Interim report January–June 2020

Resilient performance in uncertain times

17th of July 2020 | Lennart Holm, CEO, Ivar Vatne, CFO

WHAT IF paper packaging is the solution?
Key highlights Q2 2020

- Continued sales volume increase
- Relatively limited impact from Covid-19
- KM7 ramp-up progress continues as planned
- Earnings continued to be affected by lower market prices
- On track to deliver our cost- and efficiency program
Q2 2020

- **NET SALES**
  - SEK 6 156 m (6 293)
  - NET SALES GROWTH Y/Y: -2%

- **ADJUSTED EBITDA***
  - SEK 774 m (539)
  - Adj EBITDA MARGIN: 13%

- **ROCE**
  - **4%**

- **NET DEBT/EBITDA***
  - 2.4x

* Adjusted for items impacting comparability
**Adjusted, Rolling 12 months
Covid-19 during Q2 2020

- Relatively limited impact so far
- Covid-19 impact mostly notable within Division Paper & Division Solutions
- Mainly volume (demand) decline in certain channels (industry, food service)
- All H1 maintenance re-scheduled to H2
- Slow-steam production in two production sites
- Crisis management through six work streams continues
- Receivables balance & overdue in good shape
## Business status and outlook

<table>
<thead>
<tr>
<th>Sales split, %</th>
<th>Food &amp; Drink</th>
<th>Medical &amp; Hygiene</th>
<th>Consumer &amp; Luxury</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPB (7.6bn*)</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cartonboard (1.5bn)</td>
<td>15%</td>
<td></td>
<td></td>
<td>85%</td>
</tr>
<tr>
<td>Containerboard (3.6bn)</td>
<td>80%</td>
<td>10%</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Kraft Paper (3.5bn)</td>
<td>35%</td>
<td>10%</td>
<td>15%</td>
<td>40%</td>
</tr>
<tr>
<td>Sack Paper (2.9bn)</td>
<td>20%</td>
<td>15%</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>Managed Packaging (0.8bn)</td>
<td>100%</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status Q2</th>
<th>Stable ●</th>
<th>Stable ●</th>
<th>More challenging ●</th>
<th>Weak ●</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlook Q3</td>
<td>Stable ●</td>
<td>Stable ●</td>
<td>More challenging ●</td>
<td>More challenging ●</td>
</tr>
</tbody>
</table>

* 2019 Net Sales in bn SEK
KM7 – 1 year anniversary

- 1 year since the start-up of KM7
- Accelerated ramp-up progress with significant steps forward each quarter
- A number of “teething problems” to be fixed at maintenance shutdown (delayed until September)
- Original investment case assumptions revisited and updated; reaffirms potential of KM7 when fully ramped up
KM7 Q2 and 2020

- Annualized production rate at 300 – 350K tons
- Successful first production of Crownboard Prestige (sophisticated Cartonboard grade) during Q2 - ahead of plan
- Increasing focus on improved product mix in order to minimize low margin and downgraded products to improve contribution per ton
- Maintenance shutdown planned for Q3 vital for machine upgrades. Uncertainty of feasibility due to Covid-19
- Negative EBITDA impact decreasing vs Q1’20
  - Q2 SEK 120 m
  - 2020 SEK 350-450 m → expect to land high in the interval
- Expectation to become EBITDA neutral during 2021 remains
Cost and efficiency program on track

- On track to deliver SEK 250 m of cost savings and efficiencies in 2020
- Another sizable contribution in Q2’20 – 90 m SEK
- Work in progress to identify and initiate additional building-blocks to deliver SEK 600 m run-rate by Q4’21
Raw material costs in Q2

- **Cost of pulpwood decreased**
  Expected to decrease further, but marginally in Q3

- **Caustic soda price decreased**
  Forward looking trend for chemicals look to increase

- **Purchased pulp pricing impact decreased**
  New supply agreement in Pietarsaari

- **Limited energy cost savings in Q2 due to hedging**
## Key financial figures

<table>
<thead>
<tr>
<th>Key financial figures</th>
<th>Q2 2020</th>
<th>Q2 2019</th>
<th>Change vs Q2-19</th>
<th>Q1 2020</th>
<th>Change vs Q1-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>6 156</td>
<td>6 293</td>
<td>-2%</td>
<td>6 364</td>
<td>-3%</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>774</td>
<td>539</td>
<td>+44%</td>
<td>791</td>
<td>-2%</td>
</tr>
<tr>
<td>Adjusted EBITDA margin</td>
<td>13%</td>
<td>9%</td>
<td></td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Adjusted operating profit</td>
<td>284</td>
<td>154</td>
<td>+84%</td>
<td>305</td>
<td>-7%</td>
</tr>
<tr>
<td>Adjusted operating profit margin</td>
<td>5%</td>
<td>2%</td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>202</td>
<td>154</td>
<td>+31%</td>
<td>164</td>
<td>+23%</td>
</tr>
<tr>
<td>Adjusted ROCE</td>
<td>4%</td>
<td>8%</td>
<td></td>
<td>3%</td>
<td></td>
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</tbody>
</table>

