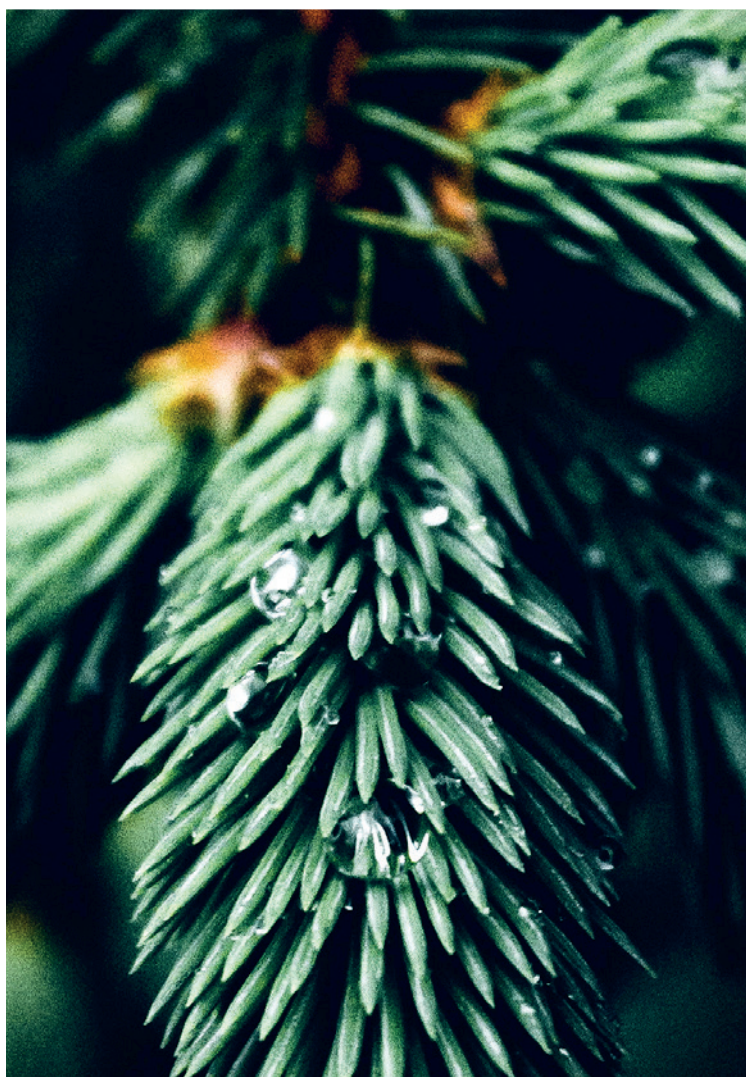


HOLMEN

Annual Report

Forest
Paperboard
Paper
Wood products
Renewable energy

2016



Contents



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 2016 financial year. The annual report comprises the administration report (pages 4–5, 10–11, 27–29, 32–41, 70, 74–75) and the financial statements, together with the notes and supplementary information (pages 42–69). The Group's income statement and balance sheet and the parent company's income statement and balance sheet will be submitted to the Annual General Meeting for adoption.

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 7, 12–13, 24–31, 37, 80–81, the GRI index on the website holmen.com and the pages on holmen.com as set out in the GRI index. The information is audited by a third party, see separate assurance report at holmen.com.

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*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.*



A forest owner with profitable industry

Forest and hydro power make up two thirds of Holmen's assets. Together with large-scale production of paperboard, paper and wood products in well invested plants, this provides stable profitability that will increase over time. At the same time, Holmen's business brings substantial climate benefits, as it reduces the amount of carbon dioxide in the atmosphere by over two million tonnes per year.

Forest

Active and sustainable forestry is conducted on over a million hectares of productive forest land owned by Holmen. Harvesting equates to 85 per cent of the annual growth and amounts to 3 million cubic metres per year.



Renewable energy

In a normal year, the renewable energy production from 21 hydro power stations and 4 wind farms amounts to 1.2 TWh.



Paperboard

Market-leading paperboard in the highest quality segments for consumer packaging and advanced graphical printing. The Swedish mill and the British mill produce a combined total of 0.5 million tonnes per year.



Paper

Magazine and book paper that utilises the properties of fresh fibre to provide cost-effective alternatives to traditional paper choices. 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 at two large-scale sawmills that are integrated with the Group's paper and paperboard mills. Annual production amounts to 0.8 million cubic metres.



A good result

Operating profit increased by SEK 462 million to SEK 2 162 million (excluding items affecting comparability) due to improved results in paper, paperboard and forest. The return on capital employed increased from 6.4 per cent to 8.6 per cent.

The paper mill in Madrid was sold during the year which, combined with increased sales of new products, has shifted the focus of the paper business towards magazine and book paper. Sales of paperboard to new customers in premium segments both inside and outside Europe rose. At the same time, an investment programme was concluded, providing potential for growth. The volume of standing timber grew by 1 per cent and forestry costs were reduced while retaining high quality in forest management. Deliveries of wood products grew following investments in increased capacity, and costs fell due to production being better adapted to

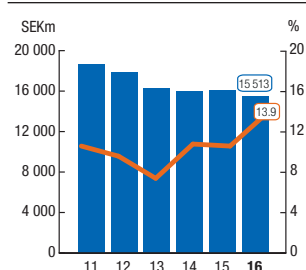
the supply of raw material. Hydro power production reduced as a result of lower rainfall.

Outlook. The harvest of Holmen's own forest is estimated to remain unchanged in 2017 in line with the long-term plan. The ambition is to boost deliveries of paperboard following the completed investments, but competition is expected to increase due to significant additional capacity in the market. The structural downturn for printing paper is forecast to continue. Holmen's strategy is to grow in the area of magazine and book paper by offering customers a cost-effective alternative to traditional products, while reducing deliveries of newsprint. The market balance for wood products is good. Holmen has an opportunity to increase production somewhat in 2017, while at the same time improving the value added through the ongoing investment in a wood treatment plant. Hydro power production was significantly lower than usual in 2016. Low levels in water storage reservoirs mean that production may also be lower than normal in 2017.

FACTS	2016	2015
Net sales, SEKm	15 513	16 014
Operating profit/loss, SEKm	1 930	769
Operating profit/loss, SEKm**	2 162	1 700
Profit for the year, SEKm	1 424	559
Profit for the year**, SEKm	1 652	1 323
Diluted earnings per share, SEK	16.9	6.7
Dividend per share, SEK	12*	10.5
Return on capital employed, %**	8.6	6.4
Cash flow before investments	1 961	2 526
Cash flow from investments	123	832
Net financial debt	3 945	4 799
Debt/equity ratio, times	0.19	0.23
Average number of employees	2 989	3 315

* Board proposal ** Excl. items affecting comparability

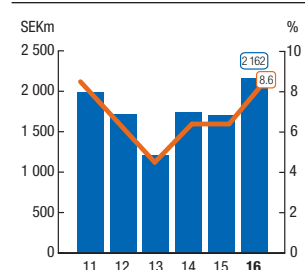
NET SALES AND OPERATING MARGIN



- Net sales
- Operating margin*

* Excl. items affecting comparability

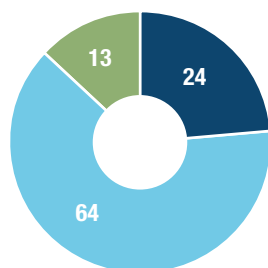
OPERATING PROFIT/LOSS AND RETURN



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

* Excl. items affecting comparability

NET SALES Market %

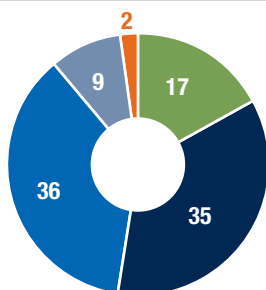


Total: 15 513

● Sweden*	3 660 SEKm
● Rest of Europe	9 876 SEKm
● Outside Europe	1 977 SEKm

* Of which forest and energy 19%

NET SALES* Business area %

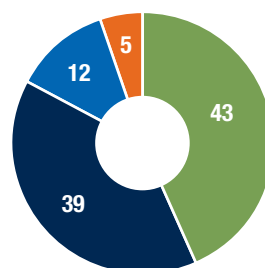


Total: 15 513

● Forest	2 572 SEKm
● Paperboard	5 252 SEKm
● Paper	5 431 SEKm
● Wood products	1 342 SEKm
● Renewable energy	314 SEKm

* Excl. Group-wide

OPERATING PROFIT/LOSS* Business area %

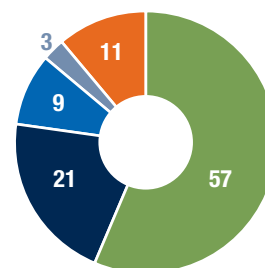


Total: 2 162

● Forest	1 001 SEKm
● Paperboard	903 SEKm
● Paper	289 SEKm
● Wood products	-3 SEKm
● Renewable energy	120 SEKm

* Excl. items affecting comparability and Group-wide

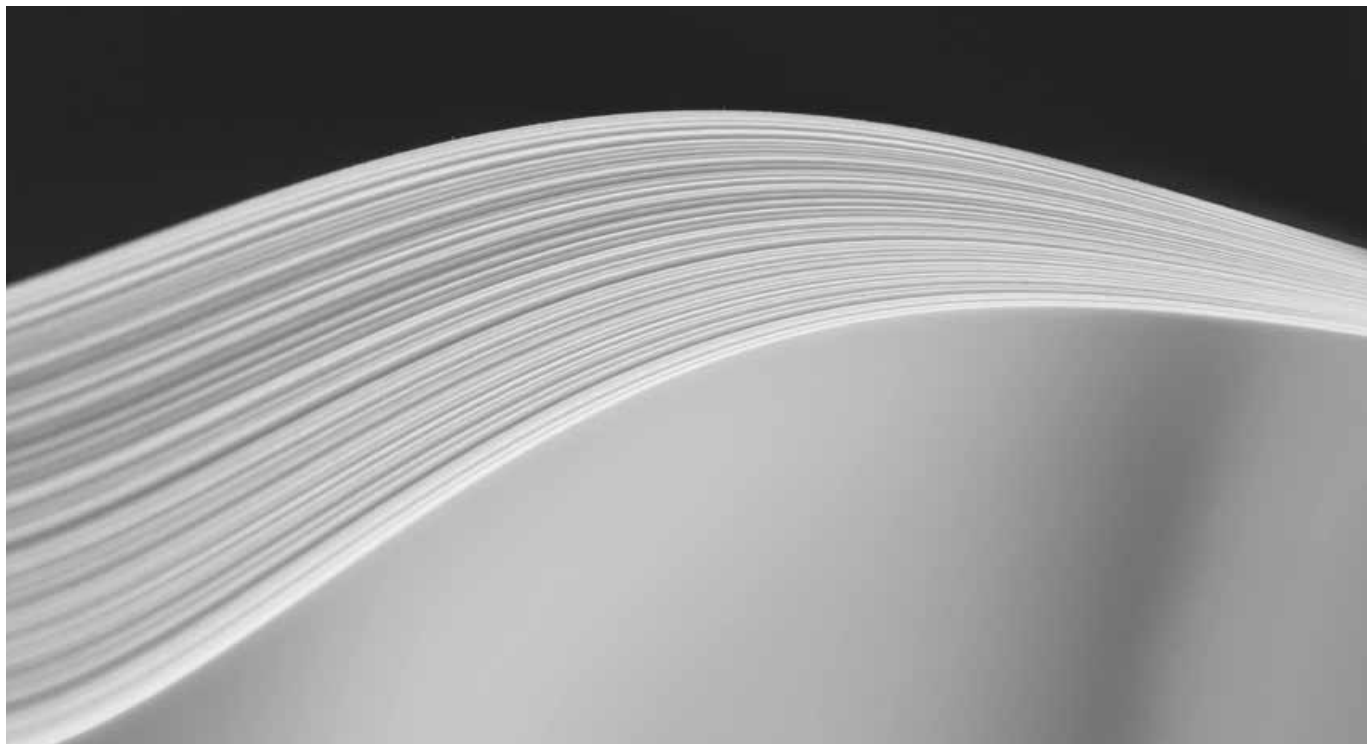
OPERATING CAPITAL* Business area %



Total: 30 799

● Forest	17 798 SEKm
● Paperboard	6 426 SEKm
● Paper	2 815 SEKm
● Wood products	892 SEKm
● Renewable energy	3 412 SEKm

* Excl. Group-wide



Strategy and targets

Holmen’s strategy is to own forest and energy assets and to develop industrial operations in paperboard, paper and wood products.

The substantial forest and energy assets shall deliver stable revenue that grows over time.

Large-scale industrial operations at efficient facilities shall provide good profitability through the refining of forest raw material into high-performance consumer paperboard, cost-effective printing paper and wood products for the joinery and construction industries.

Strategic direction

FOREST

Active forestry

The revenue from and future value of Holmen’s forest holdings are to increase through active and sustainable forestry, a clear focus on costs and the further development of methods, technologies and expertise. The position in the wood market and economies of scale will contribute to the competitiveness of the industrial operations.

RENEWABLE ENERGY

Long-term hydro power

Hydro power is to be managed with a focus on long-term profitability. The potential to develop wind power on Holmen’s land will be monitored such that it can be exploited when good profitability is assured.

PAPERBOARD

Organic growth

The position as a market leader in Europe when it comes to high-performance paperboard for consumer products is to be reinforced through product development, while exploiting opportunities for global growth. Well invested production facilities that are self-sufficient in energy ensure competitive production costs and the opportunity to grow through complementary investments.

PAPER

Specialisation

Holmen will grow in the area of magazine and book paper by offering customers a cost-effective alternative to traditional products, while reducing deliveries of newsprint. The structural downturn in the market demands a constant focus on costs, while also continuously developing market position.

WOOD PRODUCTS

Large-scale integrated production

Cost-effective production of high-quality wood products for the joinery and construction industries, based on a strong organisation for wood procurement, large-scale production and co-location with the Group’s paper and paperboard mills. Sales to local markets are to be increased by adding value through increased processing.

Financial targets:

Outcome 2016:

Comment:

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 on capital employed was 8.6 per cent.



The return increased from 6.4 per cent to 8.6 per cent due to the return from paper turning from negative to 10 per cent, alongside an increase for paperboard and forest.

CAPITAL STRUCTURE

Our financial position must 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.



The debt/equity ratio was 0.19.



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.



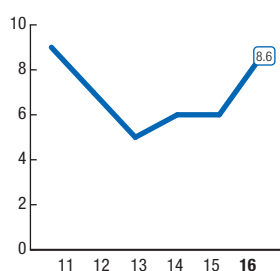
The Board proposes a dividend of SEK 12 per share in 2017.



The proposed dividend corresponds to 4.7 per cent of equity. Over the past five years the dividend has averaged 4 per cent of equity.

PROFITABILITY

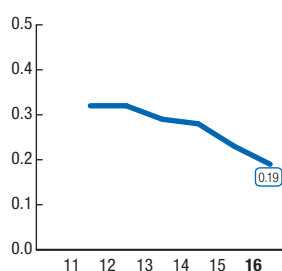
Return on capital employed, %



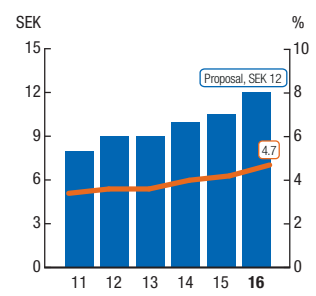
Excl. items affecting comparability

CAPITAL STRUCTURE

Debt/equity ratio, times



DIVIDEND PER SHARE



● Dividend
● Dividend as percentage of equity

Sustainability targets:

Outcome 2016:

Comment:

INCREASED GROWTH IN HOLMEN'S FORESTS

By 2050, annual growth in Holmen's forests is to be 25 per cent higher than in 2007. This will deliver both larger harvests of wood from the Group's forests and greater capture of carbon dioxide.



Progress will be checked in the next inventory of Holmen's forests in 2021.



Silviculture measures to ensure increased growth are being implemented.

REDUCED USE OF FOSSIL FUELS

By 2020, use of fossil fuels at the Group's mills will be down 75 per cent compared with 2005.



The use of fossil fuels at the mills has fallen by 75 per cent since 2005.



Following the sale of the Spanish mill, all production units are largely powered by non-fossil fuels. The target has been revised to a reduction of 90 per cent instead of 75 per cent by 2020.

INCREASED PRODUCTION OF RENEWABLE ELECTRICITY

Company-generated renewable electricity shall account for 50 per cent of Holmen's total electricity consumption by 2020, compared with 31 per cent in 2005.



The proportion of company-produced renewable electrical energy amounted to 45 per cent.



This figure is down on 2015 primarily because of lower hydro power production, due to low precipitation in 2016.

Dear shareholder



This year's strong results are testament to the success of our investments and long-term strategy. Holmen's substantial forest and energy assets provide stable profitability, while the well invested industrial operations create potential for growth. Against the background of this, the Board has resolved to propose a dividend of SEK 12 (10.5) per share.

Holmen combines forest ownership with the profitable manufacturing of paperboard, paper and wood products. Combined with our renewable energy assets, the forest assets make up two-thirds of the Group's capital and contribute to a stable cash flow that will increase over time. Holmen's financial situation is strong with low net financial debt, which provides stability but also the freedom and opportunity to develop the company.

Well invested profitable industry

Holmen has an enviable position as a market leader in the highest quality segments for consumer packaging and paperboard for advanced graphical printing. The major structural investments that have been made in our two paperboard mills, the recovery boiler at Iggesund Mill and the biofuel boiler at the mill in Workington, have gradually made an impact, resulting in a significantly improved cost position and sizeable environmental gains. With last year's investment in a new press section at Workington and expanded pulp capacity at Iggesund, we now have the potential to increase production by around 10 per cent, while at the same time further driving down production costs.

Demand for consumer packaging is growing, particularly in Asia, but to some extent also in Europe and the USA, whereas the market for paperboard for graphical printing is stagnating. The combination of competitiveness and continued product development is crucial in defending and advancing our position in a market that also faces the challenge of new capacity. With a strong offering, we have excellent opportunities to grow in the premium segment in Europe, Asia and the USA.

In paper, our position has radically improved. With the sale of the mill in Madrid, we can put a business with no prospect of survival behind us. Instead, we can focus on fresh fibre-based magazine and book paper at our two Swedish paper mills, a concept that has proven to work well in the tough printing paper market. Overall, this has given us a smaller but significantly more profitable paper business. The printing paper market remains extremely challenging, but through a clear long-standing strategy, we have a product mix and position in the market that stands us in good stead against the competition. We are therefore optimistic about the future.

The large fire that hit the paper mill in Hallstadvik in late 2015 also impacted on the operation in 2016. The reconstruction was a major test for the organisation, both in production and on the marketing front.

Looking back, we can report that our employees really delivered, so that we now have a mill in excellent condition and we are well on the way to regaining positions we were forced to give up when production was shut down.

Wood products have a bright future. More housing needs to be built and the focus on wood construction has become much sharper in recent years, not least due to sustainability considerations. This is feeding through to demand, which is seeing a positive trend. The challenge lies in the relatively low added value and an elastic supply on the market. For a company such as Holmen, with forest holdings plus two large-scale sawmills integrated with the Group's paperboard and paper mills, processing wood products to add additional value is a natural area for development and we are constantly exploring such opportunities. One step that we have taken in this direction is this year's decision to invest in a wood treatment plant at Braviken Sawmill in order to broaden the product range for builders' merchants.

Strength in renewable raw materials

The growing forest is the starting point for all Holmen's business. Thanks to active silviculture measures, our younger forests are growing faster than those that are currently ready for harvesting. Since the amount harvested is less than the annual growth, in the long term we will be able to harvest more, which generates higher cash flow, while still ensuring that we have a larger volume of standing forest. A key factor for the future value of the forest is the ability of the industry and the sawmills to pay for the wood raw material. It is crucial in this respect to have competitive industries that make full use of the comparative benefits offered by the Swedish raw material – fresh long fibre. After a period of capacity reductions in printing paper, major investments are now being made in both pulp mills and paperboard production in the Nordic region, so strengthening the industry's competitiveness and increasing demand for wood. Coupled with the rise in wood construction, this represents a positive outlook for a forest owner such as Holmen.

With the storage of carbon dioxide in the forest and wood products and the production of renewable energy, Holmen is perfectly placed to be part of the solution to the climate change issue. The challenges lie in the right to manage the forest and in the market's acceptance of fresh fibre-based products in competition with recovered fibre. Without fresh fibre, there is no future recovered fibre. The way we are permitted to manage our forest is affected by political decisions in both Sweden and Brussels. It's a basic question of ownership rights that we take extremely seriously.

Major investments are strengthening the forest industry's competitiveness and increasing demand for wood raw material.

The Swedish energy agreement that was approved over the summer provided positive news. The decision to gradually lower the property tax on hydro power to the same level as other electricity production creates fairer conditions and increases our opportunities to make necessary investments in our power stations. Energy is a good asset that provides cash flow and a stable revenue stream over time.

The future is growing in the forest

There is no doubt that the forest as a raw material has good future prospects, not least in the transition to an economy in which products based on fossil raw materials are replaced with renewable alternatives. Strategic choices and investments for the future have strengthened our sustainability profile, which has led to recognition in several contexts. Most recent is the listing on the Global 100, an index of the hundred most sustainable corporations in the world. This achievement is the result of focused and target-driven work, and I am both pleased and proud to work for a company that contributes to sustainable development. Holmen has also been affiliated to the UN's Global Compact since 2007 and sees it as only natural to support its ten principles, which cover areas such as human rights and social and environmental responsibility.

The products of the future will come from the forest, and I am in no doubt that, like our forests, Holmen will continue to develop and grow ever stronger.

Stockholm, 13 February 2017

Henrik Sjölund
President and CEO

**The listing on the
Global 100 index
as one of the world's
most sustainable
companies is
recognition of our
focused and target-
driven work.**



Around Holmen 2016



Sören Petersson
Head of Forest business area

How would you sum up the past year in your business area?

We have succeeded in improving profits through further cost reductions and slightly higher prices. At the same time, we have continued to develop silviculture measures that will bring increased growth and improve the natural assets in our forests. The harvested volume returned to normal levels after a few years of higher volumes caused by storm felling.

What is happening now and how does the future look?

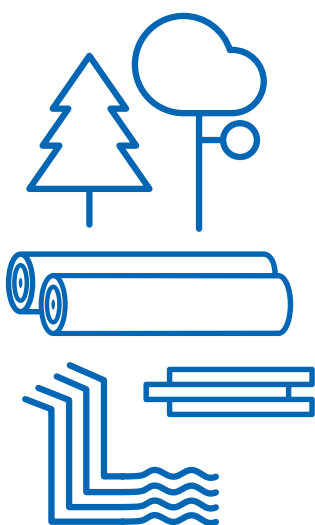
We want to develop the wood business in order to strengthen our capacity to supply the industry with raw material at a competitive cost and to obtain good value from what we harvest in our own forest. In this area, we are working to develop our relationship with private wood suppliers and to optimise wood deliveries, amongst other things. Active measures will enable us to achieve increased growth, climate benefits and improved natural assets in Holmen's forests.



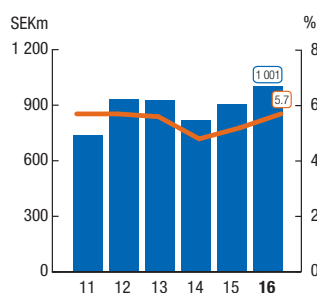
Fredrik Nordqvist
Head of Renewable energy business area

Low rainfall and run-off into our reservoirs resulted in low production. We have been able to partially compensate for this by concentrating production on times with better prices. The energy agreement that was approved on 10 July proposes a gradual lowering of the property tax for hydro power. This is an important step in the right direction that improves conditions for future reinvestment.

In the transition to an energy system based entirely on renewable sources, hydro power is uniquely equipped to provide controllable energy production at low operating costs. EU Directives mean that all hydro power stations in Sweden will need to undergo environmental assessment. Holmen's power stations are all well placed to meet the necessary environmental adaptations, and the lower property tax enable necessary investments for the future.



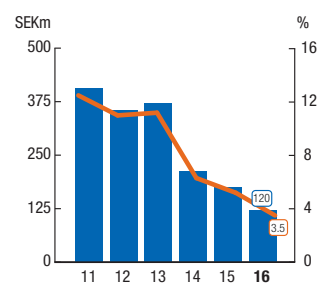
OPERATING PROFIT/LOSS



● Operating profit/loss
● Return on operating capital

FACTS	2016	2015
External net sales, SEKm	2 572	2 814
Earnings from operations, SEKm	686	638
Operating profit/loss incl. change in value of forests, SEKm	1 001	905
Investments, SEKm	30	31
Book value of company forest, SEKm	17 448	17 173
Average number of employees	364	384
Harvesting in own forests, '000 m ³ sub	2 986	3 213

OPERATING PROFIT/LOSS



● Operating profit/loss
● Return on operating capital

FACTS	2016	2015
External net sales, SEKm	314	268
Operating profit/loss, SEKm	120	176
Investments, SEKm	23	18
Operating capital, SEKm	3 412	3 351
Average number of employees	10	11
Company-generated hydro and wind power, GWh	1 080	1 441

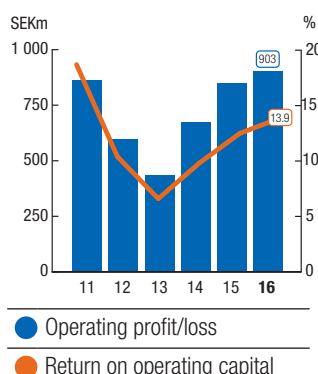


Henrik Sjölund
Head of Paperboard
business area

Despite rebuilds at both mills, we managed to deliver good results. Production has been raised to new levels on occasion, and the challenge now is to achieve stability at this higher level. Sales in the premium segment increased through continued product development, but also thanks to investments in additional sales resources and distribution centres outside Europe.

