

Directors' report

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

This English version is a translation of the Swedish original.

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

Market

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

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

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

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

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

Sales volumes by business area

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

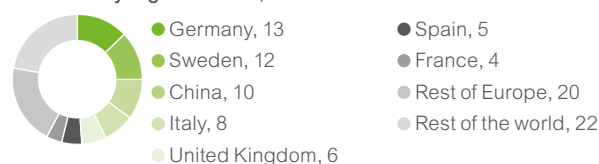
Net sales 2018, %



Net sales by business area

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

Net sales by region in 2018, %



Net sales by region

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

Financial targets

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

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

Sales and earnings

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

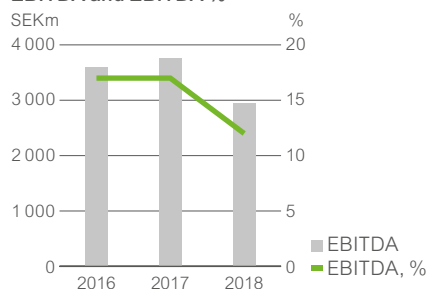
Sales volumes fell by 5% despite good market conditions in all segments. The decrease was principally due to stock build-up to ensure a stable supply situation, as well as the weather-related shortage of wood. Sales volumes for Consumer Board were in line with the previous year. Around 33% of combined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

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

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

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

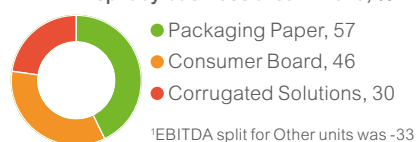
EBITDA and EBITDA %



Summary

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

EBITDA¹ split by business area in 2018, %



EBITDA-margin by business area

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

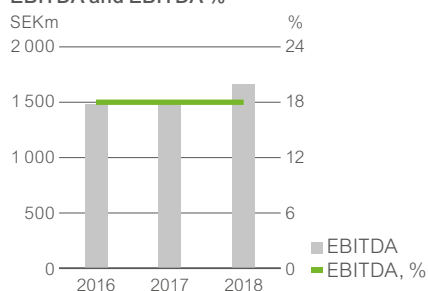
For quarterly data, see pages 130-131.

Operating segments

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

Packaging Paper

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

EBITDA and EBITDA %

Packaging Paper

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

Profit trend

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

Market trend

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

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

Key events in 2018
Investment programme for efficiency

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

Relocation of products

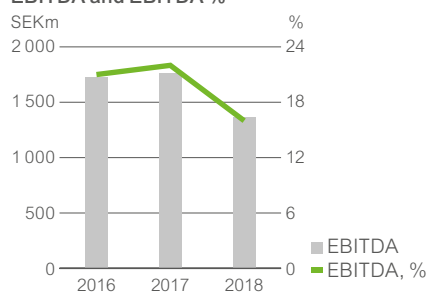
The decision to restructure and invest in a new board machine in Gruvön and close MF and MG machines at the same time means that products from Gruvön are being relocated to Skärblacka and Pietarsaari. Qualification of products and relocation of the products were carried out successfully during the year.

