

# Transcription

**Title: BillerudKorsnäs Year-End Report January-December 2018**

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**Speakers: Christopher Casselblad, Petra Einarsson and Kristina Schauman**

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## Presentation

### Christopher Casselblad

Okay. Good morning and most welcome to our Year-End Report Earnings Call. My name is Christopher Casselblad and I'm Head of Communications. With me in the room I have our CFO, Kristina Schauman and our Acting CEO, Petra Einarsson, who is also a Board member since 2014. As usual we will use approx. 20-25 minutes to go through our presentation and then open up for questions. Petra, please?

### Petra Einarsson

Thank you, Christopher. And good morning everyone and welcome to our webcast to talk about the results in the fourth quarter. I would like to start with the key highlights and then to invite you, Kristina, to give an update on the financials. And after that we will open up for Q&A. So, the main key highlights of this quarter are these and I'm pleased to inform about the solid performance that we have had in growth, up 5%, and that the fourth quarter was somewhat lower due to year-end seasonality. Production levels continued to develop in line with our expectations with very few production disturbances. And we have continued to experience headwind recording raw material costs at a magnitude of 25% increase year-on-year. And I'm also very pleased to inform that we have renewed our long-term contracts within Liquid Packaging Board. Importantly, our strategic investments KM7 in Gruvön is progressing according to plan towards start-up in March/April 2019, this year. And Bergvik Öst is also well on the way and we expect the transaction to be closed late April or maybe early May. And the process to find a suitable investor continues as planned. The proposed dividend from the Board is SEK 4.30 per share and to be paid out as the two occasions during the year as an improvement[?] for the cash management.

So let's start by looking at the strong, very strong, performance of Packaging Paper. Sales increased by 5% with some seasonality variation towards the end of the quarter. And EBITDA increased by 2% to SEK 411 million or 18% on sales. We expect the market to remain good and I'm happy to say that we have reached a record high result for the year. And let's turn to Consumer Board where we are also experiencing continuing strong demands with sales up 4% but with limited effects on price increases. EBITDA is down by 20% compared to last year, mainly due to increased raw material costs and unchanged prices. We read SEK 290 million or 14% of sales. We expect the market to remain good and we have reviewed our long-term agreements with our largest customers, which will have a positive effect on margins. The new contracts are of course of utmost importance for our long-term goal to take profitability back to historical levels of Liquid Packaging Board. And last, but not least, the performance of the Corrugated Solutions where sales have increased by 15% and the Solutions part within Corrugated Solutions that we call Managed Packaging, has increased by 14% during the quarter. EBITDA reached SEK 278 million or 24% and this is an increase by 31% compared to last year. And also, here we expect the market to remain good.

So continue with the strategy and as we sent out our recent Capital Markets Update, we need to unlike the potential of our business. Because we do see that we have large opportunities ahead for BillerudKorsnäs' perspective. My first and foremost attention has been on securing the successful ramp-up of our investment in KM7 in Gruvön. And also the cost of wood is the [inaudible]. So that is also the first priority to secure that we have a cost competitive wood sourcing strategy, short and long-term. Second, we need to continuously improve safety and production stability. And third, growth is important and we have to accelerate regarding innovation and solutions.

But first and foremost secure the ramp-up of KM7. And here I feel confident that we are on schedule towards the start-up of March/April. All risks in the project are monitored on a weekly basis where we have approached these things looking at the risk based on safety first, on time and at cost. The saving construction has now been finalised and the assembly work of the machine will be finalised during February. The machine will run with water during March and we expect [inaudible] on wire in

April. We also expect EBITDA to be positive 2021 and this whole process is very exciting for all of us. And we are really proud to be part of ramping up the world's most advanced board machine.

Another important area is to safeguard the sourcing of wood. The sourcing of wood accounts for 305 of our total spend and, as you all know, we have experienced wood shortage during 2018, mainly weather-related, impacting the result of the full-year of SEK 250 million or taking out 21% [?] unit of EBIT. This has not affected at all during the fourth quarter but we had some – it influenced the full-year quite a lot. But we do see that the competitive situation continues and we estimate for this year that the cost of wood will flatten out, but still on a high level. We now focus on finalising the deal of – with the letter of intent process on Bergvik Öst, latest May. And as we conveyed at the Capital Markets Day, we still believe it is more value for BillerudKorsnäs to invest forward in our Packaging business than to own forestland. So we are now in the process of inviting robust investors for long-term collaboration and we plan to send out information memorandum late February.

