                     | 147           | 142           | 167           |
| LPG, GWh  | 98            | 92            | 87            |
| Natural gas, GWh  | 122           | 113           | 117           |
| <b>Total purchased fossil fuels, GWh</b>                          | <b>366</b>    | <b>347</b>    | <b>371</b>    |
| <b>Total fuel consumption, GWh</b>                                | <b>14 665</b> | <b>14 478</b> | <b>14 399</b> |
| Proportion fossil fuels used, %                                   | 2.50          | 2.40          | 2.58          |
| Steam, bio-based (GWh)  | 265           | 250           | 261           |
| Steam, fossil-based (GWh)   | 45            | 32            | 54            |
| Hot water (GWh)   | 15            | 15            | 13            |
| <b>Total purchased steam, hot water (GWh)</b>                     | <b>326</b>    | <b>297</b>    | <b>328</b>    |
| Sold primary energy, GWh  | 396           | 376           | 396           |
| Sold secondary energy (waste heat), GWh                           | 580           | 576           | 582           |
| <b>Total sold energy, GWh</b>                                     | <b>976</b>    | <b>952</b>    | <b>977</b>    |
| Purchased electricity, GWh <sup>4</sup>                           | 1 660         | 1 772         | 1 793         |
| Self-generated electricity, GWh <sup>4</sup>                      | 1 451         | 1 366         | 1 424         |
| Sold electricity, GWh <sup>4</sup>                                | 48            | 48            | 49            |
| <b>Total electricity, GWh</b>                                     | <b>3 063</b>  | <b>3 089</b>  | <b>3 168</b>  |
| <b>Total energy consumption, GWh<sup>4</sup></b>                  | <b>15 852</b> | <b>15 817</b> | <b>15 777</b> |
| <b>Energy intensity MWh/t<sup>5</sup></b>                         | <b>5.346</b>  | <b>5.440</b>  | <b>5.476</b>  |
| <b>Greenhouse gas emissions CO<sub>2</sub>eq<sup>6</sup></b>      |               |               |               |
| Bio-generated fuels, kt CO <sub>2</sub> e                         | 4 080         | 5 086         | 4 855         |
| Fossil fuels, kt CO <sub>2</sub> e                                | 86            | 82            | 90            |
| <b>Total direct greenhouse gases, kt CO<sub>2</sub>e</b>          | <b>4 157</b>  | <b>5,168</b>  | <b>4,945</b>  |
| Purchased steam, kt CO <sub>2</sub> e                             | 15.7          | 11.1          | 4.1           |
| Purchased electricity, kt CO <sub>2</sub> e                       | 15.1          | 12.8          | 14.2          |
| <b>Total indirect greenhouse gases, kt CO<sub>2</sub>e</b>        | <b>30.8</b>   | <b>24.0</b>   | <b>18.3</b>   |
| <b>Intensity fossil CO<sub>2</sub>eq (EN18)</b>                   |               |               |               |
| From fuel, kg CO <sub>2</sub> e/tonne                             | 29.2          | 28.3          | 31.1          |
| From purchased electricity and energy, kg CO <sub>2</sub> e/tonne | 10.4          | 8.2           | 6.4           |
| <b>Total emissions for products, kg CO<sub>2</sub>e/tonne</b>     | <b>39.6</b>   | <b>36.6</b>   | <b>37.4</b>   |

<sup>1</sup> Rain and waste water are not used. Groundwater 0 m<sup>3</sup>, municipal water 0.23 million m<sup>3</sup> a year.

<sup>2</sup> COD is calculated from TOC. Discharge is to watercourses neighbouring the production plants.

<sup>3</sup> Reported volumes of waste for 2015 adjusted due to corrected calculations.

<sup>4</sup> Figures for purchased biofuels, purchased electricity, self-generated electricity and sold electricity have been corrected for 2015 and 2014 and therefore change the energy consumption and energy intensity for these years. BillerudKorsnäs is covered by the EU's Emission Trading System (EU-ETS). The emissions reported in this report are the actual emissions from operations and are not affected by this system. The conversion factor from GWh to TJ is 3.6.

<sup>5</sup> Use of electricity and energy minus fuel for self-generated electricity and sold energy.

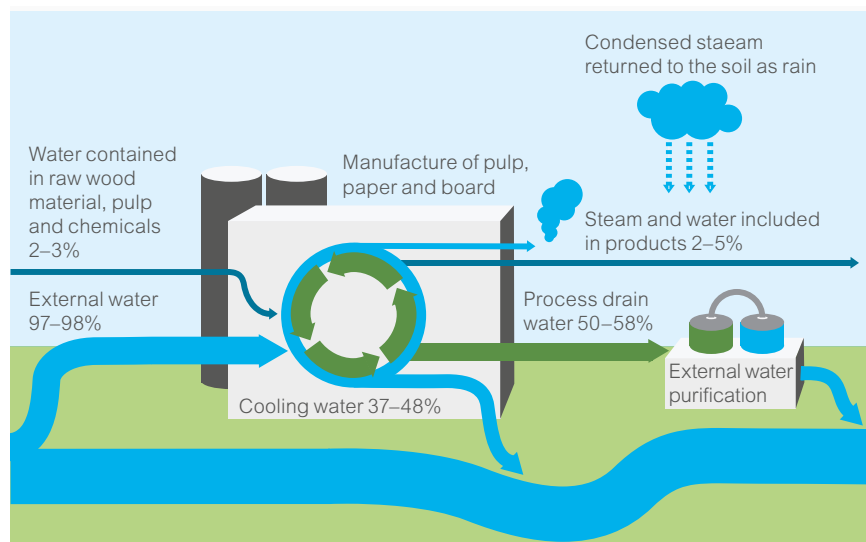
<sup>6</sup> Only CO<sub>2</sub> reported under EU-ETS. The emission factor for fossil CO<sub>2</sub> is 76.2 kg CO<sub>2</sub>/TJ



## Recycling water

Given BillerudKorsnäs' geographical location, the water issue as such is not critical to the company or its neighbours. The water that enters the production process is 97–98% surface water from neighbouring watercourses, the rest is from wood and chemicals. The water is used to wash pulp in several stages during manufacture. The paper pulp is moved in a water mixture over to the paperboard machine, where it is further diluted with circulating water to form a suspension, which then consists almost entirely of water. In total, virtually all the process water is recycled and reused in the production units. For the company as a whole, this means approximately 141 million m<sup>3</sup> water (page 52) or 73% of all water withdrawn is reused.

How many times the process water is used before purification varies between the sites. According to our examples, process water is used 30–50 times before being sent for biopurification. Almost all of the water withdrawn is returned to the



watercourse from which it was taken. The remaining water is mainly emitted as steam and vapour to the surrounding air, but some remains as moisture content in the products. During 2016 BillerudKorsnäs took the initiative to report water

to CDP. As water supply and consumption is one of the most important global sustainability issues, the initiative felt appropriate although the effects of the business on Swedish water resources is considered to be negligible.

## Transport emissions (EN17 and EN30)

|   | CO <sub>2</sub> eq greenhouse gas |         | NO <sub>x</sub> nitrogen oxides |       | CO carbon monoxide |      | HC hydrocarbons |      | SO <sub>2</sub> sulphur dioxide |       | PM particulates |      | Energy TJ |       |
|---|-----------------------------------|---------|---------------------------------|-------|--------------------|------|-----------------|------|---------------------------------|-------|-----------------|------|-----------|-------|
|   | 2016                              | 2015    | 2016                            | 2015  | 2016               | 2015 | 2016            | 2015 | 2016                            | 2015  | 2016            | 2015 | 2016      | 2015  |
| Employees <sup>1</sup> , air, rail and hire cars, tonnes      | 1 734                             | 1 735   | -                               | -     | -                  | -    | -               | -    | -                               | -     | -               | -    | -         | -     |
| Wood raw material <sup>2,3</sup> , rail, sea and road, tonnes | 59 122                            | 58 261  | 413                             | 404   | 85.2               | 83.9 | 52.5            | 51.6 | 23.2                            | 22.8  | 4.2             | 4.1  | 930       | 920   |
| Finished products <sup>3</sup> rail, sea, road, tonnes        | 208 511                           | 205 708 | 3 816                           | 3 746 | 403                | 393  | 313             | 307  | 1 550                           | 1 543 | 213             | 212  | 2 825     | 2 785 |

### Comments

The calculations show that total transport emissions increased somewhat between 2015 and 2016, by approximately 1.4% when it comes to greenhouse gases. This is consistent with the fact that total transport increased somewhat between the years, such that, for example, an almost 3% higher volume of wood raw material was transported during 2016 because the need for pulp, paper and board production was somewhat higher at that point compared with the previous year. In 2017 BillerudKorsnäs intends to set targets for emissions of greenhouse gases in line with Science Based Targets.

<sup>1</sup> There were no opportunities to report all the emission parameters from the travel agencies that BillerudKorsnäs hired. The report for 2016 additionally includes the use of hire cars.

<sup>2</sup> The calculation for wood transport has been expanded such that emissions from fuel apply from the source. Consequently, the values for 2015 have also been updated and are somewhat higher compared with the previous sustainability report. The proportion of biodiesel is assumed to be 7% due to current limitations of the calculation tool, but to judge by national statistics, it is likely that the proportion of biodiesel is higher in reality.

<sup>3</sup> The calculations are carried out in the web-based tool NTM Calc (<https://www.transportmeasures.org/en/>) and refer to emissions from source to transport work inclusive, in line with the Greenhouse Gas Protocol.

# Employee statistics

| Employee statistics 2016 (2015)                    |                          | Total         | Sweden        | Finland     | UK          | Baltic      | Sales offices |
|--|--------------------------|---------------|---------------|-------------|-------------|-------------|---------------|
| <b>Employees</b>                                   |                          |               |               |             |             |             |               |
| Average number of employees <sup>1</sup> (G4-10)   | No.                      | 4 274 (4 223) | 3 595 (3 519) | 170 (181)   | 140 (138)   | 91 (160)    | 278 (225)     |
| Employees at year-end                              | No.                      | 4 291 (4 212) | 3 648 (3 574) | 128 (181)   | 143 (136)   | 91 (99)     | 281 (222)     |
| of whom women                                      | %                        | 21.0 (19.9)   | 19.3 (18.4)   | 17.2 (16.0) | 9.1 (8.8)   | 23.1 (22.0) | 50.5 (52.2)   |
| of whom blue collar/workers                        | %                        | 58 (60)       | 62 (63)       | 65 (66)     | 68 (68)     | 82 (83)     | 0 (0)         |
| of whom white collar                               | %                        | 42 (40)       | 38 (37)       | 35 (34)     | 32 (32)     | 18 (16)     | 100 (100)     |
| Proportion of female managers <sup>2</sup>         | %                        | 21.9 (22.0)   | 21.9 (22.6)   | 11.8 (14.3) | 8.7 (9.1)   | 50.0 (66.7) | 35.5 (25.7)   |
| Average age (LA12)                                 | Years                    | 46.2 (46.7)   | 46.7 (47.0)   | 46.0 (48.0) | 48.0 (48.0) | 50.8 (52.7) | 37.8 (35.0)   |
| <b>Sick leave (LA6)</b>                            |                          |               |               |             |             |             |               |
| Total sick leave as % of hours worked              | %                        | 3.7 (3.6)     | 3.7 (3.7)     | 4.3 (5.0)   | 4.8 (3.7)   | 6.0 (6.1)   | 1.1 (0.6)     |
| Sick leave as proportion of hours worked, men %    | %                        | 3.7 (3.7)     | 3.6 (3.6)     | 4.2 (5.3)   | 4.9 (3.9)   | 7.4 (6.8)   | 0.4 (0.4)     |
| Sick leave as proportion of hours worked, women %  | %                        | 3.8 (3.5)     | 4.2 (4.0)     | 4.4 (3.7)   | 4.3 (1.2)   | 1.5 (3.9)   | 1.7 (0.8)     |
| <b>Work-related accidents (LA6)</b>                |                          |               |               |             |             |             |               |
| Work-related injuries <sup>3</sup> with sick leave | No.                      | 64 (72)       | 63 (65)       | 0 (5)       | 1 (2)       | 0 (0)       | 0 (0)         |
|  | No./100 employees        | 1.5 (1.7)     | 1.7 (1.8)     | 0 (3.3)     | 0.7 (1.4)   | 0 (0)       | 0 (0)         |
| Work-related injuries with sick leave              | No./million hours worked | 8.1 (9.5)     | 9.3 (9.9)     | 0 (23.2)    | 4.0 (7.9)   | 0 (0)       | 0 (0)         |
| Work-related injuries without sick leave           | No.                      | 444 (478)     | 413 (421)     | 7 (28)      | 24 (29)     | 0 (0)       | 0 (0)         |

<sup>1</sup> 91.3% of employees in Sweden, Finland, the UK and the Baltic countries are covered by collective agreements (G4-11).

<sup>2</sup> 42% of the Board of Directors are women, an increase from 2015 when this figure was 33%. The age distribution is 25% in the group aged 30–50 and 75% among those over 50, which is the same as in 2015. <sup>3</sup>The number of work-related injuries was reported monthly in 2016 for the whole company and was compared with the overall target.

## Comments

Changes compared with 2015 are minimal. In Finland the number of employees fell due to the closure of the paper machine in Tervasaari in order for it to be moved to Sweden.

The proportion of women increased in the company in general, although the pace was slower than planned at management level. Sick leave increased marginally, but is generally at normal levels.

As previously, it is in the older group of employees, aged over 50, that sick leave is highest. The negative trend in work-related accidents that was seen in 2015 turned around in 2016 with a reduction in work-related accidents. The number of injuries is still too high and major efforts are being made to reduce these further.

The age distribution for white and blue-collar workers is largely fairly similar, with the smallest proportion among

the youngest and oldest employees. However, the figures still show that there is a large proportion of white-collar employees in the groups aged 30–50 compared with blue-collar workers, while in the groups aged over 50, the reverse is the case.

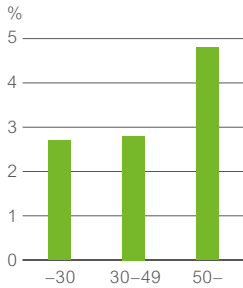
Pay surveys were carried out in line with current legislation at least once every three years at our production plants and offices, such that the locations of the surveys reported here have varied over the years. The surveys completed during the year did not show any unjustified pay differences between women and men for comparable occupational groups. From 2017 onwards the requirements under the Equality Act have been tightened up, whereby pay surveys must be carried out annually irrespective of the size of the organisation. This means that in the future pay surveys will be carried out on an annual basis at all relevant units.

**Pay surveys (LA13)<sup>1</sup>**

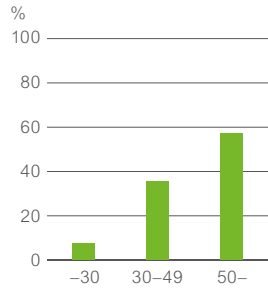
| Corrected average pay, comparable posts, women/men % |              |
|--|--------------|
| Section heads, operational managers                  | 106.2        |
| Engineers production, development, projects, etc.    | 98.3         |
| Laboratory staff                                     | 95.4         |
| Operators  | 99.3         |
| <b>Total all employees</b>                           | <b>102.7</b> |

<sup>1</sup> The report here concerns a production unit where a pay survey was carried out in 2016, i.e. a different unit from that in the Sustainability Report for 2015. A survey was also carried out for one office, but here the different posts were judged to be too dissimilar to be reported in a comparable manner in this summary. At one smaller production site, the gender distribution was far too uneven to provide a correct picture here. The analyses are based on companies and unions jointly identifying comparable occupational groups and where necessary excluding individual deviations arising due to historic reasons. At the production units the Lönevågen model is used ([www.edgehr.se](http://www.edgehr.se)), which evaluates the different requirements of the posts within the unit to attain comparability.

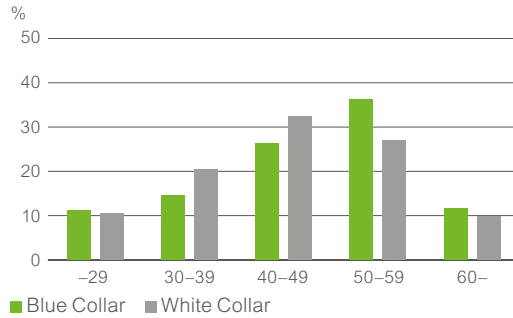
**Proportion sick leave per age group (LA6)**



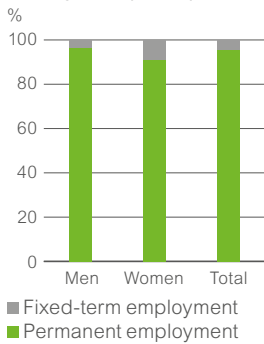
**Proportion of total sick leave per age group (LA6)**



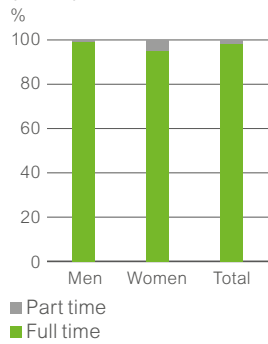
**Age distribution (LA12)**



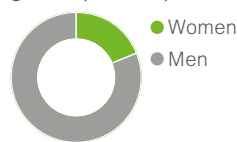
**Employees<sup>1</sup> form of employment (G4-10)**



**Employees<sup>1</sup> working hours (G4-10)**



**Proportion of employees by gender (G4-G10), %**



<sup>1</sup> Refers to employees in Sweden.

# 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 G4 serves as part of the annual reporting – Communication on Progress – to the UN Global Compact. Our reporting is qualified for level Advanced 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 page 51.



# Management systems and certificates

## 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 under way to create more company-wide management systems, known as multisite certificates. Achieved during the year:

- Quality (ISO 9001) and environment (ISO 14001). We continued to introduce a multisite certificate for quality and the environment. Initially the management system will only include the production units, to be followed by the sales offices and other functions.
- Energy (ISO 50001). Work to implement a joint energy management system at the Swedish production units has continued in 2016. This is a multisite certificate and covers all the Swedish production units.
- Forestry (FSC® FM/PEFC™ FM) and traceability (FSC® CoC/PEFC™ CoC). New company-wide procedures were drawn up in 2016 and all Swedish certificates were transferred to the certification body SGS. Operations in China and the US are now also being reported by SGS. The next step in 2017 is to evaluate whether BillerudKorsnäs should have a company-wide multisite certificate to further rationalise work.

## Company-wide IT support

New company-wide IT support was introduced to facilitate operation of the company-wide management systems. All the Swedish production plants were migrated to this IT support during the year.

## Data security

In 2016 the company continued to implement data security. A policy was drawn up and approved by the management. Based on work with a pilot area, a model was created for continued work, including norm scales for assessing security needs, guidelines and an incident management system. Data security deficiencies identified were rectified as part of the process.

## New IT support for sustainability reporting

During the year a new tool was implemented to facilitate and safeguard reporting of energy and environmental data for sustainability reporting and other internal and external reporting.

## 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 Operational Excellence 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.

## Policies and guidelines

- Alcohol and drug policy
- Health and safety policy
- Purchasing policy and guidelines
- Climate strategy
- Communication policy
- Pay policy
- Data security policy
- Policy for compliance with international sanctions
- Policy for compliance with competition law
- Whistleblower policy
- Anti-corruption policy
- Risk management policy
- Guidelines on health work
- Credit guidelines
- Guidelines for work on diversity
- Travel guidelines
- Timber supply guidelines
- Guidelines and action plan for victimisation and harassment
- Tax policy
- Treasury policy
- Code of Conduct
- Operational policy

## Certificates at BillerudKorsnäs 2016<sup>1</sup>

|             | ISO 9001 | ISO 14001 | ISO 50001 | FSSC 22000/<br>ISO 2000 | OHSAS<br>18001 | FSC® FM/<br>PEFC™ FM | FSC® CoC/<br>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 work have been seen as sufficiently rigorous to attain ambitious work environment targets. Not all units need food safety certificates, and this therefore varies.

# 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
- RISE Research Institutes of Sweden AB – the state-owned company for Swedish industrial research institutions. The Bioeconomy division carries out research in areas such as paper, packaging and fuels.
- Miljöpack – business group within Innventia that works for resource-efficient packaging
- Normpack – business group within 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®
- Wallenberg Wood Science Center – a research centre in the new materials sector with the forest as a raw material

# Stakeholder dialogue

What did stakeholders think? BillerudKorsnäs reviews the aspects and indicators that are of vital importance to the business and stakeholder decision-making on an annual basis. We use GRI G4 – international guidelines for sustainability reporting – as our starting point.

## Stakeholder dialogue

BillerudKorsnäs' key stakeholders are investors, customers, suppliers, employees and society. The materiality analysis previously carried out was not updated during the year as a major update is set to take place in 2017 as part of the transition to GRI standards. Previous materiality analyses have taken on board experience from the ongoing stakeholder dialogue

shown on the following pages. The analysis was based on these two materiality criteria:

- Relevance to BillerudKorsnäs given the operations the company carries out and the sustainability impact the company has.
- Relevance to the company's stakeholders in their decision-making.

## Our ongoing stakeholder dialogue

| Stakeholder groups | Definition   | Dialogue forum   | Questions/focus   | Response/outcome   |
|--------------------|--|--|---|--|
| <b>Investors</b>   | Shareholders<br>Analysts<br>Potential investors                                    | Annual Report including Annual Review and Sustainability Report, interim reports, external reporting systems, questionnaires from analysts, website, investor meetings, meetings with analysts, press conferences, capital market day, questionnaires from investors, materiality analysis, questionnaires from ethical and environmental funds. | Sustainable economic value development, strategies, challenges, risk management, climate change, environmental impact, labour practices, health and safety, ethics, Code of Conduct, human rights in the supply chain.  | Sustainability Report, strategic platform, risk management policy, reporting climate work and forestry in CDP, Climate Leader award, sustainability ranking from analysts, Code of Conduct based on UN Global Compact, Science Based Targets.  |
| <b>Customers</b>   | Existing customers<br>Potential customers<br>Customers' customers<br>End-consumers | Meetings, daily contact, network collaboration on liquid packaging board, fairs, seminars, customer surveys, external reporting systems, questionnaires from customers, materiality analysis.  | Sustainable business, Code of Conduct, economy, environmental issues (e.g. carbon dioxide emissions, biodiversity, life cycle analyses, product labelling (PEF) and discharges), working conditions (e.g. safety in the workplace, human rights in the supply chain, EUTR). | Sustainability Report, strategic platform, sales support and sustainability training, product development, responses to surveys, life cycle analyses for products, Gold CSR ranking EcoVadis, projects with WWF on biodiversity, EUTR report.  |
| <b>Employees</b>   | Current employees  | Workplace meetings, management meetings, internal training, employee surveys, cooperation council, incident follow-up, performance reviews, materiality analysis.  | Code of Conduct, business ethics questions, performance management, work environment and safety, cooperation, fitness measures, diversity, work-life balance.   | Sustainability Report, strategic platform, talent management, model for improvement work, health and safety working group, health and safety policy, whistleblower policy, action plan on victimisation, extended trainee programme, responses to questionnaires, web-based training on anti-corruption, partnership with ActionAid. |
|                    | Union representatives  | Local collaborative meetings, collaborative forum at Group level, European Works Council, analysis, pay survey, diversity group.   | Health and safety, young people's work experience, performance management, finance, terms of employment, human rights, diversity.   | Open and constructive dialogue, pay surveys, guidelines for work on diversity.   |

| Stakeholder groups | Definition                                  | Dialogue forum  | Questions/focus  | Response/outcome  |
|--------------------|---|---|--|---|
| Business partners  | Partners                                    | Close contacts and development projects.  | Developing sustainable and resource-efficient packaging, business models, sustainable economic value development, Code of Conduct, reduced environmental impact  | Sustainability Report, strategic platform, launching new products, new business models.   |
|                    | Existing suppliers                          | Procurement, supplier evaluations, materiality analysis, discussion meetings.   | Code of Conduct, requirements regarding internationalisation, finance, reduced environmental impact, safety in the workplace.  | Sustainability Report, new supplier assessment model and manual.  |
|                    | Lenders                                     | Personal meetings, financial communication.   | Economic value development sustainable in the long term.   | Strategic platform  |
| Society            | Local residents, local societies            | External viewpoints, information meetings, materiality analysis.  | Emissions to air and water, events and plans for the future at plants, planning forestry, nature conservation issues.  | Sustainability Report, dialogue for understanding, measures to reduce disruptions, sponsorship of local activities, collaboration projects.   |
|                    | Schools<br>Universities<br>Future employees | Ongoing contacts and collaboration, careers fairs at colleges and universities, study visits, talks, interviews/questionnaires for dissertations/essays, competitions, network, social media, career website, Forest in School. | Talent requirements, content of training, internships, the company's strategies, talent management activities, industry issues, customer requirements, focus on sustainability, certification, environmental impact, energy, ethics, working conditions, terms of employment, sustainable products, corporate culture.                 | Dialogue between business and education, a stronger recruitment base, wider range of technical training, designing upper secondary school programmes, Sustainability Report, sponsorship, grants, trainee programme, internships, summer jobs, documented work with schools, passing on knowledge about the industry, company rankings, employer branding strategy, employee reportage, Tekniksprånget, |
|                    | Agencies Ministries                         | Contacts with county administrative boards/municipalities, statutory environmental reports, scrutiny for production permits, consultation, harvesting reports, decision-makers in the EU and the Swedish Government Offices.    | Dialogue on relevant political issues important to operations, such as environmental, industry and transport policy. Locally with a focus on emissions to air and water, noise, energy, land issues, waste, use of chemicals, protecting the natural and cultural environment in forestry, delimiting nature conservation initiatives. | Greater understanding of the conditions under which we operate. This may involve points of view on environmental issues, new production permits, go-ahead on key biotopes from Swedish Forest Agency.   |
|                    | External auditors Certification bodies      | Audits, social issues in working groups for standard audits.  | Legislation and criteria of the standard in question.  | Certification for operations, designing new standards.  |
|                    | Industry organisations                      | Working groups, directorships, inquiries, information meetings, development work, producing opinions on relevant policy issues.   | Legislation, energy and climate, research questions, standardisation, circular economy, waste directive, bio-based products, industry targets, policies and strategies.  | Industry information, shared targets, development activities, representation in EU working groups, response to consultation, designing new standards.   |



# External evaluation

BillerudKorsnäs is evaluated on an ongoing basis by many customers and analysts through surveys on performance and working 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 2016.

- **CDP CLIMATE.** World Leader for Corporate Action on Climate Change. Commissioned by institutional investors, CDP (Driving Sustainable Economies) compiles its A List of companies that demonstrate global climate leadership.
- **DOW JONES SUSTAINABILITY EUROPE INDEX.** BillerudKorsnäs was included in this index for the first time as a Sustainability Leader in Containers & Packaging.
- **EcoVadis.** A system for annual sustainability assessment of around 20,000 suppliers to global enterprises. For the third 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'.
- **WWF Check Your Paper.** BillerudKorsnäs received a WWF Environmental Paper Award in 2016 in the category 'Striving for Continual Improvement' for having evaluated its impact on the forest, climate and water for specific products using WWF's Check Your Paper method.

## 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                      |
| Oekom Research                              | 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, the 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' Sustainability Report**

*This is the translation of the auditor's report in Swedish.*

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 2016. The sustainability report is accompanied by a separate GRI Index in English available on <http://billerudkorsnas.com/Sustainability/>. The company has defined the scope of the Sustainability Report on page 50 in the Annual and Sustainability report 2016.

### Responsibilities of the Board of Directors and the Group Management for the Sustainability Report

The Board of Directors and the Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 50 in the annual report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which 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 a Sustainability Report that is free from material misstatements, whether due to fraud or error.

### Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the prepara-

tion of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. 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. Consequently, the procedures performed do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

### Conclusion

Based on the limited assurance procedures we have 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 Group Management.

Stockholm, March 22, 2017  
KPMG AB

Ingrid Hornberg Román  
*Authorized Public Accountant*

Karin Sivertsson  
*Expert Member of FAR*

# Directors' report

The Board and CEO of BillerudKorsnäs AB (publ), corporate identity number 556025-5001, herewith submit the annual report and the consolidated annual accounts for the 2016 financial year. Figures for the previous year are stated in brackets, 2016 (2015). This English version is a translation of the Swedish original.

BillerudKorsnäs' EBITDA (gross margin) and operating profit declined in 2016, by SEK 397 million and SEK 541 million or 10% and 21% compared with 2015. The decline was principally due to expenses at the end of the year resulting from the decision to invest in a new board machine in Gruvön and the fact that the profit for 2015 contains a capital gain from sale of the pellet business in Latvia (SIA Latgran).

## 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 carton-board. The packaging market is showing continued positive long-term development, primarily as a result of greater globalisation through increased world trade, urbanisation, digitisation and greater awareness of sustainability. 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 2016 operations were divided into the three business areas: Packaging Paper, Consumer Board and Corrugated Solutions.

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.

Consumer Board delivers packaging materials in high-quality board made from primary fibre for beverages, food products and various other consumer goods.

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. Supply chain solutions for packaging optimisation are a key component of the offering.

Group net sales for the whole year decreased by 1% compared with the previous year due to the disposal of Latgran and lower average prices, principally for fluting and pulp. Sales to North

and South America and Africa developed positively. Around 29% of combined sales volume in 2016 took place outside Europe, representing a small rise compared with 2015. The trend in sales was slightly offset by a more favourable exchange rate.

Sales volumes increased by 1% to a record level of 2 772 ktonnes.

Net sales in Corrugated Solutions increased in the comparison with the previous year due to increased production of fluting with the previous year's rebuild of PM6 in Gruvön and continued healthy growth for Managed Packaging. The addition of several new programmes and an increase in orders at the end of the year led to sales for December being the highest ever recorded in Managed Packaging. Consumer Board reported sales in line with the previous year, after disruptions of production and assets had led to an inability to fully satisfy our key customers' delivery requests. Sales of Packaging Paper fell, principally due to pulp prices and closure of Tervasaari.

