



A FIRST YEAR

– and **a real step forward**

When I look back over the first year of BillerudKorsnäs, I have to say I am pleased with what we have achieved. Our expectations of the new company were high and yet they were exceeded on several fronts – in particular the way we implemented the first and most extensive phase of the integration. In other respects things have been tougher, not least dealing with the combination of a strong Swedish krona and the continued weakness of the European economy.

SMOOTH INTEGRATION

The teamwork within every section of the company, at every level, is working exceedingly well. We have thus raised our target for synergies and savings from the acquisition of Korsnäs to SEK 530 million and we are now confident of reaching that in 2014, a year earlier than originally thought. All this points to an organisation that is ready for the task ahead and committed to delivering.

The integration is made up of many sub-projects, each with their own objectives, timeframes and project managers. Most of

these projects are delivering beyond expectations. I must say I am extremely proud of the energy in the company and the fantastic work that is being put into creating a strong company for the long term. Naturally, there is still much to do, and during 2014 we will see a continued emphasis on integration, alongside an increased focus on production performance. In 2013 we unfortunately experienced a few too many production-related problems, but we have taken steps to rectify this and these issues will be high on the agenda over the next year.

SUSTAINABLE VALUE CREATION

BillerudKorsnäs is built for sustainable development for the future, to deliver considerable value to customers and shareholders. The acquisition of Korsnäs and UPM's packaging paper business in 2012 doubled sales and the company is now stronger than ever. We have reduced our exposure to the cyclical pulp market, we have cut our relative exposure to foreign currency fluctuations, we have a much

broader product portfolio and we have a significantly higher share of sales in the consumer segment, 75%. All this paves the way for much greater stability and should also be able to ensure strong cash flow over time. Given this, I believe the results for 2013 do not truly reflect what the company is capable of in the future. The operating profit for the year was SEK 1 113 million, based on sales of SEK 19 533 million.

DIFFERING TRENDS FOR THE THREE BUSINESS AREAS

The Consumer Board business area is characterised by long-standing customer relations, high stability and a low dependence on the economic cycle. Despite some production problems, the business area delivered a high and stable margin for 2013 of 8%. I expect this to continue over coming years, having laid the foundations in 2013 by signing long-term agreements with all our major customers in liquid packaging board.

FINANCIAL TARGETS

>10%

Operating margin

Over a business cycle, the operating margin should on average exceed 10%. BillerudKorsnäs operates in an industry that historically has tracked a cyclical pattern, with corresponding variations in earning capacity.

OUTCOME 2013: 6%

>13%

Return on capital employed

Over a business cycle, the return on capital employed should on average exceed 13%. BillerudKorsnäs shall ensure a return corresponding to the shareholders' return expectations while the cost of the company's debt is covered with a margin.

OUTCOME 2013: 6%



2013 IN BRIEF

- **Net sales** amounted to SEK 19 533 million (10 427) • **Operating profit** increased to SEK 1 113 million • **The net debt/equity ratio** was 0.78 (0.86) • **A dividend** of SEK 2.25 per share is the Board's proposal to the Annual General Meeting 2014
- **Paccess** was acquired to 100% during the year • **Integration and synergies** are realised in a rapid pace and the target was increased to SEK 530 million in an annual run-rate reduction • **Expanded resources** in research and development • **New sales offices** in Asia were established and the sales force in USA was strengthened.

< 0.9

Net debt/equity ratio

The net debt/equity ratio should be less than 0.9. BillerudKorsnäs' business is influenced to a large extent by general economic conditions, which means that the operating risk is considerable. Strengthening the financial position in good years is therefore essential in order to sustain the company in bad years.

OUTCOME 2013: 0.78

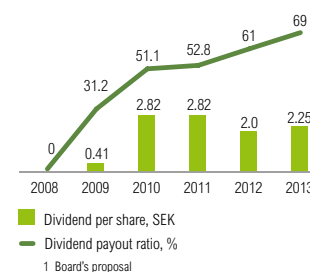
50%

Dividend policy

Over an economic cycle, the dividend should average out at 50% of net profit. The dividend paid to shareholders will depend on, for example, BillerudKorsnäs' level of profits, its financial position and its future development opportunities.

OUTCOME 2013: 69%

DIVIDEND



Our smart primary fibre-based packaging solutions offer customers sustainable alternatives, and the switch away from non-renewable materials such as plastic and metal is only in its infancy.

The Containerboard business area also maintained a positive trend. Focusing on customer value has brought greater stability and margins over time – the margin for 2013 was 10% – and despite increasing competition, I believe we will be able to continue defending our positions in this area.

The Packaging Paper business area has experienced a tough market position, with sizeable capacity being added to an already weak market. A substantial weakening of order books and a poorer product mix resulted in a historically low margin of 4% for 2013. It is highly likely to take a few quarters for conditions to significantly improve for the business area.

STRATEGIC GROWTH WITH PROFITABILITY

BillerudKorsnäs has set its sights on profitable growth. The overall target is to achieve organic sales growth of 15–20% by 2018. The Consumer Board business area is to grow by 4–5% per year, based on our long-term customer relations. This will require investments in both capacity and product development. Within Containerboard, the strategy is to continue developing products and customer value and thus generate growth of 2–4% per year in parallel with strong long-term margins.