Launch of products

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

Consumer Board

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

EBITDA and EBITDA %

Consumer Board

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

Profit trend

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

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

Market trend

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

Key events in 2018

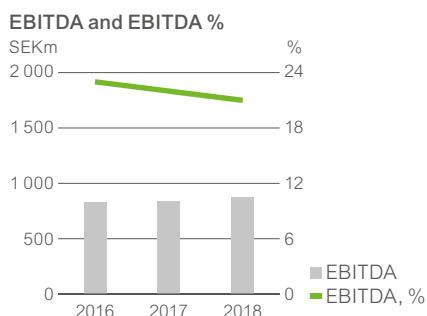
Next generation

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

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

Corrugated Solutions

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



Corrugated Solutions

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

Profit trend

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

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

Market trend

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

Key events in 2018

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

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

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

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

Optimal packaging solutions for brand owners

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

Safety and production stability

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

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

Growth

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

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

Investments and capital employed

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

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

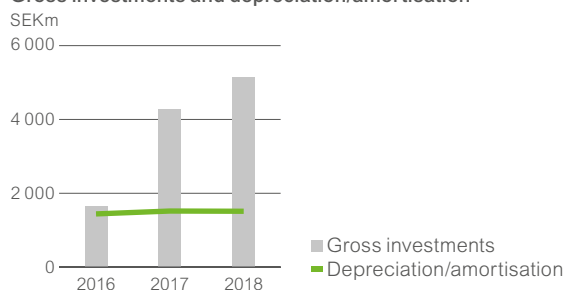
The MG machine relocated from Tervasaari in Finland to Skärblacka was started according to plan in April and its production capacity as gradually increased in 2018. The new surface treatment equipment, which was installed on an existing MG machine, makes it possible to produce more advanced coated MG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

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

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

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

Gross investments and depreciation/amortisation



Cash flow and financial position

Summary Cash Flow Statement

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

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

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

Financing

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

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

Capital Structure, Summary

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

Currency hedging

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

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

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

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

Hedged proportions of currency flows for EUR, USD and GBP and exchange rates against SEK¹

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

¹ At 31 December 2018.

Tax situation

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

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

Environmental and permit issues

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

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

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

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

Product and process development

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

Seasonal effects

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

Maintenance shutdowns

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

Other seasonal effects

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

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

Maintenance shutdowns

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

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

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

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

Share structure

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

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

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

Distribution of shares

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

BillerudKorsnäs shares

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

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

Parent company

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

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

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

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

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

Risk management in parent company

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

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

Customer credit

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

Exchange rate exposure

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

Interest rate risk

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

Proposed allocation of profit

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

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

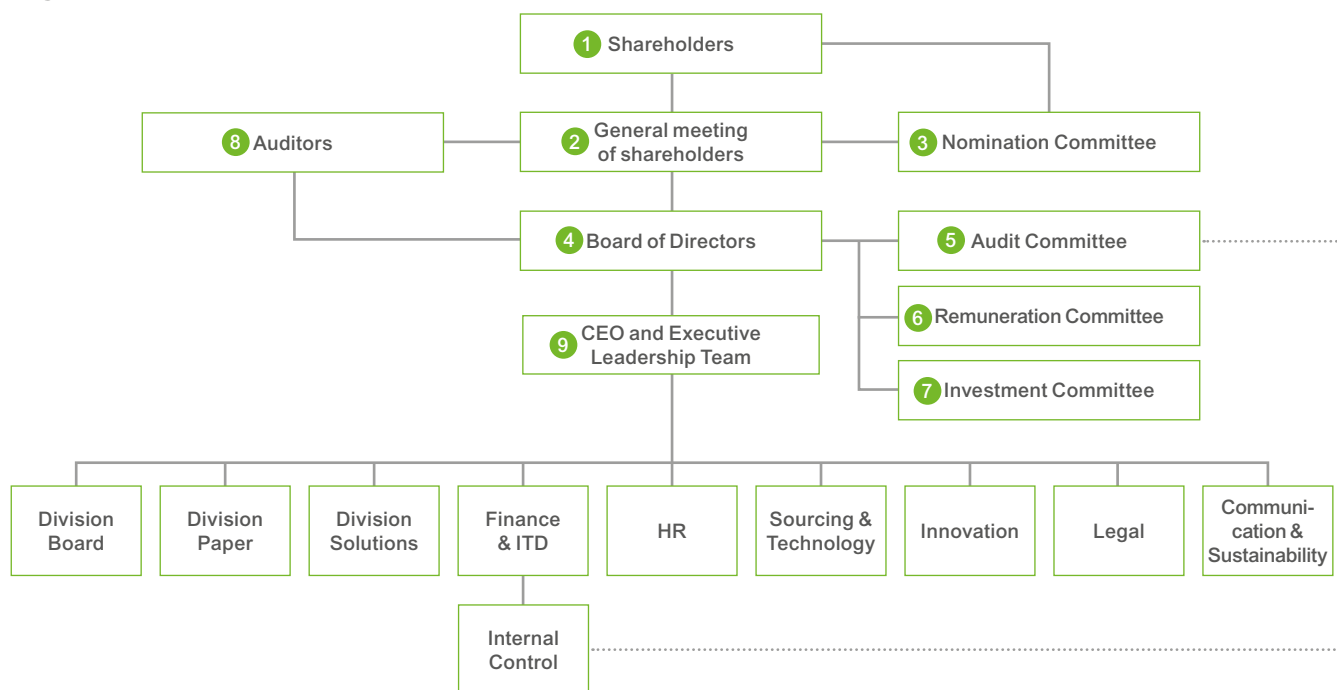
Events after the close of the financial year

