

Corporate governance report



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

Shareholders

Holmen had 33 573 shareholders at year-end 2018. Private individuals with Swedish citizenship accounted for the largest category of owners with 31 586 owners.

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

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

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

At the 2018 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.

The 2018 AGM approved an increase in the number of shares in the company by means of a share split. This resulted in each share, regardless of series, being divided into two shares (a 2:1 split) of the same series. The record date for the share split was 2 May 2018, in accordance with the AGM's decision.

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

General meeting of shareholders

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

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

It was announced on 28 September 2018 that the 2019 AGM would take place in Stockholm on 11 April 2019.

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 2018 and 2019 AGMs is shown in the table on page 30.

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

The nomination committee applies rule 4.1 of the Swedish Corporate Governance Code (the Code) as a diversity policy in putting forward proposed Board members, which means the composition of the Board should reflect the company's business operations, phase of development and other circumstances, and should be diverse and wide-ranging in terms of the expertise, experience and background of the members elected by general meetings. An even gender distribution is sought. The nomination committee has observed this policy in its proposals to the Board. Further information about the work of the nomination committee will be provided at the 2019 AGM.

For the 2019 AGM, the nomination committee proposes that the Board consist of nine members elected by the AGM. The nomination committee proposes the re-election of the current Board members: Fredrik Lundberg (who is also proposed for re-election as Chairman of the Board), Carl Bennet, Lars G Josefsson, Lars Josefsson, Louise Lindh, Ulf Lundahl, Henriette Zeuchner, Henrik Sjölund and the new election of Alice Kempe. Carl Kempe did not stand for re-election.

Composition of the Board

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

AGM 2018

The 2018 AGM and the material presented was in Swedish. The notice convening the meeting, the agenda, the CEO's speech and the minutes are available at holmen.com.

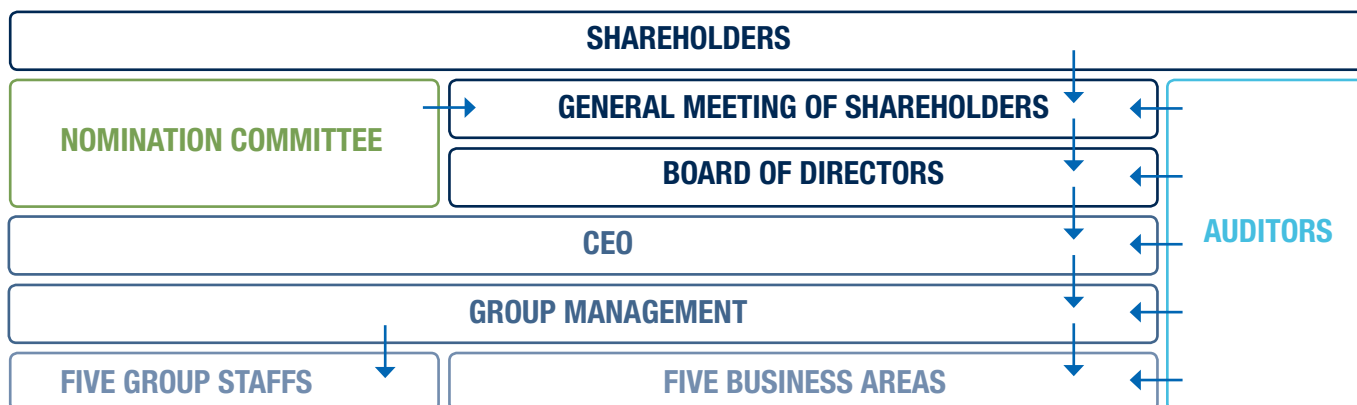
The meeting was attended by all AGM-elected Board members, Group management and the company's auditors. During the AGM, the shareholders had the opportunity to ask and obtain answers to questions. The AGM adopted the income statement and balance sheet, decided on the appropriation of profits and granted the departing Board discharge from liability. The minutes of the meeting were checked and approved by Ramsay Brufer, Alecta and Martin Wallin, Lannebo funds.