In Packaging Paper, we need to be more selective when it comes to markets and investments in quality and product development. The market is growing by 0–4% per year depending on the segment, and our strategy is to focus on and develop profitable growth segments and gradually withdraw

from less attractive areas in order to grow with the market.

When we are able to strengthen the balance sheet as planned, this will bring opportunities for further acquisitions, although that is a matter for the future. In 2014 the focus will be on increased margins and ensuring growth.

TARGETED INVESTMENTS

The ambition is to keep the pace of investment at around the same level as depreciation and amortisation, in order that the balance sheet does not expand. In order to pursue a return on capital employed of 13%, we only implement investments that offer this level of return, and we are also conducting a project to free up working capital. In the long term I believe that, coupled with profitable growth, this will drive the return up to the target level.

SUSTAINABILITY TARGETS

More sustainability targets in
The Sustainability Report
www.billerudkorsnas.com

<30 kg/tonne

Fossil free production

Emissions of fossil CO₂ from the manufacturing process will be a maximum of 30 kg per tonne of product by 2020.

The vision is an entirely fossil free production. 2013 amounted biofuel use to 97%.

OUTCOME 2013:
39 kg of fossil CO₂ per tonne of product

<5,50 MWh/tonne

Energy efficient production

Energy consumption will be a maximum of 5.50 MWh per tonne of product by 2014. In 2013 the energy consumption per tonne of product fell by more than 10% compared to the measuring period previous year.

OUTCOME 2013:
5.60 MWh per tonne of product

WE CHALLENGE CONVENTIONS

Over the year, we expanded our resources in research and development by 60% and launched a whole new innovation organisation in the form of the New Business Lab. Our aim is clear – we will challenge conventional materials, conventional solutions and, not least, plastics. We will drive and lead the trend towards renewable materials and solutions for the smart packaging of the future. By investing in new technology, new materials and continuous environmental improvements, we are able to offer the best value for brand owners and converters, while also future-proofing the company.

STRONGER PRESENCE IN GROWTH MARKETS

Our strategy expresses a need to look beyond our traditional market of Europe. Although there is a certain amount of growth to be found in Europe, we are focusing on markets with higher growth rates. In 2013 we opened new sales offices in Bangkok and Singapore to serve the South-East Asian markets, and we strengthened the sales force in USA to cover the markets of North and South America. We also increased staff numbers in Dubai to provide a better service for our customers in the Middle East.

In August we acquired the remaining 70% of shares in US company Paccs, this in order to strengthen our position in China and our standing with American and European brand owners. We are confident in our ability to continue developing Paccs as a platform initially for Containerboard,



and then also for other business areas. The acquisition of Paccs enables us to offer global brand owners with manufacturing in Asia quality-assured packaging solutions for the whole region.

Our markets are growing by an average of 3–4% per year. This trend is being driven by rapid urbanisation around the world, increasing prosperity, new consumption patterns and greater environmental awareness. All this offers huge opportunities for our own growth. Our smart primary fibre-based packaging solutions offer customers sustainable alternatives, and the switch away from non-renewable materials such as plastic and metal is only in its infancy. We contribute to a sustainable everyday life for our customers and for millions of consumers around the world, day in day out.

INNOVATION IS OUR PASSION

Innovation is and will remain our driving force. Sustainability is our guiding light.

We look forward towards the materials and solutions of tomorrow, we help our customers with smart solutions that work, and we build an open and creative environment, within a large network of customers, machine manufacturers, researchers and specialists of various kinds. This is our way of future-proofing BillerudKorsnäs, attracting the best employees and delivering value for our customers and shareholders.

Solna, March 2014

Per Lindberg
President and CEO

<1/100

<5,5/million

Safe workplaces

Number of occupational accidents resulting in sick leave will be less than 1 per 100 employees and a maximum of 5.5 per million hours worked in 2014 and 2020.

The vision is 0 work-related accidents resulting in sick leave.

OUTCOME 2013:

1.5 accidents per 100 employees

8.2 accidents per million working hours

We contribute to **a sustainable everyday life for our customers and for millions of consumers** around the world, day in day out.

DIRECTORS' REPORT

The Board and CEO of BillerudKorsnäs AB (publ), corporate identity number 556025-5001, herewith submit the annual report and the consolidated annual accounts for the 2013 financial year.

BillerudKorsnäs' operating profit improved in 2013 to SEK 1 113 million. This was SEK 624 million, or 128%, higher than in 2012. The increase was due primarily to the acquisitions of Korsnäs and UPM's packaging business in Pietarsaari and Tervasaari in 2012. BillerudKorsnäs Corporate Governance Report appears on pages 54–63.

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 trend for the packaging market remains positive in the long term, primarily due to increased globalisation, greater prosperity and changes in consumption patterns. In addition to packaging materials, BillerudKorsnäs sells long-fibre pulp, Northern Bleached Softwood Kraft (NBSK), which is not used in its own production. BillerudKorsnäs' customers are primarily in Europe, although more and more deliveries are going to other parts of the world.

