

HOLMEN

Annual Report

Forest
Paperboard
Paper
Wood products
Renewable energy

2017

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The Board of Directors and the CEO of Holmen Aktiebolag (publ.), corporate identity number 556001-3301, submit their annual report for the parent company and the Group for the 2017 financial year. The annual report comprises the administration report (pages 2–3, 8–9, 22, 25–26, 28–37, 66, 70–71) and the financial statements, together with the notes and supplementary information (pages 38–65). The statutory sustainability report in accordance with the Annual Accounts Act is included in the annual report (pages 8–9, 22, 25–26 and 33). The Group's income statement and balance sheet and the parent company's income statement and balance sheet will be adopted at the Annual General Meeting.

The basis for the sustainability information presented is the sustainability issues identified as key in view of the business that Holmen conducts. The sustainability work is reported in accordance with the Global Reporting Initiative's GRI G4 guidelines at Core level. The Sustainability Report comprises pages 8–9, 20–27, 33, 76–77 and the GRI index on the website holmen.com. The information is audited by a third party, see separate assurance report at holmen.com.

This is a translation of the Swedish annual report of Holmen Aktiebolag (publ.). In the event of inconsistency between the English and the Swedish versions, the Swedish version shall prevail.

Holmen in brief

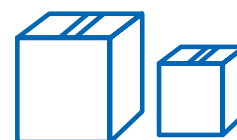
Forest

Active and sustainable forestry is conducted on over a million hectares of productive forest land owned by Holmen. The annual harvest amounts to 3 million cubic metres.



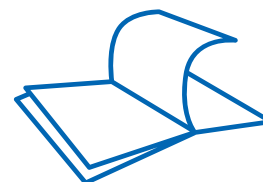
Paperboard

Paperboard in the premium consumer packaging segment. Production, which takes place at one Swedish and one UK mill, amounts to just over 500 000 tonnes a year.



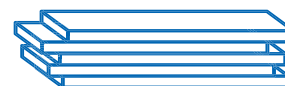
Paper

Paper for magazines, books and advertising. The two Swedish mills produce a combined total of 1.1 million tonnes per year.



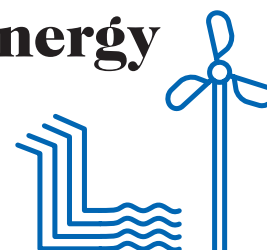
Wood products

Wood products for the joinery and construction industries. The annual production at three sawmills, whose by-products are used in the Group's paperboard and paper mills, amounts to just over 800 000 cubic metres.



Renewable energy

In a normal year, the renewable energy production from hydro and wind power amounts to over 1.2 TWh.



Strong cash flow

Operating profit for 2017 amounted to SEK 2 166 million and the return on capital employed was 8.7 per cent, which is largely unchanged compared with 2016 but significantly above the Group's target level. Deliveries increased and the sales mix improved, but this was offset by somewhat higher costs and major maintenance shutdowns in paperboard. Cash flow was strong and covered the dividend of SEK 1 008 million, while net debt was reduced by SEK 889 million.

Sales of paperboard increased by 6 per cent through higher deliveries to customers in the premium segment, both in and outside Europe. A rise in sales of book and magazine paper, which now account for over 85 per cent of the paper business, meant that deliveries of paper were also up 6 per cent, adjusted for the fire at Hallsta Paper Mill at the end of 2015 and the divestment of the newsprint mill in Madrid in 2016. The market for wood products was strong with rising prices, and Holmen's deliveries climbed by 10 per cent, driven by productivity increases in the sawmills and the acquisition of a small sawmill, Lingham. The harvesting of forest stood at a normal level and the volume of standing timber grew by 1 per cent, as planned. Production of hydro and wind power was 5 per cent lower than in a normal year, due to reduced levels of rainfall and wind.

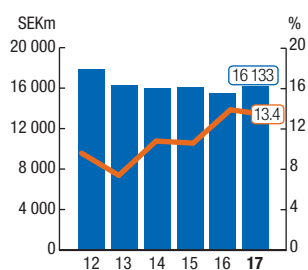
Outlook. The market situation for paperboard is good, but additional production capacity is expected to increase competition. Holmen's ambition is to continue to increase paperboard production on the back of implemented investments and grow globally in the premium segment. Despite the falling demand for paper, the market balance is good as a consequence of capacity closures. Holmen's aim is to continue to capture market share by offering a cost-effective alternative to established products for books, magazines and advertising. Demand for wood products is strong. Holmen is focusing on increasing production, while at the same time raising the value added through its wood treatment plant at Braviken Sawmill, which is due to come on stream in 2018. The harvesting of company-owned forest and the production of hydro and wind power are expected to be at normal levels in 2018.

Key figures

	2017	2016
Net sales, SEKm	16 133	15 513
Operating profit/loss, SEKm	2 166	1 930
Operating profit/loss, SEKm**	2 166	2 162
Profit for the year, SEKm	1 668	1 424
Profit for the year**, SEKm	1 668	1 652
Diluted earnings per share, SEK	19.9	16.9
Dividend per share, SEK	13*	12
Return on capital employed, %**	8.7	8.6
Cash flow before investments, SEKm	2 509	1 961
Cash flow from investments, SEKm	644	123
Net financial debt, SEKm	2 936	3 945
Debt/equity ratio, times	0.13	0.19
Average number of employees	2 976	2 989

*Board proposal **Excl. items affecting comparability

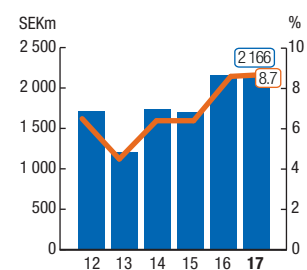
Net sales and operating margin



- Net sales
- Operating margin*

*Excl. items affecting comparability

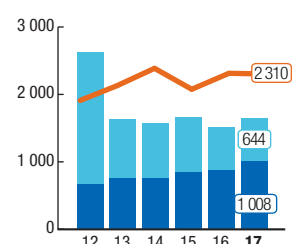
Operating profit/loss and return



- Operating profit/loss*
- Return on capital employed*

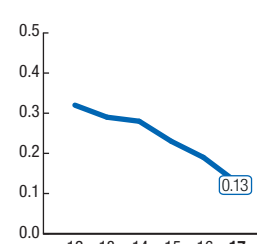
*Excl. items affecting comparability

Cash flow, SEKm

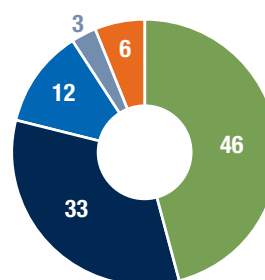


- Investments
- Dividend
- Cash flow before investments and change in working capital

Debt/equity ratio, times



Operating profit/loss* Business area, %

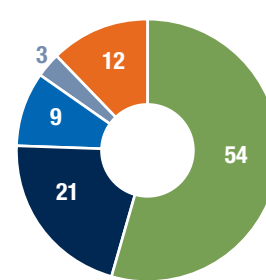


Total: 2 166

- Forest: 1 069 SEKm
- Paperboard: 764 SEKm
- Paper: 288 SEKm
- Wood Products: 80 SEKm
- Renewable Energy: 135 SEKm

*Excl. Group-wide

Capital employed* Business area, %



Total: 24 972

- Forest: 13 824 SEKm
- Paperboard: 5 433 SEKm
- Paper: 2 193 SEKm
- Wood Products: 862 SEKm
- Renewable Energy: 3 115 SEKm

*Excl. Group-wide



Dear shareholder

In 2017, we succeeded in significantly growing sales of paperboard, paper and wood products, while at the same time seeing a positive development of the product and market mix. This is the fruit of both long-term investments and focused internal work. The return is almost 9 per cent, which is good, considering that forest and energy account for two-thirds of the balance sheet. Our financial position is strong, thanks to sound cash flow. Against the background of this, the Board has proposed to raise the dividend from SEK 12 to SEK 13 per share.

There is a growing awareness of the forest's value and its role in the transition to an economy where products based on fossil raw materials are replaced with renewable alternatives.



Holmen's own forest holdings are the foundation for its business. With a focus on profitability, we manage the raw material from the forest and refine it into everything from wood products for climate-smart construction to renewable packaging, magazines and books.

Strength in fresh fibre

In the paperboard business, Holmen has an enviable position as a market leader in the premium segment for consumer packaging. Our fresh fibre-based paperboard of the very highest quality, combined with active long-term sustainability work, is appreciated by customers all over the world, prompting close collaborations with global brand owners such as Apple and IKEA. Substantial investments in recent years have created an opportunity to increase production and improve our cost position. Our strong market position and high product quality provide a sound basis for continued global growth.

With a paper business fully focused on fresh fibre-based paper for magazines, books and advertising, we have a concept that has proven to work well. The fresh fibre allows us to develop paper grades that meet customer demand for cost-effective and innovative products. Furthermore, our raw material is fundamental for the European recovered paper ecocycle. The market situation for paper remains challenging, but with successful products and a clear product strategy, we are well placed to develop our paper business.

Building the future in wood

There is no doubt that the renewable raw material from our Swedish forests has huge potential, not least from a climate perspective. The link between the forest and climate improvement measures is becoming particularly clear in the wood products area. Building in wood helps to reduce climate change, as wood binds carbon dioxide and is able to replace construction materials with a greater carbon footprint, such as steel and concrete. Since we handle every part of the harvest, we also ensure that by-products such as wood chips, bark and shavings are turned into recyclable products or converted into useful bioenergy.

More homes need to be built. According to the Swedish National Board of Housing, Building and Planning (Boverket), Sweden will be needing 600 000 new homes by 2025. This, coupled with the growing interest in sustainable development, has put wood construction firmly in the spotlight like never before. Holmen's modern, large-scale sawmills provide a sound foundation for future development. One step in this direction is the acquisition of Linghem Sawmill, whose products complement our existing range and allow more efficient raw material handling in the region. The construction of a wood treatment plant at

Braviken Sawmill is another example that increases the value added and gives us a broader offering for builders' merchants.

Right to manage our forests

There is a growing awareness of the forest's value and its role in the transition to an economy where products based on fossil raw materials are replaced with renewable alternatives. The correct conditions for the Swedish forest industry, such as the right to manage our forests and market acceptance of fresh fibre-based products in competition with recovered fibre, are crucial if we are to complete the transition and make full use of the forest's potential.

Holmen has many years' experience of long-term and successful sustainability work that combines efficient and rational forestry with the preservation of biodiversity. Conducting sustainable forestry involves balancing different interests: economic, social and not least environmental. I firmly believe there is no contradiction between responsibly managed forests and the preservation of habitats with high conservation value. Further restrictions on how forests can be managed would, however, jeopardise the continued success and sustainability of Swedish forestry. If large swathes are exempted from forest management, this would restrict the uptake of carbon dioxide and reduce the forest's contribution to mitigating the greenhouse effect. The objective must be to make more and smarter use of the forest, not less.

We are creating a sustainable future

Our business is rooted in the growing forest. With that foundation, plus well invested production facilities and strong market positions, we will continue to develop our business in paperboard, paper and wood products. This will deliver good profitability and growing value for our forest and our industry, while at the same time contributing to a better climate, flourishing rural communities and to the Swedish economy.

Stockholm, 16 February 2018

A handwritten signature in blue ink, appearing to read 'Henrik Sjölund', with a stylized flourish at the end.

Henrik Sjölund
President and CEO

**We grow a
sustainable
future**

**Our business
concept is
to own and
add value to
the forest.**

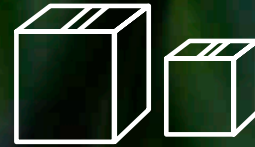
Holmen's forest holdings form the basis of our business – an ecocycle in which the raw material grows and is refined into everything from wood for climate-smart building to renewable packaging, magazines and books.



Forest

Active forestry

The revenue from and value of the forest will grow through active and sustainable forestry, where the harvest is managed and refined into climate-smart products. A strong position in the wood market will contribute to the competitiveness of Holmen's industries.



Paperboard

High-performance premium paperboard

The paperboard business will grow based on Holmen's position as a market leader in the premium segment for consumer packaging. High quality and custom solutions are combined with large-scale production.



Wood Products

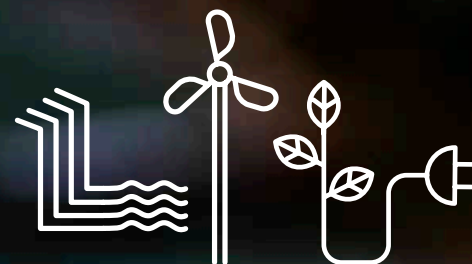
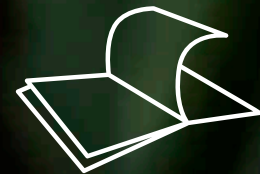
Efficient use of the raw material

Sales of wood products to the joinery and construction industry will be increased by adding value and making better use of the raw material.

Paper

Cost-effective alternatives

The paper business will develop by offering cost-effective alternatives to traditional products for advertising, magazines and books.



Renewable Energy

Renewable production

Hydro and wind power will contribute to a sustainable energy supply and be managed with a focus on long-term profitability.



The value of the forest and the industry will grow.

The forest is managed to provide a good annual return and stable value growth. The industry is run with a focus on profitability and greater value added.

Profitability

The aim is that forest and energy, which constitute two-thirds of the Group's assets, will provide a stable return on capital employed of at least 5 per cent, while the industrial business will consistently return more than 10 per cent. Taken together this means that the Group's return will exceed 7 per cent.

The return for 2017 was 8.7 per cent, which exceeds the target for the second year running.

Capital structure

Our financial position is to be strong in order to secure room for manoeuvre when making long-term commercial decisions. The target for debt/equity ratio is a maximum of 0.5.

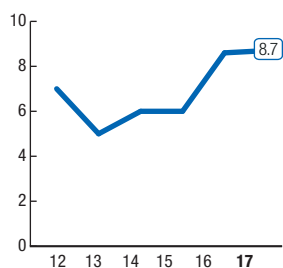
In 2017, the debt/equity ratio was 0.13. Good cash flow in recent years has enabled a higher dividend, while at the same time strengthening the financial position.

Dividend

Decisions on dividends are to be based on an appraisal of the Group's profitability, investment plans and financial position.

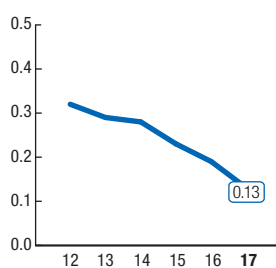
The Board proposes a dividend of SEK 13 per share in 2018. The proposed dividend corresponds to 5.0 per cent of equity. Over the past five years the dividend has increased by 8 per cent annually.

Return on capital employed, %

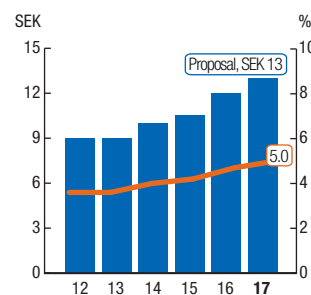


Excl. items affecting comparability

Debt/equity ratio, times



Dividend per share



● Dividend
● Dividend as percentage of equity



We will contribute to a better climate.

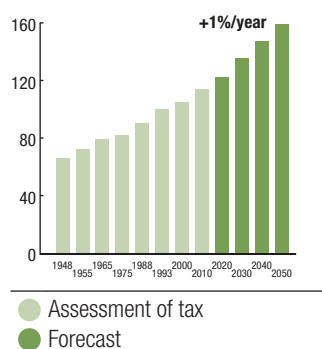
The growing forests capture carbon dioxide and provide the industry with renewable raw material. The climate impact from our production is to be reduced by phasing out fossil fuels and increasing the production of our own renewable electricity.

Forest growth

Growth in Holmen's forests is to increase, which will give higher future harvests and capture more carbon dioxide. The volume of standing timber and harvesting will be 50 per cent higher in 2050 than in the base year 2000.

The volume of standing timber has grown by 15 per cent to date, with harvesting up 25 per cent.

Volume of standing timber, m³ growing stock per hectare productive forest land

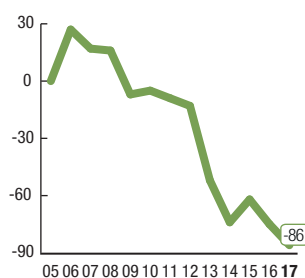


Carbon emissions

By 2020, use of fossil fuels at the Group's mills will be down 90 per cent compared with the base year 2005.

The use of fossil fuels at the mills has fallen by 86 per cent since 2005.

Use of fossil fuels (base year 2005), %

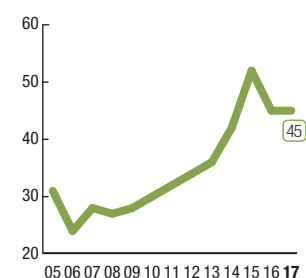


Renewable electricity production

Company-generated renewable electricity will equate to 50 per cent of Holmen's total electricity consumption by 2020, compared with 31 per cent in 2005.

The proportion of company-generated renewable electricity in 2017 amounted to 45 per cent.

Renewable electricity production relative to electricity use (base year 2005), %



Active forestry benefits society

Holmen's forest holdings are the foundation of our business. Efficient and sustainable management of the forest boosts its growth and the opportunities for harvesting. As well as being a stable source of revenue, the forest brings major climate benefits by capturing and storing carbon dioxide and providing the industry with renewable and fossil-free raw material.

Strength in company forest

Holmen's forests cover 1.3 million hectares, of which a little over a million is productive forest land. The strategy is to increase the revenue from and future value of the forest holdings through active and sustainable forestry with a clear focus on costs. As one of the country's largest landowners, we are largely able to supply our Swedish production units with renewable raw material from our own sources. Economies of scale and efficient logistics give us a strong position in the wood market, which contributes to the Group's competitiveness.

Growing forests create value

The growth of the forest and its value are dependent to a large extent on how it is managed. Holmen's annual harvesting is governed by a long-term plan based on forest inventories that are conducted every 10 years. In the latest plan from 2011, the annual harvest is forecast at around 3.0 million m³sub, which accounts for 80 per cent of the growth. The volume of standing timber is thus growing by 1 per cent per year.

The goal is for today's volume of standing timber, 121 million m³ growing stock, solid over bark, to increase to 160 million m³ growing stock, solid over bark by 2050, whilst at the same time, harvests will rise from 3 to 3.5 million m³sub per year.

Social benefit. Forestry is of significant regional importance. It creates employment in rural areas and for many is the reason why they are able to live and work outside the big cities.

Climate benefit. Actively managed forests mitigate the greenhouse effect in multiple ways. The larger the area that is managed and the more the forest grows, the more carbon dioxide is captured. Carbon capture is greater in younger and middle-aged stands, where growth is greatest, than in older stands where growth is in decline. Furthermore, the benefit to the climate becomes many times greater when the forest's renewable products replace fossil materials. Forest that is not managed does not deliver the same benefits for the climate, not least because there is no substitution of products that are harmful for the climate.

Active and sustainable forestry

Under Holmen's active forestry, the volume of standing timber is built up over a period of 70–90 years, with a new growth cycle beginning after harvest. The most important silviculture measures come in the years immediately after harvest, when the soil is prepared and the land is reforested through planting or sowing. The forest is cleaned and thinned in order to select trees with the best potential for continuing their growth. Around 10–30 years before the forest is harvested, it can be fertilised to further boost growth. Holmen's forestry is certified according to PEFC™ and FSC® and all the wood is traceable.

High growth while preserving natural assets

Long-term development of quality and profitability requires continuous improvements in technology, methods and skills. Holmen works with other actors in the industry, manufacturers and researchers, to improve productivity and develop the natural assets of the forest.

Holmen's nature conservation strategy sets out how we work to combine high growth with preserving biodiversity. The aim is to ensure that all naturally occurring species are able to thrive in Sweden's forest landscape.

Quality-assured growth. Holmen invests around SEK 150 million a year in future growth through silviculture and fertilisation. The foundation for future growth in the forest is laid when new forest is planted. Regeneration is quality-assured and Holmen conducts long-term development work that covers the entire chain from seed to new planting. Together, the company's two nurseries produce 35 million seedlings each year, with the majority planted on the Group's land. For every tree harvested, at least two new ones are planted and, through selective breeding, the new trees show significantly higher growth than the old ones.

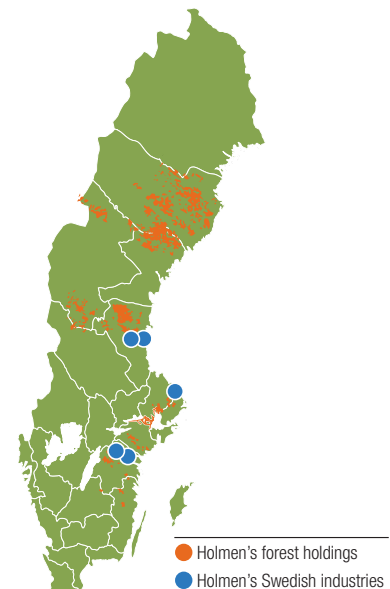
Robust against climate change. Conifers have been on the planet for millions of years and are consequently highly adaptable to change. A warmer climate may, however, affect the forest in various ways. Growth may increase in certain areas while at the same time the periods of ground frost may become shorter, which makes harvesting more difficult. The seeds for the company's plant nurseries are selected to grow and thrive in a changing climate, and Holmen's forestry is robust in climate terms.

Right to manage our forests

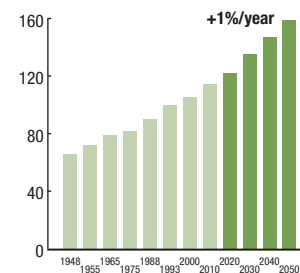
The significance of forestry for both the climate and the Swedish economy places it squarely on the political agenda. Holmen and other industry players have joined forces to make politicians, authorities and the general public aware that the forest is vital with regard to the climate and that active and sustainable forestry is the very foundation of the emerging bioeconomy. The aim is to establish a regulatory framework that takes account of the industry's unique position in contributing to an economically, environmentally and socially sustainable society.

Rising demand for forest raw material

An active construction industry and a growing interest in building in wood have led to greater demand for logs in recent years. Demand for pulpwood is also on the rise, due to a strong trend for various types of packaging material and the recent large-scale investments in pulp mills.



Volume of standing timber, m³ growing stock per hectare productive forest land



- Assessment of tax
- Forecast



Holmen's forests 2017

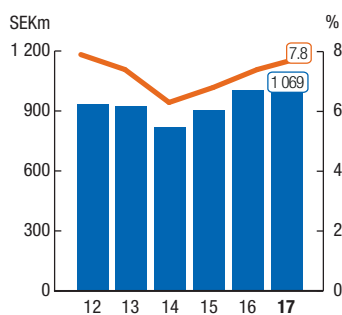
Total land acreage	1 301 000 ha
Total forest land acreage*	1 153 000 ha
- of which nature conservation areas	192 000 ha
Productive forest land**	1 042 000 ha

Total volume of standing timber on productive forest land **121 million m³ growing stock, solid over bark**

*Analysis performed by the Swedish National Forest Inventory, according to the international definition of forest land: Land area > 0.5 hectares with a tree canopy cover of more than 10 per cent for trees capable of reaching a height of at least 5 metres at maturity.

**Forest land that on average can produce 1 m³ growing stock, solid over bark per hectare and year (on average during the growth period of the forest stand).

Operating profit/loss and return



- Operating profit/loss
- Return on capital employed

Key figures

	2017	2016
External net sales, SEKm	2 571	2 572
Profit/loss before change in value, SEKm	654	686
Operating profit/loss incl. change in value of forests, SEKm	1 069	1 001
Investments, SEKm	49	30
Capital employed, SEKm	13 824	13 536
Average number of employees	363	364
Harvesting in own forests, '000 m ³ sub	2 904	2 986

3.7% cash flow yield

The operating profit from the forest amounted to SEK 1 069 million in 2017, which breaks down as SEK 415 million in value growth and SEK 654 million in earnings from operations. The earnings from operations represent the cash flow from the forest business and equate to a cash flow yield of 3.7 per cent in relation to the book value of the forest, which stands at SEK 17.8 billion. See Note 11, page 55.

54%

of the Group's capital is employed in the Forest business area

Global growth from leading position

Holmen produces paperboard for consumer packaging in the premium segment. The strategy is to grow globally through two of the market's strongest brands, high quality and custom solutions.

Market leader in the premium segment

Holmen is a market leader in the premium segment for consumer packaging and paperboard for advanced graphical printing. The main customer groups are converters, wholesalers and brand owners who want to be able to offer high-quality and sustainable products. The global market for packaging board is growing, and Holmen is well positioned for growth.

Strong brands in Invercote and Incada.

Holmen markets its paperboard under two brands: Invercote and Incada. The brands are held in high esteem by converters, brand owners and designers the world over and together, they represent one of the market's most versatile ranges in the premium segment for consumer packaging. With its high and consistent quality, paperboard from Holmen ensures stable results in the customer's production process.

Fresh fibre offers unique properties

Both Invercote and Incada are manufactured using fresh fibre from sustainably managed forests. The fresh fibre-based paperboard brings benefits for both production and the environment. Higher strength, better brightness and a neutral effect on smell and taste in contact with food are just a few of the properties that add clear value to the end product. The fresh fibre and the inherent properties of the paperboard make it possible to manufacture attractive and functional packaging solutions that offer an excellent substitute for packaging based on fossil raw materials.

Sustainable ecocycle. The forest is the source of all paperboard and paper. The addition of fresh fibre is necessary to keep the recovered fibre ecocycle going. Wood fibre can be recycled up to seven times before it wears out and ends up as biofuel.

Customer-led product development

Products are constantly being developed in close collaboration with customers, in order to meet the ever-growing demand for customer-specific packaging solutions. The longstanding relationship with Apple is one such example. The collaboration began in 2005 and has developed into a partnership for innovation and sustainable packaging.

The customers' need for support and fast deliveries is a priority area that covers everything from advice and product samples to service centres with local warehouses and sheeting units. Our support teams work closely with the market, speak the customer's language and have in-depth knowledge of their circumstances. This enables them to offer expert advice before, during and after the customer's production process.

The service offering includes environmental documentation plus access to analysis facilities at the company's own accredited laboratory for sensory and chemical analysis, known as the taint and odour lab, at Iggesund Mill. Coupled with the finishing options at the lamination unit in Strömsbruk, this means that Holmen can offer custom solutions that meet the toughest requirements.

Climate-smart production

Invercote and Incada are manufactured at paperboard mills in Iggesund (Sweden) and Workington (UK). Both mills hold chain-of-custody certification and all the wood raw material comes from sustainably managed forests. The plants are largely self-sufficient in renewable energy. Iggesund Mill forms a bio co-location with Iggesund Sawmill that ensures every part of the tree is used on site. Chips from the sawmill serve as raw material for pulp production at the paperboard mill, while bark and wood shavings become biofuel and are converted into energy and district heating. The circle is closed when the surplus heat from the mill is used for drying processes at the sawmill.

Global growth in the packaging market

Demand for packaging is rising in line with factors such as population growth, urbanisation and an expanding middle class with more single-person households. The demand in the various product segments varies depending on the market, but there is a general increase in demand for renewable packaging materials. The exception is tobacco products, which are declining in several markets. Growth in food packaging can be seen primarily in Asia, the Middle East and Africa, while demand for pharmaceutical packaging is rising in all markets. Packaging for cosmetics is seeing

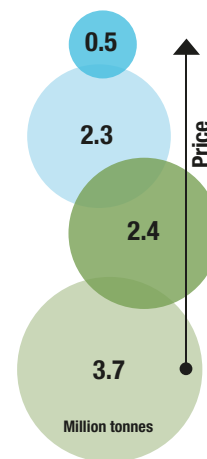
a particular increase in markets with rapid population growth, such as Asia, Eastern Europe, and South and Central America.

Europe. We are boosting our customer work and our focus on niche segments, as well as working proactively to continue growing over the long term, together with our customers.

Asia. Demand for status goods is rising, with the emergence of local brands for which Holmen's high quality paperboard is the perfect fit. Holmen's presence in the Asian market has grown in recent years, with service levels boosted not least by the establishment of a service centre with warehousing and sheeting in Taiwan.

North America. Holmen is growing in the premium segment with a greater presence and a better service level. Thanks to warehousing and sheeting in three strategic locations, local distribution and short delivery times are now offered from coast to coast.

European paperboard market 2017



- **SBB** Prestige products for graphical printing, perfumes, confectionery and tobacco.
- **FBB** Confectionery, pharmaceuticals, tobacco, frozen goods, skin care and hygiene articles.
- **SUB/LPB** (solid unbleached board and liquid packaging board) Drinks, dairy products and dry goods.
- **WLC** (white lined chipboard) Dry goods and household products.

Iggesund Mill

Products: Multi-layered paperboard made from bleached chemical pulp (SBB)

Brand: Invercote

Raw materials: Softwood and hardwood pulpwood

Workington Mill

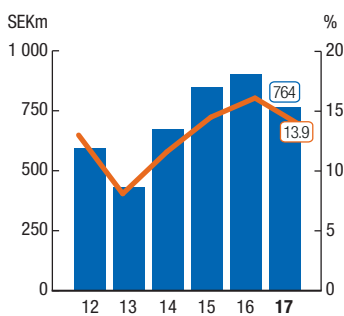
Products: Multi-layered paperboard, surface layer of chemical pulp, core of mechanical pulp (FBB)

Brand: Incada

Raw materials: Spruce pulpwood and purchased sulphate pulp



Operating profit/loss and return



- Operating profit/loss
- Return on capital employed

Key figures

	2017	2016
Net sales, SEKm	5 526	5 252
Operating profit/loss, SEKm	764	903
Investments, SEKm	375	413
Capital employed, SEKm	5 433	5 546
Average number of employees	1 383	1 406
Deliveries, '000 tonnes	526	497

21%

of the Group's capital is employed in the Paperboard business area

6% higher deliveries

2017 saw deliveries rise by 6 per cent through increased sales in the premium segment within and outside Europe, plus greater productivity at the paperboard mills following the completion of investments. However, operating profit decreased by SEK 139 million to SEK 764 million as a result of SEK 220 million in costs and lost revenue relating to two major maintenance shutdowns and rising costs for input goods and freight.

Paper that saves customers money

Holmen utilises the properties of fresh fibre to offer cost-effective alternatives to traditional paper products for advertising, magazines and books.

Paper with potential

Holmen develops and sells fresh fibre-based paper that challenges traditional, more expensive paper grades. All the paper is produced at two Swedish mills and is made using renewable raw material from sustainably managed forests. Efficient production units, continued specialisation and a strong marketing organisation will see Holmen strengthen its position in existing and new markets. Customers include retailers, printers and publishers across the globe seeking cost-efficient paper solutions.

Unique benefits of fresh fibre

Fresh fibre makes it possible to develop paper grades with high bulk – paper that is thick but light. This means that the customer gets more paper with the same feel as traditional paper grades, but without the higher costs. A lighter paper also leads to lower distribution costs. In addition, the paper has a naturally higher brightness that improves the way text and images are experienced, compared with paper based on recovered fibre.

Cutting-edge products

Holmen is an industry leader in developing new products entirely based on fresh fibre. Working closely with the customer, the result is innovative products that, compared with traditional paper choices, offer clear cost benefits when purchasing and distributing finished products.

Magazine paper. The brands Holmen UNIQ, Holmen VIEW and Holmen TRND represent a broad range of modern paper grades. The products challenge coated paper and are excellent for magazines, without any need to compromise on print quality, brightness or feel.

Book paper. Compared with wood-free paper, Holmen BOOK gives its customers the opportunity to lower paper costs considerably. Publishers appreciate Holmen's wood-containing paper because it maintains high quality and offers product properties that enhance the reading experience thanks to the paper's high stability and bright, smooth surface.

Printed advertising. Holmen's lightweight papers create opportunities for retailers seeking an attractive overall cost profile – either in the form of pure cost savings for both paper and distribution, or through the option of stepping up the format, page numbers or print run, without adding to the cost.

Sustainability at every stage

Production at both mills has been streamlined and the operations have been upgraded in line with the strategy to transition to magazine and book paper. The majority of the product brands can be produced in both mills, ensuring high efficiency, flexibility and delivery reliability. Favourable locations in terms of logistics mean short wood transport distances, and both mills are close to ports with good capacity and efficient handling.

Braviken Paper Mill and Braviken Sawmill make an energy-efficient co-location. The paper mill receives raw material in the form of wood chips from the sawmill, which in turn is supplied with energy and heat from the mill. Surplus bark and wood shavings are sold for the production of renewable energy.

Hallsta Paper Mill is one of the most resource-efficient mills in its segment in Europe, with practically no emissions of fossil carbon dioxide. The residual products from the mill's production processes are sold on as bio-fuel and soil products.

Recovered paper grows in the forest. Pulp, paper and paperboard made from fresh fibre from Nordic forests play an important role in the European recovered fibre ecocycle. Forest resources are limited in the rest of Europe and paper manufacture is based on recovered paper to a considerably higher extent. However, paper cannot be recycled again and again forever. After 5–7 times the fibres are exhausted. The ecocycle needs a constant injection of fresh fibre from the forest.

Traceable raw material. Holmen's forestry, industrial production and products are certified, as a guarantee that the wood raw material is traceable and comes from sustainably managed forests. This stands in stark contrast to the majority of products based on recovered fibre, whose origin cannot be guaranteed.

Ecolabelled products. All the magazine and book paper that Holmen manufactures is approved to carry the EU Ecolabel – the EU's official labelling scheme for products that meet strict environmental, functional and quality criteria. The ecolabelling process mainly examines the use of fibre raw materials, chemicals

and energy and emissions to air and water in manufacturing.

Opportunities in a challenging market

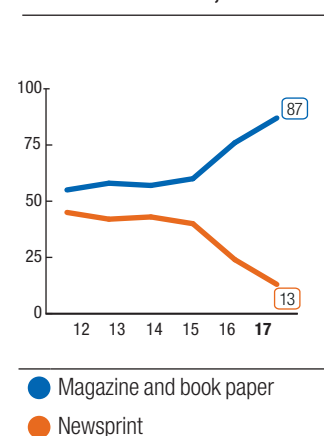
The transition from newsprint to magazine and book paper has boosted Holmen's competitiveness and created opportunities to develop our position in selected areas.

A changing magazine market. Many magazine publishers are being squeezed by competition from digital channels and are constantly reviewing their paper choices as they chase lower costs. Our products deliver significant cost benefits, which creates the potential for volume growth.

Stable book paper market. Holmen BOOK is the market's leading wood-containing paper in Europe for paperbacks and hardback books. Its market share has increased steadily in recent years. We are now looking to new markets with potential outside Europe, mainly in Asia and Latin America.

Printed advertising for retailers. Although the digital alternatives are gaining ground, paper-based direct mail remains strong. Our products combine high quality and competitive pricing, making the sums more than add up for customers.