## Sales volumes by business area

| ktonnes              | 2016         | 2015         |
|----------------------|--------------|--------------|
| Packaging Paper      | 1 167        | 1 163        |
| Consumer Board       | 1 051        | 1 065        |
| Corrugated Solutions | 554          | 506          |
| <b>Total</b>         | <b>2 772</b> | <b>2 734</b> |

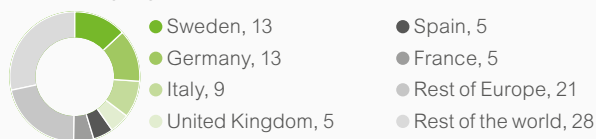
## Net sales in 2016, %



## Net sales by business area

| SEKm                   | 2016          | 2015          |
|------------------------|---------------|---------------|
| Packaging Paper        | 8 339         | 8 552         |
| Consumer Board         | 8 015         | 8 006         |
| Corrugated Solutions   | 3 620         | 3 329         |
| Other units            | 1 647         | 2 012         |
| Currency hedging, etc. | 36            | -85           |
| <b>Total</b>           | <b>21 657</b> | <b>21 814</b> |

### Net sales by region in 2016, %



### Net sales by region

| SEKm              | 2016          | 2015          |
|-------------------|---------------|---------------|
| Sweden            | 2 763         | 2 477         |
| Germany           | 2 918         | 2 866         |
| Italy             | 1 923         | 1 931         |
| United Kingdom    | 1 170         | 1 431         |
| Spain             | 1 130         | 1 118         |
| France            | 1 049         | 1 113         |
| Rest of Europe    | 4 583         | 5 017         |
| Rest of the world | 6 121         | 5 861         |
| <b>Total</b>      | <b>21 657</b> | <b>21 814</b> |

### Financial targets

To support BillerudKorsnäs' target for profitable growth and return for shareholders, the following financial targets have been introduced from 2016.

- Long-term target for organic growth of 3–4% per year.
- The EBITDA margin should exceed 17%. This target replaces previous operating margin targets.
- Return on capital employed (ROCE) should exceed 13%.
- Interest-bearing net debt in relation to EBITDA should be less than a multiple of 2.5. This target replaces previous targets for the net debt/equity ratio.
- The dividend policy is unchanged – the dividend should be 50% of net profit.

In recent years, BillerudKorsnäs has shown stable underlying earnings, despite market conditions varying between business areas. As a result of this, the aim is to achieve the financial targets irrespective of the economic cycle.

BillerudKorsnäs' long-term financial targets up to December 2015 were:

- Over an economic cycle, the operating margin should exceed 10%.
- Over an economic cycle, the return on capital employed should exceed 13%.
- The net debt/equity ratio should be less than 0.9.
- Over an economic cycle, the dividend should average 50% of net profit.

### Sales and earnings

Net sales totalled SEK 21 657 million, a decrease of 1% due to the divestiture of the pellet business in Latvia (SIA Latgran).

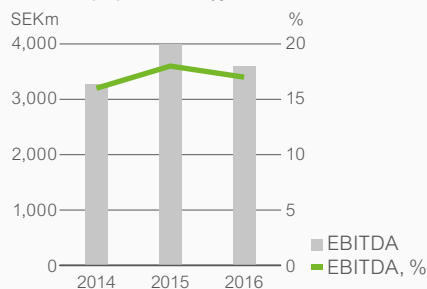
EBITDA decreased to SEK 3 606 million (4 003) and operating profit decreased to SEK 2 045 million (2 586), principally due to expenses of SEK 205 million at the end of the year resulting from the decision to invest in a new board machine (KM7) in Gruvön and the fact that the 2015 result contains a capital gain of SEK 440 million from sale of SIA Latgran. This also meant a decrease in gross margin (EBITDA, %), which was 17% (18). Operating profit was also affected negatively by an impairment write-down of SEK 120

million related to plant and equipment in Gruvön due to the decision to invest in KM7. The operating margin was 9% (12). See note 6 for more information regarding items affecting comparability.

Net financial items totalled SEK –108 million (–175). Profit before tax was SEK 1 937 million (2 411) and estimated tax was SEK –419 million (–443). Net profit totalled SEK 1 518 million (1 968).

Return on equity for the period was 12% (16) and return on capital employed was 12% (15). A dividend of SEK 4.30 per share is proposed (4.25).

### EBITDA and EBITDA %



### Five-year summary

|  | 2016   | 2015   |
|--|--------|--------|
| Net sales, SEKm  | 21 657 | 21 814 |
| Operating profit before depreciation/amortisation (EBITDA), SEKm | 3 606  | 4 003  |
| Gross margin (EBITDA), %   | 17     | 18     |
| Operating profit/loss, SEKm                                      | 2 045  | 2 586  |
| Operating margin, %  | 9      | 12     |
| Return on capital employed, %                                    | 12     | 15     |
| Profit/loss before tax, SEKm                                     | 1 937  | 2 411  |
| Net profit/loss, SEKm  | 1 518  | 1 968  |
| Earnings per share, SEK  | 7.33   | 8.75   |

### EBITDA<sup>1</sup> split by business area in 2016, %



### Gross margin (EBITDA)/margin by business area

|                              | 2016         |           | 2015         |           |
|------------------------------|--------------|-----------|--------------|-----------|
|                              | SEKm         | %         | SEKm         | %         |
| Packaging Paper              | 1 486        | 18        | 1 456        | 17        |
| Consumer Board               | 1 723        | 21        | 1 657        | 21        |
| Corrugated Solutions         | 829          | 23        | 724          | 22        |
| Other units                  | –131         |           | 546          |           |
| Currency hedging, etc.       | 37           |           | –85          |           |
| Group staff and eliminations | –338         |           | –295         |           |
| <b>Total</b>                 | <b>3 606</b> | <b>17</b> | <b>4 003</b> | <b>18</b> |

For quarterly data, see page 130-131.

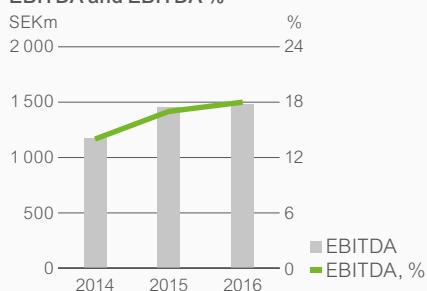
### Operating segments

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 'Accounting policies' from page 101.

## 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   | 2016         | 2015         |
|--|--------------|--------------|
| Net sales  | 8 339        | 8 552        |
| Operating expenses, net                          | -6 853       | -7 096       |
| <b>EBITDA</b>                                    | <b>1 486</b> | <b>1 456</b> |
| EBITDA, %  | 18%          | 17%          |
| Depreciation, amortisation and impairment losses | -496         | -485         |
| <b>Operating profit/loss</b>                     | <b>990</b>   | <b>971</b>   |
| Operating margin                                 | 12%          | 11%          |
| <b>Sales volumes, ktonnes</b>                    | <b>1 167</b> | <b>1 163</b> |
| of which packaging paper                         | 746          | 733          |

### Profit trend

EBITDA increased by SEK 30 million to SEK 1 486 million, and operating profit increased by SEK 19 million compared with 2015 to SEK 990 million, which represent an increase of 2%. The increase was principally due to a more favourable exchange rate and product mix. Sales volumes were at the same level as the previous year. Prices for packaging paper in local currency were stable during the year and increased somewhat during the fourth quarter. Prices in local currency for market pulp were stable throughout the year.

### Market development

Order levels for both sack and kraft paper were normal for most of the year. Orders received increased during the last quarter of the year in comparison with previous years.

The market for NBSK pulp was stable during the year. Prices in Europe increased to approximately USD 810 per tonne at year-end, compared with approximately USD 800 per tonne at the beginning of the year.

### Key events in 2016

#### Investment programme for growth and efficiency

A decision to continue investment in Skärblacka was made in 2016, with the aim of making Skärblacka a world-leading centre for manufacturing machine glazed kraft paper (MG paper). The investment will see the paper machine in Tervasaari in Finland move to Skärblacka in 2017. The Tervasaari machine is one of the largest MG paper machines in the world. In Skärblacka, it will

be fully integrated with pulp production, which will give it 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.

#### Introduction to Axello ZAP

BillerudKorsnäs introduced a new packaging concept during the year – a renewable, recyclable, dust-tight and insect-proof paper packaging for dry foods. The concept has been developed together with Bosch Packaging Technology (Bosch). The packaging is made from a specially developed paper, Axello ZAP, which is the only paper that is adapted to run in Vertical Form, Fill and Seal (VFFS) with the Bosch PME ZAP module.

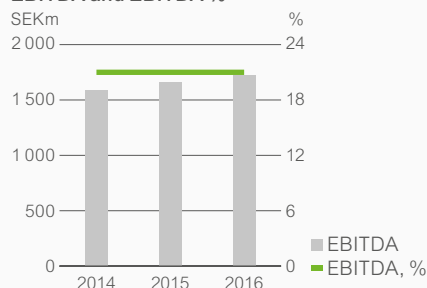
#### New life cycle analysis

BillerudKorsnäs commissioned IVL Swedish Environmental Research Institute to compare a paper bag made of new fibre from BillerudKorsnäs with carrier bags based on recycled paper, recycled plastic and bioplastic. The outcome of the analysis was that a recycled plastic bag has twice the carbon footprint of a BillerudKorsnäs paper bag.

### Consumer Board

Consumer Board supplies packaging materials consisting of high-quality liquid board and packaging 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. Europe is the largest market.

### EBITDA and EBITDA %



### Consumer Board

| SEKm   | 2016         | 2015         |
|--|--------------|--------------|
| Net sales  | 8 015        | 8 006        |
| Operating expenses, net                          | -6 292       | -6 349       |
| <b>EBITDA</b>                                    | <b>1 723</b> | <b>1 657</b> |
| EBITDA, %  | 21%          | 21%          |
| Depreciation, amortisation and impairment losses | -759         | -703         |
| <b>Operating profit/loss</b>                     | <b>964</b>   | <b>954</b>   |
| Operating margin                                 | 12%          | 12%          |
| <b>Sales volumes, ktonnes</b>                    | <b>1 051</b> | <b>1 065</b> |

### Profit trend

Thanks to a favourable exchange rate and a change in product mix, net sales are unchanged compared with the same period last year, despite a fall in volume of sales of nearly 1%. Sales volumes fell as a result of disruptions to production in Frövi during the fourth quarter of 2015 and the start of 2016, which led to a decline in stock available for delivery.

EBITDA increased by SEK 66 million and operating profit by SEK 10 million, which represent an increase of 4% and 1% in comparison with 2015, principally due to lower variable costs and more stable cartonboard production.

#### Market development

Orders received for liquid and packaging board were stable and satisfactory during the year, with normal seasonal variations. Prices in local currency were unchanged compared to previous year.

#### Key events in 2016

##### Major investment in Gruvön

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 will result in the construction of a new board machine at the Gruvön production plant and in rebuilds 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. The investment project will start immediately and production is expected to start in the first quarter of 2019.

##### Full-scale test to add MFC to board production

BillerudKorsnäs decided to go ahead with full-scale tests to add microfibrillar cellulose (MFC) to its board products. After small-scale tests were performed in 2016, full-scale tests will now be conducted starting in 2017. The full-scale tests are being carried out in cooperation with the Norwegian company Borregaard.

##### Launch of BillerudKorsnäs White in the United States

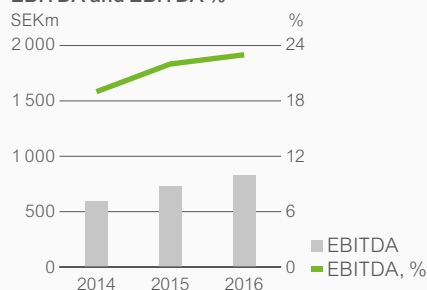
BillerudKorsnäs White, a cartonboard based on primary fibre, was launched during the year. The surface of the cartonboard has been developed to allow sophisticated printing, something that is often in demand among premium sector brands in areas such as beverages, chocolates and confectionery.

#### 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 optimisations, with a view to challenging conventional solutions.

The name change as of 1 January 2016 from Containerboard to Corrugated Solutions reflects the organisational and strategic changes being made in this business area in order to fully integrate the business model for sales of solutions and increase the proportion of sales to brand owners around the world.

#### EBITDA and EBITDA %



#### Corrugated Solutions

| SEKm   | 2016       | 2015       |
|--|------------|------------|
| Net sales  | 3 620      | 3 329      |
| Operating expenses, net                          | -2 791     | -2 605     |
| <b>EBITDA</b>                                    | <b>829</b> | <b>724</b> |
| EBITDA, %  | 23%        | 22%        |
| Depreciation, amortisation and impairment losses | -182       | -173       |
| <b>Operating profit/loss</b>                     | <b>647</b> | <b>551</b> |
| Operating margin                                 | 18%        | 17%        |
| <b>Sales volumes, ktonnes</b>                    | <b>554</b> | <b>506</b> |

#### Profit trend

Net sales increased by 9% as a result of increased volume for fluting and growth for Managed Packaging. 2015 was affected by lower fluting volumes during the rebuild of Gruvön PM6.

EBITDA increased by SEK 105 million, and operating profit rose by SEK 96 million compared with the previous year, corresponding to an increase of 15% and 17% respectively. The improvement is principally due to increased volumes, lower delivery costs and lower variable costs.

#### Market development

Market position and orders for fluting were fairly strong during the year, despite pressure on prices. The order situation for liner developed favourably, driven by high demand. Managed Packaging continued to grow and generate new business during the year.

#### Key events in 2016

##### A year of consolidation for vigorous new efforts.

During the year, the business area focused on implementing the organisation established in 2015. Intensive work took place in fluting and liner to ensure that investments made previously in the production units result in the desired capacity, so that the investments create growth and value. The new organisation and the reinforcements in production provide a solid foundation for continued investments and initiatives.

##### Optimal packaging solutions for brand owners.

BillerudKorsnäs Managed Packaging, whose business model is based on integrated solutions, continuously analyses opportunities to optimise packaging for various sectors. This operation was extended to more segments during the year. An example for 2016 includes the development of a complete packaging portfolio in corrugated board for an American grill equipment company. BillerudKorsnäs designed completely new packaging for the customer, optimised for each product. As the customer had previously used

PET packaging, the solution was not only better from the design point of view but also reduced the customer's use of fossil materials.

#### Strengthened supplier control

During the year further resources were added to assess the company's production partners in Managed Packaging, in the form of a Regional Compliance Officer based at the office in Shenzhen, China.

#### Organic growth

Organic growth, which is measured as the increase in net sales adjusted for additions and deductions with amounts corresponding to the sales revenue of acquired and divested operations, was 0.3% in 2016.

| SEKm                                  | 2016          | 2015          |
|---------------------------------------|---------------|---------------|
| Net sales                             | 21 657        | 21 814        |
| SIA Latgran Jan-June 2015             |               | 476           |
| ScandFibre Logistics AB               | 264           |               |
| <b>Net sales for comparable units</b> | <b>21 393</b> | <b>21 338</b> |

#### Investments and capital employed

Gross investments in 2016 amounted to SEK 1 645 million (1 710).

The most important investment event in 2016 was the decision by the Board in December to build a board machine in Gruvön. As well as a new board machine (KM7), it includes adaptations of the pulp mill and the infrastructure at Gruvön to the new board machine. Production is expected to start in the first quarter of 2019.

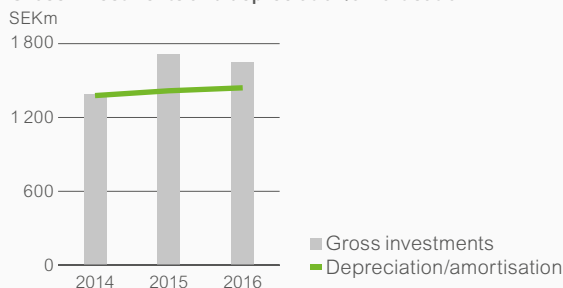
In June 2016, a decision was made to strengthen Skärblacka as a world-leading kraft paper centre by upgrading one of the MG machines with surface treatment equipment, in order to make more advanced products, and installing a third MG machine by moving an existing machine from Tervasaari in Finland to Skärblacka and consequently integrating it with pulp production. The investment programmes in Gruvön and Skärblacka total SEK 5 700 million and SEK 1 280 million respectively and will be financed with both market- and bank debt.

BillerudKorsnäs' capital employed at 31 December 2016 totalled SEK 16 906 million (17 397). Return on capital employed, calculated over the past 12-month period, was 12% (15). Return on equity was 12% (16).

The investment level is expected to be around SEK 4 300 million in 2017.

Working capital in the fourth quarter totalled 11% (10) in relation to net sales. During the year, further work was undertaken to keep the level of working capital at a long-term sustainable level in relation to net sales.

#### Gross investments and depreciation/amortisation



#### Cash Flow and Financial Position

##### Statement of Cash Flows, Summary

| SEKm                                       | 2016         | 2015         |
|--|--------------|--------------|
| Operating surplus, etc.                    | 3 781        | 3 622        |
| Change in working capital, etc.            | 332          | 120          |
| Net financial items, taxes, etc.           | -371         | -84          |
| <b>Cash flow from operating activities</b> | <b>3 742</b> | <b>3 658</b> |
| Current net investments                    | -1 641       | -1 701       |
| <b>Operating cash flow</b>                 | <b>2 101</b> | <b>1 957</b> |

Cash flow from operating activities in 2016 totalled SEK 3 742 million (3 658) and operating cash flow was SEK 2 101 million (1 957). The increase is primarily attributable to increased operating surplus and reduced working capital.

Net interest-bearing debt at 31 December 2016 was SEK 3 884 million (4 979). The ratio of Group net interest-bearing debt to EBITDA at the end of the period was 1.08 (1.24). BillerudKorsnäs' financial target for its net debt/EBITDA ratio is that it should be less than 2.50.

#### Financing

At 31 December 2016, interest-bearing loans amounted to SEK 3 829 million (4 395). Of these interest-bearing loans, bond loans amounted to SEK 1 800 million (2 200), commercial paper programmes utilised by BillerudKorsnäs (with a maximum limit of SEK 3 000 million) SEK 0 million (349) and other interest-bearing debt SEK 2 029 million (1 846). Of the bond loans, SEK 300 million falls due in 2017 and SEK 1 500 million in 2018.

The syndicated credit facility with a maximum limit of SEK 5 500 million falling due in 2019 was unused at year-end.

#### Capital Structure, summary

| 31 December                      | 2016   | 2015   |
|----------------------------------|--------|--------|
| Capital employed, SEKm           | 16 906 | 17 397 |
| <b>Financing:</b>                |        |        |
| Interest-bearing net debt, SEKm  | 3 884  | 4 979  |
| Interest-bearing net debt/EBITDA | 1.08   | 1.24   |
| Equity, SEKm                     | 13 022 | 12 418 |
| Net debt/equity ratio, multiple  | 0.30   | 0.40   |

#### 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.

Currency hedging had a combined earnings impact of SEK -54 million (-125) for 2016 (compared with if no hedging had taken place).

BillerudKorsnäs' outstanding foreign exchange contracts at 31 December 2016 had a market value of SEK -60 million, of which SEK -24 million is the portion of the contracts corresponding to accounts receivable that has affected earnings. Other contracts had a market value of SEK -36 million.

The hedged proportion of currency flows and the SEK exchange rates for EUR, USD and GBP at 31 December 2016 are shown in the table below.

Hedged proportions of currency flows for EUR, USD and GBP and exchange rates against SEK.

| Currency  | Q 1 -17 | Q 2 -17 | Q 3 -17 | Q 4 -17 | Q 1 -18 | Total 15 months |
|---|---------|---------|---------|---------|---------|-----------------|
| EUR   | 79%     | 78%     | 78%     | 78%     | 70%     | 76%             |
| Exchange rate                                   | 9.51    | 9.51    | 9.56    | 9.56    | 9.64    | 9.55            |
| USD   | 88%     | 71%     | 64      | 59%     | 48%     | 66%             |
| Exchange rate                                   | 8.49    | 8.62    | 8.66    | 8.89    | 9.05    | 8.70            |
| GBP   | 31%     | –       | –       | –       | –       | 6%              |
| Exchange rate                                   | 11.50   |         |         |         |         | 11.50           |
| Market value of currency contracts <sup>1</sup> | -34     | -21     | -12     | -2      | 9       | -60             |

<sup>1</sup> The table shows the situation at 31 December 2016.

### Tax situation

BillerudKorsnäs' effective tax rate is estimated normally at 21–23%. The tax expense for 2016 was SEK 419 million, equivalent to a tax rate of 21.6%. The tax expense for 2015 was SEK 443 million, equivalent to 18.4%. The low tax rate for 2015 was mainly due to a non-taxable capital gain from the sale of SIA Latgran.

### Environmental and permit issues

BillerudKorsnäs has six production units in Sweden, two 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 2016. 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 allowances for carbon dioxide within the EU. The allocation for the eight-year period that began in 2013 exceeds total projected emissions.

### 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 0.7% (0.5) of BillerudKorsnäs' operating costs.

### Seasonal factors

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 items of cost in a maintenance shutdown are loss of volume arising from the shutdown and fixed costs, mainly costs of maintenance and overtime work, 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 materials. The demand for building materials in Europe is generally higher in May–October.

### Share structure

At 31 December 2016, share capital totalled SEK 1 537 642 793, represented by 208 219 834 shares. The number of shares on the market totalled 207 089 336.

No shares have been repurchased since year-end 2004.

### Allocation of shares

| 31 December                                  | 2016        |
|--|-------------|
| Registered number of shares at start of year | 208 219 834 |
| Repurchased shares in Company treasury       | –1 130 498  |
| Shares on the market                         | 207 089 336 |

### Maintenance shutdowns

| Production unit | Estimated shutdown cost | Estimated distribution of shutdown cost by business area |                |                      | Planned times for maintenance shutdowns |      |      |
|-----------------|-------------------------|--|----------------|----------------------|---|------|------|
|                 | SEKm                    | Packaging Paper  | Consumer Board | Corrugated Solutions | 2017                                    | 2016 | 2015 |
| Gävle           | ~ 140                   | ~ 5%   | ~ 80%          | ~ 15%                | Q3                                      | Q3   | Q3   |
| Gruvön          | ~ 140                   | ~ 40%  | ~ 10%          | ~ 50%                | Q 1 2                                   | Q2   | Q2   |
| Frövi           | ~ 90                    | –  | 100%           | –                    | Q4                                      | Q4   | Q4   |
| Skärblacka      | ~ 120                   | ~ 85%  | –              | ~ 15%                | Q2                                      | Q2   | Q4   |
| Skärblacka      | ~ 20                    | 100%   | –              | –                    | Q 3 4                                   | –    | –    |
| Karlsborg       | ~ 55                    | 100%   | –              | –                    | Q3                                      | Q3   | Q3   |
| Pietarsaari     | ~ 15                    | 100%   | –              | –                    | Q2                                      | –    | Q4   |
| Rockhammar      | ~ 15                    | –  | 100%           | –                    | Q3                                      | Q4   | –    |

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



### **BillerudKorsnäs shares**

The share capital of BillerudKorsnäs AB is represented by 208 219 834 ordinary shares, of which 1 130 498 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 2016. 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 exist between the Company, other Group companies and senior executives that entail compensation if they were to resign, be dismissed without reasonable grounds or if their employment were to end due to a public bid to acquire shares in the Company. These agreements are described in Note 26. 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**

From 2015, the parent company BillerudKorsnäs AB includes the sales organisation for the Nordic market and markets outside Europe, and the head office functions.

Operating profit for 2016 was SEK -27 million, compared with SEK -185 million for 2015. The increase was principally due to the positive effect of a hedging contract and revaluation of accounts receivable.

During the second quarter of 2016, the parent company was exposed to an external fraud, which impacted the result negatively with SEK 25 million. BillerudKorsnäs has reported the fraud to the Swedish police and also reported a claim to the insurance company.

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 -54 million (-125) in 2016.

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 parent company has not hedged prices for the net surplus of paper pulp for 2017. In the previous year, the parent company hedged prices for around one-third of the net surplus of NBSK pulp for 2016.

The average number of employees was 100 (96).

Cash and bank balances and short-term investments amounted to SEK 516 million (10).

### **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 the monies 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 2016, 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 and Finnish 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 and Finnish production units. At year-end 2016, foreign exchange contracts not yet recognised in profit/loss for the parent company nominally totalled SEK 4 562 million (2 672), of which SEK 3 635 million will be recognised in profit/loss in 2017 and SEK 927 million in 2018.

### **Interest rate risk**

The Group's borrowing is conducted primarily via the parent company and accounted for 86% (87%) of the Group's total borrowing at 31 December 2016. As a result, the parent company has largely the same exposure to changes in interest rates as the Group. Interest rate derivatives are used to change fixed interest periods in the debt portfolio. The majority of interest rate derivatives are attributable to the parent company.

### **Proposed allocation of profit**

As shown in Note 19, non-restricted equity in the parent company, BillerudKorsnäs AB, totalled SEK 5 606 million at 31 December 2016.

BillerudKorsnäs' financial targets state that dividend is to be 50% of net profit and that the 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 2016 was 1.08 (1.24) times. BillerudKorsnäs' Board of Directors proposes that, of the earnings per share of SEK 7.33, SEK 4.30 per share be paid to shareholders and that the remaining amount be carried forward.

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

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

### **Outlook**

Demand and order levels are expected to be stable during the first quarter, with normal seasonal variations for all business areas.

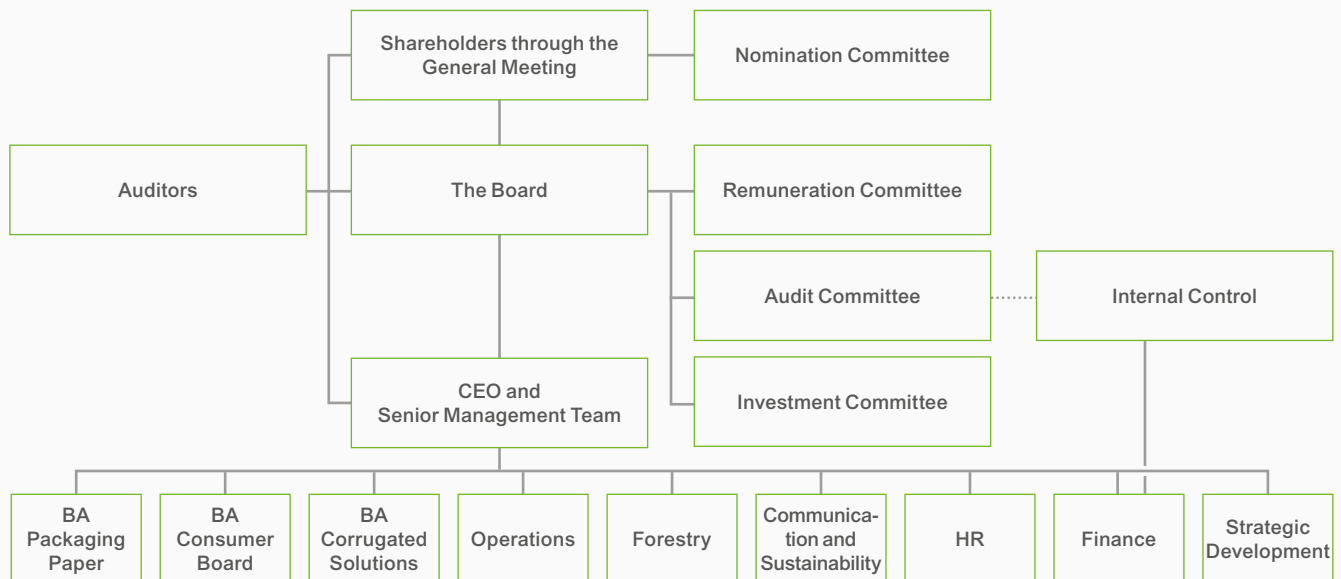
Average prices in local currency are expected to be unchanged in all segments during the first quarter except for the effect of previously notified price rises in sack paper.

Wood costs are expected to increase by around 3% in the next quarter as a result of higher transport costs. No changes in wood prices are, however, expected.

The investment level is expected to be around SEK 4 300 million in 2017.

# 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 2016 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 page 125-127.



## 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

- Policies including operating, financial, credit and communication policies
- Process descriptions for each business area and for each Group function

As a publicly quoted Swedish company listed on Nasdaq Stockholm, BillerudKorsnäs applies the Swedish Code of Corporate Governance ('the Code'). The Code is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.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 2016, as in previous years, BillerudKorsnäs deviated from the Code's rules that Board members should not also be the chairman of the Nomination Com-

mittee. 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.

### Ownership structure and shares

BillerudKorsnäs' shares are listed on Nasdaq Stockholm. At year-end 2016, the total number of shareholders was 96 098, compared with 97 568 at the previous year-end. Each share carries an entitlement to one vote. The proportion of foreign ownership was 41.2% (44.5) of the number of shares on the market. Other groups of shareholders consisted of private individuals' holdings in Sweden, at 19.3% (19.4), and legal entities in Sweden, at 39.6% (36.1). The largest shareholder, Frapag Beteiligungs holding AG, owned 31 300 000 shares, corresponding to 15% of shares on the market. No other shareholder owned 10% or more of the number of shares at the end of 2016. Further details about the company's shares, shareholders, and the like are presented in the section "BillerudKorsnäs shares", and on the Company's website, [www.billerudkorsnas.se](http://www.billerudkorsnas.se).

### General meeting of shareholders

A 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 Post och Inrikes Tidningar. 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 Senior Management 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.

### 2016 Annual General Meeting

The 2016 AGM took place on 10 May 2016 at Hotel Rival in Stockholm, and addressed matters customarily dealt with at the AGM. The AGM voted to re-elect the Board members Andrea Gisle Joosen, Bengt Hammar, Mikael Hellberg, Jan Homan, Lennart Holm, Gunilla Jönson, Michael M.F. Kaufmann and Kristina Schauman to the Board, and to elect Lennart Holm as Chairman of the Board and Michael M.F. Kaufmann as Deputy Chairman of the Board. The AGM also voted to introduce a long-term incentive programme (LTIP 2016). The minutes from the AGM are available on the Company's website.

### 2017 Annual General Meeting

BillerudKorsnäs' 2017 AGM will take place at 3 p.m. on 10 May 2017 at Hotel Rival, Mariatorget 3, Stockholm, and notice of the

AGM will be issued in the first half of April 2017. 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.