During 2013 operations were divided into the three business areas: Packaging Paper, Consumer Board and Containerboard.

Packaging Paper corresponds to the former business area Packaging & Speciality Paper business area. Consumer Board includes the liquid and packaging board business that were part of the Korsnäs acquisition, together with the Cup Stock and liquid board products previously included in Packaging Boards business area. Containerboard corresponds to the previous business area of Packaging Boards excluding Cup Stock and liquid packaging board. Beginning on 29 November in 2012 White Top Liner was added, which was part of the Korsnäs acquisition, to the business area.

Order levels were normal during the year, and relatively stable for the businesses areas of Consumer Board and Containerboard. Prices in local currency were lower than in the preceding year. A less favourable currency situation resulted in further deterioration in prices in SEK. For further market information, see the relevant business area section.

In 2013, BillerudKorsnäs' total sales volume amounted to 2 591 000 tonnes, an increase of 63% from the previous year. The increase was primarily attributable to the two acquisitions made during 2012.

SALES VOLUMES BY BUSINESS AREA

ktonnes	2013	2012
Packaging Paper	1 080	1 011
Consumer Board	959	71
Containerboard	552	510
Total	2 591	1 592

NET SALES BY BUSINESS AREA

SEKm	2013	2012
Packaging Paper	7 279	6 837
Consumer Board	6 964	508
Containerboard	3 073	2 594
Other units	2 141	393
Currency hedging, etc.	76	95
Group staff and eliminations	–	–
Total	19 533	10 427

NET SALES BY REGION

SEKm	2013	2012
Germany	2 685	1 479
Italy	2 052	1 235
Sweden	2 510	905
United Kingdom	1 023	736
Spain	805	712
France	1 221	502
Rest of Europe	4 241	2 087
Rest of the world	4 996	2 771
Total	19 533	10 427

Sales and earnings

Net sales amounted to SEK 19 533 million, an increase of 87%, as a result of higher volumes.

Operating profit rose by SEK 1 113 million, primarily as a result of the two acquisitions that were carried out in 2012. An operating margin of 6% (5) was recorded.

Net financial items totalled SEK –285 million (–87). Profit before tax was SEK 828 million and estimated tax SEK –142 million. The lowering of the tax rate in Sweden from 26.3% to 22% had a positive impact of approximately SEK 17 million in 2013. Net profit totalled SEK 686 million.

SUMMARISED INCOME STATEMENT

	2013	2012
Net sales, SEKm	19 533	10 427
Operating profit/loss, SEKm	1 113	489
Operating margin, %	6	5
Profit/Loss before tax, SEKm	828	402
Net profit/loss, SEKm	686	677
Earnings per share, SEK	3.24	5.14

Return on equity for the period was 7% (13) and return on capital employed was 6% (8). A dividend of SEK 2.25 per share is proposed (2.00).

Figures for the preceding year are in parentheses – 2013 (2012).

OPERATING PROFIT/MARGIN PER BUSINESS AREA

	2013		2012	
	SEKm	%	SEKm	%
Packaging Paper	284	4	352	5
Consumer Board	557	8	35	7
Containerboard	318	10	219	8
Other units	36		48	
Currency hedging, etc.	76		95	
Group staff and eliminations	-158		-260	
Total	1 113	6	489	5

For quarterly data, see page 66.

Earnings per operating segment

BillerudKorsnäs applies IFRS 8 Operating Segments. BillerudKorsnäs' operating segments in accordance with IFRS 8 have been identified and reflect its three business areas: Packaging Paper, Consumer Board and Containerboard. See Accounting policies on page 28.

Packaging Paper

Packaging Paper offers premium-quality kraft and sack paper, as well as functional solutions for many applications, including packaging for foodstuffs, industrial purposes, medical applications and carrier bags, for customers with exacting requirements.

The business area also sells any surplus of pulp that BillerudKorsnäs does not use in its own production. The business area Packaging Paper both purchases and sells pulp at market price. As of 1 August 2013, the business area's net exposure in market pulp is estimated to average approximately 150 ktonnes annually. The business area's largest markets are Europe and Asia.

Packaging Paper SEKm	Quarter			Full year	
	Q4 -13	Q3 -13	Q4 -12	2013	2012
Net sales	1 758	1 820	1 717	7 279	6 837
Operating expenses, net	-1 558	-1 702	-1 563	-6 527	-6 036
Depreciation and impairment losses	-109	-119	-115	-468	-449
Operating profit/loss	91	-1	39	284	352
Operating margin	5%	0%	2%	4%	5%
Sales volumes, ktonnes	263	269	254	1 080	1 011
of which packaging paper	170	182	172	750	670

Operating profit fell by SEK 68 million to SEK 284 million compared with 2012. The decrease was primarily due to the negative impact of the extensive rebuilding in Skärblacka during the third and fourth quarters of 2013. The rebuilding had a negative earnings impact of SEK 219 million in the third and fourth quarters. The negative effect of a poorer foreign exchange situation was offset by higher prices in local currency. Profit for 2013 was positively impacted compared with the previous year because the business in Finland acquired in June 2012 had an impact on the entire year.