And now some words about safety and production stability. I truly believe that a safe company is a well-run company. BillerudKorsnäs had 7.7 lost time injuries per one million working hours 2017, which is far from zero harm and the correlation to production instability is quite obvious. Our priority is safety first and we are committed to reaching our target of less than 1.5 lost time injuries per one million working hours. We now have a track record of moving in the right direction. For the lost time injuries during 2018 we have developed from 7.7 to 7.2 regarding the lost time injuries and regarding all injuries we have an even more distinct positive development during the year. But this is not good enough and here I would say that we need to have almost what you can call a paradigm shift when it comes to safety for the company. So this is of – it's very important for us to continue this work.

Another area where we also have total commitment is production stability. We continuously need to improve our production stability and there has been less disturbances during 2018 compared to the previous year. It remains our key focus and we are not satisfied with the pace of improvement that we have seen during 2018. Targets have been triangulated to evaluate our performance by each segment and also by each machine. And we are testing our stability target for the next coming two years to improve 2% per year. That is an equivalent of SEK 200 million in EBIT improvement or roughly 1% unit in EBIT margin per year. This programme is in place and I have full confidence in our ability to deliver. And as I said, we have experienced fewer disturbances during 2018 compared to previous years.

So now I have talked about what to secure and what to continuously improve. So let's move over to what we need to accelerate. Innovation is of course a part of what we do. The end results are new packaging solutions that create value for our customers and at the same time support the profitable and sustainable growth of BillerudKorsnäs. When it comes to measure our performance to look on new packaging materials or solutions, our long-term target is new product ratio of at least 15%. A few years ago we started at that level but during the last two years the level has decreased to somewhere around 6-7%. And this is primarily an effect of where we are in our investment cycle. Already this year we expect the new product ratio to come back up on targeted level and hopefully we will reach closer to 15% already this year/next year as we'll not take up until 2023 to reach the goal.

And one thing that I'm also very happy with is that we have my management team in place now. We launched the new decentralized profit and loss based organisation 1<sup>st</sup> October and now I have all managers in the team appointed. And we actually had our first kick-off management team meeting a couple of weeks ago. So now it's – we are all set for execution, I would say.

The long-term financial targets, as you know from the Capital Markets Day, we are committed to meet our long-term targets and those were unchanged when we presented them at the Capital Markets Day in September. This quarter we are well-above when it comes to let's say growth of 6% compared to the target of 3-4% but not fully in line when it comes to EBITDA, return on capital employed and net debt to EBITDA. The dividend proposal of SEK 4.30 per share is in line with our

long-term targets. So that was the key highlights of the quarter and now I would like to hand over to you, Kristina, to continue with financial presentation.

### Kristina Schauman

Thank you, Petra. We finished 2018 with just another quarter of top line solid growth and as you have seen, our net sales increased at 5% in Q4 2018 compared to the same quarter last year. And this increase is mainly explained by the increased sales prices within Packaging Paper as well as within Corrugated Solutions. We have also seen a positive effect from currency in Q4. On the negative side we saw lower sales volumes and that's an effect of inventory build-up both within Consumer Board and Packaging Paper. The increase in inventory in Board was mainly or is mainly an effect of building inventory ahead of plant maintenance stops and that's mainly related to [Inaudible] which this year will take – will take place only in Q2 compared to Q3 in 2018. So Paper the increase in inventory is mainly due to seasonal effects around year-end that we normally see. This year however we saw a somewhat larger effect and lower orders from the customers that optimised the working capital over year-end, due to the high price levels.

According to results the EBITDA decreased in Q4 with 14% compared with the same period in 2017 and Petra has already gone through. The main reason for this increase is the continued headwinds that we are seeing from the high raw materials cost. It's higher cost within the fibre but also other raw materials, in particular chemicals that have remained at the high level. So although we've had price increases within Paper and Solutions, as well as positive currency effect, they have not been able to fully compensate for the higher costs. For 2018 the cost for pulp board has increased to 25% and the cost for caustic soda, which is one of the main chemicals that we are using, has increased by 20%. Moving ahead, looking into 2019 we are expecting this cost level to remain at the high level but that this increase will flatten out.

Our next generation programme is now close to completion with the expected start of our kraftboard machine in March/April this year. And with this we are now coming to an end of a very intense investment period. As a result of investment activity our net debt is now at SEK 9.3 billion and this implies a net debt to adjusted EBITDA of 2.7x to compare with our target to be below 2.5x. We expect our net debt to continue in Q2 2019 excluding any effect of the Bergvik Öst transaction. As Petra mentioned, the work to find suitable investors for Bergvik Öst is progressing according to plan and looking ahead we have a clear focus to deleverage the company. And we expect to be on target again, that is a net debt to EBITDA below 2.5x, at the end of 2020. So I'll hand over to Petra for the outlook.