The investments of recent years have given us the potential to increase production and at the same time reduce production costs, which will be crucial in defending our position in a market made more challenging by new capacity. With a strong offering in the premium segment, we will continue to grow in Asia and the USA, while consolidating our strong position in the European market.

OPERATING PROFIT/LOSS



FACTS	2016	2015
Net sales, SEKm	5 252	5 472
Operating profit/loss, SEKm	903	847
Investments, SEKm	413	324
Operating capital, SEKm	6 426	6 622
Average number of employees	1 406	1 432
Deliveries, '000 tonnes	497	499

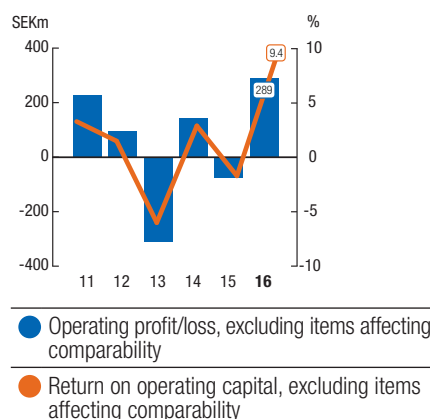


Nils Ringborg
Head of Paper business area

The sale of the paper mill in Madrid was, of course, the main event of the year. Now we are a speciality paper manufacturer with two competitive mills. Thanks to good production and sales of the magazine product Holmen UNIQ, we have been able to deliver good results in a difficult market. On the marketing front, we have improved our offering, with a higher service level and complementary services, which are becoming increasingly important for both existing and new customers.

With a business focused on fresh fibre-based magazine and book paper, we deliver products that give our customers more print surface at a lower cost. Continued production optimisation and efficiencies, further development of our product portfolio and a focus on sales and marketing will strengthen our position in a challenging market.

OPERATING PROFIT/LOSS



FACTS	2016	2015
Net sales, SEKm	5 431	6 148
Operating profit/loss excl. items affecting comparability, SEKm	289	-74
Investments, SEKm	259	347
Operating capital, SEKm	2 815	3 558
Average number of employees	861	1 150
Deliveries, '000 tonnes	1 134	1 325

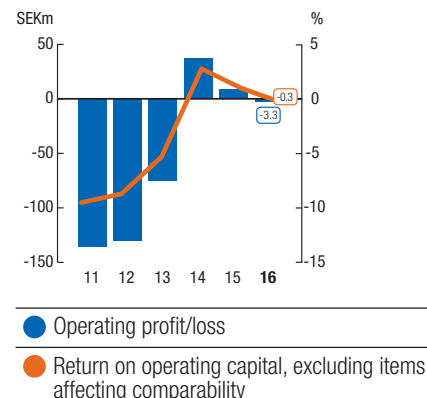


Johan Padel
Head of Wood products
business area

The switch to sawing two wood species and measures relating to stock and logistics have significantly lowered costs at Braviken. We have also been able to increase production at Iggesund, following investment in more efficient flows through the sawmill. Unfortunately, this was not enough to compensate for the price reductions that occurred towards the end of 2015 and so profits are down slightly. We are, however, in a strong position for the future, with two large-scale and competitive sawmills.

To meet the growing demand for treated products and to boost the value added by our wood products, Braviken Sawmill is gaining a wood treatment plant and a distribution warehouse. At Iggesund Sawmill, the focus is on maintaining the production rate and the profitability level.

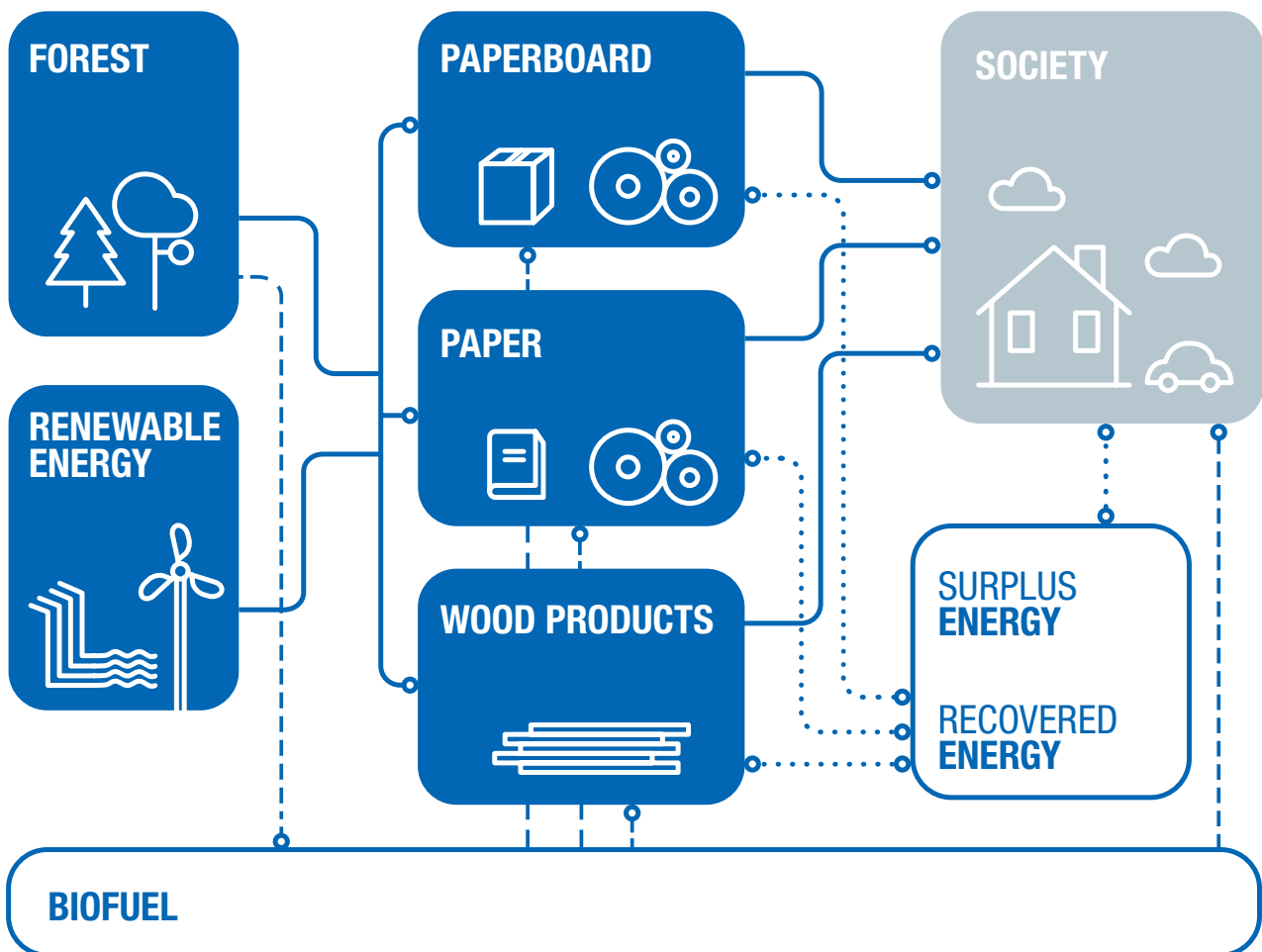
OPERATING PROFIT/LOSS



FACTS	2016	2015
Net sales, SEKm	1 342	1 314
Operating profit/loss excl. items affecting comparability, SEKm	-3	9
Investments, SEKm	52	103
Operating capital, SEKm	892	924
Average number of employees	225	213
Deliveries, '000 m ³	776	729

A sustainable business

Holmen's value creation begins in the sustainably managed forest. This is the source of the renewable raw material underpinning the high-quality products that are appreciated by customers around the globe. The business as a whole, with its own energy production and resource-efficient production units, contributes to long-term value growth and brings climate benefits by reducing the amount of carbon dioxide in the atmosphere by over two million tonnes per year.



Growing forest ensures stable profitability.

Holmen operates active and sustainable forestry with high growth. Harvesting amounts to 85 per cent of the annual growth, which means that the volume of standing timber is increasing year on year. Continuous development of methods and technologies ensures high productivity and good revenue over the long term.

Renewable energy from own production.

Holmen's wholly and partly owned hydro power stations are stable and effective suppliers of renewable energy. Electricity production at the hydro power stations and wind farms, together with the electricity production at the larger mills, covers half of the Group's electricity consumption.

Energy-efficient production units.

Production at the Group's energy-efficient mills and sawmills in Sweden is largely based on renewable electrical and thermal energy. The paperboard mill in the UK is self-sufficient in electrical and thermal energy, and sells its surplus electricity production to the local community.

Optimal raw material usage.

Nothing goes to waste when it comes to the use of the wood raw material. The logs become wood for joinery and construction. Chips and shavings are turned into pulp. Branches and bark become by-products that can be further processed or used for fossil-free energy production.

Customised products and services.

Holmen delivers products that exploit all the potential of the forest raw material to create clear competitive advantages for the customer. High quality, reliable deliveries and customised services all bring customer benefits. Continuous product development, coupled with effective and resource-efficient processes, creates products for the future.

Paperboard, paper and wood products constitute basic materials in people's everyday lives. The products are made from renewable raw material and help to capture carbon dioxide from the atmosphere, and since they can replace products made from fossil raw materials, they reduce society's overall emissions of greenhouse gases.

Value creation on every front

Economy

STAKEHOLDERS		ECONOMIC VALUE (SEKm)
Customers	Sales of paper, paperboard, wood products, wood and electricity	17 072
Suppliers	Purchases of products, materials and services, along with depreciation, etc.	-12 873
Employees	Wages and social security costs	-2 268
Lenders	Interest	-71
State	Taxes	-436
Shareholders	Net profit	1 424
	Board's dividend proposal	1 008

Holmen's operations in 2016 broken down into stakeholders based on the Group income statement.

Environment

- Sustainable forestry to safeguard biodiversity
- Carbon dioxide is captured by growing forest and stored in products
- Renewable products that can replace climate-negative alternatives
- Renewable electricity production
- Almost 100 per cent of thermal energy is produced at Holmen's own mills
- Fresh fibre from Holmen contributes to the recovered fibre ecocycle
- Almost 100 per cent of by-products and waste is put to good use
- Reduced emissions to air and water from the plants

Society

- The economy benefits from direct and indirect job opportunities
- Delivery of carbon-free electrical and thermal energy plus biofuel
- Safe working environment with fewer industrial accidents
- Assessment of suppliers' work on human rights and employee rights
- Regular contact with local residents, the general public, authorities and the media
- Forests are important for people's wellbeing and recreation
- Investors have an opportunity to buy shares in a sustainable company

In collaboration with our stakeholders

Customers. Almost 90 per cent of Holmen's deliveries go to European customers. Other exports go primarily to customers in the USA, North Africa, the Middle East and countries in Asia. In the drive for growth in the international markets, Holmen is expanding its presence to include more and more countries. This allows us to increase customer service and strengthen work on building relations. Holmen's business ethics policy and associated guidelines provide guidance on how to maintain good business practices when dealing with external contacts in various markets.

Suppliers. Purchasing is a key strategic issue within Holmen. The Group'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. Suppliers in high-risk countries are subject to tighter requirements on showing compliance with the principles of the code.

Employees. Competent and motivated employees who embody the company's values are a key factor for the success and long-term sustainability of Holmen. Priority issues are health and safety, leadership and management by objectives. Delegation of responsibility, skills development and participation in the development of the business are other key areas.

Society. Holmen plays a significant role as a major employer in a number of locations. The business creates jobs not only within the Group, but also for contractors, suppliers and various social functions. This means, in turn, that Holmen contributes substantial tax revenue. Continuous dialogue with local communities, indigenous peoples and stakeholder organisations, as well as partnerships with universities and colleges, creates conditions for sustainable development, with the forest as a core factor in economic growth and human wellbeing.

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 through dividends and growth with a good return on invested capital. Sustainability issues are becoming increasingly important to investors and analysts, who are keen to establish long-term relationships with companies that have high ambitions in this regard. The Group's financial statements and sustainability reporting are an effective way of providing relevant data for analysis.

Managed forests brings climate benefits

Holmen manages its forest holdings, which are among Sweden's largest, both actively and sustainably. The renewable raw material from the forest is a stable source of revenue and a key component in society's drive to meet the challenge of climate change.

It all begins in the forest

Holmen's forests cover 1.3 million hectares, of which a little over a million is productive forest land. Holmen manages these forests and is largely able to supply its production plants in Sweden with its own renewable raw material. The strategy is to increase the revenue from and future value of the forest holdings through active and sustainable forestry, a clear focus on costs and the continued development of methods, technologies and expertise. Economies of scale and efficient logistics gives us a strong position in the wood market, which contributes to the Group's competitiveness.

Forest's value is growing

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 around 85 per cent of the growth. The volume of wood is thus growing by 1 per cent per year.

The long-term target for 2050 is that the annual growth in Holmen's forests will be 25 per cent higher than in 2007. This means that today's volume of standing timber, 120 million m³ growing stock, solid over bark, will increase to 160 million m³ growing stock, solid over bark by 2050, whilst at the same time, harvests will rise from 3 to 4 million m³sub per year.

It is Holmen's active and sustainable forestry that allows harvests to be increased while maintaining growth in the volume of standing timber.

Economic value. The recognised value of Holmen's forest holdings as at 31 December 2016 amounted to SEK 17 488 million under

international accounting standard IAS 41. A deferred tax liability of SEK 3 854 million is stated in relation to that figure, which means that the growing forest, net after tax, is recognised at SEK 13 594 million. See Note 11, page 59.

The annual cash flow that the forest delivers gives an annual dividend yield of 4 per cent. Cash flow is made up of the net balance of sales revenues and costs of harvesting, silviculture and administration.

Growth can be increased through active forestry, which provides greater opportunities for harvesting and a rise in cash flow.

Value for the climate. 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 absorbed. Younger and middle-aged stands, where growth is greatest, absorb more carbon dioxide than older stands, where growth is in decline. Furthermore, the benefit to the climate becomes many times greater when the forest's products are able to replace fossil materials and processes.

Forest that is not managed brings nowhere near the same climate benefits. Since the forest raw material is not extracted, no substitution effect is achieved, which slows down the phasing out of products that are harmful to the climate.

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, but 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 silviculture is robust in climate terms.

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. 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.

Focus on productivity and the environment. Long-term development of quality and profitability requires continuous improvements to 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.

Quality-assured regeneration. Holmen invests around SEK 160 million a year in future growth through silviculture, stewardship 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. At least two new trees are planted for every tree harvested.

Traceability and nature conservation.

Holmen's forests are certified and all wood is traceable. In 2016, Holmen adopted a new nature conservation strategy aimed at ensuring that all naturally occurring species are able to thrive in Sweden's forest landscape. The strategy sets out how Holmen works to combine high growth with preserving biodiversity.

Right to manage the forest

The significance of forestry for both the climate and the Swedish economy places it squarely on the political agenda. Holmen works with the industry to make politicians, authorities and the general public aware that active and sustainable forestry is the very foundation of the emerging bioeconomy and is vital with regard to the climate. 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. Restricting the right to manage the forest one owns could lead to smaller harvests. This could affect the supply of forest raw material to the industry and thus hit the competitiveness of Swedish forestry. One concrete example is the Species Protection Ordinance, which has been implemented in a different, stricter way in Sweden than in the rest of the EU.

Market with opportunities

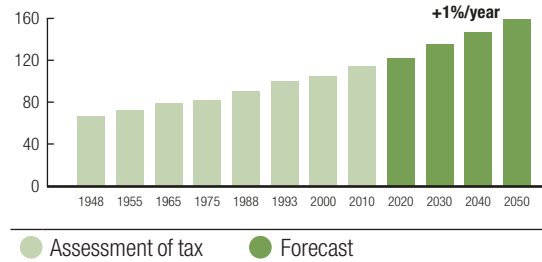
Demand for logs is affected by the sawmills' needs, which in turn are governed by the construction market in various parts of the world, and the degree of substitution between different building materials. Widespread interest in wood construction and a growing market for timber-framed buildings are generating increased demand for logs.

Pulpwood upturn. Pulpwood is used to manufacture the pulp that in turn is used for the production of paperboard and paper. Global demand for printing paper is falling, whereas demand for paperboard is rising. Pulp manufacture is capital intensive and demand for pulpwood in local markets is thus predictable over the short and medium term. The market for pulpwood is in equilibrium in Sweden, with the major investments in Swedish pulp mills in recent years ensuring a stable demand for forest raw material.



VOLUME OF STANDING TIMBER

m³ growing stock, solid over bark
per hectare productive forest land



HOLMEN'S FORESTS 2016

Total land acreage	1 275 000 ha
Total forest land acreage*	1 153 000 ha
of which nature conservation areas	187 000 ha
Productive forest land**	1 042 000 ha

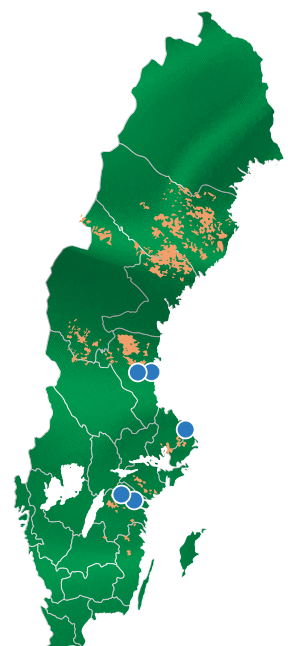
Total volume of standing timber, on productive forest land **120 million m³ growing stock, solid over bark**

* Analysis performed by the Swedish National Forest Inventory, according to the international definition of forest land: Land with an area of more than 0.5 hectares, a tree canopy cover of more than 10 per cent and trees with a minimum height of 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).



The volume
of standing timber is growing
by 1 per cent per year and has
doubled over the past 100 years.



MAP

- Holmen's forest holdings
- Holmen's Swedish industries

Renewable energy gives position of strength

Holmen owns, manages and develops renewable energy assets. Hydro power forms the basis of the energy production, providing a stable revenue stream over time and at the same time bringing major benefits to society.

Value of own energy assets

Holmen wholly or partly owns 21 hydro power stations. In a normal year, Holmen's production share amounts to 1 112 GWh. Wind power assets comprise part ownership of four wind farms, where the production share in a normal year amounts to 133 GWh. Holmen's own production of hydro and wind power, combined with the bioenergy that is generated at the Group's mills, amounts to just over 1 800 GWh per year, which covers around 50 per cent of Holmen's total energy consumption.

Hydro power gives stable energy production

Holmen's own energy production is dominated by climate-smart and renewable hydro power. Compared with other renewable energy sources, hydro power has the unique advantage of being controllable. Storing reserves of water in lakes and watercourses makes it possible to adapt the energy production to demand by reducing or increasing the flow of water through the turbines. In an energy system that is increasingly based on weather-dependent renewable sources, hydro power contributes stable and controllable energy production, based on a non-finite resource. Another benefit of hydro power is service life, since a hydro power station can deliver climate-smart energy for over 100 years. The need for investment is relatively small, compared with other energy types, and the basic operating costs are low. For every kilowatt hour produced via hydro power, fossil-based electricity production can be cut back. Overall, hydro power brings major social benefits on the path to a bio-based economy.

Wind power a supplement. 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. At this moment in time, further expansion is unviable due to low prices for electricity and electricity certificates, and activity in ongoing projects has therefore been tailored to current market conditions.

Energy peat is considered a slowly renewable resource, which makes it possible to add value to certain land assets within Holmen that are not productive forest land. Peat can be used in energy production, but also as a soil improver, animal bedding and a building material. Holmen's peat field outside Örnsköldsvik was taken into use in 2009 and is harvested annually for energy purposes. In 2016, the harvest equated to 70 (63) GWh electrical energy.

Complex market conditions

Globally, in recent years energy has gone from being in short supply to being in surplus, which has put pressure on prices. The change has been driven by new methods of extracting oil and gas in North America, poorer control of output within OPEC and large quantities of weather-dependent electricity production being subsidised into Europe.

Swedish energy agreement. In 2016, a broad political agreement was reached in Sweden on ensuring that the nation has competitive electricity prices and a robust energy supply, as well as putting the conditions in place to invest in renewable electricity production. The power tax on nuclear power is going to be removed in order to facilitate investment in efficient operation and increased safety in the remaining reactors, while the electricity certificate system is being extended until 2030. Investments in solar, wind and hydro power and bioenergy will contribute to the target of 100 per cent renewable energy supply by 2040.

Positive consequences for hydro 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, i.e. 0.5 per cent, over a four-year period beginning in 2017. This will allow investments to continue the operation of hydro power stations.

As a consequence of an EU Directive, environmental permits for all hydro power stations in Sweden are likely to be reassessed. The process is expected to take many years. Holmen's power stations are all well placed to meet the necessary environmental adaptations without any major impact on production.

Varsvik wind farm
outside Hallstavik.





Hydro power
has a unique advantage
over other renewable
energy sources, since it
is controllable.

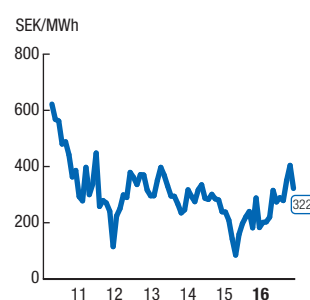
Holmen's power plants

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	—
	Gideåbacka	10	7	—
Faxälven	Linnvasselv	7	14	1961–74
	Junsterforsen	100	115	—
	Gäddede	30	23	—
	Bågede	100	70	—
Iggesundsån	Pappersfallet	100	7	1915
	Iggesunds kraftstation	100	22	2009
Ljusnan	Sveg	20	30	1949–75
	Byarforsen	20	17	—
	Krokströmmen	9	45	—
	Långströmmen	11	29	—
	Ljusne Strömmar	7	17	—
Motala Ström	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

ELECTRICITY SPOT PRICE,
Price area Stockholm (SE3)



21
hydro
power
stations

Global growth for paperboard products

Holmen is a market leader in the segment for high-performance paperboard for consumer packaging and graphical applications. The strategy is to grow globally with the support of efficient, well invested mills and two of the market's strongest product brands.

Premium products with potential

Leading position. Holmen is a market leader in the highest quality segments 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 their customers high-quality, sustainable and attractive products. The global market for packaging board is growing, and Holmen is well positioned for growth. The strategy is to consolidate Holmen's leading position in the European market, while at the same time growing in the premium segment in global markets through continuous product development, a high level of service and close customer relations.

Invercote and Incada drive progress

Holmen markets its paperboard products under two brands: Invercote and Incada. Invercote is a multi-layered paperboard made from bleached chemical pulp (SBB). Incada is also a multi-layered paperboard, but with a surface layer of chemical pulp and a core of mechanical pulp (FBB). Together, they represent one of the market's most versatile ranges in the highest quality segment, giving the brands a high status among converters, brand owners and designers the world over. The paperboard is used primarily to make high-quality consumer packaging for confectionery, cosmetics, perfumes, wines, spirits, pharmaceuticals, tobacco and food products. The range is constantly being developed in close collaboration with customers, in order to meet the ever-growing demand for innovative, customer-specific packaging solutions. The paperboard from Holmen is renowned for its high and consistent quality, which helps to

ensure predictability, efficiency and stable results in the customer's production process.

Fresh fibre strengthens proposition

The shared feature of Invercote and Incada is that they are made from fresh fibre from sustainably managed forests, which has benefits for both the product 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 combination of the fresh fibre and the inherent properties of the paperboard also 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 addition of fresh fibre is necessary to keep the recovered fibre ecocycle going. The forest is the source of all paperboard and paper, and wood fibre can be recycled up to seven times before it ends up as biofuel.

Strong customer relations and modern service solutions

Care by Iggesund is a modern service concept from Holmen that adapts to the customer's specific need for availability, deliveries, support and advice concerning everything from product samples to food safety. The local support team works very close to the market, has in-depth knowledge of the prevailing conditions and speaks the customer's language. The concept also includes environmental documentation plus access to analysis facilities at the company's own accredited laboratory for sensory and chemical analysis, known as the smell and taste lab, at Iggesund Mill.

Climate-smart production process

Invercote and Incada are manufactured in a resource- and energy-efficient way at the modern paperboard mills in Iggesund, Sweden, and Workington, UK. Both mills hold chain-of-custody certification and all the wood raw material comes from well managed and sustainable forests. The plants in Workington and Iggesund already have the capacity to be 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 market with opportunities

Global demand for packaging is rising in line with factors such as population growth, urbanisation and an emerging middle class with more single-person households. Demand in the various product segments varies from continent to continent, but there is a general upward trend for renewable packaging materials, with paperboard considered to have major advantages over other materials. 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. Significant additions to capacity are expected to make competition stiffer and exports to other parts of the world are expected to rise. 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.