Production, %





Braviken Paper Mill

Products: Paper for magazines, books, printed advertising and newspapers

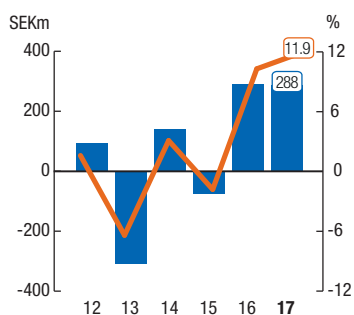
Raw material: Spruce pulpwood

Hallsta Paper Mill

Products: Paper for magazines, books and printed advertising

Raw material: Spruce pulpwood

Operating profit/loss and return



- Operating profit/loss, excl. items affecting comparability
- Return on capital employed, excl. items affecting comparability

Key figures

	2017	2016
Net sales, SEKm	5 408	5 431
Operating profit/loss excl. items affecting comparability, SEKm	288	289
Investments, SEKm	141	259
Capital employed, SEKm	2 193	2 507
Average number of employees	858	861
Deliveries, '000 tonnes	1 117	1 134

12% return

At SEK 288 million, this year's operating profit is practically the same as in 2016 and equates to a return of 12 per cent. Deliveries increased by 6 per cent, adjusted for the divestment of the Spanish newsprint mill and the effects of the fire at Hallsta Paper Mill in late 2015. The increase occurred in magazine and book papers, which now account for slightly more than 85 per cent of deliveries. The contribution that sales made to earnings was, however, offset by higher wood prices.

9%

of the Group's capital is employed in the Paper business area

Wood products for sustainable building

Holmen supplies wood products to the joinery and construction industry and to builders' merchants. The business is being developed by increasing the value added and making better use of the wood raw material in combination with large-scale production.

Building the future in wood

Wood is a versatile material and the only construction material that is renewable. Since wood products have the capacity to store carbon dioxide for a long time, wooden buildings are significantly more climate-smart than those built using fossil-based materials and processes. Manufacturing steel and concrete creates considerable emissions of fossil carbon that affect the climate. Replacing such materials with renewable structural components in wood achieves climate benefits on many fronts. Emissions of greenhouse gases from manufac-

turing and using climate-negative materials are avoided, while increased use of products from the forest captures more carbon dioxide. In addition, the whole chain from manufacture to transport is much more energy-efficient and cost-effective.

Modern and large-scale production

Modern sawmills with a high technological level and gradually expanding value-adding processing are delivering a stronger product range. With an efficient production chain and customer-centric working methods, Holmen is building a platform for long-term and profitable customer relations with the capacity to meet demand in different markets. Proximity to the raw material combined with efficient wood purchasing is a key factor for profitability. Competitiveness is underpinned by the fact that production is co-located with the Group's paperboard and paper mills. Holmen's sawmills are strategically located to benefit from a transport network that reaches around the globe by sea, rail and road. A large proportion of the finished products are shipped by sea.

Treated wood for builders' merchants. The investments in a wood treatment plant and a distribution warehouse at Braviken Sawmill mean that Holmen will be able to offer a broader and more attractive range directly to builders' merchants. Treated wood is an important part of the range offered by Swedish builders' merchants and is used for terraces, decking, fences and jetties. Demand for treated products is growing and the sawmill's central location in a densely populated region means there are good opportunities to reach out to builders' merchants.

Acquisition of Lingham Sawmill. 2017 saw the acquisition of Lingham, a small log sawmill situated 40 km from Braviken Sawmill. With its integrated planing mill, Lingham produces sawn and planed wood products from small

logs for joinery and construction purposes. The products provide a good complement to Braviken's range and the acquisition helps to strengthen Holmen's market position, primarily in Sweden and the UK.

Sustainable raw material supply. Holmen's sawmills have chain-of-custody certification, which means that all the wood can be traced back to its origin in sustainably managed forests. The wood raw material is sourced from Holmen's own forest holdings and from other forest owners, ensuring an efficient logistics chain from forest to sawmill. The acquisition of Lingham Sawmill and the switch to sawing two types of wood at Braviken Sawmill have increased flexibility regarding raw material supply and improved opportunities to source raw material within the local region to a greater extent.

Complete bio co-locations. The Group's larger sawmills, Iggesund and Braviken, form co-locations with their neighbouring paperboard and paper mills. This means that every aspect of the wood raw material is made use of in a cycle in which chips from the sawmills act as raw material in pulp production and the final residual products are used as biofuel to produce energy and district heating. Steam from the mills is also used in the drying processes at the sawmills.

Positive market trends

Holmen manufactures and supplies high-quality wood products to joinery and construction industry customers, mainly in Scandinavia, the UK, the rest of Europe, the Middle East and North Africa. Deliveries are also made directly to local Swedish builders' merchants.

The market for wood products is global and huge streams of goods are shipped between continents. Demand largely follows the general economic cycle and has been developing well. The market for wood products is strong in all the key territories. The construction industry is doing well in Europe and North American consumption has recovered. Asia is breaking new records and is dominated by the Chinese market, which is also seeing the fastest growth.

Growing cities are driving Swedish wood construction. For a long time, the increase in the use of wood in Sweden has largely been attributable to renovation work and extensions. Now the trend is being driven by the construction of new homes, which in turn is affected by population growth, urbanisation and the aim to build sustainable cities. There is great potential for growth, mainly in high-rise buildings, and the proportion of housing built in wood is expected to rise as the capacity for industrial building in wood is expanded. New wood building techniques are also under development, which could lead to increased demand.

The wood treatment plant at Braviken Sawmill will be operational in 2018.





Braviken Sawmill

Products: Spruce and pine wood products for joinery and construction
Raw material: Spruce and pine saw logs

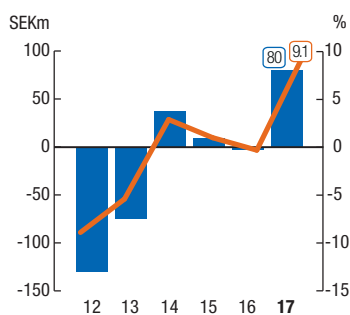
Iggesund Sawmill

Products: Pine wood products for joinery
Raw materials: Pine saw logs

Linghem Sawmill

Products: Spruce and pine wood products for joinery and construction
Raw materials: Spruce and pine saw logs

Operating profit/loss and return



- Operating profit/loss, excl. items affecting comparability
- Return on capital employed, excl. items affecting comparability

Key figures

	2017	2016
Net sales, SEKm	1 562	1 342
Operating profit/loss SEKm	80	-3
Investments, SEKm	100	52
Capital employed, SEKm	862	859
Average number of employees	251	225
Deliveries, '000 m ³	852	776

16% higher sales

Sales climbed steeply in 2017 as a result of a 10 per cent increase in deliveries and rising market prices, which drove operating profit up to SEK 80 million, equating to a return of 9 per cent.

3%

of the Group's capital is employed in the Wood Products business area

Renewable energy production

Holmen's renewable energy assets in the form of hydro and wind power contribute to a sustainable energy supply and provide a good revenue stream over time.

Strength in own energy assets

In a normal year, Holmen produces 1 100 GWh from hydro power and a little over 100 GWh from wind power. Together with the renewable electrical energy that is produced at the Group's mills, this equates to almost 50 per cent of Holmen's overall energy consumption.

Hydro power provides a reliable electricity supply

Sweden's electricity production is based largely on nuclear power and hydro power, each of which account for around 40 per cent of total production.

Holmen's own energy production is dominated by renewable hydro power. In an energy system that is increasingly based on weather-dependent energy sources, such as solar and wind power, hydro power is uniquely controllable. Electricity cannot be stored to any great extent, but the water that is used to generate electricity can be stored in reservoirs, lakes and rivers. Hydro power stations can therefore generate both baseload power and regulating power, which is the energy needed to meet fluctuations in demand. Production is tailored to demand or changes in other electricity production by reducing or increasing the flow of water through the turbines. The environmental impact of the operation is marginal, with minimal emissions.

Another benefit of hydro power is service life, since a hydro power station can deliver energy for over 100 years. The investment required is relatively small compared with other types of power and the operating and maintenance costs are low, since the plants are almost entirely automated. Overall, hydro power brings major benefits to society as part of the drive for a totally renewable electricity system.

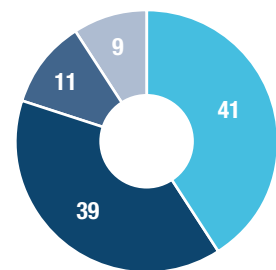
Wind power a supplement. Wind power is the fastest growing energy source in the EU. Holmen is a major land owner and has the potential to develop its land holdings by establishing wind farms on sites with good wind conditions. Wind power's total cost per kilowatt hour produced has been relatively high due to the significant cost of investing in the infrastructure and power grids. However, technical advances and a new generation of more efficient wind turbines, combined with slightly higher electricity prices, create opportunities for the future establishment of wind power on the Group's land.

Swedish investment in renewable energy

Over the year, Sweden's energy policy has focused on implementation of the energy policy agreement that was secured in 2016.

The tax on thermal energy for nuclear power is being stepped down to facilitate mandatory investments and the electricity certificate system is being increased and extended until 2030 to stimulate the expansion of wind power. The energy agreement also states that hydro power plays a central role in Sweden's renewable electricity supply. The property tax on hydro power will be reduced to the same level as for other electricity production plants over a four-year period beginning in 2017. This will allow investments to continue the operation of hydro power stations.

Sweden's electricity production, %



Hydro power	41%
Nuclear power	39%
Wind power	11%
Thermal power	9%

Turbine hall at Holmen's hydro power station in central Norrköping.



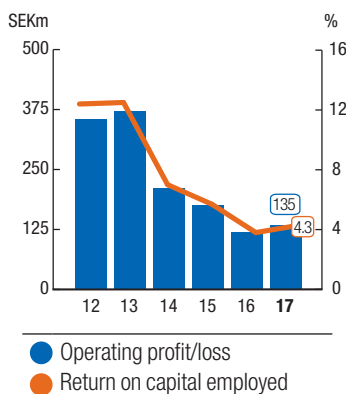
Holmen's power plants

Rivers	Hydro power stations	Holmen's production share		Year of construction
		%	GWh*	
Umeälven	Harrsele	49	470	1957–58
	Tuggen	22	97	1962
Gideälven	Stennäs	10	3	1985–96
	Gammelbyforsen	10	1	–"–
	Björna	10	8	–"–
	Gideå	10	9	–"–
	Gidböle	10	7	–"–
Faxälven	Gideåbacka	10	7	–"–
	Linnvasselv	7	14	1961–74
Iggesundsån	Junsterforsen	100	115	–"–
	Gäddede	30	23	–"–
	Bågede	100	70	–"–
	Pappersfallet	100	7	1915
Ljusnan	Iggesunds kraftstation	100	22	2009
	Sveg	20	30	1949–75
Motala Ström	Byarforsen	20	17	–"–
	Krokströmmen	9	45	–"–
	Långströmmen	11	29	–"–
	Ljusne Strömmar	7	17	–"–
Varsvik	Holmen	100	112	1990
	Bergsbron-Havet	100	10	1927

Owner	Wind farms	Holmen's production share		Year of construction
		%	GWh*	
Varsvik	Varsvik	50	83	2014
VindIn	Skutskär	18	5	2009
	Trattberget	18	38	2012
	Svalskulla, Finland	18	9	2014

*Refers to normal production

Operating profit/loss and return



Key figures

	2017	2016
External net sales, SEKm	315	314
Operating profit/loss, SEKm	135	120
Investments, SEKm	26	23
Capital employed, SEKm	3 115	3 153
Average number of employees	11	10
Own production of hydro and wind power, GWh	1 169	1 080

5% lower production than normal

Low rainfall caused production to be 5 per cent lower than in a normal year. However, operating profit increased by SEK 15 million to SEK 135 million due to a reduction in property tax of SEK 20 million.

12%

of the Group's capital is employed in the Renewable Energy business area

Sustainability every step of the way

Holmen's value creation begins in the sustainably managed forest. By absorbing carbon dioxide, the forest plays an important role for the climate, while also providing the industry with renewable raw material. With our own renewable energy production and resource-efficient production units, Holmen creates climate-smart products for the future.

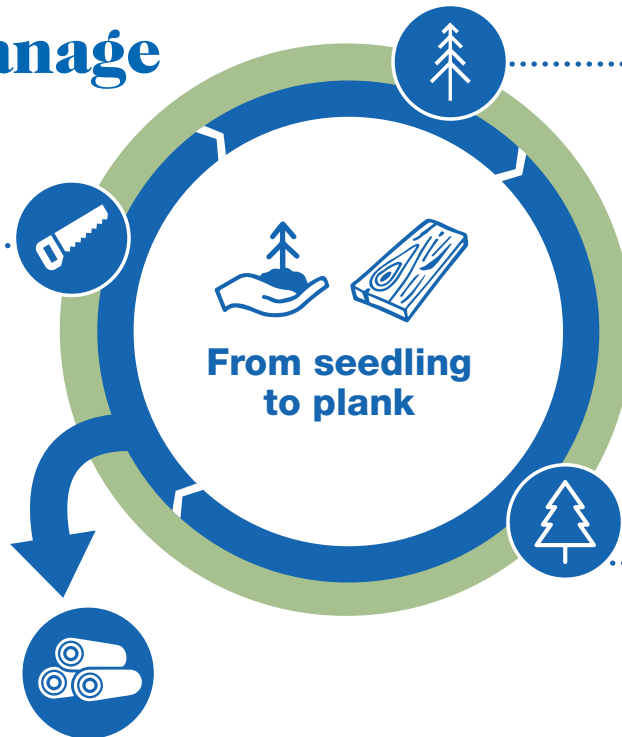
How we manage the forest

70 – 90 years

After about 70–90 years, the forest is mature enough to be harvested. By the time the trees are this old, growth slows down and the forest's ability to capture and store carbon dioxide is reduced.

80%

of the growth is harvested. This means that the amount of wood in our forests increases every year.



0 – 20 years

Once the forest has been harvested, the ground is prepared, and new trees are planted or sown. Holmen's two nurseries produce 35 million seedlings each year, with the majority planted on the Group's land. The forest is cleaned to select the trees that are best able to grow, and to make the forest more resistant to storms and damage.

20 – 70 years

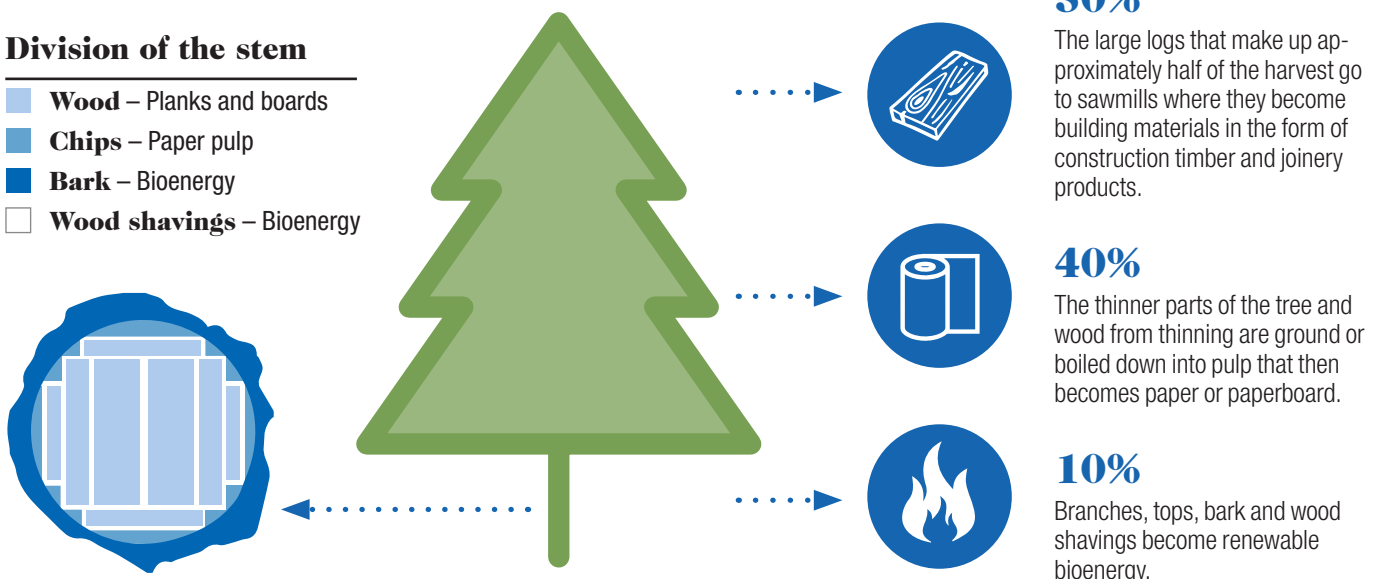
The trees grow fastest during this time and absorb the highest amount of carbon dioxide. The forest is thinned to give the best trees a chance to grow big. The trees that are thinned are used to produce pulp.

We take care of the whole harvest

We saw as much wood as possible from the trees we harvest, and nothing is wasted.

Division of the stem

- **Wood** – Planks and boards
- **Chips** – Paper pulp
- **Bark** – Bioenergy
- **Wood shavings** – Bioenergy



50%

The large logs that make up approximately half of the harvest go to sawmills where they become building materials in the form of construction timber and joinery products.

40%

The thinner parts of the tree and wood from thinning are ground or boiled down into pulp that then becomes paper or paperboard.

10%

Branches, tops, bark and wood shavings become renewable bioenergy.

The carbon cycle



The trees in Holmen's forests capture carbon dioxide and store it throughout their lifetime. The carbon dioxide is then bound in the harvested wood products and does not return to nature until the wood is burned or rots. This means that a wooden house that is a hundred years old is still storing the carbon dioxide that the tree absorbed when it was growing in the forest.

As paperboard and paper have a relatively short lifetime, the carbon dioxide bound in these products returns to the ecocycle relatively quickly. However, paperboard and paper can be recycled several times before they, like end-of-life wood products, can be used as biofuel.

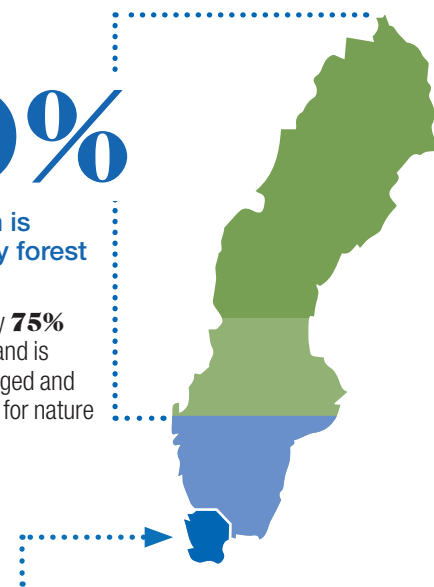
The Swedish forest is growing

Almost three-quarters of Sweden is covered by forest. Today there is twice as much forest in Sweden as there was a hundred years ago and the volume of standing timber is increasing by 1 per cent a year.

70%

of Sweden is covered by forest

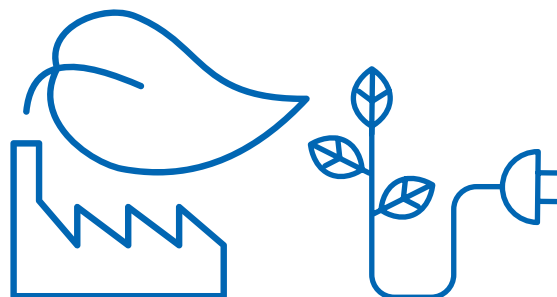
Approximately **75%** of the forest land is actively managed and **25%** is used for nature conservation.



Holmen's forest covers more than **1 million** hectares. That's about the same size as the region of Skåne.

Energy-efficient production

Production at Holmen's mills and sawmills is largely based on renewable electrical and thermal energy. In the past decade, emissions of fossil carbon from the plants have fallen by almost 80 per cent, and about half of all the energy consumed in Holmen's operations comes from self-generated renewable production.



2 815 000 tonnes

Net uptake of CO₂ in Holmen's operations 2017

In collaboration with our stakeholders

Maintaining knowledge of and continuous dialogue with the company's stakeholders as a matter of course enables us to run and develop operations efficiently and for the long term.

The Group's CEO bears ultimate responsibility for driving work in a sustainable direction for the long term, while the group's Senior Vice President Sustainability and Communications has a coordinating role and reports to the Group's CEO. Continuous improvement and regular follow-up of the business lay the foundation for Holmen's development in economic, social and environmental terms.

Customers. Over 85 per cent of Holmen's deliveries go to European customers. Other exports are mainly to customers in the USA and Asia. Holmen's business ethics policy and associated guidelines provide guidance on how to maintain good business ethics when dealing with external contacts in various markets.

Suppliers. Holmen's Supplier Code of Conduct increases the focus on human rights and working conditions among suppliers, with a view to ensuring good conditions for everyone who works in Holmen's value chain.

Employees. Competent employees and a value-driven company culture are important to Holmen attaining its business objectives. As an employer, Holmen must work to ensure good leadership and safe working conditions, while also motivating its employees and facilitating their development. It is also important for operations to be characterised by transparency and comply with rules on business ethics.

Society. Forestry is of significant regional importance. It creates employment in rural areas and for many is the reason why they are able to live

and work outside the big cities. Holmen plays a significant role as an employer in a number of locations and not only creates jobs in the Group but also for suppliers of goods and services and various social functions. This means that Holmen contributes substantial tax revenue. Ongoing dialogue with local communities and stakeholder organisations, and partnerships with higher education institutions and universities create conditions for sustainable development. Large parts of Holmen's land in northern Sweden overlap Sami winter grazing land for reindeer. Via consultation with the reindeer husbandry community, it is possible to arrive at solutions that meet both parties' requirements as closely as possible.

Sustainably managed forests are not only important from a climate-related and economic perspective, they are also important for people's wellbeing and as a place for recreation, hunting and fishing.

Media, opinion formers and the general public. Through clear communication and dialogue, Holmen is helping to increase interest in and understanding of the conditions and opportunities for the Group and the industry.

Public authorities. Environmental permits are required for the majority of the Group's operations. Openness and transparency allow us to establish the conditions for good oversight of and trust in our actions. During permit applications, the authorities, the general public and local residents all have an opportunity to put forward their views.

Shareholders, investors and analysts. Holmen wishes to create long-term value for shareholders and develop operations with a good return on invested capital. The Group's financial statements and sustainability reporting are effective ways of providing relevant data for analysis.

Income statement 2017 by stakeholders

		SEKm
Customers	Sales of products, wood and electricity	17 269
Suppliers	Purchases of products, services, along with depreciation, etc.	-12 851
Employees	Wages and social security costs	-2 252
Lenders	Interest	-53
State	Taxes	-445
Shareholders	Net profit	1 668
	Board's dividend proposal	1 092

Development for the future

Holmen's development work is mainly focused on three areas: increased forest growth, more efficient production and developing existing and new products with forest raw material as a base. The work is often industry-wide, through collaboration with universities, higher education institutions and research institutions. Among other things, research is being conducted into the components that make up wood: cellulose, hemicellulose and the binding agent lignin, which can be used, for example, to produce light, strong and sustainable products for structural solutions in the construction industry. An important starting point for the work is that new business opportunities must be linked to Holmen's existing industrial sites. The Group's investments in research and development amounted to approximately SEK 95 million in 2017.



An important climate actor

Carbon dioxide is captured in the growing forests and in the products. Holmen's resource-efficient production is predominantly driven by renewable energy. Investments in self-generated energy and the development of the products of today and tomorrow based on forest raw material mean the positive climate effects will be even greater in the future.

The forest. The volume of standing timber in Holmen's forests increases by 1 per cent a year, which means that carbon dioxide is bound into its increase in volume. Based on Sweden's official reports of greenhouse gases for forest and land between 1990 and 2017, uptake for Holmen's forests and forest land on average is estimated at 1 300 000 tonnes per year. Over the foreseeable period, annual growth in Holmen's forests is expected to exceed the harvests, and the Group's forest growth target shows that carbon dioxide storage will increase in the future.

The production units. In recent years, the production of renewable electricity and thermal energy has increased considerably through Holmen's investments in biofuel-based energy production at several mills. In the past ten years, emissions of fossil carbon dioxide from the mills have fallen by over 80 per cent and amounted to just under 75 000 tonnes in 2017. Annual emissions of fossil carbon dioxide from forest machinery, manufacture of input goods and transport of raw materials and products are estimated at approximately 340 000 tonnes. Emissions represent the negative climate impact of Holmen's operations.

The products and substitution effects. Wood products store carbon dioxide throughout their lifetime and this is only released when the products are incinerated. Holmen's production of wood products in 2017 is equivalent to approximately 680 000 tonnes of carbon dioxide stored in products with a lifetime of more than 50 years. Holmen's wood products that are sold as joinery and construction timber also contribute a substitution effect when used to replace climate-negative construction materials. The substitution effect for 2017 is estimated to amount to approximately 1 250 000 tonnes of carbon dioxide.

Residual volumes from the sawmills are used in wood packaging, which also has a long lifetime. The substitution effect for these products has not been calculated.

Paper and paperboard products can also replace fossil-based products but as they have a relatively short lifetime, it is not meaningful to calculate their uptake of carbon dioxide. Once the fibres in paper and paperboard have been recycled several times as recovered fibre, however, like the end-of-life wood products, they make excellent biofuels. Biofuels from Holmen's forests and by-products from production, such as bark, provide renewable energy from incineration. Here too, it would be possible to calculate a substitution effect as fossil fuels are replaced by biofuel, but no such calculation has been carried out for this compilation.

Under the parameters set, calculations show that Holmen's business brings substantial climate benefits, as it reduces the amount of carbon dioxide in the atmosphere by almost 3 million tonnes per year.

Key figures for Holmen's operations from a climate perspective 2017

Emissions of fossil carbon dioxide (tonnes)

Forestry	-26 500
Input goods	-75 000
Production facilities	-73 500
Transport of raw materials and products ¹⁾	-240 000
	-415 000

Absorption of carbon dioxide (tonnes)

Volume of standing timber and forest land ²⁾	1 300 000
Wood products for construction purposes	680 000
Substitution of climate-negative construction materials	1 250 000
	3 230 000

Net, capture of carbon dioxide and substitution effect (tonnes)

2 815 000

1) Includes emissions from transport of finished products to customers and deliveries of wood, pulp and chemicals to Holmen's facilities.

2) Average based on 1990–2017.

Holmen's operations contribute major climate impact by annually reducing the amount of carbon dioxide in the atmosphere by almost 3 million tonnes.

Several independent sources show the positive climate impact of forestry and forest products. The summary is based on internal data and calculations and on scientific articles published in recent years. On the basis of this reference material, data has been obtained to calculate the substitution effect.

- Simplified reporting of carbon pool changes for Holmen's forest and land holdings in line with the guidelines of the Convention on Climate Change (UNFCCC), 2018. Swedish University of Agricultural Sciences.
- Lundblad, M. et al. Land Use, Land-Use Change and Forestry (CRF sector 4). In: National Inventory Report Sweden 2016 – Submitted under the United Nations Framework Convention on Climate Change. Swedish Environmental Protection Agency, pp. 353–392.
- Sathre, R. and O'Connor, J. Meta-analysis of greenhouse gas displacement factors of wood product substitution. *Environmental Science Policy* 2010, 13, 104–114.
- Gustavsson, L. et al. Climate change effects of forestry and substitution of carbon-intensive materials and fossil fuels. *Renewable and Sustainable Energy Reviews* 2017, Volume 67, 612–624.
- Cintas, O. et al. The potential role of forest management in Swedish scenarios towards climate neutrality by mid century. *Forest Ecology and Management* 2017, 383, 73–84.

“Holmen has been part of the UN Global Compact and its corresponding Nordic network since 2007. We see it as natural to support its ten principles on human rights, social responsibility and anti-corruption.”

Henrik Sjölund, President and CEO

Information on how the Group complies with and works in line with the principles of the Global Compact is available at holmen.com. The Group reports its work on sustainability to the organisation each year in line with the ten principles and sets out the progress made. Work on the ten principles also helps to attain the UN's global sustainable development goals.



Holmen's environmental responsibility

For Holmen, environmental and energy concerns play a natural role in planning production and investments. Operations are characterised by resource-efficient use of renewable raw material and energy, and by protecting the environment, applying the precautionary principle. Energy, chemicals and fibre are recovered as far as possible, in order to minimise the environmental impact of production. The section on Risk management on page 33 outlines Holmen's preventive work on eco-related risks and how they are managed.

Holmen's environmental work is characterised by constant improvement measures within the framework of certified environmental and energy management systems, which ensure compliance with legislation and requirements set by authorities.

The main environmental impact from the industrial sites takes the form of emissions to air and water. Information on production and priority environmental parameters is presented on pages 76–77.

Environmental targets for sustainable development. For many years, Holmen has been working with Group-wide environmental targets for sustainable development. Increased production and use of products made from renewable forest raw material are important for the climate.

Growth in Holmen's forests is to increase, which will give higher future harvests and capture more carbon dioxide. The volume of standing timber and harvesting will be 50 per cent higher in 2050 than in 2000. The volume of standing timber has grown by 15 per cent to date, with harvesting up 25 per cent.

The Group's target for fossil fuels is to reduce their use at the mills by 90 per cent by 2020 compared with 2005 levels. A reduction of 86 per cent has been achieved by 2017. Extensive investments in bio-based energy production at the paperboard mills, and the adjusted energy strategy at the other mills have resulted in a considerable reduction in fossil fuel use.

The third climate-related sustainability target is to increase company-produced renewable electrical energy as a proportion of total electricity use by Holmen. The target for 2020 is for production to reach 50 per cent, compared with 31 per cent for the base year 2005. In 2017 self-generated renewable electrical energy equated to 45 per cent of Holmen's total electricity consumption.

Contribute towards global and national environmental goals

Holmen's Group-wide sustainability targets are in line with global, European and national sustainability goals. In late 2016 the global Agreement on Climate Change entered into force, with the overarching goal of keeping

global warming to below 2°C, and ideally limiting it to 1.5°C. The Agreement on Climate Change states that action must be taken to preserve and improve the capacity to capture and store greenhouse gases, and the importance of the forests is particularly highlighted in this context. In the long term, Holmen will therefore be an important player in ensuring that the target set out in the global Agreement on Climate Change can be achieved.

The overarching goal of Swedish environmental policy is the generational goal, which guides the values that must be protected, and the transformation of society needed to attain the desired environmental quality. Achieving it demands an ambitious environmental policy in Sweden, the EU and in international contexts. The Swedish environmental quality system comprises 16 environmental quality objectives in areas such as climate impact, air pollution and biodiversity. Swedish businesses are expected to contribute measures that show how systematic environmental work is profitable for society and for business. Holmen is constantly working on environment-related studies and measures both within forest operations and at production plants. In this way, Holmen is contributing towards the achievement of several of Sweden's national environmental quality objectives, such as Reduced climate impact, Sustainable forests and A rich diversity of plant and animal life.

Work in line with global guidelines

In autumn 2015, the member states of the UN adopted 17 global goals for achieving social, economic and sustainable development around the world. An overall analysis shows that with its resource-efficient business model, Holmen is already working within the scope of several of the goals, illustrated below. An ongoing materiality analysis will identify the areas that continued sustainability work should be focused on.



Recognition and assessments

Strategic choices and investments for the future have strengthened Holmen's sustainability profile, which has led to recognition in important contexts. Holmen is included in a number of sustainability indexes. More information is available at holmen.com. This can be seen as a mark of quality, showing that Holmen is capable of tackling risks as well as opportunities in the field of sustainability.

Holmen has reported to the CDP Climate Program since 2007 and also to the CDP Forest Program since 2013. The survey of climate work in 2017 shows that Holmen has good management in place and a strategy to reduce the negative impacts of climate change. In the evaluation of forest management, Holmen was placed in the group for good leadership that ensures sustainable use of the forest's resources.

In 2017 Holmen was placed 21st in the prestigious Global 100 index of the 100 most sustainable companies in the world, with Holmen being the only company in the forest industry sector to make it onto the list. Almost 5 000 companies were evaluated for the index, which is based on an overall assessment of how a company handles issues such as resource management, employees and governance.

In 2017 Holmen was awarded the Golden Peacock Global Award for Sustainability. The jury made particular reference to Holmen's absorption of carbon dioxide in its growing forest and the climate benefit from its products. This is the first time a Swedish company has won in the sustainability category.



Environmental permits for the Group's production facilities

Iggesund Mill, Environmental Code ¹⁾	2013
Workington Mill, IED	2017
Hallsta Paper Mill, Environmental Protection Act	2000
Braviken Paper Mill, Environmental Code	2002
Iggesund Sawmill, Environmental Code	2014
Braviken Sawmill, Environmental Code	2010
Linghem Sawmill, Environmental Code	2003

1) In addition, operations subject to notification requirements take place at the production unit in Strömsbruk. Port activity (at Skärnäs Terminal) alongside Iggesund Mill has held an environmental permit under the Environmental Code since 1999. In 2017 Iggesund Mill underwent the process for obtaining a new environmental permit for production increase. Operations at Skärnäs Terminal are included in this application.

Permits

At the end of 2017 Holmen was running production operations that require environmental permits at seven facilities. The permits specify conditions regarding permitted production volumes and permitted emissions to air and water. Six of the facilities are located in Sweden and one is in Workington in the UK. The facilities' turnover amounted to almost 80 per cent of the Group's net sales in 2017.

By October 2018 at the latest, Holmen's pulp, paper and paperboard mills must comply with the tougher emissions requirements set out in the EU's Industrial Emissions Directive (IED) of 2013. The environmental status of the Swedish mills is good, and they are expected to meet the new requirements. The mill in Workington has been granted a derogation whereby the mill is to have invested in measures to ensure that the emission requirements are met by 2021.

In 2017 Iggesund Mill underwent the process for obtaining a new environmental permit for production increase.

In 2017 Braviken Sawmill received an environmental permit for a facility for preservation treatment for wood products. The facility will be taken into use in spring 2018.

Holmen has all the permits to build approximately 500 GWh of wind power production in Västernorrland, and an application to build an additional approximately 500 GWh of wind power on Holmen's land in Västerbotten is being processed.

The energy agreement from 2016 means Sweden has to comply with the requirements of the EU's Water Framework Directive, including introducing modern environmental permits for hydro power. Consequently, in 2017 the Swedish government presented a proposal for significant changes to the Environmental Code that may lead to restrictions on industry and hydro power that affect aquatic environments. In autumn 2017, discussions were held between the ministry responsible and different actors seeking to arrive at legislation capable of meeting the EU requirements. Holmen actively participated in this work.

Management system certifications

Production facilities ¹⁾	Environment	Energy	Quality	Health and safety
	ISO 14001	ISO 50001	ISO 9001	OHSAS 18001
Iggesund Mill ²⁾	2001	2005	1990	2016
Workington Mill	2003	2015	1990	2005
Hallsta Paper Mill	2001	2005	1993	2012
Braviken Paper Mill	1999	2006	1996	2015
Iggesund Sawmill ³⁾	1999	2006	1997	2017
Braviken Sawmill ³⁾	2011	2011	2011	2017

The years given in the table are the years when the certification was first issued. The certifications mean that procedures are in place for planning, implementation and follow-up, as well as measures to enable continuous improvement in the work on the various management systems. Certifications can be viewed at holmen.com/certificates.