In addition to the legal requirements regarding shareholders' rights to participate in shareholder meetings, under BillerudKorsnäs' articles of association shareholders must register for shareholder meetings at least five working days before the shareholder meeting, and, where applicable, must also provide notification if a shareholder intends to be accompanied.

A full text of the notice of the 2017 AGM, including details of how to register for attendance at the meeting, is posted on the Company's website.

### Nomination Committee

One task of the Nomination Committee is to produce proposals for Board members and auditors, as well as for fees for 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 2017 AGM. The composition of the Nomination Committee is based on ownership statistics at August 2016. For further information about the Nomination Committee instructions, see the website [www.billerudkorsnas.se](http://www.billerudkorsnas.se).

The Nomination Committee held several meetings prior to the 2017 Annual General Meeting, as well as contacts between meetings by telephone and e-mail. In accordance with instructions on the company's website, shareholders have been welcome to submit proposals and opinions to the Nomination Committee by e-mail or post. Under the Code, 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.se](http://www.billerudkorsnas.se) headed "Nomination Committee" containing further information about the Nomination Committee and its proposals to the annual general meeting.

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

| Representative        | Shareholder                    | Share of voting power, % <sup>1</sup> |
|-----------------------|--------------------------------|---------------------------------------|
| Michael M.F. Kaufmann | Frapag Beteiligungs holding AG | 15.1                                  |
| Tomas Risbecker       | AMF Insurance and Funds        | 9.9                                   |
| Lennart Francke       | Swedbank Robur funds           | 4.5                                   |
| Pia Axelsson          | Fourth AP Fund                 | 3.2                                   |

<sup>1</sup> At 31 December 2016.

Board member Michael M.F. Kaufmann was appointed Chairman of the Nomination Committee prior to the 2017 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 2016 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.

## **The Board**

### **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. From the 2016 AGM, the Board of Directors has consisted of eight members elected by the meeting, without deputies, namely; Lennart Holm (Chairman), Andrea Gisle Joosen, Bengt Hammar, Mikael Hellberg, Jan Homan, Gunilla Jönson, Michael M.F. Kaufmann and Kristina Schauman. In addition, the employee organisations have appointed two employee representatives to serve on the Board. These are Gunnevi Lehtinen Johansson and Kjell Olsson, and as deputies, Ulrika Gustafsson and Nicklas Johansson. Other than the employee representatives and their deputies, none of the Board members are employed by the Group. Of the Board members elected by the AGM, three are women and five are men.

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 82 – 83.

### **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, guidelines, procedures, values and goals. Other key policy documents are the Company's operational policy, financial policy, credit guidelines and communication policy.

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 a meeting primarily dedicated to strategy issues.

### **Work of the Board in 2016**

The Board held 10 meetings in 2016. All Board members attended all Board meetings, with the exception that Michael M.F. Kaufmann, Gunnevi Lehtinen Johansson and Kristina Schauman were absent from one meeting, Jan Homan and Kjell Olsson were absent from two meetings and Andrea Gisle Joosen was absent from three meetings. General counsel Andreas Mattsson acted as secretary to the Board meetings. 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 business areas and Group functions.

One of the key issues for the Board during the year was the investment now decided upon in a new board machine at the production unit in Gruvön. As the investment is of great significance to the company's strategic focus and growth, and is the largest investment in the company's history, several meetings were devoted to detailed analyses of the investment and its various aspects. After extensive reviews at several meetings, the Board resolved, at the meeting held in December, to proceed with the investment. The Board also made an important investment decision on development of the production facility in Skärblacka to become a world-leading centre for the production of machine-glazed kraft paper (MG paper). As well as the investments mentioned, the Board focused closely on the company's work on sustainability, which is a crucial part of the company's strategy, and on innovation issues. With respect to innovation, during the year the Board closely monitored the start-up and development of the newly formed company BillerudKorsnäs Venture AB, whose task is to find and invest in interesting companies in an early phase with the aim of these companies developing new solutions in the area of packaging. The Board regularly discusses other strategically important issues, as well as potential corporate acquisitions.

Presentations of BillerudKorsnäs' business areas were made by the heads of the business areas, and in conjunction with the annual strategy meeting the Board visited one of the company's customers to further expand knowledge of the company's market. 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 assess-

ment serves as input for an action plan for improvements and as background to the Nomination Committee's work as they assemble a Board. For 2014, an extensive independent assessment of the Board's work was carried out by an external consultant. For 2015 and 2016, the Board has chosen to make internal assessments of the work of the Board. Each Board member completed an extensive questionnaire about issues such as how well the Board fulfils the duties with which it is tasked, the composition and capabilities of the Board, the Board's work methods, the effectiveness and efficiency of the Board's work and assessment of individual performance. 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 evaluates 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.

### **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 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. The audit committee consists of the members Kristina Schauman (Chairman), Mikael Hellberg and Jan Homan. An employee representative attends the meetings of the audit committee.

### **Work in 2016**

The committee held five meetings in 2016. All members elected by the general meeting attended all of the committee's meetings, with the exception of the member Jan Homan, who was absent from two meetings. During the year, the committee addressed auditing issues, audit plans for 2016, the EU auditing reform, 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 on committee meetings. The Board's work on internal control related to financial reporting is summarised in "Internal control and risk management for financial reporting".

### **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 Senior Management Team, to monitor and evaluate programmes for variable compensation to the Senior Management Team that were both ongoing and completed during the year, 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 Senior Management 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 Mikael Hellberg (Chairman), Michael M.F. Kaufmann and Lennart Holm.

### **Work in 2016**

The committee held five meetings in 2016, one of which was by correspondence. All committee members attended these meetings. In 2016, the committee considered bonus payments in 2015, and salary reviews for the Senior Management Team in 2016. The committee also addressed the outcome of LTIP 2013, evaluation of the LTIP 2016 incentive programme and the structure of the LTIP 2017 incentive programme. The guidelines on remuneration to the CEO and other senior executives, as well as the actual figures, are contained in Note 26.

### **Investment Committee**

The Board may also form temporary committees to address specific issues. 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 Lennart Holm (Chairman), Bengt Hammar and Gunilla Jönsson.

### **Work in 2016**

The committee held four meetings in 2016. All committee members attended these meetings. In 2016, the committee mainly

addressed issues concerning the two major investment decisions made during the year, one of which related to investing in a new board machine at the Gruvön production unit and the other to the streamlining and further development of the structure of production in the area of packaging paper through an investment programme for the production unit in Skärblacka. The committee also addressed issues concerning other strategic growth opportunities such as corporate acquisitions.

### **Auditors**

The Company's auditors are appointed by the general meeting of shareholders. At the 2016 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 2017 AGM. Ingrid Hornberg Román is currently also auditor for Apoteket AB, BAE Systems Bofors, BAE Systems Hägglunds, EQT Partners and Linas Matkasse.

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 with the Board without the presence of the senior management on one occasion in 2016.

### **CEO and senior management team**

The Company's chief executive officer (CEO) is appointed by the Board of Directors. Per Lindberg is the CEO of the Company and Christer Simrén is the Executive Vice President 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 Senior Management Team (SMT) are jointly responsible for daily operations. The CEO has appointed an SMT that is responsible for different parts of the business. The SMT consists of the CEO and Executive Vice President (and COO), as well as the heads of the three business areas (Packaging Paper, Consumer Board and Corrugated Solutions) Senior Vice President Production and the heads of the group functions Forestry, Communication and Sustainability, HR, Finance and

Technology & Strategic Development. See page 80 – 81 for further information about the SMT's members.

The role of the SMT 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 SMT sets targets for operational activities, allocates resources and monitors the business' earnings. The SMT is also responsible for investment planning and follow-up, acquisitions and divestments, and for preparations for Board meetings. The SMT is taking active measures to involve employees in developing the corporate culture and to fulfil its values.

The CEO chairs SMT meetings and makes decisions in consultation with the other senior executives. The SMT 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 SMT meets once a week for short teleconferences, and as necessary.

### **Internal Control**

The Board is responsible for ensuring that BillerudKorsnäs has good internal control. BillerudKorsnäs' internal control function is responsible for implementing processes and regulations that ensure the internal control and quality of financial reporting. This function reports to the CFO and is also responsible for preparation and presentation of matters regarding internal control at meetings of the audit committee. For further information about internal control, please see the section "Internal control and risk management for financial reporting" on page 78–79.

### **Guidelines for remuneration to senior executives**

The 2016 AGM adopted guidelines on the remuneration of senior management 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 Senior 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 expertise, 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 between 30% and 70%. However, variable remuneration is to be paid only if the Company makes an operating profit. 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 2017 is presented in the section "Remuneration at BillerudKorsnäs".

# Remuneration at BillerudKorsnäs

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

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

Long-term incentive programmes and remuneration guidelines are intended to support the Company by motivating all senior managers and staff to focus on achieving the strategic agenda. 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

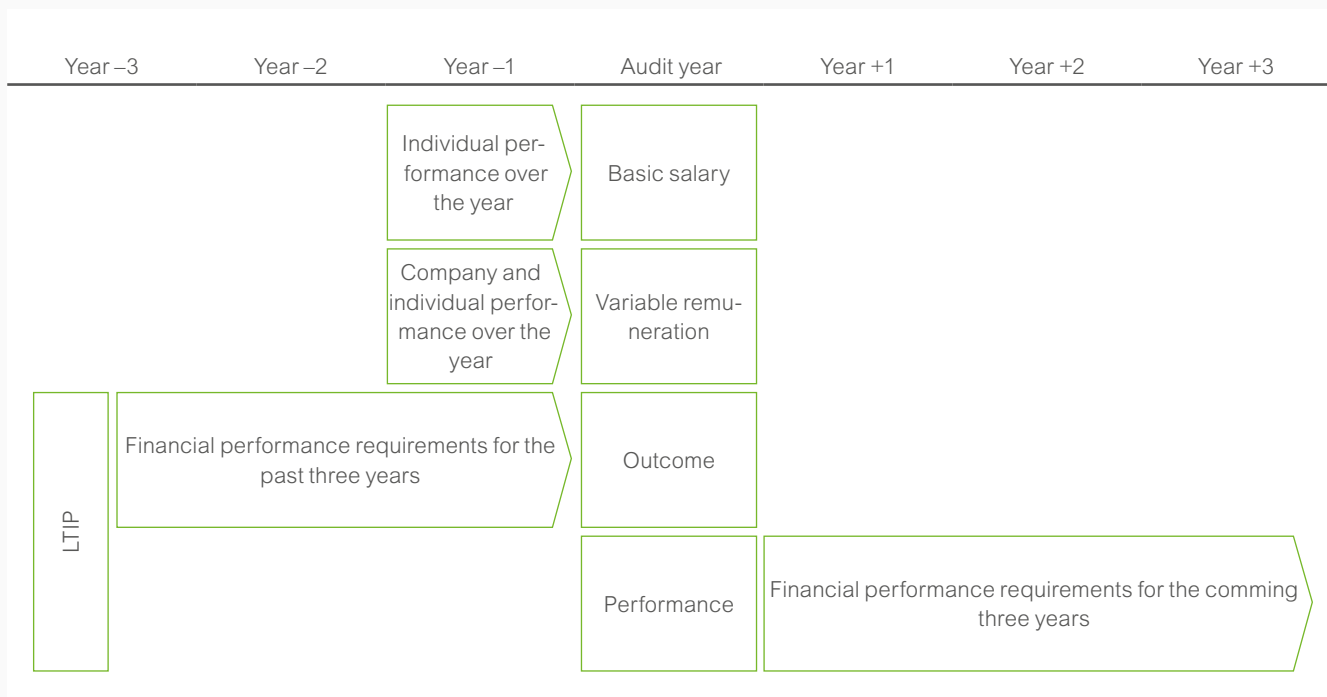
Fixed salaries are set according to skills, area of responsibility and performance, based on market considerations.

### Variable remuneration

Variable remuneration is paid depending on actual results compared to explicit targets, up to a set maximum percentage of a fixed annual salary according to skills, area of responsibility and performance. The Company uses general variable remuneration for all staff to highlight the link between individual performance the Company's earnings. However, variable remuneration is to be paid only if the Company makes an operating profit.

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

The purpose of 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 and viewpoints with those of the shareholders. To participate in the programme, participants must invest in BillerudKorsnäs shares. The LTIP runs over three years and the outcome depends on the achievement of various financial and share price-linked performance requirements.



## Long-term incentive programme (LTIP)

| Pro-gramme | Number of partic-<br>ipants | Savings shares | Max. allocation of<br>BillerudKorsnäs<br>shares | Shares to cover<br>costs <sup>1</sup> | Percentage of total<br>number of shares/<br>votes | Estimated cost (of<br>which social secu-<br>rity costs), SEKm | Maximum cost (of<br>which social secu-<br>rity costs). SEKm | Operating profit<br>for 2016 is charged<br>with, SEKm |
|------------|-----------------------------|----------------|---|---------------------------------------|---|---|---|---|
| 2014       | 57                          | 62 335         | 274 324   | 90 000                                | 0.1%  | 20 (9)  | 46 (26)   | 7   |
| 2015       | 64                          | 56 049         | 245 063   | N/A                                   | 0.1%  | 23 (8)  | 54 (31)   | 7   |
| 2016       | 81                          | 58 891         | 251 328   | N/A                                   | 0.1%  | 18 (6)  | 68 (43)   | 4   |

<sup>1</sup> Shares that may be transferred by BillerudKorsnäs to cover certain payments, mainly social security costs.

### Pension

Pension benefits must be chiefly defined contribution plans and will normally provide entitlement from the age of 65.

### Other benefits

These are set according to skills and area of responsibility, and mainly take the form of a car allowance.

### Long-term incentive programme (LTIP)

The 2010–2016 AGMs approved the introduction of long-term incentive programmes (LTIP 2010–2016) 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 participate in LTIPs, a person must own BillerudKorsnäs shares referred to 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 2013–2016, however, the CEO has been allocated one matching share right and five performance share rights for each savings share, and the Executive Vice President and the CFO 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 must remain an employee of the BillerudKorsnäs Group throughout the vesting period and must not sell their savings shares. 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 percent) of the Matching share rights allocated to participants under LTIP 2014, LTIP 2015 and LTIP 2016, the total share return on BillerudKorsnäs shares (TSR) for the period of measurement must exceed 0 percent in order for them to entitle holders to be allocated BillerudKorsnäs shares.

For rights to performance shares under LTIP 2014 and LTIP 2015, additional financial performance targets must be met.

The requirements are based on:

- BillerudKorsnäs' average operating margin in absolute terms,
- BillerudKorsnäs' EBITDA margin (gross margin) in relation to the margin for a comparative group of specially selected publicly listed Nordic companies for the same period,
- BillerudKorsnäs' total return compared with the total return for a comparative group consisting of publicly listed Nordic companies.

The performance requirements (a) and (c) grant shares on a straight-line basis between minimum and maximum levels, while performance requirement (b) either results in full allocation or no allocation.

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

The requirements are based on:

- BillerudKorsnäs' annual organic growth,
- BillerudKorsnäs' average EBITDA margin (gross margin).

Performance requirements (a) and (b) grant shares on a straight-line basis between minimum and maximum levels.

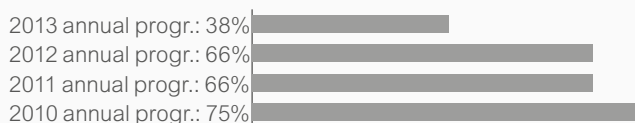


### Completed long-term incentive programmes (LTIP 2010, LTIP 2011, LTIP 2012 and LTIP 2013)

The AGMs held in 2010, 2011, 2012 and 2013 resolved to introduce long-term incentive programmes (LTIP 2010, LTIP 2011, LTIP 2012, LTIP 2013) for BillerudKorsnäs for the period 2010–2012, 2011–2013, 2012–2014, and 2013–2015, and 218 802, 68 472, 162 991 and 138 184 share rights, respectively, were allocated to the participants under the programmes. 75%, 66% and 66%, respectively 38%, of the performance targets for the programme were met. Dilution of outstanding shares was less than 0.1% per programme. The total cost of the programmes was carried as an expense on an ongoing basis in 2010–2016.

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

Percentage of performance criteria set



#### Guidelines for remuneration of senior executives 2017

The Board proposes that the 2017 AGM approve the following guidelines for remuneration to senior executives. Senior management includes the CEO and other members of the Senior Management 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 established goals and shall be set to a maximum of a fixed percentage of the annual fixed salary and may vary between 30 per cent and 70 per cent. However, the variable remuneration shall only be paid on condition that the Company'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 accounts and website.

Pension benefits shall both 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 twelve 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 senior management 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 fee 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 2016 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 Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

For more information about BillerudKorsnäs' corporate governance work, please see the section Corporate Governance at BillerudKorsnäs on pages 70 - 74.

### **1. Control Environment**

Control environment encompasses matters such as how targets are set, how valuations are monitored and how risks are managed. An effective 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, the Company has policies, instructions and guidelines 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 a professional, efficient and independent way. The work of the audit committee is described in more detail on page 73.

The Senior Management Team reports regularly to the Board based on predetermined procedures. The audit committee also reports to the Board. The Senior Management 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 policies and guidelines for how the individual employee is to understand his or her role in the work to maintain adequate internal control. These include an operating policy, code of conduct, financial policy, authorisation instruction, accounting and reporting instructions and credit guidelines. BillerudKorsnäs' shared service centre ensures effective and uniform management of financial processes through the development of uniform procedures and control systems. These documents are updated annually or as necessary to reflect applicable laws and regulations and the changes to processes that have been implemented.

### **2–3. Risk Assessment and Control Activities**

Risk assessment involves identifying risks that may arise if the core requirements of financial reporting in the Company are not met and takes place continually in BillerudKorsnäs' day-to-day processes. The company continually monitors items where there is an increased risk of material error, and ensures that adequate control activities are in place.

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

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 effective internal control and quality in the financial reporting. This function implements processes and frameworks that ensure the internal control and quality of the financial reporting. This internal control function works to ensure that policies, instructions, guidelines and process descriptions are complied with, which is the basis for effective control activities within the main financial reporting processes. The results of this work are reported 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.

#### **4. Information and Communication**

Important policies, guidelines and manuals that are of significance to financial reporting are available on BillerudKorsnäs' intranet. Relevant employees are regularly informed of amendments and updates to these. Both formal and informal information channels carry important information from staff to the senior management team and the Board. For example, BillerudKorsnäs has a whistleblower function that enables employees to report suspected irregularities. Guidelines for external communication and a communication policy ensure that the Company meets the strict requirements on accurate information for financial markets.

#### **5. Follow-up**

The audit committee carries out preparatory work prior to the Board's assessment of the information submitted by the Senior Management 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 at 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 internal control function 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.

#### **Priority areas in 2016**

The business continued to work on creating and documenting Group-wide financial processes through harmonisation. BillerudKorsnäs has a shared service centre that ensures efficient and uniform handling of financial processes. The service centre manages reporting, accounts payable, accounts receivable, payroll and other financial procedures. The service centre covers all Swedish and Finnish units.

In the first half of 2016, a Group Risk Management function was introduced with responsibility for Enterprise Risk Management (ERM), loss prevention and Group-wide insurance programmes. An ERM workshop was held with the aim of identifying and assessing risks and developing plans to address these.

In 2016, a self assessment of internal controls were implemented including each functions identification and assessment of its internal controls. Improvement measures were introduced according to the plan developed together with the internal control function. These measures will be followed up in 2017, when a new self-assessment will be carried out.

A Group-wide management system was implemented during the year, and some work remains to supplement the governing documents.

Work also continued on implementing Group-wide IT environments. Scrutiny and improvement of IT controls was another priority area during the 2016 financial year.

With the aim of supplying faster financial statements, a project was initiated during the year for improved procedures, harmonised accounting processes and uniform financial statement documentation.

An information security project was implemented during the financial year, and a policy for information security was adopted.



Uno Brinnen

Ulf Eliasson

Mikael Andersson

Christer Simrén

Per Lindberg

## Senior Management Team

### Per Lindberg

*President and CEO*

*Education:* MSc and PhD, Chalmers University of Technology, Gothenburg.

*Year employed:* 2005

*Year born:* 1959

Other assignments: Board member of Nordstjernan AB, Bergvik Skog AB and Middlepoint AB. Member of IVA Royal Swedish Academy of Engineering Sciences, Division VIII – Forest Technology.

Background: Managing Director, Korsnäs AB. Vice President, Investment AB Kinnevik. Management and strategy consultant, Applied Value Corporation, US.

Shareholding<sup>1</sup>: 151 151

### Christer Simrén

*Executive Vice President, COO*

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

*Year employed:* 2012

*Year born:* 1961

Other assignments: Board member Brennerup Group AB.

Background: CEO of Korsnäs AB and Wermland Paper AB. Member of the management team of Kinnevik. Chairman of the Board of Grycksbo Paper Holding AB.

Shareholding<sup>1</sup>: 39 000

### Mikael Andersson

*Senior Vice President Corrugated Solutions*

*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>: 3 825

### Uno Brinnen

*Senior Vice President Forestry*

*Education:* MSc in Forestry, Swedish University of Agricultural Sciences (SLU), Umeå. Licentiate Degree in Forestry, Swedish University of Agricultural Sciences, Garpenberg.

*Year employed:* 2012

*Year born:* 1956

Other assignments: Board member of Svenska FSC® and Skogforsk. Member of KSLA.

Background: Director of Forestry, Korsnäs AB.

Shareholding<sup>1</sup>: 8 000

### Paulina Ekvall

*Senior Vice President Corporate Human Resources*

*Education:* Human Resources and Working Life Programme, Lund University, Ruter Dam Manager Development Programme, Ascend Executive Management Leadership Programme, Cape Town University, South Africa.

*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, HR Director Swedish Prison and Probation Service.

Shareholding<sup>1</sup>: –



Henrik Essén

Susanne Lithander

Magnus Wikström

Peter Jhaveri

Paulina Ekvall

Johan Nellbeck

#### **Ulf Eliasson**

*Senior Vice-President Production*

*Education:* MSc in Engineering, Chalmers University of Technology, Gothenburg.

*Year employed:* 2012

*Year born:* 1962

Other assignments: Chairman of the Board of SPCI (Svenska Pappers- och Cellulosa Ingenjörsföreningen – Swedish Society of Paper and Cellulose Engineers).

Background: Senior Vice President Consumer Board BillerudKorsnäs, Mill Manager Korsnäs AB, Vice-President & Site Manager Rolls-Royce AB, Senior Vice-President & CEO Stora Enso Skoghall AB.

Shareholding<sup>1</sup>: 4 873

#### **Henrik Essén**

*Senior Vice President Communication and Sustainability*

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

*Year employed:* 2011

*Year born:* 1974

Other assignments: Board member of ACE (Alliance for Beverage Cartons and the Environment), Deputy Board Member Kempe Foundations.

Background: Senior consultant at ÅF AB and Pöyry Forest Industry Consulting AB.

Shareholding<sup>1</sup>: 6 506

#### **Peter Jhaveri**

*Senior Vice President Consumer Board*

*Education:* MSc Engineering, Technical Physics, Lund University Faculty of Engineering

*Year employed:* 2017

*Year born:* 1964

Other assignments: –

Background: CEO Tetra Recart AB, CEO Tetra Pak Malaysia, Singapore & Philippines.

Shareholding<sup>1</sup>: 2 100

#### **Susanne Lithander**

*CFO*

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

*Year employed:* 2011

*Year born:* 1961

Other assignments: Board member of Svensk Exportkredit AB and Eltel AB.

Background: CEO, Mercuri International Group. Executive Vice President & Head of Advisory Services, BU Global Services, Ericsson AB. Executive Vice President Finance & Operational Development, BU Global Services, Ericsson AB. Executive Vice President & Head of Business Operations, Ericsson Inc., TX, USA

Shareholding<sup>1</sup>: 3 564

#### **Johan Nellbeck**

*Senior Vice President Packaging Paper*

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

*Year employed:* 2006

*Year born:* 1964

Other assignments: Board member of CEPI Eurokraft, FreeForm Packaging AB and NINE AB.

Background: Regional Sales Director, Tele2 Stockholm. Managing Director, AssiDomän Kraft Products Nordic Sales AB. Sales Manager, AssiDomän Scandinavia.

Shareholding<sup>1</sup>: 10 000

#### **Magnus Wikström**

*Chief Technical Officer (CTO)*

*Education:* MSc and PhD in Engineering, Royal Institute of Technology, Stockholm. Executive MBA, Mgruppen.

*Year employed:* 2006

*Year born:* 1963

Other assignments: Board member of Wallenberg Wood Science Center and EcoXpac A/S.

Background: R & D Director Korsnäs AB, Research Manager Korsnäs Development, Project Area Manager STFI.

Shareholding<sup>1</sup>: 9 000

<sup>1</sup> Own and related parties' shares at 22 February 2017.



Lennart Holm



Michael M.F. Kaufmann



Andrea Gisle Joosen



Bengt Hammar



Mikael Hellberg



Jan Homan

# Board of Directors

## Lennart Holm

Chairman of the Board since 2014, Board member since 2012, chairman of the investment committee, member of the remuneration committee

*Education:* MSc in Chemical Engineering, Chalmers University of Technology, Gothenburg.

*Year born:* 1960

*Other assignments:* Chairman of Axolot Solutions AB, Brunkeberg Systems AB, Hamnkrogen i Helsingborg Holding AB, Nexam Chemical Holding AB, Polygiene AB, Tuve Holding AB and Vida AB. Board member of Holm och Gross Holding AB and Preventic Försäkrings AB.

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

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

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

## Michael M.F. Kaufmann

Board member since 2005, member of the Remuneration Committee

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

*Year born:* 1948

*Other assignments:* CEO, Frapag Beteiligungsholding AG. Chairman of Frapag America, Inc. and HKW Privatstiftung. Deputy Chairman of By Out Europe II.

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

*Shareholding<sup>1</sup>:* 14 250

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

## Andrea Gisle Joosen

Board member since 2015

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

*Year born:* 1964

*Other assignments:* Chairman of Teknikmagasinet AB. Board member of Dixons Carphone PLC, ICA Gruppen AB, James Hardie Industries PLC and Mr Green & Co AB.

*Background:* CEO of Boxer TV Access AB, Managing Director of Panasonic's business in the Nordics, Chantelle and Twentieth Century Fox Home Entertainment. Previously held management positions at Johnson & Johnson and Procter & Gamble.

*Shareholding<sup>1</sup>:* 1 250

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

## Bengt Hammar

Board member since 2014, member of the investment committee

*Education:* BA and MA in International Economy and Politics, Princeton University, New Jersey, USA.

*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<sup>1</sup>:* 2 000

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

## Mikael Hellberg

Board member since 2014 (and 2010-2012), chairman of the Remuneration Committee, member of the Audit Committee.

*Education:* BSc in Economics, University of Minnesota, United States. Studies at Stockholm School of Economics.

*Year born:* 1954

*Other assignments:*

Chairman of Delicato Bakverk AB, Berntson Brands AB, FTI AB, InHouse Group Sweden AB, Humlegårdens Ekologer AB and Einar Belvén Foundation. Board member for Fresk Group AB, among others.

*Background:* CEO of Wasabröd AB, Pripps Bryggerier/Carlsberg Sverige AB, Alcro-Beckers AB and Nordic Head of Procter & Gamble HABC. Chairman of companies including AB Annas Pepparkakor, Björnkläder AB, NCS Colour AB, Wernersson Ost AB, Mobeon AB, Spring Mobile AB and Anticimex AB.

*Shareholding<sup>1</sup>:* 20 000

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



Gunilla Jönson



Kristina Schauman



Ulrika Gustafsson



Nicklas Johansson



Gunnevi Lehtinen Johansson



Kjell Olsson

#### Jan Homan

Board member since 2012 and member of the Audit Committee

*Education:* Business studies, University of Commerce, Vienna, Austria.

*Year born:* 1947

*Other assignments:* Chairman of the Board of Frapag Beteiligungsholding AG. Board member of Constantia Flexibles Group, Erste Group Bank AG and Slovenska Sportelna. Head of European Aluminium Foil Association.

*Background:* CEO of Constantia Flexibles Group and CEO of Constantia Teich Group.

*Shareholding<sup>1</sup>:* –

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

#### Gunilla Jönson

Board member since 2003 and member of the investment committee

*Education:* MSc and PhD in Mechanical Engineering, Chalmers University of Technology, Gothenburg.

*Year born:* 1943

*Other assignments:* Senior Professor in Packaging Logistics, Engineering Faculty LTH, Lund University. Member of the steering group at LUFO (Lund University Food Studies). Member of Invest in Skåne AB, chairman/member of various scientific programme committees and assessment groups, and member of the Royal Swedish Academy of Engineering Sciences (IVA).

*Background:* Dean of Faculty of Engineering, Lund University. Various executive and other positions at SCA Packaging. Research Director, Swedish Packaging Research Institute.

*Shareholding<sup>1</sup>:* 3728

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

#### Kristina Schauman

Board member since 2014, chairman of the Audit Committee

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

*Year born:* 1965

*Other assignments:* Board member of ÄF AB, Livförsäkringsbolaget Skandia ömsesidigt, Orexo AB, Apoteket AB, Coor Service Management AB and Ellos Group Holding AB and BEWi 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>:* 1000

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

#### Ulrika Gustafsson

Deputy Board member since 2016, employee representative for PTK

*Education:* Upper secondary school engineering qualification in Chemistry, various university courses

*Year born:* 1967

*Other assignments:* Chair of BillerudKorsnäs Gävle Unionen branch. Various assignments for Unionen trade union at regional and central level. Board member for Korsnäs Foundation Social Fund.

*Background:* –

*Shareholding<sup>1</sup>:* –

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

#### Nicklas Johansson

Deputy Board member since 2016, employee representative for Pappers

*Year born:* 1968

*Other assignments:* chairman of Pappers Section 165 trade union branch

*Background:* –

*Shareholding<sup>1</sup>:* –

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

#### Gunnevi Lehtinen Johansson

Board member since 2016, employee representative PTK

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

*Year born:* 1969

*Other assignments:* Production controller in BillerudKorsnäs, union council member in Junis.