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

Corporate governance in BillerudKorsnäs

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

Organisation from 1 October 2018



Corporate governance in BillerudKorsnäs

Examples of external regulations affecting BillerudKorsnäs' governance:

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

Examples of internal regulations affecting BillerudKorsnäs' governance:

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

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

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

1 Shareholders

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

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

2 General meeting of shareholders

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

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

2018 Annual General Meeting

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

2019 Annual General Meeting

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

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

3 Nomination Committee

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

the 2019 AGM. For further information about the Nomination Committee instructions, see www.billerudkorsnas.com.

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

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

Composition of and voting representation on the Nomination Committee

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

¹ At 31 December 2018.

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

4 Board of Directors

Composition

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

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

DIRECTORS' REPORT

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

Organisation of the work of the Board

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

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

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

Work of the Board in 2018

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

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

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

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

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

Assessment of the Board and the CEO

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

Attendance at board meetings and committee meetings

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

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

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

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

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

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

Board committees

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

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

5 Audit Committee

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

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

Work in 2018

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

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

6 Remuneration Committee

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

Work in 2018

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

7 Investment Committee

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

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

Work in 2018

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

8 Auditors

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

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

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

9 CEO and Executive Leadership Team

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

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

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

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

BillerudKorsnäs Way of Working

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

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

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

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

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

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

Guidelines for remuneration to senior executives

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

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

Remuneration at BillerudKorsnäs

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

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

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

Components of remuneration in BillerudKorsnäs

Fixed salary

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

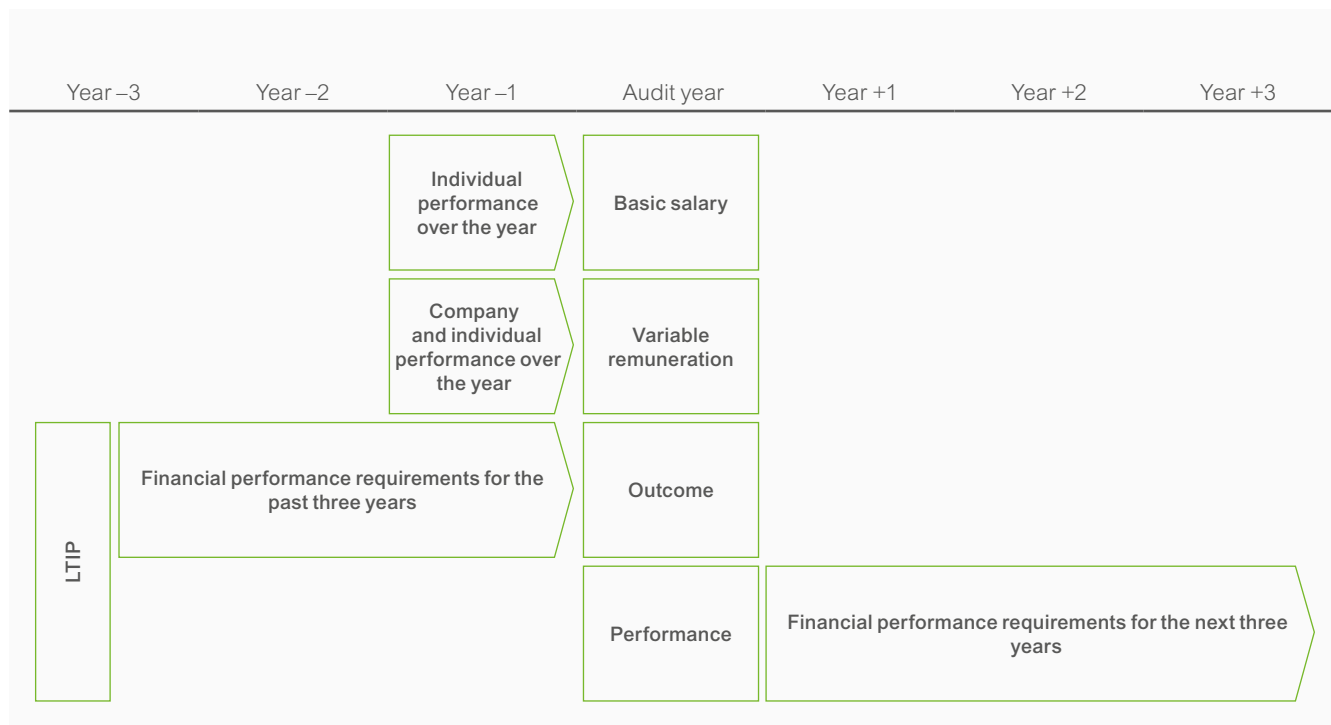
pay review, where pay is considered in accordance with performance and relative pay levels for the role in relation to the external market.