1) Holmen's forest operations are certified in accordance with environmental management system ISO 14001. Forest operations are also certified under criteria issued by PEFCTM and FSC[®] respectively and have chain-of-custody certification (FSC[®] Controlled Wood), which means an assurance that non-certified wood also comes from controlled sources. All the facilities at which wood raw material is used have chain-of-custody certification.

2) The certifications include the production unit in Strömsbruk and operations at Skärnäs Terminal.

3) From 2011 the certification is a joint certification for the two sawmills. For Linghem Sawmill, which was acquired in 2017, work began during the year to incorporate its operations under the certification of the other sawmills.

Emission allowances and electricity certificates

Within the EU Emissions Trading Scheme, Holmen has been awarded emission allowances up to 2020. In recent years, Holmen has significantly reduced the use of fossil fuels as a result of investments in bio-based energy production at several facilities. Surplus allocated emission allowances have been able to be sold.

The Group has produced renewable electricity for several years and electricity certificate trading has generated revenues. In the UK, electricity distributors have to meet a certain quota for renewable electricity, and producers of renewable electrical energy receive green Renewables Obligation Certificates in proportion to the amount of electricity generated. The mill in Workington obtained these green certificates in 2017.

Exceedances and complaints

The environmental manager within each operation handles any incidents that occur. Close dialogue with the mills' local residents is important in order to identify and address any views on operations at an early stage.

29 (44) industrial incidents were reported by the mills to the supervisory authorities during the year. The nonconformities were not of a significant nature in terms of environmental impact or impact on profits. Corrective measures were taken to deal with these cases, in line with the environmental management system of the operations concerned.

Discontinued operations

In consultation with the environmental authorities, studies are being conducted at contaminated discontinued industrial sites where Holmen has operated in the past. In 2017, studies were in progress at different stages regarding the former sawmills Håstaholmen, Stocka and Lännaholm, the sulphite mills at Strömsbruk, Domsjö and Lodbby, the former ground wood mill in Bureå and a landfill site in Kvillefors. Remediation of land and buildings at the former industrial site of a surface treatment plant in Iggesund was completed in the first quarter of 2017.



Varsvik wind farm in Hallstavik.

Together we achieve success

Competent employees and a value-driven company culture are important to Holmen attaining its business objectives.

Values and management by objectives

Holmen's core values of *courage, commitment* and *responsibility* combined with the Code of Conduct create a framework for how employees should act and how leadership should be structured.

Expectations concerning what the organisation should achieve are clarified with the help of a process of management by objectives, in which success factors are identified and progress is monitored via key performance indicators. Use of a simple tool for continuous follow-up ensures that the organisation is applying appropriate priorities to attain the objectives established.

How work is managed

HR issues are conducted and developed Group-wide and locally. Employees and managers bear joint responsibility for a good working climate that promotes development. At Group-wide level, the Senior Vice President Human Resources is responsible for coordination and for strengthening Holmen's employer brand.

Holmen's Code of Conduct, policies and values are part of every employee's induction programme. To keep them front of mind, the content is repeated in training at meetings with employees, where the engagement of managers is key. Compliance is monitored partly through employee surveys and appraisal talks, pay surveys, safety statistics and audits of the organisational and social work environment. Where non-compliances or failings are found in terms of the corporate culture, the issue is addressed on a case-by-case basis. The steering documents below are particularly important for HR work and the employees.

Code of Conduct. Holmen's operations must be characterised by responsible behaviour towards employees, shareholders, customers, suppliers, stakeholders, agencies and the surrounding community. The Code of Conduct is

one way of ensuring this by clearly setting out and emphasising the requirements and expectations made of employees.

HR policy. The policy was updated and adopted in 2017. It describes expectations of employeeship and management, and sets out the remit of management by objectives, talent management, cooperation with unions, equality, pay, working hours and other terms of employment, health and safety, travel, internal representation, social engagement and side-lines, as well as the use of tools.

Work environment policy. The policy sets out how Holmen is to ensure a good working environment in terms of health and safety.

Business ethics policy. The policy and associated guidelines address issues including anti-corruption and competition and provide clear guidance on how to maintain good business practices when dealing with external contacts in various markets. It also states that employees must carefully consider the meaning and purpose of any favours/benefits offered in their contacts with customers and suppliers. Employees in departments at risk of encountering unauthorised behaviour receive special training on these issues.

Recruitment and development

To maintain competitiveness over time, attracting the right employees is of the utmost importance. The Group's sustainability profile, combined with our products geared towards the future and a values-driven company culture, strengthens Holmen's employer brand. To ensure the development of good leadership, Holmen runs internal leadership programmes for managers at all levels. In addition, there are development programmes for specialists who drive change management. Holmen also takes a structured approach to identifying and developing talent in the organisation.

Equality

With respect for human rights, Holmen works for a workplace climate that is founded in the equal value of all people. All Holmen's employees must have the same rights, obligations and opportunities irrespective of their sex, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation and age.

Holmen draws up action plans and annual pay surveys in line with the Equality Act and uses appraisal talks and employee surveys as additional tools.

The forest industry has long been a male-dominated sector. Holmen is working to attain a better balance and just over 19 (19) per cent of employees are women. In 2017 the proportion of women managers was approximately 21 (19) per cent.

Employee surveys

Employee surveys are conducted to follow up working conditions and identify improvement measures. They are carried out locally to produce results closer to operations with a greater opportunity to put appropriate measures in

place. As well as surveys, appraisal talks are held with a target frequency of at least once a year for all employees. In 2017 approximately 80 per cent of Holmen's employees took part in such appraisals.

Union cooperation

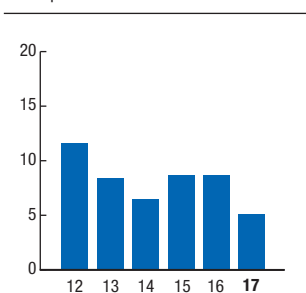
A relationship with the union organisations that is based on trust is important and helps drive Holmen forward. Collaboration with trade unions takes place in consultation groups at various levels in the company and internationally in the Holmen European Works Council. The company's employees are represented on the Group Board by three members and three deputy members. In 2017 the level of union membership reached 77 (67) per cent.

Health and safety

The aim of Holmen's work on safety is to make the workplace free of injuries for employees. A safe work environment is always high on the agenda and the issue is monitored constantly at management level. Holmen conducts Group-wide, systematic work on health and safety in line with OSHAS 18000. All units are certified with the exception of Lingham Sawmill, which was acquired in 2017. Work on certification began during the year. In 2017, health and safety work focused on safety behaviours, shared rules and exchanging experiences. The number of industrial accidents per million hours worked fell by over 40 per cent in 2017 compared with 2016, from 8.8 in 2016 to 5.1 in 2017. The dominant causes are slips, trips and pinch injuries. The long-term target is zero accidents and several units have also been at this level for more than a year. By the end of 2018 the interim target is for the number of accidents to be half the 2017 figure.

In 2017 sickness absence was 4.2 per cent, which is on a par with previous years. Long-term sickness absence (more than 60 days) is at 2.0 per cent, which is also on a par with previous years. The good health index is a measure of the proportion of employees with no sick leave during the year. The figure for 2017 was 49 per cent, which is on a par with recent years.

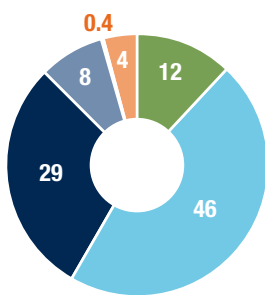
Industrial accidents
with more than 8 hours of absence
per million hours worked





Petra Arborén, Claes Lindqvist, Malin Ekroos, Iggesund Mill.

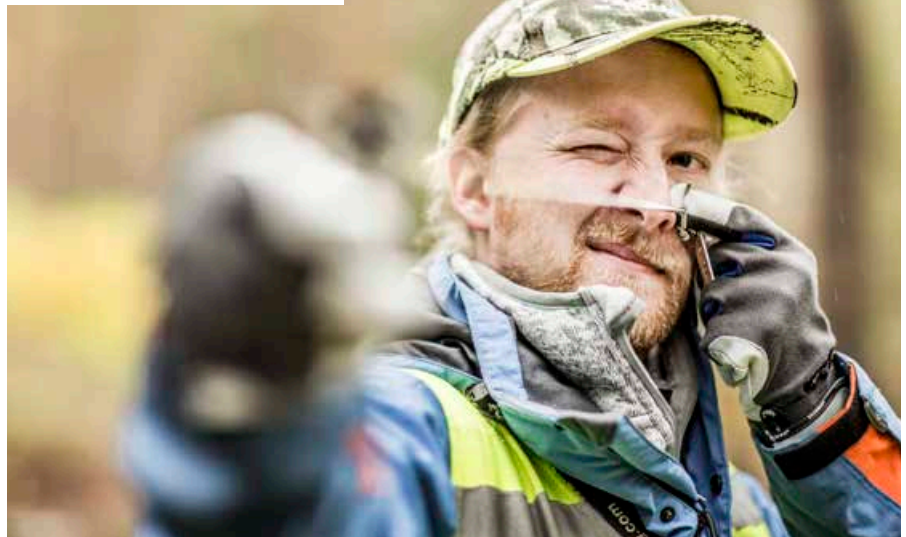
Average number of employees
Business area, %



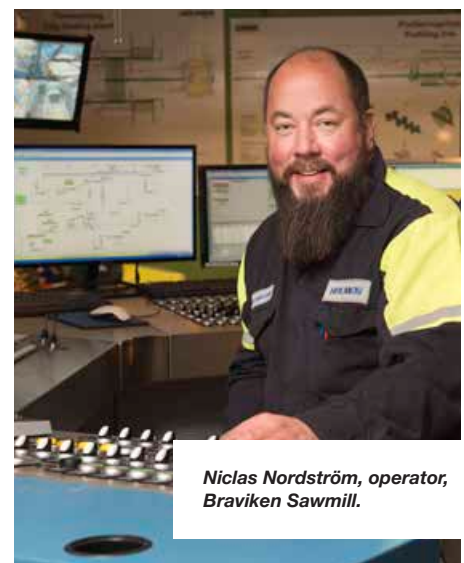
Total: 2 976

Forest	363
Paperboard	1 383
Paper	858
Wood Products	251
Renewable Energy	11
Group-wide	110

Cristoffer Björk, operational planner and forest planner, analyses the land area in a stand using a relascope.



Sandra Kolar, production engineer, Hallsta Paper Mill.



Niclas Nordström, operator, Braviken Sawmill.

Corporate governance report



Holmen AB is a Swedish public limited company, listed on the Stockholm Stock Exchange (Nasdaq Stockholm) since 1936. The preparation of a corporate governance report is a requirement under the Swedish Annual Accounts Act. The corporate governance report complies with the rules and instructions stipulated in the Swedish Code of Corporate Governance.

Shareholders

Holmen had 30 903 shareholders at year-end 2017. Private individuals with Swedish citizenship accounted for the largest category of owners with 28 967 shareholders.

The largest owner at year-end, with 61.6 per cent of votes and 32.9 per cent of capital, was L E Lundbergföretagen, which means that a Group relationship exists between L E Lundbergföretagen AB (corporate ID number 556056-8817), whose registered office is in Stockholm, and Holmen. The Kempe Founda-

tions constitute the second-largest owner and their holdings of Holmen shares amounted to 17.0 per cent of votes and 7.0 per cent of capital at the same date. No other individual shareholder controlled as much as 10 per cent of the votes. Employees have no holdings of Holmen shares via a pension fund or similar system.

There is no restriction on how many votes each shareholder may cast at the Annual General Meeting (AGM).

At the 2017 AGM, the Board's authorisation to purchase up to 10 per cent of the company's shares was renewed. No buy-backs took place during the period. As previously, the company holds 0.9 per cent of all shares.

See pages 36–37 for further information on the shares and ownership structure.

General meeting of shareholders

The notice convening the AGM is sent no earlier than six and no later than four weeks before the meeting. The notice contains: a) information about registering intention to attend and entitlement to participate in and vote at the meeting; b) a numbered agenda of the items to be addressed; c) information on the proposed dividend and the main content of other proposals. Shareholders or proxies are entitled to vote in respect of the full number of shares owned or represented. Registration for the meeting is made by letter, telephone or at holmen.com. Notices convening an Extraordinary General Meeting (EGM) called to deal with changes to the company's articles of association shall be sent no earlier than six and no later than four weeks before the meeting.

Proposals for submission to the AGM should be addressed to the Board and submitted in good time before the notice is distributed. Information about the rights of shareholders to have matters discussed at the meeting is provided at holmen.com.

It was announced on 5 April 2017 that the 2018 AGM would take place in Stockholm on 10 April 2018.

Nomination committee

The AGM resolved to establish a nomination committee to consist of the chairman of the Board and one representative from each of the three shareholders in the company that control

the most votes at 31 August each year. The composition of the nomination committee for the 2017 and 2018 AGMs is shown in the table on page 30.

The nomination committee's mandate is to submit proposals for the election of Board members and the Board chairman, for the Board fee and auditing fees and, where applicable, for the election of auditors. The committee's proposals are presented in the notice convening the AGM.

The nomination committee applies rule 4.1 of the Swedish Corporate Governance Code (the Code) as a diversity policy in establishing proposals, which means the composition of the Board should reflect the company's business operations, phase of development and other circumstances, and should be diverse and wide-ranging in terms of the expertise, experience and background of the members elected by general meetings. An even gender distribution is sought. The nomination committee has observed this policy in its proposals to the Board. Further information about the work of the nomination committee will be provided at the 2018 AGM.

For the 2018 AGM, the nomination committee proposes that the Board consist of nine members elected by the AGM. The nomination committee proposes the re-election of the current Board members: Fredrik Lundberg (who is also proposed for re-election as chairman of the Board), Carl Bennet, Lars G Josefsson, Lars Josefsson, Carl Kempe, Louise Lindh, Ulf Lundahl, Henriette Zeuchner and Henrik Sjölund.

Composition of the Board

The members of the Board are elected each year by the AGM for the period until the end of the next AGM. According to the articles of association, the Board should consist of seven to eleven members. The company's articles of association contain no other rules regarding the appointment or dismissal of Board members, or regarding amendments to the articles, or restrictions on how long members can serve on the Board.

The 2017 AGM re-elected Fredrik Lundberg, Carl Bennet, Lars G Josefsson, Lars Josefsson, Carl Kempe, Louise Lindh, Ulf Lundahl, Henriette Zeuchner and

AGM 2017

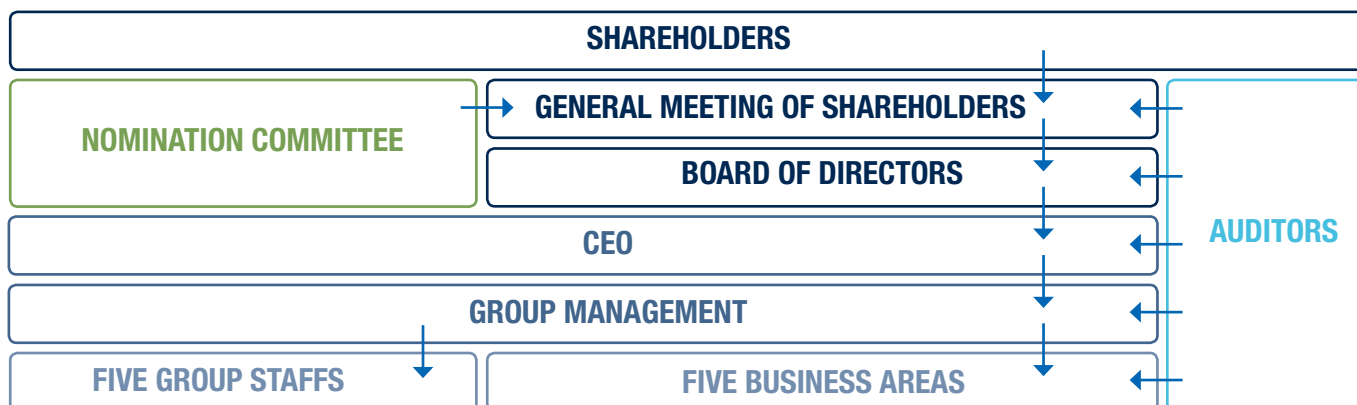
The 2017 AGM and the material presented was in Swedish. The notice convening the meeting, the agenda, the CEO's speech and the minutes are available at holmen.com.

The meeting was attended by all AGM-elected Board members, Group management and the company's auditors. During the AGM, the shareholders had the opportunity to ask and obtain answers to questions. The AGM adopted the income statement and balance sheet, decided on the appropriation of profits and granted the departing Board discharge from liability. The minutes of the meeting were checked and approved by Anne-Charlotte Hormgard of The Third Swedish National Pension Fund (AP3) and Emelie Westholm of Folksam.

It was not possible to follow or participate in the meeting from other locations using communication technology. Similarly, no such possibility is planned for the 2018 meeting.

Board meetings

The Board held ten meetings in 2017, four of which were in connection with the company's publication of its quarterly reports. One meeting was dedicated to reviews of strategic issues and the Group budget for 2018. One meeting was held in connection with the Board meeting important paperboard and paper customers. Two meetings were held in connection with the company's AGM. Short meetings were held by telephone on two occasions. The Board also paid special attention to strategic, financial and accounting issues, follow-up of business operations and major investment matters. On one occasion the company's auditors reported directly to the Board, providing a presentation about their audit of the accounts and internal control.



Henrik Sjölund to the Board. Fredrik Lundberg was re-elected chairman. At the statutory first meeting of the new Board in 2017, Carl Kempe was elected deputy chairman and Lars Ericson, Senior Vice President Legal Affairs, was appointed secretary of the Board.

Over and above the nine members elected by the AGM, the local labour organisations have a statutory right to appoint three members and three deputy members.

Of the nine Board members elected by the AGM, eight are deemed independent of the company as defined by the Code. The CEO is the only Board member with an operational position in the company. Further information about the members of the Board is provided on pages 70–71.

The Board's activities

The activities of the Board follow a plan that, among other things, aims to ensure that the Board obtains all requisite information. Each year the Board decides on written working procedures and issues written instructions. The latter relate to the division of responsibilities between the Board and the CEO and the information that the Board is to receive continually regarding financial developments and other key events. Employees of the company participate in Board meetings to submit reports.

In order to develop the work of the Board, an annual evaluation is undertaken involving each member answering a questionnaire containing relevant questions concerning the Board's work and having the opportunity to make suggestions on how to enhance the Board's work. Their responses were presented and discussed at a Board meeting. The results of the 2017 evaluation will form the basis for planning the Board's work for the coming year. The chairman of the Board has reported the results of the evaluation to the nomination committee.

Remuneration

The Board has appointed a remuneration committee consisting of Fredrik Lundberg and Carl Bennet. During the year, the committee prepared matters pertaining to the remuneration and other employment conditions of the CEO.

Remuneration and other employment conditions for senior management who report directly to the CEO are decided by the latter in accordance with the pay policy established by the remuneration committee. The remuneration committee has evaluated the application of both this policy and the guidelines on the remuneration of senior management adopted by the AGM.

The Group applies the principle that each

manager's manager must approve decisions on remuneration in consultation with the relevant personnel manager.

At the 2017 AGM the Board set out its proposals regarding guidelines for remuneration of the CEO and other senior management, i.e. heads of business areas and heads of Group staffs who report directly to the CEO. The AGM adopted the guidelines in the proposal. The Board proposes unchanged guidelines to the 2018 AGM. These guidelines and information about remuneration are presented in Note 4 on page 50.

The 2017 AGM approved the Board fee and payment of the auditors' fee as invoiced.

The 2016 AGM approved a targeted share savings programme for Group management employees, heads of the business areas and a number of key individuals in the Holmen Group. Further information about the share savings programme is provided in Note 4.

Group management

The Board has delegated operational responsibility for management of the company and the Group to the CEO. The Board annually decides on instructions covering the distribution of tasks between the Board and the CEO.

Holmen's Group management comprises the company's CEO, the heads of four of the

Board members as of the 2017 AGM

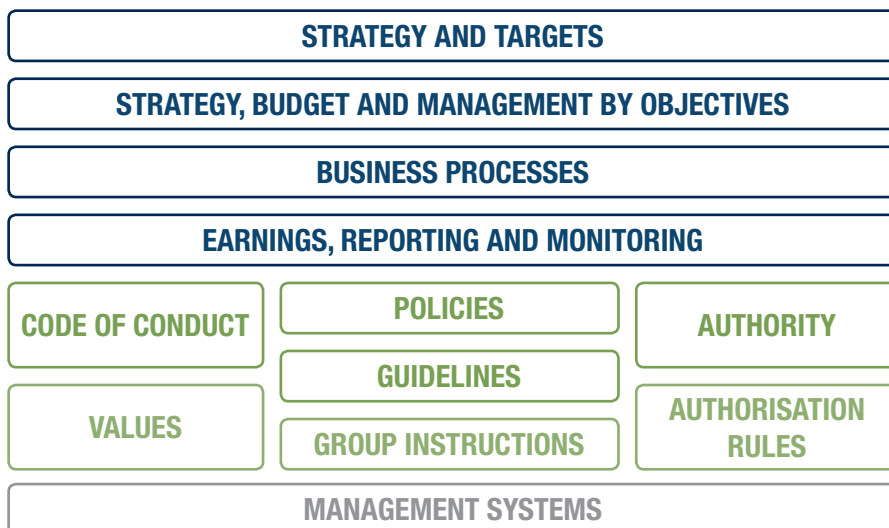
Board members	Elected	Role on the Board	Audit committee	Remuneration committee	Attendance at meetings:			Fee (SEK '000)
					Board ¹⁾	Audit committee	Remuneration committee	
Fredrik Lundberg	1988	Chairman	Member	Chairman	10/10	5/5	1/1	680
Carl Kempe	1983	Deputy chairman	Member	-	9/10	5/5	-	340
Carl Bennet	2009	Member	Member	Member	10/10	5/5	1/1	340
Lars G Josefsson	2011	Member	Member	-	8/10	5/5	-	340
Lars Josefsson	2016	Member	Member	-	10/10	5/5	-	340
Louise Lindh	2010	Member	Member	-	10/10	5/5	-	340
Ulf Lundahl	2004	Member	Chairman	-	9/10	5/5	-	340
Henriette Zeuchner	2015	Member	Member	-	10/10	5/5	-	340
Henrik Sjölund	2014	Member, President and CEO	-	-	10/10	-	-	-

1) With one exception, absence relates to additional meetings by telephone held at very short notice.

According to the nomination committee, Fredrik Lundberg, Carl Kempe, Carl Bennet, Lars G Josefsson, Lars Josefsson, Louise Lindh, Ulf Lundahl and Henriette Zeuchner are independent of the company and its senior management, and Lars G Josefsson, Lars Josefsson, Ulf Lundahl, Henriette Zeuchner and Henrik Sjölund are independent of the company's major shareholders.

Employee representatives

Steewe Björklundh, member, elected 1998	Kenneth Johansson, member, elected 2004	Tommy Åsenbrygg, member, elected 2009
Per-Arne Berg, deputy member, elected 2015	Daniel Hägglund, deputy member, elected 2014	Christer Johansson, deputy member, elected 2017



Internal management processes.

five business areas and the heads of the five Group staffs. Information about the CEO and other members of Group management is provided on page 72.

Group management met on nine occasions in 2017. Its meetings dealt with matters such as earnings trends and reports before and after Board meetings, strategy reviews, budgeting, investments, internal control and reviews of market conditions, general development of the economy and other external factors affecting the business. Projects relating to business areas and Group staffs were also discussed and decided on.

Audit

KPMG, which has been Holmen’s auditor since 1995, was re-elected by the 2017 AGM as auditor for a period of one year. Authorised public accountant Joakim Thilsted was appointed as the principal auditor. Under applicable regulations KPMG can be re-elected as auditor up until 2023. KPMG audits Holmen AB and almost all of its subsidiaries.

The examination of internal procedures and control systems begins in the second quarter and continues thereafter until year-end. The interim report for January–September is subject to review by the auditors. The examination and audit of the final annual accounts and the annual report take place in January–February.

During the year the Board established an audit committee consisting of external Board members, chaired by Ulf Lundahl. The audit committee met five times in 2017. The Board’s

reporting instructions include requirements that the members of the Board shall receive a report each year from the auditors confirming that the company’s organisation is structured to enable satisfactory supervision of accounting, management of funds and other aspects of the company’s financial circumstances. The auditors reported to the audit committee at four meetings in 2017.

In addition to the audit assignment, Holmen has consulted KPMG on matters pertaining to taxation, accounting and for various investigations. The remuneration paid to KPMG for 2017 is stated in Note 5 on page 51. KPMG is required to assess its independence before making decisions on whether to provide Holmen with independent advice alongside its audit assignment.

Internal management processes

A review is conducted annually of each business area’s strategy, including the business’ goals. The strategy is presented to the Board and forms the basis of the expectations applied to the units in each respective business area. On the basis of the expectations, each unit sets objectives and identifies success factors for achieving them. Key performance indicators (KPIs) are linked to the success factors in order to measure and demonstrate changes in performance. The strategy review also provides the basis for the budget, in which decisions are taken on the distribution of resources and targets for the coming year are set.

The business areas guide the operating

businesses towards these targets using processes for purchasing, production and sales, and supported by HR, financial management, research and development, IT, environment and communication processes. Operations are followed up through regular reporting of financial performance and KPIs, along with additional qualitative analysis. The scope for this work is set by policies, guidelines and instructions, together with authority and authorisation rules.

Sustainability and social responsibility.

Holmen’s Code of Conduct provides guidance on day-to-day operations and clarifies what expectations are made of employees. The business ethics policy and its accompanying guidelines address matters such as anti-corruption measures and competition issues. Employees in departments at risk of encountering unauthorised behaviour receive special training on these issues. The Supplier Code of Conduct covers the areas of anti-corruption measures, human rights, health and safety and the environment. Holmen is subject to the UK Modern Slavery Act and a report relating to this is available at holmen.com.

Materiality analysis. In order to further focus and manage Holmen’s sustainability work, a materiality analysis was initiated in 2017 and this will be completed in 2018.

Whistleblower function. A whistleblower function is available so that employees and other stakeholders can highlight any deficiencies in Holmen’s financial reporting or other possible areas of concern at the company.

Internal control of financial reporting

The Board’s responsibility for internal control and financial reporting is regulated by the Swedish Companies Act and the Swedish Corporate Governance Code. Under this code, the Board is also responsible for ensuring that the company is managed in a sustainable and responsible manner. Day-to-day responsibility for all these matters is delegated to the CEO.

Purpose and structure. The purpose of internal control is to ensure that Holmen achieves its financial reporting objectives (see box on page 31), ensure the company’s assets are managed according to Group rules and to prevent irregularities. Group Finance coordinates and monitors the internal control process concerning financial reporting in the Group.

Composition of the nomination committee

Name	Representing	Before AGM:		Independent of the:	
		2018	2017	Company	Largest shareholder (in terms of votes)
Mats Guldbrand	L E Lundbergföretagen*	x (chairman)	x (chairman)	Yes	No
Fredrik Lundberg	Chairman of the Board	x	x	Yes	No
Alice Kempe	Kempe Foundations*	x	x	Yes	Yes
Hans Hedström	Carnegie funds*	x	x	Yes	Yes

*At 31 August 2017, L E Lundbergföretagen controlled 61.6 per cent of the votes, the Kempe Foundations controlled 17.0 per cent and Carnegie funds (Sweden) controlled 1.7 per cent.

This work adheres to guidelines issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in respect of internal control over financial reporting. The framework comprises five basic elements: control environment, risk assessment, control activities, information and communication, as well as monitoring activities. The framework has been modified to suit the estimated needs of Holmen's various operations.

Control environment. The control environment provides the basis for internal control of financial reporting and is based in part on the company's internal management processes. The Board of Directors' procedural rules and the instruction for the CEO establish the distribution of roles and responsibilities to ensure effective control and management of the business' risks.

Policies, guidelines and instructions contribute to making individuals aware of their role in establishing good internal control. These documents also ensure that financial reporting complies with the laws and rules that apply to companies listed on Nasdaq Stockholm and the local rules in each country where the company operates.

Risk assessment. Risk assessment activities aim to identify and evaluate the risks that can result in the Group's financial reporting objectives not being met. The results of these risk-related activities are compiled and assessed under the guidance of Group Finance.

Holmen's greatest risks regarding financial reporting are linked to the valuation of biological assets and property, plant and equipment, pension provisions, other provisions and to

financial transactions. The risk assessment also involves identifying and assessing operational risks. For further information, see the Risk Management section on pages 32–35.

Control activities. To ensure that Holmen's financial reporting objectives are met, control requirements are incorporated into the processes that are deemed relevant: sales, purchasing, investments, personnel, financial statements, payments and IT. Control activities aim to prevent, identify and rectify errors and discrepancies. Business-specific self-assessments that are completed by all Group units set out what control requirements apply for each respective process and whether or not they are met.

Information and communication. Holmen's financial information provision, both external and internal, adheres to a communication policy established by the CEO. The provision of financial information for Holmen's shareholders and other stakeholders must be accurate, comprehensive, transparent and consistent, and must take place on equal terms and at the right time.

Follow-up and evaluation. Control activities are assessed regularly to ensure that they are effective and appropriate. The results of self-assessments are followed up on a continual basis and discrepancies are reported to the Executive Vice President. The accuracy of self-assessments is subject to testing.

The reporting of internal control to Group management takes place once a year. The company's auditors report their observations from the review of internal control to the Board during the year.

Holmen's financial reporting

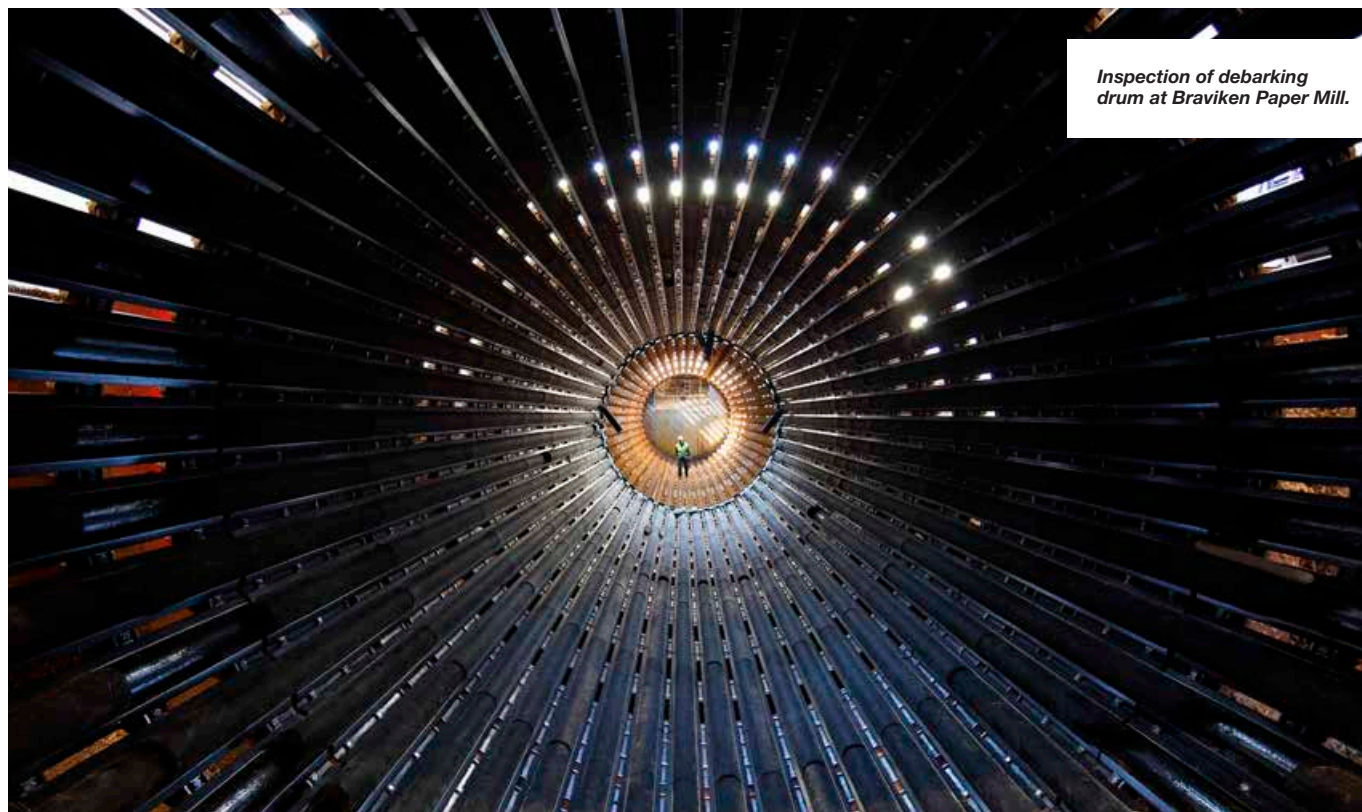
External financial reporting must:

- be accurate and complete, and comply with applicable laws, regulations and recommendations
- provide a true and fair description of the company's business
- support a reasoned and informed valuation of the business.

Internal financial reporting must also support correct business decisions at all levels in the Group.

Follow-up is an important tool to identify possible deficiencies within the Group and to address these through the development of new control requirements.

Statement on internal audit. The Board of Directors does not believe that particular circumstances in the business or other conditions exist to justify an internal audit function. The internal control managed by the Group, together with the activities carried out by the external auditors, is deemed to be sufficient.



Inspection of debarking drum at Braviken Paper Mill.

Risk management

The business areas are responsible for their operations and manage business risks such as credit risks in relation to the Group's customers. They also take decisions regarding volumes and pricing with the aim of consistently generating a good return on invested capital. Group Finance manages the Group's funding and financial risks, based on a financial policy that is established by the Board and is characterised by a low level of risk. The purpose is to minimise the Group's cost of capital through suitable financing as well as effective management and control of the Group's financial risks.