*Background:* –

*Shareholding<sup>1</sup>:* 100

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

#### Kjell Olsson

Board member since 2012, employee representative Pappers

*Year born:* 1959

*Other assignments:* Chairman of Pappers Section 3 trade union branch in Gävle.

*Background:* –

*Shareholding<sup>1</sup>:* 45

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

<sup>1</sup> Own and related parties' shares at 22 February 2017.

# Risk management and sensitivity analysis

BillerudKorsnäs' risk management is to be an integral part of the Company's value creation 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 further strengthen the way it manages risk, BillerudKorsnäs has introduced a risk management model based on the international standard for risk management, ISO 31 000.

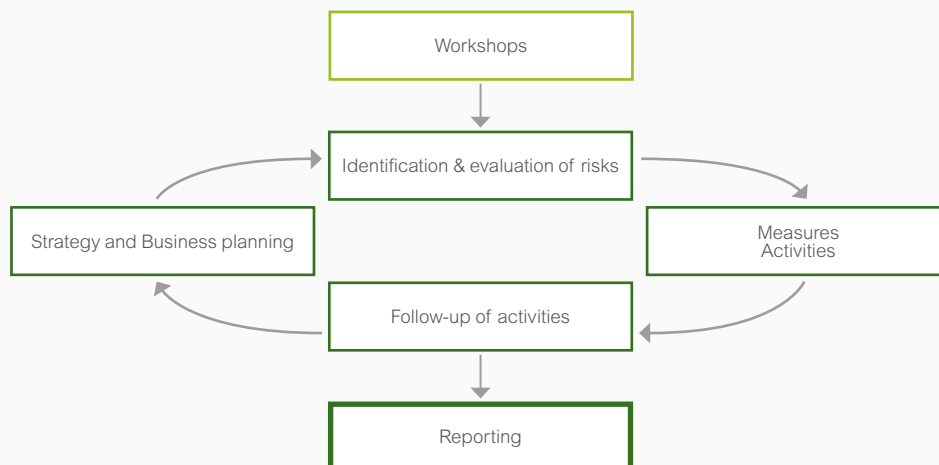
BillerudKorsnäs is affected by the general economic climate, changes in exchange rates and other risks and external factors specific to the Company. Risks that are managed well can produce positive effects, while risks that are not managed well can have adverse consequences. BillerudKorsnäs goal is to 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, Senior Management Team and other staff. The majority of all risks analyses are performed in the line organisations, which are also responsible for

managing the risks. Significant risks are reported to the Senior Management Team, which makes decisions on action to be taken.

During the year, BillerudKorsnäs introduced an Enterprise Risk Management (ERM) process in accordance with ISO 31 000. Work at present is focused 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 have been initiated. 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 below.

## Risk management process





# Operational risks

## Risks related to facilities

### Description of risks

BillerudKorsnäs has production units for paper, board 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 on 2016

A clear objective for loss prevention efforts related to production risks has been adopted, and a plan has been established for each production unit. These efforts are supported by the property insurance company.

Further development of existing continuity plans at the production facilities is taking place to clarify what risk minimisation measures should be prioritised.

Group-wide working methods are being devised to reduce the risk of unforeseen events in connection with investments and projects.

## 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 on 2016

Further initiatives to reduce logistics costs in the transportation of wood raw material are being studied. To increase interest and understanding in the forests all their value, as well as what modern and sustainable forestry means, BillerudKorsnäs takes part in a number of educational initiatives for schoolchildren in Sweden.

BillerudKorsnäs intention is to increase the purchases of certified wood raw material, which can imply an increased risk.

### Wood price index



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 of recycling plastic and lower prices for recycled plastic. There are also risks linked to substantial changes in the handling of consignments of food products and changes in behaviour and preferences among consumers. In the longer term, these risks may lead to restructuring of the packaging industry, reduced revenue and loss of key staff and visionaries within the Company.

### Risk management

One of the strategy areas for BillerudKorsnäs with a view to attaining profitable growth is to work on expansion in the value chain. It means that BillerudKorsnäs makes a strong commitment to interacting

with players further along the packaging value chain. This is done through cooperation projects with brand owners, for example in the food sector. In that way BillerudKorsnäs learns about future requirements for packaging and can then enhance its offering. In addition, the entire consultancy operation of the BillerudKorsnäs subsidiary Nine is focused on packaging-related innovation for brand owners in fast-moving consumer products.

### Comments on 2016

During the year, the Company started working in a structured way on consumer insights, and the Company compiled a report on how global macro-trends affect the business. The Company has combined its commitment to innovation by further expanding the number of employees and projects in the research and development organisation.

## 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 on 2016

During the year, BillerudKorsnäs made two major investment decisions which, in the long term, will substantially strengthen the Company's competitiveness, namely the decision to invest in a new board machine in Gruvön and the decision to invest in MG paper production at Skärblacka. The Company continuously works on market analysis in order to make decisions based on an accurate picture of the world in which it operates.

## 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. The focus is on political processes in Sweden and in the EU. The department monitors development, identifies issues of par-

ticular 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 on 2016

Work was undertaken during the year in a number of political areas. A process of great potential significance for the packaging industry, and in which BillerudKorsnäs has been particularly active, particularly in cooperation with ACE, the liquid board industry organisation, is updating of EU legislation in the area of waste, known as the circular economy package.

## 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 itself 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 risks 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 on 2016

The focus during the year was on emphasising the BillerudKorsnäs corporate culture to employees around the world. The top management of BillerudKorsnäs has also been very active and visible in these efforts. The Company has reviewed regulatory compliance in the contracts of employment with newly recruited, local staff. A training course relating to Preventing Anti-Competitive Practices was launched during the year, which the staff at local offices have undergone. It is regularly monitored that the staff receive this training.

## 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

Risk management comprises quality controls during the production of the packaging material and of the finished product and systematic

follow-up of reported non-conformances, both at customers and in production. BillerudKorsnäs also controls its exposure to this risk by insurance and agreements with customers and packaging partners.

### Comments on 2016

The focus during the year was on creating a better understanding of what exposure to the risks of quality problems looks like in each business area. A risk analysis has been performed, and based on the outcome suitable measures will be taken to follow up and manage identified risks and opportunities.

## Implementation of strategy

### Description of risks

Ineffective implementation of strategic plans, incorrect investment decisions and failure in obtaining the support of staff in 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.

### Risk management

BillerudKorsnäs operates an ongoing development process for Group strategies in which areas for improvement are defined, prioritised and analysed. Alternative scenarios are assessed financially, to clarify effects,

opportunities and risks with different choices. A decision 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 objective decided upon.

### Comments on 2016

There was a strong focus in 2016 on analyses linked to the proposed investment in a new board machine in Gruvön, which was decided upon in December. See also other areas of risk management linked to our operational activity for a continuous assessment of different factors with an impact on our Group strategies.

## Energy price risk

### Description of risks

BillerudKorsnäs uses electricity, biofuel, 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 production from the Company's own back pressure facilities, and 1.7 TWh/year is bought in.

### Risk management

BillerudKorsnäs has an electricity self-sufficiency rate of almost 50%. In principle, all in-company electricity generation is biofuel-based and the cost of in-company generation follows the trend in biofuel prices.

In May 2007, the Company signed a 10-year fixed price electricity supply agreement with Vattenfall. The agreement covers basic power requirements of around 0.4 TWh per year for the period 2008–2017.

In addition to this, the cost of electricity is hedged 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 rate of trading is linear and starts three years before delivery.

The Company is also taking active measures to increase energy efficiency.

### Comments on 2016

In 2016, total electricity consumption was about 3.10 TWh (3.14), of which approximately 47% (44%) was generated in-company, approximately 14% (14%) was basic power purchased at fixed prices and approximately 39% (42%) was purchased on the spot market. At the end of the year, financial hedging for purchases of electricity exposed to spot price was:

|      |     |
|------|-----|
| 2017 | 74% |
| 2018 | 52% |
| 2019 | 35% |

## Risks related to employees

### Description of risks

Access to skilled and motivated employees and managers is a prerequisite for achieving the goals that BillerudKorsnäs has set.

Personnel costs represent the second-largest expense item.

### Risk management

BillerudKorsnäs works continually to manage skills transfer and succession planning. To ensure the supply of the right skills, the Company needs to attract high-quality employees. In order to avoid a skills gap in the years ahead, BillerudKorsnäs has taken the decision to strengthen its brand as an employer.

Wage costs are principally determined by collective bargaining agreements, payroll taxes and other related laws and regulations.

### Comments on 2016

Staffing plans are continually ongoing. An updated trainee programme was launched in 2016. Two large investment programmes were adopted in 2016 with strict requirements for exchange of skills, development of skills and recruitment.

BillerudKorsnäs also focuses on employer branding, which aims to showcase the Company as an attractive employer.

## Environmental impact and renewal of licences

### Description of risks

BillerudKorsnäs' production of paper, board and pulp results in emissions to water and air. Production also creates noise and significant volumes of waste.

The Group's operations are governed by extensive environmental legislation and are subject to licenses being granted. The licenses entitle production units to produce a certain volume of pulp, paper and/or board, but also impose statutory conditions in respect of, for example, emissions to water and air, noise, and waste and chemicals processing.

In Sweden, licenses in accordance with the Swedish Environmental Code are required. Similar regulations apply in the rest of the EU. 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 the relevant county administrative board. The ruling issues specifies what investments are required to protect human health and the environment in order to obtain the licence applied for.

Production units must apply for new licences if the scale of production is to be increased or major investments are to be carried out. Minor investments/modifications are dealt with via a simple notification procedure. The authorities may, at their own initiative, call for operating licences to be reviewed. However, this rarely occurs.

Any breaches of licence limits or conditions may result in criminal liability, such as in the form of monetary environmental sanctions. Serious breaches, including breaches of certain licence conditions, are referred to the public prosecutor. A conviction may lead to personal criminal liability on the part of the staff concerned or corporate penalties amounting to substantial sums.

In Sweden, supervision is exercised in the form of experts appointed by the county administrative boards, who continually verify compliance with licences, conditions and all generally applicable environmental legislation.

The EU's Industrial Emissions Directive, which was implemented in Swedish legislation during 2013, has introduced industry-wide emissions limits throughout the EU. The emission limits are set on the basis of what is considered achievable with the best available technology. Local conditions are not taken into account. In 2014, a sector-specific reference document (BREF) under Industry Emissions Directive (IED) was adopted. The reference document contains pan-European values for emission limits (BAT-AELs), which will be legally binding from October 2018. BillerudKorsnäs' investment planning takes account of these requirements.

Environmental legislation also requires that any operator causing environmental damage shall bear strict and joint liability to rectify the damage caused. The issue most relevant to BillerudKorsnäs' Swedish production units is soil pollution.

The units have, to varying extents, been ordered to investigate sites affected where operations are being or have been conducted. Depending on the results of investigations carried out, remedial environmental measures may be required. Any soil pollution discovered must be notified to the county administrative board, which will then determine the remedial measures required.

In the event of the closing-down of an activity or part of an activity, the area must be restored, at which point costs for remedial measures will arise. BillerudKorsnäs may also be ordered to investigate or undertake clean-ups of soil contamination for properties that the Company no longer owns or in which it no longer conducts operations.

Finally, the Group is impacted by various economic instruments relating to the environment, including energy taxes, greenhouse gas emissions trading, nitrogen oxide taxes and waste management taxes, which may generate both income and expense. Future rule changes may affect BillerudKorsnäs' sales and earnings.

### Risk management

The environmental standard at BillerudKorsnäs' production units is high, as a result of 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. Environmental responsibility in the different production units lies with line management.

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. If necessary, potential environmental investments are incorporated into the Group's investment plan.

BillerudKorsnäs works actively in the value chain to reduce its greenhouse gas emissions. It does this by reducing its use of fossil fuels in production, more efficient transport and energy use and by manufacturing products that are based on renewable materials and can replace materials that generate greater emissions.

### Comments on 2016

To give all stakeholders an opportunity to assess BillerudKorsnäs' business in a transparent manner, the Company continued to ask external independent organisations to review and rank environmental and climate efforts, as well as sustainability efforts as a whole. The Company also appointed experts to perform life cycle analyses and open reporting of environmental performance for a selection of the Company's products.

Environmental work at the production facilities continued to be extensive, largely linked to the increases in production and large investments decided upon. An example was that fine-tuning of the new pulp production in Rockhammar was started, with expectations of substantially lower energy needs. Gruvön Mill was granted a new operating permit by the Land and Environment Court in November. The permit applies to continued operation of the mill and the port and an increase in production to 500 000 tonnes annual of unbleached sulphate pulp, 320 000 tonnes annually of fluting (and the quantity of NSSC pulp required for this purpose) and 550 000 tonnes annually of kraft paper and carton-board. In addition, a right is granted to build a new board machine and carry out necessary follow-on investments. The judgment contains 22 final conditions and two provisional regulations. A probationary period has been set for emissions to water, noise and management of fire-extinguishing water. Reporting is taking place two years after start-up.

## Financial risks

The following section describes BillerudKorsnäs' financial risk management policies, which correspond to the policies adopted before and during 2016.

### 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 has a significant net currency exposure, principally divided between USD, EUR 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 gross margin (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 on 2016

At the end of 2016, foreign exchange contracts not yet recognised in profit/loss nominally amounted to SEK 4 562 million (2 672). These will be recognised in profit/loss in 2017 and 2018. Net currency flows, excluding currency flows due to the investment in a board machine at the Gruvön production unit, are estimated to total around SEK 6 400 million (6 400) in 2017.

Of forecast net flows over the coming 15-month period in EUR, USD and GBP, 76%, 66% and 6%, respectively, were hedged at year-end.

As at 31 December 2016, the market value of BillerudKorsnäs' outstanding foreign exchange contracts was SEK –60 million (117).

| Nominal amount of foreign exchange derivatives            | 2016 | 2015 |
|---|------|------|
| EUR million   | 377  | 229  |
| USD million   | 201  | 141  |
| GBP million   | 4    | 4    |
| <b>Market value of foreign exchange derivatives, SEKm</b> |      |      |
| Forward foreign exchange contracts                        | –60  | 117  |

### 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 on 2016

At 31 December 2016, total capital employed in foreign currency was SEK 970 million (787), of which SEK 1 517 million (1 430) was financed

by shareholders' equity. No net assets are currently hedged through the raising of loans in a currency other than SEK.

| SEKm             | Capital employed | Net borrowings | Net assets   |
|------------------|------------------|----------------|--------------|
| GBP              | 148              | 7              | 141          |
| EUR              | 867              | –448           | 1 315        |
| USD              | –25              | –55            | 30           |
| Other currencies | –20              | –51            | 31           |
| <b>Total</b>     | <b>970</b>       | <b>–547</b>    | <b>1 517</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 treasury department are regulated 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 on 2016

Financing opportunities for the Group remained very good in 2016, 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 June 2019. The credit facility was unused at year-end. At 31 December 2016, BillerudKorsnäs' net interest-bearing debt amounted to SEK 3 884 million (4 979). Parts of the borrowings were amortised or repaid in 2016 as a result of good cash flows. Of interest-bearing net borrowings, SEK 1 142 million was short-term, which represented a decrease of SEK 226 million during the year. At the end of the year, corporate bonds totalling SEK 400 million and commercial papers totalling SEK 349 million had been repaid compared with the start of the year. At the same time, further bilateral loans totalling SEK 400 million had been raised during the year. Long-term interest-bearing net borrowings totalled SEK 2 687 million at the end of the year, of which SEK 1 145 million falls due in 2019 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 on 2016

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 38 million (44), based on the total interest-bearing liability of SEK 3 829 million at year-end.

The Group's average fixed interest term was 25 months (32) at year-end. The decrease in the fixed interest term was mainly due to debt with long fixed interest terms being repaid. A 1 percentage point change in interest rates would have an annualised effect of SEK 28 million (25) on earnings, given the current fixed interest term.

| Nominal value of interest rate derivatives, SEKm  | 2016         | 2015         |
|---|--------------|--------------|
| Interest rate swaps:                              |              |              |
| Maturity of less than 1 year                      | 1 400        | –            |
| Maturity of 1–2 years                             | 700          | 1 400        |
| Maturity of more than 2 years                     | 535          | 1 261        |
| <b>Total</b>                                      | <b>2 635</b> | <b>2 661</b> |
| <b>Market value of interest derivatives, SEKm</b> |              |              |
| Interest rate swaps                               | –51          | –66          |
| <b>Nominal amount, fixed interest loans</b>       |              |              |
| Maturity of more than 2 years                     | 0            | 500          |

## 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' financial policy has defined the size of the counterparty risk that is accepted

based, among other things, on a 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 on 2016

At year-end, the total net credit exposure was SEK 677 million (588).

## 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 on 2016

Accounts receivable totalled SEK 2 612 million (2 512) at 31 December 2016. Accounts receivable averaged SEK 2 575 million (2 649) in 2016, representing an average customer credit period of around 43 days (44). Bad debt losses totalled SEK -7 million (-1) in 2015.

### Breakdown of accounts receivable by age

| Group, SEKm                               | 2016      | 2015      |
|---|-----------|-----------|
| Provision at start of year                | 50        | 44        |
| Provision for anticipated bad debt losses | 1         | 7         |
| Confirmed bad debt losses                 | -7        | -1        |
| <b>Provision at year-end</b>              | <b>44</b> | <b>50</b> |

### Breakdown of accounts receivable by age

| Group, SEKm                               | 2016         |            |              | 2015         |            |              |
|---|--------------|------------|--------------|--------------|------------|--------------|
|   | Gross        | Impairment | Net          | Gross        | Impairment | Net          |
| Accounts receivable not due               | 2 255        | -          | 2 255        | 2 094        | -          | 2 094        |
| Accounts receivable overdue 0-30 days     | 322          | -          | 322          | 357          | -2         | 355          |
| Accounts receivable overdue >30-90 days   | 29           | -1         | 28           | 25           | -1         | 24           |
| Accounts receivable overdue >90-180 days  | 5            | -3         | 2            | 9            | -5         | 4            |
| Accounts receivable overdue >180-360 days | 12           | -7         | 5            | 11           | -7         | 4            |
| Accounts receivable overdue >360 days     | 33           | -33        | -            | 66           | -35        | 31           |
| <b>Total</b>                              | <b>2 656</b> | <b>-44</b> | <b>2 612</b> | <b>2 562</b> | <b>-50</b> | <b>2 512</b> |

## Sensitivity analysis

### Impact on profit/loss before tax

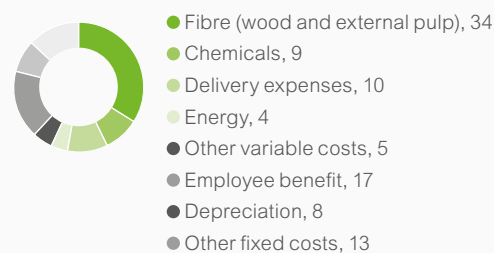
| Variable                         | Change                 | SEKm   |
|----------------------------------|------------------------|--------|
| Sales volume                     | +/- 10%                | +/-900 |
| Exchange rates, SEK <sup>1</sup> | +/- 10%                | -/+640 |
| Fibre price                      | +/- 10%                | -/+700 |
| Electricity price <sup>2</sup>   | +/- 10%                | -/+40  |
| Loan rate <sup>3</sup>           | +/- 1 percentage point | -/+28  |

1 Excluding effects of currency hedging.

2 Excluding effects of electricity price hedging.

3 Excluding effects of interest hedging.

### Breakdown of operating costs, %



# Financial statements

## Consolidated income statement

| SEKm  | Note   | 2016           | 2015           |
|---|--------|----------------|----------------|
| Net sales   | 2      | 21 657         | 21 814         |
| Other operating income  | 3      | 155            | 594            |
| <b>Total operating income</b>                                   |        | <b>21 812</b>  | <b>22 408</b>  |
| <b>Operating expenses</b>                                       |        |                |                |
| Change in inventories   |        | 300            | -214           |
| Raw materials and consumables                                   |        | -10 457        | -10 597        |
| Other external costs  | 4      | -4 574         | -4 421         |
| Employee benefit expense  | 5, 26  | -3 474         | -3 167         |
| Depreciation, amortisation and impairment of non-current assets | 11, 12 | -1 561         | -1 417         |
| Share of profit/loss of associates                              | 15     | -1             | -6             |
| <b>Total operating expenses</b>                                 |        | <b>-19 767</b> | <b>-19 822</b> |
| <b>Operating profit/loss</b>                                    | 2, 6   | <b>2 045</b>   | <b>2 586</b>   |
| <b>Financial items</b>  | 7      |                |                |
| Financial income  |        | 45             | 24             |
| Financial expenses  |        | -153           | -199           |
| <b>Net financial items</b>                                      |        | <b>-108</b>    | <b>-175</b>    |
| <b>Profit/loss before tax</b>                                   |        | <b>1 937</b>   | <b>2 411</b>   |
| Tax   | 9      | -419           | -443           |
| <b>Profit/loss for the year</b>                                 |        | <b>1 518</b>   | <b>1 968</b>   |
| <b>Profit/loss attributable to:</b>                             |        |                |                |
| Owners of the parent company                                    |        | 1 518          | 1 811          |
| Non-controlling interests                                       |        | -              | 157            |
| <b>Profit/loss for the year</b>                                 |        | <b>1 518</b>   | <b>1 968</b>   |
| Earnings per share, SEK   | 10     | 7.33           | 8.75           |
| Diluted earnings per share, SEK                                 | 10     | 7.31           | 8.73           |

Dividend per share is shown in notes 18 and 19.

## Consolidated statement of comprehensive income

| SEKm   | Note | 2016         | 2015         |
|--|------|--------------|--------------|
| <b>Profit/loss for the year</b>  |      | <b>1 518</b> | <b>1 968</b> |
| <b>Items that cannot be transferred to profit/loss for the period</b>  |      |              |              |
| Revaluation of defined-benefit pensions  |      | -12          | -28          |
| Tax attributable to items that cannot be transferred to profit/loss for the period                                     |      | 3            | 6            |
| <b>Total items that cannot be transferred to profit/loss for the period</b>  |      | <b>-9</b>    | <b>-22</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                                  |      | 53           | -67          |
| Translation differences for the period transferred to profit/loss for the year   |      | -            | -15          |
| Changes in fair value of available-for-sale financial assets during the period   |      | 59           | 477          |
| Changes in fair value of available-for-sale financial assets during the period transferred to profit/loss for the year |      | -43          | -21          |
| Changes in fair value of cash flow hedges during the period  |      | 23           | -65          |
| Changes in fair value of cash flow hedges transferred to profit/loss for the year                                      |      | 53           | 206          |
| Tax attributable to items that have been or can be transferred to profit/loss for the period                           |      | -17          | -31          |
| <b>Total items that have been or can be transferred to profit/loss for the period</b>                                  |      | <b>128</b>   | <b>484</b>   |
| <b>Total comprehensive income for the year</b>   |      | <b>1 637</b> | <b>2 430</b> |
| <b>Attributable to:</b>  |      |              |              |
| Owners of the parent company   |      | 1 637        | 2 278        |
| Non-controlling interests  |      | -            | 152          |
| <b>Total comprehensive income for the year</b>   |      | <b>1 637</b> | <b>2 430</b> |



## Consolidated balance sheet

| SEKm   | Note  | 31 Dec 2016   | 31 Dec 2015   |
|--|-------|---------------|---------------|
| <b>ASSETS</b>  | 1, 25 |               |               |
| <b>Non-current assets</b>  |       |               |               |
| Non-current intangible assets                                    | 11    | 2 335         | 2 384         |
| Property, plant and equipment                                    | 12    | 14 937        | 14 812        |
| Participations in associated companies and joint ventures        | 15    | 8             | 13            |
| Other holdings   | 16    | 1 343         | 1 289         |
| Deferred tax assets  | 9     | 67            | 21            |
| Non-current receivables from associates                          | 14    | 15            | 11            |
| Non-current receivables  |       | 6             | 7             |
| <b>Total non-current assets</b>                                  |       | <b>18 711</b> | <b>18 537</b> |
| <b>Current assets</b>  |       |               |               |
| Inventories  | 17    | 3 142         | 2 842         |
| Tax receivables  |       | 16            | 15            |
| Accounts receivable  |       | 2 612         | 2 512         |
| Receivables from associated companies                            |       | –             | 6             |
| Prepaid expenses and accrued income                              |       | 166           | 215           |
| Other receivables  |       | 499           | 768           |
| Cash and cash equivalents  | 27    | 708           | 188           |
| <b>Total current assets</b>                                      |       | <b>7 143</b>  | <b>6 546</b>  |
| <b>Total assets</b>  |       | <b>25 854</b> | <b>25 083</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>                      | 1, 25 |               |               |
| <b>Shareholder' equity</b>                                       | 18    |               |               |
| Share capital  |       | 1 537         | 1 537         |
| Other contributed capital  |       | 4 484         | 4 484         |
| Reserves   |       | 645           | 517           |
| Retained earnings incl. profit/loss for the year                 |       | 6 355         | 5 715         |
| <b>Total equity attributable to owners of the parent company</b> |       | <b>13 021</b> | <b>12 253</b> |
| Non-controlling interests  |       | 1             | 165           |
| <b>Total shareholders' equity</b>                                |       | <b>13 022</b> | <b>12 418</b> |
| <b>Non-current liabilities</b>                                   |       |               |               |
| Interest-bearing liabilities                                     | 22    | 2 687         | 3 027         |
| Provisions for pensions  | 20    | 778           | 783           |
| Other provisions   | 21    | 252           | 45            |
| Deferred tax liabilities   | 9     | 3 410         | 3 186         |
| <b>Total non-current liabilities</b>                             |       | <b>7 127</b>  | <b>7 041</b>  |
| <b>Current liabilities</b>                                       |       |               |               |
| Interest-bearing liabilities                                     | 22    | 1 142         | 1 368         |
| Accounts payable   |       | 3 049         | 2 679         |
| Liabilities to associates  |       | 5             | 24            |
| Tax liabilities  |       | 15            | 41            |
| Accrued expenses and deferred income                             | 24    | 1 091         | 982           |
| Other liabilities  |       | 317           | 416           |
| Provisions   | 21    | 86            | 114           |
| <b>Total current liabilities</b>                                 |       | <b>5 705</b>  | <b>5 624</b>  |
| <b>Total liabilities</b>   |       | <b>12 832</b> | <b>12 665</b> |
| <b>Total shareholders' equity and liabilities</b>                |       | <b>25 854</b> | <b>25 083</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 2016</b>                               | 18   | 1 537   | 4 484                     | 48                  | 530                | -61             | 5 715  | 12 253 | 165                       | 12 418                     |
| Total comprehensive income for the year                          |      |   |                           | 53                  | 16                 | 59              | 1 509  | 1 637  |                           | 1 637                      |
| Dividend to owners of the parent company                         |      |   |                           |                     |                    |                 | -880   | -880   |                           | -880                       |
| Dividend to non-controlling interests                            |      |   |                           |                     |                    |                 |  |        | -164                      | -164                       |
| Share-based payments to be settled in equity instruments, IFRS 2 |      |   |                           |                     |                    |                 | 11   | 11     |                           | 11                         |
| <b>Closing balance, 31 Dec 2016</b>                              |      | 1 537   | 4 484                     | 101                 | 546                | -2              | 6 355  | 13 021 | 1                         | 13 022                     |

| 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 2015</b>                               | 18   | 1 537   | 4 484                     | 125                 | 74                 | -171            | 4 566  | 10 615 | 89                        | 10 704                     |
| Total comprehensive income for the year                          |      |   |                           | -77                 | 456                | 110             | 1 789  | 2 278  | 152                       | 2 430                      |
| Dividend to owners of the parent company                         |      |   |                           |                     |                    |                 | -651   | -651   |                           | -651                       |
| Dividend to non-controlling interests                            |      |   |                           |                     |                    |                 |  |        | -76                       | -76                        |
| Share-based payments to be settled in equity instruments, IFRS 2 |      |   |                           |                     |                    |                 | 11   | 11     |                           | 11                         |
| <b>Closing balance, 31 Dec 2015</b>                              |      | 1 537   | 4 484                     | 48                  | 530                | -61             | 5 715  | 12 253 | 165                       | 12 418                     |

## Consolidated statement of cash flows

| SEKm   | Note | 2016          | 2015          |
|--|------|---------------|---------------|
| <b>Operating activities</b>  | 27   |               |               |
| Profit/loss after financial items  |      | 1 937         | 2 411         |
| Adjustments for items not included in cash flow                              |      | 1 754         | 1 043         |
| Tax paid   |      | -285          | 84            |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>3 406</b>  | <b>3 538</b>  |
| <b>Cash flow from changes in working capital</b>                             |      |               |               |
| Increase (-)/decrease (+) in inventories                                     |      | 330           | 206           |
| Increase (-)/decrease (+) in operating receivables                           |      | -285          | -229          |
| Increase (+)/decrease (-) in operating liabilities                           |      | 291           | 143           |
| <b>Cash flow from operating activities</b>                                   |      | <b>3 742</b>  | <b>3 658</b>  |
| <b>Investing activities</b>  |      |               |               |
| Acquisition of non-current intangible assets                                 |      | -42           | -             |
| Acquisition of property, plant and equipment                                 |      | -1 565        | -1 672        |
| Sale of property, plant and equipment  |      | 4             | 9             |
| Acquisition of subsidiaries  | 33   | -6            | -             |
| Sale of subsidiaries   | 34   | -             | 941           |
| Acquisition of non-current financial assets <sup>1</sup>                     |      | -38           | -38           |
| <b>Cash flow from investing activities</b>                                   |      | <b>-1 647</b> | <b>-760</b>   |
| <b>Cash flow after investing activities</b>                                  |      | <b>2 095</b>  | <b>2 898</b>  |
| <b>Financing activities</b>  |      |               |               |
| Changes in interest-bearing receivables                                      |      | 2             | -             |
| Borrowings   |      | 800           | 580           |
| Debt repayment   |      | -1 364        | -3 267        |
| Dividend   |      | -880          | -651          |
| Dividend to non-controlling interests  |      | -165          | -76           |
| <b>Cash flow from financing activities</b>                                   |      | <b>-1 607</b> | <b>-3 414</b> |
| <b>Cash flow for the period</b>  |      | <b>488</b>    | <b>-516</b>   |
| <b>Cash and cash equivalents at start of year</b>                            |      | <b>188</b>    | <b>737</b>    |
| <b>Translation difference in cash and cash equivalents</b>                   |      | <b>32</b>     | <b>-33</b>    |
| <b>Cash and cash equivalents at year-end</b>                                 |      | <b>708</b>    | <b>188</b>    |