It was not possible to follow or participate in the meeting from other locations using communication technology. No changes in this regard are planned for the 2019 AGM.

Board meetings

The Board held eight meetings in 2018, four of which were in connection with the company's publication of its quarterly reports. One meeting was dedicated to reviews of strategic issues and the Group budget for 2019. One meeting was held in connection with the Board's visit to Iggesund Mill and Iggesund Sawmill, with discussion being dedicated in particular to development of the paperboard market. Two meetings were held in connection with the company's AGM. In addition, the Board paid particular attention to strategic, financial and accounting issues, the monitoring of business operations, the acquisition of a large forest holding in Hälsingland and the decision to expand Braviken Sawmill, as well as other major investment matters.

On one occasion the company's auditors reported directly to the Board, providing a presentation about their audit of the accounts and internal control.



or restrictions on how long members can serve on the Board.

The 2018 AGM re-elected Fredrik Lundberg, Carl Bennet, Lars G Josefsson, Lars Josefsson, Carl Kempe, Louise Lindh, Ulf Lundahl, Henriette Zeuchner and Henrik Sjölund to the Board. Fredrik Lundberg was re-elected Chairman. At the statutory first meeting of the new Board in 2018, Carl Kempe was elected Deputy Chairman and Lars Ericson, Senior Vice President Legal Affairs, was appointed Secretary of the Board.

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

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

The Board's activities

The activities of the Board follow a plan, one of whose aims is to ensure that the Board obtains all requisite information. Each year the Board decides on written working procedures and issues written instructions. The lat-

ter relate to the division of responsibilities between the Board and the CEO and the information that the Board is to receive continually regarding financial developments and other key events. Employees of the company participate in Board meetings to submit reports.

In order to develop the work of the Board, an annual evaluation is undertaken involving each member answering a questionnaire containing relevant questions concerning the Board's work and having the opportunity to make suggestions on how to enhance the Board's work. Their responses were presented and discussed at a Board meeting. The results of the 2018 evaluation will form the basis for planning the Board's work for the coming year. The chairman of the Board has reported the results of the evaluation to the nomination committee.

Remuneration

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

Remuneration and other employment conditions for senior management who report directly to the CEO are decided by the latter in accordance with the pay policy established by

the remuneration committee. The remuneration committee has evaluated the application of both this policy and the guidelines on the remuneration of senior management adopted by the AGM.

The Group applies the principle that each manager's manager must approve decisions on remuneration in consultation with the relevant personnel manager.

At the 2018 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 2019 AGM. These guidelines and information about remuneration are presented in Note 4 on page 50.

The 2018 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. The programme expires in May 2019 and the Board proposes that the 2019 AGM approve a new three-year programme. Further information about the existing share savings programme is provided in Note 4.

Board members as of the 2018 AGM

Board members	Elected	Role on the Board	Audit committee	Remuneration committee	Attendance at meetings:			(SEK '000)
					Board	Audit committee	Remuneration committee	
Fredrik Lundberg	1988	Chairman	Member	Chairman	8/8	5/5	2/2	710
Carl Kempe	1983	Deputy Chairman	Member	-	8/8	5/5	-	355
Carl Bennet	2009	Member	Member	Member	8/8	5/5	2/2	355
Lars G Josefsson	2011	Member	Member	-	8/8	5/5	-	355
Lars Josefsson	2016	Member	Member	-	8/8	5/5	-	355
Louise Lindh	2010	Member	Member	-	8/8	5/5	-	355
Ulf Lundahl	2004	Member	Member	-	8/8	5/5	-	355
Henriette Zeuchner	2015	Member	Member	-	8/8	5/5	-	355
Henrik Sjölund	2014	Member, President and CEO	-	-	8/8	-	-	-