Operational risks

Risk	Risk management	Comment
<p>Demand and prices. Changes in demand and prices affect opportunities to achieve profitability targets.</p>	<p>Changes in prices and deliveries largely depend on the development of the European market. This in turn is influenced by several factors, such as demand, production among European producers and changes in imports into Europe, as well as the opportunities for exporting profitably from Europe. Holmen has limited opportunities for making rapid significant changes to its range of products, but the company adapts its product focus, steering it towards the products and markets deemed to have the best long-term potential. Holmen aims to have a broad customer base and an offering that spans several product areas. This aim, combined with long-term customer relationships, reduces vulnerability to changes in the market.</p>	<p>In 2017, sales of paperboard, paper and wood products to priority end-use areas and markets increased.</p>
<p>Commodity prices. Wood, electricity and chemicals are the most significant inputs and price changes affect profitability.</p>	<p>The size of the log harvest from the company's forests is essentially the same as consumption at the company's saw mills, while pulpwood from own forests corresponds to approximately 35 per cent of the paperboard and paper mills' consumption. The Group is largely in balance in terms of pulp as a result of the integrated production process. The paperboard business generates almost all the electricity required at its own mills, while electricity for paper manufacturing is supplied from external purchases. The Group also sells electricity from its hydro power and wind power assets to the electricity grid. In net terms, the Group's own electricity generation corresponds to just under 50 per cent of its total electricity consumption. The price risk in this consumption is managed through physical fixed price contracts and financial hedging. There is a significant need for thermal energy, but this is produced locally at each mill from residual products. Chemicals are a significant input, particularly in paperboard production, but the need is reduced and used chemicals at the mill are recycled.</p>	<p>Commodity prices have been generally stable in recent years. The price of net electricity consumption is 80–85 per cent hedged for 2018–2020 and 65 per cent hedged for 2021. Lingham Sawmill, with production capacity of 75 000 cubic metres, was acquired in 2017 to strengthen the raw material supply and expand the product offering for Braviken Sawmill.</p>
<p>Facilities. Production equipment can be seriously damaged for example in the event of a fire, machine breakdown or power outage. This can lead to supply problems, unexpected costs and reduced customer confidence.</p>	<p>Damage prevention measures, regular maintenance and continual upgrades can minimise the risk of damage to facilities. Training of employees promotes participation, knowledge and awareness about these risks and how they can be countered. Holmen insures its facilities to their replacement value against property damage and consequential loss. The excess varies from one facility to another, but the maximum is SEK 30 million for any one claim. The Group has liability insurance that also covers sudden and unforeseen environmental damage affecting third parties.</p>	<p>No event causing significant damage occurred in 2017.</p>
<p>Forest. Forest fires, grazing by wild animals and insect pests are risks in growing forests.</p>	<p>The Group's forest holdings are not insured. They are widely dispersed over large parts of Sweden and the risk of extensive damage being incurred simultaneously is deemed to be low. To reduce the extent of grazing by wild animals, active efforts are undertaken on Holmen's land to maintain game at the correct population level. Insect pests such as pine weevils are countered by waxing seedlings.</p>	<p>No major unforeseen events involving damage occurred in Holmen's forests in 2017.</p>

<p>Customer credits. The risk of the Group's customers being unable to fulfil their payment obligations gives rise to credit risk.</p>	<p>The risk that the Group's customers will not fulfil their payment obligations is limited by means of creditworthiness checks, internal credit limits per customer and, in some cases, by insuring trade receivables against credit losses. Credit limits are continually monitored. Exposure to individual customers is limited.</p>	<p>At 31 December 2017 the Group's trade receivables totalled SEK 2 089 million, of which 37 per cent (46) were insured against credit losses. During the year, credit losses on trade receivables had a SEK -5 million (-5) impact on earnings. Sales to the five largest customers accounted for 13 per cent of the Group's total sales in 2017.</p>
<p>Health and safety. Incidents and accidents at the workplace pose a risk to human life and health. This could also lead to production disruptions and increased costs.</p>	<p>Good health and safety is a priority at all levels of management in the Group. Certified management systems, Group-wide targets relating to work accidents, continual training of personnel to increase risk awareness, procedures for incident and accident reporting, and risk assessment of work by contractors are examples of activities to achieve a high level of safety in the workplace.</p>	<p>The figure in 2017 was 5.1 industrial accidents per 1 million hours worked (8.8). See also page 26.</p>
<p>Environment. Production disruptions can cause breaches of emissions conditions set for the business by environmental authorities, which could impact the environment.</p>	<p>Environmental measures are organised and conducted in accordance with Holmen's environmental and energy policy. In the event of process disruptions, the environment takes precedence over production. Risks are prevented and managed through regular own checks, checks by authorities and environmental risk analyses, as well as through the use of certified environmental and energy management systems and chain-of-custody certification.</p>	<p>The mills reported 29 (44) incidents to the supervisory authorities in 2017. The nonconformities were not of a significant nature in terms of environmental impact or impact on profits.</p>
<p>Personnel. Skilled and motivated employees are key in being able to conduct long-term business operations with good profitability.</p>	<p>Issues regarding management by objectives, responsibility, participation, safety and skills development are prioritised in day-to-day work through continual feedback and dialogue between managers and employees, as well as training of personnel. Employee representatives have seats on Holmen's Board. A whistleblower function is in place if employees and other stakeholders wish to report improper conduct within Holmen.</p>	<p>No cases regarding deviations from the code of conduct or the HR policy were reported in 2017.</p>
<p>Business ethics. Both nationally and internationally, customers and partners place requirements on Holmen as a stable and reliable supplier that has good business ethics and clear sustainability principles. Deviations from principles and policies could have a negative impact on reputation and business relationships.</p>	<p>Holmen's business ethics policy and associated guidelines provide clear guidance on how to maintain good business ethics when dealing with external contacts in various markets. Training on business ethics is provided for management groups and for employees deemed to encounter issues covered by the business ethics policy, such as marketing and sales departments and purchasers.</p>	<p>No cases concerning deviations from either the business ethics policy or the parts of the Code of Conduct regarding business ethics issues were reported in 2017.</p>
<p>Suppliers. Deficiencies in the supply chain for inputs in terms of security of supply and quality can lead to production disruptions. Suppliers that do not meet Holmen's requirements can also have a negative effect on operations.</p>	<p>Holmen endeavours to have at least two approved suppliers per area of use. In addition, Holmen's Supplier Code of Conduct is included in all new contracts. It contains requirements on sustainable development, including by respecting internationally recognised principles on anti-corruption measures, human rights, health and safety and the environment. Since 2017, Holmen has hired an external partner, EcoVadis, to follow up supplier compliance with the Code in the areas of human rights, health and safety, the environment, business ethics and purchasing.</p>	<p>No cases regarding breaches of the Supplier Code of Conduct were reported in 2017. By the end of 2017, suppliers accounting for over 80 per cent of the Group's purchasing volumes had signed up to the Supplier Code of Conduct.</p>
<p>IT systems. Sales and purchasing require efficient IT support in order to manage and plan production. Disruptions in IT support and unauthorised access to information can have significant negative effects on the business.</p>	<p>Operating disruptions and unauthorised access are prevented by security measures and preventive measures in the form of appropriate physical protection, reliable server operation and secure networks. Measures and procedures are in place to minimise the risk of interruption and to manage situations if interruptions occur. Holmen is continually developing these protective measures to address changes in the risk profile.</p>	<p>Holmen is subject to the UK Modern Slavery Act and a report relating to this is available at holmen.com.</p> <p>Business operations were not affected by IT incidents in 2017.</p>
<p>Political decisions. Laws and rules in countries in which the Group operates affect how business activities can be conducted. Rules on how forests may be managed could affect future growth and harvests. Rules on the use of fresh fibre rather than recovered fibre, as well as legislation regarding water-based operations, could have a negative impact on the Group.</p>	<p>Holmen participates in national and international industry organisations whose purpose is to handle the monitoring of social trends, advocacy and political lobbying. Contact is established with local representatives and the general public in areas where the Group has operations. This takes place, for example, through consultation and information meetings and through debate in the media. On issues regarding the right to manage the forest and water-based operations, Holmen has participated actively in work with business organisations and responses to consultation on relevant subjects.</p>	<p>In late 2017, the EU issued a decision about how the land and forestry sector should contribute to the EU's climate and energy policy. The result was positive for Holmen and the Swedish forest products industry. In 2017, a parliamentary bill regarding water-based operations was introduced that could affect Holmen and the business sector's ability to develop operations.</p>

Financial risks

Risk

Currency. The Group's earnings are affected by fluctuations in exchange rates. Transaction exposure risk arises due to a significant portion of the Group's sales income being in different currencies than costs. The translation exposure risk arises from the translation of foreign subsidiaries' assets, liabilities and earnings into Swedish kronor.

Risk management

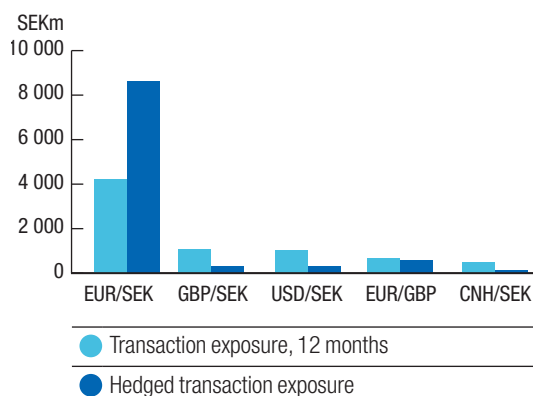
Transaction exposure. In order to reduce the impact on profit from changes in exchange rates, net flows are hedged using forward foreign exchange contracts. Net flows in euros, US dollars and sterling for the coming four months are always hedged. These normally correspond to trade receivables and outstanding orders. The Board can decide to hedge flows for a longer period if this is deemed suitable in light of the products' profitability, competitiveness and the currency situation. Currency exposure arising when investments are paid for in foreign currency is distinguished from other transaction exposure. Normally, 90–100 per cent of the currency exposure associated with major investments is hedged.

Translation exposure. Hedging exposure that arises when subsidiaries' assets and liabilities are translated into Swedish kronor (known as equity hedging) is assessed on a case-by-case basis and is arranged based on the value of net assets upon consolidation. The hedges take the form of foreign currency loans or forward foreign exchange contracts. Exposure that arises when the earnings of foreign subsidiaries are translated into Swedish kronor is not normally hedged.

Comment

For the next approximately two years, 90 per cent of expected flows in EUR/SEK are hedged at an average of 9.67, for EUR/GBP 90 per cent of one year's expected flows are hedged at 0.89. For other currencies, 4 months of flows are hedged. USD/SEK are hedged at 8.19 and GBP/SEK at 10.98.

Hedging in pounds sterling amounted to GBP 14 million at year-end. Net assets in other currencies are very limited and are not usually hedged.



Interest rates. Risks that arise when changes in the market interest rate affect the Group's interest income and expense.

The fixed interest periods for the Group's financial assets and liabilities are normally short. The Board can decide to lengthen these periods in order to limit the effect of a rise in interest rates. Derivatives in the form of interest rate swaps are used to manage fixed interest periods without altering underlying loans.

The Group's average borrowing rate in 2017 was 1.4 per cent. The table below shows the Group's fixed interest agreements by currency.

SEKm	Year 1	Year 1–3	Year 3–5	>5 years	Pension provisions	Total
SEK	-1 834	-600	0	0	-12	-2 445
EUR	-51	0	0	0	-8	-59
GBP	-446	0	0	0	-19	-465
Other items	33	0	0	0	0	33
	-2 297	-600	0	0	-39	-2 936

Credit risk from financial counterparties. The risk of financial transactions giving rise to credit risks in relation to financial counterparties.

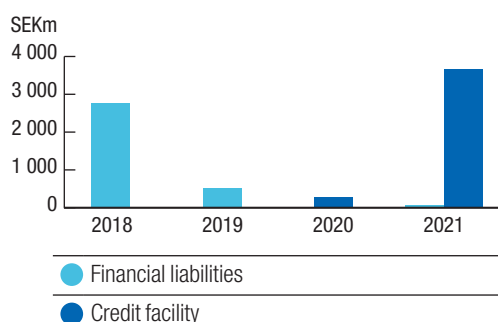
A maximum credit risk and settlement risk are established for each financial counterparty and are monitored continually. Holmen's financial counterparties are assessed using reputable credit rating agencies or, where a counterparty has no credit rating, the company's own analyses. This calculation is based on the maturity and historical volatility of different types of derivative. The maximum credit risk for other financial assets is estimated to correspond to their nominal amount.

At 31 December 2017, the Group had outstanding derivative contracts with a nominal amount of about SEK 15 billion and a net fair value of SEK -159 million. Holmen's total credit risk in derivative transactions amounted to SEK 1 497 million at year-end 2017. This calculation is based on the maturity and historical volatility of different types of derivative.

Liquidity and refinancing. The risk of the need for future funding and refinancing of maturing loans being required at a high cost.

Holmen's strategy specifies that its financial position should be strong to ensure that it has the freedom to take long-term business decisions. The goal is to not exceed a debt-to-equity ratio of 0.5. Holmen's financing mainly comprises bond loans and the issue of commercial paper. Holmen reduces the risk of future funding becoming difficult or expensive by using long-term contractually agreed credit facilities. The Group plans its financing by forecasting financing needs over the coming years based on the Group's multi-year profit forecasts and budgets that are regularly updated.

Net financial debt decreased in the year by SEK 1 009 million and amounted at 31 December 2017 to SEK 2 936 million, SEK 39 million of which comprised pension provisions. The Group has a contracted credit facility of EUR 400 million (SEK 3 936 million) with a syndicate of nine banks which expires in 2020 and 2021. The credit facility remained unutilised at year-end. It is available for use provided that the Group's debt/equity ratio is below 1.25. At year-end, the Group's debt/equity ratio was 0.13.



Sensitivity analysis

Operational risks

A one per cent change in deliveries and price of the Group's products or significant inputs is deemed to affect Group operating profit as per the table to the right.

Earnings are relatively evenly spread over the year. The clearest seasonal effects are lower personnel costs in the third quarter and the fact that electricity production at the hydro power plants is normally higher in the first and fourth quarters.

Impact on operating profit, SEKm	Change	Prices	Deliveries
Paperboard	+/- 1%	54	29
Paper	+/- 1%	54	18
Wood products	+/- 1%	16	5
Wood from company forests	+/- 1%	12	8
Hydro and wind power	+/- 1%	3	3
Input goods			
Wood*	+/- 1%	28	
Electricity*	+/- 1%	12	
Chemicals	+/- 1%	12	
Other variable costs	+/- 1%	14	
Delivery costs	+/- 1%	14	
Employees	+/- 1%	23	
Other fixed costs	+/- 1%	12	

*Taking account of harvesting of company forests and generation of own electricity, net earnings sensitivity for the Group is SEK 16 million for wood and SEK 9 million for electricity.

Financial risks

The table to the right shows the extent of the impact from a change in the Swedish krona, the market interest rate and the price of electricity on Group profit before tax and equity next year, taking account of hedging.

Earnings before tax	Change	SEKm
Exchange rates	+/- 1%	23
SEK/EUR	+/- 1%	3
SEK/USD	+/- 1%	7
SEK/GBP	+/- 1%	8
SEK/other currencies	+/- 1%	5
Electricity price	+/- 1%	1
Borrowing rate	+/-1 percentage point	21
Equity		
Transaction hedging	+/- 1%	99
Investment hedging	+/- 1%	3
Equity hedging	+/- 1%	2
Electricity hedging	+/- 1%	8
Interest rate hedging	+/-1 percentage point	12

Shareholder information

In 2017, the price of Holmen's class B shares increased by SEK 109 or 33 per cent. Earnings per share excluding items affecting comparability was SEK 19.9. It is proposed that the dividend be raised to SEK 13 (12).

Stock exchange trading

Holmen was listed on the Stockholm Stock Exchange in 1936, but was called Mo och Domsjö AB at that time. Holmen's two series of shares are listed on Nasdaq Stockholm, Large Cap. During the year, the price of Holmen's class B shares increased by SEK 109 or 33 per cent, to SEK 436. The Stockholm Stock Exchange rose by 8 per cent over the same period. Holmen's market capitalisation of SEK 36.6 billion (27.4) represents 0.6 per cent of the total value of the Stockholm Stock Exchange. The highest closing price for Holmen's class B shares was SEK 436, on 29 December. The lowest closing price was SEK 314, on 16 January. The daily average number of class B shares traded was 136 000, which corresponds to a value of SEK 50 million. The daily average number of class A shares traded was 714. Nearly 73 per cent of trading took place on Nasdaq Stockholm. The Holmen shares have also been traded on other trading platforms, such as BATS Europe, Chi-X and Turquoise.

Earnings per share

Diluted earnings per share were SEK 19.9 (16.9).

Dividend

Decisions on dividends are based on an appraisal of the Group's profitability, future investment plans and financial position.

The Board proposes that the AGM, to be held on 10 April 2018, approve a dividend of SEK 13 (12) per share. The proposed dividend corresponds to 5.0 per cent of equity. Over the past five years the dividend has averaged 4 per cent of equity.

- The final date for trading in Holmen shares including right to dividend: 10 April 2018.
- Record date for dividend: 12 April 2018.
- Payment date for dividend: 17 April 2018.

Share split

In order to make it easier for the shares to be traded on Nasdaq Stockholm, the Board proposes that the 2018 AGM approve a share split, involving each share, regardless of series, being divided into two shares (split 2:1) of the same series. The proposed record date for the share split is 2 May 2018.

Share structure

Holmen has 83 996 162 shares outstanding, of which 22 623 234 are class A shares and 61 372 928 are class B shares. The company also has 760 000 repurchased class B shares held in treasury. Each class A share carries 10 votes, and each B share one vote. In other respects, the shares carry the same rights. Neither laws nor the company's articles of association place any restrictions on the transferability of the shares.

Ownership structure

Holmen had a total of 30 903 shareholders at year-end 2017. In terms of numbers, Swedish private individuals account for the largest owner category with 28 967 shareholders. Shareholders registered in Sweden own 82 per cent (83) of the share capital. Among foreign shareholders, the largest proportion of shares are held in the US and Norway, accounting for 6 per cent and 2 per cent of capital, respectively. The largest owner at the turn of 2017/2018, with 61.6 per cent of votes and 32.9 per cent of capital, was L E Lundbergföretagen AB.

Share savings programme

The 2016 AGM decided on a targeted share savings programme for around 40 key individuals in the Holmen Group. The purpose of the programme was to strengthen the interests between the owners and the management of

the company and to create long-term commitment to Holmen. The programme involves previously repurchased shares being transferred to programme participants at the end of the term. The number of shares to be transferred depends on the return generated over the 2016–2018 period. In the event of maximum allocation, 80 000 shares will be transferred from the company to programme participants.

Share buy-backs

The company has no specific target for share buy-backs. There is a mandate to repurchase up to 10 per cent of all the company's shares. Any buy-backs are regarded as a complement to dividend payments to adjust the capital structure when circumstances are deemed favourable. The 2017 AGM renewed the Board's mandate to decide on the acquisition of up to 10 per cent of the company's shares through the acquisition of class B shares. No shares were repurchased during the year. As previously, the company holds 0.9 per cent of all shares. The Board proposes that the 2018 AGM also authorise the Board to repurchase and transfer up to 10 per cent of all shares in the company through the acquisition of class B shares.

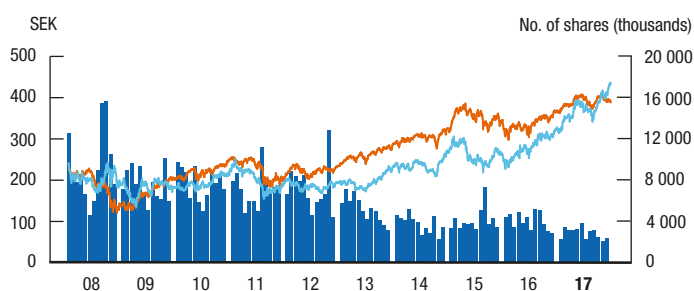
Communication with shareholders

Holmen regularly provides information to the stock market via press conferences in connection with the publication of quarterly reports and on the occasion of the AGM. It also delivers information that is important to the stock market by publishing press releases. The holmen.com website offers financial information in the form of reports, presentations and compiled financial data. The holmen.com website also has recordings of the latest press conferences, together with information on the company's shares, owners, insider trading and more.

Analysts

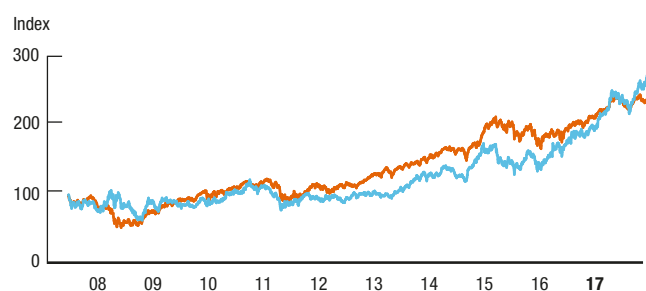
Analysts at 10 brokerage firms and banks monitor Holmen's development. This means that they publish analyses of Holmen on an ongoing basis. A list of these analysts is available at holmen.com.

Share price performance, Holmen class B and general index



● Holmen B ● Affärsvärlden General Index
 ● Total number of class B shares traded (thousands)

Total shareholder return on Holmen class B shares and general index
 incl. reinvested dividend excluding tax

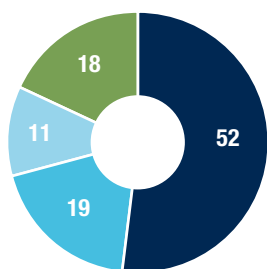


● Holmen B ● General index (SIX Return Index)

Source: Macrobond

Shareholder categories

Share of capital, %



Swedish institutions	52%
Swedish equity funds	19%
Swedish private individuals	11%
Foreign shareholders	18%

Shareholder structure at 31 December 2017

	% of capital	% of votes
L E Lundbergföretagen	32.9	61.6
Kempe Foundations	7.0	17.0
Carnegie funds (Sweden)	5.4	1.6
Nordea funds	3.2	0.9
Lannebo funds	3.2	0.9
Alecta	2.9	0.8
Swedbank Robur Fonder	2.0	0.6
DFA funds (US)	1.9	0.6
Vanguard (US)	1.5	0.4
Norges Bank	1.5	0.4
Total	61.3	84.9
Other	38.7	15.1
Total*	100.0	100.0
*Of which non-Swedish shareholders.	17.7	5.4

The 10 identified shareholders with the largest holdings in terms of capital. Some large shareholders may have their holdings registered under nominee names, in which case they are included among 'Other'.

Ownership structure

No. of shares	Shareholders	Share of capital, %
1-1 000	29 105	6
1 001-100 000	1 788	27
100 001-	10	67
Total	30 903	100

Share structure

Share	Votes	No. of shares	No. of votes	Quotient value	SEKm
Class A	10	22 623 234	226 232 340	50	1 131
Class B	1	62 132 928	62 132 928	50	3 107
Total no. of shares		84 756 162	288 365 268		4 238
Holding of own class B shares repurchased		-760 000	-760 000		
Total number of shares outstanding		83 996 162	287 605 268		

Changes in share capital 2000-2017

	Change in no. of shares	Total no. of shares	Change in share capital, SEKm	Total share capital, SEKm
2001 Cancellation of shares repurchased	-8 885 827	79 972 451	-444	3 999
2004 Conversion and subscription	4 783 711	84 756 162	239	4 238

Data per share

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Diluted earnings per share, SEK ¹⁾	19.9	16.9	6.7	10.8	8.5	22.1	47.1	8.4	12.0	7.6
Dividend, SEK	13⁵⁾	12	10.5	10	9	9	8	7	7	9
Dividend as % of:										
Equity	5	5	4	4	4	4	3	3	4	5
Closing listed price	3	4	4	4	4	5	4	3	4	5
Profit/loss for the year	65	71	158	93	106	41	17	83	58	118
Return, equity, % ¹⁾	8	7	3	4	3	9	23	4	6	4
Return, capital employed, % ⁶⁾	9	9	6	6	5	7	9	6	7	6
Equity per share, SEK	262	253	248	250	248	248	235	201	196	186
Closing listed price, B, SEK	436	327	262	266	234	192	198	221	183	194
Average listed price for year, B, SEK	372	281	264	236	198	186	201	195	180	203
Highest listed price for year, B, SEK	436	327	306	272	235	204	251	226	206	242
Lowest listed price for year, B, SEK	314	227	219	209	173	169	156	173	135	170
Total closing market capitalisation, SEK '000 m	36.6	27.4	22.3	22.3	19.7	16.2	16.6	18.5	15.4	16.2
P/E ratio ²⁾	22	19	39	25	28	9	4	26	15	25
EV/EBITDA ³⁾	14	11	10	10	11	9	7	10	7	9
Closing beta value (48 months), B, at year-end ⁴⁾	0.8	0.8	0.7	0.8	0.7	0.9	0.8	0.8	0.7	0.5
Number of shareholders at year-end	30 903	28 159	28 176	27 788	27 692	28 440	28 899	28 339	30 425	29 745

1) See page 78: Definitions and glossary. 2) Closing listed price divided by diluted earnings per share. 3) Market capitalisation plus net financial debt at year-end (EV) divided by EBITDA.

4) Measures the sensitivity of the yield on class B shares in relation to the yield on the Affärsvärlden General Index over a period of 48 months. 5) Board proposal. 6) Excl. items affecting comparability.

Financial statements

Income statement, SEKm	Note	2017	2016
Net sales	2	16 133	15 513
Other operating income	3	1 136	1 559
Change in inventories		-128	203
Raw materials and consumables		-8 945	-8 801
Personnel costs	4	-2 252	-2 268
Other operating costs	5, 20	-3 189	-3 432
Depreciation and amortisation according to plan	9, 10	-991	-1 018
Impairment losses	10	-	-122
Change in value of biological assets	11	415	315
Profit/loss from investments in associates and joint ventures	12	-12	-18
Operating profit/loss		2 166	1 930
Finance income	6	2	13
Finance costs	6	-55	-84
Earnings before tax		2 113	1 859
Tax	7	-445	-436
Profit/loss for the year		1 668	1 424
Attributable to:			
Owners of the parent company		1 668	1 424
Earnings per share (SEK)	8		
basic		19.9	16.9
diluted		19.9	16.9
Average number of shares (million)	8		
basic		84.0	84.0
diluted		84.0	84.0

Operating profit amounted to SEK 2 166 million (1 930). Deliveries of paperboard, paper and wood products increased and the sales mix improved, but this was offset by higher costs for input goods and shipping, as well as significant maintenance shutdowns within paperboard.

Operating profit for 2016 was negatively affected by SEK 350 million in connection with the sale of the mill in Madrid and positively affected by SEK 118 million with regard to insurance compensation for reconstruction following the fire at Hallsta Paper Mill, which together amount to a net total of SEK -232 million.

Net financial items for 2017 totalled SEK -53 million (-71). Average net debt was lower than in the previous year.

Tax recognised totalled SEK -445 million (-436) in 2017. Recognised tax corresponds to 21 per cent of profit before tax.

Statement of comprehensive income, SEKm	Note	2017	2016
Profit/loss for the year		1 668	1 424
Other comprehensive income			
Revaluations of defined benefit pension plans	17	121	-159
Tax attributable to items that will not be reclassified to profit/loss for the year	7	-24	29
Total items that will not be reclassified to profit/loss for the year		97	-130
Cash flow hedging			
Revaluation		-88	96
Transferred from equity to the income statement		124	126
Transferred from equity to non-current assets		-1	-12
Translation difference on foreign operations		36	-165
Hedging of currency risk in foreign operations		-49	1
Share in joint ventures' other comprehensive income	12	-4	-21
Tax attributable to items that will be reclassified to profit/loss for the year	7	3	-52
Total items that will be reclassified to profit/loss for the year		21	-26
Total other comprehensive income		119	-157
Total comprehensive income		1 786	1 267
Attributable to:			
Owners of the parent company		1 786	1 267

Balance sheet at 31 December, SEKm	Note	2017	2016
Non-current assets			
Non-current intangible assets	9	90	87
Property, plant and equipment	10	9 078	9 387
Biological assets	11	17 831	17 448
Investments in associates and joint ventures	12	1 749	1 773
Other shares and participating interests	12	2	2
Non-current financial receivables	13	42	39
Deferred tax assets	7	1	4
Total non-current assets		28 793	28 740
Current assets			
Inventories	14	2 905	2 981
Trade receivables	15	2 089	2 174
Current tax receivable	7	36	132
Other operating receivables	15	658	564
Current financial receivables	13	32	89
Cash and cash equivalents	13	356	210
Assets held for sale	11	23	-
Total current assets		6 098	6 151
Total assets		34 891	34 891
Equity			
Share capital		4 238	4 238
Other contributed capital		281	281
Reserves		-214	-236
Retained earnings incl. profit/loss for the year		17 731	16 960
Total equity attributable to the owners of the parent company		22 035	21 243
Non-current liabilities			
Non-current financial liabilities	13	552	882
Pension provisions	17	39	201
Other provisions	18	662	673
Deferred tax liabilities	7	5 650	5 613
Total non-current liabilities		6 903	7 368
Current liabilities			
Current financial liabilities	13	2 775	3 200
Trade payables	19	1 957	1 766
Current tax liability	7	21	6
Provisions	18	144	228
Other operating liabilities	19	1 056	1 079
Total current liabilities		5 952	6 279
Total liabilities		12 856	13 648
Total equity and liabilities		34 891	34 891

Changes in equity, SEKm

	Share capital	Other contributed capital	Reserves		Retained earnings incl. profit/loss for the year	Total equity
			Translation reserve	Hedge reserve		
Opening equity balance 31 Dec 2016	4 238	281	76	-284	16 543	20 853
Profit/loss for the year	-	-	-	-	1 424	1 424
Other comprehensive income						
Revaluation of defined benefit pension plans	-	-	-	-	-159	-159
Cash flow hedging	-	-	-	211	-	211
Translation difference on foreign operations	-	-	-165	-	-	-165
Hedging of currency risk in foreign operations	-	-	1	-	-	1
Share in joint ventures' other comprehensive income	-	-	-	-21	-	-21
Tax attributable to other comprehensive income	-	-	-6	-46	29	-24
Total other comprehensive income	-	-	-170	144	-130	-157
Total comprehensive income	-	-	-170	144	1 294	1 267
Dividend paid	-	-	-	-	-882	-882
Share savings programme	-	-	-	-	5	5
Closing equity balance 31 Dec 2016	4 238	281	-95	-141	16 960	21 243
Profit/loss for the year	-	-	-	-	1 668	1 668
Other comprehensive income						
Revaluation of defined benefit pension plans	-	-	-	-	121	121
Cash flow hedging	-	-	-	35	-	35
Translation difference on foreign operations	-	-	36	-	-	36
Hedging of currency risk in foreign operations	-	-	-49	-	-	-49
Share in joint ventures' other comprehensive income	-	-	-	-4	-	-4
Tax attributable to other comprehensive income	-	-	11	-8	-24	-21
Total other comprehensive income	-	-	-2	24	97	119
Total comprehensive income	-	-	-2	24	1 765	1 786
Dividend paid	-	-	-	-	-1 008	-1 008
Share savings programme	-	-	-	-	13	13
Closing equity balance 31 Dec 2017	4 238	281	-97	-117	17 731	22 035

Cash flow statement, SEKm	Note	2017	2016
Operating activities			
Earnings before tax	25	2 113	1 859
Adjustments for non-cash items			
Depreciation and amortisation according to plan		991	1 018
Impairment losses		-	122
Change in value of biological assets		-415	-315
Change in provisions		-236	170
Other*		78	-31
Income tax paid		-221	-504
Cash flow from operating activities before changes in working capital		2 310	2 320
Cash flow from changes in working capital			
Change in inventories		73	-62
Change in trade receivables and other operating receivables		22	-189
Change in trade payables and other operating liabilities		104	-109
Cash flow from operating activities		2 509	1 961
Investing activities			
Acquisition of property, plant and equipment		-674	-766
Disposal of property, plant and equipment		31	440
Acquisition of non-current intangible assets		-18	-5
Acquisition of biological assets		-11	-4
Disposal of biological assets		27	95
Acquisition of shares and participating interests		0	-10
Disposal of shares and participating interests		0	127
Cash flow from investing activities		-644	-123
Financing activities			
Repayments of long-term borrowings**		-1 400	-400
Change in current financial liabilities	25	680	-560
Change in current financial receivables		9	-6
Dividend paid to owners of the parent company		-1 008	-882
Cash flow from financing activities		-1 718	-1 848
Cash flow for the year		147	-10
Cash and cash equivalents at beginning of year		210	221
Exchange gains/losses on cash and cash equivalents		-1	-1
Cash and cash equivalents at end of year		356	210

* Other adjustments primarily consist of currency effects and the marking to market of financial instruments, profit from associates, as well as gains on the sale of non-current assets.

** Relates to repayments of loans previously classified as long-term.

Change in net financial debt	2017	2016
Opening net financial debt	-3 945	-4 799
Cash flow		
Operating activities	2 509	1 961
Investing activities (excl. non-current financial receivables)	-644	-123
Dividend paid	-1 008	-882
Revaluations of defined benefit pension plans	120	-158
Foreign exchange effects and changes in fair value	32	56
Closing net financial debt	-2 936	-3 945

Income statement, SEKm	Note	2017	2016
Net sales	2	14 345	13 794
Other operating income	3	565	822
Change in inventories		-166	205
Raw materials and consumables		-7 969	-8 086
Personnel costs	4	-1 877	-1 827
Other external costs	5, 20	-4 031	-4 547
Depreciation and amortisation according to plan 9, 10		-25	-26
Operating profit/loss		841	335
Profit/loss from investments in Group companies	6, 23	497	780
Interest income and similar income	6	18	30
Interest expense and similar costs	6	-99	-52
Profit/loss after financial items		1 257	1 094
Appropriations	24	787	404
Earnings before tax		2 044	1 499
Tax	7	-197	-301
Profit/loss for the year		1 847	1 197

Statement of comprehensive income, SEKm	Note	2017	2016
Profit/loss for the year		1 847	1 197
Other comprehensive income			
Cash flow hedging			
Revaluation		-71	133
Transferred from equity to the income statement		109	90
Transferred from equity to non-current assets		-1	-12
Tax attributable to other comprehensive income 7		-8	-46
Total items that will be reclassified to profit/loss for the year		29	164
Total comprehensive income		1 876	1 362

The parent company includes Holmen's Swedish operations with the exception of the majority of the non-current assets, which are recognised in Holmens Bruk AB.

The item 'Interest expense and similar costs' in the income statement includes the result of SEK -49 million (1) from hedging equity in foreign subsidiaries.

Cash flow statement, SEKm	Note	2017	2016
Operating activities			
Profit/loss after financial items	25	1 257	1 094
Adjustments for non-cash items			
Depreciation and amortisation according to plan		25	26
Change in provisions		-109	-59
Other*		855	502
Income tax paid		-131	-464
Cash flow from operating activities before changes in working capital		1 897	1 100
Cash flow from changes in working capital			
Change in inventories		74	-61
Change in operating receivables		97	-146
Change in operating liabilities		260	-271
Cash flow from operating activities		2 329	622
Investing activities			
Shareholders' contribution paid		-1	-10
Acquisition of property, plant and equipment		-32	-29
Disposal of property, plant and equipment		11	28
Disposal of shares and participating interests		0	2
Cash flow from investing activities		-22	-9
Financing activities			
Repayments of external long-term borrowings**		-1 400	-400
Change in other financial liabilities	25	-479	-531
Change in other financial receivables		241	450
Dividend paid to owners of the parent company		-1 008	-882
Group contributions received		530	700
Group contributions paid		0	0
Cash flow from financing activities		-2 116	-663
Cash flow for the year		190	-51
Cash and cash equivalents at beginning of year		104	155
Cash and cash equivalents at end of year		294	104

* Other adjustments primarily consist of impairment losses on the value of shares in Group companies, currency effects and the marking to market of financial instruments as well as gains/losses on the sale of non-current assets.