<sup>1</sup> Include foremost other holdings

## Parent Company income statement

| SEKm  | Note  | 2016         | 2015         |
|---|-------|--------------|--------------|
| Net sales   | 2     | 462          | 221          |
| Other operating income  | 3     | 20           | 35           |
| <b>Total operating income</b>                                   |       | <b>482</b>   | <b>256</b>   |
| <b>Operating expenses</b>                                       |       |              |              |
| Other external costs  | 4     | -285         | -234         |
| Employee benefit expense  | 5, 26 | -223         | -206         |
| Depreciation, amortisation and impairment of non-current assets | 12    | -1           | -1           |
| <b>Total operating expenses</b>                                 |       | <b>509</b>   | <b>-441</b>  |
| <b>Operating profit/loss</b>                                    | 2, 6  | <b>-27</b>   | <b>-185</b>  |
| <b>Financial items</b>  | 7     |              |              |
| Profit/Loss from investments in Group companies                 |       | 30           | 1 522        |
| Profit/loss from other participations                           |       | -1           | -9           |
| Interest income and similar profit/loss items                   |       | 3            | 3            |
| Interest expense and similar profit/loss items                  |       | -153         | -198         |
| <b>Total financial items</b>                                    |       | <b>-121</b>  | <b>1 318</b> |
| <b>Profit/loss after financial items</b>                        |       | <b>-148</b>  | <b>1 133</b> |
| Appropriations  | 8     | 1 291        | 707          |
| <b>Profit/loss before tax</b>                                   |       | <b>1 143</b> | <b>1 840</b> |
| Tax   | 9     | 245          | -69          |
| <b>Profit/loss for the year</b>                                 |       | <b>898</b>   | <b>1 771</b> |

## Parent Company statement of comprehensive income

| SEKm                                    | Note | 2016       | 2015         |
|---|------|------------|--------------|
| <b>Profit/loss for the year</b>         |      | <b>898</b> | <b>1 771</b> |
| <b>Other comprehensive income</b>       |      |            |              |
| Other comprehensive income for the year |      | -          | -            |
| <b>Total comprehensive income</b>       |      | <b>898</b> | <b>1 771</b> |

## Parent Company balance sheet

| SEKm  | Note   | 31 Dec 2016   | 31 Dec 2015   |
|---|--------|---------------|---------------|
| <b>ASSETS</b>   | 1, 25  |               |               |
| <b>Non-current assets</b>                                 |        |               |               |
| Property, plant and equipment                             | 12     | 10            | 9             |
| Investments in Group companies                            | 13     | 10 681        | 10 672        |
| Participations in associated companies and joint ventures | 15     | –             | 1             |
| Other holdings  | 16     | 35            | 60            |
| Non-current receivables from associates                   | 14     | 15            | 11            |
| Other non-current receivables                             |        | 13            | 11            |
| <b>Total non-current assets</b>                           |        | <b>10 754</b> | <b>10 764</b> |
| <b>Current assets</b>                                     |        |               |               |
| Accounts receivable                                       |        | 2 104         | 2 161         |
| Receivables from Group companies                          | 14     | 3 074         | 4 607         |
| Prepaid expenses and accrued income                       |        | 15            | 31            |
| Tax receivables   |        | 16            | –             |
| Other receivables   |        | 22            | 6             |
| Cash and bank balances                                    | 27     | 516           | 10            |
| <b>Total current assets</b>                               |        | <b>5 747</b>  | <b>6 815</b>  |
| <b>Total assets</b>                                       |        | <b>16 501</b> | <b>17 579</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>               | 1, 25  |               |               |
| <b>Shareholder' 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   |        | 300           | –602          |
| Profit/loss for the year                                  |        | 898           | 1 771         |
| <b>Total non-restricted equity</b>                        |        | <b>5 606</b>  | <b>5 577</b>  |
| <b>Total shareholders' equity</b>                         |        | <b>7 292</b>  | <b>7 263</b>  |
| <b>Untaxed reserves</b>                                   | 28     | <b>1 031</b>  | <b>660</b>    |
| <b>Provisions</b>   |        |               |               |
| Provisions for pensions and similar commitments           | 20     | 198           | 199           |
| Provisions for taxes                                      | 9      | 1             | 2             |
| <b>Total provisions</b>                                   |        | <b>199</b>    | <b>201</b>    |
| <b>Non-current liabilities</b>                            |        |               |               |
| Bond loans  | 23     | 1 500         | 1 800         |
| Other interest-bearing non-current liabilities            | 23     | 700           | 700           |
| Liabilities to Group companies                            | 14     | 3 781         | 3 580         |
| <b>Total non-current liabilities</b>                      |        | <b>5 981</b>  | <b>6 080</b>  |
| <b>Current liabilities</b>                                |        |               |               |
| Liabilities to credit institutions                        | 23     | 1 100         | 1 330         |
| Accounts payable  |        | 26            | 39            |
| Liabilities to Group companies                            |        | 752           | 1 873         |
| Tax liabilities   |        | –             | 4             |
| Accrued expenses and deferred income                      | 24     | 86            | 76            |
| Other liabilities   |        | 29            | 53            |
| Provisions  | 21     | 5             | –             |
| <b>Total current liabilities</b>                          |        | <b>1 998</b>  | <b>3 375</b>  |
| <b>Total shareholders' equity and liabilities</b>         |        | <b>16 501</b> | <b>17 579</b> |

## Parent Company statement of changes in equity

| SEKm   | Note | Restricted equity |                   | Non-restricted equity |                   |                          | Total shareholders' equity |
|--|------|-------------------|-------------------|-----------------------|-------------------|--------------------------|----------------------------|
|  |      | Share capital     | Statutory reserve | Share premium reserve | Retained earnings | Profit/loss for the year |                            |
| <b>Opening balance, 1 Jan 2016</b>                       | 18   | 1 537             | 149               | 4 408                 | -602              | 1 771                    | 7 263                      |
| Previous year's profit/loss brought forward              |      |                   |                   |                       | 1 771             | -1 771                   | -                          |
| Profit/loss for the year                                 |      |                   |                   |                       |                   | 898                      | 898                        |
| Dividends paid   |      |                   |                   |                       | -880              |                          | -880                       |
| Share-based payments to be settled in equity instruments |      |                   |                   |                       | 11                |                          | 11                         |
| <b>Closing balance, 31 Dec 2016</b>                      |      | 1 537             | 149               | 4 408                 | 300               | 898                      | 7 292                      |

| SEKm   | Note | Restricted equity |                   | Non-restricted equity |                   |                          | Total shareholders' equity |
|--|------|-------------------|-------------------|-----------------------|-------------------|--------------------------|----------------------------|
|  |      | Share capital     | Statutory reserve | Share premium reserve | Retained earnings | Profit/loss for the year |                            |
| <b>Opening balance, 1 Jan 2015</b>                       | 18   | 1 537             | 149               | 4 408                 | 461               | -426                     | 6 129                      |
| Previous year's profit/loss brought forward              |      |                   |                   |                       | -426              | 426                      | -                          |
| Profit/loss for the year                                 |      |                   |                   |                       |                   | 1 771                    | 1 771                      |
| Dividends paid   |      |                   |                   |                       | -651              |                          | -651                       |
| Share-based payments to be settled in equity instruments |      |                   |                   |                       | 14                |                          | 14                         |
| <b>Closing balance, 31 Dec 2015</b>                      |      | 1 537             | 149               | 4 408                 | -602              | 1 771                    | 7 263                      |

## Parent Company cash flow statement

| SEKm   | Note | 2016        | 2015          |
|--|------|-------------|---------------|
| <b>Operating activities</b>  | 27   |             |               |
| Profit/loss after financial items  |      | -148        | 1 133         |
| Adjustments for items not included in cash flow                              |      | 15          | 24            |
| Tax paid   |      | -266        | -27           |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>-399</b> | <b>1 130</b>  |
| <b>Cash flow from changes in working capital</b>                             |      |             |               |
| Increase (-)/decrease (+) in operating receivables                           |      | 1 415       | 2             |
| Increase (+)/decrease (-) in operating liabilities                           |      | 120         | 287           |
| <b>Cash flow from operating activities</b>                                   |      | <b>896</b>  | <b>1 419</b>  |
| <b>Investing activities</b>  |      |             |               |
| Acquisition of property, plant and equipment                                 |      | -2          | -1            |
| Acquisition of shares and shareholder contributions to subsidiaries          |      | -9          | -9            |
| Disposal of shares in other holdings   |      | 25          | -             |
| Acquisition of shares in associates  |      | -           | -3            |
| Acquisition of non-current financial assets                                  |      | -           | -25           |
| Change in financial receivables  |      | -6          | 29            |
| <b>Cash flow from investing activities</b>                                   |      | <b>8</b>    | <b>-9</b>     |
| <b>Cash flow after investing activities</b>                                  |      | <b>904</b>  | <b>1 410</b>  |
| <b>Financing activities</b>  |      |             |               |
| Borrowings   |      | 800         | 580           |
| Repayment of borrowings  |      | -1 330      | -998          |
| Dividend   |      | -880        | -651          |
| Settled Group contributions  |      | 1 012       | -830          |
| <b>Cash flow from financing activities</b>                                   |      | <b>-398</b> | <b>-1 899</b> |
| <b>Cash flow for the year</b>  |      | <b>506</b>  | <b>-489</b>   |
| <b>Cash and cash equivalents at start of year</b>                            |      | <b>10</b>   | <b>499</b>    |
| <b>Cash and cash equivalents at year-end</b>                                 |      | <b>516</b>  | <b>10</b>     |

## Notes and accounting policies

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(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 as available for sale.

### 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 2016 have not had any 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 9 Financial Instruments

This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will be applied from 2018. This amends the rules on the classification and valuation of financial assets and liabilities, the impairment of financial assets and hedge accounting. BillerudKorsnäs' preliminary assessment is that the amendments to classification and valuation will not affect the Group's reporting; that the impairment of financial assets concerns the recognition of bad debt losses, but since bad debt losses have been and are expected to be very small the potential effect is expected to be immaterial; and that the new rules on hedge accounting are not expected to have

any material effect on recognition currently carried out in the primary financial statements.

#### • IFRS 15 Revenue from Contracts with Customers

This standard addresses the recognition of revenues from contracts and from the sale of certain non-financial assets. It will be replaced by IAS 11 Construction Contracts and IAS 18 Revenue and Related Interpretations. This standard will be applied from 2018. BillerudKorsnäs' preliminary assessment is that this will not have any material effects on BillerudKorsnäs' reporting as the Group's sales mainly comprise the sale of goods with recognition at a particular point in time (which is preliminarily not expected to change), while variable revenues and other changes with a possible effect only occur to a negligible extent.

#### • IFRS 16 Leases

This standard will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, with application and related rules 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 amortisation and interest expense in profit and loss. Agreements regarding the rental of premises, machinery and similar which currently constitute operating leases (see note 12) are not recognised in the balance sheet as an asset and liability, besides those interim items that arise at period-end. The amounts that the effects of capitalising these contracts may have are yet to be calculated.

No other issued new or amended standards and interpretations with future application are expected to significant impact BillerudKorsnäs' reporting. None of the above-mentioned amendments are planned to be applied in advance.

### 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 senior management team monitors the profit or loss 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 senior management team the outcome of the operating segment's efforts and its resource requirements. The senior management 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.

### 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.

##### **Hedging of net investments in foreign operations**

Net investments have been hedged to some extent by raising loans in the same currency as the net investments. Changes in exchange rates

relating to hedge instruments are recognised directly in other comprehensive income in the translation reserve to meet and partly or wholly match the translation differences that are recognised for net assets in the foreign operations that have been hedged. Translation differences from net investments and hedge instruments are reversed and recognised in profit and loss when the foreign operation is sold. This type of hedge has not been used from the second half of 2015.

#### **Revenue**

##### **Sale of goods and performance of services**

BillerudKorsnäs' revenue is generated mostly from the sale of manufactured products. Revenue from the sale of goods is recognised in the statement of comprehensive income provided that all significant risks and rewards related to owning the goods have been transferred to the buyer. Revenue from services is recognised in net profit/loss for the year based on the degree of completion at the end of the reporting period. Income is not recognised if it is probable that the economic benefits will not accrue to the Group. If there is significant uncertainty concerning payment, associated costs or risk of return, and if the seller retains an interest in the ongoing management normally associated with ownership, no revenue is recognised. Revenue is recognised at fair value of what is received, or is expected to be received, less agreed discounts.

##### **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.

#### **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 carryforwards 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**

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. A financial instrument is classified upon initial recognition based on the purpose of the acquisition of the instrument. The classification of a financial instrument determines how it is measured after initial recognition as follows.

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 the change in value of the derivative is recognised on the

same line in the profit and loss accounts 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.

The fair value amounts are based on directly observed market prices or derived from market prices.

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 for changes in value.

#### **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.

#### **Loan receivables and accounts receivable**

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. 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.

#### **Other financial liabilities**

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.

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 IAS 39 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 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 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 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.

#### **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 services 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 lease payments is recognised as current and noncurrent 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 | 1–5 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 profit and loss accounts on a straight-line basis throughout 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 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. 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 IAS 39, 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, 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

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 the profit and loss accounts.

#### **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.

Impairment of equity instruments classified as available-for-sale financial assets, which were previously recognised in the profit and loss accounts, are not reversed through profit and loss.

The impaired value is the value upon which subsequent revaluations are based, which are recognised directly in equity.

#### **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 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. 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 multiemployer defined-benefit plan. BillerudKorsnäs has not had access to information for the 2016 financial year to enable it to disclose this plan as a defined-benefit plan. 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**

A provision for warranties is 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, equity and the use of provisions as a separate heading in the balance sheet.

### **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 IAS 39 concerning financial instruments and hedge accounting are not applied by the parent company as a legal entity.

The parent company measures noncurrent 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).

Forward contracts used to hedge changes in foreign exchange rates for receivables and liabilities in foreign currency are measured at the spot rate on the date the contract is made for measurement of the underlying receivable or liability. The difference between the forward rate and the rate prevailing when the contract is entered into (forward premium) is allocated across the period of the forward contract and is included in the net financial income/ expense item.

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. 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.

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, % (gross margin) 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 invoicing rates is included in the business area's profit/

loss. Other units comprise profit/loss from timber supply, Nine AB, Scandifibre Logistics AB, leasing operations, dormant companies and items affecting comparability (note 6). Earnings from sales organisations and Bomhus Energi AB are allocated to the business areas. In 2015, other units comprised timber supply, sales organisations, Nine AB, Bomhus Energi AB, the Latgran Group, dormant companies and items affecting comparability. Group staff units and eliminations comprise Group-wide functions, Group eliminations, profit/loss from participations in associated companies and the fraud of SEK 25 million in the second quarter 2016 which is recognised as an item affecting comparability (note 6).

### Profit/loss by operating segment

| SEKm   | Packaging Paper |            | Consumer Board |            | Corrugated Solutions |            | Currency hedging, etc. |            | Other units |            | Group staff and eliminations |             | Total        |              |
|--|-----------------|------------|----------------|------------|----------------------|------------|------------------------|------------|-------------|------------|------------------------------|-------------|--------------|--------------|
|  | 2016            | 2015       | 2016           | 2015       | 2016                 | 2015       | 2016                   | 2015       | 2016        | 2015       | 2016                         | 2015        | 2016         | 2015         |
| <b>Group</b>                                     |                 |            |                |            |                      |            |                        |            |             |            |                              |             |              |              |
| Net sales  | 8 339           | 8 552      | 8 015          | 8 006      | 3 620                | 3 329      | 36                     | -85        | 1 647       | 2 012      | -                            | -           | 21 657       | 21 814       |
| Other income and operating expenses              | -6 853          | -7 096     | -6 292         | -6 349     | -2 791               | -2 605     | 1                      |            | -1 778      | -1 466     | -338                         | -295        | -18 051      | -17 811      |
| Depreciation, amortisation and impairment losses | -496            | -485       | -759           | -703       | -182                 | -173       |                        |            | -133        | -62        | 9                            | 6           | -1 561       | -1 417       |
| <b>Operating profit/loss</b>                     | <b>990</b>      | <b>971</b> | <b>964</b>     | <b>954</b> | <b>647</b>           | <b>551</b> | <b>37</b>              | <b>-85</b> | <b>-264</b> | <b>484</b> | <b>-329</b>                  | <b>-289</b> | <b>2 045</b> | <b>2 586</b> |
| EBITDA, %  | 18              | 17         | 21             | 21         | 23                   | 22         |                        |            | -8          | 27         |                              |             | 17           | 18           |
| Operating margin, %                              | 12              | 11         | 12             | 12         | 18                   | 17         |                        |            | -16         | 24         |                              |             | 9            | 12           |
| Financial items                                  |                 |            |                |            |                      |            |                        |            |             |            |                              |             | -108         | -175         |
| Tax  |                 |            |                |            |                      |            |                        |            |             |            |                              |             | -419         | -443         |
| <b>Profit/loss for the period</b>                |                 |            |                |            |                      |            |                        |            |             |            |                              |             | <b>1 518</b> | <b>1 968</b> |

Of net sales of SEK 21 657 million (21 814), SEK 590 million (316) was sales of services.

The Group has one customer in the Consumer Board segment which accounts for more than 10 percent of the Group's sales.

### Parent company

|                                   |  |  |  |  |  |  |           |            |  |  |            |             |            |              |
|-----------------------------------|--|--|--|--|--|--|-----------|------------|--|--|------------|-------------|------------|--------------|
| Net sales                         |  |  |  |  |  |  | 61        | -85        |  |  | 401        | 306         | 462        | 221          |
| <b>Operating profit/loss</b>      |  |  |  |  |  |  | <b>61</b> | <b>-85</b> |  |  | <b>-88</b> | <b>-100</b> | <b>-27</b> | <b>-185</b>  |
| Financial items                   |  |  |  |  |  |  |           |            |  |  |            |             | -121       | 1 318        |
| Appropriations                    |  |  |  |  |  |  |           |            |  |  |            |             | 1 291      | 707          |
| Tax                               |  |  |  |  |  |  |           |            |  |  |            |             | -245       | -69          |
| <b>Profit/loss for the period</b> |  |  |  |  |  |  |           |            |  |  |            |             | <b>898</b> | <b>1 771</b> |

Of net sales of SEK 462 million (221), SEK 401 million (306) was sales of services.

### Net sales by market segment

| SEKm               | Group         |               | Parent company |            |
|--------------------|---------------|---------------|----------------|------------|
|                    | 2016          | 2015          | 2016           | 2015       |
| Sweden             | 2 763         | 2 477         | 462            | 221        |
| Other EU countries | 11 280        | 11 907        |                |            |
| Rest of Europe     | 1 493         | 1 569         |                |            |
| Other markets      | 6 121         | 5 861         |                |            |
| <b>Total</b>       | <b>21 657</b> | <b>21 814</b> | <b>462</b>     | <b>221</b> |

### Non-current assets by country

| SEKm           | Group         |               |
|----------------|---------------|---------------|
|                | 2016          | 2015          |
| Sweden         | 16 448        | 16 363        |
| Finland        | 688           | 688           |
| Latvia         | 37            | 35            |
| United Kingdom | 59            | 67            |
| Other          | 40            | 43            |
|                | <b>17 272</b> | <b>17 196</b> |

Non-current assets include intangible assets and property, plant and equipment.

## 3 Other operating income

| SEKm                                   | 2016       | 2015       |
|--|------------|------------|
| <b>Group</b>                           |            |            |
| Services sold                          | 35         | 32         |
| Capitalised work for own account       | 32         | 18         |
| Divestment of Sia Latgran <sup>1</sup> | -          | 440        |
| Other                                  | 88         | 104        |
| <b>Group total</b>                     | <b>155</b> | <b>594</b> |

<sup>1</sup> See note 34 regarding the capital gain from the divestment of SIA Latgran.

### Parent company

|                             |           |           |
|-----------------------------|-----------|-----------|
| Commissions                 | 19        | 21        |
| Other                       | 1         | 14        |
| <b>Parent company total</b> | <b>20</b> | <b>35</b> |



## 4 Fees and remuneration to auditors

| SEKm  | Group    |          | Parent company |          |
|---|----------|----------|----------------|----------|
|   | 2016     | 2015     | 2016           | 2015     |
| <b>KPMG</b>                                   |          |          |                |          |
| Auditing assignments                          | 3        | 2        | 1              | –        |
| Auditing activities besides audit assignments | 1        | 1        | 1              | –        |
| Tax consultancy                               | 1        | 1        | 1              | 1        |
| Other services                                | –        | –        | –              | –        |
| <b>Total</b>                                  | <b>5</b> | <b>4</b> | <b>3</b>       | <b>1</b> |
| <b>Other auditors</b>                         |          |          |                |          |
| Auditing assignments                          | 2        | 1        | –              | –        |
| Tax consultancy                               | 1        | –        | –              | –        |
| Other services                                | –        | –        | –              | –        |
| <b>Total</b>                                  | <b>3</b> | <b>1</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 AGM on 10 May 2016, resolved that KPMG AB would be appointed as auditor for the period extending up until the end of the 2017 AGM.

## 5 Employees and employee benefits expense

### Average number of employees

|                             | 2016         |                 | 2015         |                 |
|-----------------------------|--------------|-----------------|--------------|-----------------|
|                             |              | Of which men, % |              | Of which men, % |
| <b>Parent company</b>       |              |                 |              |                 |
| Sweden                      | 94           | 57              | 89           | 58              |
| Other countries             | 6            | 100             | 7            | 100             |
| <b>Parent company total</b> | <b>100</b>   | <b>60</b>       | <b>96</b>    | <b>61</b>       |
| <b>Subsidiaries</b>         |              |                 |              |                 |
| Sweden                      | 3 501        | 82              | 3 432        | 83              |
| Finland                     | 170          | 83              | 181          | 85              |
| United Kingdom              | 154          | 88              | 151          | 89              |
| China                       | 118          | 37              | 87           | 37              |
| Latvia                      | 85           | 80              | 154          | 81              |
| USA                         | 37           | 59              | 29           | 62              |
| Germany                     | 34           | 50              | 30           | 47              |
| France                      | 14           | 43              | 14           | 43              |
| Italy                       | 14           | 43              | 12           | 42              |
| Spain                       | 12           | 42              | 11           | 36              |
| Other countries             | 35           | 63              | 26           | 63              |
| <b>Subsidiaries total</b>   | <b>4 174</b> | <b>80</b>       | <b>4 127</b> | <b>81</b>       |
| <b>Group total</b>          | <b>4 274</b> | <b>79</b>       | <b>4 223</b> | <b>81</b>       |

| SEKm   | Group        |              | Parent company |            |
|--|--------------|--------------|----------------|------------|
|  | 2016         | 2015         | 2016           | 2015       |
| <b>Employee benefit costs</b>                        |              |              |                |            |
| Wages, salaries and other remuneration               |              |              |                |            |
| Board, CEO and management teams <sup>1</sup>         | 63           | 61           | 63             | 61         |
| of which variable remuneration                       | 10           | 9            | 10             | 9          |
| Other employees                                      | 2 425        | 2 186        | 82             | 67         |
| of which variable remuneration                       | 109          | 76           | 17             | 13         |
| <b>Total salaries and other remuneration</b>         | <b>2 488</b> | <b>2 247</b> | <b>145</b>     | <b>128</b> |
| <b>Social security costs</b>                         |              |              |                |            |
| Contractual pensions for the CEO and management team |              |              |                |            |
| Defined-benefit pensions                             | –            | –            | –              | –          |
| Defined-contribution pensions                        | 9            | 9            | 9              | 9          |
| Contractual pensions, other                          |              |              |                |            |
| Defined-benefit pensions                             | 2            | 2            | –              | –          |
| Defined-contribution pensions                        | 241          | 210          | 14             | 15         |
| Other social security costs                          | 734          | 699          | 55             | 54         |
| <b>Total social security costs</b>                   | <b>986</b>   | <b>920</b>   | <b>78</b>      | <b>78</b>  |
| <b>Total employee benefits expense</b>               | <b>3 474</b> | <b>3 167</b> | <b>223</b>     | <b>206</b> |

<sup>1</sup> CEO and management teams refers to those of both the parent company and the Group, the Group CEO and the senior management team. Board refers to the Board of BillerudKorsnäs AB.

### Number of women in management positions, %

|  | 2016 | 2015 |
|--|------|------|
| <b>Group and parent company management</b> |      |      |
| Board                                      | 40   | 40   |
| CEO and management team                    | 20   | 20   |

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 |          |
|--|-------------|------------|----------------|----------|
|  | 2016        | 2015       | 2016           | 2015     |
| <b>Income affecting comparability</b>                                    |             |            |                |          |
| Capital gain from divestiture of SIA Latgran (Other income) <sup>1</sup> | –           | 440        | –              | –        |
| <b>Income affecting comparability</b>                                    | <b>–</b>    | <b>440</b> | <b>–</b>       | <b>–</b> |
| <b>Expenses affecting comparability</b>                                  |             |            |                |          |
| Tervasaari – restructuring (operating expenses)                          | –           | –98        | –              | –        |
| Fraud (operating expenses)   | –25         | –          | –25            | –        |
| New board machine, KM7 – restructuring (operating expenses)              | –205        | –          | –              | –        |
| New board machine, KM7 – impairment (Impairment of non-current assets)   | –120        | –          | –              | –        |
| <b>Expenses affecting comparability</b>                                  | <b>–350</b> | <b>–98</b> | <b>–25</b>     | <b>–</b> |
| <b>Net</b>   | <b>–350</b> | <b>342</b> | <b>–25</b>     | <b>–</b> |

<sup>1</sup> See note 34 regarding the capital gain from the divestment of SIA Latgran.

Items affecting comparability are presented to enable an adjustment of the result that better reflects the underlying business.

## 7 Net financial items

| SEKm  | Group       |             | Parent company |              |
|---|-------------|-------------|----------------|--------------|
|   | 2016        | 2015        | 2016           | 2015         |
| <b>Finance income</b>   |             |             |                |              |
| Dividends from Group companies  | –           | –           | 30             | 1 524        |
| Impairment losses, subsidiaries                                       | –           | –           | –              | –2           |
| Impairment losses, associates   | –           | –           | –1             | –9           |
| Dividends from other participations                                   | 42          | 21          | –              | –            |
| Net change in exchange rates  | 1           | –           | 2              | –            |
| Interest income, Group companies                                      | –           | –           | –              | 1            |
| Interest income, other  | 2           | 3           | 1              | 2            |
| <b>Finance income</b>   | <b>45</b>   | <b>24</b>   | <b>32</b>      | <b>1 516</b> |
| <b>Finance expenses</b>   |             |             |                |              |
| Interest expense for financial liabilities measured at amortised cost | –125        | –151        | –116           | –146         |
| Interest expense for pension provision                                | –18         | –21         | –7             | –7           |
| Net interest income on derivatives in hedge accounting                | –           | –           | –21            | –            |
| Net change in exchange rates  | –           | –2          | –              | –20          |
| Other financial expenses  | –10         | –25         | –9             | –25          |
| <b>Finance expenses</b>   | <b>–153</b> | <b>–199</b> | <b>–153</b>    | <b>–198</b>  |
| <b>Net financial items</b>  | <b>–108</b> | <b>–175</b> | <b>–121</b>    | <b>1 318</b> |

## 8 Appropriations

| SEKm                         | Parent company |            |
|------------------------------|----------------|------------|
|                              | 2016           | 2015       |
| Group contributions received | 1 662          | 1 837      |
| Group contributions paid     | –              | –825       |
| Tax allocation reserve       | –371           | –305       |
| <b>Parent company total</b>  | <b>1 291</b>   | <b>707</b> |

## 9 Tax

| SEKm   | Group        |              | Parent company |              |
|--|--------------|--------------|----------------|--------------|
|  | 2016         | 2015         | 2016           | 2015         |
| <b>Profit/loss before tax</b>                                |              |              |                |              |
| Sweden   | 1 944        | 1 990        | 1 143          | 1 840        |
| Other countries  | –7           | 421          | –              | –            |
| <b>Total profit/loss before tax</b>                          | <b>1 937</b> | <b>2 411</b> | <b>1 143</b>   | <b>1 840</b> |
| <b>Tax expense</b>   |              |              |                |              |
| <b>Current tax</b>   |              |              |                |              |
| Tax expense for the period                                   | –253         | –241         | –246           | –204         |
| Tax attributable to previous period                          | 1            | 1            | –              | –            |
| <b>Total current tax</b>                                     | <b>–252</b>  | <b>–240</b>  | <b>–246</b>    | <b>–204</b>  |
| <b>Deferred tax</b>  |              |              |                |              |
| Deferred tax income/expense related to temporary differences | –167         | –203         | 1              | 135          |
| <b>Total tax expense</b>                                     | <b>–419</b>  | <b>–443</b>  | <b>–245</b>    | <b>–69</b>   |
| <b>%</b>   |              |              |                |              |
| <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          | –              | –            |
| Tax-exempt dividends   | –0.5         | –0.2         | –0.6           | –18.2        |
| Tax attributable to previous period                          | 0.1          | –            | –              | –            |
| Impairment of shares   | –            | 0.1          | –              | 0.1          |
| Tax effect of non-deductible expenses                        | 0.2          | 0.2          | 0.2            | –            |
| Tax effect of tax-exempt income                              | –            | –4.1         | –              | –            |
| Tax deficit not recognised                                   | –            | 0.3          | –              | –            |
| Utilised tax deficit not recognised in previous years        | –0.2         | –            | –              | –            |
| Deductions for allocation of shares in incentive programmes  | –0.1         | –0.2         | –0.2           | –0.2         |
| <b>Tax rate according to income statement</b>                | <b>21.6</b>  | <b>18.4</b>  | <b>21.4</b>    | <b>3.7</b>   |

## Change in deferred tax in temporary differences and loss carry-forwards

| SEKm   | Opening balance,<br>1 January |              | Recognised in<br>profit and loss |             | Recognised<br>directly in equity |           | Closing balance,<br>31 December |              |
|--|-------------------------------|--------------|----------------------------------|-------------|----------------------------------|-----------|---------------------------------|--------------|
|  | 2016                          | 2015         | 2016                             | 2015        | 2016                             | 2015      | 2016                            | 2015         |
| <b>GROUP</b>                                 |                               |              |                                  |             |                                  |           |                                 |              |
| <b>Deferred tax liability</b>                |                               |              |                                  |             |                                  |           |                                 |              |
| Non-current assets                           | 3 103                         | 3 159        | 204                              | -18         | -3                               | -38       | 3 304                           | 3 103        |
| Tax allocation reserve                       | 202                           | 135          | 25                               | 67          | -                                | -         | 227                             | 202          |
| Hedging reserve                              | -17                           | -48          | -                                | -           | 17                               | 31        | -                               | -17          |
| <b>Total deferred tax liability</b>          | <b>3 288</b>                  | <b>3 246</b> | <b>229</b>                       | <b>49</b>   | <b>14</b>                        | <b>-7</b> | <b>3 531</b>                    | <b>3 288</b> |
| <b>Deferred tax asset</b>                    |                               |              |                                  |             |                                  |           |                                 |              |
| Inventories                                  | 7                             | 4            | -3                               | 2           | -                                | 1         | 4                               | 7            |
| Accounts receivable                          | 9                             | 8            | -2                               | 1           | -                                | 1         | 7                               | 9            |
| Provisions                                   | 45                            | 48           | 56                               | -3          | 3                                | -         | 104                             | 45           |
| Loss   | 62                            | 218          | 11                               | -154        | -                                | -2        | 73                              | 62           |
| <b>Total deferred tax asset</b>              | <b>123</b>                    | <b>278</b>   | <b>62</b>                        | <b>-154</b> | <b>3</b>                         | <b>-1</b> | <b>188</b>                      | <b>123</b>   |
| <b>Total net deferred tax liability</b>      | <b>3 165</b>                  | <b>2 968</b> | <b>167</b>                       | <b>203</b>  | <b>11</b>                        | <b>-6</b> | <b>3 343</b>                    | <b>3 165</b> |
| Portion recognised as deferred tax asset     | 21                            | 18           |                                  |             |                                  |           | 67                              | 21           |
| Portion recognised as deferred tax liability | 3 186                         | 2 986        |                                  |             |                                  |           | 3 410                           | 3 186        |

Temporary differences and/or loss carry-forwards that are not balanced by recognised deferred tax assets total SEK 17 million (46). 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        | 141        | -         | -136        |  |  | 5        | 5        |
| <b>Total deferred tax liability</b>     | <b>5</b> | <b>141</b> | <b>-</b>  | <b>-136</b> |  |  | <b>5</b> | <b>5</b> |
| <b>Deferred tax asset</b>               |          |            |           |             |  |  |          |          |
| Accounts receivable                     | -        | 1          | -         | -1          |  |  |          |          |
| Provisions                              | 3        | 3          | 1         | -           |  |  | 4        | 3        |
| <b>Total deferred tax asset</b>         | <b>3</b> | <b>4</b>   | <b>1</b>  | <b>-1</b>   |  |  | <b>4</b> | <b>3</b> |
| <b>Total net deferred tax liability</b> | <b>2</b> | <b>137</b> | <b>-1</b> | <b>-135</b> |  |  | <b>1</b> | <b>2</b> |

There are no significant temporary differences in participations in subsidiaries.