### Petra Einarsson

Thank you, Kristina. And looking at the outlook of 2019 we see limited possibilities to further increase the sales prices and focus on safeguarding the KM7 machine during 2018. And also, as I have already informed, we have renewed our contract with the largest customers in Liquid Packaging Board which will also effect 2019 when it comes to pricing. We have also a good cost increase that we expect to flatten out but still on a high level. So the summary is that the production levels are in line with our expectations. It's – which is good but we are not satisfied with the pace of the improvement. We have a continued headwind from the higher raw material costs and, as Kristina pointed out, it's both wood and chemicals. The renewed long-term contracts with Liquid Packaging Board where we foresee positive effects on margin. KM7 progress is according to plan and we still expect the start-up and plan for the first start-up in March/April. Bergvik Öst process of finding a suitable investor continues as planned and we also take off in 2019 with our new organisation. And we plan to publish the pro forma numbers on 11<sup>th</sup> March.

So that was the summary of the fourth quarter so now I would like to hand over to you, Christopher, or maybe I can open up for the Q&A myself. I think we do it very well.

### Christopher Casselblad

Yes.



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**Petra Einarsson**

So please, if you have any comments or questions?

## Q&A

**Operator**

Thank you. Ladies and gentlemen, if you do have a question for the speakers please press zero one on your telephone keypad and you'll enter the queue. After you're announced please ask your question. Our first question comes from the line of Justin Jordan from Exane. Please go ahead, your line is now open.

**Justin Jordan**

Thank you and good morning everyone. I just wanted to get a little more colour, if I could please, on in the Consumer Board division you talked about reviewing long-term contracts within Liquid Packaging Board. And talked about clearly a positive impact on margins. Can you give us some idea how quickly we should see this positive impact? Is that in Q1 2019? And secondly clearly a bit more colour on the degree of the margin benefit that that might bring. And secondly, a slightly technical question, you clearly have stocked up at the end of 2018 for, you know, clearly Gruvön start-up in April/May, sorry in April, apologies. Should we see the stock levels unwind as we go through 2019? Your 2018 production was 2,705 and your sales were 2,641 so you increased stocks by 64 tonnes. Should we see that unwind in 2019 or is that a new elevated [inaudible] in sales level? And thirdly, just on capex, your capex for 2018 came in as 5135[?] but your guidance was SEK 5.3 billion. So, does that mean that 2019 capex will be higher than your existing 2.75 guidance?

**Petra Einarsson**

So maybe we have to ask you to repeat the questions as we go along, Justin.

**Justin Jordan**

Sure, okay.

**Petra Einarsson**

The first – the first question was regarding the renewed contract of the Liquid Packaging Board and when we will see the impact. And the contract is renewed and it's valid from 1<sup>st</sup> January.

**Justin Jordan**

Fantastic, okay. Can you give us some idea of the potential benefit to margins from that increase or new contract?

**Petra Einarsson**

We don't reveal the details of the contract that we have with our customers but if you look at it from a broader stance and look at the Consumer Board the margins where we are on a quite low level as we speak, our ambition is to gradually take the margins back where they have been on a historical level. And working on an EBIT level Consumer Board has been somewhere around about 10% EBIT margin and that is what I estimate for the – as the long-term target. But then we need to consider of course that we have an extremely high cost of raw material with wood and on top of that chemicals. But with the new contracts in place I think that we have the ability to – to have a decent margin in Consumer Board.

**Justin Jordan**

Sure. Okay –

**Petra Einarsson**

And –

**Justin Jordan**

We will get sort of first reviews by the KM7 start but should we see some margin benefit in Q1 2019 before KM7?

**Petra Einarsson**

Yes.

**Justin Jordan**

Perfect, thank you. And sorry, the second question was just regarding stock levels and I appreciate this is slightly confused by KM7. But your – as I said, your production –

**Petra Einarsson**

I assume – I assume that part of the question is that we have had some build-up of inventory levels at the year-end. And that I can explain. It's mainly from a broad perspective that you can explain it as seasonality effect to some extent considering the fact that we have increased prices quite a lot. And I think we always needed customers at year end that our customers try to avoid building up stock here at year end. But the main part or the main explanation for this is that we very late in December decided to re-plan the maintenance stop during 2019. So we have – we will stop earlier than planned in Järle[?] and then we will push the maintenance stop into later this year. And in order to make some extra security we decided to build up stock to prepare for those maintenance stops during the year, especially taking down Järle earlier than planned. So that is the main reason of the inventory increase.

**Justin Jordan**

Okay. I'm just curious. In your Corrugated Solutions business you talk about general market conditions have slowed down somewhat in the latter part of 2018. So did that impact year-end stock levels for that division?

**Petra Einarsson**

I couldn't really hear the question.