Adjusted for items affecting comparability
Volume/mix growth and benefit from currency rates offset by lower paper market prices

Net sales, SEKm

Q2 2019 | Pricing | Currency | Volume/Mix | Q2 2020
---|---|---|---|---
6 293 | -5% | +1% | +2% | 6 156
Strong adjusted EBITDA, supported by improving cost structure and timing of maintenance stops

Adj EBITDA, SEKm

Adj EBITDA margin

9%

13%
<table>
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<tr>
<th>Key Figures</th>
<th>Q2-20</th>
<th>Change vs Q2-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>3,656</td>
<td>+6%</td>
</tr>
<tr>
<td>of which liquid packaging board</td>
<td>2,077</td>
<td>+12%</td>
</tr>
<tr>
<td>of which cartonboard</td>
<td>431</td>
<td>+16%</td>
</tr>
<tr>
<td>of which fluting &amp; liner</td>
<td>1,009</td>
<td>+5%</td>
</tr>
<tr>
<td>Net operating expenses, other</td>
<td>-3,054</td>
<td>–</td>
</tr>
<tr>
<td>EBITDA</td>
<td>602</td>
<td>+51%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>16%</td>
<td>+4% pts</td>
</tr>
</tbody>
</table>

- **Net sales growth across all segments**
  - Stable production and KM7 ramp-up
  - 1H customer inventory build-in in LPB

- **Positive EBITDA contribution driven by maintenance schedule, raw material costs decrease and KM7 Start-up**
  - EBITDA margin excl. KM7 21%
Division Paper

KEY FIGURES

<table>
<thead>
<tr>
<th></th>
<th>SEKm</th>
<th>Q2-20</th>
<th>Change vs Q2-19</th>
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</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1 825</td>
<td></td>
<td>-14%</td>
</tr>
<tr>
<td>of which sack paper</td>
<td>633</td>
<td></td>
<td>-20%</td>
</tr>
<tr>
<td>of which kraft paper</td>
<td>861</td>
<td></td>
<td>-4%</td>
</tr>
<tr>
<td>Net operating expenses, other</td>
<td>-1 522</td>
<td></td>
<td>-19%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>303</td>
<td></td>
<td>+25%</td>
</tr>
<tr>
<td>EBITDA, %</td>
<td>17%</td>
<td></td>
<td>+6% pts</td>
</tr>
</tbody>
</table>

- Changed market conditions continue to impact Div Paper
  - Negative pricing impact over the past four quarters
  - Slower demand in certain segments due to Covid-19
- Positive EBITDA contribution driven by maintenance timing
Division Solutions

Share of net sales
Q2 2020
3%

KEY FIGURES

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<th>Q2-20</th>
<th>Change vs Q2-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>190</td>
<td>-29%</td>
<td></td>
</tr>
<tr>
<td>of which Managed Packaging</td>
<td>151</td>
<td>-34%</td>
<td></td>
</tr>
<tr>
<td>of which other solutions</td>
<td>39</td>
<td>+3%</td>
<td></td>
</tr>
<tr>
<td>Net operating expenses, other</td>
<td>-187</td>
<td>-26%</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>3</td>
<td>-70%</td>
<td></td>
</tr>
<tr>
<td>EBITDA, %</td>
<td>2%</td>
<td>-4% pts</td>
<td></td>
</tr>
</tbody>
</table>

- Net sales declined due to North American based brand owners impacted by Covid-19
  - FibreForm sales flattening out after a strong Q1
- EBITDA impacted by sales reduction, partly off-set by reduced costs
Strong balance sheet, below leverage target

- Net debt SEK 6.71bn at 30 June
- Net debt / Adj EBITDA ratio 2.4x – below target
- Limited debt maturity over the coming 2 years
- CAPEX for 2020 estimated to SEK 1.3 bn
- Forest revaluation completed during Q2
Q2 Summary

• Continued sales volume increase

• Relatively limited impact from Covid-19

• KM7 ramp-up progress continues and potential when fully ramped-up reaffirmed

• Earnings continued to be affected by lower market prices

• On track to deliver our cost- and efficiency program
Q3 Outlook

- Uncertainty related to Covid-19 remains

- Somewhat more challenging market conditions for most segments. Exceptions being products designated to Food & Beverages and Medical & Hygiene, where we expect a more stable situation

- Several planned maintenance stops

- Raw material costs expected to decline marginally