North America. The market is relatively stable, and imports from Europe are expected to rise, although this trend depends on various factors, including currency fluctuations. Holmen is expanding in the premium segment, and has increased its presence and service level in the strategically key regions, for example through stock control and sheeting on the west coast of America.

Asia. Rising prosperity is driving demand for status goods and thus also the need for high-quality packaging. This is a market with potential and with emerging local brands. Holmen has increased its presence through a sales office in Japan and a service centre in Taiwan.



Iggesund Mill

Raw materials: Softwood and hardwood pulpwood

Process: Sulphate pulp

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

Brand: Invercote

Workington Mill

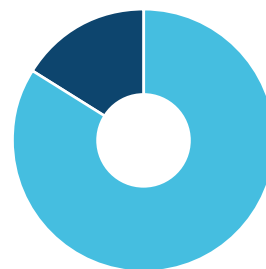
Raw materials: Spruce pulpwood and purchased sulphate pulp

Process: TMP

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

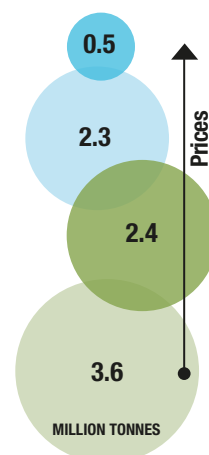
Brand: Incada

END PRODUCTS, %



Consumer packaging 84%
Graphical printing 16%

EUROPEAN PAPERBOARD MARKET 2016



- 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) Beverages, dairy products and dry goods.
- WLC** (white lined chipboard) Dry goods and household products.



For every tree
that is harvested to make our paperboard,
at least two new ones are planted.

The challenger in magazine paper

Holmen manufactures magazine and book paper that makes the most of the properties of fresh fibre. This means that the market is offered new opportunities to produce printed materials sustainably and cost-effectively.

Paper with built-in innovative thinking

Holmen develops and sells fresh fibre-based speciality paper in the form of modern magazine and book paper that challenges traditional, more expensive paper grades. Efficient production units, continued specialisation and a strong marketing organisation are seeing Holmen strengthen its position in existing and new markets. Customers include retailers, printers and publishers across the globe seeking cost-efficient paper solutions.

Fresh fibre offers unique benefits

Holmen's magazine and book paper is made from fresh fibre from Swedish forests, making it possible to develop paper grades with high bulk, creating paper that is thick but still light. This means that despite fewer tonnes of paper, the customer can produce printed material with the same thickness and feel as traditional, more expensive paper grades. In combination, this leads to lower costs for paper and distribution.

Paper based on fresh fibre has extra stability for its weight. 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. This makes printed material from fresh fibre-based paper a natural complement to digital media.

Recovered paper needs fresh fibre. 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, which means that paper manufacture is based on recovered paper to a considerably higher extent. However, paper cannot be recycled again and again forever. The ecocycle needs a constant injection of fresh fibre from the forest.

Products that show the way

Book paper. Compared with wood-free paper, Holmen BOOK gives its customers the opportunity to lower paper costs considerably. Publishers appreciate the 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. The product comes in several variations and is constantly being developed.

Magazine paper. Holmen is an industry leader in developing new products entirely based on fresh fibre. The result is innovative products that, compared with traditional paper choices, offer clear cost benefits when purchasing and distributing finished products. The brands Holmen UNIQ, Holmen VIEW, Holmen TRND and Holmen XLNT represent a broad range of modern printing paper that is ideally suited for direct mail, catalogues and magazines, for example. The fact that all products are ecolabelled and based on traceable raw materials provides important arguments in an increasingly aware market.

Services centred on the customer

The new media landscape, rapidly changing consumer habits and tougher competition for market share are all affecting customers. Holmen offers services that help the customer to maximise benefits in the paper decision-making process. This includes analysing the customer's product portfolio and strategic advice for profitable paper choices based on technical, commercial and experience-related aspects.

Sustainable all the way

Production takes place at two mills in Sweden. Both have streamlined and upgraded their operations in line with the strategy of switching to speciality 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. Both mills are close to ports with good capacity and efficient handling.

Braviken Paper Mill and Braviken Sawmill make an energy-efficient bio co-location. The mill receives raw material in the form of chips and in turn provides the sawmill with energy and heat. Surplus bark and wood shavings are sold for energy and district heating production.

Hallsta Paper Mill is one of the most resource-efficient mills in its segment in Europe. The residual products from the production processes are sold on as biofuel and soil products.

Traceable raw material. Holmen's forestry, industrial production and products are certified. Certification guarantees that the wood raw material is traceable and comes from sustainably managed forests. Unlike the majority of products based on recovered fibre, the exact origin of the wood raw material can be cited.

Ecolabelled products. All magazine and book paper made by Holmen is approved by

the EU Ecolabel, the official ecolabel of the European Union. Only products that meet stringent environmental, functional and quality requirements are allowed to carry the EU Ecolabel. The ecolabelling process mainly examines the use of fibre raw materials, chemicals and energy and emissions to air and water in manufacturing.

A changing market

The magazine market is looking for new paths. Many magazine publishers are being squeezed by competition from digital channels and are constantly reviewing their paper choices as they chase lower costs. Here Holmen's innovative products with clear cost benefits have an opportunity for volume growth by providing an answer to market challenges.

Direct mail drives sales. Paper-based direct mail is still holding its own. In a short period Holmen has won the trust of retailers with products that combine high quality and competitive pricing, making the sums more than add up for customers.

Growth in the book paper market. With a market share of 50 per cent, Holmen BOOK is the market's leading wood-containing paper in Europe for paperbacks and hardback books. Its share has increased steadily in recent years. The trend is also increasingly moving towards digital printing, where Holmen's paper is ideal.

Holmen is now looking to new markets with potential outside Europe, mainly in Asia and Latin America.



Braviken Paper Mill

Raw materials: Spruce pulpwood

Process: TMP

Products: Magazine paper, book paper and newsprint

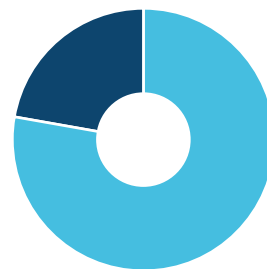
Hallsta Paper Mill

Raw materials: Spruce pulpwood

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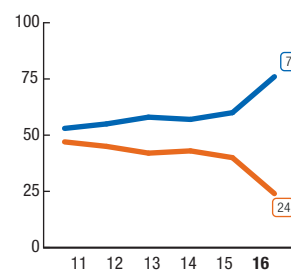
END-USERS, %



● Magazines, direct mail and books	78%
● Daily newspapers	22%

PRODUCTION

Proportion of speciality paper and newsprint



● Speciality paper
● Newsprint



The forest is the source

of all paper. Without fresh fibre,
there is no recovered fibre.

Increased processing of wood products

Holmen delivers climate-smart wood products to the joinery and construction industry and to builders' merchants. Production takes place at two large-scale sawmills integrated with the Group's paperboard and paper mills.

Platform for growth

Holmen manufactures and delivers high-quality base products for further processing for joinery and construction industry customers in Europe, the Middle East, North Africa and to a growing extent also in Asia. Deliveries are also made directly to local Swedish builders' merchants. Competitiveness is based on a strong organisation for wood procurement and cost-efficiency through large-scale production co-located with the Group's paper and paperboard mills. With a finely-tuned production chain and working methods that put the customer in the centre, Holmen is building a solid platform for long-term and profitable customer relations with the capacity to meet demand in different markets.

Climate-smart products for the future

Wood products have the capacity to store carbon for a long time. This makes buildings made from wood much more climate smart than houses built from materials made using fossil-based materials and processes. Besides the fact that wood is renewable and binds carbon dioxide, wood products can make a positive climate contribution through what is known as the substitution effect. Manufacturing materials such as steel and concrete creates emissions of fossil carbon that affect the climate. Replacing these materials with structural components made from wood results in climate benefits on several fronts, and also makes the entire chain from manufacturing to transport considerably more energy-efficient and cost-effective.

Growing cities drive building in wood

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. Building in wood will thus continue to increase and at the moment demand is outstripping supply. 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 techniques for building in wood are also developing in parallel.

Treated wood for builders' merchants

Strategic 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 builders' merchants with a wider range of wood products for outdoor use.

Large-scale and sustainable production

The investment in modern, large-scale sawmills with a high technological level and gradually extended additional processing results in a stronger product range. Combined with efficient wood procurement, this produces competitive sawmills. The product range of the sawmills is adapted to the properties of the local raw material and they complement each other in the market.

Complete bio co-locations. The Group's sawmills form bio co-locations with 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.

Local renewable raw material. One key to both profitability and sustainability is the proximity to the raw material and efficient wood procurement. The business area Forest effectively sources wood raw material from Holmen's own forest holdings and from other forest owners, ensuring a highly efficient logistics chain from forest to sawmill. The majority of the raw material used at the sawmills is certified.

Positive market trends

The market for wood products is global and huge streams of goods are shipped between continents. The major exporters are Canada, Sweden, Finland and Russia. Typical markets in which Swedish sawmills are competing with other major exporting countries are the UK, China, North Africa and the Middle East.

Demand largely follows the general economic cycle and has recovered relatively well since the financial crisis. In North Africa and the Middle East, however, the recent political unrest has seen the increase in demand tail off somewhat. North American consumption has recovered but has a little way to go to reach historical levels. Asia is breaking new records and is dominated by the Chinese market, which is also seeing the fastest growth. Construction is doing well in Europe.



Braviken Sawmill

Raw materials: Spruce and pine saw logs

Process: Sawmilling

Products: Spruce and pine wood products

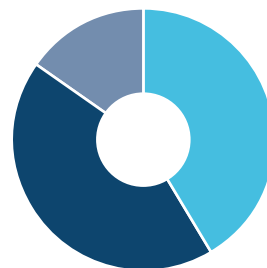
Iggesund Sawmill

Raw materials: Pine saw logs

Process: Sawmilling

Products: Pine wood products

END PRODUCTS, %



Construction timber	41%
Joinery timber	43%
Packaging timber	15%

100% of the tree is used

50 per cent

The main part of the tree goes to our sawmills, where it is made into joinery products and construction timber.

40 per cent

The thinner part of the tree and wood from thinning are used in our mills to produce products such as paperboard, and magazine and book paper.

10 per cent

The rest of the tree is used as biofuel and for fossil-free energy production.



Wood is a versatile

raw material and the only renewable construction material.

An important climate actor



Holmen's environmental work focuses on efficient use of raw material and energy, with the forest playing a key role on the climate issue through its absorption of carbon dioxide.

Holmen's environmental responsibility.

Environmental and energy concerns play a natural role in Holmen's planning of its production and investments. Operations are characterised by resource-efficient use of renewable raw material and energy, and 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 37 outlines Holmen's preventive work on eco-related risks and how they are managed.

Holmen's environmental work is characterised by constant improvements, which is conducted within the remit of the certified environmental and energy management systems. This ensures compliance with the

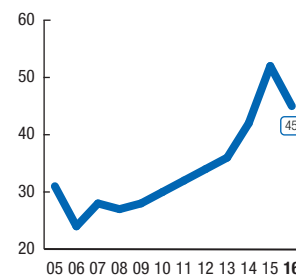
requirements set in legislation and by government agencies, which is assured via statutory official inspections.

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 80–81.

Environmental targets for sustainable development. Holmen has been working on Group-wide environmental targets for sustainable development for several years. Increased production and use of products made from renewable forest raw material is important for the production itself and for the climate. Holmen therefore has a target of increasing growth in Holmen's forests by 25 per cent by 2050 compared with 2007.

The Group's target for fossil fuels is to reduce their use at the mills by 75 per cent by 2020 compared with 2005 levels. A reduction of 75 per cent has been achieved by 2016. Exten-

RENEWABLE ELECTRICITY PRODUCTION RELATIVE TO ELECTRICITY USE (base year 2005), %



sive investments in bio-based energy production at the paperboard mills, and the adjusted energy strategy at the other mills have had a huge impact on fossil fuel use. The facility in Madrid was sold in mid-2016. Energy production at the mill is based on natural gas, a fossil fuel. The sale of the mill has thus resulted in a further drop in Holmen's fossil carbon dioxide emissions. For this reason, the target has been revised and from 2017 use of fossil fuel is to be cut by 90 per cent from 2005 to 2020.

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 2016 self-generated renewable energy accounted for 45 per cent of Holmen's total electricity use. Access to water for the hydro power plants was slightly down in 2016 compared with 2015, leading to lower electricity production.



The investment in a biofuel boiler makes the mill at Workington self-sufficient in electricity and heating.

Key figures for Holmen's operations from a climate perspective 2016

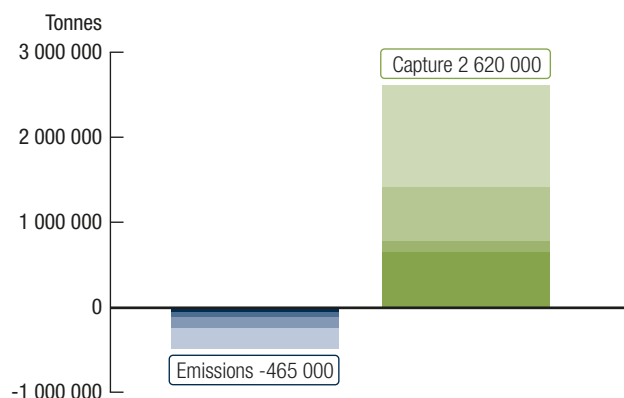
Emissions of fossil carbon dioxide

● Forestry	-30 000
● Input goods	-70 000
● Production facilities	-125 000
● Transport of raw materials and products ¹⁾	-240 000

Absorption of carbon dioxide

● In the growing volume of standing timber	650 000
● Net in forest land	130 000
● Captured in wood products	640 000
● Wood products that substitute for climate-negative materials	1 200 000

Net, capture of carbon dioxide and substitution effect **2 155 000**



¹⁾ Includes emissions from transporting finished products to EU customers and incoming deliveries of wood, pulp and chemicals to Holmen's facilities. Data also includes emissions from transporting products to countries outside the EU.

The summary is based on internal data and calculations and on scientific articles published in recent years. Several independent sources show the positive climate impact of forestry and forest products. 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, 2017. 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 creates climate benefit

Carbon dioxide is captured in the growing forests and in the products. The resource-efficient production is predominantly driven by renewable energy. Investments in company-produced energy and the development of today's products and new products based on forest raw material mean the positive climate effects will be even greater in the future. The Group's investments in research and development amounted to approximately SEK 95 million in 2016.

The forest. Holmen's forests have long been managed in such a way that they contain a greater quantity of wood every year. Based on growth data from the last five years, it is calculated that the volume of standing timber will increase by 1 per cent a year, and approximately 650 000 tonnes of carbon dioxide will be captured by this increase in volume. Over the foreseeable period, annual growth in Holmen's forests is expected to exceed the harvests, and the Group's forest growth target indicates 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 have fallen by over 75 per cent and amounted to 125 000 tonnes in 2016.

Based on data for the past few years, annual emissions of fossil carbon dioxide from for-

est machinery, manufacture of input goods and transport of raw materials and products are estimated at approximately 340 000 tonnes. These emissions, together with those from certain types of forest land, 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 2016 is equivalent to approximately 640 000 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. For 2016 this substitution effect is estimated to amount to approximately 1 200 000 tonnes of carbon dioxide.

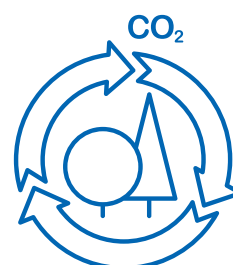
Residual volumes from the sawmills are used in wood packaging, which also has a long lifetime. Any substitution effect for these products has not been calculated.

As paper and paperboard products have a relatively short lifetime, it is not meaningful to calculate the storage of carbon dioxide. Once the fibres in these products have been recycled several times as recovered fibre, however, they, like the end-of-life wood products, make excellent biofuels. Biofuels from Holmen's forests and by-products from production, such as bark, provide renewable energy from incineration.

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 over two million tonnes per year.

Carbon dioxide vs. carbon dioxide?

The biogenic carbon dioxide released when trees and plants rot or wood and paper are incinerated is already included in the carbon cycle of the atmosphere. The fossil carbon dioxide released when oil is incinerated adds new amounts of carbon dioxide to the atmosphere, however. Fossil carbon dioxide is the major villain of the piece in climate change. Holmen's operations mean that a black carbon atom can be replaced with a green one.



Holmen helps to ensure that environmental goals are met

Holmen's Group-wide sustainability targets are in line with the sustainable development goals defined at global, European and national level. In late 2015 the world's leaders adopted a global Agreement on Climate Change to address the climate issue at global level. The agreement that entered into force at the end of 2016 has the general target of keeping global warming well below 2°C, and preferably limiting it to 1.5°C, by cutting emissions of greenhouse gases. The Agreement on Climate Change states that action must be taken to preserve and improve the capacity to capture and store greenhouse gases. The importance of the forests is specifically underlined in this context. Over 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.

Swedish environmental objectives. The overarching objective of the Swedish environmental policy is what is known as the generational goal. The goal guides the values that must be protected and the transformation of society needed to attain the desired environmental quality. Attaining Sweden's environmental objectives demands an ambitious environmental policy in Sweden, in 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 the companies. Holmen is constantly working on environment-related studies and measures both within forest operations and at production plants. Holmen is thus helping to ensure that several of the national environmental quality objectives can be met.



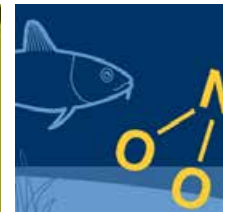
Reduced Climate Impact



Clean Air



A Non-toxic Environment



Zero Eutrophication



Flourishing Lakes and Streams



Good Quality Groundwater



A Balanced Marine Environment, Flourishing Coastal Areas and Archipelagos



Thriving Wetlands



Sustainable Forests



A Rich Diversity of Plant and Animal Life

Illustrator: Tobias Flygar Source: www.miljomal.se

One of the world's most sustainable companies



Most Sustainable Corporations in the World

GLOBAL 100



The Global 100 list of the world's most sustainable corporations is announced each year at the World Economic Forum in Davos, Switzerland. The ranking has been carried out by the Canadian analysis company Corporate Knights since 2005 and is based on a total assessment of the company's capacity to tackle issues of resource management, employees and financial management. Almost 5 000 companies were included in the assessment, with the hundred best featuring on the Global 100 index. Holmen secured 21st place and is the only forest industry sector company on this prestigious list.

"We are both proud and pleased to be on the Global 100 list as one of the most sustainable companies in the world. Holmen has taken a focused approach to sustainability issues for many years now. Being recognised and ranked highly by leading analysts is an acknowledgement of this work," says Lars Strömberg, Director of Sustainable and Environmental Affairs at Holmen.

Holmen's climate work scores highly

CDP'S CLIMATE CHANGE PROGRAM is the name of an international federation that in 2016 represented 827 institutional investors with assets totalling around SEK 900 billion. CDP, which is a non-profit organisation, seeks to encourage companies around the world to reduce their impact on the climate and nature's resources, and report annually on the outcome of its work. Using information from almost 5 800 listed companies, CDP has built up the world's largest database of climate information. This information is made available to support strategic business and investment decisions. Holmen has reported to the CDP Climate Change Program since 2007.

Holmen was highly ranked in CDP's study of companies' climate work 2016 and was placed in the good leadership group. Companies in this group represent best practice in regard to advanced environmental stewardship, with a good understanding of and active efforts to mitigate climate-related risks and capitalise on climate-related opportunities.

CDP WATER PROGRAM. In 2016, CDP sent out a questionnaire to 1 250 companies around the world on the risks and opportunities associated with water use. Holmen was one of the approximately 500 companies that responded to the questionnaire. The assessment showed that Holmen is judged to handle water issues well.

CDP FOREST PROGRAM. In 2016, CDP sent out a questionnaire to around 800 companies around the world on the risks and opportunities of silviculture from a climate perspective. Holmen is among the one quarter of companies that completed the questionnaire. Holmen was highly ranked in the survey and was placed in the good leadership group. Companies in this group show that they have introduced measures that ensure sustainable use of the forest's resources.



Environmental permits for the Group's production facilities

Iggesund Mill, Environmental Code ¹⁾	2013
Workington Mill, IPCC ²⁾	2002
Hallsta Paper Mill, Environmental Protection Act	2000
Braviken Paper Mill, Environmental Code	2002
Iggesund Sawmill, Environmental Code	2014
Braviken Sawmill, Environmental Code	2010

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. An application for a new environmental permit was submitted for Iggesund Mill in 2016 (production increase). Operations at Skärnäs Terminal are included in this application.

2) IED permit from 2017.

Management system certifications

PRODUCTION FACILITIES ¹⁾	ENVIRONMENT ISO 14001:2004	ENERGY ISO 50001:2011	QUALITY ISO 9001:2008	HEALTH AND SAFETY OHSAS 18001:2007
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 14001:2004.

Furthermore, forest operations are also certified under sustainable forestry criteria and have chain-of-custody certification, 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.

Permits

At the end of 2016 Holmen was running production operations at six facilities that require environmental permits. The permits specify conditions regarding permitted production volumes and permitted emissions to air and water. Five of the facilities are located in Sweden and one is in Workington in the UK. The facilities have a total turnover amounting to almost 75 per cent of the Group's net sales in 2016.

The EU's Industrial Emissions Directive (IED) entered into force in 2013. The legislation entails more stringent requirements for using the best available technology. Holmen has investigated the extent to which operations at the pulp, paper and paperboard mills need to be adapted in order to meet the tightened emission requirements by October 2018. The environmental status of the mills is good and all the mills except the one in Workington already largely meet the new requirements. The mill in Workington is investigating the process-related measures that in combination with a biological treatment plant will see the process water emissions requirements met. The environmental authorities have granted the mill an exemption whereby the mill is to have invested in measures to ensure that the emission requirements are met by 2021.

An application for a new environmental permit for a production increase at Iggesund Mill was submitted in 2016. Operations at Skärnäs Terminal are included in this application.

Braviken Sawmill intends to invest in a facility for wood preservation treatment. An environmental permit application for this was submitted in 2016.

Holmen is monitoring the energy agreement that involves Sweden complying with the European Court of Justice's rulings regarding operations involving watercourses. All power plants must have environmental conditions in place that involve assessing the balance between production and environmental issues. The process will be

time-consuming and there are uncertainties regarding investments and production restrictions mainly for smaller power plants. Holmen's power plants are generally of a good standard and are well placed for future environmental impact assessment.

Holmen has all the permits to build approximately 500 GWh of wind power production in Västernorrland. An application to build an additional approximately 500 GWh of wind power in Västerbotten has been submitted to the environmental authorities. Due to the current market situation for this type of electricity production, with low prices for electricity and electricity certificates, the economic preconditions for investing in wind power are challenging.

Emission allowances and electricity certificates

Within the EU Emissions Trading Scheme, Holmen has been awarded emission rights up to 2020. As a result of extensive investments in bio-based energy production at several facilities, Holmen has been able to significantly reduce its need for fossil fuels in recent years. Consequently surplus allocated emission rights 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 (ROCs) in proportion to the amount of electricity generated. The biofuel boiler at the mill in Workington received such certificates in 2016, which were sold.

Exceedances and complaints

The environmental manager within each operation handles incoming complaints and any incidents that occur. During the year there were a number of cases of exceeded threshold values, as well as complaints and incidents in the industrial and forestry operations. Close

dialogue with the mills' local residents is important in order to identify any views on operations at an early stage.

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.

During the autumn one incident took place at Holmen's hydro power station in Norrköping. The water flow changed rapidly due to a technical fault. The fault was rectified within a few minutes. Despite this, the change in the water flow had consequences in that the lower limit of the water level at Grytsdammen was exceeded and a large number of pike-perch died downstream of the power plant. Measures have been put in place to prevent a recurrence. The incident is being investigated by the County Administrative Board.

Discontinued operations

In consultation with the environmental authorities, studies are being conducted at contaminated discontinued industrial sites where Holmen has operated in the past. Studies relating to the sawmills at Stocka and Lännaholm, the sulphite mills at Strömsbruk, Domsjö and Loddby, the former ground wood mill in Bureå and a landfill site in Kvillsfors continued in 2016. In 2016, remediation of an underground waste oil site in Hudiksvall and remediation of land at the former industrial site of Håstaholmen Sawmill were completed. Remediation of land and buildings at the former industrial site of a surface treatment plant in Iggesund will be completed in the first quarter of 2017.

Values and objectives drive development

Expectations of employees are made clear by the Code of Conduct, shared values and the management by objectives process. In total they contribute towards a culture in which the impetus is the desire for development.

The Code of Conduct. The Code provides guidance on day-to-day operations and clarifies what expectations are made of people who work at Holmen.

Values. Holmen's core values of courage, commitment and responsibility combined with the Code of Conduct creates a framework for how employees should act and how leadership should be structured. Holmen's values aim to create a culture driven by a desire for development.

Management by objectives. Expectations concerning what the organisation and its employees should achieve are clarified through a process of management by objectives, under 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.

Productivity. As the number of employees in the Group continues to fall, productivity, defined as production per employee per year, has increased over several years. This is due to organisational changes, investments and more efficient working practices and processes.

A three-year programme is in progress at Iggesund Mill to improve the mill's competitiveness. In 2016, the focus was on reviewing skills and streamlining jobs. A new organisation was set up for forest operations, combining high forest expertise with a stronger focus on business and the market. The mill in Madrid was sold to International Paper during the year. At that point the mill employed about 260 people.