## 10 Earnings per share

|  | 2016        | 2015        |
|--|-------------|-------------|
| <b>Basic earnings per share</b>                                |             |             |
| Profit/loss for the period, SEKm                               | 1 518       | 1 811       |
| Weighted number of outstanding ordinary shares                 | 207 037 234 | 206 888 635 |
| <b>Basic earnings per share, SEK</b>                           | <b>7.33</b> | <b>8.75</b> |
| <b>Diluted earnings per share</b>                              |             |             |
| Profit/loss for the period, SEKm                               | 1 518       | 1 811       |
| Weighted number of outstanding ordinary shares                 | 207 037 234 | 206 888 635 |
| Adjustment for assumed dilution through incentive programme    | 472 099     | 520 021     |
| Number of shares included in calculation of earnings per share | 207 509 333 | 207 408 656 |
| <b>Diluted earnings per share, SEK</b>                         | <b>7.31</b> | <b>8.73</b> |

## 11 Intangible assets

| SEKm   | Acquired intangible assets |              |                    |             |            |            |                         |            |              |              |
|--|----------------------------|--------------|--------------------|-------------|------------|------------|-------------------------|------------|--------------|--------------|
|  | Goodwill                   |              | Customer contracts |             | Brand      |            | Other intangible assets |            | Total        |              |
|  | 2016                       | 2015         | 2016               | 2015        | 2016       | 2015       | 2016                    | 2015       | 2016         | 2015         |
| <b>GROUP</b>                                       |                            |              |                    |             |            |            |                         |            |              |              |
| <b>Acquisition value</b>                           |                            |              |                    |             |            |            |                         |            |              |              |
| Carrying amount at start of year                   | 1 980                      | 2 088        | 567                | 567         | 116        | 113        | 106                     | 105        | 2 768        | 2 873        |
| Investments  |                            |              |                    |             |            |            | 42                      | 1          | 42           | –            |
| Acquisition of business                            |                            |              |                    |             |            |            | 8                       |            | 8            | –            |
| Disposals  |                            | –108         |                    |             |            |            | –2                      |            | –2           | –108         |
| Reclassification                                   |                            |              |                    |             |            |            |                         |            | –            | –            |
| Translation differences                            |                            |              |                    |             | 4          | 3          | 3                       |            | 7            | 3            |
| <b>Carrying amount at year-end</b>                 | <b>1 980</b>               | <b>1 980</b> | <b>567</b>         | <b>567</b>  | <b>120</b> | <b>116</b> | <b>157</b>              | <b>106</b> | <b>2 823</b> | <b>2 768</b> |
| <b>Accumulated depreciation/amortisation</b>       |                            |              |                    |             |            |            |                         |            |              |              |
| Carrying amount at start of year                   |                            |              | –218               | –147        | –43        | –25        | –92                     | –90        | –353         | –262         |
| Depreciation/amortisation                          |                            |              | –71                | –71         | –18        | –17        | –7                      | –2         | –96          | –90          |
| Acquisition of business                            |                            |              |                    |             |            |            | –7                      |            | –7           | –            |
| Disposals  |                            |              |                    |             |            |            | 2                       |            | 2            | –            |
| Translation differences                            |                            |              |                    |             | –3         | –1         |                         |            | –3           | –1           |
| <b>Carrying amount at year-end</b>                 | <b>–</b>                   | <b>–</b>     | <b>–289</b>        | <b>–218</b> | <b>–64</b> | <b>–43</b> | <b>–104</b>             | <b>–92</b> | <b>–457</b>  | <b>–353</b>  |
| <b>Accumulated impairment losses</b>               |                            |              |                    |             |            |            |                         |            |              |              |
| Carrying amount at start of year                   | –31                        | –31          |                    |             |            |            |                         |            | –31          | –31          |
| <b>Carrying amount at year-end</b>                 | <b>–31</b>                 | <b>–31</b>   | <b>–</b>           | <b>–</b>    | <b>–</b>   | <b>–</b>   | <b>–</b>                | <b>–</b>   | <b>–31</b>   | <b>–31</b>   |
| <b>Carrying amounts according to balance sheet</b> | <b>1 949</b>               | <b>1 949</b> | <b>278</b>         | <b>349</b>  | <b>56</b>  | <b>73</b>  | <b>53</b>               | <b>14</b>  | <b>2 335</b> | <b>2 384</b> |

Divested goodwill in 2015 of SEK 108 million is attributable to the divestment of SIA Latgran.

The Group's remaining goodwill of SEK 1 949 million 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.

The recoverable amount has been calculated as the value in use. The calculations use cash flow based on the multi-year plan approved by the Company's management for the period 2017–2021. 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 managements assessments which are based on both internal and external sources.

An annual growth rate of 2% (2) was used to extrapolate cash flows beyond 2021. 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 non-current assets |           | Constructions in progress |            | Total          |                |
|--|---------------------------------|---------------|----------------------------------|----------------|---------------------------|-----------|---------------------------|------------|----------------|----------------|
|  | 2016                            | 2015          | 2016                             | 2015           | 2016                      | 2015      | 2016                      | 2015       | 2016           | 2015           |
| <b>GROUP</b>                                       |                                 |               |                                  |                |                           |           |                           |            |                |                |
| <b>Acquisition value</b>                           |                                 |               |                                  |                |                           |           |                           |            |                |                |
| Carrying amount at start of year                   | 4 059                           | 4 008         | 32 838                           | 31 717         | 9                         | 18        | 687                       | 777        | 37 594         | 36 520         |
| Investments  | 6                               | 15            | 62                               | 252            | 1                         | 3         | 1 496                     | 1 402      | 1 565          | 1 672          |
| Acquisition of business                            |                                 |               | 1                                |                |                           |           |                           |            | 1              | –              |
| Reclassification                                   | 82                              | 166           | 1 249                            | 1 323          |                           |           | –1 331                    | –1 490     | –              | –              |
| Divestments and disposals                          | –2                              | –10           | –58                              | –39            | –2                        |           |                           |            | –62            | –49            |
| Disposals via divestment of business <sup>3</sup>  |                                 | –115          |                                  | –372           |                           | –11       |                           | –2         | –              | –500           |
| Translation differences                            |                                 | –5            | –1                               | –43            | –1                        | –1        | 1                         |            | –1             | –49            |
| <b>Carrying amount at year-end</b>                 | <b>4 145</b>                    | <b>4 059</b>  | <b>34 091</b>                    | <b>32 838</b>  | <b>7</b>                  | <b>9</b>  | <b>853</b>                | <b>687</b> | <b>39 096</b>  | <b>37 594</b>  |
| <b>Accumulated depreciation/amortisation</b>       |                                 |               |                                  |                |                           |           |                           |            |                |                |
| Carrying amount at start of year                   | –2 520                          | –2 445        | –18 339                          | –17 277        | –7                        | –9        |                           |            | –20 866        | –19 731        |
| Depreciation/amortisation                          | –114                            | –112          | –1 230                           | –1 214         | –1                        | –1        |                           |            | –1 345         | –1 327         |
| Divestments and disposals                          |                                 | 9             | 57                               | 38             | 2                         |           |                           |            | 59             | 47             |
| Disposals via divestment of business <sup>3</sup>  |                                 | 26            |                                  | 109            |                           | 3         |                           |            | –              | 138            |
| Translation differences                            |                                 | 2             | 29                               | 5              |                           |           |                           |            | 29             | 7              |
| <b>Carrying amount at year-end</b>                 | <b>–2 634</b>                   | <b>–2 520</b> | <b>–19 483</b>                   | <b>–18 339</b> | <b>–6</b>                 | <b>–7</b> | <b>–</b>                  | <b>–</b>   | <b>–22 123</b> | <b>–20 866</b> |
| <b>Accumulated impairment losses</b>               |                                 |               |                                  |                |                           |           |                           |            |                |                |
| Carrying amount at start of year                   | –111                            | –111          | –1 805                           | –1 805         |                           |           |                           |            | –1 916         | –1 916         |
| Impairment losses <sup>4</sup>                     |                                 |               | –120                             |                |                           |           |                           |            | –120           | –              |
| <b>Carrying amount at year-end</b>                 | <b>–111</b>                     | <b>–111</b>   | <b>–1 925</b>                    | <b>–1 805</b>  | <b>–</b>                  | <b>–</b>  | <b>–</b>                  | <b>–</b>   | <b>–2 036</b>  | <b>–1 916</b>  |
| <b>Carrying amounts according to balance sheet</b> | <b>1 400</b>                    | <b>1 428</b>  | <b>12 683</b>                    | <b>12 694</b>  | <b>1</b>                  | <b>2</b>  | <b>853</b>                | <b>687</b> | <b>14 937</b>  | <b>14 812</b>  |
| <b>PARENT COMPANY</b>                              |                                 |               |                                  |                |                           |           |                           |            |                |                |
| <b>Acquisition value</b>                           |                                 |               |                                  |                |                           |           |                           |            |                |                |
| Carrying amount at start of year                   | 7                               | 7             | 4                                | 4              |                           |           | 1                         |            | 12             | 11             |
| Investments  |                                 |               |                                  |                |                           |           | 2                         | 1          | 2              | 1              |
| Reclassification                                   |                                 |               | 2                                |                |                           |           | –2                        |            | –              | –              |
| Divestments and disposals                          |                                 |               |                                  |                |                           |           |                           |            | –              | –              |
| <b>Carrying amount at year-end</b>                 | <b>7</b>                        | <b>7</b>      | <b>6</b>                         | <b>4</b>       | <b>–</b>                  | <b>–</b>  | <b>–</b>                  | <b>1</b>   | <b>14</b>      | <b>12</b>      |
| <b>Accumulated depreciation/amortisation</b>       |                                 |               |                                  |                |                           |           |                           |            |                |                |
| Carrying amount at start of year                   |                                 |               | –3                               | –2             |                           |           |                           |            | –3             | –2             |
| Depreciation/amortisation                          |                                 |               | –1                               | –1             |                           |           |                           |            | –1             | –1             |
| Divestments and disposals                          |                                 |               |                                  |                |                           |           |                           |            | –              | –              |
| <b>Carrying amount at year-end</b>                 | <b>–</b>                        | <b>–</b>      | <b>–4</b>                        | <b>–3</b>      | <b>–</b>                  | <b>–</b>  | <b>–</b>                  | <b>–</b>   | <b>–4</b>      | <b>–3</b>      |
| <b>Carrying amounts according to balance sheet</b> | <b>7</b>                        | <b>7</b>      | <b>2</b>                         | <b>1</b>       | <b>–</b>                  | <b>–</b>  | <b>–</b>                  | <b>–</b>   | <b>10</b>      | <b>9</b>       |

1 Of which land is SEK 68 million (69) 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 SIA Latgran

4 Relates to impairment of non-current assets in Gruvön which will be disposed of in 2018 in connection with the installation of a new board machine.

### Leases

Future contractual lease commitments for the Group totalled SEK 283 million, SEK 99 million of which is payable within one year and SEK 136 million within two to five years. The corresponding figure for the parent company was SEK 17 million, SEK 8 million of which is payable within one year and SEK 9 million within two to five years. Leasing costs in the Group in 2016 amounted to SEK 105 million. For the parent company, the total corresponding costs were SEK 9 million.

## 13 Investments in Group companies

| SEKm  | 2016          | 2015          |
|---|---------------|---------------|
| <b>Acquisition value</b>                    |               |               |
| Opening balance at start of year            | 10 838        | 10 829        |
| Investments <sup>1</sup>                    | 9             | 9             |
| <b>Closing balance at year-end</b>          | <b>10 847</b> | <b>10 838</b> |
| <b>Accumulated impairment losses</b>        |               |               |
| Opening balance at start of year            | -166          | -164          |
| Impairment losses <sup>2</sup>              | -             | -2            |
| <b>Closing balance at year-end</b>          | <b>-166</b>   | <b>-166</b>   |
| <b>Carrying amount on the balance sheet</b> | <b>10 681</b> | <b>10 672</b> |

<sup>1</sup> Investments in 2016 relate to acquisition on ScandFibre Logistics AB of SEK 8 million, shareholders' contribution to NimblePacc Packaging Private Ltd of SEK 1 million and formation of the companies BillerudKorsnäs Venture AB and BillerudKorsnäs Bangladesh Limited. Investments in 2015 relate to an owner's contribution of SEK 3 million to Nine AB, the formation of the companies BillerudKorsnäs Packaging India of SEK 2 million, BillerudKorsnäs Singapore SEK 3 million and the Indian company NimblePacc Packaging Private Ltd of SEK 1 million.

<sup>2</sup> Impairment loss in 2015 related to impairment of the investment in Nine AB.

### 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, Stockholm 556459-7572                      | 1 000            | 100                       | -               |
| BillerudKorsnäs Sweden AB, Stockholm 556876-2974       | 2 000            | 100                       | 1 040           |
| Nine AB, Stockholm 556724-5658                         | 904              | 90.4                      | 3               |
| ScandFibre Logistics AB, Örebro, 556253-1474           | 10 000           | 100                       | 8               |
| BillerudKorsnäs Asia Holding, Hong Kong                | 10 000           | 100                       | -               |
| Billerud Tenova Bioplastics AB, Stockholm 556639-6197  | 2 500            | 100                       | 17              |
| BillerudKorsnäs Beetham Ltd, Cumbria                   | 3 500 000        | 100                       | 81              |
| Billerud Benelux B.V., Amsterdam                       | 200              | 100                       | 3               |
| BillerudKorsnäs France S.A.S., Paris                   | 25 401           | 100                       | -               |
| BillerudKorsnäs Germany GmbH, Hamburg                  | 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                       | 14              |
| BillerudKorsnäs Estonia OÜ, Pärnu                      | 1                | 100                       | -               |
| BillerudKorsnäs Latvia SIA, Juarjelgava                | 5 620            | 100                       | 43              |
| Billerud Incorporated, Delaware                        | 100              | 100                       | 52              |
| BillerudKorsnäs Finland OY, Helsinki                   | 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                       | 2               |
| NimblePacc Packaging Private Ltd, New Dehli            | 5 999            | 100                       | 2               |
| BillerudKorsnäs Singapore Private Ltd, Singapore       | 500 000          | 100                       | 3               |
| BillerudKorsnäs Bangladesh Limited, Dhaka              | 998              | 100                       | -               |

10 681

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                       |
| Korsnäs Advanced Systems AB, Gävle 556560-8627                     | 100                       |
| AB Stjernsunds Bruk, Gävle 556028-6881                             | 100                       |
| Trävaru AB Dalarna, Gävle 556044-3920                              | 100                       |
| BillerudKorsnäs UK Ltd, Stowe                                      | 100                       |
| Latgran Biofuels AB, Gävle 556811-4184                             | 75                        |
| Sia Freja, Riga  | 100                       |
| BillerudKorsnäs USA LLC, Delaware                                  | 100                       |
| Paccess International Trading, Shenzhen                            | 100                       |
| Bomhus Energi AB, Gävle 556793-5217 (joint arrangement)            | 50                        |

<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  | 2016      | 2015      | SEKm  | 2016       | 2015       |
|---|-----------|-----------|---|------------|------------|
| <b>GROUP AND PARENT COMPANY</b>                     |           |           | <b>Current receivables from Group companies</b>   |            |            |
| <b>Non-current receivables from associates</b>      |           |           | Carrying amount at start of year  | 50         | 74         |
| Carrying amount at start of year                    | 11        | –         | Change for the year   | –2         | –24        |
| Change for the year                                 | 4         | 11        | <b>Carrying amount at year-end</b>  | <b>48</b>  | <b>50</b>  |
| <b>Carrying amount at year-end</b>                  | <b>15</b> | <b>11</b> | <b>Liabilities to Group companies</b>   |            |            |
| <b>PARENT COMPANY</b>                               |           |           | Carrying amount at start of year  | 537        | 504        |
| <b>Non-current receivables from Group companies</b> |           |           | Change for the year   | –111       | 33         |
| Carrying amount at start of year                    | –         | 41        | <b>Carrying amount at year-end</b>  | <b>426</b> | <b>537</b> |
| Change for the year                                 | –         | –41       | Interest-bearing receivables and liabilities relate to the Group account with an internal rate of return and interest-bearing fixed-term loans and investments. |            |            |
| <b>Carrying amount at year-end</b>                  | <b>–</b>  | <b>–</b>  |   |            |            |

## 15 Participations in associates

| SEKm  | 2016     | 2015      |
|---|----------|-----------|
| <b>GROUP</b>  |          |           |
| Carrying amount at start of year                    | 13       | 15        |
| Capital contribution to associates <sup>1</sup>     | –        | 4         |
| Divestment of associates <sup>2</sup>               | –4       | –         |
| Participations in associates' profit/loss after tax | –1       | –6        |
| <b>Carrying amount at year-end</b>                  | <b>8</b> | <b>13</b> |

### Associates

| SEKm   | Country | Revenue | Earnings | Assets | Liabilities | Shareholder' equity | Proportion owned, % | Carrying amount |
|--|---------|---------|----------|--------|-------------|---------------------|---------------------|-----------------|
| <b>2016</b>                                  |         |         |          |        |             |                     |                     |                 |
| FreeForm Packaging AB                        | Sweden  | 1       | –4       | 20     | 20          | –                   | 35                  | –               |
| Trätåg AB                                    | Sweden  | 199     | –        | 30     | 30          | –                   | 50                  | –               |
| Fastighetsbolaget Marma Skog 31 <sup>3</sup> | Sweden  | 1       | –        | 9      | 1           | 8                   | 50                  | 8               |
| SSG Standard Solutions Group AB              | Sweden  | –       | –        | –      | –           | –                   | 28                  | –               |
| <b>Total</b>                                 |         |         |          |        |             |                     |                     | <b>8</b>        |
| <b>2015</b>                                  |         |         |          |        |             |                     |                     |                 |
| FreeForm Packaging AB                        | Sweden  |         | –3       | 13     | 11          | 2                   | 35                  | 1               |
| ScandFibre Logistics AB                      | Sweden  | 956     | –        | 119    | 109         | 10                  | 40                  | 4               |
| Trätåg AB                                    | Sweden  | 189     | –        | 33     | 33          | –                   | 50                  | –               |
| Fastighetsbolaget Marma Skog 31 <sup>3</sup> | Sweden  | 3       | 2        | 9      | 1           | 8                   | 50                  | 8               |
| SSG Standard Solutions Group AB              | Sweden  | –       | –        | –      | –           | –                   | 28                  | –               |
| <b>Total</b>                                 |         |         |          |        |             |                     |                     | <b>13</b>       |

| SEKm  | 2016     | 2015     |
|---|----------|----------|
| <b>PARENT COMPANY</b>                           |          |          |
| <b>Acquisition value</b>                        |          |          |
| At start of year                                | 1        | 6        |
| Capital contribution to associates <sup>1</sup> | –        | 4        |
| Divestment of associates <sup>2</sup>           | –1       | –        |
| Impairment losses, associates <sup>4</sup>      | –        | –9       |
| <b>Closing balance</b>                          | <b>–</b> | <b>1</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>2016</b>                                     |                      |                 |
| <b>Associates</b>                               |                      |                 |
| FreeForm Packaging AB, 556928-2873 Norrköping   | 35                   | –               |
| <b>Parent company total</b>                     |                      | <b>–</b>        |

### 2015

| Company, corporate ID no. and registered office | Votes and capital, % | Carrying amount |
|---|----------------------|-----------------|
| <b>Associates</b>                               |                      |                 |
| FreeForm Packaging AB, 556928-2873 Norrköping   | 35                   | –               |
| ScandFibre Logistics AB, 556253-1474 Örebro     | 20                   | 1               |
| <b>Parent company total</b>                     |                      | <b>1</b>        |

<sup>1</sup> Capital contribution in 2015 of SEK 4 million related to FreeForm Packaging AB.

<sup>2</sup> BillerudKorsnäs AB acquired all the shares in ScandFibre Logistics AB in 2016, which means that the company is reported as Investments in Group companies, see note 13.

<sup>3</sup> The value of biological assets has been taken into account when calculating the share of equity, in accordance with IAS 41.

<sup>4</sup> Impairment loss in 2015 relates to the impairment of the investment in FreeForm Packaging AB.

## 16 Other holdings

| SEKm Name/Corp. ID no.                       | Number of shares | Holding in % | Carrying amount |
|--|------------------|--------------|-----------------|
| <b>2016</b>                                  |                  |              |                 |
| <b>GROUP</b>                                 |                  |              |                 |
| Two tenant-owner properties                  |                  |              | 2               |
| BasEl i Sverige AB, 556672-5858              | 100              | 10           | 1               |
| VindIn AB, 556713-5172                       | 200              | 10           | 34              |
| Kalix Vindkraft AB, 556686-1729              | 20 000           | 10           | 5               |
| BioBag International AS, 966 534 281         | 360              | 10           | 9               |
| Bergvik Skog AB, 556610-2959                 | 353              | 5            | 1 230           |
| Gävle-Sandviken Flygfält AB, 556160-1625     | 20               | 3            | –               |
| Radio Skog AB, 556137-8506                   | 400              | 10           | –               |
| RK Returkartong AB, 56483-8828               | 28               | 4            | –               |
| EcoXPac A/S, Denmark                         | 58 446           | 10           | 25              |
| Kezzler AS, Norway, 983 594 123              | 324 843          | 7            | 28              |
| Hanhaa Ltd, UK                               | 10 742           | 7            | 10              |
| <b>Total</b>                                 |                  |              | <b>1 343</b>    |
| <b>PARENT COMPANY</b>                        |                  |              |                 |
| One tenant-owner property                    |                  |              | 2               |
| BioBag International AS, 966 534 281         | 360              | 10           | 9               |
| BasEl i Sverige AB, 556672-5858              | 50               | 5            | –               |
| SSG Standard Solutions Group AB, 556403-1523 | 7 000            | 14           | –               |
| VindIn AB, 556713-5172                       | 100              | 9            | 24              |
| <b>Total</b>                                 |                  |              | <b>35</b>       |
| <b>2015</b>                                  |                  |              |                 |
| <b>GROUP</b>                                 |                  |              |                 |
| Two tenant-owner properties                  |                  |              | 2               |
| Innventia AB, 556023-1109                    | 12               | 11           | –               |
| BasEl i Sverige AB, 556672-5858              | 100              | 10           | 1               |
| VindIn AB, 556713-5172                       | 200              | 10           | 34              |
| Kalix Vindkraft AB, 556686-1729              | 20 000           | 10           | 5               |
| BioBag International AS, 966 534 281         | 360              | 10           | 9               |
| Bergvik Skog AB, 556610-2959                 | 353              | 5            | 1 213           |
| Gävle-Sandviken Flygfält AB, 556160-1625     | 20               | 3            | –               |
| Radio Skog AB, 556137-8506                   | 400              | 10           | –               |
| RK Returkartong AB, 56483-8828               | 28               | 4            | –               |
| EcoXPac A/S, Denmark                         | 58 446           | 10           | 25              |
| <b>Total</b>                                 |                  |              | <b>1 289</b>    |
| <b>PARENT COMPANY</b>                        |                  |              |                 |
| One tenant-owner property                    |                  |              | 2               |
| Innventia AB, 556023-1109                    | 12               | 11           | –               |
| BioBag International AS, 966 534 281         | 360              | 10           | 9               |
| BasEl i Sverige AB, 556672-5858              | 50               | 5            | –               |
| SSG Standard Solutions Group AB, 556403-1523 | 7 000            | 14           | –               |
| VindIn AB, 556713-5172                       | 100              | 9            | 24              |
| EcoXPac A/S, Denmark                         | 58 446           | 10           | 25              |
| <b>Total</b>                                 |                  |              | <b>60</b>       |

BillrudKorsnäs Venture purchased 7% of the shares in Kezzler AS and 7% of the shares in Hanhaa in 2016.



## 17 Inventories

| SEKm                          | Group        |              |
|-------------------------------|--------------|--------------|
|                               | 2016         | 2015         |
| Raw materials and consumables | 1 094        | 1 153        |
| Finished goods                | 1 778        | 1 461        |
| Work in progress              | 90           | 81           |
| Advances to suppliers         | 180          | 147          |
| <b>Total</b>                  | <b>3 142</b> | <b>2 842</b> |

Of the inventory of finished goods, SEK 8 million (4) has been measured at net realisable value.

## 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 statements of foreign operations that have prepared their financial statements in a currency other than the currency that is the Group's functional 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 available-for-sale financial assets 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 2016, the Group's holdings of treasury shares totalled 1 130 498 (1 268 682).

### 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 890 million. This proposal will be voted on at the AGM on 10 May 2017.

|   | 2016 | 2015 |
|---|------|------|
| Dividend, SEKm                              | 890  | 880  |
| Recognised dividend per ordinary share, SEK | 4.30 | 4.25 |

### Financial position

BillerudKorsnäs' financial target for its financial position from 2016 is for the ratio of net interest-bearing debt to EBITDA to be less than 2.5. This target replaces the previous target of a net debt/equity ratio of less than 0.90. Group interest-bearing net indebtedness in relation to EBITDA at the end of 2016 was 1.08 (1.24) times.

### 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 and any fair value reserve, 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        | 300 648 540          |
| Profit/loss for the year | 897 712 019          |
|                          | <b>5 606 005 877</b> |

### The Board proposes that:

| SEK  |                      |
|--|----------------------|
| Dividend to shareholders, 207 089 336 shares at SEK 4.30 per share | 890 484 145          |
| and that the remaining amount be retained                          | 4 715 521 732        |
| <b>Total</b>   | <b>5 606 005 877</b> |

## 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 MSEK 28 (28) 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 148% (153) 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.

The fee for pension insurance with Alecta totalled SEK 96 million (80) for the year.