Market Development

Orders received for white sack paper were lower than normal for the year. Orders received were normal for other product families. The prices in local currency were higher than the previous year. During the last quarter they fell slightly as a result of new market capacity.

The market for NBSK pulp improved steadily throughout the year. Prices in Europe rose to approximately USD 910 per tonne at year-end, compared with approximately USD 810 per tonne at the beginning of the year.

Consumer Board

The Consumer Board business area develops and markets high-quality cartonboard used in packaging for beverages, yoghurt, refrigerated and frozen food products and other consumer goods. Smart solutions in function, design and material selection add further value for the customer. Europe is the largest market.

Consumer Board SEKm	Quarter			Full year	
	Q4 -13	Q3 -13	Q4 -12	2013	2012
Net sales	1 659	1 716	508	6 964	508
Operating expenses, net	-1 452	-1 296	-414	-5 709	-414
Depreciation and impairment losses	-178	-176	-59	-698	-59
Operating profit/loss	29	244	35	557	35
Operating margin	2%	14%	7%	8%	7%

Sales volumes, ktonnes	231	236	71	959	71
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Consumer Board has been a new business area in the Group since 29 November 2012. The business area includes the liquid and packaging board activities that were part of the Korsnäs acquisition, together with the sales of the Cup Stock and liquid board products that were previously included in the Containerboard business areas (formerly Packaging Boards).

Operating profit was SEK 557 million for full-year 2013. A comparison with 2012 would not be meaningful given that the business area was formed on 29 November 2012.

Market Development

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

Containerboard

The Containerboard business area offers corrugated board raw material that provides light but strong packaging for demanding transportation uses and primary packaging. An important part of the offering is consultation for packaging optimisation and efficient logistical flows. The business area also includes Paccess, which strengthens BillerudKorsnäs' position in offering packaging solutions to brand owners and is the next step in challenging conventional packaging.

At the start of the fourth quarter 2012, the Packaging Boards business area was renamed Containerboard. On 29 November 2012, the business area incorporated the White Top Liner business, part of the Korsnäs acquisition. At the same time, sales of the Cup Stock and liquid board products were transferred to the Consumer Board business area.

Containerboard SEKm	Quarter			Full year	
	Q4 -13	Q3 -13	Q4 -12	2013	2012
Net sales	763	755	623	3 073	2 594
Operating expenses, net	-620	-617	-554	-2 560	-2 200
Depreciation and impairment losses	-45	-49	-46	-195	-175
Operating profit/loss	98	89	23	318	219
Operating margin	13%	12%	4%	10%	8%

Sales volumes, ktonnes	126	134	120	552	510
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Operating profit increased by SEK 99 million from the previous year due to more favourable price trends in local currency and the contribution by White Top Liner. Paccess reported strong sales growth and improved gross margin.



Market Development

The order situation was stable during most of the year. Sales prices in local currency was also stable during the year.

Investments and capital employed

Gross investments including company acquisitions amounted to SEK 1 268 million (9 913) in 2013. The reduction from the previous year was due to the acquisition of the two paper machines in Finland in June 2012 and the merger with Korsnäs in November 2012.

In late 2013, the board approved the initial investments in greater capacity in Frövi and Gävle in line with the company's growth plans in the attractive liquid packaging board market.

BillerudKorsnäs' capital employed at 31 December 2013 totalled SEK 17 607 million (17 530). Return on capital employed, calculated over the past 12-month period, amounted to 6% (8). If the effects of currency hedging are excluded, return on capital employed was 6% (5). Return on equity after tax was 7% (13).

Cash Flow and Financial Position

STATEMENT OF CASH FLOWS, SUMMARY

SEKm (positive figure indicates reduction in debt)	2013	2012
Operating surplus, etc.	2 582	1 282
Change in working capital, etc.	-336	132
Net financial items, taxes, etc.	-401	-412
Cash flow from operating activities	1 845	1 002
Current net investments	-1 190	-952
Operating cash flow	655	50

Cash flow from operating activities in 2013 amounted to SEK 1 845 million (1 002) and the operating cash flow was SEK 655 million (50). The reason was a higher operating surplus due to the total business having growth through acquisitions.

Net interest-bearing debt on 31 December 2013 was SEK 7 691 million (8 096). The Group's net debt/equity ratio at the end of the period was 0.78 (0.86). BillerudKorsnäs' financial target for its net debt/equity ratio is that it shall be less than 0.90.

Note 14 presents the effect of reporting BillerudKorsnäs' share of Bomhus Energi AB's income, expenses, assets and liabilities according to IFRS 11, which will take place from January 1, 2014. If the new policy had been applied in 2013, the net debt/equity ratio would have increased to a multiple of 0.85.

Significant risks and uncertainties

BillerudKorsnäs' products are generally dependent on the business cycle, in terms of both price development and potential sales volumes. The Group is exposed to currency fluctuations, since most revenues are invoiced in foreign currency, while a large part of operating expenses are in SEK.

For a more detailed description of risks and a sensitivity analysis, see pages 21–26.