Variable remuneration

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

Long-term share-based incentive programme (LTIP)

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



Long-term incentive programme (LTIP)

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

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

Retirement

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

Other benefits

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

Long-term incentive programme (LTIP)

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

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

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

The requirements are based on:

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

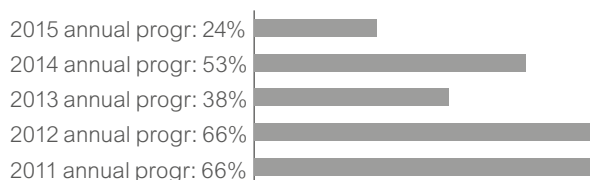
Performance requirements (a) and (b) grant shares on a straight-line basis between minimum and maximum levels. LTIP 2017 and LTIP 2018 are also dependent on total share return (TSR).

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

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

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

Historical data, completed long-term incentive programmes
Percentage of performance criteria set



Guidelines for remuneration of senior executives 2019

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

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

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

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

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

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

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

See Note 26 for the 2018 guidelines.

Internal control and risk management for financial reporting

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

Financial reporting

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

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

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

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

1 Control Environment

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

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

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

2 3 Risk Assessment and Control Activities

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

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



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

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

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

Material risks are reported to the Board of Directors.

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

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

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

4 Information and Communication

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

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

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

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

5 Monitoring

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

Internal audit

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



Kristina Schauman

Christopher Casselblad

Ulf Eliasson

Paulina Ekvall

Petra Einarsson

Executive Leadership Team

Petra Einarsson

President & Chief Executive Officer

Education: MSc in Economics and Business, Uppsala University.

Year employed: 2017

Year born: 1967

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

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

Shareholding¹: 13 000

Mikael Andersson

Executive Vice President Division Board

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

Year employed: 2016

Year born: 1968

Other assignments: –

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

Shareholding¹: 8 825

Helene Biström

Executive Vice President Division Paper

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

Year employed: 2019

Year born: 1962

Other assignments: –

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

Shareholding¹: –

Christopher Casselblad

Executive Vice President Communication and Sustainability

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

Year employed: 2018

Year born: 1975

Other assignments: –

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

Shareholding¹: 1 000

Paulina Ekvall

Executive Vice President Human Resources

Education: HR and Working Life Issues Programme, Lund University

Year employed: 2017

Year born: 1968

Other assignments: –

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

Shareholding¹: 3 000



Helene Biström

Mikael Andersson

Magnus Wikström

Andreas Mattsson

Anders Lundin

Ulf Eliasson

Executive Vice President & Chief Technology Officer

Education: MSc, Chalmers University of Technology, Gothenburg.