Talent management and skills 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 developing and innovative culture/workplace environment, gives Holmen's brand a strong position in the job market.

To ensure the development of good leadership, Holmen runs internal leadership programmes for managers at all levels. There are also development programmes for specialists who do not have employees directly under them, but who drive change management. Holmen also takes a structured approach to identifying and developing talents in the organisation.

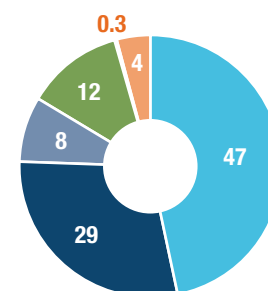
Equality. Holmen aims to create a working environment which is based on the view that all human people are of equal value. All Holmen's employees must have the same rights, obligations and opportunities irrespective of their sex, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation, age, nationality, political opinion, union membership, social background, health status or family responsibilities. Holmen draws up action plans and pay surveys in line with the Equality Act and uses performance reviews and employee surveys as tools.

The forest industry is a male-dominated sector. Holmen is working to achieve a better balance. Over 19 per cent of employees are women and the proportion of female managers is about the same.

Employee surveys. Employee surveys are conducted to follow up working conditions and identify improvement measures. During the year it was decided that the surveys are to be carried out locally instead of centrally to produce results closer to operations, with a greater opportunity to put more appropriate measures in place.

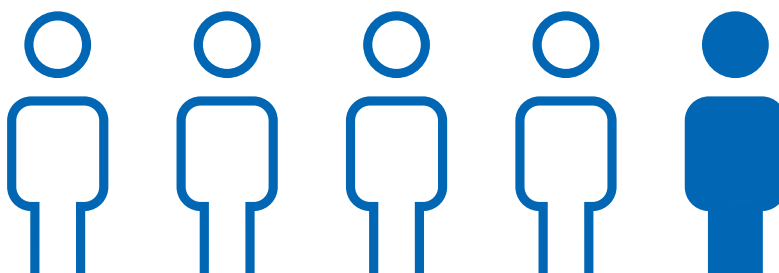
Union cooperation. A relationship with the union organisations that is based on trust is important and helps drive Holmen forward. Collaboration with trade unions internationally takes place in the Holmen European Works Council and in consultation groups at various levels in the company. The company's employees are represented on the Group Board by three members and three deputy members.

AVERAGE NO. OF EMPLOYEES
business area, %



Total: 2 989

Paperboard	1 406
Paper	861
Wood products	225
Forest	364
Renewable energy	10
Group-wide	122



Almost a fifth of employees are women and the proportion of female managers is about the same.



Jonas Jonsson, Ann Mattsson and Sandra Kolar, Hallsta Paper Mill.



Linda Magnusson, business developer, Forest.



Bo Larsson, Iggesund Mill.



Daniel Norenus, head of hydro power.

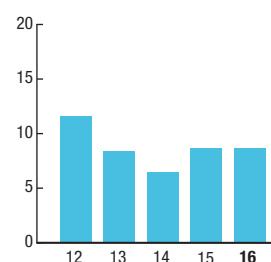
Safety and sick leave

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. All units are certified under OHSAS 18001, which means that the Group now runs joint, systematic health and safety work. In 2016, health and safety work focused on safety behaviours, shared rules and exchanging experiences. The number of industrial accidents per 1 million hours worked was the same in 2016 as it was in 2015, at 8.8 accidents. The cause of these were predominantly slips and

trips. The target is zero accidents and several units have also been at this level for more than a year. The interim target is a maximum of 4.0 industrial accidents by the end of 2017 (base year 2012: 11.6).

Sickness absence was 4.2 per cent in 2016, which is on a par with previous years. Long-term sick leave (more than 60 days) stands at 2.0 per cent. The good health index is a measure of the share of employees with no sick leave during the year. The figure for 2016 was 48 per cent, which is on a par with recent years.

INDUSTRIAL ACCIDENTS
with more than 8 hours of absence,
per million hours worked





35 million seedlings are produced every year at Holmen's two nurseries.

A sustainable future

With a history stretching back 400 years, Holmen has a long tradition of managing and processing natural resources. The foundation of Holmen's operations has always been the same – making the most of nature's assets and processing them to attain the greatest possible value. The products that are produced have changed over time, but the desire to develop and offer solutions to current challenges lives on.

Carbon-positive operations

Holmen has long operated sustainable forestry, whereby carbon dioxide is captured in the forest and its products. For more than a century, the Group's forests have been managed with a sustainable perspective in which growth is higher than the harvest and where far-reaching nature considerations protect biodiversity. Capturing approximately two million tonnes of carbon dioxide a year, Holmen's operations are climate-positive. At the same time, society can be supplied with paperboard, paper, wood

products and other products made from forest raw material that are capable of replacing fossil-based products. The assessment is that both forest growth and extraction of wood can increase by 25 per cent over a 40-year horizon, which means that an increasing amount of carbon dioxide can be captured in the forests and products of the future.

R&D in three areas

To maximise the value and benefit of the forest, intensive work is also under way to develop today's products while identifying future opportunities for renewable wood fibre. Holmen's work on research and development is mainly focused on three areas – increased forest growth, more efficient production and developing existing and new products in the product areas of paperboard, paper and wood products. This work is largely done jointly with other players, often within the same industry sector, and through collaborations with universities, colleges and research institutes. The Group is also working on identifying and developing new business opportunities, based on Holmen's renewable wood raw material and the by-products that arise in production. 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 the new business opportunities must be linked to Holmen's existing industrial sites.

Ecocycles produce a circular economy

The modern forest industry has a central role to play in the future bioeconomy, in which the resources of the forest must be used more efficiently and to an ever-increasing extent. The growing forest and the products it produces

are an important cornerstone for the transition to an economy in which bio-based raw materials and products replace fossil-based ones.

The circular economy is a concept that shares some DNA with a bio-economy. Being part of a circular economy means highlighting business opportunities from circular ecocycles, in which the added value of the products is preserved as far as possible and waste is minimised. End-of-life paperboard and paper products top up the recovered paper ecocycle with much-needed fresh fibre, for example. The wood fibre can be re-used up to seven times before it is finally used as biofuel. But without fresh fibre, there is no future recovered fibre. Increased resource-efficiency and a higher proportion of renewable material will be vital to realising a circular economy.

Very nearly 100 per cent of the by-products and waste that arise from Holmen's operations is collected and used for various purposes. The whole tree is utilised and the residual products are used either in Holmen's own manufacturing or in another industry. With a renewable raw material plus products that allow material recovery or, once expended, are used in fossil-free energy production, and recovery of chemicals and energy in the production plants, Holmen is already part of a bio-based circular economy.

Constantly improving

Holmen's operations help to combat climate change and create condition for sustainable development in many ways – partly through carbon dioxide being captured and stored in the forests and the products, and partly through resource-efficient production runned predominantly on renewable energy. Thanks to investments, including those in more efficient production processes and developing the products of today and of tomorrow with forest raw materials as a base, the positive climate effects will be reinforced in the future.



The many values of the forest

The forest's ecosystems are multi-functional and contribute towards several different social functions. Sustainably managed forests are not only important from a climate-related and economic perspective, they are also important for people's wellbeing and a place for recreation, hunting and fishing. Holmen gives particular consideration to forests that are valuable in terms of aesthetics and experiences, and that many people visit for outdoor pursuits, relaxation and exercise.

The fundamental idea behind ecosystem services is making the value of nature clear to people. The forest provides several such services. The production of fibre raw material is one example that already has a market value. The forest's capacity to capture carbon dioxide, improve biodiversity and offer social value are other examples. Various processes are under way in Sweden and internationally to survey, develop and value ecosystem services. Holmen monitors the area and in Holmen's own forest holdings ecosystem services are identified that could lead to new business opportunities.



Sustainability every step of the way

Sustainability is about more than the climate and the environment. Sustainable development for employees, business partners and owners requires that companies show good profitability and have a strong financial position. As an employer, Holmen must work to ensure good leadership and safe working conditions, while also motivating and developing its personnel. It is also important for operations to be characterised by transparency and comply with rules on business ethics. The Group's CEO has ultimate responsibility for driving progress towards sustainable development. The Group's Director of Environmental and Sustainable Affairs has a coordinating role in this area and reports to Group management.

Continuous improvement and regular follow-up of the business lay the foundation for Holmen's development in economic, social and environmental terms.



The substitution effect

Forest that is growing absorbs greenhouse gases and captures them as carbon. This means that growing forests reduce the amount of carbon dioxide in the atmosphere, a capacity on which the forests' climate benefit rests. When wood is used as a substitute for materials and types of energy that have a negative climate impact, the impact is doubled. Emissions of greenhouse gases from manufacturing and using climate-negative materials are avoided, while increased use of products from the forest captures more carbon dioxide.

A managed forest is planted, cleaned, thinned and felled at regular intervals. A stock of wood is built up over about 70 years before the forest is ready to be harvested and a new growth cycle can begin. In unmanaged forest that develops freely, the stock of wood is built up once only and then changes insignificantly over time. The trees provide a benefit as a carbon sink but in unmanaged forest the substitution effect is lost.

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. With a resource-efficient business model that contributes to towards positive climate effects, Holmen is engaged and works actively within the remit of several of the global sustainable development goals.



Holmen has been part of the UN Global Compact and its corresponding Nordic network since 2007. The Group reports its work on sustainability to the organisation each year in line with the ten principles of the Global Compact, and sets out the progress made. The initiative seeks to take active responsibility for ten recognised principles in the areas of the environment, human rights, working conditions and anti-corruption. Information on how the Group complies with and works in line with the principles of the Global Compact is available at holmen.com. Work on the ten principles also helps to attain the global sustainable development goals above.



Recovered fibre grows on trees

For technical reasons, paper and paperboard cannot be recycled again and again. After 5–7 times the fibres are exhausted. This means that the ecocycle needs a constant injection of fresh fibre from the forest. Without fresh fibre, there is no recovered fibre.

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. This corporate governance report complies with the rules and instructions stipulated in the Swedish Code of Corporate Governance.

Shareholders

Holmen had 28 159 shareholders at year-end 2016. Private individuals with Swedish citizenship accounted for the largest category of owners with 26 032 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 AB, 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 Foundations 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 AGM.

At the 2016 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 40–41 for further information on the shares and ownership structure.

General meeting of shareholders

The notice convening the Annual General Meeting (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 to attend the AGM may be made by letter, telephone, email and 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 18 April 2016 that the 2017 AGM would take place in Stockholm on 27 March 2017.

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 2016 and 2017 AGMs is shown in the table on page 34.

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.

For the 2017 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, Carl Kempe, Lars G Josefsson, Lars Josefsson, 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 company's articles of association, the Board shall have 7–11 members, and they are to be elected at the AGM. 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 2016 AGM re-elected Fredrik Lundberg, Carl Bennet, Lars G Josefsson, Carl Kempe, Louise Lindh, Ulf Lundahl, Henriette Zeuchner and Henrik Sjölund to the Board and elected Lars Josefsson as a new Board member. Fredrik Lundberg was re-elected chairman. Göran Lundin had declined to stand for re-election. At the statutory first meeting of the new Board in 2016, Carl Kempe was elected deputy chairman and Lars Ericson, the company's general counsel, 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 74–75.

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

AGM 2016

The 2016 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.

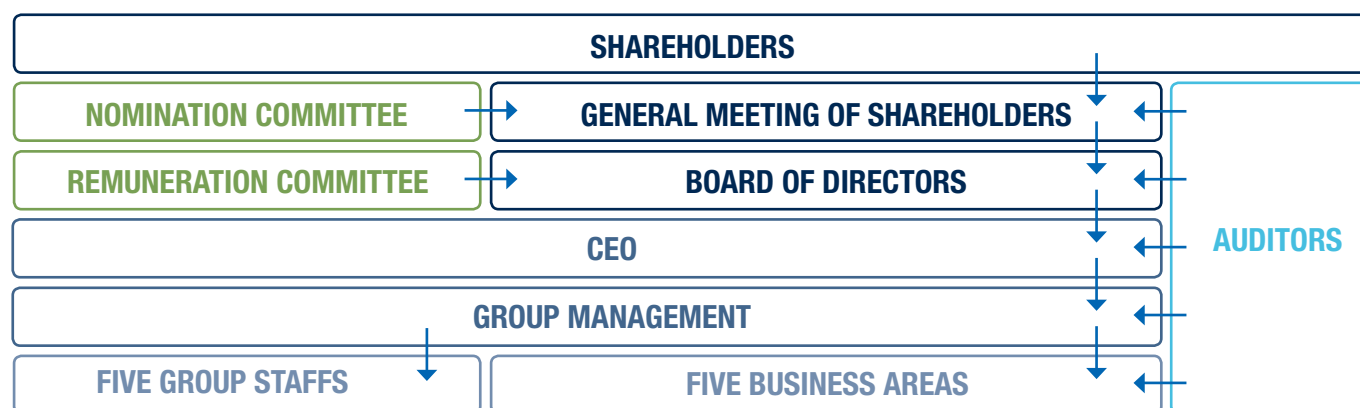
The meeting was attended by all AGM-elected Board members, Group management and the company's auditors. During the AGM, the shareholders had the opportunity to ask and obtain answers to questions. The AGM adopted the income statement and balance sheet, decided on the appropriation of profits and granted the departing Board discharge from liability. The minutes of the meeting were checked by Ramsay Brufer of Alecta and Emma Otterhem of The Forth Swedish National Pension Fund (AP4).

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 2017 meeting.

Board meetings

The Board held ten meetings in 2016, four of which were in connection with the company's publication of its quarterly reports. A two-day meeting was dedicated to strategic operational planning. A meeting was held in connection with a forest excursion to the company's land near Örnköldsvik and a study visit to Holmen's nursery at Gideå.

One meeting dealt with the Group's budget for 2017. Two meetings were held in connection with the company's AGM. The Board also paid special attention to strategic, financial and accounting issues, monitoring of business operations, the sale of the business in Spain and major investment matters. On two occasions the company's auditors reported directly to the Board, providing a presentation about their audit of the accounts and internal control.



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.

An assessment is conducted each year to develop the activities of the Board. Each Board member responded to a questionnaire with relevant questions relating to the work of the Board and the members were also able to make proposals on how the work of the Board could be further developed. Their responses were presented and discussed at a Board meeting. The chairman of the Board prepared a report on the results of the 2016 assessment for the nomination committee, which will form the basis for the planning of the Board's activities for the coming year.

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, as well as a share savings programme.

Remuneration and other employment conditions for senior management who report directly to the CEO are decided by the latter in

accordance with a 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 2016 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 2017 AGM. These guidelines and information about remuneration are presented in Note 4 on page 54.

The 2016 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 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 76.

Group management met on 10 occasions in 2016. Its meetings dealt with matters such as earnings trends and reports before and after Board meetings, business plans, 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 2016 AGM as auditor for a period of one year. Authorised accountant Joakim Thilsted was appointed as the principal auditor. 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

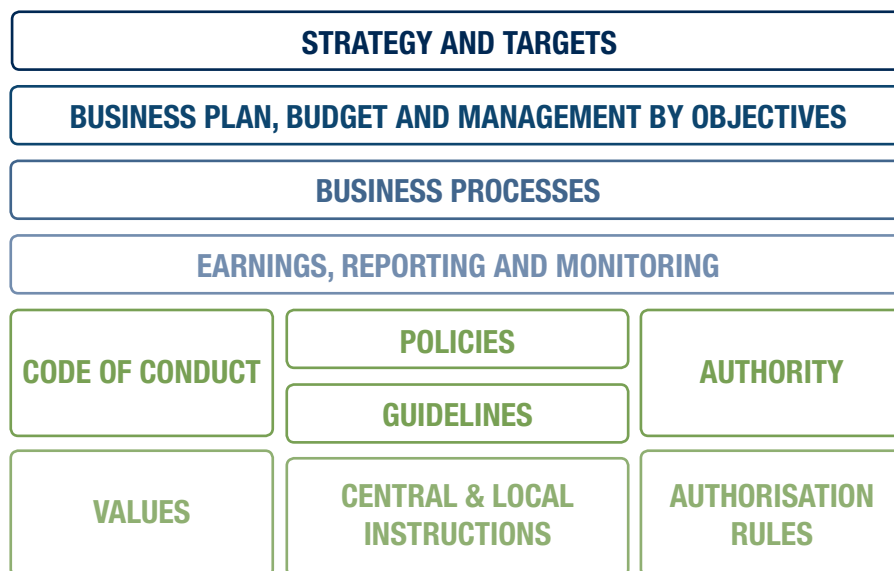
Board members as of the 2016 AGM

BOARD MEMBERS	POSITION	ELECTED	ATTENDANCE	FEE (SEK)	COMPANY	INDEPENDENT OF THE: MAJOR SHAREHOLDERS
Fredrik Lundberg*	Chairman	1988	10/10	SEK 680 000	Yes	No
Carl Kempe	Deputy chairman	1983	10/10	SEK 340 000	Yes	No
Carl Bennet*	Member	2009	10/10	SEK 340 000	Yes	No
Lars G Josefsson	Member	2011	10/10	SEK 340 000	Yes	Yes
Lars Josefsson	Member	2016	6/7	SEK 340 000	Yes	Yes
Louise Lindh	Member	2010	10/10	SEK 340 000	Yes	No
Ulf Lundahl	Member	2004	10/10	SEK 340 000	Yes	Yes
Henriette Zeuchner	Member	2015	10/10	SEK 340 000	Yes	Yes
Henrik Sjölund	Member, President and CEO	2014	10/10	-	No	Yes
Total					8/9	5/9

* Representatives of the remuneration committee

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	Martin Nyman, deputy member, elected 2010



Internal management processes

and audit of the final annual accounts and the annual report take place in January–February.

Holmen allows the Board to perform duties that would otherwise be performed by an audit committee. 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. In 2016 the auditors reported to the entire Board at two meetings. Over and above this, the auditors reported to the chairman of the Board and the CEO on one occasion and to the CEO/deputy CEO during their work.

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 2016 is stated in Note 5 on page 55. KPMG is required to assess its independence before making decisions on whether to provide Holmen with independent advice alongside its audit assignment.

As a result of a change in legislation which results in an extension of duties relating to the audit, the Board has decided to establish an audit committee for future financial years.

Internal management processes

As part of the Group's annual strategy review, each business area draws up a business plan and sets objectives for its operations, which it presents to the Board. The business plan forms the basis of the expectations made of 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 business plan 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, R&D, IT and environmental 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.

Management of 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 code of conduct for suppliers 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.

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 lives up to its objectives for financial reporting (see box on page 35) and to minimise risk of the Group being subject to fraud. Group Finance coordinates and monitors the internal control process concerning financial reporting in the Group.

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

Composition of the nomination committee

NAME	REPRESENTING	BEFORE AGM:		INDEPENDENT OF THE:	
		2017	2016	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 2016, 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.

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 the Stockholm Stock Exchange 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 36–39.

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 discrepan-

cies. 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 Group management. 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 steering group for internal control each quarter. 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.

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

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.

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.



Carl Bennet, Henrik Sjölund, Fredrik Lundberg and Carl Kempe.



Lars Josefsson, new Board member since 2016.



In May the Board visited Holmen's forests outside Örnsköldsvik.

Risk management

The business areas are responsible for business 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
Demand and prices. Changes in demand and prices affect opportunities to achieve profitability targets.	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.	The continual development of the product offering is important in meeting changes in demand. In 2016, Holmen successfully increased sales of its new Holmen UNIQ product from Braviken Paper Mill. The decision was also taken in 2016 to invest in a treatment plant at Braviken Sawmill. This facility provides the opportunity to offer treated wood products to the Swedish construction market.
Commodity prices. Wood, electricity and chemicals are the most significant inputs for the industry and price changes affect the industry's profitability.	The size of the timber 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 40 per cent of industry consumption. The industry uses pulpwood to produce pulp, which is then turned into paperboard or paper. 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 around 50 per cent of its 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 by recycling used chemicals at the mill.	Raw material prices have been stable in recent years. The price of net electricity consumption is 80–90 per cent hedged for 2017–2020 and 60 per cent hedged for 2021.
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.	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'.	No event causing significant damage occurred in 2016. The pulp mill in Hallsta was rebuilt following the major fire that occurred at the end of 2015. The loss of revenue during the shutdown and reconstruction costs are covered by insurance, with the exception of SEK 30 million excess.
Forest. Forest fires, grazing by wild animals and insect pests are risks in growing forests.	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. Insect pests such as pine weevils are countered by waxing seedlings.	No event causing significant damage occurred in Holmen's forests during 2016.

Customer credits. The risk of the Group's customers being unable to fulfil their payment obligations gives rise to credit risk.

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.

At 31 December 2016 the Group's trade receivables totalled SEK 2 174 million, of which 46 per cent (42) were insured against credit losses. During the year, credit losses on trade receivables had a SEK -5 million (-27) impact on earnings. Sales to the five largest customers accounted for 14 per cent of the Group's total sales in 2016.

Health and safety. Incidents and accidents at the workplace pose a risk to human life and health. This could lead to production disruptions and increased costs.

Good health and safety is a priority at all levels of management in the Group. The health and safety policy was revised in 2016. 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 maintain a high level of safety in the workplace.

The figure in 2016 was 8.8 industrial accidents per 1 million hours worked (2015: 8.8). The overwhelming cause of these were slips and trips. See also page 29.

Environment. Production disruptions can cause breaches of emissions conditions set for the business by environmental authorities. This could have an environmental impact.

Environmental measures are organised and conducted in accordance with an 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 environmental and chain-of-custody certification.

Holmen represents best practice in regard to advanced environmental stewardship, with active efforts to mitigate climate-related risks and capitalise on climate-related opportunities. This was a finding of the annual survey conducted by CDP. See also pages 24–27.

Personnel. Holmen needs to attract and retain skilled and motivated employees so it can conduct long-term business operations with good profitability.

Issues regarding management by objectives, responsibility, participation, safety and skills development are prioritised in day-to-day work and personnel training. Holmen's Code of Conduct and core values provide a basis for how employees should operate and how leadership should be formed. The Group works systematically to give employees opportunities to influence and develop the business through ongoing feedback and dialogue between managers and workers. 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.

No cases regarding breaches of the Code of Conduct were reported in 2016.

Business ethics. Both nationally and internationally, customers and partners place requirements on Holmen as a stable and reliable supplier that has good business practices and clear sustainability principles. Deviations from principles and policies could have a negative impact on reputation and business relationships.

Holmen's business ethics policy and associated guidelines provide clear guidance on how to maintain good business practices 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.

A preliminary investigation is currently underway regarding hunting events arranged by Holmen. In January 2017, the prosecutor in the case communicated that he believes there is reasonable suspicion of bribery in connection with some of these hunting events. Holmen's understanding is that the applicable rules have not been breached in any of the cases in question.

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 sustainability requirements can also have a negative effect on operations.

Holmen endeavours to have at least two approved suppliers per area of use. In addition, Holmen's Code of Conduct for suppliers 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. In 2017, a third party will be used for risk classification and supplier assessment work.

No cases regarding breaches of the Code of Conduct for suppliers were reported in 2016. By the end of 2016, suppliers accounting for around 75 per cent of the Group's purchasing volumes had signed up to the Code of Conduct for suppliers.

Holmen is subject to the UK Modern Slavery Act and a report relating to this is available at holmen.com.

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.

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.

Operations have not been affected by IT incidents in 2016.

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. Stimulus measures to use bio-based products can affect demand for paperboard and wood products, as well as wood from our forests. Rules on the use of fresh fibre versus recovered fibre also have an impact.

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 in areas where the Group has operations. Political decisions are influenced by public opinion. Contact with the general public offers opportunities to contribute knowledge and facts. This takes place, for example, through consultation and information meetings and through debate in the media.

The right to manage forests and conditions for hydro power were focal issues in 2016. During the year, the Swedish government announced a reduction in the property tax on hydro power plants.

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.

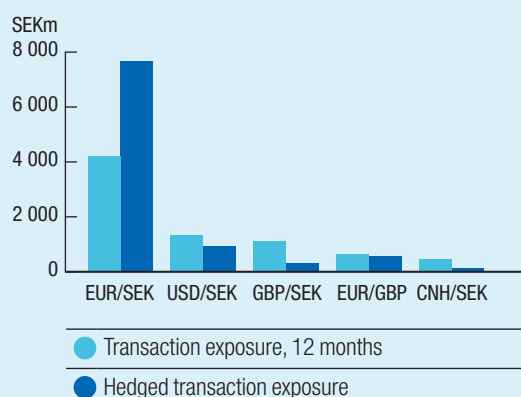
Interest rates. Risks that arise when changes in the market interest rate affect the Group's interest income and expense.

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

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.



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.

	YEAR 1	YEAR 1–3	YEAR 3–5	>YEAR 5	PENSION PROVISIONS	TOTAL
SEK	-2 311	-400	-600	0	-23	-3 334
EUR	-20	0	0	0	-8	-28
GBP	-457	0	0	0	-170	-626
Other items	43	0	0	0	0	43
	-2 744	-400	-600	0	-201	-3 945

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 derivatives. The maximum credit risk for other financial assets is estimated to their nominal amount.