Taxes

The Group's effective tax rate is estimated at about 22–23% normally. Effective 1 January 2013, Sweden's statutory tax rate was reduced from 26.3% to 22.0%. The tax rate in Finland was lowered from 24.5% to 20% as of 1 January 2014. The tax rate in the foreign subsidiaries is on average somewhat higher than the Swedish tax rate. The tax expense for 2013 is estimated at SEK 142 million, equivalent to a tax rate of 17.2%. The low tax rate is due primarily to the

additional impact of the tax reduction in Sweden as of 1 January 2013 (SEK -17 million), and reversal of a previous tax provision that had not been realized (SEK -13 million).

Parent company

The parent company BillerudKorsnäs AB includes the Gruvön production unit, the sales organisation for the Nordic market and markets outside Europe, and the head office functions.

Net sales for 2013 amounted to SEK 3 816 million (4 160). Operating profit totalled SEK 205 million (203).

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. This result amounted to SEK 12 million (142) in 2013.

In 2013, investments in property, plant and equipment and intangible assets excluding shares totalled SEK 136 million (160). The average number of employees was 948 (941). Cash and bank balances and short-term investments amounted to SEK 292 million (556).

Environment and permit issues

BillerudKorsnäs has six operations in Sweden, two in Finland and one in the UK that require permits under environmental legislation. These permits apply to the production of pulp and paper. BillerudKorsnäs has all official permits necessary to conduct operations at the volumes produced in 2013. 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 both the five-year period that began in 2008 and the eight-year period that began in 2013 exceeds total projected emissions.

Completed long-term incentive programme (LTIP 2010)

The AGM 2010 resolved to introduce a long-term incentive programme (LTIP 2010) for BillerudKorsnäs for 2010–2012. In accordance with the programme, 218 202 rights fell due, including the effect of the completed preferential rights issue. 75% of the performance targets for the programme were met. Dilution of outstanding shares was less than 0.1%. The total cost of the programme was expensed on an ongoing basis in 2010–2013.

Long-term incentive programme (LTIP 2011)

The 2011 AGM approved the introduction of a long-term incentive programme (LTIP 2011) for BillerudKorsnäs and in that connection a transfer of its own holding of its own shares. The purpose of LTIP 2011 is partly to increase BillerudKorsnäs' ability to retain its best talents for critical leadership positions, and partly to encourage those participating into greater efforts, by linking their interests and viewpoints with those of the shareholders. The programme extends to no more than 20 senior executives and other key people in the BillerudKorsnäs Group. LTIP 2011 has a term of three years starting in 2011 and the outcome depends on meeting different financial and share price performance requirements that are deemed to be of great significance in terms of the future development of the Group. To participate in LTIP 2011, a person must own BillerudKorsnäs shares referred to as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2011 is entered into and ends when BillerudKorsnäs releases its interim report for the first quarter of 2014, those participating will be allocated at no charge one right to matching shares and three rights to performance shares for each saving share. These rights entitle holders to Billerud-

Korsnäs shares provided that certain criteria are met. For both rights, the participant must remain throughout the vesting period an employee of the BillerudKorsnäs Group and must not sell his/her saving shares. The rights are personal and cannot be transferred or pledged. They do not entitle shareholder rights and no adjustment for dividend is made. For the rights to performance shares, additional financial performance targets must be met. The requirements are based on: (a) BillerudKorsnäs' average operating margin for the period 2011–2013 in absolute terms; (b) BillerudKorsnäs' operating margin in relation to that of a benchmark group consisting of specially selected listed Nordic companies for the same period; (c) BillerudKorsnäs' total return for the period 2011–2013 in comparison with that of a benchmark group consisting of listed Nordic companies. The performance requirements (a) and (c) give shares on a straight-line basis between minimum and maximum levels, while performance requirement (b) involves a digital procedure.

On 31 December 2013 LTIP 2011 comprised 18 259 saving shares in total, which entails the allocation of in total no more than 91 295 BillerudKorsnäs shares. Moreover LTIP 2011 consists of an additional 64 000 BillerudKorsnäs shares that are related to shares that can be transferred by BillerudKorsnäs for the purpose of covering certain payments, chiefly social fees. Thus the maximum number of BillerudKorsnäs shares included in LTIP 2011 is 155 295, representing about 0.1% of the total number of BillerudKorsnäs shares outstanding and number of votes outstanding.

The cost of LTIP 2011 is estimated at about SEK 5 million, including SEK 2 million in social fees. The maximum cost of LTIP 2011 based on the above assumptions is estimated at about SEK 11 million, including SEK 7 million in social fees. In 2013, SEK 2 million was charged to operating profit.

For further details of LTIP 2011, see the press release dated 30 March 2011 and the documents for the 2011 AGM, which are available on the BillerudKorsnäs website.

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BillerudKorsnäs' average operating margin for the period 2012–2014 in absolute terms; (b) BillerudKorsnäs' operating margin in relation to that of a benchmark group consisting of specially selected listed Nordic companies for the same period; (c) BillerudKorsnäs' total return for the period 2012–2014 in comparison with that of a benchmark group consisting of listed Nordic companies. The performance requirements (a) and (c) give shares on a straight-line basis between minimum and maximum levels, while performance requirement (b) involves a digital procedure.