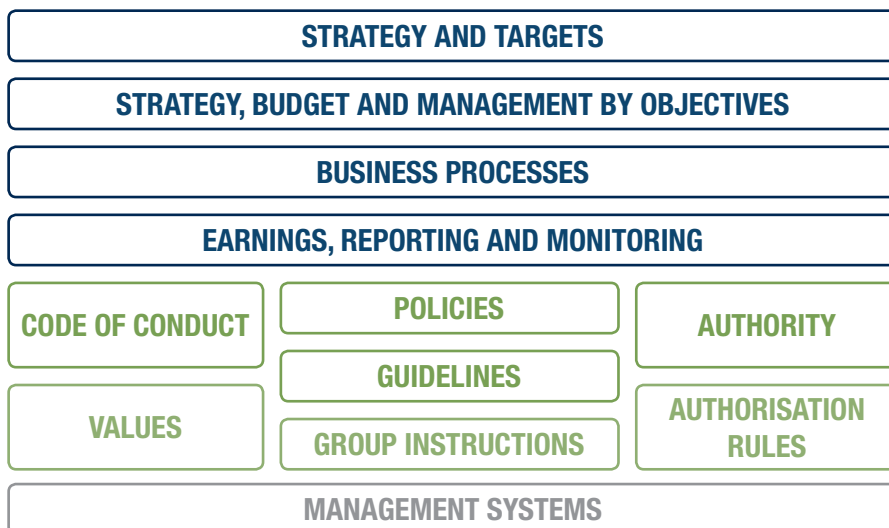
According to the nomination committee, Fredrik Lundberg, Carl Kempe, Carl Bennet, Lars G Josefsson, Lars Josefsson, Louise Lindh, Ulf Lundahl and Henriette Zeuchner are independent of the company and its senior management, and Lars G Josefsson, Lars Josefsson, Ulf Lundahl, Henriette Zeuchner and Henrik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

Employee representatives

Steewe Björklundh, member, elected 1998
Per-Arne Berg, deputy member, elected 2015

Kenneth Johansson, member, elected 2004
Daniel Häggglund, deputy member, elected 2014

Tommy Åsenbrygg, member, elected 2009
Christer Johansson, deputy member, elected 2017



Internal management processes and guideline documents.

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, the heads of the five Group staffs and the head of international affairs. Information about the CEO and other members of Group management is provided on page 72.

Group management met on nine occasions in 2018. The meetings dealt with matters such as earnings performance and reports before and after Board meetings, strategic issues, budgets, investments, internal control, work environment, sustainability issues and the impact of the new General Data Protection Regulation (GDPR). Meetings were also dedicated to reviews of market conditions, economic developments, possible consequences of Brexit and other external factors affecting the business, as well as discussion about governance of the Group and the tools, such as the management-by-objectives model and Group-wide policies, used in such governance.

Audit

KPMG, which has been Holmen's auditor since 1995, was re-elected by the 2018 AGM as auditor for a period of one year. Authorised Public Accountant Joakim Thilsted was

appointed as the principal auditor. Under applicable regulations KPMG can be re-elected as auditor up until 2023. KPMG audits Holmen AB and almost all of its subsidiaries.

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

Holmen's audit committee consists of external Board members and is chaired by Ulf Lundahl. The audit committee met five times in 2018. The Board's reporting instructions include requirements that the members of the Board shall receive a report each year from the auditors confirming that the company's organisation is structured to enable satisfactory supervision of accounting, management of funds and other aspects of the company's financial circumstances. The auditors reported to the audit committee at three meetings in 2018.

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 2018 is stated in Note 5 on page 51. KPMG is required to assess its independence before making decisions on whether to provide Holmen with independent advice alongside its audit assignment.