### GROUP

| SEKm   | 2016       | 2015       |
|--|------------|------------|
| <b>Pension costs</b>                               |            |            |
| Pension costs in profit/loss for the year          |            |            |
| Employee benefit costs                             |            |            |
| Defined-contribution plans                         | 250        | 219        |
| Defined-benefit plans                              | 2          | 2          |
| Special payroll tax                                | 51         | 53         |
| Finance costs                                      | 18         | 22         |
| <b>Total</b>                                       | <b>321</b> | <b>296</b> |
| <b>Pension costs in other comprehensive income</b> |            |            |
| Actuarial changes                                  | 12         | 28         |
| <b>Provisions for pensions in balance sheet</b>    |            |            |
| Provisions at start of year                        | 783        | 772        |
| Pension costs                                      | 6          | 3          |
| Finance costs                                      | 18         | 22         |
| IFRS adjustment                                    |            |            |
| Actuarial changes                                  |            |            |
| Change in financial assumptions                    | 23         | -1         |
| Change in demographic assumptions                  | -          | 38         |
| Experience-based adjustments                       | -11        | -9         |
| Payments   | -41        | -42        |
| <b>Provisions at end of year</b>                   | <b>778</b> | <b>783</b> |
| of which covered by credit insurance with FPG/PRI  | 741        | 749        |

Of the provision, SEK 42 million (42) is expected to be paid within 12 months. As collateral for pension commitments, the Group has pledged endowment insurance totalling SEK 17 million (16).

|   | 2016   | 2015   |
|---|--------|--------|
| <b>Actuarial assumptions</b>  |        |        |
| The following material actuarial assumptions have been applied in the calculation of commitments (weighted averages). |        |        |
| Discount rate   | 2.5%   | 2.5%   |
| Future increases in pensions  | 1,7%   | 1.5%   |
| Lifetime  | DUS 14 | DUS 14 |

### Sensitivity analysis actuarial assumptions

| Parameter     | Change  | Impact on pension liability |
|---------------|---------|-----------------------------|
| Discount rate | +0.5%   | -45                         |
| Discount rate | -0.5%   | 50                          |
| Inflation     | +0.5%   | 50                          |
| Inflation     | -0.5%   | -45                         |
| Lifetime      | +1 year | 30                          |
| Lifetime      | -1 year | -30                         |

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  | 2016       | 2015       |
|---|------------|------------|
| <b>Pension costs</b>  |            |            |
| Employee benefit costs  | 23         | 24         |
| Special payroll tax   | 6          | 8          |
| Finance costs   | 6          | 7          |
| <b>Total cost of direct pensions</b>  | <b>35</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   | 185        | 188        |
| Pension costs   | -          | -          |
| Finance costs   | 6          | 7          |
| Pensions paid   | -10        | -10        |
| <b>Present value of pension commitments related to retirement under the management of the Company at year-end</b> | <b>181</b> | <b>185</b> |
| Commitments paid to endowment insurance held by BillerudKorsnäs   | 13         | 11         |
| Other provisions  | 4          | 3          |
| <b>Provisions for pensions in balance sheet</b>   | <b>198</b> | <b>199</b> |
| of which covered by credit insurance with FPG/PRI   | 181        | 185        |

Of the provision, SEK 11 million (13) is expected to be paid within 12 months. As collateral for pension commitments, the parent company has pledged endowment insurance amounting to SEK 13 million (11).

## 21 Provisions

| SEKm                                       | Group      |            | Parent company |          |
|--|------------|------------|----------------|----------|
|  | 2016       | 2015       | 2016           | 2015     |
| Severance pay, redundancy pay              | 185        | 27         | 5              |          |
| Costs of restructuring measures            | 115        | 94         | –              |          |
| Costs of environmental measures            | 38         | 38         | –              |          |
| <b>Group total</b>                         | <b>338</b> | <b>159</b> | <b>5</b>       | <b>–</b> |
| of which current portion of provisions     | 86         | 114        | 5              | –        |
| <b>Change for the year</b>                 |            |            |                |          |
| Carrying amount at start of year           | 159        | 67         | –              |          |
| Provisions made during the year            | 223        | 118        | 5              |          |
| Unutilised amount reversed during the year | –          | –3         | –              |          |
| Amount utilised during the year            | –44        | –23        | –              |          |
| <b>Carrying amount at year-end</b>         | <b>338</b> | <b>159</b> | <b>5</b>       | <b>–</b> |

## 22 Interest-bearing liabilities

| SEKm                               | 2016            |              | 2015            |              |
|------------------------------------|-----------------|--------------|-----------------|--------------|
|                                    | Carrying amount | Fair value   | Carrying amount | Fair value   |
| <b>GROUP</b>                       |                 |              |                 |              |
| <b>Non-current liabilities</b>     |                 |              |                 |              |
| Bilateral loans                    | 700             | 700          | 700             | 700          |
| Bond loans                         | 1 500           | 1 544        | 1 800           | 1 854        |
| Other interest-bearing liabilities | 487             | 487          | 527             | 527          |
| <b>Carrying amount at year-end</b> | <b>2 687</b>    | <b>2 731</b> | <b>3 027</b>    | <b>3 081</b> |
| <b>Current liabilities</b>         |                 |              |                 |              |
| Bond loans                         | 300             | 300          | 400             | 400          |
| Commercial papers                  | –               | –            | 349             | 349          |
| Bilateral loans                    | 800             | 800          | 400             | 400          |
| Other interest-bearing liabilities | 42              | 42           | 219             | 219          |
| <b>Carrying amount at year-end</b> | <b>1 142</b>    | <b>1 142</b> | <b>1 368</b>    | <b>1 368</b> |

### Repayment periods and future interest payments on loans contracted

| (number of years from 31 Dec 2016) | 0–1          | 1–2          | 2–           | Total        |
|------------------------------------|--------------|--------------|--------------|--------------|
| Bilateral loans                    | 800          | –            | 700          | 1 500        |
| Bond loans                         | 300          | 1 500        | –            | 1 800        |
| Commercial papers                  | –            | –            | –            | –            |
| Other interest-bearing liabilities | 42           | 42           | 445          | 529          |
| <b>Group total</b>                 | <b>1 142</b> | <b>1 542</b> | <b>1 145</b> | <b>3 829</b> |
| <b>Future interest payments</b>    | <b>60</b>    | <b>43</b>    | <b>48</b>    | <b>151</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 2016. The syndicated loans, which are a revolving credit facility of SEK 5 500 million, were unutilised as of 31 December 2016. The credit facility falls due in June

2019. The long-term bilateral loans fall due from 2019 onwards. The syndicated loans and bilateral loans have variable interest rates.

BillerudKorsnäs has five bond loans totalling SEK 1 800 million, of which SEK 1 300 million carries a variable interest rate and SEK 500 million carries a fixed rate. The bonds were issued under the MTN programme, which was established in 2013. Of the outstanding SEK 1 800 million, SEK 300 million matures in 2017 and SEK 1 500 million in 2018. Two bond loans totalling SEK 400 million were repaid in 2016.

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. No commercial papers had been issued at 31 December 2016.

## 23 Liabilities to credit institutions

| SEKm                               | 2016         | 2015         |
|------------------------------------|--------------|--------------|
| <b>PARENT COMPANY</b>              |              |              |
| <b>Non-current liabilities</b>     |              |              |
| Bilateral loans                    | 700          | 700          |
| Bond loans                         | 1 500        | 1 800        |
| Other interest-bearing liabilities | –            | –            |
| <b>Carrying amount at year-end</b> | <b>2 200</b> | <b>2 500</b> |
| <b>Current liabilities</b>         |              |              |
| Bilateral loans                    | 800          | 400          |
| Bond loans                         | 300          | 400          |
| Commercial papers                  | –            | 349          |
| Other interest-bearing liabilities | –            | 181          |
| <b>Carrying amount at year-end</b> | <b>1 100</b> | <b>1 330</b> |

### Repayment periods

| (number of years from 31 Dec 2016) | 0–1          | 1–2          | 2–         | Total        |
|------------------------------------|--------------|--------------|------------|--------------|
| Bilateral loans                    | 800          | –            | 700        | 1 500        |
| Bond loans                         | 300          | 1 500        | –          | 1 800        |
| Commercial papers                  | –            | –            | –          | –            |
| Other interest-bearing liabilities | –            | –            | –          | –            |
| <b>Total</b>                       | <b>1 100</b> | <b>1 500</b> | <b>700</b> | <b>3 300</b> |

The majority of the liabilities are due for payment within five years of the end of the reporting period.

## 24 Accrued expenses and deferred income

| SEKm   | Group        |            | Parent company |           |
|--|--------------|------------|----------------|-----------|
|  | 2016         | 2015       | 2016           | 2015      |
| Employee benefit expenses, including social security costs | 604          | 605        | 55             | 47        |
| Excise duties  | 3            | 3          | –              | –         |
| Delivery expenses  | 165          | 138        | –              | –         |
| Wood expenses  | 60           | 48         | –              | –         |
| Energy expenses  | 42           | 34         | –              | –         |
| Other  | 217          | 154        | 31             | 29        |
| <b>Total</b>   | <b>1 091</b> | <b>982</b> | <b>86</b>      | <b>76</b> |

## 25 Financial assets and liabilities

| SEKm   | Interest rate swaps in hedge accounting |           | Derivatives in hedge accounting |            | Loans and receivables |              | Available-for-sale financial assets |              | Financial liabilities valued at accrued cost |              | Total carrying amount |              | Fair value   |              |
|--|---|-----------|---------------------------------|------------|-----------------------|--------------|-------------------------------------|--------------|--|--------------|-----------------------|--------------|--------------|--------------|
|  | 2016                                    | 2015      | 2016                            | 2015       | 2016                  | 2015         | 2016                                | 2015         | 2016   | 2015         | 2016                  | 2015         | 2016         | 2015         |
| Valuation classification                       | Level 2                                 |           |                                 |            | Level 3               |              |                                     |              |  |              |                       |              |              |              |
| <b>GROUP</b>                                   |   |           |                                 |            |                       |              |                                     |              |  |              |                       |              |              |              |
| Other shares and participations                |   |           |                                 |            |                       |              | 1 343                               | 1 289        |  |              | 1 343                 | 1 289        | 1 343        | 1 289        |
| Non-current receivables                        |   |           |                                 |            | 21                    | 18           |                                     |              |  |              | 21                    | 18           | 21           | 18           |
| Accounts receivable                            |   |           |                                 |            | 2 612                 | 2 512        |                                     |              |  |              | 2 612                 | 2 512        | 2 612        | 2 512        |
| Other receivables                              |   | 2         | 107                             | 95         | 378                   | 637          |                                     |              |  |              | 485                   | 734          | 485          | 734          |
| Cash and cash equivalents <sup>1</sup>         |   |           |                                 |            | 708                   | 188          |                                     |              |  |              | 708                   | 188          | 708          | 188          |
| <b>Total</b>                                   |   | <b>2</b>  | <b>107</b>                      | <b>95</b>  | <b>3 719</b>          | <b>3 355</b> | <b>1 343</b>                        | <b>1 289</b> |  |              | <b>5 169</b>          | <b>4 741</b> | <b>5 169</b> | <b>4 741</b> |
| Non-current interest-bearing liabilities       |   |           |                                 |            |                       |              |                                     |              | 2 687  | 3 027        | 2 687                 | 3 027        | 2 731        | 3 081        |
| Current interest-bearing liabilities           |   |           |                                 |            |                       |              |                                     |              | 1 142  | 1 368        | 1 142                 | 1 368        | 1 142        | 1 368        |
| Accounts payable                               |   |           |                                 |            |                       |              |                                     |              | 3 049  | 2 679        | 3 049                 | 2 679        | 3 049        | 2 679        |
| Other liabilities                              | 51                                      | 68        | 78                              | 106        |                       |              |                                     |              | 193  | 264          | 322                   | 438          | 322          | 438          |
| <b>Total</b>                                   | <b>51</b>                               | <b>68</b> | <b>78</b>                       | <b>106</b> |                       |              |                                     |              | <b>7 071</b>                                 | <b>7 338</b> | <b>7 200</b>          | <b>7 512</b> | <b>7 244</b> | <b>7 566</b> |
| <b>PARENT COMPANY</b>                          |   |           |                                 |            |                       |              |                                     |              |  |              |                       |              |              |              |
| Other shares and participations                |   |           |                                 |            |                       |              | 35                                  | 60           |  |              | 35                    | 60           | 35           | 60           |
| Other non-current receivables                  |   |           |                                 |            | 13                    | 11           |                                     |              |  |              | 13                    | 11           | 13           | 11           |
| Accounts receivable                            |   |           |                                 |            | 2 104                 | 2 161        |                                     |              |  |              | 2 104                 | 2 161        | 2 104        | 2 161        |
| Other receivables                              |   |           |                                 |            | 22                    | 6            |                                     |              |  |              | 22                    | 6            | 43           | 103          |
| Cash and bank balances <sup>2</sup>            |   |           |                                 |            | 516                   | 10           |                                     |              |  |              | 516                   | 10           | 516          | 10           |
| <b>Total</b>                                   |   |           |                                 |            | <b>2 655</b>          | <b>2 188</b> | <b>35</b>                           | <b>60</b>    |  |              | <b>2 690</b>          | <b>2 248</b> | <b>2 711</b> | <b>2 345</b> |
| Debenture and syndicated loan                  |   |           |                                 |            |                       |              |                                     |              | 1 500  | 1 800        | 1 500                 | 1 800        | 1 544        | 1 854        |
| Other interest-bearing non-current liabilities |   |           |                                 |            |                       |              |                                     |              | 700  | 700          | 700                   | 700          | 700          | 700          |
| Liabilities to credit institutions             |   |           |                                 |            |                       |              |                                     |              | 1 100  | 1 330        | 1 100                 | 1 330        | 1 100        | 1 330        |
| Accounts payable                               |   |           |                                 |            |                       |              |                                     |              | 26   | 39           | 26                    | 39           | 26           | 39           |
| Other liabilities                              |   |           |                                 |            |                       |              |                                     |              | 29   | 53           | 29                    | 53           | 137          | 125          |
| <b>Total</b>                                   |   |           |                                 |            |                       |              |                                     |              | <b>3 355</b>                                 | <b>3 922</b> | <b>3 355</b>          | <b>3 922</b> | <b>3 507</b> | <b>4 048</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.

Net changes in the value of cash flow hedges recognised in operating profit/loss total SEK –53 million (–207) in 2016, of which SEK –54 million (–125) 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 51 million (66) in other debt.

The net amount of other derivatives in hedge accounting covered by netting agreements is SEK 85 million (93) in other receivables and SEK 57 million (104) in other liabilities.

### 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

| GROUP   | 2016         | 2015         |
|---|--------------|--------------|
| Carrying amount at start of year                                | 1 289        | 806          |
| Acquisition, Kezzler AS   | 28           | –            |
| Acquisition, Hanhaa Ltd   | 10           | –            |
| Acquisition, EcoXPac A/S  | –            | 25           |
| Change in valuation of VindIn AB                                | –            | 2            |
| Change in fair value recognised in other comprehensive income   | 59           | 477          |
| Fair value transferred to profit/loss for the year <sup>1</sup> | –43          | –21          |
|   | <b>1 343</b> | <b>1 289</b> |

1 Refer to dividend from Bergvik Skog AB.

Valuation of other shares and participations is based primarily on the proportion of the Company's equity. In this item includes holding in Bergvik Skog AB, SEK 1 230 million (1 213), equity contains valuation of biological assets performed by an external party based on generally accepted valuation methods.

## 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 1 200 (1 100) thousand in 2016, as well as SEK 75 thou-

sand for committee work. Total remuneration to other Board members was SEK 4 125 (3 775) thousand, of which SEK 475 (475) 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 |       |
|-------------------------------|--------------|-----------|-------------------------|-----------|--------------------------------|-----------|------------------------------|-----------|---------|-------|
|                               | 2016–2017    | 2015–2016 | 2016–2017               | 2015–2016 | 2016–2017                      | 2015–2016 | 2016–2017                    | 2015–2016 | 2016    | 2015  |
| Michael M.F. Kaufmann         | 800          | 750       |                         |           | 25                             | 25        |                              |           | 825     | 775   |
| Gunilla Jönsson               | 475          | 450       |                         |           |                                |           | 50                           | 50        | 525     | 500   |
| Lennart Holm                  | 1 200        | 1 100     |                         |           | 25                             | 25        | 50                           | 50        | 1 275   | 1 175 |
| Jan Homan                     | 475          | 450       | 75                      | 75        |                                |           |                              |           | 550     | 525   |
| Bengt Hammar                  | 475          | 450       |                         |           |                                |           | 50                           | 50        | 525     | 500   |
| Mikael Hellberg               | 475          | 450       | 75                      | 75        | 50                             | 50        |                              |           | 600     | 575   |
| Kristina Schauman             | 475          | 450       | 150                     | 150       |                                |           |                              |           | 625     | 600   |
| Andrea Gisle Joosen           | 475          | 450       |                         |           |                                |           |                              |           | 475     | 300   |

### Remuneration to the CEO and senior management

The 2016 Annual General Meeting approved the following guidelines for remuneration to senior managers. Senior management includes the CEO, the Executive Vice President and other members of the senior management 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 established goals and shall be set to a maximum of a fixed percentage of the annual fixed salary and may vary between 30 per cent and 70 per cent. However, the variable remuneration shall only be paid on condition that the Company'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 accounts and website.

Pension benefits shall both 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 twelve 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 senior management 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 fee 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 2016, BillerudKorsnäs has with one exception followed the guidelines for remuneration to senior executives adopted by the annual general meetings in 2015 and 2016. The Board may, in the event of special reasons, deviate from the guidelines and has on one occasion, in connection with the former HR director leaving her employment,

decided to deviate from the guidelines. The Company then made an agreement whereby the former HR director received a severance pay in a total of 18 months' salary (according to the guidelines, severance pay shall be set to a maximum of 12 months' salary).

| SEKm Year  | Gross salary       | Variable remuneration | LTIP   | Other benefits | Pension costs | Total  |
|--|--------------------|-----------------------|--------|----------------|---------------|--------|
| <b>Remuneration and benefits to the CEO</b>                        |                    |                       |        |                |               |        |
| 2016   | 8 952 <sup>1</sup> | 3 962                 | 4 685  | 172            | 2 528         | 20 299 |
| 2015   | 8 984 <sup>2</sup> | 4 080                 | 4 077  | 181            | 2 503         | 19 825 |
| <b>Remuneration and benefits to rest of senior management team</b> |                    |                       |        |                |               |        |
| 2016   | 27 659             | 6 288                 | 6 907  | 963            | 6 448         | 48 265 |
| 2015   | 23 167             | 6 657                 | 10 722 | 511            | 6 216         | 47 273 |

<sup>1</sup> This amount includes paid vacation days, holiday supplement, allowances for expenses and lunch coupons totalling SEK 204 thousand in addition to fixed salary.

<sup>2</sup> This amount includes paid vacation days, holiday supplement, allowances for expenses and lunch coupons totalling SEK 477 thousand in addition to fixed salary.

#### Comments on the tables

- Variable remuneration for 2016 refers to amounts to be paid out in 2017 but charged to 2016, while variable remuneration for 2015 refers to remuneration paid out in 2016 but charged to 2015. The actual amounts are based on financial and individual targets linked to the development of the business and based on profit for 2016 and 2015.
- The LTIP for 2016 relates to the benefit value of the outcome of LTIP 2013, and the LTIP for 2015 relates to the benefit value of the outcome for LTIP 2012.
- Other benefits include car allowance, accommodation allowance and other taxable benefits.
- Pension costs refers to the costs charged to profit/loss for the year.
- 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 management team have taken part in all programmes. The CEO participates in LTIP 2016 with 5 410 BillerudKorsnäs shares, referred to as 'savings shares'. Other members of the senior management team participate with 14 447 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
 Executive Vice President and CFO have 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 senior management 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 |              |
|---|--------------|--------------|----------------|--------------|
|   | 2016         | 2015         | 2016           | 2015         |
| <b>Interest paid and received and dividend</b>                    |              |              |                |              |
| Interest and dividends received                                   | 45           | 25           | 33             | 1 528        |
| Interest paid   | -135         | -183         | -146           | -192         |
| <b>Total</b>  | <b>-90</b>   | <b>-158</b>  | <b>-113</b>    | <b>1 336</b> |
| <b>Adjustments for items not included in cash flow, etc.</b>      |              |              |                |              |
| Depreciation, amortisation and impairment of assets               | 1 561        | 1 417        | 1              | 1            |
| Interest adjustment   | 18           | 17           | 7              | 6            |
| Impairment of shares in subsidiaries                              | -            | -            | -              | 3            |
| Pensions and other provisions                                     | 138          | 52           | -4             | -8           |
| Unrealised earnings, electricity certificates and emission rights | 25           | -26          | -              | -            |
| Income from sale of Latgran                                       | -            | -440         | -              | -            |
| Share of profit/loss in associates/impairment of investments      | 1            | 6            | -              | 9            |
| Share-based payments  | 11           | 11           | 11             | 13           |
| Capital gains/losses  | -            | 6            | -              | -            |
| <b>Total</b>  | <b>1 754</b> | <b>1 043</b> | <b>15</b>      | <b>24</b>    |
| Cash and cash equivalents <sup>1</sup>                            |              |              |                |              |
| The following are included in cash and cash equivalents:          |              |              |                |              |
| Short-term investments  | 7            | 12           | -              | -            |
| Cash and bank balances  | 701          | 176          | 516            | 10           |
| <b>Total</b>  | <b>708</b>   | <b>188</b>   | <b>516</b>     | <b>10</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.

## 28 Untaxed reserves

| SEKm                               | 2016         | 2015       |
|------------------------------------|--------------|------------|
| <b>PARENT COMPANY</b>              |              |            |
| <b>Tax allocation reserve</b>      |              |            |
| Carrying amount at start of year   | 660          | 355        |
| Change for the year                | 371          | 305        |
| <b>Carrying amount at year-end</b> | <b>1 031</b> | <b>660</b> |

## 29 Events after the end of the period

In February 2017 bonds with a maturity of five years were issued amounting to SEK 1 700 million, to finance the investment in the new board machine in Gruvön, KM7. SEK 250 million have a fixed tranche of 1.625% and SEK 1 450 million have floating coupon of three months STIBOR +1.30%. The bonds have been listed on the NASDAQ OMX Stockholm.

In early March 2017, the European Commission initiated an inspection of BillerudKorsnäs under EU competition rules as part of a larger investigation of the market for bleached and unbleached kraft papers. BillerudKorsnäs cooperates in full with the European Commission.

## 30 Investment commitments

### Group

In 2016, the Group signed agreements on the future acquisition of property, plant and equipment for SEK 2 950 million (398). Of these commitments, it is expected that SEK 2 178 million (386) will be settled in 2017. The increase compared with previously is principally due to the decision to build a new board machine in Gruvön.

### 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 |            |
|--|------------|------------|----------------|------------|
|  | 2016       | 2015       | 2016           | 2015       |
| <b>Pledged assets for own liabilities and provisions</b> |            |            |                |            |
| Pledged endowment insurance                              | 17         | 16         | 13             | 11         |
| Pledged shares, joint arrangements                       | 292        | 280        | -              | -          |
| <b>Total pledged assets</b>                              | <b>309</b> | <b>296</b> | <b>13</b>      | <b>11</b>  |
| <b>Contingent liabilities</b>                            |            |            |                |            |
| Guarantee commitment, FPG/PRI                            | 11         | 12         | 4              | 4          |
| Other guarantees   | 91         | 82         | 84             | 78         |
| Guarantees for associates                                | 1          | 5          | -              | -          |
| Guarantees for Group companies                           | -          | -          | 187            | 139        |
| <b>Total contingent liabilities</b>                      | <b>103</b> | <b>99</b>  | <b>275</b>     | <b>221</b> |

The shares in Bomhus Energi AB are pledged as a guarantee for Bomhus Energi's loans. There are no indications that pledged assets 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 | 2016 | -  | 66   | 5                              | 15                               |
| Associates and joint ventures | 2015 | -  | 569  | 24                             | 17                               |
| <b>PARENT COMPANY</b>         |      |  |  |                                |                                  |
| <b>Relationship</b>           |      |  |  |                                |                                  |
| Subsidiaries                  | 2016 | 418  | 56   | 4 533                          | 3 074                            |
| Subsidiaries                  | 2015 | 336  | 16   | 5 453                          | 4 607                            |
| Associates and joint ventures | 2016 | -  | -  | -                              | 15                               |
| Associates and joint ventures | 2015 | -  | -  | -                              | 11                               |

### Transactions with key individuals in executive positions

Salaries, remuneration and other benefits are accounted for in notes 5 and 26.

### 33 Business combinations

| SEKm  | 2016      |
|---|-----------|
| <b>GROUP</b>  |           |
| <b>Acquisition balance sheet, ScandFibre Logistics AB</b> |           |
| Non-current assets  | 2         |
| Current assets  | 93        |
| <b>Total assets</b>                                       | <b>95</b> |
| Provisions  | 1         |
| Current liabilities                                       | 85        |
| <b>Total liabilities</b>                                  | <b>86</b> |
| <b>Purchase consideration</b>                             |           |
| Purchase consideration, less transaction costs            | -6        |

100% of the shares in ScandFibre Logistics AB were acquired on 14 April 2016. Before the acquisition, the BillerudKorsnäs Group owned 40% of the shares.

### 34 Divestment of subsidiaries

| SEKm   | 2015       |
|--|------------|
| <b>GROUP</b>   |            |
| <b>Divested assets and liabilities</b>                         |            |
| Intangible assets, goodwill                                    | 108        |
| Property, plant and equipment                                  | 362        |
| Inventories  | 84         |
| Accounts receivable and other receivables                      | 57         |
| <b>Total assets</b>  | <b>611</b> |
| Deferred tax liabilities                                       | 30         |
| Accounts payable and other liabilities                         | 65         |
| <b>Total liabilities</b>                                       | <b>95</b>  |
| <b>Selling price</b>   |            |
| Consideration received, less selling costs                     | 951        |
| Less: Cash and cash equivalents in the divested business       | -10        |
| <b>Effect on cash and cash equivalents</b>                     | <b>941</b> |
| <b>Capital gain</b>  |            |
| Effect on cash and cash equivalents                            | 941        |
| Assets sold  | -611       |
| Liabilities sold   | 95         |
| Translation difference transferred to profit/loss for the year | 15         |
| <b>Capital gain</b>  | <b>440</b> |

Divested subsidiaries relate to the entire holding of Latgran SIA, which was 75% owned by the subsidiary Latgran Biofuels AB. The company was divested on 1 July 2015.

### 35 Critical accounting estimates and judgements

#### Pension liabilities

A discount rate of 2.5% (2.5%) has been applied in calculating the obligation in relation to BillerudKorsnäs' defined-benefit plans. Future increases in pensions have been assumed to be 1.7% (1.5%) as an adjustment to actual inflation. Since 2015, BillerudKorsnäs has used a new demographic assumption, DUS 14, which implies a slightly longer life expectancy assumption than the FFFS 2007:31 standard used previously.

#### Valuation of other holdings

Bergvik Skog AB has been reported at BillerudKorsnäs' proportion of equity, that is, SEK 1 230 million (1 213). 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 4.9% (5.2%) after tax in valuing its biological assets.

#### 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. No need for impairment was identified.

A need for impairment was identified by testing for paper machines in Gruvön which will be disposed of at the end of 2018 when a new board machine is built. The need for impairment has been calculated at SEK 120 million.

#### Goodwill

Impairment testing was conducted with respect to goodwill. No need for impairment was identified; see also note 11.

### 36 information about the parent company

BillerudKorsnäs AB (publ) 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 2016 are for 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 22 March 2017.

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 10 May 2017.

Solna, 22 March 2017

Lennart Holm  
Chairman

Bengt Hammar  
Member

Mikael Hellberg  
Member

Jan Homan  
Member

Gunilla Jönson  
Member

Michael M. F. Kaufmann  
Member

Kristina Schauman  
Member

Andrea Gisle Joosen  
Member

Kjell Olsson  
Member

Gunnevi Lehtinen Johansson  
Member

Per Lindberg  
Chief Executive Officer

Our audit report was issued on 22 March 2017  
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 2016. The annual accounts and consolidated accounts of the company are included on pages 63–124 in 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 2016 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 2016 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 general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

#### Valuation of goodwill

See disclosure 11 and accounting principles on pages 101–107 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

Per 31 December 2016, the carrying value of goodwill on the Group's consolidated balance sheet is 1 949 MSEK.

Goodwill should annually be subject to at least one impairment test. The Group's goodwill is attributable to the business area and segment Consumer Board.

The process of assessing the carrying value is inherently complex and based on the Group's forecasts regarding how both internal and external conditions may impact on the organisation and its prospects.

An example of such an evaluation is the forecast of future cash flows, which is based on assumptions about future business developments and market conditions

Another important assumption to evaluate is which discount rate to use in order to correctly reflect market estimates for the time value of money as well as the specific risks that the business is facing.

#### Valuation of tangible assets

See disclosure 12 and accounting principles on pages 101–107 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

Per 31 December 2016, the carrying value of tangible assets on the Group's consolidated balance sheet is 14 937 MSEK, which represents 58% of total assets.

Tangible assets should be tested for impairment whenever impairment indicators are identified. The tangible assets are primarily production assets used jointly by the Group's business areas (operating segments).

As explained in the Directors' report, the Board decided in December 2016 to invest in a new board machine, KM7. Within the next few years, the new investment is expected to replace four of the paper-machines currently in use. Hence, an impairment indication was identified. The impairment test resulted in an impairment loss of SEK 120 million.

The impairment test of the carrying amount was performed following the same methodology as for goodwill (see previous section).

#### Response in the audit

We have assessed whether the goodwill impairment test carried out by the client was performed in accordance with the prescribed accounting method for discounted cash flows.

Moreover, we have considered the reasonableness of the assumptions used by the Group in their cashflow forecasts (such as predicted sales volume growth, changes in EBITDA-margins, working capital and investments) as well as the discount rate used through evaluation of their internal written documentation and forecasts.

Our work also comprised assessment of the accuracy of previous years' cash flow forecasts in relation to actual results.

An important part of our work has also been to look at the Group's sensitivity analysis of their own assessment to evaluate how reasonable changes in the assumptions may impact the valuation.

Furthermore, we have considered the completeness of the disclosures in the annual report and evaluated whether they are in agreement with the assumptions made in the Group's impairment testing and whether the information provided is sufficiently detailed to understand assessments made by the Group.

#### Response in the audit

We have assessed whether the impairment test carried out by the client was performed in accordance with the prescribed accounting method for discounted cash flows.

Furthermore, we have considered the reasonableness of the assumptions used by the Group when forecasting the future cashflows generated during the estimated remaining useful economic lives of the four papermachines as well as the discount rate used through evaluation of their internal written documentation and forecasts.

### **Inventory valuation**

See disclosure 17 and accounting principles on pages 101–107 in the annual account and consolidated accounts for detailed information and description of the matter.

### **Description of key audit matter**

Per 31 December 2016, the carrying value of inventory on the Group's consolidated balance sheet is 3 142 MSEK, which represents 12% of total assets.

Inventories, which consist of raw materials such as wood and pulp as well as finished packaging materials, should be valued at the lower of cost and net realisable value.