On 31 December 2013, LTIP 2012 comprised 44 214 saving shares in total, which entails the allocation of in total no more than 221 070 BillerudKorsnäs shares. Moreover LTIP 2012 consists of an additional 57 000 BillerudKorsnäs shares that are related to shares that can be transferred by BillerudKorsnäs for the purpose of covering certain payments, chiefly social fees. Thus the maximum number of BillerudKorsnäs shares included in LTIP 2012 is 278 070, representing about 0.1% of the total number of BillerudKorsnäs shares outstanding and number of votes outstanding.

Based on a theoretical assumption of an annual 20% increase in share price, from SEK 46.8 when the programme started, and a vesting period of three years, the cost of LTIP 2012 is estimated at about SEK 8 million, including social fees of SEK 4 million. The maximum cost of LTIP 2012 based on the above assumptions is estimated at about SEK 22 million, including SEK 15 million in social fees. In 2013, SEK 4 million was charged to operating profit.

For further details of LTIP 2012, see the press release dated 2 April 2012, as well as the documents for the 2012 AGM, which are available on the BillerudKorsnäs website.

Long-term incentive programme (LTIP 2013)

The 2013 AGM approved the introduction of a long-term incentive programme (LTIP 2011) for BillerudKorsnäs and in that connection a transfer of its own holding of its own shares. The purpose of LTIP 2013 is partly to increase BillerudKorsnäs' ability to retain its best talents for critical leadership positions, and partly to encourage those participating into greater efforts, by linking their interests and viewpoints with those of the shareholders. The programme extends to no more than 25 senior executives and other key people in the BillerudKorsnäs Group. LTIP 2013 has a term of three years starting in 2013 and the outcome depends on meeting different financial and share price performance requirements that are deemed to be of great significance in terms of the future development of the Group. To participate in LTIP 2013, a person must own BillerudKorsnäs shares referred to as "saving shares". Following a three-year vesting period that begins on the date the agreement for LTIP 2013 is entered into and ends when BillerudKorsnäs releases its interim report for the first quarter of 2016, those participating will be allocated at no charge one right to matching shares and three rights to performance shares for each saving share. These rights entitle holders to BillerudKorsnäs shares provided that certain criteria are met. For both rights, the participant must remain throughout the vesting period an employee of the BillerudKorsnäs Group and must not sell his/her saving shares. The rights are personal and cannot be transferred or pledged. They do not entitle shareholder rights and no adjustment for dividend is made. For the rights to performance shares, additional financial performance targets must be met. The requirements are based on: (a) BillerudKorsnäs' average operating margin for the period 2013–2015 in absolute terms; (b) BillerudKorsnäs' operating margin in relation to that of a benchmark group consisting of specially selected listed Nordic companies for the same period; (c) BillerudKorsnäs' total return for the period 2013–2015 in comparison with that of a bench-



mark group consisting of listed Nordic companies. The performance requirements (a) and (c) give shares on a straight-line basis between minimum and maximum levels, while performance requirement (b) involves a digital procedure.

On 31 December 2013, LTIP 2013 comprised 63 959 saving shares in total, which entails the allocation of in total no more than 289 304 BillerudKorsnäs shares. Moreover LTIP 2013 consists of an additional 76 000 BillerudKorsnäs shares that are related to shares that can be transferred by BillerudKorsnäs for the purpose of covering certain payments, chiefly social fees. Thus the maximum number of BillerudKorsnäs shares included in LTIP 2013 is 331 836, representing about 0.2% of the total number of BillerudKorsnäs shares outstanding and number of votes outstanding.

Based on a theoretical assumption of an annual 12% increase in share price, from SEK 60.50 when the programme started, and a vesting period of three years, the cost of LTIP 2013 is estimated at about SEK 10 million, including social fees of SEK 4 million. The maximum cost of LTIP 2013 based on the above assumptions is estimated at about SEK 33 million, including SEK 21 million in social fees. In 2013, SEK 2 million was charged to operating profit.

For further details of LTIP 2013, see the press release dated 30 March 2013 and the documents for the 2013 AGM, which are available on the BillerudKorsnäs website.

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 0.3% of BillerudKorsnäs' operating costs.

Seasonal factors

BillerudKorsnäs' business is to a relatively limited extent subject to seasonal fluctuations. Periodical maintenance shutdowns have the largest impact, as each production unit halts 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. 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 in what are known as maintenance shutdowns. The principal items of cost in a maintenance shutdown are loss of volume arising from the shutdown and fixed costs, mainly costs of maintenance and overtime work, as well as a certain portion of variable costs including higher consumption of electricity and wood when production is restarted. The effects of shutdowns on earnings vary depending on the extent of measures carried out, their nature and the actual length of the shutdown. The estimated cost of shutdown is an assessment of the impact on earnings of a normal shutdown, compared to a quarter during which no periodic maintenance shutdown takes place.