Internal management processes

A review is conducted annually of each business area's strategy, including the business' goals. The strategy is presented to the Board and forms the basis of the expectations applied to the units in each respective business area. On the basis of the expectations, each unit sets objectives and identifies success factors for achieving them. Key performance indicators (KPIs) are linked to the success factors in order to measure and demonstrate changes in performance. The strategy review also provides the basis for the budget, in which decisions are taken on the distribution of resources and targets for the coming year are set. Use of a simple and well-implemented management-by-objectives tool for continuous follow-up ensures that the entire organisation is applying appropriate priorities to attain the objectives established.

The business areas guide the operating businesses towards these targets using processes for purchasing, production and sales, and supported by HR, financial management, research and development, IT, environment and communication processes.

Operations are followed up through regular reporting of financial performance and KPIs, along with additional qualitative analysis. During the year, sustainability data was integrated into the financial reporting process.

Code of Conduct. Holmen's Code of Conduct is in line with the UN Global Compact and provides guidance on day-to-day operations and clarifies what expectations are made of employees. Holmen's operations should be characterised by responsible behaviour towards both internal and external stakeholders. The Supplier Code of Conduct complies with the UN Global Compact and covers the areas of anti-corruption, human rights, health and safety and the environment.

With respect for human rights, Holmen works for a workplace climate that is founded in the equal value of all people. All Holmen's employees must have the same rights, obligations and opportunities irrespective of their sex, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation and age. Holmen is subject to the UK Modern Slavery Act and a report relating to this is available at holmen.com.

Composition of the nomination committee

Name	Representing	Before AGM:		Independent of the:	
		2019	2018	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	Yes	Yes
Torbjörn Widmark	Kempe Foundations*	x	-	Yes	Yes
Hans Hedström	Carnegie funds*	x	x	Yes	Yes

*At 31 August 2018, L E Lundbergföretagen controlled 61.6 per cent of the votes, the Kempe Foundations controlled 17.0 per cent and Carnegie funds (Sweden) controlled 1.5 per cent.

Policies. Holmen uses policies, guidelines and Group instructions to clarify how employees should act within key, critical and Group-wide areas. The Group's 11 policies cover matters such as expectations of employee participation and leadership, specify the scope of management by objectives, talent management, interaction with trade union organisations, equality and employment terms and conditions. In addition to this, a good work environment is covered in terms of health and safety, anti-corruption and competition issues, and how good business practice is maintained in relation to external contacts on different markets. Employees in departments at risk of encountering unauthorised behaviour receive special training on business ethics. The policies specify how raw materials should be used efficiently, how pollution should be prevented and that we should aspire to make continuous improvements. Financial risk is managed centrally and should be characterised by a low level of risk. The policies should also ensure that the company's assets are managed in accordance with Group rules, minimise risks of errors in financial reporting and prevent irregularities. The Group's purchasing should contribute to long-term profitability. The sustainable sale of raw materials, products and services should be ensured in both the short and long term. Communication must be accurate, transparent and easily accessible and comply with legal requirements and commercial confidentiality.

Compliance. Holmen's Code of Conduct, policies and values are part of every employee's induction programme, and are reiterated by managers at employee meetings. Compliance is monitored partly through employee surveys and appraisal talks, pay surveys, safety statistics and audits of the organisational and social work environment. Where non-compliances or failings are found in terms of the corporate culture, the issue is addressed on a case-by-case basis.

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

Internal control of financial reporting

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

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

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 and evaluations. The framework has been modified to suit the estimated needs of Holmen's various operations.

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

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

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

Holmen's greatest risks regarding financial reporting are linked to the valuation of biological assets and property, plant and equipment, pension provisions, other provisions and to financial transactions. The risk assessment also involves identifying and assessing operational risks. For further information, see the Risk Management section on pages 32–35.

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

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

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

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.

Holmen's MSCI ESG 'AAA' rating

ESG stands for environmental, social and governance. MSCI ESG ratings are designed to help investors understand ESG risks and opportunities and incorporate these factors into their portfolio structure and management process. Holmen's MSCI ESG rating for 2018 remains unchanged at the highest level, 'AAA'.



See page 78 regarding use of the MSCI logo.

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 audit committee and 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.

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.