Year employed: 2012

Year born: 1962

Other assignments: –

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

Shareholding¹: 4 893

Anders Lundin

Executive Vice President Division Solutions

Education: MSc in Economics and Business, Lund University

Year employed: 2015

Year born: 1960

Other assignments: Member of the Board in ExoXPac A/S

Background: President Mergers & Acquisition BillerudKorsnäs, Executive Vice President Transformation Projects Perstorp Group, Executive Vice President of Business Group Perstorp Performance Products.

Shareholding¹: 4 111

Andreas Mattsson

Executive Vice President & General Counsel

Education: Master of law Lund University.

Year employed: 2013

Year born: 1978

Other assignments: Member of the Board of Bergvik Skog AB.

Background: Senior Associate, law firm Ced-erquist.

Shareholding¹: 3 565

Kristina Schauman

Acting Executive Vice President & Chief Financial Officer

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

Year employed: 2018

Year born: 1965

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

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

Shareholding¹: 4 000

Magnus Wikström

Executive Vice President Innovation

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

Year employed: 2006

Year born: 1963

Other assignments: Member of the Boards of Wallenberg Wood Science Center, Tree-search and EcoXpac A/S.

Background: CTO BillerudKorsnäs AB, Vice President Technology Billerud AB, R&D Director Korsnäs AB, Head of project area STFI.

Shareholding¹: 8 887

¹ Own and related parties shares at 15 February 2019.

challenge
 nional packaging
 sustainable future



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

Board

Lennart Holm

Chairman of the board since 2014, board member since 2012, member of the remuneration committee

Education: MSc in chemical engineering, Chalmers University of Technology, Gothenburg.

Year born: 1960

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

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

Shareholding: 4 000

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

Michael M.F. Kaufmann

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

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

Year born: 1948

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

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

Shareholding: 17 250

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

Tobias Auchli

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

Education: MA HSG, University of St Gallen.

Year born: 1972

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

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

Shareholding: –

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

Andrea Gisle Joosen

Board member since 2015, chairman of the Audit Committee

Education: MSc International Business, Copenhagen Business School.

Year born: 1964

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

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

Shareholding: 2 350

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

Bengt Hammar

Board member since 2014, Chairman of the investment committee

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

Year born: 1951

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

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

Shareholding: 2 000

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



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

Kristina Schauman

Board member since 2014

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

Year born: 1965

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

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

Shareholding¹: 4 000
Independent/Not independent: Not independent of the Company and management (acting CFO in the Company), independent of the Company's major shareholders.

Victoria van Camp

Board member since 2017, member of the Investment Committee

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

Year born: 1966

Other assignments: CTO and President, Innovation and Business Development at AB SKF.
Background: Board member of VBG Group AB and PREERA. Director of Industrial Market Technology & Solutions, Director of Product Innovation Lubrication BU and several other positions in SKF Group.

Shareholding¹: 400
Independent/Not independent: Independent of the Company and management, independent of the Company's major shareholders.

Jan Åström

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

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

Year born: 1956

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

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

Shareholding¹: 111

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

Nicklas Johansson

Board member since 2017, employee representative Swedish Paper Workers Union

Year born: 1968

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

Background: –

Shareholding¹: –

Gunnevi Lehtinen Johansson

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

Education: Chemistry studies at Åbo Akademi University, Turku.

Year born: 1969

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

Background: –

Shareholding¹: 450

Ulrika Gustafsson

Deputy Board member since 2016, employee representative PTK

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

Year born: 1967

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

Board member of Korsnäs Social Fund Foundation.

Background: –

Shareholding¹: –

Bo Knöös

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

Year born: 1964

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

Background: –

Shareholding¹: –

¹ Own and related parties' shares at 15 February 2019.