** Relates to repayments of loans previously classified as long-term.

Balance sheet at 31 December, SEKm	Note	2017	2016	Balance sheet at 31 December, SEKm	Note	2017	2016
Non-current assets				Equity	16		
Non-current intangible assets	9	8	8	Restricted equity			
Property, plant and equipment	10	2 930	2 925	Share capital		4 238	4 238
Non-current financial assets				Statutory reserve		1 577	1 577
Shares and participations	12, 23	10 702	11 519	Revaluation reserve		100	100
Non-current financial receivables	13	3 018	3 202	Non-restricted equity			
Total non-current assets		16 658	17 653	Retained earnings incl. hedge reserve		3 956	3 724
Current assets				Profit/loss for the year		1 847	1 197
Inventories	14	2 322	2 396	Total equity		11 718	10 836
Operating receivables	15	2 210	2 254	Untaxed reserves	24	2 032	2 290
Current tax receivable	7	29	106	Provisions			
Current investments	13	32	89	Pension provisions	17	12	12
Cash and cash equivalents	13	294	104	Tax provisions	18	45	45
Total current assets		4 888	4 950	Other provisions	18	725	833
Total assets		21 545	22 602	Deferred tax liability	7	610	612
				Total provisions		1 392	1 503
				Liabilities			
				Non-current financial liabilities	13	880	2 328
				Current financial liabilities	13	2 775	3 200
				Current tax liability	7	-	-
				Operating liabilities	19	2 749	2 445
				Total liabilities		6 403	7 974
				Total equity and liabilities		21 545	22 602

Changes in equity, SEKm

	Restricted equity			Non-restricted equity			Total equity
	Share capital	Statutory reserve	Revaluation reserve	Hedge reserve	Retained earnings	Profit/loss for the year	
Opening equity balance 31 Dec 2016	4 238	1 577	100	-287	3 985	738	10 351
Appropriation of profits	-	-	-	-	738	-738	-
Profit/loss for the year	-	-	-	-	-	1 197	1 197
Other comprehensive income							
Cash flow hedging	-	-	-	211	-	-	211
Tax on other comprehensive income	-	-	-	-46	-	-	-46
Total other comprehensive income	-	-	-	164	-	-	164
Total comprehensive income	-	-	-	164	738	459	1 362
Dividend paid	-	-	-	-	-882	-	-882
Share savings programme	-	-	-	-	5	-	5
Closing equity balance 31 Dec 2016	4 238	1 577	100	-123	3 847	1 197	10 836
Appropriation of profits	-	-	-	-	1 197	-1 197	-
Profit/loss for the year	-	-	-	-	-	1 847	1 847
Other comprehensive income							
Cash flow hedging	-	-	-	38	-	-	38
Tax on other comprehensive income	-	-	-	-8	-	-	-8
Total other comprehensive income	-	-	-	29	-	-	29
Total comprehensive income	-	-	-	29	1 197	649	1 876
Dividend paid	-	-	-	-	-1 008	-	-1 008
Share savings programme	-	-	-	-	13	-	13
Closing equity balance 31 Dec 2017	4 238	1 577	100	-93	4 049	1 847	11 718

NOTES TO THE FINANCIAL STATEMENTS

Amounts in SEKm, unless otherwise stated.

1. Accounting policies	44	14. Inventories	60
2. Operating segment reporting	48	15. Operating receivables	60
3. Other operating income	49	16. Equity, parent company	60
4. Employees, personnel costs and remuneration to senior management	50	17. Pension provisions	61
5. Auditors' fee and remuneration	51	18. Other provisions	62
6. Net financial items and income from financial instruments	51	19. Operating liabilities	62
7. Tax	52	20. Operating leases	62
8. Earnings per share	53	21. Collateral and contingent liabilities	63
9. Non-current intangible assets	53	22. Related parties	63
10. Property, plant and equipment	54	23. Investments in Group companies	64
11. Biological assets	55	24. Untaxed reserves	65
12. Investments in associates, joint ventures and other shares and participating interests	56	25. Cash flow statement	65
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Note 1. Accounting policies

The accounting policies for the Group presented below have been applied consistently to all periods included in the Group's financial statements except where otherwise stated below. The Group's accounting policies have been applied consistently to the reporting by and the consolidation of the parent company, subsidiaries, associates and joint ventures.

Compliance with standards and statutory requirements

The consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as adopted by the EU. The Swedish Financial Reporting Board's recommendation (RFR 1 Supplementary Accounting Rules for Groups) has also been applied.

The parent company applies the same accounting policies as the Group except in the cases that are commented on separately under each section. The parent company's accounts are prepared in accordance with RFR 2 Accounting for Legal Entities. The differences between the policies applied by the parent company and those applied by the Group are due to restrictions in the parent company's ability to apply IFRS as a consequence of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act, and in some cases for tax reasons.

Valuation principles applied in preparing the financial statements of the parent company and the Group

Assets and liabilities are stated at cost, except for biological assets and certain financial assets and liabilities, which are valued at fair value. In the parent company, biological assets are not valued at fair value. Investments in Group companies and associates are recognised in the parent company at the lower of cost and fair value.

Functional currency and reporting currency

The functional currency is the currency used in the primary financial environments in which the companies conduct their business. The parent company's functional currency is the Swedish krona (SEK), which is also the reporting currency of the parent company and the Group. This means that the financial statements are presented in Swedish kronor.

Estimates and judgements in the financial statements

Preparing the financial statements in accordance with IFRSs requires the company's management to make estimates and judgements, as well as to make assumptions that affect the application of the accounting policies and the recognised amounts for assets, liabilities, income and costs. The actual outcome may deviate from these assessments and estimates.

These estimates and judgements are reviewed regularly. Changes in estimates are recognised in the accounts for the period in which the change is made if the change only affects that period, or in the period the change is made and in later periods if the change affects current and future periods. See also Note 26 'Critical accounting estimates and judgements'.

Changes in accounting policies

New and amended accounting policies applicable as of 2017

No new accounting policies with a material effect on the Group's accounting have been applied since 1 January 2017. Changes to IAS7 have resulted in disclosures being added to Note 25, with the change in the debt for the year attributable to financing activities being reconciled against an itemisation of items such as new borrowing, repayments, changes linked to disposals/acquisitions of subsidiaries and currency effects. Disclosures are made for both changes affecting cash flow and not affecting cash flow. The change is applied prospectively, which is why no disclosures are presented for the comparative year.

New and amended accounting policies not yet applied

The following new standards have been published by the IASB, but have either not yet come into force or have not yet been adopted by the EU.

IFRS 15 Revenue from Contracts with Customers is a new revenue standard with associated disclosure requirements which will replace IAS 18, IAS 11 and IFRIC 13. This new standard comes into force on 1 January 2018. During the year, the Group's sales contracts were analysed based on the five-stage model defined under regulations. The most significant change from current regulations is that income was previously recognised after the critical risks and benefits associated with ownership of the sold goods had been transferred to the buyer, and there is no remaining right of disposal or possibility to retain actual control over the sold goods. Under IFRS 15, income is recognised when the customer gains control over the goods, which the Group assesses to be similar to when income is currently recognised, so it is not assessed there will be any effect from the transition to IFRS 15 on 1 January 2018. Other changes in regulatory changes relate, for example, to accounting of discounts and the right of return, which will only have a marginal impact on Holmen's accounting.

IFRS 9 Financial Instruments addresses the accounting of financial instruments and will replace IAS 39. This standard encompasses classification, valuation and impairment of financial instruments and hedge accounting. This standard comes into force on 1 January 2018. The material changes compared with current regulations are that 1) the category of financial assets held for trade will disappear, which has no effect on Holmen as it holds no such instruments. 2) Impairment of financial assets should be based on a model based on expected future losses. The impact from the introduction of the new model is assessed to be marginal for Holmen. 3) Hedge accounting rules are changing, with requirements for hedging relationships to be the same as the Group's risk management targets, which is not expected to have any impact on Holmen as its hedge relationships are currently the same as requirements under IFRS 9.

IFRS 16 Leasing replaces the previous IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. This standard requires assets and liabilities attributable to all leases, with some exceptions, to be recognised in the balance sheet. In the income statement, amortisation must be recognised separately from interest expense attributable to leasing liabilities. This standard will come into force on 1 January 2019. The potential impact of this standard on the Group's financial statements is currently being assessed.

Segment reporting

The Group's operations are divided into operating segments, based on which parts of the operations are monitored by the company's highest executive decision-maker, known as the management approach. The segmentation criterion is based on the Group's business areas. This corresponds to the Group's operating structure and the internal reporting to the CEO and the Board. The items in the profit, assets and liabilities of the operating segment are recognised in accordance with the profit (operating profit), assets and liabilities that are monitored by the company's highest executive decision-maker. See Note 2 for more details of the classification and presentation of operating segments.

Classification

Essentially, non-current assets, non-current liabilities and provisions consist solely of amounts that are expected to be recovered or paid more than 12 months after the balance sheet date. Current assets, current liabilities and provisions essentially consist of amounts that are expected to be recovered or paid within 12 months of the balance sheet date.

Consolidation principles

Subsidiaries

A subsidiary is a company over which the parent company, Holmen AB, exercises a controlling influence. Controlling influence exists if Holmen AB has control over an investment object, is exposed or entitled to variable returns on its involvement and can exercise its control of the investment to influence the size of return. In determining whether one company has control over another, potential shares with an entitlement to vote and whether de facto control exists are taken into account.

The consolidated accounts are prepared using the acquisition method. The acquisition method entails the parent company indirectly acquiring the subsidiary's assets and assuming the liabilities of the subsidiary, valued at fair value. The difference between the cost of the shares and the fair value of the acquired identifiable net assets is treated as goodwill. The subsidiary companies' income and expenses, and their assets and liabilities, are stated in the consolidated accounts as of the date when the Group gains control (acquisition date) until such time as the Group no longer has control. Intra-Group receivables and liabilities, transactions between companies in the Group and related unrealised gains are eliminated in their entirety.

Holdings recognised in accordance with the equity method

Associates. Shareholdings in associates, in which the Group controls a minimum of 20 per cent and a maximum of 50 per cent of the votes, or otherwise exercises a significant influence, are stated in the consolidated accounts in accordance with the equity method.

Jointly owned companies/joint ventures. In accounting, joint ventures are those companies for which the Group, through cooperation agreements with one or more parties, has joint control whereby the Group has rights to the net assets instead of direct rights to assets and commitments in liabilities. Holdings in joint ventures are consolidated in the consolidated accounts using the equity method. Holmen's jointly owned companies are such that the holding has previously been recognised using the equity method and financial reporting consequently complies with IFRS 11 Joint Arrangements.

The equity method. The equity method means that the book value of the shares in the associates and joint ventures stated in the consolidated accounts corresponds to the Group's interest in the associates and joint ventures' equity and any consolidated surplus and deficit values. The Group's share of the net earnings of associates and joint ventures after tax attributable to parent company owners adjusted for any amortisation or reversal of acquired surplus and deficit values, respectively, is stated in the consolidated income statement as 'Share of profits of associates and joint ventures'. Dividends received from an associate or joint venture reduce the book value of the investment. Unrealised gains arising as a consequence of transactions with associates and joint ventures are eliminated in relation to the owned proportion of equity.

When the Group's share of the recognised losses of an associate and joint venture exceeds the book value of the investments stated in the consolidated accounts, the value of the investments is written down to zero. Losses are also offset against unsecured long-term financial balances that, in financial terms, comprise part of the owning company's net investment in the associate and joint venture. Any further losses are not recognised unless the Group has provided guarantees to cover losses incurred by the associate or joint venture. The equity method is applied until such time as the significant influence no longer exists or the jointly owned company ceases to be jointly owned.

Foreign currency

Transactions denominated in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate prevailing on the balance sheet date. Exchange differences arising on such translations are stated in the income statement. Non-monetary assets and liabilities that are stated at historical cost are translated at the exchange rate prevailing on the transaction date.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and other consolidated surplus and deficit values, are translated in the consolidated accounts, from the foreign operation's functional currency, to the Group's reporting currency (Swedish kronor) at the balance sheet date rate. The income and expenses of foreign operations are translated into Swedish kronor at an average rate that is an approximation of the exchange rates prevailing at the date of each transaction. Differences arising during the currency translation of foreign operations and the related effects of hedging net investments are recognised in other comprehensive income and are accumulated in a separate component of equity called the translation reserve. In the disposal of a foreign operation, the accumulated translation differences attributable to the business are realised, less any currency hedging, in the consolidated income statement.

Companies operating on behalf of the parent company

The parent company's business is largely conducted through companies operating on its behalf: Holmen Paper AB, Iggesund Paperboard AB, Holmen Timber AB, Holmen Skog AB and Holmen Energi AB.

The parent company is liable for all commitments entered into by these companies. All income, expenses, assets and liabilities, which arise in the operations conducted by the companies, are recognised in Holmen AB's accounts, except for the majority of investments made as well as some sales of forest properties, which are instead recognised in some of the Group's subsidiaries.

Income

Net sales

Net sales refers to invoiced sales (excluding value added tax) of products, wood and energy. The amount recognised is reduced by discounts, and similar reductions in income, and also includes exchange differences related to the sales. Sales are recognised after the critical risks and benefits associated with ownership of the sold goods have been transferred to the buyer, and there is no remaining right of disposal or possibility to retain actual control over the sold goods.

Other operating income

Income from activities not forming part of the company's main business is stated as other operating income. This item mainly comprises sales of by-products, renewable energy certificates, rent and land lease income, emission allowances, insurance compensation and gains/losses on sales of non-current assets.

Renewable energy certificates

Certificates are issued in relation to production of renewable energy according to a quota system introduced in order to promote electricity generation using renewable sources of energy. Income from allocated certificates is recognised as other operating income in the same period in which generation occurs. Certificates sold on forward contracts are measured at their net realisable value. Unsold certificates are measured at the lower of cost and fair value.

State grants

State grants are recognised in the balance sheet as accrued income when it is reasonably certain that the grant will be received and that the Group will satisfy the conditions associated with the grant. State grants linked to a non-current asset reduce the asset's recognised cost. State grants, such as road grants, intended to cover costs are recognised as other operating income. Grants are distributed systematically in the income statement in the same way and over the same periods as the costs the grants are intended to cover.

Exchange transactions

In some cases, forest land is exchanged for other forest land of similar type and value. Such exchange is recognised in the consolidated accounts as an exchange of one asset for another, i.e. without any form of revenue recognition as the exchange does not constitute a revenue-generating transaction. In the parent company, however, this type of transaction is recognised as a sale of forest land, with recognition of revenue as other operating income, and an acquisition of a new asset.

Finance income and costs

Finance income and costs consist of interest income and interest expense, dividend income and revaluations of financial instruments valued at fair value, as well as unrealised and realised currency gains and losses.

Interest income on receivables and interest expense on liabilities are calculated by using the effective interest method. Interest expense includes transaction costs for loans, which have been distributed over the duration of the loan; this also applies to any difference between the funds received and the repayment amount. Dividend income is recognised when the dividend is established and the right to receive payment is judged to be certain.

Interest expense normally affects profit/loss in the period to which it relates. Borrowing costs attributable to the purchase, construction or production of qualifying assets are capitalised in the consolidated accounts as part of the asset's cost. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use and that is relevant for the Group in connection with major investment projects.

Taxes

Income taxes comprise current tax and deferred tax. Income taxes are recognised in the income statement except when underlying transactions are recognised in other comprehensive income or directly in equity, in which case the associated tax effect is also recognised in other comprehensive income or directly in equity. Current tax is the tax to be paid or received for the year in question, using the tax rates that have been decided on, or to all intents and purposes have been decided on at the balance sheet date. This also includes any adjustment to current tax attributable to previous periods. Deferred tax is calculated using the balance sheet method on the basis of temporary differences between book values and values for tax purposes of assets and liabilities, applying the tax rates and rules that have been approved or announced at the balance sheet date. Temporary differences are not taken into account in goodwill arising upon consolidation, nor in temporary differences attributable to investments in subsidiaries and associates that are not expected to become liable to taxation in the foreseeable future. In the parent company's accounts, untaxed reserves are recognised inclusive of deferred tax liability.

Deferred tax assets in respect of tax-deductible temporary differences and loss carry-forwards are recognised only to the extent that it is likely they will be utilised and entail lower tax payments in the future. Deferred tax assets and deferred tax liabilities in the same country are recognised net to the extent that a right of set-off applies.

Earnings per share

The calculation of earnings per share (EPS) is based on the Group's profit for the year attributable to the parent company's owners and the weighted average number of shares outstanding during the year. In calculating diluted EPS, the earnings and the average number of shares are adjusted to take account of the effects of any potential ordinary shares having a diluting effect.

Financial instruments

Financial instruments are measured and recognised according to IAS 39.

Recognition in and derecognition from the balance sheet

A financial asset or liability is stated in the balance sheet when the company becomes a party in accordance with the contractual conditions of the instrument. A financial asset is removed from the balance sheet when the rights referred to in the contract have been realised or mature, or when the company no longer has control over them. A financial liability is removed from the balance sheet when the undertaking in the contract is performed or expires in some other way. Spot transactions are stated in accordance with the trade date principle. Trade receivables are recognised in the balance sheet when an invoice has been sent. Liabilities are recognised when the counterparty has provided a product or service and there is a contractual obligation to pay, even if an invoice has not yet been received. A financial asset and a financial liability are only offset and recognised at a net amount where a legal right to offset the amounts exists and there is an intention to settle the items at a net amount or simultaneously realise the asset and settle the liability. Financial assets, excluding shares, and financial liabilities have been classified as current if the amounts are expected to be recovered or paid within 12 months of the balance sheet date. Shares have been classified as non-current if they are intended to be held in the operation permanently.

Measurement of financial instruments

Financial assets at fair value through profit/loss. This category consists of financial assets held for trading. Financial instruments in this category are measured on a current basis at fair value, with changes of value recognised in profit/loss.

Loan receivables and trade receivables. Bank balances, loan receivables and trade receivables are measured at amortised cost. Impairment testing is performed continually, using objective criteria for these assets. If impairment is established, the receivable is derecognised. However, a provision for doubtful trade receivables is made if the impairment is anticipated.

Available-for-sale financial assets. The category of available-for-sale financial assets includes financial assets not classified in any other category or financial assets that the company initially chose to classify in this category. The assets are valued on a current basis at fair value with the changes in value for the period recognised in other comprehensive income, and the accumulated changes in value in a separate component of equity, although not such value changes that are attributable to impairment losses (see below), nor interest on financial instruments receivable and dividend income as well as exchange differences on monetary items, which are recognised in profit/loss for the year. When the asset is disposed of, accumulated profit/loss – which was previously recognised in other comprehensive income – is recognised in profit/loss for the year. Shares and interests not related to Group companies or associates are measured at cost. Measurement at fair value could not be applied, because reliable fair values could not be established.

Financial liabilities at fair value through profit/loss. Financial liabilities are measured initially at the value of funds received after deduction of any transaction costs. Normally, the liabilities are measured on a current basis at amortised cost using the effective interest method. In those cases where funds received fall short of the repayment amount, the difference is allocated over the duration of the loan using the effective interest method. Profit/loss from financial instruments is recognised in net financial items or operating profit/loss, depending on the purpose of the holding.

Other financial liabilities. These liabilities are measured at amortised cost. Amortised cost is determined on the basis of the effective interest that was calculated at the time of acquisition. Trade payables and loan liabilities are recognised in this category. Loans hedged against changes in value are initially recognised including any transaction costs and on a current basis at fair value.

Derivatives and hedge accounting. All derivatives, such as currency forward contracts, electricity derivatives and interest rate swaps, are measured at fair value and recognised in the balance sheet. More or less all derivatives are held for hedging purposes. Where hedge accounting is applied, the changes in value are recognised as stated below. In the case of derivatives that do not fulfil the criteria for hedge accounting, the changes in value are recognised within operating profit/loss or within net financial items, depending on the purpose of the holding.

Cash flow hedging. The effective portion of changes in value is recognised in other comprehensive income and accumulated in equity until such time as the hedged item influences the income statement, when the accumulated changes in value are transferred from equity via other comprehensive income to the income statement to meet and match the hedged transaction. In the hedging of investments, the cost of the hedged item is instead adjusted when it occurs. The ineffective portion of hedges is recognised directly in the income statement. Forward foreign exchange contracts and foreign exchange swaps are used as cash flow hedges to safeguard against fluctuations in exchange rates. Interest rate swaps are used as a cash flow hedge to safeguard against changes in interest rates.

Hedging of net investments. Changes in the value of hedges relating to net investments in foreign businesses are recognised in other comprehensive income for the Group. Accumulated changes in value are recognised as a component in the Group's equity until the business is disposed of, at which point the accumulated changes in value are recognised in the income statement. In the parent company, changes in value are recognised in the income statement, as hedge accounting is not applied.

Calculation of fair value. The fair value of financial instruments traded on an active market is based on listed market prices and belongs to measurement level 1 as per IFRS 13. Where there are no listed market prices, fair value has been calculated using discounted cash flows. In calculating discounted cash flows, all variables used for the calculations, such as discount rates and exchange rates, are taken from market listings where possible. In calculating discounted cash flows, the mean of exchange rates and discount rates is used. These valuations belong to measurement level 2. Other valuations, for which a variable is based on own assessments, belong to measurement level 3. Holmen's measurement of financial instruments belongs exclusively to measurement level 2. Currency options are valued using the Black & Scholes formula, where appropriate.

Non-current intangible assets

Non-current intangible assets such as patents, licences and IT systems are recognised at cost after deduction of accumulated amortisation and any impairment losses. The Group's non-current

intangible assets are amortised over periods of between 5 and 20 years, except for goodwill.

Any goodwill is allocated to cash-generating units. Both goodwill and other non-current intangible assets are tested for impairment annually. Any impairment losses may be reversed via exceptions from goodwill. The Group does not currently recognise any goodwill. Non-current intangible assets in the parent company are amortised over five years.

Goodwill represents the difference between the cost of business combinations and the fair value of the acquired assets, assumed liabilities and contingent liabilities. Goodwill is valued at cost less any accumulated impairment losses. Goodwill arising in connection with the acquisition of associates is included in the book value of the participating interest in such companies.

Research costs are expensed when they are incurred. Development costs are only capitalised in the case of major projects to the extent that their future financial benefits can be reliably assessed. The recognised value includes all directly attributable expenses, for example in connection with materials and services, wages/salaries to employees, registration of a legal right, amortisation of patents and licences and borrowing costs in accordance with IAS 23. Other development expenditure is recognised in the income statement as costs when incurred. Development expenditures recognised in the balance sheet are stated at cost less accumulated amortisation and impairment losses.

Property, plant and equipment

Property, plant and equipment are stated at cost after deduction of accumulated depreciation and any impairment losses. Property, plant and equipment that consist of parts with different useful lives are treated as separate components of property, plant and equipment. Additional expenditure is capitalised only if it is estimated to generate financial benefits for the company. The key factor determining whether or not additional expenditure is capitalised is if it relates to the replacement of identified components or parts thereof, in which case the expenditure is capitalised. The cost is also capitalised in cases where a new component is created. Any undepreciated book values for replaced components or parts of components are retired and expensed in connection with the replacement.

The book value of an item of property, plant or equipment is removed from the balance sheet in connection with retirement or disposal of the asset or when no future financial benefits can be expected from the use of the asset. The gain or loss arising on the retirement or disposal of an asset consists of the difference between any selling price and the book value of the asset, less any direct selling costs. Gains and losses are recognised in the accounts as other operating income/costs.

An asset is classified as being held for sale if it is available for immediate sale in its present condition and based on normal terms, and it is highly likely that a sale will take place. Such assets are recognised on a separate line as a current asset in the balance sheet. Upon initial classification as holdings for sale, non-current assets are recognised at the lower of book value and fair value, less selling costs.

Depreciation according to plan is based on original acquisition cost less any impairment losses. Depreciation takes place on a straight-line basis over the estimated useful life of the asset. Land is not depreciated.

The following useful lives (years) are used:

Machinery for hydro power production	10–40
Administrative and warehouse buildings, residential properties	10–33
Production buildings, land installations and machinery for sawmills, pulp, paper and paperboard production	10–20
Other machinery	10
Forest roads	20
Equipment	4–10

If there is any indication that the book value is too high, an analysis is made in which the recoverable value of single or inherently related assets is determined at the higher of the net selling price and the utility value. The net realisable value is the estimated selling price after deduction of the estimated cost of selling the asset. The utility value is measured as expected future discounted cash flow. The discount rate applied takes account of the risk-free rate and the risk associated with the asset. An impairment loss consists of the amount by which the recoverable amount falls short of the book value. An impairment loss is reversed if there has been any positive change in the circumstances upon which the determination of the recoverable amount is based. A reversal may be made up to, but not exceeding, the book value that would have been recognised, less depreciation, if there had been no impairment.

Borrowing costs attributable to the purchase or construction of qualifying assets are to be capitalised in the consolidated accounts as part of the asset's cost. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use and that is relevant for the Group in connection with major investment projects.

Leasing

In the consolidated accounts, lease agreements are classified as finance leases or operating leases. The leasing of non-current assets for which the Group is substantially exposed to the same risks and benefits as if the asset were directly owned is classified as finance leases. The leasing of assets over which the lessor substantially retains ownership is classified as operating leases. Costs relating to operating leases are recognised in profit/loss for the year on a straight-line basis spread over the term of the lease. Variable charges are expensed in the periods in which they are incurred. Within the Group, all lease agreements are classified as operating leases.

Biological assets

The Group divides all its forest assets for accounting purposes into growing forests, which are recognised as biological assets at fair value, and land, which is stated at cost. Any changes in the fair value of the growing forests are recognised in the income statement. Holmen's assessment is that there are no relevant market prices available that can be used to value forest holdings as extensive as Holmen's. Valuation is therefore carried out by estimating the present value of expected future cash flows (after deduction of selling costs) from the growing forests. See Note 11.

In the parent company, biological assets are valued in accordance with RFR 2. This means that biological assets classified as non-current assets are recognised at cost adjusted for revaluations taking into account the need, if any, for impairment in value.

Felling rights are stated as inventories. They are acquired with a view to securing Holmen's raw material requirements through harvesting. No measurable biological change occurs between the acquisition date and harvesting.

Inventories

Inventories are valued at the lower of cost and production cost after deduction for necessary obsolescence, or net realisable value. The cost of inventories is calculated by using the First in, First out method (FIFO). The net realisable value is the estimated selling price in operating activities after deduction of the estimated costs of completion and affecting the sale. The cost of finished products manufactured by the company comprises direct production costs and a reasonable share of indirect costs.

Emission allowances received are initially recognised at market price when allotted among inventories and as deferred income. During the year the allocation is recognised as income at the same time as an interim liability, corresponding to emissions made, is expensed. Certificates received for renewable energy sold on forward contracts are recognised at net realisable value. Unsold certificates are measured at the lower of cost and fair value. Recognition takes place, in line with production, as inventories or accrued income.

Employee benefits

Pension costs and pension obligations

Obligations to pay premiums to defined contribution plans are recognised as a cost in the income statement as and when they are earned.

The Group's net obligation regarding defined benefit plans is calculated separately for each plan by estimating future benefits earned by employees through their employment in both current and previous periods. This benefit is discounted to present value and unrecognised costs relating to employment in previous periods and the fair value of any plan assets are deducted. The discount rate is the interest rate at the balance sheet date for a high-quality corporate bond with a duration corresponding to the Group's pension obligations. If there is no active market for such corporate bonds, the market interest rate for government bonds with a corresponding duration is used instead. The calculation is performed by a qualified actuary using the projected unit credit method for the portion of the pension obligations that is defined benefit.

Establishment of the obligation's present value and the fair value of plan assets may give rise to actuarial gains and losses. These arise either through the actual outcome deviating from previously made assumptions or through changes in assumptions. Actuarial gains and losses are recognised in other comprehensive income.

If the benefits provided by a plan are improved, the proportion of the improvement in the benefit that is attributable to the employees' employment during earlier periods is recognised as a cost in the income statement and is distributed on a straight-line basis over the average period until the benefits have been fully earned. If the benefit has been earned in full, a cost is recognised directly in the income statement. If any changes occur to a defined benefit plan, these are recognised when the change to the plan occurs. If the change occurs in conjunction with restructuring, this is recognised when the company recognises the associated restructuring costs. The changes are recognised directly in profit/loss for the year.

When the calculation leads to an asset for the Group being limited, the book value of the asset is limited to the lower of the plan surplus and the asset limitation calculated using the discount rate. The limitation of assets consists of the present value of future economic benefits in the form of reduced future costs or cash reimbursement. Any minimum funding requirements are taken into account in calculating the present value of future reimbursements or receipts.

The interest expense on defined benefit obligations is recognised in profit/loss for the year under financial items. This is calculated as the net total of the upward adjustment of interest on the pension obligation and expected income on plan assets calculated according to the same interest factor (discount rate). Other components are recognised in operating profit/loss. The revaluation effects consist of actuarial gains and losses and the difference between the actual return on plan assets and the amount included in net interest. Revaluation effects are recognised in other comprehensive income.

Payroll tax constitutes part of the actuarial assumptions and is therefore recognised as part of net obligations. Policyholder tax is recognised as it is incurred in profit/loss for the period to which the tax relates and is consequently not included in the calculation of liabilities. In the case of funded plans, this tax is levied on the return on plan assets and is recognised in other comprehensive income. In the case of unfunded plans or partially unfunded plans, this tax is levied on profit for the year.

In the parent company's accounts, different grounds are used for computation of defined benefit pension plans from those referred to in IAS 19. The parent company complies with the provisions of the Swedish Pension Obligations Vesting Act and the Swedish Financial Supervisory Authority's regulations, because this is a condition for the right to make deductions for tax purposes. The main differences in relation to the rules in IAS 19 relate to how the discount rate of interest is established, the calculation of the defined benefit obligation on the basis of the current pay level without any assumption regarding pay increments in the future, and the recognition of all actuarial gains and losses in the income statement when they arise.

When there is a difference between how the pension cost is arrived at in the legal entity and in the Group, a provision or a receivable is recognised in the consolidated accounts in respect of payroll tax based on this difference. The present value of the provision or receivable is not calculated.

Share-based payments

The outstanding share programme savings is recognised in accordance with IFRS 2 Share-based Payments and is paid through equity instruments. Recognition of share-based payment programmes paid through equity instruments entails the fair value of the instrument at the dividend date being recognised in the income statement as a cost over the vesting period, with a corresponding adjustment of equity. At the end of each vesting period, an estimate is made of the

expected number of allocated shares and the effect of any change in previous estimates are recognised in the income statement with a corresponding adjustment of equity. In addition, a provision is made for estimated social security costs relating to the share programme.

Estimates are based on the value of the shares at the allocation date, which is defined as the period when the agreement was concluded between the parties. Holmen's share savings programme was open to relevant employees between 27 April and 20 May 2016. The average share price during this period was used as the basis for the valuation of the shares at the allocation date. The vesting period runs from 20 May 2016 through the date of publication of Holmen's interim report for the first quarter of 2019.

Termination benefits

Termination benefits in connection with the termination of employment contracts are recognised in the accounts if it is shown that the Group has an obligation, without any reasonable possibility of withdrawing, as a result of a formal, detailed plan to terminate an employment contract before the normal date. When benefits are paid in the form of an offer to encourage voluntary redundancy, a cost is recognised if it is likely that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

Short-term benefits

Short-term benefits to employees are calculated without being discounted and are recognised as a cost when the related services are provided.

Equity

Consolidated equity comprises share capital, other contributed capital, translation and hedge reserves and retained earnings, including profit/loss for the year. Other contributed capital refers to premiums paid in conjunction with share issues. The translation reserve consists of all exchange differences that arise in the translation of foreign operations' financial statements that are prepared in a currency other than Swedish kronor. It also includes exchange differences arising in connection with the revaluation of liabilities and derivatives that are classified as instruments for hedging a net investment in a foreign operation, including tax. The hedge reserve comprises the effective proportion of the accumulated net change in the fair value of a cash flow hedging instrument attributable to underlying transactions that have not yet occurred, including tax. Retained earnings comprise all other parts of equity, including profit/loss for the year.

Holdings of shares bought back are stated as a reduction in retained earnings. Acquisitions of the company's own shares are stated as a deduction, and proceeds from the disposal of the company's own shares are stated as an increase. Transaction costs are charged directly to retained earnings.

The parent company's equity comprises share capital, statutory reserves, revaluation reserves, retained earnings and profit/loss for the year. The parent company's statutory reserve consists of previous compulsory provisions to the statutory reserve plus amounts added to the share premium reserve before 1 January 2006. The parent company's revaluation reserve contains amounts set aside in connection with the revaluation of property, plant and equipment or non-current financial assets. Retained earnings comprise all other parts of equity, such as hedge reserves and transactions as a result of share buy-backs. The parent company applies the same accounting policies as the Group for these items, see above.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or informal commitment as a consequence of a past event and it is likely there will be an outflow of financial resources to settle the commitment and a reliable estimate of the amount can be made. A provision to cover restructuring is recognised once the Group has established a detailed and formal restructuring plan and the restructuring process has either begun or been publicly announced.

Provisions are made for environmental measures that relate to earlier activities when contamination arises or is discovered, it is likely that a payment obligation will arise, and the amount can be estimated reliably.

Reserves to cover future silvicultural fees are calculated on the basis of interpretations of the applicable forestry laws and regulations whenever it is likely that a payment obligation will arise and once the amount can be assessed to a reasonable extent.

Contingent liabilities

A contingent liability is recognised when there is a potential commitment that originates from past events, the existence of which will be confirmed only by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required.

Group contributions and shareholder contributions

Group contributions are recognised in the parent company in accordance with RFR 2's alternative rule, i.e. Group contributions paid or received are recognised as appropriations.

Shareholder contributions are recognised as an increase in the item 'Investments in Group companies'. In addition, a review is conducted as to whether an impairment loss on the value of the shares is necessary. This review complies with standard rules on the valuation of this asset item. Shareholder contributions received are recognised directly in non-restricted equity.

Other

The figures presented are rounded off to the nearest whole number or equivalent. The absence of a value is indicated by a dash (-).