**Justin Jordan**

Sorry. In Corrugated Solutions you talked about in the statement of general market for containerboard slowed down somewhat in the latter part of 2018. Could you just give us some more detail as to what that means? Is that due to lower volume demand from customers? And should we assume that had a contribution to the –

**Petra Einarsson**

– it's the effect of the start-up and the ramp-up of KM7. So that we are building inventories for.

**Justin Jordan**

Okay. Okay. And my third question was just on capex. Clearly you gave guidance, as it were, in terms of your capex for 2018 was SEK 5.135 billion lower than your SEK 5.3 billion guidance from September. Is that a timing impact or should we think that 2019 capex will be slightly higher than your September guidance of SEK 2.75 billion?

**Christopher Casselblad**

– question, yes. As you say, there is a small deviation between the capex guidance and the actual reported capex. And that will be moved to 2019 so approx. SEK 150 million will be – we will increase the capex for next year with SEK 150 million, meaning around SEK 2.9 billion including this capex.

**Justin Jordan**

Thanks, Christopher.

**Christopher Casselblad**

Thank you.

**Petra Einarsson**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Linus Larsson from SEB. Please go ahead, your line is now open.

**Linus Larsson**

Thank you and good morning to everyone. First question, on the Gruvön start-up if you could please say what, if any, impact it may have on the first quarter results please?

**Petra Einarsson**

Good morning, Linus. I think that we are fully concentrating on planning the start-up and I would not like to give any guidance when it comes to the results impact on the first or the second quarter.

**Linus Larsson**

Okay.

**Christopher Casselblad**

But in general, you can say that the SEK 500 million make volume effect that we talked about earlier, that effect will come when we open up the machine in going forward.

**Petra Einarsson**

Yeah.

**Linus Larsson**

Yes. And okay that's helpful. Thank you. And you're saying March/April but might there be an impact in March already from that – form a portion of the SEK 500 million or should we understand it as from April?

**Petra Einarsson**

I think you should understand it as from April.

**Linus Larsson**

Excellent, thank you. And do you have – do you have a date already for when you will close the old machines?

**Petra Einarsson**

No. we don't have a date. We are operating on a monthly level now. It's March/April and as long as we can we continue to produce on the paper machines. And when we are ready to shift the pulp supply we will do that. And that will happen somewhere around March/April.

**Linus Larsson**

But just given what you just said previously, do I understand correctly that the closing of the old machines will happen in April rather than March?



**Petra Einarsson**

Yes, I think we need to do that at the same time. When we cut the supply of the pulp to the old machines then we will start to feed KM7.

**Linus Larsson**

Right, thanks for that clarification. And also on the first quarter when it comes to wood costs do you expect to have sequentially lower wood costs Q1 versus Q4?

**Petra Einarsson**

No, I would say that this is – we don't know more than you do. But we think it's – we see some plans for flattening out level in Q1. So on the levels that we have in the fourth quarter.

**Linus Larsson**

Okay. So for modelling purposes unchanged costs Q1 and Q4.

**Petra Einarsson**

Yes.

**Linus Larsson**

Excellent. Great. Then finally you gave some updates on the Bergvik Öst changes and I'm interested if the dates you were referring to were like referred to phase one the buyback of the forestland. When do you expect to close the new ownership agreement that we make all the phase two?

**Petra Einarsson**

You are correct with your assumption that when I talk about April or early May then I talk about the transaction of us investing in Bergvik Öst. And then of course the process of finding some investors that can work together with us to – that focus – we don't have a clear set date for that. And I think the most important is to find the partner that we can work together with to secure the competitive wood cost. And that will be the prerequisite if we go ahead with the next step. And I think that we'd rather take some time to find the right partner than to see that we are pushed close on the financial reasons or other reasons. We need to make sure that this is a good step for the company. But just to give something I definitely expect everything to be finalised during the year.

**Linus Larsson**

Great, thank you very much.

**Petra Einarsson**

Thank you.

**Christopher Casselblad**

Thank you, Linus.

**Operator**

Thank you. Our next question comes from the line of Martin Möllby from ABG. Please go ahead, your line is now open.

**Martin Möllby**

Yes, good morning. A bit more colour on that Liquid Packaging Board contract. You said EBIT margins would move back up to above 10%. I guess you've come down from 15% if you go a couple of years back. Is there more concentrated[?] coming later or new contracts to be renegotiated from here?