The cost of finished goods include a reasonable portion of indirect costs based on normal production capacity. Changes in production volumes and product mix, and the cost of raw materials, has an impact on the carrying value of the finished goods inventory.

The calculation of mark-ups for indirect costs, and also the estimation of net realisable value and obsolescence are areas that involve certain levels of judgment.

### **Response in the audit**

We have looked at the underlying calculations for how the Group value their finished goods inventories and also considered the Group's estimations of net realisable values for finished goods and raw materials.

We have selected samples for testing and evaluated the Group's analyses of gross margins, net realisable values with reference to sales statistics, calculated differences and slow-moving stock items.

In this way, we have assessed whether the carrying value of inventories and the valuation methods used are in accordance with the Group's accounting policies.

### **Other Information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–61 and 128–136. 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 audit committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### **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 and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 misstatement 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **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 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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 for Opinions**

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 organization 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 organization 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 fulfill 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 skepticism throughout the audit. The examination 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 our professional judgment with starting point in risk and materiality. This means that we focus the examination 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 examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our 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.

Stockholm 22 March 2017  
KPMG AB

Ingrid Hornberg Román  
Authorized Public Accountant

## 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                      | 2016         | 2015         | 2014         | 2013         | 2012         |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Net sales                 | 21 657       | 21 814       | 20 853       | 19 689       | 10 427       |
| Other income              | 155          | 594          | 118          | 130          | 27           |
| Operating income          | 21 812       | 22 408       | 20 971       | 19 819       | 10 454       |
| Operating expenses        | -18 206      | -18 405      | -17 692      | -17 243      | -9 256       |
| <b>EBITDA</b>             | <b>3 606</b> | <b>4 003</b> | <b>3 279</b> | <b>2 576</b> | <b>1 198</b> |
| Depreciation/amortisation | -1 561       | -1 417       | -1 378       | -1 439       | -709         |
| Operating profit/loss     | 2 045        | 2 586        | 1 901        | 1 137        | 489          |
| Net financial items       | -108         | -175         | -248         | -309         | -87          |
| Profit/loss before tax    | 1 937        | 2 411        | 1 653        | 828          | 402          |
| Tax                       | -419         | -443         | -352         | -142         | 275          |
| <b>Net profit/loss</b>    | <b>1 518</b> | <b>1 968</b> | <b>1 301</b> | <b>686</b>   | <b>677</b>   |

### Capital employed

| SEKm, 31 December                   | 2016          | 2015          | 2014          | 2013          | 2012          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total assets                        | 25 854        | 25 083        | 25 709        | 24 940        | 25 342        |
| Accounts payable                    | -3 049        | -2 679        | -2 502        | -1 742        | -2 553        |
| Other liabilities and provisions    | -1 514        | -1 577        | -1 612        | -1 662        | -1 171        |
| Other provisions                    | -252          | -45           | -43           | -42           | -83           |
| Deferred tax liabilities            | -3 410        | -3 186        | -2 987        | -2 691        | -2 561        |
| Non-current interest-bearing assets | -15           | -11           | -             | -             | -             |
| Cash and cash equivalents           | -708          | -188          | -737          | -497          | -775          |
| <b>Capital employed</b>             | <b>16 906</b> | <b>17 397</b> | <b>17 828</b> | <b>18 306</b> | <b>18 199</b> |

### Working capital

| SEKm, 31 December                              | 2016         | 2015         | 2014         | 2013         | 2012         |
|--|--------------|--------------|--------------|--------------|--------------|
| Inventories                                    | 3 142        | 2 842        | 3 145        | 3 029        | 3 150        |
| Accounts receivable                            | 2 612        | 2 512        | 2 601        | 2 394        | 2 244        |
| Other current assets                           | 681          | 1 004        | 925          | 849          | 955          |
| Accounts payable                               | -3 049       | -2 679       | -2 502       | -1 742       | -2 553       |
| Other operating liabilities (excl. provisions) | -1 428       | -1 463       | -1 589       | -1 595       | -1 170       |
| Tax liabilities, net                           | -1           | 27           | -294         | -187         | -51          |
| <b>Working capital</b>                         | <b>1 957</b> | <b>2 243</b> | <b>2 286</b> | <b>2 748</b> | <b>2 575</b> |

### Interest-bearing net debt

| SEKm, 31 December                        | 2016         | 2015         | 2014         | 2013         | 2012         |
|--|--------------|--------------|--------------|--------------|--------------|
| Interest-bearing provisions              | 778          | 783          | 772          | 732          | 832          |
| Non-current interest-bearing liabilities | 2 687        | 3 027        | 4 672        | 5 197        | 6 007        |
| Current interest-bearing liabilities     | 1 142        | 1 368        | 2 417        | 2 957        | 2 700        |
| Non-current interest-bearing assets      | -15          | -11          | -            | -            | -            |
| Cash and cash equivalents                | -708         | -188         | -737         | -497         | -775         |
| <b>Interest-bearing net debt</b>         | <b>3 884</b> | <b>4 979</b> | <b>7 124</b> | <b>8 389</b> | <b>8 764</b> |

**Summary statement of cash flows**

| SEKm  | 2016         | 2015         | 2014         | 2013         | 2012          |
|---|--------------|--------------|--------------|--------------|---------------|
| Operating surplus                           | 3 781        | 3 622        | 3 234        | 2 656        | 1 282         |
| Change in working capital                   | 332          | 120          | 238          | -452         | 132           |
| Net financial items                         | -86          | -168         | -233         | -265         | -59           |
| Tax paid                                    | -285         | 84           | -124         | -160         | -353          |
| <b>Cash flow from operating activities</b>  | <b>3 742</b> | <b>3 658</b> | <b>3 115</b> | <b>1 779</b> | <b>1 002</b>  |
| Cash flow from investing activities         | -1 647       | -760         | -1 376       | -1 250       | -7 194        |
| <b>Cash flow after investing activities</b> | <b>2 095</b> | <b>2 898</b> | <b>1 739</b> | <b>529</b>   | <b>-6 192</b> |

**Key financial ratios**

|   | 2016   | 2015   | 2014   | 2013   | 2012   |
|---|--------|--------|--------|--------|--------|
| <b>Margins</b>  |        |        |        |        |        |
| Gross margin, %   | 17     | 18     | 16     | 13     | 11     |
| Operating margin, %   | 9      | 12     | 9      | 6      | 5      |
| <b>Return (rolling 12 months)</b>   |        |        |        |        |        |
| Return on capital employed, %   | 12     | 15     | 11     | 6      | 8      |
| Return on equity, %   | 12     | 16     | 13     | 7      | 13     |
| <b>Capital structure at end of period</b>   |        |        |        |        |        |
| Capital employed, SEKm  | 16 906 | 17 397 | 17 828 | 18 306 | 18 199 |
| Working capital, SEKm   | 1 957  | 2 243  | 2 286  | 2 748  | 2 575  |
| Equity, SEKm  | 13 022 | 12 418 | 10 704 | 9 917  | 9 435  |
| Interest-bearing net debt, SEKm   | 3 884  | 4 979  | 7 124  | 8 389  | 8 764  |
| Net debt/equity ratio, multiple   | 0.30   | 0.40   | 0.67   | 0.85   | 0.93   |
| Interest-bearing net debt/operating profit before depreciation/amortisation, multiple | 1.1    | 1.2    | 2.2    | 3.3    | 7.3    |
| <b>Investments</b>  |        |        |        |        |        |
| Investments in non-current assets, SEKm   | 1 645  | 1 710  | 1 384  | 1 337  | 965    |
| Acquisitions, SEKm  | 6      | -      | -      | -9     | 8 948  |
| <b>Other key figures</b>  |        |        |        |        |        |
| Capital turnover, multiple  | 1.2    | 1.2    | 1.2    | 1.1    | 1.4    |
| Working capital as a percentage of sales  | 11     | 10     | 11     | 14     | 14     |
| <b>Human Resources</b>  |        |        |        |        |        |
| Average number of employees   | 4 274  | 4 223  | 4 194  | 4 272  | 2 548  |

## Quarterly data

BillerdKorsnäs' 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                         | 2016          |              |              |              |              | 2015          |              |              |              |              |
|------------------------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
|                              | Full year     | Q 4 -16      | Q 3 -16      | Q 2 -16      | Q 1 -16      | Full year     | Q 4 -15      | Q 3 -15      | Q 2 -15      | Q 1 -15      |
| Packaging Paper              | 8 339         | 2 067        | 2 100        | 2 085        | 2 087        | 8 552         | 2 020        | 2 174        | 2 176        | 2 182        |
| Consumer Board               | 8 015         | 1 988        | 1 975        | 2 028        | 2 024        | 8 006         | 1 933        | 2 006        | 2 044        | 2 023        |
| Corrugated Solutions         | 3 620         | 989          | 913          | 839          | 879          | 3 329         | 880          | 926          | 722          | 801          |
| Other units                  | 1 647         | 463          | 400          | 421          | 363          | 2 012         | 387          | 368          | 596          | 661          |
| Currency hedging, etc.       | 36            | -39          | 5            | 66           | 4            | -85           | -7           | 4            | -49          | -33          |
| Group staff and eliminations | -             | -            | -            | -            | -            | -             | -            | -            | -            | -            |
| <b>Total Group</b>           | <b>21 657</b> | <b>5 468</b> | <b>5 393</b> | <b>5 439</b> | <b>5 357</b> | <b>21 814</b> | <b>5 213</b> | <b>5 478</b> | <b>5 489</b> | <b>5 634</b> |

### Quarterly operating profit/loss before depreciation/amortisation (EBITDA) per business area and for the Group

| SEKm                         | 2016         |            |              |            |              | 2015         |            |              |            |              |
|------------------------------|--------------|------------|--------------|------------|--------------|--------------|------------|--------------|------------|--------------|
|                              | Full year    | Q 4 -16    | Q 3 -16      | Q 2 -16    | Q 1 -16      | Full year    | Q 4 -15    | Q 3 -15      | Q 2 -15    | Q 1 -15      |
| Packaging Paper              | 1 486        | 421        | 441          | 266        | 358          | 1 456        | 252        | 406          | 363        | 435          |
| Consumer Board               | 1 723        | 336        | 424          | 479        | 484          | 1 657        | 295        | 410          | 486        | 466          |
| Corrugated Solutions         | 829          | 241        | 241          | 130        | 217          | 724          | 204        | 249          | 94         | 177          |
| Other units                  | -131         | -180       | 20           | 14         | 15           | 546          | 15         | 365          | 90         | 76           |
| Currency hedging, etc.       | 37           | -38        | 5            | 66         | 4            | -85          | -7         | 4            | -49        | -33          |
| Group staff and eliminations | -338         | -87        | -94          | -96        | -61          | -295         | -88        | -50          | -87        | -70          |
| <b>Total Group</b>           | <b>3 606</b> | <b>693</b> | <b>1 037</b> | <b>859</b> | <b>1 017</b> | <b>4 003</b> | <b>671</b> | <b>1 384</b> | <b>897</b> | <b>1 051</b> |

### Gross margin (EBITDA, %) quarterly gross margin per business area and for the Group

| %                    | 2016      |           |           |           |           | 2015      |           |           |           |           |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                      | Full year | Q 4 -16   | Q 3 -16   | Q 2 -16   | Q 1 -16   | Full year | Q 4 -15   | Q 3 -15   | Q 2 -15   | Q 1 -15   |
| Packaging Paper      | 18        | 20        | 21        | 13        | 17        | 17        | 12        | 19        | 17        | 20        |
| Consumer Board       | 21        | 17        | 21        | 24        | 24        | 21        | 15        | 20        | 24        | 23        |
| Corrugated Solutions | 23        | 24        | 26        | 15        | 25        | 22        | 23        | 27        | 13        | 22        |
| <b>Group</b>         | <b>17</b> | <b>13</b> | <b>19</b> | <b>16</b> | <b>19</b> | <b>18</b> | <b>13</b> | <b>25</b> | <b>16</b> | <b>19</b> |

#### Quarterly operating profit/loss per business area and for the Group

| SEKm                         | 2016         |            |            |            |            | 2015         |            |              |            |            |
|------------------------------|--------------|------------|------------|------------|------------|--------------|------------|--------------|------------|------------|
|                              | Full year    | Q 4 -16    | Q 3 -16    | Q 2 -16    | Q 1 -16    | Full year    | Q 4 -15    | Q 3 -15      | Q 2 -15    | Q 1 -15    |
| Packaging Paper              | 990          | 298        | 316        | 143        | 233        | 971          | 131        | 278          | 245        | 317        |
| Consumer Board               | 964          | 148        | 234        | 287        | 295        | 954          | 120        | 234          | 310        | 290        |
| Corrugated Solutions         | 647          | 194        | 197        | 84         | 172        | 551          | 160        | 203          | 51         | 137        |
| Other units                  | -264         | -313       | 23         | 13         | 13         | 484          | 4          | 353          | 71         | 56         |
| Currency hedging, etc.       | 37           | -38        | 5          | 67         | 3          | -85          | -7         | 4            | -49        | -33        |
| Group staff and eliminations | -329         | -78        | -98        | -95        | -58        | -289         | -88        | -46          | -86        | -69        |
| <b>Total Group</b>           | <b>2 045</b> | <b>211</b> | <b>677</b> | <b>499</b> | <b>658</b> | <b>2 586</b> | <b>320</b> | <b>1 026</b> | <b>542</b> | <b>698</b> |

#### Quarterly operating margin per business area and for the Group

| %                    | 2016      |          |           |          |           | 2015      |          |           |           |           |
|----------------------|-----------|----------|-----------|----------|-----------|-----------|----------|-----------|-----------|-----------|
|                      | Full year | Q 4 -16  | Q 3 -16   | Q 2 -16  | Q 1 -16   | Full year | Q 4 -15  | Q 3 -15   | Q 2 -15   | Q 1 -15   |
| Packaging Paper      | 12        | 14       | 15        | 7        | 11        | 11        | 6        | 13        | 11        | 15        |
| Consumer Board       | 12        | 7        | 12        | 14       | 15        | 12        | 6        | 12        | 15        | 14        |
| Corrugated Solutions | 18        | 20       | 22        | 10       | 20        | 17        | 18       | 22        | 7         | 17        |
| <b>Group</b>         | <b>9</b>  | <b>4</b> | <b>13</b> | <b>9</b> | <b>12</b> | <b>12</b> | <b>6</b> | <b>19</b> | <b>10</b> | <b>12</b> |

#### Quarterly sales volumes per business area and for the Group

| ktonnes              | 2016         |            |            |            |            | 2015         |            |            |            |            |
|----------------------|--------------|------------|------------|------------|------------|--------------|------------|------------|------------|------------|
|                      | Full year    | Q 4 -16    | Q 3 -16    | Q 2 -16    | Q 1 -16    | Full year    | Q 4 -15    | Q 3 -15    | Q 2 -15    | Q 1 -15    |
| Packaging Paper      | 1 167        | 285        | 292        | 295        | 295        | 1 163        | 281        | 294        | 288        | 300        |
| Consumer Board       | 1 051        | 257        | 261        | 268        | 265        | 1 065        | 257        | 262        | 274        | 272        |
| Corrugated Solutions | 554          | 147        | 140        | 129        | 138        | 506          | 132        | 139        | 106        | 129        |
| <b>Total</b>         | <b>2 772</b> | <b>689</b> | <b>693</b> | <b>692</b> | <b>698</b> | <b>2 734</b> | <b>670</b> | <b>695</b> | <b>668</b> | <b>701</b> |

# The BillerudKorsnäs share

## The share

The BillerudKorsnäs share has been publicly listed since 20 November 2001 and is traded on the Large Cap list of Nasdaq Stockholm. The share ticker symbol is BILL. At 30 December 2016, the share capital totalled SEK 1 537 642 793, represented by 208 219 834 shares. The number of shares on the market totalled 207 089 336. Each share on the market entitles its holder to an equal right in the Company's earnings and capital.

## Share price performance

The BillerudKorsnäs share closed at SEK 153.00 on 30 December 2016, corresponding to a market capitalisation of around SEK 31.7 billion. BillerudKorsnäs' share price rose by 2.7% in 2016. Over the same

period, the Nasdaq Stockholm Forestry and Paper Products Index (OMX Stockholm Forestry & Paper PI) rose by 11%, while the Nasdaq Stockholm All Share Index (OMX Stockholm PI) rose by 6%. In 2016, the share recorded its highest closing price, SEK 158.70, on 18 and 20 October, and its lowest closing price, SEK 114.50, on 27 June.

## Trading

In 2016, 140.7 million BillerudKorsnäs shares were traded, corresponding to a value of approximately SEK 19 billion. The average number of shares traded each trading day was about 556 000, corresponding to a value of SEK 76 million. On average, about 1 963 trades were made each trading day.

## Dividend

The target is for the dividend to amount to 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 2016. The proposed dividend corresponds to approximately 59% of net profit for 2016.

## Shareholder categories, votes, %



- Foreign shareholders, 41.2
- Swedish mutual funds, 23.7
- Swedish individuals incl. closely held companies, 19.3
- Swedish institutions, 15.9

## Geographical distribution of shareholders, votes %



- Sweden, 58.8
- Austria, 15.1
- USA, 10.0
- United Kingdom, 6.4
- Norway, 2.4
- Other, 7.3

## Number of shares on the market

|  | 2016        | 2015        | 2014        | 2013        |
|--|-------------|-------------|-------------|-------------|
| Average number of shares                         | 207 037 234 | 206 888 635 | 206 761 898 | 206 631 569 |
| Average number of shares after dilution          | 207 509 333 | 207 408 656 | 207 297 990 | 207 051 124 |
| Number of shares at end of period                | 207 089 336 | 206 951 152 | 206 788 161 | 206 719 689 |
| Number of shares at end of period after dilution | 207 561 435 | 207 471 173 | 207 324 253 | 207 139 244 |

## The ten 10 largest shareholders

| Shareholder                       | No. of shares, millions | Share of votes, % |
|-----------------------------------|-------------------------|-------------------|
| FRAPAG Beteiligungsholding AG     | 31.3                    | 15.1              |
| AMF Insurance & Funds             | 20.6                    | 9.9               |
| Swedbank Robur funds              | 9.4                     | 4.5               |
| Fourth AP Fund                    | 6.6                     | 3.2               |
| Alecta                            | 5.4                     | 2.6               |
| Handelsbanken funds               | 4.7                     | 2.2               |
| DFA funds (USA)                   | 4.2                     | 2.0               |
| Norges Bank Investment Management | 4.1                     | 2.0               |
| Vanguard                          | 3.3                     | 1.6               |
| Lannebo funds                     | 2.2                     | 1.1               |
| <b>Total top 10 shareholders</b>  | <b>91.7</b>             | <b>44.2</b>       |

## Ownership structure<sup>1</sup>

| Shareholding   | No. of shares                  | %            | No. of owners | %            |
|----------------|--------------------------------|--------------|---------------|--------------|
| 1–100          | 1 388 401                      | 0.7          | 24 249        | 25.3         |
| 101–500        | 14 904 609                     | 7.2          | 57 954        | 60.4         |
| 501–10 000     | 21 161 304                     | 10.2         | 13 279        | 13.7         |
| 10 001–100 000 | 10 056 338                     | 4.8          | 469           | 0.4          |
| 100 001–       | 160 709 182                    | 77.2         | 147           | 0.1          |
| <b>Total</b>   | <b>208 219 834<sup>1</sup></b> | <b>100.0</b> | <b>96 098</b> | <b>100.0</b> |

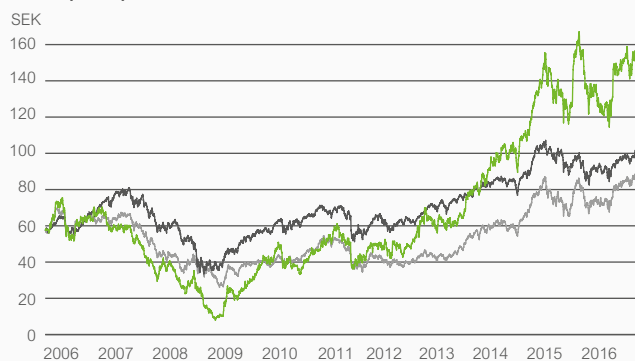
<sup>1</sup> Including the company's own bought-back shares (1 130 498).

## Distribution of shares at 31 December 2016

|  |                    |
|--|--------------------|
| Registered number of shares            | 208 219 834        |
| Repurchased shares in Company treasury | –1 130 498         |
| <b>Shares on the market</b>            | <b>207 089 336</b> |

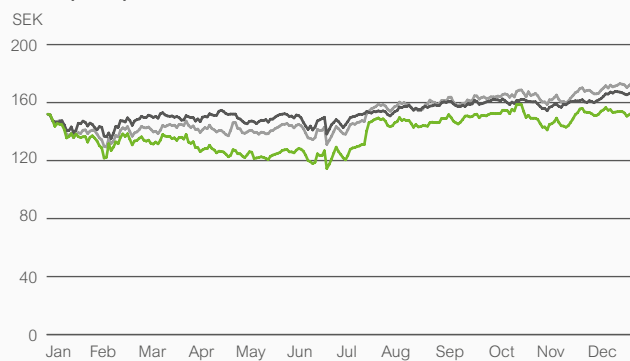


### Share price performance 2006–2016



— BillerudKorsnäs  
 — OMX Stockholm PI  
 — OMX Stockholm Forestry & Paper PI

### Share price performance in 2016



— BillerudKorsnäs  
 — OMX Stockholm PI  
 — OMX Stockholm Forestry & Paper PI

### Key figures per share

| SEK per share, unless stated otherwise        | 2016              | 2015   | 2014   | 2013  | 2012  |
|---|-------------------|--------|--------|-------|-------|
| Earnings                                      | 7.33              | 8.75   | 6.18   | 3.24  | 5.14  |
| Diluted earnings                              | 7.31              | 8.73   | 6.16   | 3.24  | 5.12  |
| Dividend (for each financial year), actual    | 4.30 <sup>1</sup> | 4.25   | 3.15   | 2.25  | 2.00  |
| Dividend as % of                              |                   |        |        |       |       |
| – share price (dividend yield)                | 2.8               | 2.7    | 2.8    | 2.8   | 3.3   |
| – profit                                      | 58.7              | 48.6   | 51.0   | 69.4  | 61.0  |
| – Equity (closing balance)                    | 6.8               | 7.2    | 6.1    | 4.7   | 4.4   |
| Cash flow from operating activities           | 18.07             | 17.68  | 15.07  | 8.61  | 7.60  |
| Operating cash flow                           | 10.15             | 9.46   | 8.41   | 2.56  | 0.38  |
| Shareholder' equity                           | 62.88             | 59.21  | 51.34  | 47.68 | 45.47 |
| Diluted equity                                | 62.73             | 59.06  | 51.20  | 47.58 | 45.41 |
| Share price/closing balance of equity, %      | 243               | 265    | 219    | 170   | 134   |
| P/E ratio, multiple                           | 20.9              | 18.0   | 18.2   | 25.1  | 11.9  |
| EV/EBITDA, multiple                           | 9.9               | 9.4    | 9.3    | 9.8   | 17.3  |
| Share price (closing price, last trading day) | 153.00            | 157.20 | 112.50 | 81.25 | 61.25 |

<sup>1</sup> Board's proposal.

### Analysts covering BillerudKorsnäs

| Company                       | Analyst          | Phone                |
|-------------------------------|------------------|----------------------|
| ABG Sundal Collier            | Martin Melbye    | +47 22 01 61 37      |
| Carnegie                      | Robin Santavirta | +358 9 618 71 239    |
| Danske Bank                   | Oskar Lindström  | +46 (8) 5688 06 12   |
| DNB                           | Johan Sjöberg    | +46 (8) 473 48 31    |
| Handelsbanken Capital Markets | Mikael Doepel    | +358 10 444 2450     |
| Jefferies                     | Justin Jordan    | +44 (0) 20 7029 8976 |
| Kepler Cheuvreux              | Mikael Jåfs      | +46 (8) 723 5171     |
| Nordea                        | Harri Taittonen  | +358 9 1655 9924     |
| Pareto Securities             | Gustaf Hansson   | +46 (8) 402 50 00    |
| SEB Enskilda                  | Linus Larsson    | +46 (8) 5222 9701    |
| Swedbank                      | Ola Södermark    | +46 (8) 5859 0240    |

# Key figure definitions

## Earnings

### **EBITDA**

Operating profit before depreciation and amortisation (EBITDA = Earnings before Interest, Taxes, Depreciation and Amortisation). EBITDA is a measure of operating profit or loss, which is close to operational cash flow.

## Margins

### **Gross margin (EBITDA, %)**

Operating profit before depreciation and amortisation (EBITDA = Earnings before Interest, Taxes, Depreciation and Amortisation) as a percentage of net sales. This key performance indicator is used both in follow-up of profit and loss and in comparison with comparable companies.

### **Operating margin**

Operating profit as a percentage of net sales. Operating margin shows the percentage of revenue remaining after account has been taken of operating expenses. This key performance indicator is used both in follow-up of profit and loss and in comparison with comparable companies.

## Return

### **Return on capital employed**

Operating profit calculated over 12 months as a percentage of average capital employed calculated per quarter. Return on capital employed is a measure indicating how effectively total net operating assets are used to generate return in the business. This key performance indicator takes account of capital invested in the business and is used in following up profit and loss and in comparison with comparable companies.

### **Return on equity**

Profit/loss for the period, calculated over 12 months, attributable to parent company shareholders, as a percentage of average equity calculated per quarter, attributable to parent company shareholders. This measure represents total profitability compared with equity invested by parent company shareholders.

## Capital structure

### **Asset turnover rate**

Net sales divided by average capital employed. This measure shows effectively capital employed is used in the business.

### **Capital employed**

Total assets less non-interest bearing liabilities, non-interest bearing provisions and interest-bearing assets. Capital employed is used to quantify net assets used in operational activity, to which operating profit or loss can be related.

### **Diluted equity**

Equity at the end of the period plus the effect of estimated participation in the incentive programme.

### **Interest-bearing net debt**

Interest-bearing provisions and liabilities less interest-bearing assets. This key ratio defines financing via financial liabilities taken account of financial assets, and is used as an element in the assessment of financial risk.

### **Interest-bearing net debt/EBITDA**

Interest-bearing net debt at the end of the period divided by operating profit before depreciation/amortisation for the past 12 months. This key performance indicator shows the relationship between interest-bearing net debt and ability to repay. A higher (lower) ratio indicates a higher (lower) risk.

### **Net debt/equity ratio, multiple**

Interest-bearing net debt divided by equity. This ratio shows the mix between interest-bearing net debt and financing through equity. A higher ratio signifies higher financial leveraging and may have a positive impact on return on equity, but at the same time signifies a higher financial risk.

### **Shareholder' equity**

Equity at the end of the period.

### **Working capital**

Inventories, accounts receivable and other operating assets less accounts payable and other operating liabilities. This amount shows the net figure for current assets and current liabilities used in the business. Together with non-current assets, working capital constitutes the capital employed operationally to generate return.

## **Working capital as a percentage of net sales**

Average working capital for the past three months divided by net sales for the full year or for part of the year, net sales on an annual basis (net sales for the quarter times four). This key performance indicator shows how effectively working capital is used. A lower percentage means that less capital has been tied up to generate particular revenue, and a higher ability to finance internally growth and return for shareholders.

## **Per-share data<sup>1</sup>**

### **Cash flow per share from operating activities per share**

Cash flow from operating activities divided by the average number of shares on the market during the period.

### **Diluted earnings per share**

Profit/loss for the period, attributable to parent company shareholders, divided by the number of shares on the market at the end of the period, plus the effect of estimated participation in the incentive programme.

### **Diluted shareholders' equity per share**

Equity at the end of the period, attributable to parent company shareholders, divided by the number of shares on the market at the end of the period, plus the effect of estimated participation in the incentive programme.

### **Earnings per share**

Profit/loss for the period, attributable to parent company shareholders, divided by the average number of shares on the market.

### **Equity per share**

Cash flow from operating activities divided by the average number of shares on the market during the period.

### **EV/EBITDA**

Market capitalisation plus interest-bearing net debt, divided by operating profit before depreciation, amortisation and impairment (EBITDA).

### **Operating cash flow per share**

Cash flow from operating activities including net investments in property, plant and equipment and acquisitions of financial assets, divided by the average number of shares on the market over the period.

### **PIE ratio**

Share price at year-end divided by earnings per share.

<sup>1</sup> For number of shares, see section "BillerudKorsnäs shares".

## Glossary

### Biofuels

Renewable fuels originating from the plant kingdom, for example from wood, including black liquor and bark.

### CDP

Carbon Disclosure Project.

### Corrugated board

Corrugated board is manufactured by gluing together two flat layers of paper (liner) with a rippled layer (fluting) in between.

### 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.

### MF kraft paper

Machine Finished kraft paper.

### MG kraft paper

Machine Glazed kraft paper.

### NBSK

Northern Bleached Softwood Kraft.

### Pulpwood

In Sweden this is primarily softwood (spruce and pine) and birch used to make paper pulp.

### Sack paper

Paper with high strength properties and used for the production of sacks. Made from softwood sulphate pulp.

### Sulphate pulp

Chemical pulp produced by cooking wood under high 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

BillerudKorsnäs AB's Annual General Meeting will be held at 3:00 p.m. on Wednesday 10 May 2017 at Hotel Rival, Mariatorget 3, Stockholm, Sweden.

Notice of the 2017 Annual General Meeting is posted on the Company's website at [www.billerudkorsnas.com](http://www.billerudkorsnas.com).

### 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 4 May 2017 and must notify the Company by no later than Tuesday 4 May 2017.

Notification of attendance can be done by telephone on +46 8 402 90 62, at [www.billerudkorsnas.se/anmalan](http://www.billerudkorsnas.se/anmalan) or by post to BillerudKorsnäs AB, Årsstämman, Box 7841, 103 98, SE-103 98 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 Thursday 4 May 2017, 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 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 and Sustainability Report and other financial reports are available on the website.

### Interim reports

|                        |            |
|------------------------|------------|
| January–March 2017     | 20 April   |
| January–June 2017      | 18 July    |
| January–September 2017 | 17 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**