NOTE 2

Note 2. Operating segment reporting

2017	Forest	Paperboard	Paper	Wood Products	Renewable Energy	Group-wide and other*	Eliminations	Total Group
Net sales								
External	2 571	5 526	5 408	1 562	315	751	-	16 133
Internal	2 965	-	-	-	-	-	-2 965	-
Other operating income	164	742	147	275	16	246	-455	1 136
Operating costs	-5 016	-5 012	-4 928	-1 673	-161	-1 144	3 419	-14 515
Depreciation and amortisation according to plan	-30	-492	-339	-86	-24	-21	-	-991
Change in value of biological assets	415	-	-	-	-	-	-	415
Share of profits of associates	-	-	-	1	-11	-2	-	-12
Operating profit/loss	1 069	764	288	80	135	-170	-	2 166
Operating margin, %	19	14	5	5	43	-	-	13
Return on capital employed, %	8	14	12	9	4	-	-	9
Operating assets	19 380	7 174	3 210	1 080	3 464	549	-398	34 461
Operating liabilities	-1 305	-832	-696	-169	-91	-1 143	398	-3 840
Net deferred tax	-4 251	-909	-320	-49	-258	139	-	-5 648
Capital employed	13 824	5 433	2 193	862	3 115	-455	-	24 972
Investments	49	375	141	100	26	11	-	702

2016	Forest	Paperboard	Paper	Wood Products	Renewable Energy	Group-wide and other	Eliminations	Total Group
Net sales								
External	2 572	5 252	5 431	1 342	314	602	-	15 513
Internal	2 730	-	-	-	-	2	-2 732	-
Other operating income	206	823	505	261	14	196	-446	1 559
Operating costs	-4 792	-4 693	-5 374	-1 514	-180	-922	3 178	-14 299
Depreciation and amortisation according to plan	-29	-479	-380	-82	-23	-24	-	-1 018
Impairment losses	-	-	-122	-	-	0	-	-122
Change in value of biological assets	315	-	-	-	-	-	-	315
Share of profits of associates	-	-	-1	-9	-5	-3	-	-18
Operating profit/loss	1 001	903	58	-3	120	-149	-	1 930
Operating profit/loss excluding items affecting comparability*	1 001	903	289	-3	120	-148	-	2 162
Operating margin excluding items affecting comparability, %	19	17	5	0	38	-	-	14
Return on capital employed, excluding items affecting comparability, %	7	16	10	neg	4	-	-	9
Operating assets	18 989	7 185	3 454	1 031	3 475	807	-392	34 550
Operating liabilities	-1 191	-759	-639	-138	-64	-1 351	392	-3 752
Net deferred tax	-4 262	-880	-309	-34	-258	134	-	-5 608
Capital employed	13 536	5 546	2 507	859	3 153	-410	-	25 190
Investments	30	413	259	52	23	9	-	785

* Items affecting comparability refers to the sale of the mill in Madrid and insurance compensation of SEK -232 million for reconstruction following a fire at Hallsta Paper Mill.

Non-current assets per country	Group		Parent company	
	2017	2016	2017	2016
Sweden	27 041	26 871	13 639	14 450
UK	1 701	1 820	-	-
Other	6	5	-	-
Total	28 748	28 695	13 639	14 450

Net sales by market	Group		Parent company	
	2017	2016	2017	2016
Sweden	3 758	3 660	3 740	3 632
Germany	2 096	1 974	1 843	1 766
UK	1 808	1 719	1 183	1 124
Netherlands	756	694	679	624
Italy	749	857	685	807
Poland	711	645	585	540
Spain	699	1 009	651	969
Rest of Europe	3 069	2 979	2 696	2 436
Rest of the world	2 486	1 977	2 283	1 896
Total	16 133	15 513	14 345	13 794

Net sales by product area	Group		Parent company	
	2017	2016	2017	2016
Paperboard	5 347	5 071	3 527	3 404
Paper	6 131	5 924	6 069	5 879
Wood products	1 557	1 337	1 561	1 341
Pulp	164	169	279	268
Wood	2 571	2 572	2 565	2 569
Renewable energy	315	314	315	314
Other	49	125	30	20
Total	16 133	15 513	14 345	13 794

The Forest business area manages the Group's forests, which cover just over one million hectares. Annual wood harvested in company forests is normally 3.0 million m³sub. The Renewable Energy business area is responsible for the Group's hydro power and wind power assets. In a normal year, production amounts to 1.2 TWh of electricity. The business areas are also responsible for supplying the Group with wood and electricity, respectively, in Sweden.

The Paperboard business area produces consumer packaging for the premium segment at one Swedish and one UK mill. The Paper business area produces magazine and book paper at two Swedish mills. The Wood Products business area produces wood products for use in joinery and construction at three sawmills, whose by-products are used at the Group's paper and paperboard mills. In 2017, the Group produced 0.5 million tonnes of paperboard, 1.1 million tonnes of paper and 0.8 million m³ of wood products.

These business areas are responsible for managing the operating assets and liabilities, which together with the net amount of deferred tax assets and tax liabilities constitutes their capital employed. Group management monitors the business at operating profit level, and in terms of how earnings relate to capital employed. Capital employed in each segment includes all assets and liabilities used by the business area such as non-current assets, inventories and operating receivables and operating liabilities, and the net amount of tax assets and tax liabilities. Financing and tax issues are managed at group level. Consequently, financial assets and liabilities, including pension liabilities, and current tax assets and tax liabilities, are not allocated to the business areas.

Intra-Group sales between segments are founded on an internal market-based price. The 'Group-wide and other' segment comprises Group staffs and Group-wide functions that are not allocated to other segments. In June 2016, Holmen sold its newsprint mill in Madrid. Between 1 July 2016 and the end of 2017 Holmen had an undertaking to sell the newsprint produced by the mill. During this period, income and costs from this will be recognised in the Group-wide segment. No profit items after operating profit/loss are allotted to the business areas.

Income from external customers is allocated to individual countries according to the country in which the customer is based.

Note 3. Other operating income

	Group		Parent company	
	2017	2016	2017	2016
Sales of by-products	360	364	231	226
Certificates, renewable energy	405	415	37	59
Emission allowances	21	25	21	21
Sales of non-current assets	22	75	9	27
Rent and land lease income	47	42	31	28
Silviculture contracts	67	57	67	57
Other	214	581	169	404
Total	1 136	1 559	565	822

Of the sales of by-products in the Group, SEK 101 million (141) relates to rejects from production, SEK 123 million (96) to sawdust, bark, chips etc., and SEK 137 million (127) to external sales of energy.

Income from renewable energy certificates received from the production of renewable energy at the Group's mills amounted to SEK 405 million (415).

The Group has been allotted emission allowances that have been used partly within its own production. The surplus resulted in a gain of SEK 21 million (25).

In the previous year, the item 'Other' included income from insurance compensation following the fire at Hallsta Paper Mill and a refund from a dispute over the cost of water in Workington which was settled in Holmen's favour.

Note 4. Employees, personnel costs and remuneration to senior management

Wages, salaries and social security costs	Group		Parent company	
	2017	2016	2017	2016
Wages, salaries and other remuneration	1 579	1 589	1 275	1 233
Social security costs	617	619	561	556

AGM's guidelines for determining salaries and other remuneration for senior management

The 2017 AGM decided on the following guidelines for determining the salaries and other remuneration of the CEO and other senior management, namely the heads of the business areas and heads of Group staffs who report directly to the CEO. The guidelines apply to agreements entered into after the AGM's resolution.

Salary and other benefits

The remuneration of the CEO and the senior management shall consist of a fixed market-based salary. Other benefits, mainly car and accommodation, shall, insofar as they are provided, represent a limited part of the remuneration. No variable remuneration shall be paid other than possible share-related incentive programmes determined by the AGM.

Pension

The retirement age is normally 65 years. Pension benefits are based on defined contributions and comply with the ITP plan. Additional defined-contribution pension solutions may occur.

Notice and severance pay

The period of notice is six months, regardless of whether notice is given by the company or the member of senior management. In the event of notice being given by the company, severance pay can be paid corresponding to no more than 18 months' salary.

Remuneration committee

A remuneration committee appointed from among the members of the Board shall handle matters pertaining to the CEO's salary and other conditions of employment and submit proposals on such issues to the Board for decision. Detailed principles for determining the salaries, pension rights and other remuneration for senior management shall be laid down in a pay policy adopted by the remuneration committee.

Deviations in individual cases

The Board shall be entitled to depart from these guidelines in individual cases should special reasons exist. In the event of such a deviation, information thereon and the reasons therefor shall be submitted to the next AGM.

Share savings programme

The 2016 AGM decided on a targeted share savings programme for around 40 key individuals in the Holmen Group. The purpose of the programme is to strengthen the interests between the owners and the management of the company and to create long-term commitment to Holmen.

Participation in the programme required the relevant employees to have invested in Holmen shares (known as 'savings shares') during the period 27 April to 20 May 2016. For each savings share invested, half a matching share will be assigned after the end of the vesting period. In addition, a number of performance shares may be assigned to each participant. These are linked to the Group's return on capital employed. The allocation of the number of performance shares may vary, depending on the employee's position within the Group, up to a maximum of 3–6 shares per savings share. The assignment of matching and performance shares requires participants to have been full time employees within the Holmen Group and to have held the savings shares for the entire vesting period. The vesting period runs from 20 May 2016 through the date of publication of Holmen's interim report for the first quarter of 2019.

Total costs for the programme are estimated at SEK 33 million. Costs corresponding to SEK 13 million (5) have been recognised for 2017.

Remuneration of Board and senior management

Board

A fixed Board fee shall be paid to the members of the Board elected by the AGM. The CEO, however, does not receive any Board fee. For 2017, fees to the Board amounted to SEK 3 060 000 (3 060 000). The chairman received a fee of SEK 680 000 (680 000), and each of the other seven (seven) members received SEK 340 000 (340 000).

Senior management

Salary and other benefits for the CEO in 2017 amounted to SEK 8 566 098 (8 001 168). The total pension cost for the CEO, calculated in accordance with IAS 19, amounted to SEK 4 985 519 (4 340 722). Recognised wages and salaries for the share savings programme for the CEO amounted to SEK 1 676 738 (708 312). No variable remuneration was paid.

In 2017, the salaries and other benefits of other senior management, i.e. the heads of the four (four) business areas and the heads of the five (five) Group staffs who report directly to the CEO, totalled SEK 22 829 993 (21 297 113). The total pension cost for this group, calculated in accordance with IAS 19, amounted to SEK 10 201 247 (10 606 250) in 2017. Recognised wages and salaries for the share savings programme for this group amounted to SEK 2 320 957 (1 254 348). No variable remuneration was paid.

For senior management, employed from 2011, a mutual notice period of six months applies. In the event of notice being given by the company, deductible severance pay corresponding to 18 months' salary is paid. These terms apply to six people. For four senior management employment contracts, signed before 2011, the employee is required to give six months' notice and the company must give 12 months' notice. In the event of notice being given by the company, severance pay corresponding to between one and two years' salary is paid, depending on age.

All members of senior management are employed by the parent company.

Pension obligations in respect of senior management

Holmen's pension obligations over and above the ITP plan for the CEO amounted to SEK 15 million (14) at 31 December 2017 and for other members of senior management to SEK 28 million (32), calculated in accordance with IAS 19. The pension obligations are secured using plan assets managed by an independent pension fund.

	Average annual number of employees		Of which		Of which	
	2017	2016	women	men	women	men
Parent company						
Sweden	2 377	2 369	450	1 927	448	1 921
Spain	-	11	-	-	5	6
Group companies						
Estonia	6	8	2	4	2	6
France	12	13	5	7	6	7
Hong Kong	5	5	1	4	1	4
Italy	-	8	-	-	3	5
Japan	2	2	-	2	-	2
Netherlands	74	77	39	35	38	39
Poland	11	7	7	4	6	1
Portugal	-	1	-	-	-	1
Russia	1	1	1	-	1	-
Switzerland	3	3	1	2	1	2
Singapore	6	6	3	3	3	3
UK	442	443	49	393	49	394
Germany	23	23	11	12	10	13
US	14	12	6	8	5	7
Total Group companies	599	609	125	474	125	484
Total Group	2 976	2 989	575	2 401	578	2 411

Proportion of women, %	Group		Parent company	
	2017	2016	2017	2016
Board (excl. deputy members)	17	17	17	17
Senior management	20	30	20	30
Total	18	23	18	23

Note 5. Auditors' fee and remuneration

The audit firm KPMG was elected by the 2017 Annual General Meeting as Holmen's auditors for a period of one year. KPMG audits Holmen AB and almost all of its subsidiaries.

	Group		Parent company	
	2017	2016	2017	2016
Remuneration to KPMG				
Audit assignments	6	6	4	4
Tax advice	1	3	0	1
Other services	-	-	-	-
Total	7	9	4	5
Other auditors	0	1	-	-
Total	7	9	4	5

'Audit assignments' refers to the statutory examination of the annual accounts and accounting records, the administration by the Board and the CEO, and auditing and other assessment performed as agreed or in accordance with contracts. This includes other duties that are incumbent on the company's auditors and the provision of advice or other assistance resulting from observations in connection with such assessment or the performance of such other duties. 'Tax advice' refers to all consultation in the field of taxation.

Note 6. Net financial items and income from financial instruments

	Group		Parent company	
	2017	2016	2017	2016
Finance income				
Dividend income from Group companies	-	-	1 314	1 288
Gains on sales of Group companies	-	12	-	12
Interest income	2	1	18	17
Total finance income	2	13	1 332	1 317
Finance costs				
Impairment losses on value of shares in Group companies	-	-	-817	-508
Net profit/loss				
Assets and liabilities measured at fair value through profit/loss for the year				
- Held for management of financial risks*	42	36	-4	47
Cash and cash equivalents	1	3	1	3
Other financial liabilities	-45	-65	-46	-40
Total net profit/loss	-2	-27	-866	-499
Interest expense**	-53	-57	-50	-59
Finance costs	-55	-84	-916	-559
Net financial items	-53	-71	416	759

* Refers to the held-for-trading category in accordance with IAS 39.

** SEK -36 million (-37) in the Group and parent company refers to interest expense on derivatives measured at fair value through profit/loss for the year. Other interest income and interest expense are related to financial items not measured at fair value.

Earnings from investments in Group companies amount to SEK 497 million, of which SEK 1 314 million relates to dividends from Group companies and SEK -817 million relates to impairment losses on shares in Group companies.

The net gains and losses stated in net financial items mainly relate to currency revaluations of internal loans and hedging of internal lending. The parent company's net financial items also include currency revaluation of external loans and forward contracts that hedge net investment in foreign operations, which are recognised in the Group under other comprehensive income. The fair value of the interest component in forward foreign exchange contracts as well as value changes in accrued interest and realised interest in fixed-interest-rate swaps is recognised on an ongoing basis in net interest items. Information on financial risks is provided on pages 32-35.

The income from financial instruments included in operating profit/loss is shown in the following table:

	Group		Parent company	
	2017	2016	2017	2016
Exchange gains/losses on trade receivables and trade payables	40	15	34	1
Net gain/loss on derivatives stated in working capital	-126	-126	-111	-102
Interest income on trade receivables	0	1	0	1
Interest expense on trade payables	0	0	0	0

The derivatives included in operating profit/loss relate to currency hedging of trade receivables and trade payables as well as financial electricity derivatives.

Gains and losses on currency hedging are recognised in operating profit/loss when the hedged item is recognised and in 2017 amounted to SEK -90 million (-73), with the remainder being recognised in other comprehensive income as hedge accounting is applied. The fair value of outstanding transaction hedges at 31 December 2017 was SEK -135 million (-26).

Gains on financial electricity hedges are recognised in the income statement when they expire; for 2017 they totalled SEK -36 million (-53). The fair value of outstanding financial electricity hedges at 31 December 2017 was SEK 55 million (-57). This is recognised in other comprehensive income as hedge accounting is applied.

The change in the fair value of hedges for investment purchases is recognised in other comprehensive income until expiry, at which point the gain/loss is added to the cost of the non-current asset that was hedged. The fair value of outstanding hedges for investment purchases amounted to SEK 5 million at 31 December 2017. During the period, the cost of hedged items increased by SEK 1 million.

Gains on hedging of net assets amounted to SEK -49 million (1) in 2017 and are recognised in other comprehensive income as hedge accounting is applied. In the parent company accounts, this gain is recognised in the income statement. The translation of net foreign assets had an impact of SEK 36 million (165) on consolidated equity. The fair value of outstanding hedges of net assets at 31 December 2017 was SEK 3 million (16) and relates to financial derivatives.

The fair value of the derivatives used to manage the fixed interest periods amounted to SEK -47 million (-74) at 31 December 2017, which was recognised in other comprehensive income as hedge accounting is applied. This value is expected to be recognised in the income statement from 2018 onwards.

NOTE 7

Note 7. Tax

Taxes stated in income statement	Group		Parent company	
	2017	2016	2017	2016
Current tax	-436	-331	-208	-305
Deferred tax	-10	-105	11	4
Total	-445	-436	-197	-301

Tax recognised totalled SEK -445 million, corresponding to 21 per cent of profit before tax.

Taxes stated in income statement	Group				Parent company			
	2017		2016		2017		2016	
	SEKm	%	SEKm	%	SEKm	%	SEKm	%
Recognised profit/loss before tax	2 113		1 859		2 044		1 499	
Tax at applicable rate	-465	22.0	-409	22.0	-450	22.0	-330	22.0
Difference in tax rate in foreign operations	6	-0.3	3	-0.2	0	0.0	0	0.0
Tax-exempt income	7	-0.3	6	-0.3	328	-16.0	286	-19.1
Non-tax-deductible costs	-5	0.2	-33	1.8	-182	8.9	-257	17.2
Standard interest on tax allocation reserve	-2	0.1	-2	0.1	-2	0.1	-2	0.1
Effect of unstated loss carry-forwards and temporary differences	11	-0.5	3	-0.2	0	0.0	0	0.0
Tax attributable to previous periods	-8	0.4	-1	0.1	107	-5.3	0	0.0
Change to tax rate on deferred tax assets/liabilities	10	-0.5	0	0.0	0	0.0	0	0.0
Other	0	0.0	-3	0.2	1	-0.1	1	-0.1
Effective tax	-445	21.1	-436	23.4	-197	9.7	-301	20.1

Tax attributable to other comprehensive income	Group						Parent company					
	2017		2016		2017		2016		2017		2016	
	Before tax	Tax	After tax	Before tax	Tax	After tax	Before tax	Tax	After tax	Before tax	Tax	After tax
Cash flow hedging	35	-8	28	211	-46	164	38	-8	29	211	-46	164
Share in joint ventures' other comprehensive income	-4	-	-4	-21	-	-21	-	-	-	-	-	-
Translation difference on foreign operations	36	-	36	-165	-	-165	-	-	-	-	-	-
Hedging of currency risk in foreign operations	-49	11	-38	1	-6	-5	-	-	-	-	-	-
Revaluations of defined benefit pension plans	121	-24	97	-159	29	-130	-	-	-	-	-	-
Other comprehensive income	140	-21	119	-133	-24	-157	38	-8	29	211	-46	164

Taxes as stated in balance sheet	Group		Parent company	
	2017	2016	2017	2016
Tax receivables				
Deferred tax asset	1	4	-	-
Current tax receivable	36	132	29	106
Total tax receivables	37	136	29	106
Deferred tax liabilities				
Non-current assets				
Biological assets*	3 943	3 854	635	634
Property, plant and equipment	1 278	1 319	-1	-1
Tax allocation reserve	444	502	-	-
Transactions subject to hedge accounting	-27	-35	-26	-35
Other, including deferred tax assets stated net among deferred tax liabilities	11	-27	2	13
Total deferred tax liabilities	5 650	5 613	610	612
Current tax liability	21	6	-	-
Total tax liabilities	5 671	5 618	610	612

* For the parent company this relates to forest land.

Change in the net of deferred tax assets and deferred tax liabilities

	Group					Parent company			
	Opening balance	Stated in the income statement	Stated in other comprehensive income	Translation differences and other	Closing balance	Opening balance	Stated in the income statement	Stated in other comprehensive income	Closing balance
2017									
Biological assets*	-3 854	-89	-	-	-3 943	-634	0	-	-634
Property, plant and equipment	-1 319	39	-	2	-1 278	1	0	-	1
Tax allocation reserve	-502	57	-	-	-444	-	-	-	-
Transactions subject to hedge accounting	35	-	-8	-	27	35	-	-8	26
Other	32	-17	-24	0	-10	-13	11	-	-2
Deferred net tax liability	-5 608	-10	-32	1	-5 648	-612	11	-8	-610

	Group					Parent company			
	Opening balance	Stated in the income statement	Stated in other comprehensive income	Translation differences and other	Closing balance	Opening balance	Stated in the income statement	Stated in other comprehensive income	Closing balance
2016									
Biological assets*	-3 788	-66	-	-	-3 854	-634	-1	-	-634
Property, plant and equipment	-1 363	25	-	19	-1 319	1	0	-	1
Tax allocation reserve	-438	-64	-	-	-502	-	-	-	-
Transactions subject to hedge accounting	81	-	-46	-	35	81	-	-46	35
Other	5	0	29	-2	32	-18	4	-	-13
Deferred net tax liability	-5 502	-105	-17	16	-5 608	-569	4	-46	-612

* For the parent company this relates to forest land.

For information on biological assets see Note 11. Deferred tax liability in respect of property, plant and equipment is primarily attributable to depreciation in excess of plan.

For information concerning provisions for taxes see Note 18.

The deferred tax income recognised in the consolidated income statement relates primarily to changes in temporary differences. The amount recognised in other comprehensive income includes deferred tax related to changes of SEK -8 million (-46) in hedging reserves and an impact of SEK -24 million (29) from the revaluation of defined benefit pension plans.

Holmen has requested an advance ruling on the entitlement to group relief in the parent company for tax losses that have arisen in the Group's Spanish operations. The Swedish tax authority has opposed such entitled to group relief. The Supreme Administrative Court, which is judging the case, is obtaining an interpretation from the Court of Justice of the European Union in order to determine the issue. A positive decision could result in the Group's tax expense decreasing by approximately SEK 400 million. No deferred tax asset has been recognised.

Holmen has appealed against the property tax rate on hydro power assets for the 2011–2016 tax years as the higher tax rate that applied for these assets compared with other types of energy assets could constitute state aid. If the appeals are upheld, it is estimated that SEK 300 million in property tax will be repaid. No deferred tax asset has been recognised.

Note 8. Earnings per share

	Group	
	2017	2016
Total number of shares outstanding, 1 January	83 996 162	83 996 162
Buy-back of company's own shares during the year	-	-
Total number of shares outstanding, 31 December	83 996 162	83 996 162
Weighted average number of shares during the year, basic	83 996 162	83 996 162
Effect of share savings programme	-	-
Weighted average number of shares during the year, diluted	83 996 162	83 996 162
Shareholders' share of profit for the year, SEKm	1 668	1 424
Basic average number of shares	83 996 162	83 996 162
Basic EPS for the year, SEK	19.9	16.9
Shareholders' share of profit for the year, SEKm	1 668	1 424
Diluted average number of shares	83 996 162	83 996 162
Diluted EPS for the year, SEK	19.9	16.9

In previous years 760 000 class B shares were repurchased, which corresponds to approximately 0.9 per cent of the total number of shares outstanding, and to approximately 0.3 per cent of the total number of votes.

In 2016, Holmen introduced a share savings programme. The programme involves previously repurchased shares being transferred to programme participants at the end of the term. The number of shares to be transferred depends on the Group's return on capital employed over the 2016–2018 period. In the event of maximum allocation, 90 000 shares will be transferred from the company to programme participants. The allocation of repurchased shares in order to meet these undertakings results in dilution effects. The effects on key ratios and profit per share are marginal. See Note 4 for further information about the share savings programme.

Note 9. Non-current intangible assets

	Group		Parent company	
	2017	2016	2017	2016
Accumulated acquisition costs				
Opening balance	194	225	26	26
Investments	18	5	-	-
Disposal and retirement of assets	-	-36	-	-
Translation differences	0	0	0	-
Total	212	194	26	26
Amortisation and impairment losses, accumulated				
Opening balance	107	118	19	18
Amortisation for the year	15	17	-	1
Impairment losses for the year	-	1	-	-
Disposal and retirement of assets	0	-28	-	-
Translation differences	0	0	0	-
Total	123	107	19	19
Residual value according to plan at end of year	90	87	8	8

Non-current intangible assets mainly comprise IT systems at SEK 50 million (64) and rights of use for certain energy assets at SEK 32 million (16). These assets were largely acquired from external sources. They have determinable useful lives and are amortised over 5–20 years. No goodwill applies for the Group.

Note 10. Property, plant and equipment

Group	Forest land		Buildings, other land and land installations		Machinery and equipment		Work in progress and advance payments to suppliers		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Accumulated acquisition costs										
Opening balance	146	167	5 594	7 003	27 572	31 260	44	130	33 356	38 560
Investments	0	-	51	37	559	729	84	18	693	784
Reclassifications	-	-	-	-	67	92	-67	-92	-	-
Disposal and retirement of assets	-6	-14	-7	-1 420	-132	-4 192	-	-1	-145	-5 627
Translation differences	0	-6	-5	-27	-35	-317	1	-11	-39	-362
Total	140	146	5 633	5 594	28 031	27 572	61	44	33 865	33 356
Amortisation and impairment losses, accumulated										
Opening balance	-	-	3 228	4 247	20 739	23 992	-	-	23 967	28 239
Depreciation and amortisation according to plan for the year	-	-	96	118	879	882	-	-	976	1 000
Impairment losses for the year	-	-	-	81	-	41	-	-	-	122
Disposal and retirement of assets	-	-	-7	-1 212	-127	-3 994	-	-	-134	-5 205
Translation differences	-	-	-1	-6	-20	-181	-	-	-21	-187
Total	-	-	3 316	3 228	21 471	20 739	-	-	24 787	23 967
Residual value according to plan at end of year	140	146	2 317	2 365	6 560	6 832	61	44	9 078	9 387

Parent company	Forest land		Buildings, other land and land installations		Machinery and equipment		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Accumulated acquisition costs								
Opening balance	464	461	139	139	220	232	823	832
Investments	1	3	11	-	21	26	32	29
Disposal and retirement of assets	0	0	0	0	-30	-38	-30	-38
Total	464	464	150	139	210	220	825	823
Accumulated depreciations and amortisations according to plan								
Opening balance	-	-	130	129	158	172	288	301
Depreciation and amortisation according to plan for the year	-	-	1	1	24	24	25	25
Disposal and retirement of assets	-	-	0	0	-29	-38	-29	-38
Total	-	-	131	130	154	158	285	288
Accumulated revaluations								
Opening balance	2 389	2 390	1	1	-	-	2 389	2 391
Disposal and retirement of assets	0	-1	-	-	-	-	0	-1
Total	2 389	2 389	1	1	-	-	2 389	2 389
Residual value according to plan at end of year	2 853	2 853	20	10	56	62	2 930	2 925

The Group's investment commitments for approved and ongoing projects amounted to SEK 590 million (250) at 31 December 2017. In 2017, the company's capitalised borrowing costs totalled SEK 2 million (3). An interest rate of 1.1 per cent (1.5) was used to determine the amount.

Note 11. Biological assets

Forest assets are recognised in the consolidated accounts as growing forest, which is stated as a biological asset at fair value, and land, which is stated at cost. Holmen's assessment is that no relevant market prices are available that can be used to value forest holdings as extensive as Holmen's. The valuation is therefore made by calculating the present value of future expected cash flows from the growing forests. Fair value measurement is based on measurement level 3. This calculation of cash flows is made for the coming 100 years, which is regarded as the forests' harvesting cycle. The cash flows are calculated on the basis of harvesting volumes according to Holmen's current plan and assessments of future price and cost changes. The cost of re-planting has been taken into account, as re-planting after harvesting is a statutory obligation. The cash flows are discounted using an interest rate of 5.5 (5.5) per cent.

Holmen owns a total of 1 042 000 hectares of productive forest land, 960 000 hectares of which are actively managed. The productive forest land contains 121 million m³ growing stock, solid over bark. According to the applicable plan from 2011, the harvest will amount to 3.0 million m³sub per year. It is believed that this level will remain largely unchanged until 2030. Thereafter, harvesting is expected to increase gradually to over 4 million m³sub per year by 2110. Around 45 per cent of the wood harvested consists of pulpwood that is sold to the pulp and paper industry, 50 per cent is logs sold to sawmills and the remainder mainly consists of forest fuel.

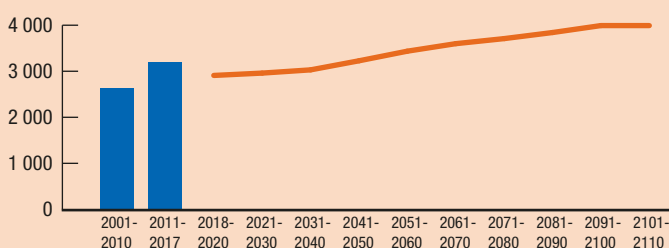
The valuation is based on a long-term trend price that is adjusted upwards annually by 2 per cent inflation. The trend price for 2018 is 432 SEK/m³sub, which is slightly lower than applicable market prices. The cost forecast is based on present-day levels and is adjusted upwardly by just over 2 per cent per year.

Holmen's forest holdings are reported at SEK 17 831 million (17 448) before tax. A deferred tax liability of SEK 3 943 million (3 854) is stated in relation to that figure. This represents the tax that is expected to be charged against earnings from future harvests. On that basis, the growing forest, net after tax, is stated at SEK 13 888 million (13 594).

Change in the value of the growing forests	Group	
	2017	2016
Book value at start of year	17 448	17 173
Acquisition of growing forest	11	4
Sales of growing forest	-19	-27
Change due to harvesting	-614	-587
Unrealised change in fair value	1 029	902
Reclassifications	-23	-
Other changes	-1	-17
Book value at end of year	17 831	17 448

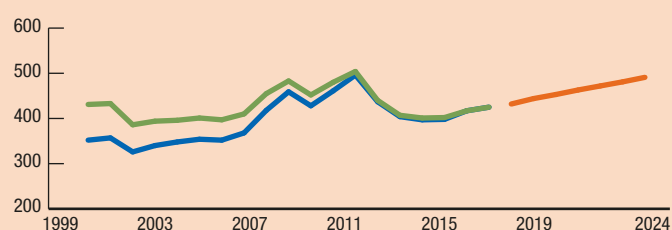
Assets that have been reclassified relate to forest properties in the Björkvattnet area in Jämtland, which were classified as an asset held for sale. An agreement on the sale of these properties was signed in late 2017 and the transaction was completed in January 2018. The profit from the sale will be reported within the Forest business area.

Harvesting
'000 m³sub/year



- Average harvest
- Planned harvest

Prices
SEK/m³sub



- Real
- Nominal
- Price used in valuation (nominal)

The net effect of the change in fair value and the change as a result of harvesting is stated in the income statement as a change in value of biological assets. In 2017, this amounted to SEK 415 million (315).

The table below shows how the value of forest assets would be affected by changes in the most significant valuation assumptions.

Change in value	Before tax	After tax
Annual change, +0.1% per year		
Rate of harvesting	760	590
Price inflation	1 150	900
Cost inflation	-620	-480
Change in level, +1%		
Harvesting	260	200
Prices	400	310
Costs	-210	-170
Discount rate, +0.1%	-490	-380

Annual change refers to the annual rate of change used in the valuation of each parameter. For example, an increase of 0.1 per cent means that the annual price inflation will be increased from 2.0 per cent to 2.1 per cent in the calculations. Change in level means that the level for each parameter and year changes. For example, a 1 per cent price increase means that the wood prices in the calculations are raised by 1 per cent for all years (change in level).

Note 12. Investments in associates, joint ventures and other shares and participating interests

	Group	
	2017	2016
Profit/loss from associates and joint ventures	-12	-18
Recognised in profit/loss for the year	-12	-18
Other comprehensive income from joint venture	-4	-21
Total comprehensive income from associates and joint ventures	-16	-39

The combined value of Holmen's share in the profits of associates amounted to SEK -4 million (-14) for the Group and to SEK 0 million (-9) for the parent company. The combined value of Holmen's share in the profits of joint ventures amounted to SEK -13 million (-8) for the Group and to SEK -13 million (-8) for the parent company.

	Group		Parent company			Group		Parent company	
	2017	2016	2017	2016		2017	2016	2017	2016
Associates					Joint ventures				
Book value at start of year	1 646	1 772	123	125	Book value at start of year	127	141	92	82
Investments	-	5	-	-	Investments	-	10	-	10
Share of earnings	-9	-16	-	-	Share of earnings	-14	-30	-	-
Disposals	-	-105	-	-2	Other	-	6	-	-
Dividends received	-	-12	-	-	Book value at end of year	113	127	92	92
Translation difference	0	4	-	-					
Impairment losses	-	-2	-	-					
Book value at end of year	1 636	1 646	123	123					

Parent company and Group holdings of shares and investments in associates and joint ventures

	Corporate ID No.	Registered office	Number of holdings	Holding %*	Value of holding in consolidated accounts	Book value in the parent company	2017		2016	
							Holding %*	Value of holding in consolidated accounts	Book value in the parent company	Value of holding in consolidated accounts
Associates										
Brännälvens Kraft AB	556017-6678	Arbrå	5 556	13.9	36	-	13.9	36	-	-
Gidekraft AB	556016-0953	Örnsköldsvik	990	9.9	0	0	9.9	0	0	0
Harrsele AB	556036-9398	Vännäs	9 886	49.4	1 463	-	49.4	1 465	-	-
Uni4 Marketing AB	556594-6984	Stockholm	1 800	36.0	13	2	36.0	12	2	2
Vattenfall Tuggen AB	556504-2826	Lycksele	683	6.8	75	75	6.8	75	75	75
VindIn AB	556713-5172	Stockholm	200	17.7	49	46	17.7	55	46	46
Melodea Ltd, Israel		Tel Aviv	119	46.8	0	-	46.8	2	-	-
Other associates					0	0		0		0
					1 636	123		1 646	123	123
Joint venture										
Varsvik AB	556914-9833	Stockholm	250	50.0	113	92	50.0	127	92	92
Total					1 749	215		1 773	215	215

* The percentage of ownership corresponds to the percentage of votes for the total number of shares.

The holdings in Brännälvens Kraft AB, Gidekraft AB, Harrsele AB and Vattenfall Tuggen AB refer to hydro power assets, and the holdings in VindIn AB refer to wind power assets. The holdings entitle the Group to buy electricity produced at cost price, so the associate only earns a very limited profit. Purchased electricity is sold to external customers at market price, and the earnings are stated in the consolidated accounts within the Renewable Energy business area.

The holding in associate Harrsele AB is recognised in the Group at SEK 1 463 million (1 465). Holmen purchased 491 GWh (416) of electrical power from Harrsele AB in 2017, giving Holmen an operating profit of SEK 94 million (76) from market sales. Harrsele AB owns power assets that generate 950 GWh of electrical power in a normal year. These assets were originally constructed in 1957–58 and the book value of the non-current assets in Harrsele AB amounts to SEK 122 million (114). The company has non-current liabilities to its owner of SEK 25 million (25).

Ownership in remaining associates relates to activities in the areas of sales, research and development.

The interests in Brännälvens Kraft AB, Gidekraft AB, Vattenfall Tuggen AB and VindIn AB are classified as associates even though the holdings are less than 20 per cent, since shareholder agreements provide significant influence over each company's activities.

Ownership in the joint venture, Varsvik AB, relates to wind power operations.