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## Petra Einarsson

No, I just wanted to – since we don't reveal details from the contracts with the customers I thought just to give sort of a picture of where we are heading and our long-term target is that we see the ability to take Consumer Board or especially Liquid Packaging Board back to the levels where they need to be in order to be the core of BillerudKorsnäs. And with these new contracts I think that that is possible. But I can't say today the exact percent unit. But we have the new contract in place valid as from 1<sup>st</sup> January. And I feel confident with the price levels. I feel also very confident with the long-term contract that we have negotiated which will have a positive effect on the margin. But maybe even more so I'm also very pleased with the partnership that we have with the Liquid Packaging Board customers, focusing on innovation. And also in this period of ramping up the KM7 machine, which is very much focused on Liquid Packaging Board, it's good to have this contract in place opening up also with KM7.

## Martin Möllby

Okay. And are you now renegotiated everything or is there still say one third left?

## Petra Einarsson

No, we have not renegotiated everything. We are – we have roughly the magnitude of the contracts that we have negotiated is somewhere around SEK 6 billion turnover of the total Liquid Packaging Board customers.

## Martin Möllby

Yeah. Great. And then one follow-up on the ramp-up costs, this SEK 500 million EBITDA and additional, I guess, SEK 300-400 million of depreciation of [inaudible], which is a very big number. Is that in any way included in your amendment numbers that this year include? Or is that on top of that one?

## Petra Einarsson

I think the cost of – it's SEK 500 million that we have guided and then it's SEK 250 million in depreciation, if I'm not –

## Christopher Casselblad

Approx.

## Petra Einarsson

Approximately. And it's not included in the maintenance, the guidance of next year.

## Christopher Casselblad

No, Martin, it's a mix volume effect that we see from closing down three old machines and opening up the new machine.

## Martin Möllby

Yep. So, Q3 is a big –

## Christopher Casselblad

Muddled.

## Martin Möllby

Muddled. So the SEK 500 million that's then SEK 500 million divided by four? Is that for Q4 or is it -?



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## Christopher Casselblad

The negative effect will come at the same time as we open up the machine.

## Martin Möllby

Yep.

## Christopher Casselblad

We will run the old machines until we open up the new so, yeah, it's a three quarter effect.

## Martin Möllby

Excellent. Thank you.

## Christopher Casselblad

Thank you.

## Petra Einarsson

Thanks, Martin.

## Operator

Thank you. Our next question comes from the line of Gustaf Schwerin from Pareto Securities. Please go ahead, your line is now open.

## Gustaf Schwerin

Morning, two questions from my side. First of all, just a follow-up question on the inventories in Q4. You said the products are related to the maintenance being moved to Q2 for Järle [?]. If I look at the inventory volumes in Q4 the volume drop seems to be larger than in Packaging Paper and I mean, correct me if I'm wrong, but I recall the previews of that in [Inaudible]. I mean, if that's the case then how should we think about inventory in Q1? I mean, are you going to continue building inventory or should we see sort of more normalised volumes?

## Petra Einarsson

Yes, as I mentioned, looking at the maintenance – the build up to the maintenance there we do not see any large further increase. Regarding the other part, as your question said, the largest part is related to the Paper and Packaging business area. And as I mentioned, this year we saw a somewhat higher build-up there, which is in fact our customers were actually basically closing down their – they converted earlier than they normally do for Christmas and to optimise their working

capital. And this we believe is very much due to the fact that we have very high price levels within Packaging Paper at this point in time. And we do not foresee that this will continue in Q1.

**Gustaf Schwerin**

Okay, very clear, thank you. And lastly, how much of the KM7 capital has taken up at the end of Q4?

**Christopher Casselblad**

Well, we have – next year we expect to have a full capex or a total capex of SEK 2.9 billion and SEK 1.3 billion out of those are base capex.

**Petra Einarsson**

Yeah.

**Gustaf Schwerin**

Okay. Great, thank you.

**Christopher Casselblad**

Thank you.

**Operator**

Thank you. Our next question comes from the line of Kevin Hellergard from Goldman Sachs. Please go ahead, your line is now open.

**Kevin Hellergard**

Good morning. Just two questions. The first question is related to your kraft paper prices and you're saying demand is remaining good. Can you just remind us, do you have a portion of annual contracts that are now resetting at higher levels or would you have already experienced most of the higher prices throughout 2018?

**Petra Einarsson**

No, when it comes to costs we don't have – you don't have long-term contracts that are about to be renegotiated.

**Kevin Hellergard**

Okay, so we've already seen the price increases in your numbers?



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**Petra Einarsson**

Yes.

**Kevin Hellergard**

Yeah. Then on your working capital like throughout this KM7 build your account payables have gone up quite significantly. When do you expect that to reverse and what sort of normalised level do you expect going forward?

**Petra Einarsson**

Yeah, as you have seen in the past year or so, we have had a decrease down to at this last quarter with 39%, 8.8% working capital as a percentage of sales. And going forward we believe – as you know, the capex remaining, we said it's around SEK 1.6 billion for the KM7 and when that's up – when that's paid, so that would be in the Q2 as we're moving forward, we believe we're going to come back to the levels we had before this investment project and that is in the region of 10-11%.