Comment

For the next two years, 90 per cent of expected flows in EUR/SEK are hedged at an average of 9.50, for EUR/GBP 90 per cent of the next year's expected flows are hedged at 0.86 and for USD/SEK 70 per cent of the next year's flows are hedged at 8.93. For other currencies, 4 months of flows are hedged.

Hedging of net assets in euros amounted to EUR 13 million at year-end, which essentially corresponds to the Group's total assets in euros. Hedging in pounds sterling amounted to GBP 5 million at year-end. Net assets in other currencies are very limited and are not hedged.

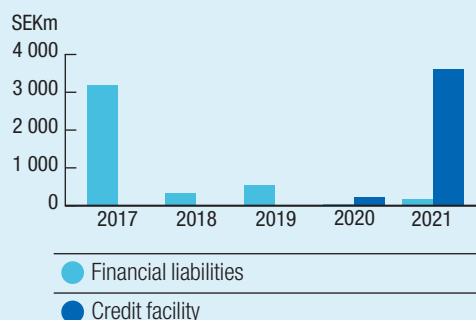
The Group's average interest rate on borrowing was 1.1 per cent in 2016 and 0.9 per cent at year-end. The table below shows the Group's fixed interest agreements by currency.

At 31 December 2016, the Group had outstanding derivative contracts with a nominal amount of about SEK 15 billion and a net fair value of SEK -194 million. Holmen's total credit risk in derivative transactions amounted to SEK 1 405 million at year-end 2016. 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 business plan, budget and profit forecasts that are regularly updated.

Net financial debt decreased in the year by SEK 854 million and amounted at 31 December 2016 to SEK 3 945 million, SEK 201 million of which comprised pension provisions. The Group has contracted a credit facility of EUR 400 million (SEK 3 824 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 0.19.



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	Change	Prices	Deliveries
Paperboard	+/-1%	51	29
Printing paper	+/-1%	54	18
Wood products	+/-1%	13	3
Wood from company forests	+/-1%	12	8
Hydro and wind power	+/-1%	3	3
Inputs			
Wood*	+/-1%	26	
Electricity*	+/-1%	12	
Chemicals	+/-1%	11	
Other variable costs	+/-1%	11	
Delivery costs	+/-1%	12	
Employees	+/-1%	23	
Other fixed costs	+/-1%	16	

* Taking account of harvesting of company forests and generation of own electricity, net earnings sensitivity for the Group is SEK 14 million for wood and SEK 10 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 operating profit and equity, taking account of hedging.

Earnings before tax	Change	SEKm
Exchange rates	+/-1%	18
SEK/EUR	+/-1%	4
SEK/USD	+/-1%	4
SEK/GBP	+/-1%	8
SEK/other currencies	+/-1%	3
Borrowing rate	+/-1 percentage point	21
Electricity price	+/-1%	1
Equity		
Transaction hedging	+/-1%	98
Investment hedging	+/-1%	0
Equity hedging	+/-1%	13
Interest rate hedging	+/-1 percentage point	20
Electricity hedging	+/-1%	13

Shareholder information

In 2016, the price of Holmen's class B shares increased by SEK 65 or 25 per cent. Earnings per share excluding items affecting comparability was SEK 19.7. It is proposed that the dividend is to be raised to SEK 12 (10.5).

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 65 or 25 per cent, to SEK 327. The Stockholm Stock Exchange rose by 6 per cent over the same period. Holmen's market capitalisation of SEK 27.4 billion (22.3) represents some 0.4 per cent of the total value of the Stockholm Stock Exchange. The highest closing price for Holmen's class B shares was SEK 327, on 30 December. The lowest closing price was SEK 227, on 20 January. The daily average number of class B shares traded was 192 000, which corresponds to a value of SEK 53 million. The daily average number of class A shares traded was 500. Nearly 70 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 excluding items affecting comparability was SEK 19.7. Including items affecting comparability, diluted earnings per share was SEK 16.9 (6.7).

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 27 March 2017, approve a dividend of SEK 12 (10.5) per share. The proposed dividend corresponds to 4.7 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: 27 March 2017.
- Record date for dividend: 29 March 2017.
- Payment date for dividend: 3 April 2017.

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 28 159 shareholders at year-end 2016. In terms of numbers, Swedish private individuals account for the largest owner category with 26 032 shareholders. Shareholders registered in Sweden own 83 per cent (81) of the share capital. Among foreign shareholders, the largest proportion of shares are held in the US and Luxembourg, accounting for 7 per cent and 3 per cent of the capital, respectively. The largest owner at the turn of 2016/2017, 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 is 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, 100 000 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 2016 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 2017 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.

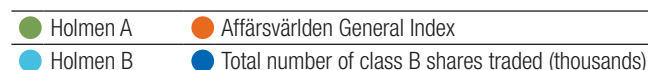
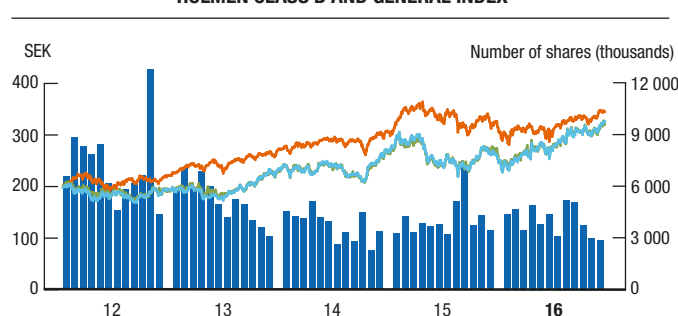
Communication with shareholders

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.

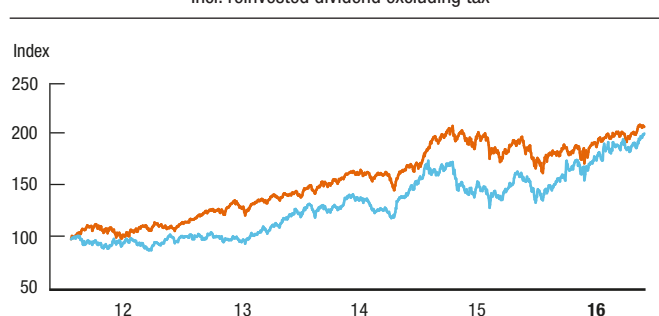
Analysts

Analysts at 14 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 A, HOLMEN CLASS B AND GENERAL INDEX



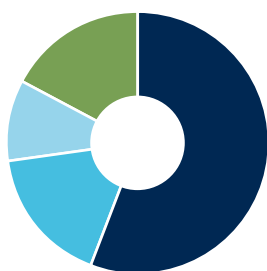
TOTAL SHAREHOLDER RETURN FOR HOLMEN CLASS B AND GENERAL INDEX
Incl. reinvested dividend excluding tax



Source: Macrobond

SHAREHOLDER CATEGORIES

Percentage of capital



Swedish institutions	56%
Swedish equity funds	17%
Swedish private individuals	10%
Foreign shareholders	17%

SHAREHOLDER STRUCTURE AT 31 DECEMBER 2016

	% of capital	% of votes
L E Lundbergföretagen	32.9	61.6
Kempe Foundations	7.0	17.0
Carnegie funds (Sweden)	5.4	1.6
Lannebo funds	3.3	1.0
Alecta	2.9	0.8
Nordea funds	2.5	0.7
DFA funds (US)	2.2	0.6
Swedbank Robur Fonder	1.7	0.5
Norges Bank Investment Management	1.5	0.4
SHB funds	1.0	0.3
Total	60.4	84.5
Other	39.6	15.5
Total*	100.0	100.0
* Of which non-Swedish shareholders.		
	17.1	5.2

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	Share-holders	Share of capital, %
1–1 000	26 165	6
1 001–100 000	1 927	13
100 001–	67	81
Total	28 159	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 2000–2016

	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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Diluted earnings per share, SEK ¹⁾	16.9	6.7	10.8	8.5	22.1	47.1	8.4	12.0	7.6	17.8
Dividend, SEK	12 ⁵⁾	10.5	10	9	9	8	7	7	9	12
Dividend as % of:										
Equity	5	4	4	4	4	3	3	4	5	6
Closing listed price	4	4	4	4	5	4	3	4	5	5
Profit/loss for the year	71	158	93	106	41	17	83	58	118	67
Return, equity, % ¹⁾	7	3	4	3	9	23	4	6	4	9
Return, capital employed, % ⁶⁾	9	6	6	5	7	9	6	7	6	10
Equity per share, SEK	253	248	250	248	248	235	201	196	186	200
Closing listed price, B, SEK	327	262	266	234	192	198	221	183	194	240
Average listed price for year, B, SEK	281	264	236	198	186	201	195	180	203	277
Highest listed price for year, B, SEK	327	306	272	235	204	251	226	206	242	316
Lowest listed price for year, B, SEK	227	219	209	173	169	156	173	135	170	228
Total closing market capitalisation, SEK '000 m	27.4	22.3	22.3	19.7	16.2	16.6	18.5	15.4	16.2	20.6
P/E ratio ²⁾	19	39	25	28	9	4	26	15	25	13
EV/EBITDA ³⁾	11	10	10	11	9	7	10	7	9	8
Closing beta value (48 months), B ⁴⁾	0.8	0.7	0.8	0.7	0.9	0.8	0.8	0.7	0.5	0.9
Number of shareholders at year-end	28 159	28 176	27 788	27 692	28 440	28 899	28 339	30 425	29 745	30 499

1) See page 82: 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.

INCOME STATEMENT

GROUP, SEKm	NOTE	2016	2015
Net sales	2	15 513	16 014
Other operating income	3	1 559	1 203
Change in inventories		203	-187
Raw materials and consumables		-8 801	-8 661
Personnel costs	4	-2 268	-2 335
Other operating costs	5, 20	-3 432	-3 689
Depreciation and amortisation according to plan	9, 10	-1 018	-1 240
Impairment losses	10	-122	-555
Change in value of biological assets	11	315	267
Profit/loss from investments in associates and joint ventures	12	-18	-46
Operating profit/loss		1 930	769
Finance income	6	13	1
Finance costs	6	-84	-91
Profit/loss before tax		1 859	679
Tax	7	-436	-120
Profit/loss for the year		1 424	559
Attributable to:			
Owners of the parent company		1 424	559
Earnings per share (SEK)	8		
basic		16.9	6.7
diluted		16.9	6.7
Average number of shares (million)	8		
basic		84.0	84.0
diluted		84.0	84.0

Operating profit amounted to SEK 1 930 million (769). Operating profit 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 which has been treated as an item affecting comparability. Operating profit for 2015 was negatively affected by items affecting comparability in an amount of SEK 931 million with regard to impairment losses on non-current assets, provisions for costs and the effects of a fire.

Operating profit excluding items affecting comparability amounted to SEK 2 162 million (1 700). Earnings were positively affected mainly as a result of a better product mix within paper, the sale of the mill in Spain and reduced costs and higher prices within forestry operations.

Net financial items for 2016 totalled SEK -71 million (-90). The average cost of borrowing declined to 1.1 per cent (1.5), and average net debt was lower than in the preceding year.

Tax recognised totalled SEK -436 million (-120) in 2016. Recognised tax corresponds to 23 percent of profit before tax.

STATEMENT OF COMPREHENSIVE INCOME

GROUP, SEKm	NOTE	2016	2015
Profit/loss for the year		1 424	559
OTHER COMPREHENSIVE INCOME			
Revaluations of defined benefit pension plans	17	-159	208
Tax attributable to items that will not be reclassified to profit/loss for the year	7	29	-44
Total items that will not be reclassified to profit/loss for the year		-130	165
Cash flow hedging			
Revaluation		96	-111
Transferred from equity to the income statement		126	67
Transferred from equity to non-current assets		-12	10
Translation difference on foreign operations		-165	8
Hedging of currency risk in foreign operations		1	22
Share in joint ventures' other comprehensive income		-21	3
Tax attributable to items that will be reclassified to profit/loss for the year	7	-52	3
Total items that will be reclassified to profit/loss for the year		-26	1
Total other comprehensive income		-157	166
Total comprehensive income		1 267	724
Attributable to:			
Owners of the parent company		1 267	724

BALANCE SHEET

GROUP AT 31 DECEMBER, SEKm	NOTE	2016	2015
NON-CURRENT ASSETS			
Non-current intangible assets	9	87	107
Property, plant and equipment	10	9 387	10 321
Biological assets	11	17 448	17 173
Investments in associates and joint ventures	12	1 773	1 914
Other shares and participating interests	12	2	4
Non-current financial receivables	13	39	43
Deferred tax assets	7	4	6
Total non-current assets		28 740	29 567
CURRENT ASSETS			
Inventories	14	2 981	3 089
Trade receivables	15	2 174	1 987
Current tax receivable	7	132	12
Other operating receivables	15	564	519
Current financial receivables	13	89	61
Cash and cash equivalents	13	210	221
Total current assets		6 151	5 889
Total assets		34 891	35 456
EQUITY			
Share capital	16	4 238	4 238
Other contributed capital		281	281
Reserves		-236	-209
Retained earnings incl. profit/loss for the year		16 960	16 543
Total equity attributable to the owners of the parent company		21 243	20 853
NON-CURRENT LIABILITIES			
Non-current financial liabilities	13	882	2 295
Pension provisions	17	201	130
Other provisions	18	673	585
Deferred tax liabilities	7	5 613	5 508
Total non-current liabilities		7 368	8 519
CURRENT LIABILITIES			
Current financial liabilities	13	3 200	2 698
Trade payables	19	1 766	1 916
Current tax liability	7	6	53
Provisions	18	228	157
Other operating liabilities	19	1 079	1 259
Total current liabilities		6 279	6 085
Total liabilities		13 648	14 603
Total equity and liabilities		34 891	35 456

CHANGES IN EQUITY

GROUP, SEKm

	RESERVES					
	SHARE CAPITAL	OTHER CONTRIBUTED CAPITAL	TRANSLATION RESERVE	HEDGE RESERVE	RETAINED EARNINGS INCL. PROFIT/LOSS FOR THE YEAR	TOTAL EQUITY
Opening equity balance 1 Jan 2015	4 238	281	51	-261	16 660	20 969
Profit/loss for the year	-	-	-	-	559	559
Other comprehensive income						
Revaluation of defined benefit pension plans	-	-	-	-	208	208
Cash flow hedging	-	-	-	-34	-	-34
Translation difference on foreign operations	-	-	8	-	-	8
Hedging of currency risk in foreign operations	-	-	22	-	-	22
Share in joint ventures' other comprehensive income	-	-	-	3	-	3
Tax attributable to other comprehensive income	-	-	-5	7	-44	-41
Total other comprehensive income	-	-	25	-24	165	166
Total comprehensive income	-	-	25	-24	723	724
Dividend paid	-	-	-	-	-840	-840
Closing equity balance 31 Dec 2015	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

CASH FLOW STATEMENT

GROUP, SEKm	NOTE	2016	2015
OPERATING ACTIVITIES			
Profit/loss before tax	25	1 859	679
Adjustments for non-cash items			
Depreciation and amortisation according to plan		1 018	1 240
Impairment losses		122	555
Change in value of biological assets		-315	-267
Change in provisions		170	236
Other*		-31	37
Income tax paid		-504	-398
Cash flow from operating activities before changes in working capital		2 320	2 083
CASH FLOW FROM CHANGES IN WORKING CAPITAL			
Change in inventories		-62	123
Change in trade receivables and other operating receivables		-189	275
Change in trade payables and other operating liabilities		-109	45
Cash flow from operating activities		1 961	2 526
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-766	-826
Disposal of property, plant and equipment		440	24
Acquisition of non-current intangible assets		-5	-12
Acquisition of biological assets		-4	-36
Disposal of biological assets		95	26
Increase in non-current financial receivables		-	-8
Acquisition of shares and participating interests		-10	-
Disposal of shares and participating interests		127	-
Cash flow from investing activities		-123	-832
FINANCING ACTIVITIES			
Raised long-term borrowings		-	300
Repayments of long-term borrowings		-400	-326
Change in current financial liabilities	25	-560	-792
Change in current financial receivables		-6	0
Dividend paid to owners of the parent company		-882	-840
Cash flow from financing activities		-1 848	-1 659
CASH FLOW FOR THE YEAR		-10	35
Cash and cash equivalents at beginning of year		221	187
Exchange gains/losses on cash and cash equivalents		-1	0
Cash and cash equivalents at end of year		210	221

* 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.

CHANGE IN NET FINANCIAL DEBT	2016	2015
Opening net financial debt	-4 799	-5 907
Cash flow		
Operating activities	1 961	2 526
Investing activities (excl. non-current financial receivables)	-123	-824
Dividend paid	-882	-840
Revaluations of defined benefit pension plans	-158	206
Foreign exchange effects and changes in fair value	56	40
Closing net financial debt	-3 945	-4 799

PARENT COMPANY

INCOME STATEMENT, SEKm	NOTE	2016	2015
Net sales	2	13 794	13 989
Other operating income	3	822	696
Change in inventories		205	-186
Raw materials and consumables		-8 086	-8 057
Personnel costs	4	-1 827	-1 814
Other external costs	5, 20	-4 547	-4 278
Depreciation and amortisation according to plan	9, 10	-26	-26
Operating profit/loss		335	324
Profit/loss from investments in Group companies	6, 23	780	-118
Profit/loss from investments in associates	6	0	0
Interest income and similar income	6	30	38
Impairment losses on other shares and participating interests	6	0	-
Interest expense and similar costs	6	-52	-83
Profit/loss after financial items		1 094	161
Appropriations	24	404	821
Profit/loss before tax		1 499	982
Tax	7	-301	-244
Profit/loss for the year		1 197	738

STATEMENT OF COMPREHENSIVE INCOME, SEKm	NOTE	2016	2015
Profit/loss for the year		1 197	738
Other comprehensive income			
Cash flow hedging			
Revaluation		133	-134
Transferred from equity to the income statement		90	94
Transferred from equity to non-current assets		-12	10
Tax attributable to other comprehensive income	7	-46	7
Total items that will be reclassified to profit/loss for the year		164	-23
Total comprehensive income		1 362	715

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.

As part of the sale of the Spanish operations, Holmen AB has paid compensation of SEK 643 million to Holmen Paper Madrid SL in connection with the termination of a sales agreement (see Note 22 for further information). This post is included in the income statement under the item 'Other external costs'.

The item 'Interest expense and similar costs' in the income statement includes the result of SEK 1 million (22) from hedging equity in foreign subsidiaries.

CASH FLOW STATEMENT, SEKm	NOTE	2016	2015
OPERATING ACTIVITIES			
Profit/loss after financial items	25	1 094	161
Adjustments for non-cash items			
Depreciation and amortisation according to plan		26	26
Change in provisions		-59	258
Other*		502	107
Income tax paid		-464	-420
Cash flow from operating activities before changes in working capital		1 100	133
CASH FLOW FROM CHANGES IN WORKING CAPITAL			
Change in inventories		-61	159
Change in operating receivables		-146	178
Change in operating liabilities		-271	19
Cash flow from operating activities		622	490
INVESTING ACTIVITIES			
Shareholders' contribution paid		-10	0
Acquisition of property, plant and equipment		-29	-48
Disposal of property, plant and equipment		28	11
Increase in external non-current financial receivables		-	-9
Disposal of shares and participating interests		2	0
Cash flow from investing activities		-9	-46
FINANCING ACTIVITIES			
Raised external long-term borrowings		-	300
Repayments of external long-term borrowings		-400	-326
Change in other financial liabilities	25	-531	-732
Change in other financial receivables		450	709
Dividend paid to owners of the parent company		-882	-840
Group contributions received		700	493
Group contributions paid		0	-7
Cash flow from financing activities		-663	-404
CASH FLOW FOR THE YEAR		-51	40
Cash and cash equivalents at beginning of year		155	115
Cash and cash equivalents at end of year		104	155

* 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.

BALANCE SHEET	NOTE	2016	2015
At 31 December, SEKm			
ASSETS			
Non-current assets			
Non-current intangible assets	9	8	8
Property, plant and equipment	10	2 925	2 922
Non-current financial assets			
Shares and participations	12, 23	11 519	12 018
Non-current financial receivables	13	3 202	3 214
Total non-current assets		17 653	18 163
Current assets			
Inventories	14	2 396	2 336
Operating receivables	15	2 254	2 026
Current tax receivable	7	106	-
Current investments	13	89	61
Cash and cash equivalents	13	104	155
Total current assets		4 950	4 578
Total assets		22 602	22 741

BALANCE SHEET	NOTE	2016	2015
At 31 December, SEKm			
EQUITY AND LIABILITIES			
Equity			
Restricted equity	16		
Share capital		4 238	4 238
Statutory reserve		1 577	1 577
Revaluation reserve		100	100
Non-restricted equity			
Retained earnings incl. hedge reserve		3 724	3 698
Profit/loss for the year		1 197	738
Total equity		10 836	10 351
Untaxed reserves			
	24	2 290	1 994
Provisions			
Pension provisions	17	12	5
Tax provisions	18	45	45
Other provisions	18	833	892
Deferred tax liability	7	612	569
Total provisions		1 503	1 512
Liabilities			
Non-current financial liabilities	13	2 328	3 295
Current financial liabilities	13	3 200	2 698
Current tax liability	7	-	53
Operating liabilities	19	2 445	2 837
Total liabilities		7 974	8 884
Total equity and liabilities		22 602	22 741

CHANGES IN EQUITY, SEKm

	RESTRICTED EQUITY			NON-RESTRICTED EQUITY			
	SHARE CAPITAL	STATUTORY RESERVE	REVALUATION RESERVE	HEDGE RESERVE	RETAINED EARNINGS	PROFIT/LOSS FOR THE YEAR	TOTAL EQUITY
Opening equity balance 1 Jan 2015	4 238	1 577	100	-264	2 954	1 870	10 476
Appropriation of profits	-	-	-	-	1 870	-1 870	-
Profit/loss for the year	-	-	-	-	-	738	738
Other comprehensive income							
Cash flow hedging	-	-	-	-30	-	-	-30
Tax on other comprehensive income	-	-	-	7	-	-	7
Total other comprehensive income	-	-	-	-23	-	-	-23
Total comprehensive income	-	-	-	-23	1 870	-1 132	715
Dividend paid	-	-	-	-	-840	-	-840
Closing equity balance 31 Dec 2015	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

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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 2016

No new accounting policies with a material effect on the Group's accounting have been applied since 1 January 2016. Changes in the Swedish Annual Accounts Act and IAS 1 have, to a limited extent, affected the preparation of the financial statements.

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 will come into force on 1 January 2018. During the year, analysis of the Group's revenue flows was undertaken, and an evaluation of the effects was initiated. The initial assessment is that application of this new standard will not result in any material effect on accounting of the Group's revenue. Since IFRS 15 contains additional disclosure requirements, its application will probably result in increased note disclosures regarding revenue.

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 will come into force on 1 January 2018. The initial assessment is that application of this new standard will not result in any material effect on accounting of the Group's financial instruments.

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 carrying amount of the shares in the associates and joint ventures stated in the consolidated accounts corresponds to the Group's interest in the associates' 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 carrying amount 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 carrying amount 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. 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 or 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 costs, 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 costs on liabilities are calculated by using the effective interest method. Interest costs include 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 costs normally affect profit/loss in the period to which they relate. 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 carrying amounts 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, which during reported periods stem from convertible bonds and options issued to employees.

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.

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, when appropriate.

NON-CURRENT INTANGIBLE ASSETS

Non-current intangible assets such as patents, licences and IT systems are recognised at cost after deduction of accumulated depreciation 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 allotted 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 carrying amount 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 carrying amounts for replaced components or parts of components are retired and expensed in connection with the replacement.

The carrying amount 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 carrying amount of the asset, less any direct selling costs. Gains and losses are recognised in the accounts as other operating income/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 pulp, paper and paperboard production	10–20
Machinery for sawmills	10–12
Other machinery	10
Forest roads	10
Equipment	4–10

If there is any indication that the carrying amount 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 carrying amount. 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 carrying amount 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 effecting 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 or 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 directly 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.

The interest cost 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 FOR LEGAL ENTITIES

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. OPERATING SEGMENT REPORTING

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	-466	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
<i>Operating profit/loss excluding items affecting comparability*</i>	<i>1 001</i>	<i>903</i>	<i>289</i>	<i>-3</i>	<i>120</i>	<i>-148</i>	<i>-</i>	<i>2 162</i>
Operating margin excluding items affecting comparability, %	19	17	5	0	38	-	-	14
Return on operating capital excluding items affecting comparability, %	6	14	9	neg	4	-	-	7
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
Operating capital	17 798	6 426	2 815	892	3 412	-544	-	30 799
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.

2015	FOREST	PAPERBOARD	PAPER	WOOD PRODUCTS	RENEWABLE ENERGY	GROUP-WIDE AND OTHER	ELIMINATIONS	TOTAL GROUP
Net sales								
External	2 814	5 472	6 148	1 314	268	-3	-	16 014
Internal	2 667	-	-	-	91	-	-2 757	-
Other operating income	179	739	238	251	32	196	-434	1 203
Operating costs	-4 992	-4 866	-6 312	-1 479	-196	-219	3 191	-14 872
Depreciation and amortisation according to plan	-29	-499	-588	-77	-22	-25	-	-1 240
Impairment losses	-	-	-555	-	-	-	-	-555
Change in value of biological assets	267	-	-	-	-	-	-	267
Share of profits of associates	-	-	-45	-1	2	-3	-	-46
Operating profit/loss	905	847	-1 115	9	176	-53	-	769
<i>Operating profit/loss excluding items affecting comparability*</i>	<i>905</i>	<i>847</i>	<i>-74</i>	<i>9</i>	<i>176</i>	<i>-163</i>	<i>-</i>	<i>1 700</i>
Operating margin excluding items affecting comparability, %	17	15	-1	1	49	-	-	11
Return on operating capital excluding items affecting comparability, %	5	12	neg	1	5	-	-	5
Operating assets	18 790	7 409	4 459	1 081	3 462	254	-330	35 126
Operating liabilities	1 202	787	901	157	111	1 142	-330	3 971
Operating capital	17 589	6 622	3 558	924	3 351	-888	-	31 155
Investments	31	324	347	103	18	8	-	832

* Items affecting comparability relate to impairment loss on non-current assets, a provision for costs and the effects of a fire totalling SEK -931 million.