	Group		Parent company	
	2017	2016	2017	2016
Other shares and participating interests				
Book value at start of year	2	4	1	1
Disposals	0	-	0	-
Translation difference	0	0	-	-
Impairment losses	-	-2	-	-
Book value at end of year	2	2	0	1

Note 13. Financial instruments

Non-current financial receivables consist of interest-bearing financial receivables to other companies, prepayments for credit facilities and the fair value of non-current derivatives. The parent company's receivables from Group companies include a significant share of interest-free receivables between Swedish wholly owned Group companies.

Current financial receivables are recognised as fixed income investments and lending for durations of up to one year, accrued interest income and unrealised exchange gains and fair values of derivatives. Current financial receivables essentially have fixed interest periods of under three months, and thus involve a very limited interest rate risk.

Cash and cash equivalents refers to bank balances and investments that can be readily converted into cash for a known amount and with a duration of no more than three months from the date of acquisition, which also means that the interest rate risk is negligible. Cash and cash equivalents are placed in bank accounts or as current deposits at banks.

Loan liabilities, accrued interest expense, unrealised exchange losses and fair values of derivatives are stated as **financial liabilities**.

Financial liabilities are largely interest-bearing. The parent company's liabilities to Group companies include a significant amount of interest-free liabilities between Swedish wholly owned Group companies.

The maturity structure and average interest for the Group's liabilities are stated in the administration report on pages 32–35. SEK -2 807 million of the parent company's liabilities are due for payment within one year. In addition to the financial assets and liabilities identified above, the pension liability (see Note 17) is also included in net financial debt.

All of the Group's derivatives are covered by ISDA or FEMA agreements, which entails a right for Holmen to offset assets and liabilities in relation to the same counterparty in the case of a credit event. Taking into account the terms of the netting agreement, the net exposure is SEK -151 million. Assets and liabilities are not offset in the report. Recognised derivatives totalled SEK 200 million (213) on the asset side and SEK -351 million (-385) on the liabilities side.

Items measured at fair value belong to measurement level 2 pursuant to IFRS 13. Fair value in the tables is calculated on the basis of discounted cash flows and all variables, such as discount rates and exchange rates, are taken from market listings for calculations. The difference between fair value and book value arises because certain liabilities are not measured at fair value in the balance sheet, and are instead stated at their amortised cost. In the case of trade receivables and trade payables, the book value is stated as the fair value, as this is judged to be a good reflection of the fair value. Since it has not been possible to determine a reliable fair value for shares and interests, they have been excluded from the tables. For further information on financing, see the section on Risk, on pages 32–35.

Maturity structure, undiscounted amounts*	2018	2019	2020	2021	2022–
Financial liabilities					
Derivatives	-36	-19	-17	-	-
Other financial liabilities	-2 772	-508	-	-	-
Financial receivables					
Derivatives	8	-	-	-	-
Other financial receivables	380	4	1	0	37

* Refers to financial instruments included in Group net financial debt, excluding provisions for pensions.

Note 13. Financial instruments, cont.

Group	Derivatives recognised at fair value through profit/loss		Derivatives with hedge accounting		Trade receivables and loan receivables		Available-for-sale assets		Other liabilities		Total book value		Fair value	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Financial instruments included in net financial debt														
Non-current financial receivables														
Derivatives	0	0	-	-	-	-	-	-	-	-	0	0	0	0
Other financial receivables	-	-	-	-	42	39	-	-	-	-	42	39	42	39
	0	0	-	-	42	39	-	-	-	-	42	39	42	39
Current financial receivables														
Accrued interest	-	-	-	-	0	1	-	-	-	-	0	1	0	1
Derivatives	8	55	-	-	-	-	-	-	-	-	8	55	8	55
Other financial receivables	-	-	-	-	24	34	-	-	-	-	24	34	24	34
	8	55	-	-	24	34	-	-	-	-	32	89	32	89
Cash and cash equivalents														
Current deposit of cash and cash equivalents	-	-	-	-	0	0	-	-	-	-	0	0	0	0
Bank balances	-	-	-	-	356	210	-	-	-	-	356	210	356	210
	-	-	-	-	356	210	-	-	-	-	356	210	356	210
Non-current liabilities														
Bond loans	-	-	-	-	-	-	-	-	-500	-800	-500	-800	-500	-800
Derivatives	-	-	-45	-75	-	-	-	-	-	-	-45	-75	-45	-75
Other non-current liabilities	-	-	-	-	-	-	-	-	-7	-8	-7	-8	-7	-8
	-	-	-45	-75	-	-	-	-	-507	-808	-552	-882	-552	-882
Current liabilities														
Commercial paper programme	-	-	-	-	-	-	-	-	-2 099	-1 709	-2 099	-1 709	-2 099	-1 709
Bank account liabilities	-	-	-	-	-	-	-	-	-10	-26	-10	-26	-10	-26
Derivatives	-4	-53	-	-	-	-	-	-	-	-	-4	-53	-4	-53
Accrued interest	-	-	-	-	-	-	-	-	-11	-12	-11	-12	-11	-12
Bond loans	-	-	-	-	-	-	-	-	-650	-1 400	-650	-1 400	-650	-1 400
Other current liabilities	-	-	-	-	-	-	-	-	0	-	0	-	0	-
	-4	-53	-	-	-	-	-	-	-2 770	-3 147	-2 775	-3 200	-2 775	-3 200
Financial instruments not included in net financial debt														
Other shares and participating interests	-	-	-	-	-	-	2	2	-	-	2	2	2	2
Trade receivables	-	-	-	-	2 089	2 174	-	-	-	-	2 089	2 174	2 089	2 174
Derivatives (recognised among operating receivables)	1	8	192	150	-	-	-	-	-	-	192	158	192	158
Trade payables	-	-	-	-	-	-	-	-	-1 957	-1 766	-1 957	-1 766	-1 957	-1 766
Derivatives (recognised among operating liabilities)	-34	-23	-267	-233	-	-	-	-	-	-	-301	-257	-301	-257
Total financial instruments	-30	-14	-121	-158	2 511	2 457	2	2	-5 234	-5 721	-2 872	-3 433	-2 872	-3 433

Parent company

Financial instruments included in net financial debt	Derivatives recognised at fair value through profit/loss		Derivatives with hedge accounting		Trade receivables and loan receivables		Available-for-sale assets		Other liabilities		Total book value		Fair value	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Non-current financial receivables														
Derivatives	0	0	-	-	-	-	-	-	-	-	0	0	0	0
Receivables from Group companies	-	-	-	-	2 916	3 104	-	-	-	-	2 916	3 104	2 916	3 104
Other financial receivables	-	-	-	-	102	98	-	-	-	-	102	98	102	98
	0	0	-	-	3 018	3 202	-	-	-	-	3 018	3 202	3 018	3 202
Current financial receivables														
Accrued interest	-	-	-	-	0	1	-	-	-	-	0	1	0	1
Derivatives	8	55	-	-	-	-	-	-	-	-	8	55	8	55
Other financial receivables	-	-	-	-	24	34	-	-	-	-	24	34	24	34
	8	55	-	-	24	34	-	-	-	-	32	89	32	89
Cash and cash equivalents														
Bank balances	-	-	-	-	294	104	-	-	-	-	294	104	294	104
	-	-	-	-	294	104	-	-	-	-	294	104	294	104
Non-current liabilities														
Bond loans	-	-	-	-	-	-	-	-	-500	-800	-500	-800	-500	-800
Liabilities to Group companies	-	-	-	-	-	-	-	-	-334	-1 454	-334	-1 454	-334	-1 454
Derivatives	-	-	-45	-75	-	-	-	-	-	-	-45	-75	-45	-75
	-	-	-45	-75	-	-	-	-	-834	-2 254	-880	-2 328	-880	-2 328
Current liabilities														
Commercial paper programme	-	-	-	-	-	-	-	-	-2 099	-1 709	-2 099	-1 709	-2 099	-1 709
Bank account liabilities	-	-	-	-	-	-	-	-	-10	-26	-10	-26	-10	-26
Derivatives	-4	-53	-	-	-	-	-	-	-	-	-4	-53	-4	-53
Accrued interest	-	-	-	-	-	-	-	-	-11	-12	-11	-12	-11	-12
Bond loans	-	-	-	-	-	-	-	-	-650	-1 400	-650	-1 400	-650	-1 400
Other current liabilities	-	-	-	-	-	-	-	-	0	-	0	-	0	-
	-4	-53	-	-	-	-	-	-	-2 770	-3 147	-2 775	-3 200	-2 775	-3 200
Financial instruments not included in net financial debt														
Other shares and participating interests	-	-	-	-	-	-	0	0	-	-	0	0	0	0
Trade receivables	-	-	-	-	1 769	1 874	-	-	-	-	1 769	1 874	1 769	1 874
Derivatives (recognised among operating receivables)	4	13	194	151	-	-	-	-	-	-	198	164	198	164
Trade payables	-	-	-	-	-	-	-	-	-1 814	-1 576	-1 814	-1 576	-1 814	-1 576
Derivatives (recognised among operating liabilities)	-34	-24	-267	-234	-	-	-	-	-	-	-301	-258	-301	-258
Total financial instruments	-27	-10	-118	-157	5 105	5 214	0	0	-5 419	-6 976	-458	-1 929	-458	-1 929

Note 14. Inventories

	Group		Parent company	
	2017	2016	2017	2016
Raw materials and consumables	842	831	661	637
Logs and pulpwood	212	233	201	206
Finished products and work in progress	1 319	1 431	934	1 077
Felling rights	507	431	501	423
Electricity certificates and emission allowances	24	54	24	54
Total	2 905	2 981	2 322	2 396

During the year reversals of previous impairment losses on finished stock had an effect of SEK 7 million on Group profit, while impairment losses on other stock had an effect of SEK -2 million (-2). Impairment losses on inventories had an impact of SEK -3 million (-5) on the parent company.

Note 15. Operating receivables

	Group		Parent company	
	2017	2016	2017	2016
Trade receivables				
Group companies	-	-	59	50
Associates	56	38	56	38
Other	2 033	2 137	1 654	1 786
Total trade receivables	2 089	2 174	1 769	1 874
Current receivables				
Group companies	-	-	-	-
Associates	3	5	3	5
Other	291	226	168	129
Derivatives	192	158	198	164
Prepayments and accrued income	171	175	72	82
Total other operating receivables	658	564	442	380
Total operating receivables	2 747	2 738	2 210	2 254

Trade receivables are recognised at the amount expected to be received, based on an individual assessment of each customer. The Group's trade receivables mainly relate to European customers. Trade receivables denominated in foreign currencies were valued at the balance sheet date. Following an individual assessment, a provision for anticipated credit losses of SEK 41 million (37) has been made and recognised, net, together with trade receivables. During the year, the provision was changed by SEK -2 million (-3) as a result of actual credit losses, and by SEK 6 million (2) as a result of changes in the provision for anticipated credit losses. At 31 December 2017, SEK 33 million (44) of trade receivables were past due for more than 30 days. The credit quality of financial assets that are neither past due nor impaired is deemed to be good.

The fair values of derivatives relate to hedges of future cash flows.

Customer credit risks related to the Group's customers are managed by the relevant business areas and are described on page 33.

Note 16. Equity, parent company

	31 Dec 2017		
	Number	Quotient value	SEKm
Registered share capital			
Class A	22 623 234	50	1 131
Class B	62 132 928	50	3 107
Total no. of shares	84 756 162		4 238
Repurchased class B shares	-760 000		
Total number of shares outstanding	83 996 162		

	31 Dec 2016		
	Number	Quotient value	SEKm
Registered share capital			
Class A	22 623 234	50	1 131
Class B	62 132 928	50	3 107
Total no. of shares	84 756 162		4 238
Repurchased class B shares	-760 000		
Total number of shares outstanding	83 996 162		

The company's share capital consists of shares issued in two classes: class A, each of which carries 10 votes, and class B, each of which carries one vote. In other respects, there are no restrictions between classes of shares.

At 31 December 2017 the Group's own shareholding was 760 000 shares (760 000). None of the Group's own shares were sold during the year.

Assets and liabilities measured at fair value according to Chapter 4 Section 14a of the Swedish Annual Accounts Act had an impact of SEK -145 million (-167) on parent company equity. In the consolidated accounts, valuation of derivatives and other financial instruments had an impact of SEK -151 million (-172) on equity.

Holmen's profitability target is for forests and power to generate a return of 5 per cent and for its industrial operations to generate a return of over 10 per cent. Taken together this means that the Group's return on capital employed should exceed 7 per cent. Decisions on dividends are based on an appraisal of the Group's profitability, future investment plans and financial position. The aim is to have a robust financial position with a debt/equity ratio at a maximum of 0.5.

The AGM has at its disposal the company's earnings amounting to SEK 5 802 807 399. The Board proposes that the AGM on 10 April 2018 approve a dividend of SEK 13 per share. The proposed dividend totals SEK 1 092 million. The Board also proposes that the remaining amount of SEK 4 710 857 293 be carried forward.

For the previous year, the dividend paid was SEK 12 per share (SEK 1 008 million).

The debt/equity ratio was 0.13 (0.19).

Neither the parent company nor any of the subsidiaries are subject to external capital requirements. For further details about the Group's capital management and risk management, see pages 32–35.

Note 17. Pension provisions

Holmen provides defined-benefit pension plans for some office-based employees in Sweden. Most of these commitments are secured by means of insurance policies with Alecta. As Alecta cannot provide sufficient information to permit the ITP plan to be stated in the accounts as a defined benefit plan, it is stated in accordance with statement UFR 10 of the Swedish Financial Reporting Board as a defined contribution plan. Some defined benefit obligations over and above the ITP plan are available for Group management and secured by means of a pension fund. Occupational pensions for other office-based employees and all collective agreement workers in Sweden are defined contribution plans. Defined benefit plans in the UK have been closed to new pension accruals since 2015. These obligations are recognised in the consolidated accounts as defined benefit plans in accordance with IAS 19.

Cost recognised in profit/loss for the year	Group		Parent company	
	2017	2016	2017	2016
Defined benefit plans				
Personnel costs	-5	-7	-12	-21
Finance costs	-4	-2	0	1
Total defined benefit plans stated in profit/loss for the year	-9	-9	-12	-21
Defined contribution plans				
Personnel costs	-128	-129	-106	-106
Total recognised in profit/loss for the year	-137	-138	-118	-127

Cost recognised in other comprehensive income	Group	
	2017	2016
Return on plan assets excl. recognised interest income	103	241
Actuarial gains and losses from changes in demographic assumptions	122	33
Actuarial gains and losses from changes in financial assumptions	-101	-418
Actuarial gains and losses from experiential adjustments	14	-13
Payroll tax	1	-1
Effect of asset ceiling	-18	-
Total recognised in other comprehensive income	121	-159

The change in the defined benefit obligations and the change in plan assets are specified in the tables below. Some 90 per cent of the obligations relate to the pension plans in the UK. The obligations arising out of the pension schemes in the UK are placed in a trust. These are governed by a board consisting of representatives from Holmen and the beneficiaries. Holmen's UK subsidiary has a commitment to cover the deficit that exists over a period of time as established between the trust and the company in consultation with its actuary. This period is currently 3 years and is subject to review every 3 years. The assets in a trust exceed the commitment. This surplus has not been recognised as there are no offset rights. This adjustment is referred to as an asset ceiling in tables.

Obligations	Group		Parent company	
	2017	2016	2017	2016
Obligations at 1 January	-2 414	-2 374	-167	-153
Current service cost	-5	-7	-12	-21
Payroll tax	2	2	-	-
Interest expense	-60	-77	-5	-7
Actuarial gains/losses	35	-399	-	-
Benefits paid	222	212	11	13
Exchange differences	21	230	-	-
Obligations at 31 December	-2 198	-2 414	-173	-167

Of the Group's total obligations, SEK 10 million (11) refers to those that are not funded, while the rest are wholly or partially funded obligations. Of the parent company's obligations, SEK 12 million (12) are secured under the Swedish Pension Obligations Vesting Act.

The weighted average duration is 18 years.

Plan assets	Group		Parent company	
	2017	2016	2017	2016
Fair value of assets at 1 January	2 213	2 244	155	148
Interest income	55	75	-	-
Expected return excl. recognised interest income	103	241	-	-
Real return (parent company)	-	-	5	7
Administration fees	-3	-5	-	-
Contribution by employer	37	73	-	-
Benefits paid	-210	-197	-	-
Exchange differences	-19	-218	-	-
Fair value of assets at 31 December	2 177	2 213	160	155
Effect of asset ceiling	-18	-	-	-
Pension provisions, net	-39	-201	-12	-12

Plan assets by type are as shown below:

Plan assets	Group		Parent company	
	2017	2016	2017	2016
Equities	1 098	1 130	79	71
Bonds	1 050	1 063	79	80
Current fixed income investments	29	20	3	3
Total	2 177	2 213	160	155

The plan assets do not include any financial instruments issued by Group companies or assets used by the Group. Of equities, 47 per cent relate to the UK, 48 per cent to the rest of Europe and the US and 4 per cent to the rest of the world. Of bonds, 43 per cent relate to government bonds and 57 per cent to corporate bonds.

Key actuarial assumptions, Group (weighted average), %	Group	
	31 Dec 2017	31 Dec 2016
Discount rate	2.5	2.7
Rate of salary increase	3.0	3.0
Rate of price inflation	3.1	3.1

The discount rate for pension obligations was established on the basis of high-quality corporate bonds. A discount rate of 0.6 per cent (0.8) and salary levels at the balance sheet date were used for calculating the amount of the parent company's pension obligation.

The table below shows how the obligation would be affected in the event of a change in key actuarial assumptions (- reduces debt, + increases debt).

Sensitivity analysis	Group	
	31 Dec 2017	31 Dec 2016
Discount rate (+ 0.5%)	-183	-203
Rate of salary increase (+ 0.5%)	2	2
Rate of price inflation (+ 0.5%)	129	178
Mortality (+ 1 year in life expectancy)	108	82

The Group's payments into the funded defined benefit plans in 2018 are expected to amount to SEK 42 million.

Multi-employer plans

The year's premiums for pension insurance policies taken out with Alecta's ITP 2 plan amounted to SEK 31 million (33) and are included among personnel costs in the income statement. Holmen's share of the total number of active members in the plan amounted to 715 active members, which corresponds to 0.14 per cent. Premiums to Alecta are expected to amount to SEK 28 million in 2018. Alecta's surplus can be allocated to policyholders and/or the persons insured. If Alecta's collective consolidation falls below 125 per cent or exceeds 155 per cent, measures will be taken to create the conditions to ensure the level of consolidation returns to the normal range. In the event of low consolidation, one measure may be to raise the agreed price for new policy subscriptions and an increase in existing benefits. In the event of high consolidation, one measure may be to introduce reductions in premiums. At the end of 2017, Alecta's collective consolidation level was 154 per cent (148).

Note 18. Other provisions

Group	Provisions for taxes		Other provisions		Total	
	2017	2016	2017	2016	2017	2016
Book value at start of year	45	45	856	697	901	742
Provisions during the year	140	-	6	335	146	335
Utilised during the year	-	-	-240	-163	-240	-163
Unutilised amount reversed during the year	-	-	-2	-15	-2	-15
Translation differences	-	-	3	2	3	2
Book value at end of year	185	45	622	856	807	901
Of which non-current portion of the provisions	185	45	477	627	662	673
Of which current portion of the provisions	-	-	144	228	144	228
Parent company						
Book value at start of year	45	45	833	892	878	937
Provisions during the year	-	-	105	228	105	228
Utilised during the year	-	-	-211	-274	-211	-274
Unutilised amount reversed during the year	-	-	-2	-13	-2	-13
Book value at end of year	45	45	725	833	770	878
Of which non-current portion of the provisions	45	45	532	572	577	617
Of which current portion of the provisions	-	-	193	261	193	261

Tax provisions are mainly attributable to the divested operations in Spain.

Other provisions mainly relate to uncertainties associated with obligations for environmental restoration, for fixed price electricity supply contracts and the sale of the operations in Spain.

A provision is included in the parent company for future measures for reforestation after harvesting for SEK 190 million.

Note 19. Operating liabilities

	Group		Parent company	
	2017	2016	2017	2016
Trade payables				
Group companies	-	-	53	116
Associates	-	-	-	-
Other	1 957	1 766	1 761	1 460
Total trade payables	1 957	1 766	1 814	1 576
Current liabilities				
Group companies	-	-	0	0
Associates	6	11	6	11
Other	186	251	170	158
Derivatives	301	257	301	258
Accruals and deferred income	563	561	458	443
Total other operating liabilities	1 056	1 079	935	870
Total operating liabilities	3 012	2 845	2 749	2 445

All trade payables are due for payment within one year.

Accruals and deferred income in the parent company principally consist of personnel costs of SEK 191 million (196), discounts of SEK 52 million (42) and goods and services delivered but not yet invoiced of SEK 46 million (36).

Fair values of derivatives essentially relate to the hedging of future cash flows. See Note 13.

Note 20. Operating leases

In 2017, the Group's lease payments amounted to SEK 52 million (54), and the parent company's to SEK 38 million (38). The Group's leases mainly relate to trucks, cars and rental agreements.

No new leases of any significance for the business were entered into during the 2017 financial year. No leased equipment was subleased.

Breakdown of future lease payments	Group			Parent company		
	2018	2019–2022	2023–	2018	2019–2022	2023–
Future lease payments	45	40	0	31	22	0
Present value of future lease payments	45	40	0	31	21	0

The contracts have remaining durations ranging from 1 to 6 years. The Group's future lease payments for existing lease agreements amounted to SEK 90 million at the end of the previous year. Those in the parent company amounted to SEK 53 million.

Apart from lease agreements, Holmen has two time charter contracts in respect of ships that are used to distribute the company's products. These two agreements were extended in 2017 and have a remaining duration of two years from 1 January 2018.

Note 21. Collateral and contingent liabilities

Group	Property mortgages	Other collateral	Total collateral	Total collateral
	2017			2016
Financial liabilities	6	137	143	150
Total	6	137	143	150
Parent company				
Financial liabilities	6	137	143	150
Total	6	137	143	150

The holding in a jointly owned company, Varsvik AB, is pledged and amounted to SEK 137 million (144) at the end of the year.

Contingent liabilities	Group		Parent company	
	2017	2016	2017	2016
Surety on behalf of Group companies	-	-	40	34
Other contingent liabilities	97	86	83	68
Total	97	86	123	102

Other contingent liabilities for the Group largely comprise ongoing legal processes and guarantee undertakings for third parties. Holmen has environmentally related contingent liabilities that cannot currently be quantified but that could result in future costs.

Note 22. Related parties

Of the parent company's net sales of SEK 14 345 million (13 794), SEK 115 million (99) relates to deliveries to Group companies. The parent company's purchases from Group companies amounted to SEK 1 056 million (1 479).

There are significant financial receivables and liabilities between the parent company and its Swedish subsidiaries, which do not carry interest.

The parent company has a related party relationship with its subsidiaries (see Note 23).

Holmen Paper AB has contractually committed to purchase products on a continuous basis from Holmen Paper Madrid SL at a price calculated at production cost plus tied-up capital, for onward sale to end-customers. The aim was to optimise operations within this business area. The agreement was terminated in 2016, with notice of termination running until September 2017. Holmen Paper AB's purchases from Holmen Paper Madrid SL in 2017 amounted to SEK 889 million (1 371). As Holmen Paper AB is acting on a commissioned basis for Holmen AB, these transactions are accounted for via Holmen AB.

L E Lundbergföretagen AB is a major shareholder in Holmen (see page 37). Holmen rents office premises for SEK 8 million (8) from Fastighets AB L E Lundberg, which is a group company within L E Lundbergföretagen AB. In 2017, Fredrik Lundberg, who is CEO and principal shareholder in L E Lundbergföretagen, received a fee of SEK 680 000 (680 000) as Board chairman of Holmen. Louise Lindh, who is the CEO of Fastighets AB L E Lundberg and who is also a party related to Fredrik Lundberg, received a Board fee of SEK 340 000 (340 000).

Transactions with related parties are priced on market terms. The equity holdings in associates that produce hydro and wind power entitle the Group to buy the electricity produced at cost price in relation to the shareholding, which means that the associate only earns a limited profit. Purchased electricity is sold to external customers at market price, and the earnings are stated in the consolidated accounts within the Renewable Energy business area.

Transactions with related parties

Group	Sale of products to related parties		Purchase of products from related parties		Other (e.g. interest, dividend)		Liability to related parties		Receivable from related parties	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Associates	333	280	85	172	0	0	56	61	89	82
Joint venture	-	-	-	-	5	5	-	-	24	17
Parent company										
Subsidiaries	115	99	1 056	1 479	1 325	1 299	388	1 571	2 982	3 160
Associates	333	280	85	99	0	0	52	57	89	82
Joint venture	-	-	-	-	5	5	-	-	86	79

For fees and remuneration paid to members of the Board, see Note 4.

Note 23. Investments in Group companies

	Parent company			Parent company	
	2017	2016		2017	2016
Accumulated acquisition costs			Accumulated impairment losses		
Book value at start of year	17 141	17 141	Book value at start of year	5 838	5 330
Shareholder's contribution	1	1	Impairment losses for the year	817	508
Closing balance at 31 December	17 142	17 141	Closing balance at 31 December	6 655	5 838
			Book value at end of year	10 487	11 303

The parent company's impairment losses on investments in Group companies are stated in the income statement in the line item for 'Profit/loss from investments in Group companies'.

	Corporate ID No.	Registered office	Number of holdings	Interest %*	Book value	Interest %*	Book value
					in the parent company		in the parent company
Parent company's direct holdings of investments in subsidiaries							
				2017			2016
Holmen Skog AB	556220-0658	Örnsköldsvik	1 000	100	0	100	0
Iggesund Paperboard AB	556088-5294	Hudiksvall	1 000	100	0	100	0
Holmen Paper AB	556005-6383	Norrköping	100	100	0	100	0
Holmen Timber AB	556099-0672	Hudiksvall	1 000	100	0	100	0
Holmen Energi AB	556524-8456	Örnsköldsvik	1 000	100	0	100	0
Holmens Bruk AB	556537-4286	Stockholm	1 000	100	8 868	100	8 868
Holmen Holding AB	516406-0062	Stockholm	10 000	100	0	100	0
MoDo Capital AB	556499-1668	Stockholm	1 000	100	72	100	72
Holmen Energi Elnät AB	556878-3905	Örnsköldsvik	500	100	0	100	0
Stavro Vind AB	556953-6153	Stockholm	500	100	0	100	7
Other Swedish Group companies					2		1
Total Swedish holdings					8 942		8 948
Holmen France S.A.S., France		Paris	10 000	100	0	100	0
Holmen UK Ltd, UK		Workington	1 197 100	100	1 519	100	1 519
Holmen Paper Ltd**		London	-	100	-	100	-
Iggesund Paperboard (Workington) Ltd**		Workington	-	100	-	100	-
Holmen GmbH, Germany		Hamburg	-	100	1	100	1
Holmen Suecia Holding S.L., Spain		Madrid	9 448 557	100	-	100	808
Holmen Paper Madrid S.L.**		Madrid	-	100	-	100	-
Iggesund Paperboard Asia Pte Ltd, Singapore		Singapore	800 000	100	4	100	4
Holmen B.V., Netherlands		Amsterdam	35	100	7	100	9
AS Holmen Mets, Estonia		Tallinn	500	100	-	100	-
Iggesund Paperboard Inc, US		Lyndhurst	1 000	100	7	100	7
Iggesund Paperboard Asia (HK) Ltd, China		Hong Kong	4 000 000	100	5	100	5
Other non-Swedish Group companies					2		2
Total non-Swedish holdings					1 545		2 355
Total					10 487		11 303

*The percentage of ownership corresponds to the percentage of votes for the total number of shares.

**Indirect holdings.

Note 24. Untaxed reserves

	Parent company		
	31 Dec 2016	Appropriations	31 Dec 2017
Accumulated depreciation and amortisation in excess of plan			
Property, plant and equipment	10	2	12
Total	10	2	12
Tax allocation reserve			
2011 fiscal year	560	-560	-
2012 fiscal year	-	-	-
2013 fiscal year	280	-	280
2014 fiscal year	610	-	610
2015 fiscal year	370	-	370
2016 fiscal year	460	-170	290
2017 fiscal year	-	470	470
	2 280	-260	2 020
Total	2 290	-258	2 032

Group contributions received amounted to SEK 530 million (700) and Group contributions paid amounted to SEK 0 million (0). Total appropriations of profit amounted to SEK 787 million.

Note 25. Cash flow statement

	Group		Parent company	
	2017	2016	2017	2016
Interest paid and dividends received				
Dividends received	-	-	1 314	1 288
Interest received	2	1	17	17
Interest paid	-36	-49	-37	-51
Total	-34	-48	1 294	1 254

The change in current liabilities mostly relates to borrowing within the Group's commercial paper programme. In 2017, a number of different short-term loans totalling SEK 7 160 million (7 192) were raised within the Group's commercial paper programme, and SEK 6 770 million (7 630) was repaid. For a specification of cash and cash equivalents, see Note 13.

	Group			
	2016	Cash flow	Currency and market revaluation	2017
Bond loans	2 200	-1 050*	-	1 150
Commercial paper	1 709	390	-	2 099
Other financial liabilities	173	-21	-74	77
Pension liability	201	-39	-123	39
Financial liabilities including pension liability	4 283	-720	-197	3 365

	Parent company			
	2016	Cash flow	Currency and market revaluation	2017
Bond loans	2 200	-1 050*	-	1 150
Commercial paper	1 709	390	-	2 099
Liabilities to Group companies	1 454	-1 194	74	334
Other financial liabilities	166	-18	-77	70
Pension liability	12	-7	7	12
Financial liabilities including pension liability	5 541	-1 879	4	3 665

* Relates to SEK 1 400 million in repayment of loans which when raised were long-term but at the point of repayment were short-term, and SEK 350 million in loans raised.

Note 26. Critical accounting estimates and judgements

When preparing financial statements the company's management is required to make estimates and judgements that have an effect on the stated amounts. The estimates and judgements that, in the view of the company's management, are of importance for the amounts stated in the annual accounts, and that are at significant risk of being altered by future events and new information, mainly include the following.

Biological assets

Holmen's assessment is that no relevant market prices are available that can be used to value forest holdings as extensive as Holmen's. The valuation is therefore made by calculating the present value of future expected cash flows from the growing forests. The most material estimates made relate to how much harvesting can be increased in the future, what changes there will be in pulpwood and log prices, how high inflation will be, and what discount rate is used. Note 11 provides a sensitivity analysis for the valuation of changes in these estimates. The book value of biological assets at 31 December 2017 was SEK 17 831 million and the attributable deferred tax liability was SEK 3 943 million, giving a net value of SEK 13 888 million.

Tax

Holmen has requested an advance ruling on the entitlement to group relief in the parent company for tax losses that have arisen in the Group's Spanish operations. The Swedish tax authority has opposed such entitlement to group relief. The Supreme Administrative Court, which is judging the case, is obtaining an interpretation from the Court of Justice of the European Union in order to determine the issue. A positive decision could result in the Group's tax expense decreasing by approximately SEK 400 million. No deferred tax asset has been recognised. Holmen has appealed against the property tax rate on hydro power assets for the 2011–2016 tax years as the higher tax rate that applied for these assets compared with other types of energy assets could constitute state aid. If the appeals are upheld, it is estimated that approximately SEK 300 million in property tax will be repaid. No deferred tax asset has been recognised. See Note 7.

Pension obligations

The Group has benefit-based pension obligations measured at SEK 2 198 million and SEK 2 177 million in plan assets set aside to cover such obligations. The value of pension obligations is estimated on the basis of assumptions regarding discount rates, inflation, future salary increases, and demographic factors. These commitments are usually updated annually, which affects the Group's comprehensive income and the recognised pension provision. See Note 17.

Other provisions

Obligations that may result in costs for Holmen are evaluated on an ongoing basis to assess the need for a provision. Uncertainty in the assessment mainly relates to the date and size of the future cost. The Group mainly has provisions for uncertainty related to obligations for environmental restoration, fixed price electricity supply contracts, the sale of the Spanish operations and corporation tax risks. See Note 18.

Proposed appropriation of profits

	SEK
The following earnings of the parent company are at the disposal of the Annual General Meeting:	
Net profit for the 2017 financial year	1 846 904 094
Retained earnings	3 955 903 305
	5 802 807 399
The Board of Directors proposes that a dividend of SEK 13 per share (83 996 162 shares) be paid to the shareholders and that the remaining amount be carried forward	
	1 091 950 106
	4 710 857 293

The Board of Holmen AB has proposed that the 2018 Annual General Meeting resolve in favour of paying a dividend of SEK 13 per share – SEK 1 per share higher than the preceding year – totalling SEK 1 092 million. The proposal complies with the Board's policy, in that decisions on dividends are to be based on an appraisal of the Group's profitability, future investment plans and financial position.

The proposed dividend corresponds to 65.5 per cent of net profit for 2017 for the Group and means that 5.0 per cent of equity in the Group at 31 December 2017 will be paid out by way of dividend.

The Board has established that the Group should have a strong financial position with a debt/equity ratio – defined as net financial debt in relation to equity – at a maximum of 0.5. The debt/equity ratio at 31 December 2017 was 0.13. Payment of the proposed dividend would raise the debt/equity ratio by 0.06.

Holmen AB's equity at 31 December 2017 amounted to SEK 11 718 million, of which non-restricted equity was SEK 5 803 million. Assets and liabilities measured at fair value according to Chapter 4 Section 14a of the Swedish Annual Accounts Act had an impact of SEK -145 million on equity. The Group's equity at 31 December 2017 amounted to SEK 22 035 million. In accordance with IFRS, no distinction is made at Group level between restricted and non-restricted equity.

The Board considers that payment of a dividend of the amount proposed is justifiable in view of the demands made on the company and the Group by the nature, extent and risks associated

with the business in terms of the amount of equity required, and taking into account the need for consolidation, liquidity and financial position in other respects. The financial position will remain strong after payment of the proposed dividend and is considered to be fully adequate to enable the company to fulfil its obligations in both the short and the long term, as well as to finance such investments as may be necessary.

The Board and CEO declare that the annual accounts were prepared in accordance with generally accepted accounting principles in Sweden and the Group's consolidated accounts were prepared in accordance with the international accounting standards referred to in the European Parliament's and Council's regulation (EG) No. 1606/2002 of 19 July 2002 concerning the application of international accounting standards. The annual report and the Group's consolidated accounts provide a true and fair view of the performance and financial position of the parent company and the Group. The administration report for the parent company and the Group provides a true and fair view of the development of the operations, financial position and performance of the Group and the parent company and also describes material risks and uncertainties to which the parent company and the other companies in the Group are exposed.

The annual accounts and the consolidated accounts were approved for publication by the Board in its decision of 16 February 2018. The Group's consolidated income statement and balance sheet and the parent company's income statement and balance sheet will be presented for adoption at the Annual General Meeting to be held on 10 April 2018.