**Kevin Hellergard**

Okay. Thank you.

**Petra Einarsson**

Thank you, Kevin.

**Operator**

Thank you. Our next question – thank you. Our next question comes from the line of Christian Kopfer from Nordea. Please go ahead, your line is now open.

**Christian Kopfer**

Yes, thanks operator. Just one quick follow-up from me. With [inaudible] coming up for Q4 did you see the full effect of this already in Packaging Paper in Q4?

**Petra Einarsson**

I'm sorry Christian, I didn't fully understand the question. Did the Packaging paper?

**Christian Kopfer**

Yes, sorry about that. Before the fact kraft paper came up in Q4 did you see – did you feel the full effect of these price increases already in the fourth quarter or would you see some quarter-on-quarter effect also in Q1?



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**Petra Einarsson**

I would say that we – that you should anticipate that we have seen the prices in the fourth quarter but there might be some small spill-over to quarter one.

**Christian Kopfer**

Okay, thanks very much. And then also on the deliveries of [inaudible] that you are supposed to produce at least initially from KM7, have you secured the customer contracts already for these?

**Petra Einarsson**

Yes, to the last result[?] we have done that. And that is also why it is of utmost importance, it's so critical, that we ramp-up this machine in time.

**Christian Kopfer**

Right. And –

**Petra Einarsson**

But we have back to back contracts.

**Christian Kopfer**

Right. But that also means that you will sell some organs[?] from the pulp market?

**Petra Einarsson**

That I think remains to be seen. I think we have the targets that are ramping up as fast as we can but of course the most important is to do this in a steady state and to make sure that we have a good quality. So that's – I would like to say that this remains to be seen.

**Christian Kopfer**

Right. And finally –

**Petra Einarsson**

[Inaudible 45.39] – yeah, I'm sorry Christian.

**Christian Kopfer**

No, no, go ahead, Petra.



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### Petra Einarsson

No, it's a quite short time of the ramp-up where we plan to produce and sell the brown kraftliner.

### Christian Kopfer

Right. And then finally on Corrugated what kind of market movements are you seeing there on the price? Pretty much same, the prices of [inaudible]? Because we are seeing prices coming down a little bit on pulp market and you see more flat prices of course.

### Petra Einarsson

Yes, we see – we see that the price level that we have right now it would be very difficult to continue to increase prices.

### Christian Kopfer

Right.

### Petra Einarsson

So the main focus that we have now is to defend the price levels that we have. But it is so that we have seen a softer market at the end of the year, especially when it comes to corrugated and also the dominant parts of Paper.

### Christian Kopfer

Right. Okay, thanks very much.

### Christopher Casselblad

Thanks, Christian.

### Petra Einarsson

Thank you.

### Operator

Thank you. Our next question comes from the line of Robin Santavirta from Carnegie. Please go ahead, your line is now open.

### Robin Santavirta

Thank you. All my questions have already been answered but I have a question on Bergvik Öst. You said that the transaction, the first part of it will be probably closed now in March/April and now you're looking at a suitable investor –

**Petra Einarsson**

– April and May.

**Robin Santavirta**

April. April and May. Sure. Sure, yeah. I was just wondering what kind of structure are you aiming at? Do you plan to sell off your holding or just part of it and remain as a minority shareholder in the new vehicle? And as I understand the cash out now – and first part of this transaction will be a bit more than SEK 5 billion. What kind of prices are you looking at? Market prices may be a bit higher but it's a target to sort of maximise the value of your forest or to maximise the accessibility of procurement.

**Petra Einarsson**

I think that is too early to go into in such detail. And what we are planning to do now is to stamp out an information memorandum during February where we will outline the criteria. For it is important to have when we are looking for an investor or partner in this. So I don't think that that is something that I would like to go into in detail as we speak. But this is something that we will be able to talk more about presenting the quarter one closing.

**Robin Santavirta**

Alright. And do I understand correctly from previous communication that you have agreed with banks your sort of balance sheet will become a bit fresh now after the first part of this transaction? Is there a timeline when you need to close sort of the sale of the foreign assets or how is that agreed and sort of set up? What are the plans you have with the bank?

**Petra Einarsson**

Okay. We have, as you said – as you mentioned we have secured financing and I would say we have plenty of time. This is secured over long-term so more than a year, two years. And there aren't any additional covenants with this compared to the covenants we have in our other finances. So overall our financing is long-term secured.

**Robin Santavirta**

Alright, thank you very much.

**Petra Einarsson**

Thank you.

**Christopher Casselblad**

Thank you.