Production unit	Estimated shutdown cost SEKm	Estimated distribution of shutdown cost by business area			Planned times for maintenance shutdowns		
		Packaging Paper	Consumer Board	Container-board	2015	2014	2013
Gävle	~ 120	~ 5%	~ 80%	~ 15%	Q3	Q4	Q4
Gruvön	~ 120	~ 40%	~ 5%	~ 55%	Q2	Q2	Q4
Frövi	~ 65	0%	100%	0%	Q3	Q3	Q2
Skärblacka	~ 75	~ 85%	0%	~ 15%	Q2	Q3	Q3
Karlsborg	~ 55	100%	0%	0%	Q3	Q3	Q3
Jakobstad	~ 15	100%	0%	0%	Q3	Q2	Q4

Maintenance shutdowns at Beetham, Rockhammar and Tervasaari do not have a significant effect on BillerudKorsnäs' total earnings.

Previously some of the costs were capitalized and written off until the next maintenance shutdown. As of 1 January 2013 all costs associated with maintenance stops will be expensed.

Early in the fourth quarter, production resumed in Skärblacka after an environmental and energy investment had been completed in connection with the annual maintenance shutdown.

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 ordinarily highest in September–March. A considerable share of BillerudKorsnäs' sack paper and QuickFill® sack paper goes to packaging for cement and building materials. The demand for building materials in Europe is generally higher in May–October.

Financing

On 31 December 2013 interest-bearing loans amounted to SEK 7 532 million (8 105). Of this amount, utilisation of the syndicated credit facility (maximum: SEK 5 500 million) accounted for SEK 813 million (3 110), bond loans for SEK 1 644 million (675), utilisation of BillerudKorsnäs' commercial paper programme (maximum: SEK 3 000 million) for SEK 2 457 million (671) and other interest-bearing liabilities for SEK 2 618 million (3 649).

In 2013 the Group established a bond programme for Medium Term Notes (MTN) with a facility of SEK 5 000 million – two five-year bonds totalling SEK 1 500 million were issued in March. The commercial paper programme facility increased from SEK 1 500 million to SEK 3 000 million. The syndicated credit facility runs until November 2015.

CAPITAL STRUCTURE, SUMMARY

	31 Dec 2013	31 Dec 2012
Capital employed, SEKm	17 607	17 530
Financing:		
Interest-bearing net debt, SEKm	7 691	8 096
Shareholders' equity, SEKm	9 917	9 435
Net debt/equity ratio, multiple	0.78	0.86

Currency hedging

During 2013, net flows were hedged at EUR/SEK 8.68 (9.14), USD/SEK 6.65 (6.78) and GBP/SEK 10.32 (10.72). Currency hedging had an overall earnings impact of SEK 12 million (142) for 2013 (compared with if no hedging had taken place).

BillerudKorsnäs' outstanding forward exchange contracts on 31 December 2013 had a market value of SEK –16 million. Of this amount, SEK –14 million had an impact on valuation of accounts receivable. Other contracts had a market value of SEK –2 million.

For its Swedish operations, BillerudKorsnäs hedges around 50% of forecast net flows over the next 12-month period, but in line with its financial policy the Company also has the possibility to increase currency hedging to 100% of net flows over the next 15 months.

The hedged amount of currency flows and the SEK exchange rates for EUR, USD and GBP at 31 December 2013 are shown in the table below.

BillerudKorsnäs Beetham Ltd hedges a certain amount of its net inflow of USD and EUR against GBP. For 2014, the company has increased its currency hedging for EUR to 100% of the forecast net flow at an exchange rate of SEK 8.94.

HEDGED PROPORTIONS OF CURRENCY FLOWS FOR EUR, USD AND GBP AND EXCHANGE RATES AGAINST SEK

						Total
Currency		Q1 -14	Q2 -14	Q3 -14	Q4 -14	12 months
EUR	Proportion of net flow	100%	100%	100%	100%	100%
	Exchange rate	8.79	8.91	8.99	9.05	8.94
USD	Proportion of net flow	90%	60%	33%	17%	50%
	Exchange rate	6.58	6.63	6.62	6.59	6.60
GBP	Proportion of net flow	90%	60%	35%	15%	50%
	Exchange rate	10.26	10.40	10.44	10.64	10.36
Market value of currency contracts ¹		–19	–4	1	6	–16

¹ The table shows the situation on 31 December 2013.

Share structure

On 31 December 2013, the share capital totalled SEK 1 537 642 793, represented by 208 219 834 shares. The number of shares on the market totalled 206 719 689.

No shares have been bought back since year-end 2004.

ALLOCATION OF SHARES

	31 Dec 2013
Registered number of shares at beginning of the year	208 219 834
Bought-back shares in Company ownership	–1 500 145
Shares on the market	206 719 689

Financial targets

In November 2012 BillerudKorsnäs' Board of Directors established the following long-term financial targets:

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

The targets focus on long-term growth. The operating margin target creates greater transparency in governance and a better link between internal operational financial targets and those communicated externally.

The BillerudKorsnäs share

The share capital of BillerudKorsnäs AB is represented by 208 219 834 ordinary shares, of which 1 500 145 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 2013 Annual General Meeting (AGM) authorised the Board of Directors to decide as to any transfer of shares held by the Company, hold in order to cover the allocation during the approved long-term incentive programs.