Stockholm, 16 February 2018

Fredrik Lundberg
Chairman

Lars G Josefsson
Board member

Louise Lindh
Board member

Carl Bennet
Board member

Lars Josefsson
Board member

Ulf Lundahl
Board member

Steeve Björklundh
Board member

Carl Kempe
Deputy chairman

Henriette Zeuchner
Board member

Kenneth Johansson
Board member

Tommy Åsenbrygg
Board member

Henrik Sjölund
Board member and Chief Executive Officer

Our audit report was submitted on 20 February 2018.

KPMG AB

Joakim Thilstedt
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Holmen AB (publ.), corp. id 556001-3301

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Holmen AB (publ.) for the year 2017, except for pages 8-9, 22 and 25-26 in the sustainability report. The annual accounts and consolidated accounts of the company are included on pages 2-3, 8-9, 22, 25-26, 28-66 and 70-71 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover pages 8-9, 22 and 25-26 in the sustainability report.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of Biological Assets

See note 11, note 26 and the Accounting Principles on pages 44-47 of the annual accounts and consolidated accounts for detailed disclosure and description of the matter.

Description of key audit matter

Biological assets consist of growing forest which has a carrying value of SEK 17 831 million as per 31 December 2017.

Biological assets are measured at fair value, via discounting estimated net future cash flows from the growing forest to present value. Cash flows are estimated over a 100-year period, representing the assessed average harvesting cycle. The valuation is performed internally and is calculated using a combination of harvest plans, future sales prices, cost projections, inflation and discount rates.

The valuation is complex and comprises significant level of judgement.

There is a risk that the estimates that form the basis of the carrying value of Biological Assets may need to be adjusted, which would directly affect the reported result for the period.

Response in the audit

We have reviewed and assessed the Group's choice of a cash flow based valuation model. We have also inspected the valuations performed and the underlying documentation in order to assess that they are in line with established valuation techniques.

Furthermore, through evaluation of management's written plans and documentation, we have assessed the reasonableness of assumptions regarding volumes, prices, costs and the discount rate used in the valuation. We have conducted discussions with Company management and evaluated previous year's estimates compared to actual outcomes. A critical part of our work has also been examination and evaluation of the sensitivity analysis performed by management that shows how changes in the assumptions can affect the overall valuation.

We have involved our own specialists in the audit to ensure that the audit team has had sufficient experience and competence within this area, in particular regarding design of the valuation model. In addition to this we have compared the Group's valuation to valuations performed by other companies via comparison of calculated value per cubic metre.

We have also considered the completeness of the disclosures in the Annual Report and assessed whether they are in agreement with the assumptions made by Company management in their valuation of Biological Assets.

Other provisions/ Valuation of the parent company's shares in Group companies

See note 18, note 26 and the Accounting principles on page 44-47 of the annual accounts and consolidated accounts for detailed disclosure and description of the matter. Regarding the parent company's shares in Group companies, see note 23.

Description of key audit matter

The carrying value of the Group's other provisions amounts to SEK 622 million per 31 December 2017, including environmental obligations and contractual commitments regarding delivery of electricity at a fixed price.

Provisions in the parent company have a carrying value of SEK 725 million per 31 December 2017 and regard primarily environmental obligations, contractual commitments regarding delivery of electricity at a fixed price and estimated costs for replantation of forest following harvesting.

Provisions involve significant levels of judgement regarding uncertain future outcomes, in particular relating to the amount and timing of the final assessments. Changes to the underlying assumptions used to make these provisions could significantly affect the reported result.

Commitments within subsidiaries of Holmen AB could lead to impairments of the value of shares in Group companies on the parent company's balance sheet.

Response in the audit

We have inspected the Group's documentation of its provisions. We have assessed management's estimates and have held discussions with management regarding their assumptions in each area to ensure that the provisions are in line with the Group's accounting principles and with IFRS requirements.

We have evaluated the parent company's assessment of the value of shares in Group companies and evaluated whether all of the underlying commitments have been taken into account and assessed write-downs made against applicable regulations.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 4-7, 10-21, 23-24, 27 and 72-79. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Holmen AB (publ.) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality.

This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors and the Managing Director are responsible for the sustainability report on pages 8-9, 22, 25-26 and 33, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Holmen AB (publ.) by the general meeting of the shareholders on the 27 March 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1995.

Stockholm 20 February 2018
KPMG AB

Joakim Thilstedt
Authorised Public Accountant

Review of sustainability report

Holmen's Sustainability Report, as defined on page 2 of Holmen's Annual Report 2017, has been subject to a limited review in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information.

A complete assurance report on the Sustainability Report is available at holmen.com. The assurance report contains the following conclusion:

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by Group management.

Stockholm 20 February 2018
KPMG AB

Joakim Thilstedt
Authorised Public Accountant

Torbjörn Westman
Expert member of FAR



Board of Directors

Carl Kempe

Deputy chairman

Örnsköldsvik. Born in 1939. Member since 1983. Licentiate in Engineering. Dr. h.c. mult.

Other significant appointments: Chairman of Kempe Foundations, MoRe Research AB and UPSC Berzellii Centre for Forest Biotechnology.

Own and related parties' shareholdings: 386 000 shares.

Daniel Hägglund

Örnsköldsvik. Born in 1982. Deputy member since 2014. Employee representative, PTK.

Louise Lindh

Stockholm. Born in 1979. Member since 2010. M.Sc. in Economics. CEO of Fastighets AB L E Lundberg.

Other significant appointments: Chairman of J2L Holding AB. Board member of Hufvudstaden AB and L E Lundbergföretagen AB.

Shareholding: 100 000 shares.

Fredrik Lundberg

Chairman

Djursholm. Born in 1951. Member since 1988. M.Sc. in Engineering and M.Sc. in Economics. D. Tech. h.c. and D. Econ. h.c. President and CEO of L E Lundbergföretagen AB.

Other significant appointments: Chairman of Hufvudstaden AB, AB Industrivärden and Industrade AB. Deputy chairman of Svenska Handelsbanken AB. Board member of L E Lundbergföretagen AB and Skanska AB.

Own and related parties' shareholdings: 839 724 shares. Shareholding of L E Lundbergföretagen: 27 622 000 shares.

Henrik Sjölund

President and CEO

Norrköping. Born in 1966. Member since 2014. M.Sc. in International Economics.

Other significant appointments: Board member of the Swedish Forest Industries Federation and the Confederation of Swedish Enterprise.

Shareholding: 4 917 shares.

Carl Bennet

Gothenburg. Born in 1951. Member since 2009. M.Sc. in Economics. D. Tech. h.c. CEO of Carl Bennet AB. Former President and CEO of Getinge AB. Chairman of Getinge AB, Lifco AB och Elanders AB.

Other significant appointments: Board member of Arjo AB and L E Lundbergföretagen AB.

Shareholding: 100 000 shares.

Stewe Björklundh

Hudiksvall. Born in 1958. Member since 1998. Employee representative, LO.



Ulf Lundahl

Lidingö. Born in 1952. Member since 2004. Bachelor of Laws and M.Sc. in Economics.

Other significant appointments: Chairman of Attendo AB, Fidelio Capital AB, Ramirent plc and SHB Regionbank Stockholm. Board member of Eitel AB and Indutrade AB.

Shareholding: 4 000 shares.

Lars Josefsson

Norrköping. Born in 1953. Member since 2016. M.Sc. in Engineering.

Other significant appointments: Deputy chairman of Vestas. Chairman of Driconeq, Ouman and TimeZynk. Board member of Metso.

Shareholding: 2 500 shares.

Lars G Josefsson

Stockholm. Born in 1950. Member since 2011. M.Sc. in Engineering. Former President and CEO of Vattenfall.

Other significant appointments: Board member of Robert Bosch GmbH, Robert Bosch Industrietruhand KG and Brookfield Renewable Energy. Board member of Hand in Hand International and member of The Royal Swedish Academy of Engineering Sciences, IVA.

Shareholding: 5 000 shares.

Henriette Zeuchner

Stockholm. Born in 1972. Member since 2015. M.Sc. in Economics and Bachelor of Laws. CEO of Discovery Networks Sweden AB.

Other significant appointments: Board member of the NTM Group.

Shareholding: 800 shares.

Kenneth Johansson

Söderköping. Born in 1958. Member since 2004. Employee representative, LO. Section chairman of the Swedish Paper Workers Union branch 53, Holmen Paper Braviken.

Tommy Åsenbrygg

Skebobruk. Born in 1968. Member since 2015. Employee representative, PTK. Deputy chairman of Ledarna, Hallsta Paper Mill.

Shareholding: 100 shares.

Christer Johansson

Iggesund. Born in 1959. Deputy member since 2017. Employee representative, LO. Chairman of the Swedish Paper Workers Union branch 15.

Per-Arne Berg

Forsa. Born in 1955. Deputy member since 2015. Employee representative, PTK. Chairman of the Holmen-Iggesund Trade Union Club.

Information at 31 December 2017.

Auditors: KPMG AB

Principle Auditor: Joakim Thilstedt,
Authorised Public Accountant



Group management

Lars Ericson

Senior Vice President Legal Affairs
Company secretary.
Born in 1959. Joined Holmen in 1988.
Shareholding: 650 shares.

Daniel Peltonen

Senior Vice President Paperboard
Born in 1971. Joined Holmen in 1997.
Shareholding: 538 shares.

Stina Sandell

Senior Vice President Sustainability and Communications
Born in 1966. Joined Holmen in 2017.
Shareholding: 0 shares.

Nils Ringborg

Senior Vice President Paper
Born in 1958. Joined Holmen in 1988.
Shareholding: 2 514 shares.

Johan Padel

Senior Vice President Wood Products
Born in 1966. Joined Holmen in 2014.
Shareholding: 830 shares.

Henrik Sjölund

President and CEO
Born in 1966. Joined Holmen in 1993.
Shareholding: 4 917 shares.
Henrik Sjölund has no significant shareholdings and no ownership in companies with which the Group has important business relations. Further information about the CEO is provided on page 70.

Anders Jernhall

Executive Vice President, Chief Financial Officer
Born in 1970. Joined Holmen in 1997.
Shareholding: 4 900 shares.

Sören Petersson

Senior Vice President Forest
Born in 1969. Joined Holmen in 1994.
Shareholding: 4 400 shares.

Gunilla Rolander

Senior Vice President Human Resources
Born in 1966. Joined Holmen in 2013.
Shareholding: 362 shares.

Ola Schultz-Eklund

Senior Vice President Technology
Born in 1961. Joined Holmen in 1994.
Shareholding: 800 shares.

Key figures

Holmen uses performance measures in its reporting in addition to the measures defined within IFRS regulations, or directly in the income statement and balance sheet, in order to illustrate the company's financial position and performance and to increase comparability between different periods and other companies. Below are calculations used to arrive at the performance measures applied within the Group. For further information, see also Definitions.

ESMA's (European Securities And Markets Authority) 'Guidelines – Alternative Performance Measures' have been used since 3 July 2016. In accordance with these guidelines, the information on financial measures not defined under IFRS has been expanded. Alternative performance measures published in this report should not be regarded as replacing the financial measures defined under IFRS regulations, but rather as a complement and they do not need to be comparable in the same way with defined performance measures published by other companies.

Key figures

SEKm	2017	2016
Operating profit, EBITDA and excluding items affecting comparability		
EBITDA	2 742	2 865
Depreciation and amortisation according to plan	-991	-1 018
Change in value of forests	415	315
Operating profit/loss excluding items affecting comparability	2 166	2 162
Items affecting comparability*	-	-232
Operating profit/loss	2 166	1 930
Operating margin		
Operating profit/loss	2 166	1 930
Net sales	16 133	15 513
Operating margin, %	13.4	13.9
Profit/loss before change in value, forest		
Profit/loss before change in value, forest	654	686
Change in value of forests	415	315
Operating profit/loss, forest	1 069	1 001
Capital employed		
Equity	22 035	21 243
Net financial debt	2 936	3 945
Capital employed	24 972	25 190
Return on capital employed		
Operating profit/loss excluding items affecting comparability	2 166	2 162
Average capital employed	24 874	25 146
Return, %	8.7	8.6
Net financial debt		
Non-current financial liabilities	552	882
Current financial liabilities	2 775	3 200
Pension provisions	39	201
Non-current financial receivables	-42	-39
Current financial receivables	-32	-89
Cash and cash equivalents	-356	-210
Net financial debt	2 936	3 945
Debt/equity ratio		
Net financial debt	2 936	3 945
Equity	22 035	21 243
Debt/equity ratio, times	0.13	0.19
Equity/assets ratio		
Equity	22 035	21 243
Assets	34 891	34 891
Equity/assets ratio, %	63.2	60.9

*See page 38 for what items affecting comparability refers to.

Ten-year review, finance

SEKm	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Income statement										
Net sales	16 133	15 513	16 014	15 994	16 231	17 852	18 656	17 581	18 071	19 334
Operating costs	-13 379	-12 626	-13 348	-13 270	-13 919	-15 224	-15 501	-15 077	-15 191	-16 614
Profit from investments in associates and joint ventures	-12	-22	7	-7	3	47	84	28	45	50
Depreciation and amortisation according to plan	-991	-1 018	-1 240	-1 265	-1 370	-1 313	-1 260	-1 251	-1 320	-1 343
Change in value of forests	415	315	267	282	264	350	-	52	16	-16
Operating profit/loss excl. items affecting comparability	2 166	2 162	1 700	1 734	1 209	1 713	1 980	1 332	1 620	1 412
Items affecting comparability*	-	-232	-931	-450	-140	-193	3 593	264	-	-361
Operating profit/loss	2 166	1 930	769	1 284	1 069	1 520	5 573	1 596	1 620	1 051
Net financial items	-53	-71	-90	-147	-198	-227	-244	-208	-255	-311
Earnings before tax	2 113	1 859	679	1 137	871	1 294	5 328	1 388	1 366	740
Tax	-445	-436	-120	-230	-160	559	-1 374	-684	-360	-98
Profit/loss for the year	1 668	1 424	559	907	711	1 853	3 955	704	1 006	642
Diluted earnings per share, SEK	19.9	16.9	6.7	10.8	8.5	22.1	47.1	8.4	12.0	7.6
Net sales										
Forest	5 535	5 302	5 481	5 641	5 694	6 061	6 348	5 585	4 799	5 443
Paperboard	5 526	5 252	5 472	5 113	4 618	4 967	5 109	4 849	5 023	4 860
Paper	5 408	5 431	6 148	6 247	7 148	8 144	8 631	8 142	9 303	10 443
Wood Products	1 562	1 342	1 314	1 352	1 175	1 129	875	586	553	499
Renewable Energy	315	314	359	389	450	522	552	626	527	434
Elimination of intra-Group net sales	-2 214	-2 128	-2 760	-2 748	-2 853	-2 972	-2 858	-2 207	-2 135	-2 345
Group	16 133	15 513	16 014	15 994	16 231	17 852	18 656	17 581	18 071	19 334
Operating profit/loss										
Forest	1 069	1 001	905	817	924	931	739	818	605	632
Paperboard	764	903	847	674	433	596	863	817	419	320
Paper	288	289	-74	141	-309	94	228	-618	340	280
Wood Products	80	-3	9	37	-75	-130	-136	20	21	13
Renewable Energy	135	120	176	212	371	355	406	495	414	327
Group-wide costs and eliminations	-170	-148	-163	-146	-136	-132	-120	-200	-178	-159
Group	2 166	2 162	1 700	1 734	1 209	1 713	1 980	1 332	1 620	1 412
Items affecting comparability*	-	-232	-931	-450	-140	-193	3 593	264	-	-361
Group	2 166	1 930	769	1 284	1 069	1 520	5 573	1 596	1 620	1 051
Cash flow										
Earnings before tax	2 113	1 859	679	1 137	871	1 294	5 328	1 388	1 366	740
Adjustment items	418	965	1 802	1 448	1 056	1 057	-2 561	811	1 163	1 797
Income tax paid	-221	-504	-398	-191	210	-434	-557	-704	-334	-192
Changes in working capital	199	-360	443	-217	-127	338	-109	28	678	-686
Cash flow from operating activities	2 509	1 961	2 526	2 176	2 011	2 254	2 101	1 523	2 873	1 660
Cash flow from investing activities	-644	-123	-832	-834	-869	-1 920	-1 733	-1 597	-818	-1 124
Cash flow after investments	1 865	1 838	1 694	1 342	1 142	334	368	-74	2 054	536
Share buy-backs	-	-	-	-	-	-	-	-	-	-138
Dividend paid	-1 008	-882	-840	-756	-756	-672	-588	-588	-756	-1 017

*Items affecting comparability:

2016: Sale of the mill in Spain and insurance compensation of SEK -232 million for the reconstruction of the Hallsta Paper Mill following a fire.

2015: Impairment loss on non-current assets, provision for costs and the effects of a fire totalling SEK -931 million.

2014: Impairment loss on non-current assets of SEK -450 million.

2013: Impairment loss on non-current assets and restructuring costs of SEK -140 million.

2012: Impairment loss on non-current assets and restructuring costs of SEK -193 million.

2011: Revaluation of forest of SEK 3 593 million.

2010: Impairment losses on non-current assets and restructuring costs of SEK -786 million and revaluation of forest amounting to SEK 1 050 million.

2008: Impairment loss on non-current assets, restructuring costs and the effects of a fire totalling SEK -361 million.

For a ten-year review of data per share, see page 37.

SEKm	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Balance sheet										
Non-current assets	28 751	28 701	29 524	30 221	30 652	30 664	30 335	26 028	25 694	26 507
Current assets	5 710	5 852	5 607	5 964	5 774	6 005	6 642	6 950	6 075	7 268
Financial receivables	74	128	104	62	52	69	128	262	225	175
Cash and cash equivalents	356	210	221	187	275	308	112	193	182	653
Total assets	34 891	34 891	35 456	36 434	36 753	37 046	37 217	33 432	32 176	34 602
Equity	22 035	21 243	20 853	20 969	20 854	20 813	19 773	16 913	16 504	15 641
Deferred tax liability	5 650	5 613	5 508	5 480	5 804	5 504	6 630	5 910	5 045	4 819
Financial liabilities and interest-bearing provisions	3 366	4 283	5 124	6 156	6 443	6 967	6 499	6 227	6 091	8 332
Operating liabilities	3 840	3 752	3 971	3 829	3 653	3 762	4 313	4 383	4 536	5 809
Total equity and liabilities	34 891	34 891	35 456	36 434	36 753	37 046	37 217	33 432	32 176	34 602
Capital employed										
Forest	13 824	13 536	13 401	13 212	12 688	12 657	11 599	8 822	8 075	8 170
Paperboard	5 433	5 546	5 698	5 841	5 686	5 489	4 233	3 428	3 456	3 687
Paper	2 193	2 507	3 266	4 366	4 438	4 920	5 798	6 069	8 131	9 670
Wood Products	862	859	897	874	1 327	1 385	1 471	1 153	367	341
Renewable Energy	3 115	3 153	3 075	3 118	3 005	2 947	2 884	2 831	2 907	2 748
Group-wide and other*	-455	-410	-684	-535	-173	5	47	382	-748	-1 469
Capital employed	24 972	25 190	25 653	26 876	26 970	27 403	26 032	22 685	22 188	23 146
Key figures										
Operating margin, %**										
Paperboard	14	17	15	13	9	12	17	17	8	7
Paper	5	5	-1	2	-4	1	3	-8	4	3
Wood Products	5	0	1	3	-6	-12	-16	4	4	3
Group	13	14	11	11	7	10	11	8	9	7
Return, capital employed, %**										
Forest	8	7	7	6	7	8	8	10	7	8
Paperboard	14	16	15	12	8	12	23	24	12	9
Paper	12	10	neg	3	neg	2	4	neg	4	3
Wood Products	9	0	1	3	neg	neg	neg	3	7	4
Renewable Energy	4	4	6	7	13	12	14	17	15	12
Group	9	9	6	6	4	7	9	6	7	6
Key figures										
Return on equity, %	8	7	3	4	3	9	23	4	6	4
Debt/equity ratio	0.13	0.19	0.23	0.28	0.29	0.32	0.32	0.34	0.34	0.48
Deliveries										
Harvesting in own forests, '000 m ³	2 904	2 986	3 213	3 297	3 465	3 211	2 988	2 999	2 897	2 649
Paperboard, '000 tonnes	526	497	499	493	469	485	474	464	477	494
Paper***, '000 tonnes	1 117	1 134	1 325	1 305	1 574	1 651	1 668	1 732	1 745	2 044
Wood products, '000 m ³	852	776	730	725	686	660	487	285	313	266
Own production of hydro and wind power, GWh	1 169	1 080	1 441	1 113	1 041	1 353	1 235	1 149	1 090	1 128

*Income and costs from the sale of newsprint from the Spanish mill sold in Q2 2016 are recognised in the Group-wide segment.

**Excluding items affecting comparability.

***Deliveries from own mills, i.e. no deliveries from the Spanish mill as of Q3 2016.

Five-year review, sustainability

The environmental and employee data provided is the most relevant information with regard to regulatory requirements and internal monitoring. The key performance indicators provided are widely used in the industry.

Data from all parts of the Group is collected, quality-assured and evaluated. No material changes have been made to the principles of reporting in comparison with 2016. Lingham Sawmill was acquired in April 2017. Figures for this sawmill are included from May 2017.

Holmen reports its environmental data to the supervisory authorities monthly and annually. Reporting to Swedish authorities is made available to the public under the principle of public access to documents. Data from all the mills is reported to the EU annually. Expenditure on environmental protection is reported in accordance with guidelines from Statistics Sweden.

As some of the details provided in this report had already been collected by the end of the year they refer to, they might differ slightly from the information finally reported to the authorities.

	2017	2016	2015	2014	2013
Production					
Paperboard, '000 tonnes	530	503	502	500	478
Market pulp, '000 tonnes	54	56	56	67	50
Printing paper, '000 tonnes	1 088	1 176	1 287	1 325	1 545
Wood products, '000 m ³	827	776	734	742	710
Own production of hydro and wind power, GWh	1 169	1 080	1 441	1 113	1 041
Electricity production at the mills, GWh	621	784	781	740	769
Raw materials					
Wood, million m ³ sub ¹⁾	5.63	5.36	5.10	5.16	5.25
Purchased pulp, '000 tonnes	79	70	79	75	99
Thermal energy, GWh	6 099 ²⁾	6 375	6 288	6 230	6 451
Electrical energy, GWh	3 987 ³⁾	3 949	3 994	4 067	4 420
Water use, million m ³ , ⁴⁾	73	70	68	74	77
Plastic granules/foiling material, '000 tonnes	2.9	2.6	2.5	2.1	2.6
Chemicals, '000 tonnes ⁵⁾	147	151	138	146	146
Filler, pigment, '000 tonnes ⁵⁾	146	148	146	147	178
Emissions to air, tonnes⁶⁾					
Sulphur dioxide (counted as sulphur, S)	48	41	52	57	91
Nitrogen oxides	907	960	891	1 181	1 557
Particulates	30	39	48	29	52
Fossil carbon dioxide, '000 tonnes	73	124	180	126	254
Biogenic carbon dioxide, '000 tonnes	1 545	1 539	1 441	1 551	1 449
Emissions to water, tonnes⁶⁾					
AOX (chlorinated organic matter)	48	52	57	54	47
Nitrogen	177	208	226	203	215
Phosphorus	14	14	19	19	15
COD (organic matter), '000 tonnes	20.1	20.4	21.0	20.4	20.4
Suspended solids (SS), '000 tonnes	2.8	3.2	3.3	3.6	4.3
By-products, '000 tonnes					
To energy production, internally/externally	995	872	823	824	885
Utilised or for recovery ⁷⁾	202	270	303	296	367
Tall oil ⁸⁾	14	13	12	13	13
Waste, '000 tonnes					
Hazardous ⁹⁾	1.8	2.2	1.9	1.6	2.4
Sent to landfill (wet)	1.8	16	13	5.6	12
Energy supplies					
Branches, treetops and peat, GWh ¹⁰⁾	116	155	230	275	294
Electrical and thermal energy, GWh ¹¹⁾	366	380	348	305	199

1) At Group level, wood consumption is computed net, taking into account internal deliveries of chips from the sawmills to the nearby mills.

2) Of which 4 615 GWh from production at mills from recovered liquors, bark and wood residues, 1 132 GWh from the TMP process at Braviken Paper Mill and Hallsta Paper Mill which generates thermal energy that is recovered and used in production, and 352 GWh from natural gas, oil and purchased thermal energy.

3) Of which 2 377 GWh from renewables and 1 610 GWh from nuclear. Emissions of fossil carbon dioxide from production of purchased electricity totalled 113 tonnes.

4) Almost 100 per cent use of surface water from lakes and watercourses.

5) 100 per cent active substance. Total quantity of commodities was 227 000 tonnes for chemicals and 206 000 tonnes for filler and pigment.

6) Relates to emissions at facilities.

7) By-products used, for example, as filling material, construction material or for the production of soil products.

8) For delivery to the chemical industry.

9) Hazardous waste is dealt with by authorised collection and recovery contractors. Certain fractions of the waste are recovered. In 2017, Holmen dealt with oil-containing waste from vessels that docked at two of its own ports. Such waste is included in the figures for hazardous waste. The volume of this waste in 2017 totalled 627 tonnes.

10) Branches, treetops and peat delivered from Holmen's land to external energy producers.

11) For 2017: 138 GWh of electrical energy supplied from the mill at Workington to the local community. 212 GWh of thermal energy from Iggesund Mill and Braviken Paper Mill to Iggesund Sawmill and Braviken Sawmill. A total of 16 GWh thermal energy from Hallsta Paper Mill and Iggesund Mill was supplied to the district heating network of the local communities.

	2017	2016	2015	2014	2013
Environmental protection expenditure, SEKm					
Investments (remedial and preventive)	44	55	12	26	122
Electricity and heat-saving investments ¹⁾	20	8	18	320	300
Environmental taxes and charges ²⁾	12	14	12	10	14
Internal and external environmental costs ³⁾	137	182	208	169	178
Environmental cost of forestry ⁴⁾	62	71	101	70	84
Personnel					
Employees					
Average number	2 976	2 989	3 315	3 359	3 718
of whom women, %	19.3	19.3	19.4	19.2	19.3
of whom temporary employees, %	7.4	8.8	9.0	7.9	7.7
Average age ⁵⁾	46.0	46.3	46.8	46.8	46.8
Sickness absence, %⁶⁾					
Total	4.2	4.2	4.2	3.9	3.6
of which longer than 60 days	2.0	2.0	1.8	1.7	1.3
Good health index (proportion of employees with no sick leave during the year)	49	48	48	50	47
Gender equality, %⁵⁾					
Women managers out of total number of managers	20.7	19.0	20.5	20.9	20.3
Women joining the company out of total new employees	25	27	24	31	37
Personnel turnover, %⁵⁾					
Personnel turnover	8.0	6.9	7.6	7.2	11.5
of which given notice	0.9	1.6	2.8	2.0	6.2
of which retiring	2.6	2.4	2.4	2.2	1.7
of which leaving at own request	4.4	2.9	2.5	3.0	3.6
New employees	5.9	5.4	5.3	5.1	3.4
Number of industrial accidents⁷⁾					
Industrial accidents, more than 8 hours of absence, per million hours worked	5.1	8.8	8.8	6.5	8.4
Union cooperation, %⁶⁾					
Percentage of employees that work at a unit with a collective agreement	94	94	97	97	98
Rate of union membership	77	67	68	70	72

1) The high costs stated for 2013–2014 mainly consist of environmentally related elements of the implementation of biofuel boilers within the paperboard business and the wind farm at Varsvik, Norrtälje, Sweden.

2) The stated amount includes costs for waste management, energy tax charged in Sweden on the use of fossil fuels, nitrogen oxide tax and inspection charges.

3) Includes costs of environmental personnel, operation of treatment equipment, waste management, management systems, environmental training, applications for permits, environmental consultants and the costs of inquiries and measures in connection with discontinued operations.

4) The environmental cost of forestry is calculated as the value of the wood that is not harvested for environmental reasons. Holmen sets aside 12 per cent of its productive forest for environmental reasons and thus refrains from harvesting around 12 per cent of the potential volume. The annual loss of income in 2017 is estimated at SEK 62 million.

5) Relates to permanent employees.

6) Relates to permanent and temporary employees.

7) No industrial accidents with a fatal outcome occurred during the year.

Definitions and glossary

Definitions

Capital employed

Net financial debt plus equity, which corresponds to fixed capital plus working capital less the net sum of deferred tax liabilities and deferred tax assets. Average values are calculated on the basis of quarterly data.

Cash flow after investments

Cash flow from operating activities less cash flow from investing activities.

Cash flow yield

Profit/loss before change in value in relation to the book value of biological assets. Used for the Forest business area.

Debt/equity ratio

Net financial debt divided by total equity.

Earnings per share

Profit for the year divided by the weighted average number of shares outstanding, adjusted for buy-back of shares, if any, during the year. Diluted EPS means that any diluting effect from outstanding call options has been taken into account.

EBITDA

Earnings before interest, taxes, depreciation, amortisation and change in value of forests, excl. items affecting comparability.

Equity/assets ratio

Equity expressed as a percentage of total assets.

Financial assets

Non-current and current financial receivables and cash and cash equivalents.

Items affecting comparability

Used to illustrate how income measures were affected by events outside normal business operations, such as impairment losses, disposals, fire and restructuring. The effects of maintenance and rebuilding shutdowns are not treated as an item affecting comparability.

Net financial debt

Non-current and current financial liabilities and pension provisions, less financial assets.

Operating margin

Operating profit/loss (excl. items affecting comparability) expressed as a percentage of net sales.

Operating profit/loss

Profit before net financial items and tax.

Profit/loss before change in value

Operating profit/loss before change in value, excl. items affecting comparability. Used for the Forest business area.

Return on capital employed

Operating profit/loss (excl. items affecting comparability) expressed as a percentage of average capital employed.

Return on equity

Profit for the year expressed as a percentage of average equity, calculated on the basis of quarterly data.

Glossary

Bio co-location

A co-location of different operations for more efficient use of raw materials and energy, amongst other benefits.

Biofuel

Renewable fuels such as wood, black liquor, bark and tall oil. Fuels that do not generate any net emission of carbon dioxide into the atmosphere, since the quantity of carbon dioxide formed during combustion is part of the carbon cycle.

Bulk

Measure of the paper's volume. Paper of the same basis weight can have different thicknesses depending on the paper's bulk. High bulk means thick, but relatively light, paper.

Carbon dioxide (CO₂)

Carbon is the building block of life and is part of all living things. Biogenic carbon dioxide is released when biological material decays or wood is burned. Fossil carbon dioxide is released when coal, oil or natural gas is burned.

COD

Chemical oxygen demanding substances. A measure of the amount of oxygen needed for the complete decomposition of organic material in water.

FBB

Folding Box Board. Multi-layered paperboard made from mechanical and chemical pulp.

Fillers

Fillers, such as ground marble and kaolin clay, are used to give the paper bulk and make it more uniform in structure and brighter.

Fossil fuels

Fuels based on carbon and hydrogen compounds from sediment or sedimentary bedrock – mainly coal, oil and natural gas.

FSC®

Forestry certification system.

GRI

Global Reporting Initiative. International cooperation body, in which many different groups of stakeholders in society have drawn up global guidelines for how companies are to report on activities encompassed by the umbrella term of sustainable development.

ISO 50001

An international energy management systems standard that provides a framework for energy efficiency measures.

ISO 9001

An international standard for quality management systems. Primarily aimed at companies and organisations that wish to improve two aspects of their operations, i.e. to ensure more satisfied customers and lower costs.

ISO 14001

An international standard for environmental management. Important principles in ISO 14001 include regular environmental audits and a gradual increase in the requirements.

m³ growing stock, solid over bark

Cubic metre growing stock, solid over bark. The volume of tree stems, incl. bark, from stump to top. Generally used as a measure for growing forest.

m³sub

Cubic metre solid volume under bark. The actual volume (no gaps between the logs) of whole stems or stemwood excl. bark and treetops. Generally used as a measure for harvested wood.

Nitrogen (N)

An element contained in wood. Nitrogen emissions to water may cause eutrophication.

Nitrogen oxides (NO_x)

Gases that consist of nitrogen and oxygen that are formed in combustion. In moist air, nitrogen oxides are converted into nitric acid, which creates acid rain. Nitrogen oxides also have a fertilising effect.

OHSAS 18001

A series of international standards regarding a management system for health and safety. The management system includes monitoring, evaluating and reporting on health and safety work.

Particulates

Particles of ash formed in incineration of bark or liquor, for example.

PEFC™

Forestry certification system.

Phosphorus (P)

An element contained in wood. Excessive phosphorus in the water may cause over-fertilisation (eutrophication) and oxygen consumption.

Precautionary principle

Persons who pursue an activity or take a measure, or intend to do so, shall implement protective measures, comply with restrictions and take any other precautions that are necessary in order to prevent, hinder or combat damage or detriment to human health or the environment as a result of the activity or measure. For the same reason, the best possible technology shall be used in connection with professional activities.

SBB

Solid Bleached Board. Multi-layer paperboard made from bleached chemical pulp.

Sulphate pulp

Chemical pulp that is produced by boiling wood under high pressure and at a high temperature together with white liquor (sodium hydroxide and sodium sulphide).

Sulphur dioxide (SO₂)

A gas consisting of sulphur and oxygen that is formed in combustion of sulphur-containing fuels, such as oil. In contact with moist air, sulphur dioxide is converted into sulphuric acid, which creates acid rain.

Suspended solids

Waterborne substances consisting of fibres and particles that can largely be removed using a fine mesh filter.

Tall oil

By-product of the sulphate pulp process used for making soft soap, paints, biodiesel and other products.

TMP

Thermo-mechanical pulp. Obtained by heating spruce chips and then grinding them in refiners.



Information

The interim and year-end reports are presented at press and teleconferences in English. The conferences can also be accessed live at holmen.com. The annual report, together with year-end and interim reports, is published in Swedish and English and the reports are sent to the shareholders who have indicated their wish to receive them. They are also available on holmen.com.

How to order printed materials:

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Calendar

For 2018 Holmen will publish the following financial reports:

25/4	Interim report January – March
15/8	Interim report January – June
24/10	Interim report January – September

2019

31/1	Year-end report
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100%

Holmen-produced

This entire annual report is made using Holmen's own products. The cover is printed on **Invercote G**, manufactured at Iggesund Mill. This is a paperboard with high whiteness and a smooth, matt surface. The paperboard is ideal for graphical products with a surface finish. The insert is printed on **Holmen TRND**, which is manufactured at Hallsta Paper Mill. This is an uncoated, matt magazine paper that offers a wide range of options in terms of bulk, basis weight and shade. Both Holmen TRND and Invercote G are made from fresh fibres that can be recycled up to seven times.

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HOLMEN

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Building the future in wood

Wood is a versatile material and the only renewable construction material. Replacing steel and concrete with wood reduces carbon emissions, is resource-efficient, and saves time and money. Research also shows that people's wellbeing is improved by living in wooden houses.

We use the whole tree, turning the parts that do not become construction materials into paper-board and paper. Read more about how Holmen's operations and products from the forest help to create a better climate on page 20.