NON-CURRENT ASSETS PER COUNTRY	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Sweden	26 871	26 817	14 450	14 948
UK	1 820	2 044	-	-
Spain	-	648	-	-
Other	5	6	-	-
Total	28 695	29 515	14 450	14 948

NET SALES BY PRODUCT AREA	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Paperboard	5 071	5 248	3 404	3 340
Printing paper	5 879	5 956	5 879	5 925
Pulp	169	211	268	326
Wood products	1 337	1 311	1 341	1 313
Wood	2 572	2 812	2 569	2 806
Energy	314	268	314	268
Other	170	206	20	12
Total	15 513	16 014	13 794	13 989

NET SALES BY MARKET	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Sweden	3 660	3 598	3 632	3 575
Germany	1 974	1 981	1 766	1 774
UK	1 719	2 223	1 124	1 431
Spain	1 009	1 109	969	911
Italy	857	846	807	795
Netherlands	694	626	624	542
France	661	710	588	621
Rest of Europe	2 963	2 753	2 388	2 264
Rest of the world	1 977	2 167	1 896	2 076
Total	15 513	16 014	13 794	13 989

The Forest business area manages the Group's forests, which cover just over one million hectares. Annual wood harvested in company forests is normally about 3.0 million m³sub. The Renewable energy business area is responsible for the Group's hydro power and wind power assets. Generation in a normal year 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 paperboard for consumer packaging and graphical printing at one Swedish and one UK mill. The Paper business area manufactures printing paper for magazines, product catalogues, direct mail, books and daily newspapers at two mills in Sweden. The Wood products business area has manufacturing operations at two sawmills in Sweden. In 2016, the Group produced 0.5 million tonnes of paperboard, 1.1 million tonnes of printing paper and 0.8 million m³ of wood products.

The business areas are responsible for management of operational assets and liabilities. Group management monitors the business at operating profit level, and in terms of how earnings relate to

operating capital. Operating capital 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. Financing and tax issues are managed at Group level, so financial assets and liabilities – including pension liabilities – and current and deferred 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. Holmen has an undertaking to sell the newsprint produced by the mill up to the second half of 2017. 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	
	2016	2015	2016	2015
Sales of by-products	364	358	226	194
Certificates, renewable energy	415	435	59	130
Emission allowances	25	48	21	44
Sales of non-current assets	75	37	27	28
Rent and land lease income	42	42	28	25
Silviculture contracts	57	67	57	67
Other	581	215	404	208
Total	1 559	1 203	822	696

Of the sales of by-products in the Group, SEK 141 million (123) relates to rejects from production, SEK 96 million (104) to sawdust, bark, chips etc., and SEK 127 million (130) 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 415 million (435).

The Group has been allotted emission allowances that have been used partly within its own production. The surplus resulted in a gain of SEK 25 million (48).

The increase for the year in the item 'Other' mainly relates to 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	
	2016	2015	2016	2015
Wages, salaries and other remuneration	1 589	1 665	1 233	1 233
Social security costs	619	633	556	534

AGM'S GUIDELINES FOR DETERMINING SALARIES AND OTHER REMUNERATION FOR SENIOR MANAGEMENT

The 2016 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 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 employee 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 18 million. Costs corresponding to SEK 5 million have been recognised for 2016.

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 2016, fees to the Board amounted to SEK 3 060 000 (2 925 000). The chairman received a fee of SEK 680 000 (650 000), and each of the other seven (seven) members received SEK 340 000 (325 000).

Senior management

Salary and other benefits for the CEO in 2016 amounted to SEK 8 001 168 (7 198 063). The total pension cost for the CEO, calculated in accordance with IAS 19, amounted to SEK 4 340 722 (3 616 009). No variable remuneration was paid.

In 2016, 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 (four) Group staffs who report directly to the CEO, totalled SEK 21 297 113 (18 883 727).

The total pension cost for this group, calculated in accordance with IAS 19, amounted to SEK 10 606 250 (9 856 250) in 2016. 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 14 million (9) at 31 December 2016 and for other members of senior management to SEK 32 million (24), calculated in accordance with IAS 19. The pension obligations are secured using plan assets managed by an independent pension fund.

	AVERAGE NUMBER OF FULL-TIME EQUIVA- LENTS		AVERAGE NUMBER OF FULL-TIME EQUIVA- LENTS	
	OF WHICH WOMEN		OF WHICH WOMEN	
	2016		2015	
Parent company				
Sweden	2 369	448	2 422	467
Spain	11	5	11	6
Group companies				
Estonia	8	2	8	2
France	13	6	13	5
Germany	23	10	20	10
Hong Kong	5	1	6	1
Italy	8	3	7	3
Japan	2	-	-	-
Netherlands	77	38	104	37
Poland	7	6	7	4
Portugal	1	-	1	-
Russia	1	1	1	1
Singapore	6	3	6	3
Spain	-	-	268	50
Switzerland	3	1	3	1
UK	443	49	429	50
US	12	5	9	3
Total Group companies	609	125	882	170
Total Group	2 989	578	3 315	643

The reduction in the number of employees in the Group during the year was mainly due to the sale of the paper mill in Madrid, but also to implemented restructurings.

PROPORTION OF WOMEN, %	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Board (excl. deputy members)	17	17	17	17
Senior management	30	22	30	22
Total	23	19	23	19

NOTE 5. AUDITORS' FEE AND REMUNERATION

The audit firm KPMG was elected by the 2016 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	
	2016	2015	2016	2015
REMUNERATION TO KPMG				
Audit assignments	6	6	4	4
Tax advice	3	3	1	1
Other services	-	0	-	-
Total	9	10	5	5
Other auditors	1	1	-	-
Total	9	11	5	5

'Audit assignments' refers to the statutory examination of the annual report 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	
	2016	2015	2016	2015
FINANCE INCOME				
Dividend income from Group companies	-	-	1 288	8
Gains on sales of Group companies	12	-	12	-
Net profit/loss				
Assets and liabilities measured at fair value through profit/loss for the year				
- Held for financial risk management*	-	-	-	15
Other financial receivables	-	-	-	7
Interest income	1	1	17	16
Total finance income	13	1	1 317	46
FINANCE COSTS				
Impairment losses on value of shares in Group companies	-	-	-508	-126
Net profit/loss				
Assets and liabilities measured at fair value through profit/loss for the year				
- Held for financial risk management*	36	-10	47	-12
Cash and cash equivalents	3	5	3	5
Other financial liabilities	-65	3	-40	3
Total net profit/loss	-27	-2	-499	-130
Interest costs**	-57	-89	-59	-79
Finance costs	-84	-91	-559	-209
Net financial items	-71	-90	759	-163

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

** SEK -37 million (-38) in the Group and parent company refers to interest costs on derivatives measured at fair value through profit/loss for the year. Other interest income and interest costs are related to financial items not measured at fair value.

Earnings from investments in Group companies amount to SEK 780 million, of which SEK 1 288 million relates to dividends from Group companies and SEK -508 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. They also include the revaluation of interest rate swaps used to hedge loans at fixed rates of interest. 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 36–39.

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

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Exchange gains/losses on trade receivables and trade payables	15	99	1	69
Net gain/loss on derivatives stated in working capital	-126	-67	-102	-82
Interest income on trade receivables	1	1	1	1
Interest costs on trade payables	0	-1	0	-1

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 2016 amounted to SEK -73 (-73) million, with the remainder being recognised in other comprehensive income as hedge accounting is applied. The fair value of outstanding transaction hedges at 31 December 2016 was SEK -26 million (82).

Gains on financial electricity hedges are recognised in the income statement when they expire; for 2016 they totalled SEK -53 million (6). The fair value of outstanding financial electricity hedges at 31 December 2016 was SEK -57 million (-365). 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 0 million at 31 December 2016. During the period, the cost of hedged items increased by SEK 12 million.

Gains on equity hedges amounted to SEK 1 million (14) in 2016 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 192 million (-8) on consolidated equity. The fair value of outstanding equity hedges at 31 December 2016 was SEK 16 million (25) and relates to financial derivatives.

The fair value of the derivatives used to manage the fixed interest periods amounted to SEK -74 million (-82) at 31 December 2016, which was recognised in other comprehensive income as hedge accounting is applied. This value is expected to be recognised in the income statement from 2017 onwards.

NOTE 7. TAX

TAXES STATED IN INCOME STATEMENT	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Current tax	-331	-134	-305	-252
Deferred tax	-105	14	4	9
Total	-436	-120	-301	-244

Tax recognised totalled SEK -436 million, corresponding to 23 per cent of profit before tax.

	GROUP				PARENT COMPANY			
	2016 SEKm	%	2015 SEKm	%	2016 SEKm	%	2015 SEKm	%
Recognised profit/loss before tax	1 859		679		1 499		982	
Tax at applicable rate	-409	22.0	-149	22.0	-330	22.0	-216	22.0
Difference in tax rate in foreign operations	3	-0.2	4	-0.5	0	0.0	0	0.0
Non-taxable income and non-deductible costs	-27	1.5	-16	2.3	29	-1.9	-25	2.5
Standard interest on tax allocation reserve	-2	0.1	-3	0.4	-2	0.1	-3	0.3
Effect of unstated loss carry-forwards and temporary differences	3	-0.2	4	-0.6	0	0.0	0	0.0
Tax attributable to previous periods	-1	0.1	19	-2.8	0	0.0	0	0.0
Change to tax rate on deferred tax assets/liabilities	0	0.0	21	-3.1	0	0.0	0	0.0
Other	-3	0.2	0	0.0	1	-0.1	0	0.0
Effective tax	-436	23.4	-120	17.7	-301	20.1	-244	24.8

TAX ATTRIBUTABLE TO OTHER COMPREHENSIVE INCOME

	GROUP						PARENT COMPANY					
	BEFORE TAX	TAX	AFTER TAX	BEFORE TAX	TAX	AFTER TAX	BEFORE TAX	TAX	AFTER TAX	BEFORE TAX	TAX	AFTER TAX
	2016			2015			2016			2015		
Cash flow hedging	211	-46	164	-34	7	-26	211	-46	164	-30	7	-23
Share in joint ventures' other comprehensive income	-21	-	-21	3	-	3	-	-	-	-	-	-
Translation difference on foreign operations	-165	-	-165	8	-	8	-	-	-	-	-	-
Hedging of currency risk in foreign operations	1	-6	-5	22	-5	17	-	-	-	-	-	-
Revaluations of defined benefit pension plans	-159	29	-130	208	-43	165	-	-	-	-	-	-
Other comprehensive income	-133	-24	-157	207	-41	166	211	-46	164	-30	7	-23

TAXES AS STATED IN BALANCE SHEET

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Deferred tax asset	4	6	-	-
Current tax receivable	132	12	106	-
Total tax receivables	136	18	106	-

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Deferred tax liabilities				
Non-current assets				
Biological assets*	3 854	3 788	634	634
Property, plant and equipment	1 319	1 363	-1	-1
Tax allocation reserve	502	438	-	-
Transactions subject to hedge accounting	-35	-81	-35	-81
Other, including deferred tax assets stated net among deferred tax liabilities	-27	0	13	18
Total deferred tax liabilities	5 613	5 508	612	569
Current tax liability	6	53	-	53
Total tax liabilities	5 618	5 561	612	622

* 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	GROUP STATED IN OTHER COMPREHENSIVE INCOME	TRANSLATION DIFFERENCES AND OTHER	CLOSING BALANCE	OPENING BALANCE	STATED IN THE INCOME STATEMENT	GROUP 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	

	GROUP					PARENT COMPANY				
	OPENING BALANCE	STATED IN THE INCOME STATEMENT	GROUP STATED IN OTHER COMPREHENSIVE INCOME	TRANSLATION DIFFERENCES AND OTHER	CLOSING BALANCE	OPENING BALANCE	STATED IN THE INCOME STATEMENT	GROUP STATED IN OTHER COMPREHENSIVE INCOME	CLOSING BALANCE	
2015										
Biological assets*	-3 718	-69	-	-	-3 788	-632	-2	-	-634	
Property, plant and equipment	-1 361	8	-	-10	-1 363	2	-1	-	1	
Tax allocation reserve	-512	74	-	-	438	-	-	-	-	
Transactions subject to hedge accounting	74	-	7	-	81	74	-	7	81	
Other	39	1	-44	9	5	-29	11	-	-18	
Deferred net tax liability	- 5 479	14	-36	-1	-5 502	-585	9	7	-569	

* 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 -46 million (7) in hedging reserves and an impact of SEK 29 million (-44) from the revaluation of defined benefit pension plans.

The Group sold essentially all its operations in Spain in 2016 and is planning to discontinue these operations entirely. The parent company has requested an advance ruling on the entitlement to group relief for tax losses in the Group's Spanish operations when the operations are discontinued. The Swedish tax authority has opposed this. The case is being reviewed by the Supreme Administrative Court and a ruling is expected in 2017. If the Group is entitled to group relief, it is estimated this would result in a deduction in the parent company corresponding to approximately SEK 400 million in tax. No deferred tax asset has been recognised in connection with a possible entitlement to relief.

NOTE 8. EARNINGS PER SHARE

	GROUP	
	2016	2015
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	1 424	559
Basic average number of shares, million	83 996 162	83 996 162
Basic EPS for the year, SEK	16.9	6.7
Shareholders' share of profit for the year, SEKm	1 424	559
Diluted average number of shares, million	83 996 162	83 996 162
Diluted EPS for the year, SEK	16.9	6.7

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.

Holmen introduced a share savings programme during the year. 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, 93 000 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	
	2016	2015	2016	2015
ACCUMULATED ACQUISITION COST				
Opening balance	225	215	26	26
Investments	5	12	-	-
Disposal and retirement of assets	-36	-1	-	-
Translation differences	0	-1	-	-
Total	194	225	26	26
AMORTISATION AND IMPAIRMENT LOSSES, ACCUMULATED				
Opening balance	118	101	18	17
Amortisation for the year	17	19	1	1
Impairment losses for the year	1	-	-	-
Disposal and retirement of assets	-28	-1	-	-
Translation differences	0	-1	-	-
Total	107	118	19	18
Residual value according to plan at end of year	87	107	8	8

Intangible non-current assets mostly consist of IT systems of SEK 64 million (80). 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Accumulated acquisition cost										
Opening balance	167	165	7 003	6 970	31 260	30 964	130	153	38 560	38 252
Investments	-	-	37	60	729	811	18	-17	784	854
Reclassifications	-	-	-	-	92	4	-92	-4	-	-
Disposal and retirement of assets	-14	-	-1 420	-5	-4 192	-526	-1	-3	-5 627	-533
Translation differences	-6	2	-27	-22	-317	8	-11	0	-362	-13
Total	146	167	5 593	7 003	27 572	31 260	44	130	33 355	38 560
Amortisation and impairment losses, accumulated										
Opening balance	-	-	4 247	3 822	23 992	23 166	-	-	28 239	26 988
Depreciation and amortisation according to plan for the year	-	-	118	142	882	1 080	-	-	1 000	1 222
Impairment losses for the year	-	-	81	306	41	249	-	-	122	555
Disposal and retirement of assets	-	-	-1 212	-4	-3 994	-477	-	-	-5 205	-481
Translation differences	-	-	-6	-19	-181	-25	-	-	-187	-45
Total	-	-	3 229	4 247	20 740	23 992	-	-	23 968	28 239
Residual value according to plan at end of year	146	167	2 365	2 756	6 832	7 268	44	130	9 387	10 321

PARENT COMPANY	FOREST LAND		BUILDINGS, OTHER LAND AND LAND INSTALLATIONS		MACHINERY AND EQUIPMENT		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015
Accumulated acquisition cost								
Opening balance	461	434	139	139	232	248	832	822
Investments	3	26	-	-	26	23	29	49
Disposal and retirement of assets	0	0	0	0	-38	-39	-38	-39
Total	464	461	139	139	220	232	823	832
Accumulated depreciation and amortisation according to plan								
Opening balance	-	-	129	128	172	184	301	312
Depreciation and amortisation according to plan for the year	-	-	1	1	24	24	25	25
Disposal and retirement of assets	-	-	0	0	-38	-36	-38	-36
Total	-	-	130	129	158	172	288	301
Accumulated revaluations								
Opening balance	2 390	2 401	1	1	-	-	2 391	2 402
Disposal and retirement of assets	-1	-12	-	-	-	-	-1	-12
Total	2 389	2 390	1	1	-	-	2 389	2 391
Residual value according to plan at end of year	2 853	2 850	10	11	62	60	2 925	2 922

In 2016, the Spanish operations in the Paper business area were sold, which reduced property, plant and equipment by SEK 527 million, SEK 122 million of which was the result of an impairment loss in connection with the signing of the sales agreement. The Group's impairment losses on property, plant and equipment are stated in the income statement in the line item 'Impairment losses'.

The Group's investment commitments for approved and ongoing projects amounted to SEK 250 million (776) at 31 December 2016. In 2016, the company's capitalised borrowing costs totalled SEK 3 million (3). An interest rate of 1.5 per cent (1.8) 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.

In total, Holmen owns 1 042 000 hectares of productive forest land, with a volume of standing forest totalling 120 million m³ growing stock, solid over bark. According to the harvesting plan, valid from 2011, harvesting will amount to 3.1 million m³sub per year, of which 0.1 million m³sub will be biofuel in the form of branches and treetops. 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 2017 is 424 kr/m³sub, which is in line with 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 17 448 million (17 173) before tax. A deferred tax liability of SEK 3 854 million (3 788) is stated in relation to that figure. This represents the tax that is expected to be charged against earnings from harvesting in the future. On that basis, the growing forest, net after tax, is stated at SEK 13 594 million (13 385).

The change in the value of the growing forests can be broken down as follows:

GROUP	2016	2015
Carrying amount at start of year	17 173	16 867
Acquisition of growing forest	4	36
Sales of growing forest	-27	-2
Change due to harvesting	-587	-540
Unrealised change in fair value	902	807
Other changes	-17	5
Carrying amount at end of year	17 448	17 173

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 2016, this amounted to SEK 315 million (267).

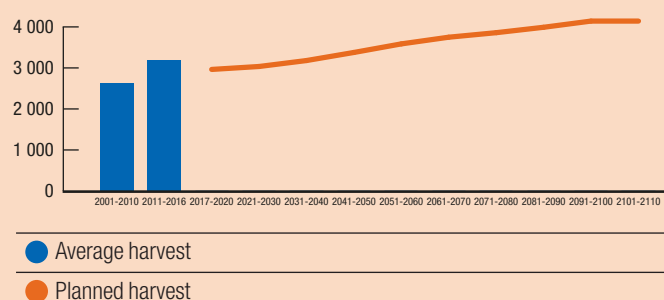
The table below shows how the value of forest assets would be affected by changes in the most significant valuation assumptions.

Change in value

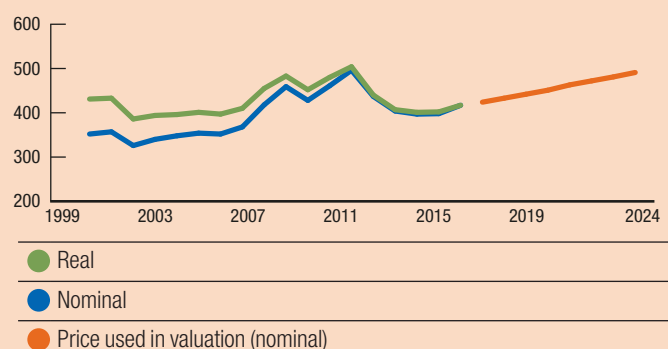
GROUP	BEFORE TAX	AFTER TAX
Annual change, +0.1% per year		
Rate of harvesting	740	580
Price inflation	1 120	870
Cost inflation	-600	-470
Change in level, +1%		
Harvesting	250	200
Prices	390	300
Costs	-220	-170
Discount rate, +0.1%	-480	-370

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).

HARVESTING '000 m³sub/yr



PRICES SEK/m³sub



The Nominal price series shows the average selling price for Holmen. The Real series shows nominal prices recalculated at 2016 monetary value using historical Swedish CPI.

NOTE 12. INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND OTHER SHARES AND PARTICIPATING INTERESTS

	JANUARY–DECEMBER	
	2016	2015
Profit/loss from associates and joint ventures	-18	-46
Recognised in profit/loss for the year	-18	-46
Other comprehensive income from joint venture	-21	3
Recognised in comprehensive income	-21	3

The combined value of Holmen's share in the profits of associates amounted to SEK -14 million (10) for the Group and to SEK -9 million (4) for the parent company. The combined value of Holmen's share in the profits of joint ventures amounted to SEK -8 million (-3) for the Group and to SEK -8 million (-3) for the parent company.

	GROUP		PARENT COMPANY			GROUP		PARENT COMPANY	
	2016	2015	2016	2015		2016	2015	2016	2015
ASSOCIATES					JOINT VENTURE				
Carrying amount at start of year	1 772	1 828	125	125	Carrying amount at start of year	141	142	82	82
Investments	5	-	-	-	Investments	10	-	10	-
Share of earnings	-16	-46	-	-	Share of earnings	-30	-1	-	-
Disposals	-105	-	-2	-	Other	6	-	-	-
Dividends received	-12	-	-	-	Carrying amount at end of year	127	141	92	82
Translation difference	4	-3	-	-					
Impairment losses	-2	-7	-	-					
Carrying amount at end of year	1 646	1 772	123	125					

During the year, investments in associates that manage logistics, energy and recycling of recovered paper were sold, primarily in connection with the sale of the Spanish operations.

PARENT COMPANY AND GROUP HOLDINGS OF SHARES AND INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	CORPORATE ID NO.	REGISTERED OFFICE	NO. OF INVEST- MENTS	INTEREST %*	VALUE OF HOLDING IN CONSOLIDAT- ED ACCOUNTS	CARRYING AMOUNT IN THE PARENT COMPANY	INTEREST %*	VALUE OF HOLDING IN CONSOLIDAT- ED ACCOUNTS	CARRYING AMOUNT IN THE PARENT COMPANY
					2016			2015	
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
Harrsele AB	556036-9398	Vännäs	9 886	49.4	1 465	-	49.4	1 467	-
Uni4 Marketing AB	556594-6984	Stockholm	1 800	36	12	2	36.0	21	2
Vattenfall Tuggen AB	556504-2826	Lycksele	683	6.8	75	75	6.8	75	75
VindIn AB	556713-5172	Stockholm	200	17.7	55	46	17.7	57	46
Melodea Ltd, Israel		Tel Aviv	119	46.7	2	-	42.4	2	-
Baluarto Sociedade de Recolha e Recuperação de Desperdícios, Lda, Portugal		Alcochete	2	-	-	-	50.0	37	-
SAS Saica Natur sud, France		Lorp-Sentaraille	678	-	-	-	24.0	20	-
Peninsular Cogeneración S.A., Spain		Madrid	4 500	-	-	-	50.0	55	-
Other associates					0	0		2	2
					1 646	123		1 772	125
JOINT VENTURE									
Varsvik AB	556914-9833	Stockholm	250	50.0	127	92	50.0	141	82
Total					1 773	215		1 914	208

* 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 1 465 million (1 467). Holmen purchased 416 (564) GWh of electrical power from Harrsele AB in 2016, giving Holmen an operating profit of SEK 76 million (95) 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 carrying amount of the non-current assets in Harrsele AB amounts to SEK 114 million (115). 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	
	2016	2015	2016	2015
OTHER SHARES AND PARTICIPATING INTERESTS				
Carrying amount at start of year	4	4	1	1
Disposals	-	0	-	0
Translation difference	0	0	-	-
Impairment losses	-2	-	-	-
Carrying amount at end of year	2	4	1	1

NOTE 13. FINANCIAL INSTRUMENTS

Non-current financial receivables consist of interesting-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. 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 costs, 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 administrative report on pages 38–39. SEK -3 151 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 -172 million. Assets and liabilities are not offset in the report. Recognised derivatives totalled SEK 213 million (138) on the asset side and SEK -385 million (-466) 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 carrying amount arises because certain liabilities are not measured at fair value in the balance sheet, and are instead stated at their amortised cost. For loans recognised at amortised cost, fair value is calculated on the basis of discounted cash flows and belongs to measurement level 2. All variables are taken from market listings for calculations. The Group has no loans that are recognised at fair value in profit/loss. In the case of trade receivables, trade payables and other items not affected above, the carrying amount 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 36–39.

