

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 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.

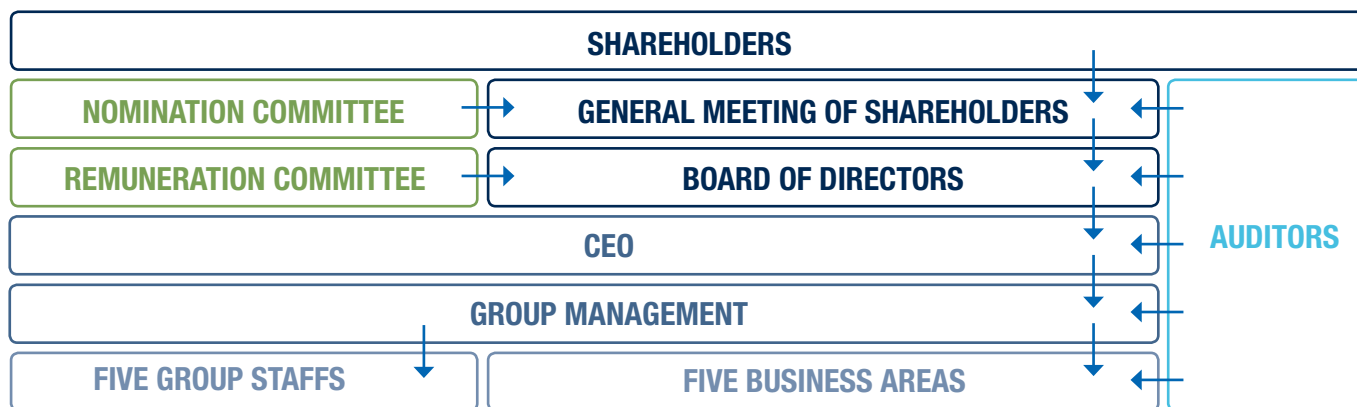
The meeting was attended by all AGM-elected Board members, Group management and the company's auditors. During the AGM, the shareholders had the opportunity to ask and obtain answers to questions. The AGM adopted the income statement and balance sheet, decided on the appropriation of profits and granted 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 Örnsköldsvik 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

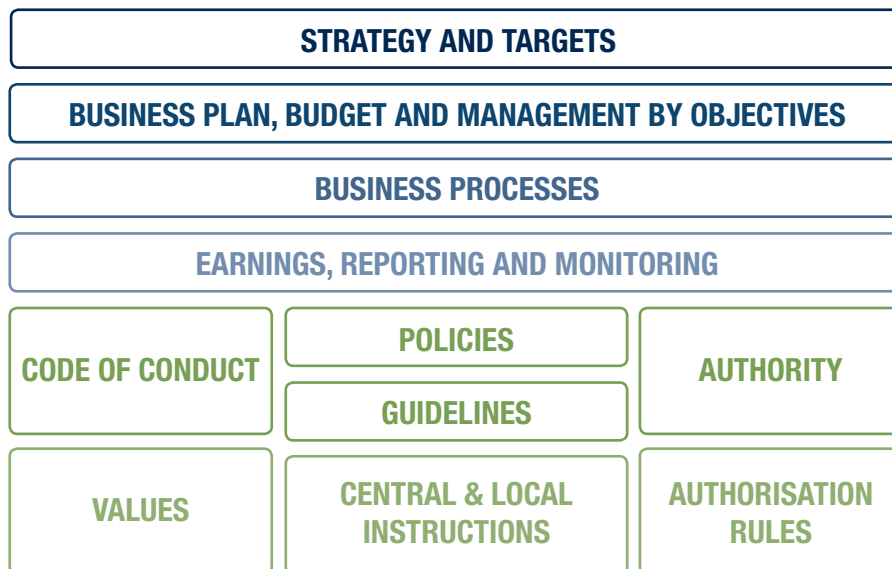
Board members as of the 2016 AGM

BOARD MEMBERS	POSITION	ELECTED	ATTENDANCE	FEE (SEK)	INDEPENDENT OF THE:	
					COMPANY	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.