# BILLERUDKORSNÄS

## Operator

Thank you. Our next question comes from the line of Oscar Linstrom from Danske Bank. Please go ahead, your line is now open.

## Oscar Linstrom

Hi, I have just two questions and they've partly been covered so please excuse me. But the first one is coming back to this issue of the renewed Liquid Packaging Board contract. Now, you've said that it's going to have a positive impact on your operating margins. Does that in fact mean that you have achieved price increases? Or are there other reasons that you could've achieved, you know, a positive impact on margins?

## Petra Einarsson

Well, Oscar, I would say that I don't want to go into the details but I said really is that we have increased size, yes.

## Oscar Linstrom

Alright. And following up on that, I mean, you mention now today that you want to and expect to come back to a 10% EBIT margin for the Consumer Board division. Is that something that's going to be achieved with these new contracts? Or, you know, how close to 10% is that going to get you, do you expect?

## Petra Einarsson

That's what I call –

## Oscar Linstrom

Given that you are absolutely –

## Petra Einarsson

Since I don't want to discuss the exact price increase numbers and it's also several contracts with different setups in the Liquid Packaging Board negotiations. But when I talk about the margin of 10% or above 10% then it's partly the negotiation but it's also the fact that we have the price increases and such. But it's also that we have long-term agreements with one of the most important customers for BillerudKorsnäs and it's also important for us to work in a partnership environment, very much also focusing on innovation. And in the situation where we are now the next coming year so ramping up KM7. But it's also impacted by the execution of our own doing to increase stability in production, increasing the OEE or the availability. But with negotiations as we have closed now, with that in place I think it as a possible realistic, long-term target to be back about 10% EBIT margin on Consumer Board.



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### Oscar Linstrom

Alright. Good. My second question is around the KM7 start-up and the SEK 500 million start-up impact. Now, in an earlier answer to an earlier question you said that is going to impact Q2, Q3, Q4. Is that how we should understand it? Now –

### Petra Einarsson

Yes.

### Oscar Linstrom

What is going to be the sort of – is it going to be even number for those quarters or, you know, how is that SEK 500 million going to be divided between those three quarters?

### Petra Einarsson

I think that's the question for you Christopher.

### Christopher Casselblad

I think it's too early to say but, as you know, Oscar, this is [inaudible] that you see in the results. So it depends on how successful and stable the ramp-up is and so forth. It's also included in those SEK 500 million, the babysitting costs of SEK 60-75 million. So it's too early to say how we split them between the quarter.

### Oscar Linstrom

But they should be sort of front-end loaded or...?

### Christopher Casselblad

No, I think it's too early to say something in detail about that.

### Oscar Linstrom

Okay.

### Christopher Casselblad

Let's come back to that in Q1.

### Oscar Linstrom

Yeah. And what about the mix between different business areas?



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**Christopher Casselblad**

The impact?

**Oscar Linstrom**

Yeah, over the SEK 500 million.

**Christopher Casselblad**

Only in the inboard division. And then –

**Oscar Linstrom**

Only...?

**Christopher Casselblad**

In the Board division.

**Oscar Linstrom**

Okay. And is any of this –

**Oscar Linstrom**

Sorry?

**Christopher Casselblad**

I think I need to phrase myself better. There's also an impact in Paper of course, sorry. But the exact how we split it between the two I can't answer that right now. I don't have the answer.

**Oscar Linstrom**

And is any of that SEK 500 million – what's going to be – you know, is any of those going to be reported as a non-recurring item? And, you know, how's the split going to be there do you think? Or, you know...

**Christopher Casselblad**

I think it's all too early to say. We haven't reached that exactly but I'm hoping to be very clear about how these – how we disclose this. We need to discuss exactly but possibly it will be one-off, I guess.

**Oscar Linstrom**

Alright, good.

**Petra Einarsson**

Yes.

**Oscar Linstrom**

Those were my two questions. Thank you for answering them.

**Christopher Casselblad**

Thank you.

**Petra Einarsson**

Thank you, Oscar.

**Operator**

Thank you. Our next question comes from the line of Marco Järvinen from Handelsbanken. Please go ahead, your line is now open.

**Marco Järvinen**

Yes, so good morning.

**Petra Einarsson**

Good morning.

**Marco Järvinen**

I have a few more questions. If we look back at 2018 could you sort of – did you have any impact from the KM7 in 2018 and what was that in the end?

**Petra Einarsson**

If we have any impact from KM7? You mean the –

**Marco Järvinen**

Earnings impact. Any earnings impact?

**Christopher Casselblad**

Should I answer that? We had a guidance for full year of 210, of that worth 75 million the prolong maintenance of, we had in Gruvön related to the new machine. The second part is the education and



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extra personnel we had to educate and do a back fill on staff in Gruvön which was guided to around 75. And on top of that we also have the accelerated depreciations for the machines that we are closing down were we open up.