MATURITY STRUCTURE, UNDISCOUNTED AMOUNTS*

	2017	2018	2019	2020	2021–
FINANCIAL LIABILITIES					
Derivatives	-93	-23	-17	-16	-
Other financial liabilities	-3 151	-310	-501	-	-
FINANCIAL RECEIVABLES					
Derivatives	55	-	-	-	-
Other financial receivables	245	4	4	1	0

* 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 CARRYING AMOUNT		FAIR VALUE	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
FINANCIAL INSTRUMENTS INCLUDED IN NET FINANCIAL DEBT														
NON-CURRENT FINANCIAL RECEIVABLES														
Other financial receivables	-	-	-	-	39	43	-	-	-	-	39	43	39	43
	0	0	-	-	39	43	-	-	-	-	39	43	39	43
CURRENT FINANCIAL RECEIVABLES														
Accrued interest	-	-	-	-	1	0	-	-	-	-	1	0	1	0
Derivatives	55	37	-	-	-	-	-	-	-	-	55	37	55	37
Other financial receivables	-	-	-	-	34	24	-	-	-	-	34	24	34	24
	55	37	-	-	34	24	-	-	-	-	89	61	89	61
CASH AND CASH EQUIVALENTS														
Current deposit of cash and cash equivalents	-	-	-	-	0	0	-	-	-	-	0	0	0	0
Bank balances	-	-	-	-	210	221	-	-	-	-	210	221	210	221
	-	-	-	-	210	221	-	-	-	-	210	221	210	221
NON-CURRENT LIABILITIES														
MTN loans	-	-	-	-	-	-	-	-	-	-700	-	-700	-	-700
Loans from banks and other credit institutions	-	-	-	-	-	-	-	-	-800	-1 500	-800	-1 500	-800	-1 500
Derivatives	-	-	-75	-83	-	-	-	-	-	-	-75	-83	-75	-83
Other non-current liabilities	-	-	-	-	-	-	-	-	-8	-13	-8	-13	-8	-13
	-	-	-75	-83	-	-	-	-	-808	-2 213	-882	-2 295	-882	-2 295
CURRENT LIABILITIES														
Commercial paper programme	-	-	-	-	-	-	-	-	-1 709	-2 144	-1 709	-2 144	-1 709	-2 144
Bank account liabilities	-	-	-	-	-	-	-	-	-26	-27	-26	-27	-26	-27
Derivatives	-53	-8	-	-	-	-	-	-	-	-53	-53	-8	-53	-8
Accrued interest	-	-	-	-	-	-	-	-	-12	-13	-12	-13	-12	-13
MTN loans	-	-	-	-	-	-	-	-	-700	-500	-700	-500	-700	-500
Other bond loans	-	-	-	-	-	-	-	-	-700	-	-700	-	-700	-
Other current liabilities	-	-	-	-	-	-	-	-	-	-7	-	-7	-	-7
	-53	-8	-	-	-	-	-	-	-3 147	-2 691	-3 200	-2 698	-3 200	-2 698
FINANCIAL INSTRUMENTS NOT INCLUDED IN NET FINANCIAL DEBT														
Other shares and participating interests	-	-	-	-	-	-	2	4	-	-	2	4	2	-
Trade receivables	-	-	-	-	2 174	1 987	-	-	-	-	2 174	1 987	2 174	1 987
Derivatives (recognised among operating receivables)	8	11	150	89	-	-	-	-	-	-	158	100	158	100
Trade payables	-	-	-	-	-	-	-	-	-1 766	-1 916	-1 766	-1 916	-1 766	-1 916
Derivatives (recognised among operating liabilities)	-23	-2	-233	-375	-	-	-	-	-	-	-257	-377	-257	-377
Total financial instruments	-14	39	-158	-368	2 457	2 275	2	4	-5 721	-6 820	-3 433	-4 871	-3 433	-4 875

Parent company	DERIVATIVES RECOGNISED AT FAIR VALUE THROUGH PROFIT/ LOSS		DERIVATIVES WITH HEDGE ACCOUNTING		TRADE RECEIVABLES AND LOAN RECEIVABLES		AVAILABLE-FOR- SALE ASSETS		OTHER LIABILITIES		TOTAL CARRYING AMOUNT		FAIR VALUE	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
FINANCIAL INSTRUMENTS INCLUDED IN NET FINANCIAL DEBT														
NON-CURRENT FINANCIAL RECEIVABLES														
Receivables from Group companies	-	-	-	-	3 104	3 119	-	-	-	-	3 104	3 119	3 104	3 119
Other financial receivables	-	-	-	-	98	95	-	-	-	-	98	95	98	95
	0	0	-	-	3 202	3 214	-	-	-	-	3 202	3 214	3 202	3 214
CURRENT FINANCIAL RECEIVABLES														
Accrued interest	-	-	-	-	1	0	-	-	-	-	1	0	1	0
Derivatives	55	37	-	-	-	-	-	-	-	-	55	37	55	37
Other financial receivables	-	-	-	-	34	24	-	-	-	-	34	24	34	24
	55	37	-	-	34	24	-	-	-	-	89	61	89	61
CASH AND CASH EQUIVALENTS														
Bank balances	-	-	-	-	104	155	-	-	-	-	104	155	104	155
	-	-	-	-	104	155	-	-	-	-	104	155	104	155
NON-CURRENT LIABILITIES														
MTN loans	-	-	-	-	-	-	-	-	-	-700	-	-700	-	-700
Loans from banks and other credit institutions	-	-	-	-	-	-	-	-	-800	-1 500	-800	-1 500	-800	-1 500
Liabilities to Group companies	-	-	-	-	-	-	-	-	-1 454	-1 013	-1 454	-1 013	-1 454	-1 013
Derivatives	-	-	-75	-83	-	-	-	-	-	-	-75	-83	-75	-83
	-	-	-75	-83	-	-	-	-	-2 254	-3 213	-2 328	-3 295	-2 328	-3 295
CURRENT LIABILITIES														
Commercial paper programme	-	-	-	-	-	-	-	-	-1 709	-2 144	-1 709	-2 144	-1 709	-2 144
Bank account liabilities	-	-	-	-	-	-	-	-	-26	-27	-26	-27	-26	-27
Derivatives	-53	-8	-	-	-	-	-	-	-	-	-53	-8	-53	-8
Accrued interest	-	-	-	-	-	-	-	-	-12	-13	-12	-13	-12	-13
MTN loans	-	-	-	-	-	-	-	-	-700	-500	-700	-500	-700	-500
Other bond loans	-	-	-	-	-	-	-	-	-700	-	-700	-	-700	-
Other current liabilities	-	-	-	-	-	-	-	-	-	-6	-	-6	-	-6
	-53	-8	-	-	-	-	-	-	-3 147	-2 690	-3 200	-2 698	-3 200	-2 698
FINANCIAL INSTRUMENTS NOT INCLUDED IN NET FINANCIAL DEBT														
Other shares and participating interests	-	-	-	-	-	-	0	1	-	-	0	1	0	-
Trade receivables	-	-	-	-	1 874	1 645	-	-	-	-	1 874	1 645	1 874	1 645
Derivatives (recognised among operating receivables)	13	12	151	90	-	-	-	-	-	-	164	102	164	102
Trade payables	-	-	-	-	-	-	-	-	-1 576	-1 845	-1 576	-1 845	-1 576	-1 845
Derivatives (recognised among operating liabilities)	-24	-3	-234	-376	-	-	-	-	-	-	-258	-379	-258	-379
Total financial instruments	-10	39	-157	-368	5 214	5 039	0	1	-6 976	-7 748	-1 929	-3 038	-1 929	-3 039

NOTE 14. INVENTORIES

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Raw materials and consumables	831	971	637	645
Logs and pulpwood	233	299	206	272
Finished products and work in progress	1 431	1 237	1 077	858
Felling rights	431	526	423	508
Electricity certificates and emission allowances	54	56	54	52
Total	2 981	3 089	2 396	2 336

During the year, impairment losses on inventories affected profit by SEK -2 million (18) for the Group and SEK -5 million (9) for the parent company.

NOTE 15. OPERATING RECEIVABLES

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Trade receivables				
Group companies	-	-	50	83
Associates	38	52	38	51
Other	2 137	1 935	1 786	1 511
Total trade receivables	2 174	1 987	1 874	1 645
Current receivables				
Group companies	-	-	-	-
Associates	5	4	5	4
Other	226	219	129	191
Derivatives	158	100	164	102
Prepayments and accrued income	175	196	82	84
Total other operating receivables	564	519	380	381
Total operating receivables	2 738	2 505	2 254	2 026

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 of all trade receivables, a provision for anticipated credit losses of SEK 37 (38) million has been made and recognised, net, together with trade receivables. During the year, the provision was changed by SEK -3 million (-6) as a result of actual credit losses, and by SEK 2 million (12) as a result of changes in the provision for anticipated credit losses. At 31 December 2016, SEK 44 million (87) 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 37.

NOTE 16. EQUITY, PARENT COMPANY

31 Dec 2016			
SHARE CAPITAL	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 2015			
SHARE CAPITAL	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 2016 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 -167 million (-330) on parent company equity. In the consolidated accounts, valuation of derivatives and other financial instruments had an impact of SEK -172 million (-330) 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 4 921 232 735. The Board proposes that the AGM on 27 March 2017 approve a dividend of SEK 12 per share. The proposed dividend totals SEK 1 008 million. The Board also proposes that the remaining amount of SEK 3 913 277 791 be carried forward.

For the previous year, the dividend paid was SEK 10.5 per share (SEK 882 million).

The debt/equity ratio was 0.19 (0.23).

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 36–39.

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.

	GROUP		PARENT COMPANY	
COST RECOGNISED IN PROFIT/LOSS FOR THE YEAR	2016	2015	2016	2015
Defined benefit plans				
Personnel costs	-7	-23	-21	-12
Finance costs	-2	-12	1	1
Curtailement gain	-	36	-	-
Total defined benefit plans stated in profit/loss for the year	-9	2	-21	-10
Defined contribution plans				
Personnel costs	-129	-129	-106	-110
Total recognised in profit/loss for the year	-138	-127	-127	-120

COST RECOGNISED IN OTHER COMPREHENSIVE INCOME	2016	2015
Return on plan assets excl. recognised interest income	241	-43
Actuarial gains and losses from changes in demographic assumptions	33	45
Actuarial gains and losses from changes in financial assumptions	-418	47
Actuarial gains and losses from experiential adjustments	-13	157
Payroll tax	-1	2
Total recognised in other comprehensive income	-159	208

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 just over 4 years and is subject to review every 3 years.

	GROUP		PARENT COMPANY	
OBLIGATIONS	2016	2015	2016	2015
Obligations at 1 January	-2 374	-2 565	-153	-159
Current service cost	-7	-23	-21	-12
Payroll tax	2	3	-	-
Interest costs	-77	-93	-7	-1
Actuarial gains/losses	-399	249	-	-
Contribution by plan participants	-	-3	-	-
Benefits paid	212	101	13	20
Transferred from provisions	-	-1	-	-1
Settlements	-	36	-	-
Exchange differences	230	-79	-	-
Obligations at 31 December	-2 414	-2 374	-167	-153

Of the Group's total obligations, SEK 11 million (14) 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 (5) are secured under the Swedish Pension Obligations Vesting Act.

The weighted average duration is 18 years.

	GROUP		PARENT COMPANY	
PLAN ASSETS	2016	2015	2016	2015
Fair value of assets at 1 January	2 244	2 165	148	148
Interest income	75	82	-	-
Expected return excl. recognised interest income	241	-43	-	-
Real return (parent company)	-	-	7	3
Administration fees	-5	-4	-	-
Contribution by employer	73	65	-	-
Contribution by plan participants	-	3	-	-
Benefits paid	-197	-84	-	-3
Exchange differences	-218	59	-	-
Fair value of assets at 31 December	2 213	2 244	155	148
Pension provisions, net	-201	-130	-12	-5

Plan assets by type are as shown below:

	GROUP		PARENT COMPANY	
PLAN ASSETS	2016	2015	2016	2015
Equities	1 130	1 127	71	57
Bonds	1 063	1 101	80	90
Current fixed income investments	20	17	3	1
Total	2 213	2 244	155	148

The plan assets do not include any financial instruments issued by Group companies or assets used by the Group. Of equities, 49 per cent relate to the UK, 47 per cent to the rest of Europe and the US and 4 per cent to the rest of the world. Of bonds, 44 per cent relate to government bonds and 56 per cent to corporate bonds.

KEY ACTUARIAL ASSUMPTIONS, GROUP (WEIGHTED AVERAGE), %	31 Dec 2016	31 Dec 2015
Discount rate	2.7	3.7
Rate of salary increase	3.0	3.0
Rate of price inflation	3.1	2.9

The discount rate for pension obligations was established on the basis of high-quality corporate bonds. A discount rate of 0.8 per cent (1.9) 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	31 Dec 2016	31 Dec 2015
Discount rate (+ 0.5%)	-203	-188
Rate of salary increase (+ 0.5%)	2	2
Rate of price inflation (+ 0.5%)	178	164
Mortality (+ 1 year in life expectancy)	82	72

The Group's payments into the funded defined benefit plans in 2017 are expected to amount to SEK 31 million.

Multi-employer plans

The year's premiums for pension insurance policies taken out with Alecta's ITP 2 plan amounted to SEK 33 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 765 active members, which corresponds to 0.15 per cent. Premiums to Alecta are expected to amount to SEK 32 million in 2017. 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 2016, Alecta's collective consolidation level was 148 per cent (153).

NOTE 18. OTHER PROVISIONS

GROUP	PROVISIONS FOR TAXES		OTHER PROVISIONS		TOTAL	
	2016	2015	2016	2015	2016	2015
Carrying amount at start of year	45	140	697	463	742	603
Provisions during the year	-	-	335	410	335	410
Utilised during the year	-	-	-163	-59	-163	-59
Unutilised amount reversed during the year	-	-95	-15	-117	-15	-212
Translation differences	-	0	2	0	2	0
Carrying amount at end of year	45	45	856	697	901	742
Of which non-current portion of the provisions	45	45	627	540	673	585
Of which current portion of the provisions	-	-	228	157	228	157
PARENT COMPANY						
Carrying amount at start of year	45	45	892	630	937	676
Provisions during the year	-	-	228	524	228	524
Utilised during the year	-	-	-274	-147	-274	-147
Unutilised amount reversed during the year	-	-	-13	-115	-13	-115
Carrying amount at end of year	45	45	833	892	878	937
Of which non-current portion of the provisions	45	45	572	608	617	653
Of which current portion of the provisions	-	-	261	284	261	284

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

The increase during the year mainly relates to provisions as a result of the sale of the mill in Madrid.

A provision is included in the parent company for future measures for reforestation after harvesting for SEK 197 million.

NOTE 19. OPERATING LIABILITIES

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Trade payables				
Group companies	-	-	116	265
Associates	-	14	-	-
Other	1 766	1 903	1 460	1 579
Total trade payables	1 766	1 916	1 576	1 845
Current liabilities				
Group companies	-	-	0	0
Associates	11	7	11	7
Other	251	199	158	165
Derivatives	257	377	258	379
Accruals and deferred income	561	676	443	441
Total other operating liabilities	1 079	1 259	870	993
Total operating liabilities	2 845	3 176	2 445	2 837

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 196 million (195), discounts of SEK 42 million (48) and goods delivered but not yet invoiced of SEK 36 million (38).

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

NOTE 20. OPERATING LEASES

In 2016, the Group's lease payments amounted to SEK 54 million (70), and the parent company's to SEK 38 million (37). 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 2016 financial year. No leased equipment was subleased.

The breakdown of future lease payments is as follows:

	GROUP			PARENT COMPANY		
	2017	2018 –2022	2023–	2017	2018 –2022	2023–
Future lease payments	40	50	0	26	27	-
Present value of future lease payments	40	50	0	26	27	-

The contracts have remaining durations ranging from 1 to 7 years. The Group's future lease payments for existing lease agreements amounted to SEK 119 million at the end of the previous year. Those in the parent company amounted to SEK 65 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 2015 and have a remaining duration of one year from 1 January 2017.

NOTE 21. COLLATERAL AND CONTINGENT LIABILITIES

	PROPERTY MORTGAGES	OTHER COLLATERAL	TOTAL COLLATERAL	TOTAL COLLATERAL
GROUP			2016	2015
For own liabilities	-	-	-	-
Financial liabilities	6	127	134	148
Total	6	127	134	148
PARENT COMPANY				
For own liabilities	-	-	-	-
Financial liabilities	6	127	134	148
Total	6	127	134	148

The holding in a jointly owned company, Varsvik AB, is pledged and amounted to SEK 127 million (141) at the end of the year.

	GROUP		PARENT COMPANY	
CONTINGENT LIABILITIES	2016	2015	2016	2015
Surety on behalf of Group companies	-	-	34	34
Other contingent liabilities	86	122	68	55
Total	86	122	102	89

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 13 794 million (13 989), 99 (114) per cent relates to deliveries to Group companies. The parent company's purchases from Group companies amounted to SEK 1 479 million (1 630).

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 is to optimise operations within this business area. Holmen Paper AB's purchases from Holmen Paper Madrid SL in 2016 amounted to SEK 1 371 million (1 510).

As Holmen Paper AB is acting on a commissioned basis for Holmen AB, these transactions are accounted for via Holmen AB. As part of the sale of the Spanish business, the agreement was terminated early in 2016, which led to Holmen Paper AB paying compensation of SEK 643 million to Holmen Paper Madrid SL for loss of profit over the term of the agreement.

L E Lundbergföretagen AB is a major shareholder in Holmen (see page 41). Holmen rents office premises for SEK 8 million (7) from Fastighets AB L E Lundberg, which is a group company within L E Lundbergföretagen AB. In 2016, Fredrik Lundberg, who is CEO and principal shareholder in L E Lundbergföretagen, received a fee of SEK 680 000 (650 000) 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.

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.

In Spain, until the sale of the Spanish business, energy and recovered paper was purchased from associates.

Transactions with related parties

	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	
GROUP	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Associates	280	208	172	242	0	0	61	91	82	89
Joint ventures	-	-	-	-	5	0	-	-	17	12
PARENT COMPANY										
Subsidiaries	99	115	1 479	1 630	1 299	18	1 571	1 280	3 160	3 203
Associates	280	208	99	112	0	0	57	77	82	88
Joint ventures	-	-	-	-	5	0	-	-	79	68

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

NOTE 23. INVESTMENTS IN GROUP COMPANIES

ACCUMULATED ACQUISITION COST	PARENT COMPANY		ACCUMULATED IMPAIRMENT LOSSES	PARENT COMPANY	
	2016	2015		2016	2015
Carrying amount at start of year	17 141	17 141	Carrying amount at start of year	5 330	5 204
Shareholder's contribution	1	0	Impairment losses for the year	508	126
Closing balance at 31 December	17 141	17 141	Closing balance at 31 December	5 838	5 330
			Carrying amount at end of year	11 303	11 810

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' and do in 2016 relate to holdings in Spanish companies.

Parent company's direct holdings of investments in subsidiaries

	CORPORATE ID NO.	REGISTERED OFFICE	NO. OF SHARES	INTEREST %*	CARRYING AMOUNT IN THE PARENT COMPANY	INTEREST %*	CARRYING AMOUNT IN THE PARENT COMPANY
				2016		2015	
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	45
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	7	100	7
Other Swedish Group companies					1		1
Total Swedish holdings					8 948		8 993
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	808	100	1 270
Holmen Paper Madrid S.L.**		Madrid	-	100	-	100	-
Cartón y Papel Reciclado S.A. (Carpa), Spain**		Madrid	-	-	-	100	-
Iggesund Paperboard Asia Pte Ltd, Singapore		Singapore	800 000	100	4	100	4
Holmen B.V., Netherlands		Amsterdam	35	100	9	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					2 355		2 817
Total					11 303		11 810

* 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 2015
ACCUMULATED DEPRECIATION AND AMORTISATION IN EXCESS OF PLAN			
Non-current intangible assets	0	-1	1
Property, plant and equipment	10	6	4
Total	10	6	4
TAX ALLOCATION RESERVE			
Assessment of tax 2011	-	-170	170
Assessment of tax 2012	560		560
Assessment of tax 2013	-		-
Assessment of tax 2014	280		280
Assessment of tax 2015	610		610
Assessment of tax 2016	370		370
Assessment of tax 2017	460	460	-
	2 280	290	1 990
Total	2 290	296	1 994

Group contributions received amounted to SEK 700 million (493) and Group contributions paid amounted to SEK 0 million (7). Total appropriations of profit amounted to SEK 404 million.

NOTE 25. CASH FLOW STATEMENT

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
INTEREST PAID AND DIVIDENDS RECEIVED				
Dividends received	0	0	1 288	8
Interest received	1	1	17	35
Interest paid	-49	-70	-72	-72
Total	-48	-70	1 233	-30

The change in current liabilities mostly relates to borrowing within the Group's commercial paper programme. In 2016, a number of different short-term loans totalling SEK 7 192 million (8 737) were raised within the Group's commercial paper programme, and SEK 7 630 million (9 339) was repaid. For a specification of cash and cash equivalents, see Note 13.

NOTE 26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing financial reports 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 report, 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 carrying amount of biological assets at 31 December 2016 was SEK 17 448 million and the attributable deferred tax liability was SEK 3 854 million, giving a net value of SEK 13 594 million.

TAX

Holmen has requested an advance ruling on the entitlement to apply group relief in the parent company's tax declaration for tax losses incurred in the Group's Spanish operations. The Swedish tax authority has opposed such entitled to group relief. The case is being reviewed by the Supreme Administrative Court and a ruling is expected in 2017. In the event of a ruling in Holmen's favour, it could result in deductions corresponding to approximately SEK 400 million in tax. No deferred tax asset has been recognised. See Note 7.

PENSION OBLIGATIONS

The Group has defined benefit obligations valued at SEK 2 414 million and plan assets of SEK 2 213 million provided to cover them, which together are recognised as pension provisions of SEK 201 million. The value of pension obligations is estimated on the basis of assumptions regarding discount rates, inflation, future salary increases, and demographic factors. These commitment 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 the sale of the Spanish business, obligations for environmental restoration, fixed price electricity supply contracts and corporation tax risks. See Note 18.

IMPAIRMENT TESTING

Impairment testing is carried out annually on the Group's non-current assets. If profitability for a business is weak and a potential need for impairment is identified, further analysis of the asset's value is carried out. Such analysis estimates the asset's value based on applicable market conditions and assessments about the future. The estimated value is then compared with the carrying amount to assess whether or not there is a need for impairment.

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 2016 financial year	1 197 463 610
Retained earnings	3 723 768 125
	4 921 231 735
The Board of Directors proposes that a dividend of SEK 12 per share (83 996 162 shares) be paid to the shareholders	1 007 953 944
and that the remaining amount be carried forward	3 913 277 791

The Board of Holmen AB has proposed that the 2017 Annual General Meeting resolve in favour of paying a dividend of SEK 12 per share – SEK 1.5 per share higher than the preceding year – totalling SEK 1 008 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 70.8 per cent of net profit for 2016 for the Group and means that 4.7 per cent of equity in the Group at 31 December 2016 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 2016 was 0.19. Payment of the proposed dividend would raise the debt/equity ratio by around 0.06.

Holmen AB's equity at 31 December 2016 amounted to SEK 10 836 million, of which non-restricted equity was SEK 3 724 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 -167 million on equity. The Group's equity at 31 December 2016 amounted to SEK 21 243 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 13 February 2017. 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 27 March 2017.

Stockholm, 13 February 2017

Fredrik Lundberg
Chairman

Lars G Josefsson
Board member

Louise Lindh
Board member

Carl Bennet
Board member

Lars Josefsson
Board member

Ulf Lundahl
Board member

Steewe 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 15 February 2017.
KPMG AB

Joakim Thilstedt
Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of
Holmen AB, 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 for the year 2016. The company's annual accounts and consolidated accounts are found on pages 4–5, 10–11, 27–29, 32–70 and 74–75 of 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 2016 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 2016 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.

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.

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.

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. If not stated otherwise the matters is related to the consolidated accounts.

Valuation of Biological Assets

See note 11, note 26 and the Accounting Principles on page 50 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 17 448 million as per 31 December 2016.

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.

How the matter was addressed during 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 on 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.

Valuation of property, plant and equipment / Valuation of the parent company's shares in Group companies

See note 10, note 26 and the Accounting Principles on pages 50 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

Property, plant and equipment as per 31 December 2016 have a carrying value of SEK 9 387 million. In recent years, profitability in certain parts of the business has been weak, which has resulted in impairments of values of the related assets.

Profitability in some parts of the business is still weak and therefore there the need for further impairments of asset values may exist.

According to IFRS, impairment tests shall be performed according to a certain methodology wherein Company management is required to make estimates regarding both internal and external conditions and plans. Examples of estimates are future cash flows as well as which discount rate should be used to take into consideration the fact that future inflows are associated with a certain amount of risk.

Property, plant and equipment are mainly found in subsidiaries of Holmen AB, therefore should there be a need for asset impairment within these subsidiaries, there may be a corresponding impairment of the value of shares in the parent company's balance sheet.

How the matter was addressed during the audit

We have inspected the Group's impairment test to ensure that it is in line with the aforementioned methodology.

Furthermore, through evaluation of management's written plans and documentation, we have assessed the reasonableness of future cash flows and the assumed discount rate. We have also conducted discussions with Company management and evaluated previous year's estimates compared to actual outcomes.

Pension provisions

See note 17, note 26 and the Accounting principles on page 51 of the annual accounts and consolidated accounts for detailed disclosure and description of the matter.