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 on 31 December 2013. The Company knows of no agreements between shareholders that may restrict the right to transfer shares. Appointment and dismissal of Board members, and changes to the articles of association, are subject to approval by the AGM. Agreements exist between the Company, other Group companies and senior executives that entail compensation if they were to resign, be dismissed without reasonable grounds or if their employment were to end due to a public bid to acquire shares in the Company. These agreements are described in note 24. Agreements between the Company and other employees that regulate their own resignation or dismissal by the Company accord with normal labour market practice.

Guidelines for remuneration to senior executives

The Board proposes that the 2014 AGM approve the following guidelines for remuneration to senior executives. Senior management includes the CEO and other members of the Senior Management Team.

BillerudKorsnäs shall apply market-related remuneration levels and employment terms that are appropriate in order to recruit and retain a management team that has the high level of competence and capacity to achieve set goals. Remuneration forms shall motivate Group management to do its utmost in the best interests of the Company's shareholders. Remuneration may be in the form of fixed or variable salary, long-term incentive programmes and other benefits such as company car and pension. Fixed and variable salary shall be determined in relation to expertise, area of responsibility and performance. Variable remuneration is paid depending on actual results compared to explicit targets, up to a maximum percentage of a fixed annual salary that may vary between 30% and 70%. However, variable salary shall be paid only if the Company makes an operating profit. Long-term incentive programmes at the Company shall primarily be linked to certain predetermined financial and share price performance requirements. The programmes shall ensure long-term commitment to the development of the Company and shall be implemented on commercial terms. Long-term incentive programmes shall have a term of at least three years. For further details of the existing long-term incentive programmes adopted by the 2011, 2012 and 2013 AGMs, see the Company's website and the sections "Long-term incentive programme (LTIP 2011)", "Long-term incentive programme (LTIP 2012)" and "Long-term incentive programme (LTIP 2013)".

Pension benefits shall either be defined-benefit or defined-contribution plans and will normally give a pension entitlement after age 65. In certain cases, the age may be reduced but never lower than 62. Notice of termination is normally 6–12 months, and if the Company gives notice, severance pay shall be a maximum of 12 months' salary.



Remuneration and other employment terms for the CEO are prepared by the remuneration committee and ruled on by the Board. Remuneration and other employment terms for members of the Senior Management Team are determined by the CEO following approval by the remuneration committee.

The Board of Directors of BillerudKorsnäs is entitled to deviate from these guidelines if there is good reason in individual cases. See note 24 for 2013 guidelines.

Risk management in parent company

For a description of the Group's risk management, see the section titled "Risk management and sensitivity analysis". The description applies, where appropriate, to both the Group and parent company. Specific differences concerning the parent company receive comment 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 90% of the Group's accounts receivable, because a large share of the production units accounts receivable are taken over by the parent company after invoicing and the monies collected by the parent company. However, the risk of any bad debts remains with the invoicing company. Of total provision within the Group for doubtful accounts receivable in 2013, SEK 3 million (6) 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 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 production units. At year-end 2013, foreign exchange contracts not yet recognised in profit/loss totalled a nominal SEK 3 721 million (2 679) and all foreign exchange contracts will be recognised in profit/loss in 2014.

Interest rate risk

The Group's borrowing is conducted primarily via the parent company and accounted for 82% of the Group's total borrowing on 31 December 2013. As a result, the parent company has largely the same exposure to changes in interest rates as the Group. All interest derivatives are attributable to the parent company.

Costs

Energy

The parent company is the contracted party in all electricity hedging contracts, which are based on electricity consumption at the six Swedish production facilities. The parent company's exposure is therefore less than the total hedged amounts. However, when the contract is settled, any profit or loss on the contract is distributed in proportion to the forecast consumption of each production unit. Consequently the parent company's earnings are only affected by the amount corresponding to the parent company's (Gruvön production unit) electricity consumption. During 2013, the Company had no electricity hedging contracts.

Proposed allocation of profit

As shown on page 52 of this annual report, non-restricted equity in the parent company, BillerudKorsnäs AB, amounted to SEK 5 334 million on 31 December 2013.

According to BillerudKorsnäs' financial targets, the dividend shall equal 50% of the net earnings per share over a business cycle and the net debt/equity ratio shall be less than 0.90 over a business cycle. At the end of 2013, the Company's net debt/equity ratio was 0.78, 0.08 lower than at the end of 2012. BillerudKorsnäs' Board of Directors proposes that, of the earnings per share of SEK 3.24, SEK 2.25 per share be paid to shareholders and that the remaining amount be carried forward.

Events after the close of the financial year

No events that materially affect the company's financial position have occurred after the the close of the financial year.

Outlook

- The outlook for all business areas appears to be stable for the first quarter of 2014. For the remainder of 2014, the market outlook for the business areas of Packaging Paper and Containerboard is more uncertain.
- Prices in local currency are anticipated to stay on current level for the next quarter for all business areas. Business areas Containerboard and Packaging Paper are anticipating some pressure on prices in local currency beyond the first quarter.
- Wood prices during the first half of 2014 are expected to remain at the same level as at the end of 2013.
- The target of approximately SEK 530 million in annual synergies and savings is unchanged and is expected to be reached by the end of 2014.