**Marco Järvinen**

And you met that guidance? Or –

**Christopher Casselblad**

Yes, the prolong maintenance of – came a little bit higher but on the other hand the education and extra personnel came a little bit lower and on the depreciation side, yes. Spot on.

**Marco Järvinen**

Okay, good. And the impact of Skärblacka PM10 in 2018. What was that in the end?

**Christopher Casselblad**

Well, we – on resource level, I'm not sure. But we said to that we will produce around 40,000 tonnes from that machine. And I have not done it myself exactly what it was. But was it – was in the books right now but somewhere between 30,000 and 40,000 tonnes has been produced in that machine.

**Marco Järvinen**

Okay. And just on KM7, I guess, Gruvön now has a capacity of 710,000 tonnes. Can you just remind me what that will be when the whole process of closing the machines and ramping up the machine? What will the capacity be there?

**Christopher Casselblad**

We are closing down four machines and opening up one new machine. So, when we are fully ramped up in Gruvön, we will have a large machine of approx. 300,000 tonnes and the new KM7 machine, which is a 560 machine.

**Marco Järvinen**

So 850?

**Christopher Casselblad**

In that area, yeah.



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### Marco Järvinen

Okay. And then on the price increases in Liquid Packaging Board. Are you sort of comfortable that this sort of 10% long-term margin level will be sufficient for you to reach the SEK 1 billion earnings improvement you're acquiring for KM7?

### Christopher Casselblad

Sorry, can you repeat?

### Petra Einarsson

I think I understand. I understood the question. I think it's – once again, we don't want to go into exact details of the contract, but I think we also have an opportunity in the KM7 to also produce liner and as well as cotton board cap stock. So, if Liquid Packaging Board is not the only product that we produced in KM7. But I feel very confident with the contracts that we have negotiated and the discussions that we have had that we have a joint interest together with our key customers to ramp up KM7 in a good and productive way. So, I think that the negotiations has also put the foundation in place to do so.

### Marco Järvinen

Okay, very good. Thank you very much.

### Petra Einarsson

Thank you.

### Operator

Thank you. Our next question comes from the line of Hugo Henten from Jefferies. Please go ahead. Your line is now open.

### Hugo Henten

Good morning. My first question is regarding the wood shortages. And is this an issue specifically localised to Sweden or have you seen any spill over in neighbouring countries?

### Christopher Casselblad

The wood shortage early in 2018 was – first of all, it was in the Baltics mainly affecting Q1. And in Q2, we had effects from a lot of snow in the Swedish woods. And in Q2, we also said – saw effects from the extremely dry weather. But yes, to your question it's mainly Sweden but also affecting Q1 from the Baltics.



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## Hugo Henten

So if your mills outside of Sweden, raw material cost is relatively unaffected?

## Petra Einarsson

I think the mills outside of Sweden, then we are talking about Beetham[?] in UK and Pietarsaari in Finland. And in Finland we have a contract with UPM that we guided for during the third quarter that we have a quite expensive contracts in place since we have the fixed rebates. So we are – have quite expensive pulp pricing on the rebate level, where we are right now that we guided for roughly SEK90 million, I remember as it was for the fourth quarter and this continues of course and it's very much connected to the pulp prices.

## Christopher Casselblad

So, basically what we're saying here is that the Swedish mills are fully integrated with pulp woods for those and in Finland and UK we buy pulp.

## Petra Einarsson

Yeah.

## Hugo Henten

Okay, great. Thanks very much. And for my second question you spoke a bit about it already. But regarding the speciality kraft and could you give a bit more colour on the current supply and demand situation that you're seeing and pricing outlook into 2019?

## Petra Einarsson

Speciality kraft.

## Christopher Casselblad

Well, for – was the question about kraft paper?

## Hugo Henten

For sack kraft.

## Christopher Casselblad

Sack kraft, okay. So, what we have seen is that the prices – well, the sack prices have increased – we have increased our sack prices quite extensively throughout 2018 and what we're seeing right now is a clear focus on safeguarding those prices.





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**Hugo Henten**

Okay, so you see it's quite achievable to retain those levels throughout 2019?

**Christopher Casselblad**

That is too early to say but we're doing everything we can to keep the levels or stabilizing the prices at these levels.

**Hugo Henten**

Okay. Thank you very much.

**Christopher Casselblad**

Thank you.

**Operator**

Thank you. There are no further question at this time. Please go ahead, speakers.

**Christopher Casselblad**

Thank you, operator, and thank you all for calling in. Thank you.

**Petra Einarsson**

Thank you very much.

**Christopher Casselblad**

Bye-bye.