Description of key audit matter

The Group has a pension obligation that mainly concerns the United Kingdom. Before reduction by the fair value of plan assets, this pension obligation was valued at SEK 2 414 million per 31 December 2016.

Estimation of the value of the pension obligation relies upon a number of assumptions, including mortality and inflation rates, and the discount rate applied to estimated payments of pensions. The Group engages external actuaries to perform these complex calculations.

Changes to the assumptions on which the valuation is based could significantly affect total comprehensive income for the financial period and the size of the pension obligation.

How the matter was addressed during the audit

We have examined the external actuarial report that is used by the Group for valuation of its pension obligation. We have assessed the assumptions within the calculations, for instance regarding inflation and discount rate, with input from our internal specialists' analyses.

We have also considered the completeness of the disclosures in the Annual Report and assessed the disclosures of the assumptions used by Company management and their sensitivity analysis.

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

See note 18, note 26 and the Accounting principles on page 51 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 856 million per 31 December 2016. These relate to uncertainties regarding the sale of operations in Spain, environmental obligations and contractual commitments regarding delivery of electricity at a fixed price.

Provisions in the parent company have a carrying value of SEK 833 million per 31 December 2016 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.

How the matter was addressed during 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.

An impairment test of the shares in the Spanish Group companies was conducted in the parent company, which resulted in an impairment of SEK 508 million in 2016. We have inspected the supporting documentation used to test the value of shareholdings and evaluated the performed impairment test against the applicable regulations.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual report and consolidated accounts, which is found on pages 3, 6–9, 12–26, 30–31 and 76–83. The Managing Director is 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.

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 skepticism 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 for the year 2016 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 skepticism 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.

Stockholm 15 February 2017
KPMG AB

Joakim Thilstedt
Authorised Public Accountant

REVIEW OF SUSTAINABILITY REPORT

Holmen's Sustainability Report, as defined on page 3 of Holmen's Annual Report 2016, has been subject to a limited review in accordance with RevR 6 Assurance of Sustainability Reports, issued by FAR.

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, 15 February 2017
KPMG AB

Joakim Thilstedt
Authorised Public Accountant

Torbjörn Westman
Expert member of FAR



Board of Directors

Carl Kempe

Deputy chairman. Ömsköldsvik. 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 Berzelii Centre for Forest Biotechnology. Own and related parties' shareholdings: 386 000 shares.

Henrik Sjölund

Norrköping. Born in 1966. Member since 2014. M.Sc. in International Economics. President and CEO. Other significant appointments: Board member of Swedish Forest Industries Federation. Shareholding: 4 917 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 Indutrade 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.

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.

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 L E Lundbergföretagen AB. Shareholding: 100 000 shares.

Martin Nyman

Iggesund. Born in 1978. Deputy member since 2010. Employee representative, LO.

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.



Lars G Josefsson

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

Other significant appointments: Chairman of Burntisland Fabrication Ltd. Board member of Robert Bosch GmbH, Robert Bosch Industrietreuhand 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.

Ulf Lundahl

Lidingö. Born in 1952. Member since 2004. Bachelor of Laws and M.Sc. in Economics. Other significant appointments: Chairman of Eitel AB, Fidelio Capital AB, Ramirent plc and SHB Regionbank Stockholm. Board member of Attendo AB and Indutrade AB. Shareholding: 4 000 shares.

Lars Josefsson

Norrköping. Born in 1953. Board 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.

Henriette Zeuchner

Stockholm. Born in 1972. Member since 2015. M.Sc. in Economics and Bachelor of Laws. President and CEO of Berling Media AB. Other significant appointments: Board member of the NTM Group. Shareholding: 800 shares.

Steewe Björklundh

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

Tommy Åsenbrygg

Skebobruk. Born in 1968. Member since 2015. Employee representative, PTB. Deputy chairman of Ledarna, Hallsta Paper Mill. Shareholding: 100 shares.

Daniel Hägglund

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

Per-Arne Berg

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

Auditors: KPMG AB

Principle Auditor: Joakim Thilstedt *Authorised Public Accountant*



Group management

Gunilla Rolander HR Director.
Born in 1967. Joined Holmen in 2013.
Shareholding: 362 shares.

Nils Ringborg Head of Paper business area.
Born in 1958. Joined Holmen in 1988.
Shareholding: 2 514 shares.

Ola Schultz-Eklund Director of Technology.
Born in 1961. Joined Holmen in 1994.
Shareholding: 800 shares.

Sören Petersson Head of Forest business area.
Born in 1969. Joined Holmen in 1994.
Shareholding: 4 400 shares.

Henrik Sjölund President and CEO.
Head of Paperboard business area.
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 74.

Johan Padel Head of Wood products business area.
Born in 1966. Joined Holmen in 2014.
Shareholding: 830 shares.

Lars Ericson Director of Legal Affairs.
Company secretary.
Born in 1959. Joined Holmen in 1988.
Shareholding: 650 shares.

Ingela Carlsson Director of Communications.
Born in 1962. Joined Holmen in 2008.
Shareholding: 1 015 shares.

Anders Jernhall Executive Vice President. CFO.
Born in 1970. Joined Holmen in 1997.
Shareholding: 4 900 shares.

Daniel Peltonen will join as head of the Paperboard business area on 1 April 2017.

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	2016	2015
OPERATING PROFIT, EBITDA AND EXCLUDING ITEMS AFFECTING COMPARABILITY		
EBITDA	2 865	2 673
Depreciation and amortisation according to plan	-1 018	-1 240
Change in value of forests	315	267
Operating profit/loss excluding items affecting comparability	2 162	1 700
Items affecting comparability*	-232	-931
Operating profit/loss	1 930	769
OPERATING MARGIN		
Operating profit/loss	1 930	769
Net sales	15 513	16 014
Operating margin, %	13.9	10.6
EARNINGS FROM OPERATIONS, FOREST		
EARNINGS FROM OPERATIONS, FOREST	686	638
Change in value of forests	315	267
Operating profit, forest	1 001	905
CAPITAL EMPLOYED AND OPERATING CAPITAL		
Equity	21 243	20 853
Net financial debt	3 945	4 799
Capital employed	25 190	25 653
Deferred tax assets	-4	-6
Deferred tax liabilities	5 613	5 508
Operating capital	30 799	31 155
RETURN ON CAPITAL EMPLOYED		
Operating profit/loss excluding items affecting comparability	2 162	1 700
Average capital employed	25 146	26 769
Return, %	8.6	6.4
RETURN ON OPERATING CAPITAL		
Operating profit/loss excluding items affecting comparability	2 162	1 700
Average operating capital	30 669	32 284
Return, %	7.0	5.3
NET FINANCIAL DEBT		
Non-current financial liabilities	882	2 295
Current financial liabilities	3 200	2 698
Pension provisions	201	130
Non-current financial receivables	-39	-43
Current financial receivables	-89	-61
Cash and cash equivalents	-210	-221
Net financial debt	3 945	4 799
DEBT/EQUITY RATIO		
Net financial debt	3 945	4 799
Equity	21 243	20 853
Debt/equity ratio, times	0.19	0.23
EQUITY/ASSETS RATIO		
Equity	21 243	20 853
Assets	34 891	35 456
Equity/assets ratio, %	60.9	58.8

* See page 42 for what items affecting comparability refers to.

TEN-YEAR REVIEW, FINANCE

SEKm	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
INCOME STATEMENT										
Net sales	15 513	16 014	15 994	16 231	17 852	18 656	17 581	18 071	19 334	19 159
Operating costs	-12 626	-13 348	-13 270	-13 919	-15 224	-15 501	-15 077	-15 191	-16 614	-15 637
Profit from investments in associates and joint ventures	-22	7	-7	3	47	84	28	45	50	12
Depreciation and amortisation according to plan	-1 018	-1 240	-1 265	-1 370	-1 313	-1 260	-1 251	-1 320	-1 343	-1 337
Change in value of forests	315	267	282	264	350	-	52	16	-16	89
Operating profit/loss excl. items affecting comparability	2 162	1 700	1 734	1 209	1 713	1 980	1 332	1 620	1 412	2 286
Items affecting comparability*	-232	-931	-450	-140	-193	3 593	264	-	-361	557
Operating profit/loss	1 930	769	1 284	1 069	1 520	5 573	1 596	1 620	1 051	2 843
Net financial items	-71	-90	-147	-198	-227	-244	-208	-255	-311	-261
Profit/loss before tax	1 859	679	1 137	871	1 294	5 328	1 388	1 366	740	2 582
Tax	-436	-120	-230	-160	559	-1 374	-684	-360	-98	-1 077
Profit/loss for the year	1 424	559	907	711	1 853	3 955	704	1 006	642	1 505
Diluted earnings per share, SEK	16.9	6.7	10.8	8.5	22.1	47.1	8.4	12.0	7.6	17.8
NET SALES										
Forest	5 302	5 481	5 641	5 694	6 061	6 348	5 585	4 799	5 443	4 775
Paperboard	5 252	5 472	5 113	4 618	4 967	5 109	4 849	5 023	4 860	5 100
Paper	5 431	6 148	6 247	7 148	8 144	8 631	8 142	9 303	10 443	10 345
Wood products	1 342	1 314	1 352	1 175	1 129	875	586	553	499	589
Renewable energy	314	359	389	450	522	552	626	527	434	377
Elimination of intra-Group net sales	-2 128	-2 760	-2 748	-2 853	-2 972	-2 858	-2 207	-2 135	-2 345	-2 026
Group	15 513	16 014	15 994	16 231	17 852	18 656	17 581	18 071	19 334	19 159
OPERATING PROFIT/LOSS										
Forest	1 001	905	817	924	931	739	818	605	632	702
Paperboard	903	847	674	433	596	863	817	419	320	599
Paper	289	-74	141	-309	94	228	-618	340	280	623
Wood products	-3	9	37	-75	-130	-136	20	21	13	146
Renewable energy	120	176	212	371	355	406	495	414	327	272
Group-wide costs and eliminations	-148	-163	-146	-136	-132	-120	-200	-178	-159	-56
	2 162	1 700	1 734	1 209	1 713	1 980	1 332	1 620	1 412	2 286
Items affecting comparability*	-232	-931	-450	-140	-193	3 593	264	-	-361	557
Group	1 930	769	1 284	1 069	1 520	5 573	1 596	1 620	1 051	2 843
CASH FLOW										
Profit/loss before tax	1 859	679	1 137	871	1 294	5 328	1 388	1 366	740	2 582
Adjustment items	965	1 802	1 448	1 056	1 057	-2 561	811	1 163	1 797	629
Income tax paid	-504	-398	-191	210	-434	-557	-704	-334	-192	-390
Changes in working capital	-360	443	-217	-127	338	-109	28	678	-686	-345
Cash flow from operating activities	1 961	2 526	2 176	2 011	2 254	2 101	1 523	2 873	1 660	2 476
Cash flow from investing activities	-123	-832	-834	-869	-1 920	-1 733	-1 597	-818	-1 124	-1 315
Cash flow after investments	1 838	1 694	1 342	1 142	334	368	-74	2 054	536	1 161
Share buy-backs	-	-	-	-	-	-	-	-	-138	-
Dividend paid	-882	-840	-756	-756	-672	-588	-588	-756	-1 017	-1 017

* Items affecting comparability.

Year 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.

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

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

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

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

Year 2011: Revaluation of forest of SEK 3 593 million.

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

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

Year 2007: Impairment of goodwill and non-current assets of SEK -1 543 million and revaluation of forest amounting to SEK 2 100 million.

For a ten-year review of data per share, see page 41.

SEKm	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
BALANCE SHEET										
Non-current assets	28 701	29 524	30 221	30 652	30 664	30 335	26 028	25 694	26 507	26 153
Current assets	5 852	5 607	5 964	5 774	6 005	6 642	6 950	6 075	7 268	6 549
Financial receivables	128	104	62	52	69	128	262	225	175	147
Cash and cash equivalents	210	221	187	275	308	112	193	182	653	394
Total assets	34 891	35 456	36 434	36 753	37 046	37 217	33 432	32 176	34 602	33 243
Equity	21 243	20 853	20 969	20 854	20 813	19 773	16 913	16 504	15 641	16 932
Deferred tax liability	5 613	5 508	5 480	5 804	5 504	6 630	5 910	5 045	4 819	5 482
Financial liabilities and interest-bearing provisions	4 283	5 124	6 156	6 443	6 967	6 499	6 227	6 091	8 332	6 518
Operating liabilities	3 752	3 971	3 829	3 653	3 762	4 313	4 383	4 536	5 809	4 311
Total equity and liabilities	34 891	35 456	36 434	36 753	37 046	37 217	33 432	32 176	34 602	33 243
OPERATING CAPITAL										
Forest	17 798	17 589	17 340	16 813	16 663	16 278	12 597	11 384	11 415	11 264
Paperboard	6 426	6 622	6 790	6 863	6 177	5 041	4 313	4 114	4 254	4 180
Paper	2 815	3 558	4 666	4 810	5 608	6 606	6 954	8 789	10 237	9 971
Wood products	892	924	901	1 361	1 416	1 507	1 192	396	366	345
Renewable energy	3 412	3 351	3 401	3 357	3 261	3 253	3 235	3 207	3 006	2 960
Group-wide and other*	-544	-888	-744	-433	-220	-217	93	-963	-1 654	-630
Operating capital	30 799	31 155	32 354	32 772	32 905	32 469	28 385	26 929	27 623	28 090
Deferred tax liability, net	-5 609	-5 502	-5 478	-5 802	-5 502	-6 436	-5 700	-4 741	-4 477	-5 181
Capital employed	25 190	25 653	26 876	26 970	27 403	26 032	22 684	22 188	23 146	22 909
KEY FIGURES										
OPERATING MARGIN, %**										
Paperboard	17	15	13	9	12	17	17	8	7	12
Paper	5	-1	2	-4	1	3	-8	4	3	6
Wood products	0	1	3	-6	-12	-16	4	4	3	24
Group	14	11	11	7	10	11	8	9	7	12
RETURN ON OPERATING CAPITAL, %*										
Forest	6	5	5	6	6	6	7	5	6	8
Paperboard	14	12	10	7	10	19	20	10	8	15
Paper	9	neg	3	neg	2	3	neg	4	3	5
Wood products	0	1	3	neg	neg	neg	3	6	4	64
Renewable energy	4	5	6	11	11	13	15	13	11	9
Group	7	5	5	4	5	7	5	6	5	8
KEY FIGURES										
Return on capital employed, %**	9	6	6	4	7	9	6	7	6	10
Return on equity, %	7	3	4	3	9	23	4	6	4	9
Debt/equity ratio	0.19	0.23	0.28	0.29	0.32	0.32	0.34	0.34	0.48	0.35
DELIVERIES										
Harvesting in own forests, '000 m ³	2 986	3 213	3 297	3 465	3 211	2 988	2 999	2 897	2 649	2 575
Paperboard, '000 tonnes	497	499	493	469	485	474	464	477	494	516
Paper*** '000 tonnes	1 134	1 325	1 305	1 574	1 651	1 668	1 732	1 745	2 044	2 025
Wood products, '000 m ³	776	730	725	686	660	487	285	313	266	262
Own production of hydro and wind power, GWh	1 080	1 441	1 113	1 041	1 353	1 235	1 149	1 090	1 128	1 193

* Income and costs from the sale of newsprint from the Spanish mill sold in Q2 2016 is 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 2015. The facility in Madrid was sold in mid-2016. Reported data for the Group includes data on the facility in Madrid for the first half of 2016. Some of the parameters have a footnote stating the individual figure for the facility in question.

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.

PRODUCTION AND ENVIRONMENT	2016	2015	2014	2013	2012
<i>PRODUCTION, '000 TONNES</i>					
Paperboard	503	502	500	478	492
Market pulp	56	56	67	50	35
Printing paper	1 176	1 287	1 325	1 545	1 658
Wood products, '000 m ³	776	734	742	710	651
<i>RAW MATERIALS, '000 TONNES</i>					
Wood, million m ³ sub ¹⁾	5.36	5.10	5.16	5.25	5.19
Recovered fibre	200	394	439	543	630
Purchased pulp	70	79	75	99	108
Thermal energy, GWh	6 375	6 288	6 230	6 451	5 833
Electrical energy, GWh	3 949	3 994	4 067	4 420	4 603
Water use, million m ³	70	68 ²⁾	74	77	77
Plastic granules/foiling material	2.6	2.5	2.1	2.6	2.3
Chemicals ³⁾	151	138	146	146	145
Filler, pigment ³⁾	148	146	147	178	175
<i>THERMAL ENERGY, GWh</i>					
Production at mills from recovered liquors, bark and wood residues	4 605	4 289	4 532	4 156	2 880
Recovered in the TMP process ⁴⁾	1 171	1 083	1 068	1 117	1 171
Natural gas, oil and purchased ⁵⁾	599	916	630	1 178	1 783
<i>ELECTRICAL ENERGY, GWh</i>					
Company hydro power	958	1 302	1 048	1 008	1 343
Company wind power	121	138	65	33	10
Production at mills	784	781	740	769	563
Purchased, (net) ⁶⁾	2 086	1 773	2 214	2 610	2 687
<i>EMISSIONS TO AIR, TONNES</i>					
Sulphur dioxide (counted as sulphur, S)	41	52	57	91	116
Nitrogen oxides	960	891	1 181	1 557	1 664
Particulates	39	48	29	52	84
Fossil carbon dioxide ⁷⁾ , '000 tonnes	124	180	126	254	330
Biogenic carbon dioxide, '000 tonnes	1 539	1 441	1 551	1 449	1 064
<i>EMISSIONS TO WATER, TONNES</i>					
COD (organic matter), '000 tonnes	20.4	21.0	20.4	20.4	18.9
Suspended solids, '000 tonnes	3.2	3.3	3.6	4.3	3.2
AOX (chlorinated organic matter)	51.9	56.7	54.3	46.5	47.7
Nitrogen	208	226	203	215	242
Phosphorus	14.0	19.0	19.0	15.0	15.7
<i>BY-PRODUCTS, '000 TONNES</i>					
To energy production, internally/externally	872	823	824	885	865
Tall oil ⁸⁾	12.8	11.9	13.2	13.0	12.3
<i>WASTE, '000 TONNES</i>					
Utilised or for recovering ⁹⁾	270	303	296	367	380
Hazardous ¹⁰⁾	2.2	1.9 ⁹⁾	1.6	2.4	2.4
Sent to landfill (wet)	16	13	5.6	12	16
<i>ENERGY SUPPLIES</i>					
Branches, treetops and peat, GWh ¹¹⁾	155	230	275	294	297
Electrical and thermal energy, GWh ¹²⁾	380	348	305	199	202

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

2) Figure adjusted.

3) 100 per cent active substance. Total quantity of commodities was 229 000 tonnes for chemicals and 207 000 tonnes for filler and pigment.

4) Thermal energy is produced from the electricity used in the production of thermo-mechanical pulp at Braviken Paper Mill and Hallsta Paper Mill; this is recovered and used in production.

5) The reporting includes data for gas consumption and associated emissions linked to Holmen's share (approximately 240 GWh) of electricity production at the, until mid-2016, half-owned cogeneration (COGEN) plant at the mill in Madrid. The data also includes natural gas and oil used at the mills.

6) The energy purchased is fossil-free.

7) Emissions in 2016 from the mill in Madrid that was sold mid-year were approximately 47 000 tonnes.

8) For delivery to the chemical industry.

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

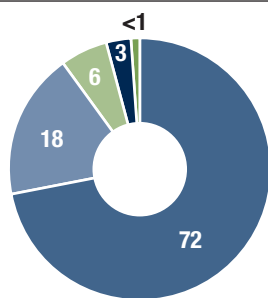
10) Hazardous waste is dealt with by authorised collection and recovery contractors. Certain fractions of the waste are recovered. Oil-containing waste from docking ships is dealt with at port facilities at three Holmen mills. Such waste is included in the figures for hazardous waste. The volume of this waste in 2016 totalled 591 tonnes.

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

12) For 2016: 155 GWh of electrical energy supplied from the mill at Workington to the local community. 217 GWh of thermal energy from Iggesund Mill and Braviken Paper Mill to Iggesund Sawmill and Braviken Sawmill, 8 GWh thermal energy from Hallsta Paper Mill and Iggesund Mill to the district heating network of the local communities.

THERMAL ENERGY

Share of Holmen's production/
consumption, %



Biofuel	72
Recovered thermal energy	18
Natural gas	6
Oil, LPG	3
Purchased thermal energy	<1

1) The high costs stated for 2012–2014 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 14 per cent of its productive forest for environmental reasons and thus refrains from harvesting around 14 per cent of the potential volume. The annual loss of income in 2016 is estimated at around SEK 71 million.

5) Relates to permanent employees.

6) Relates to permanent and temporary employees.

ELECTRICAL ENERGY	2016	2015	2014	2013	2012
<i>HOLMEN'S PRODUCTION RELATIVE TO TOTAL CONSUMPTION, %</i>					
Company hydro power/wind power	27	36	27	24	30
Electricity production at the mills	20	20	18	17	12
Purchased electricity (net)	53	44	55	59	58
THERMAL ENERGY	2016	2015	2014	2013	2012
<i>SHARE OF HOLMEN'S PRODUCTION/CONSUMPTION, %</i>					
Biofuel	72	68	73	64	49
Recovered thermal energy	18	17	17	17	20
Natural gas	6	12	8	12	18
Oil, LPG	3	2	2	6	9
Purchased thermal energy	<1	<1	<1	<1	4
ENVIRONMENTAL PROTECTION EXPENDITURE	2016	2015	2014	2013	2012
<i>SEKm</i>					
Investments (remedial and preventive)	55	12	26	122	60
Electricity and heat-saving investments ¹⁾	8	18	320	300	576
Environmental taxes and charges ²⁾	14	12	10	14	22
Internal and external environmental costs ³⁾	182	208	169	178	196
Environmental cost of forestry ⁴⁾	71	101	70	84	93
PERSONNEL	2016	2015	2014	2013	2012
<i>EMPLOYEES</i>					
Average number	2 989	3 315	3 359	3 718	3 945
of whom women, %	19.3	19.4	19.2	19.3	19.3
of whom temporary employees, %	8.8	9.0	7.9	7.7	6.9
Average age ⁵⁾	46.3	46.8	46.8	46.8	45.9
<i>SICKNESS ABSENCE⁶⁾, %</i>					
Total	4.2	4.2	3.9	3.6	3.4
of which longer than 60 days	2.0	1.8	1.7	1.3	1.1
Good health index (proportion of employees with no sick leave during the year)	48	48	50	47	48
<i>GENDER EQUALITY⁵⁾, %</i>					
Women managers out of total number of managers	19.0	20.5	20.9	20.3	20.3
Women joining the company out of total new employees	27	24	31	37	24
<i>PERSONNEL TURNOVER⁵⁾, %</i>					
Personnel turnover	6.9	7.6	7.2	11.5	8.5
of which given notice	1.6	2.8	2.0	6.2	2.7
of which retiring	2.4	2.4	2.2	1.7	2.6
of which leaving at own request	2.9	2.5	3.0	3.6	2.9
New employees	5.4	5.3	5.1	3.4	3.6
<i>NUMBER OF INDUSTRIAL ACCIDENTS</i>					
Industrial accidents, more than 8 hours of absence, per million hours worked	8.8	8.8	6.5	8.4	11.6
<i>UNION COOPERATION⁶⁾, %</i>					
Percentage of employees that work at a unit with a collective agreement	94	97	97	98	95
Rate of union membership	67	68	70	72	72

DEFINITIONS AND GLOSSARY

DEFINITIONS

Capital employed

Net financial debt plus equity. 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.

Debt/equity ratio

Net financial debt divided by total equity.

Earnings per share

Profit/loss 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.

Net financial debt

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

Operating capital

Capital employed plus the net sum of deferred tax liability and deferred tax assets, which corresponds to non-current assets plus working capital. Average values are calculated on the basis of quarterly data.

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.

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.

Return on operating capital

Operating profit/loss (excl. items affecting comparability) expressed as a percentage of average operating capital.

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

Bulk is a measure of the volume of the paper. Paper with the same basis weight may have a different thickness, depending on the bulk of the paper. A high bulk indicates a thick but relatively lightweight 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 Demand. 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.

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.

IPPC

Integrated Pollution Prevention and Control. EU environmental legislation about integrated, individual testing and supervision of major industrial companies.

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.

Phosphorus (P)

An element contained in wood. Excessive phosphorus in the water may cause over-fertilisation (eutrophication) and oxygen consumption.

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 on holmen.com. The annual report, together with year-end and interim reports, is published in Swedish and English and the reports are sent automatically to the shareholders who have indicated their wish to receive them. They are also available on holmen.com.

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Calendar

For 2017 Holmen will publish the following financial reports:

3/5 Interim report January–March

17/8 Interim report January–June

24/10 Interim report January–September

2018

30/1 Year-end report

The cover is printed on Invercote® G 280 gsm.

It is laminated, partially varnished and embossed.

The insert is printed on Holmen TRND, 2.0 – 80 gsm.

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Graphic production: Gylling Produktion AB.

Photos: Rolf Lavergren, Ulla-Carin Ekblom, Fredrik Schlyter, Lasse Hejdenberg and others.

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A black and white photograph of a large stack of papers or documents, fanned out from the bottom right towards the top left, creating a sense of depth and movement. The papers are slightly curved, and the lighting highlights the texture of the paper.

HOLMEN

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