

# Holmen Annual General Meeting 2016

**HOLMEN**



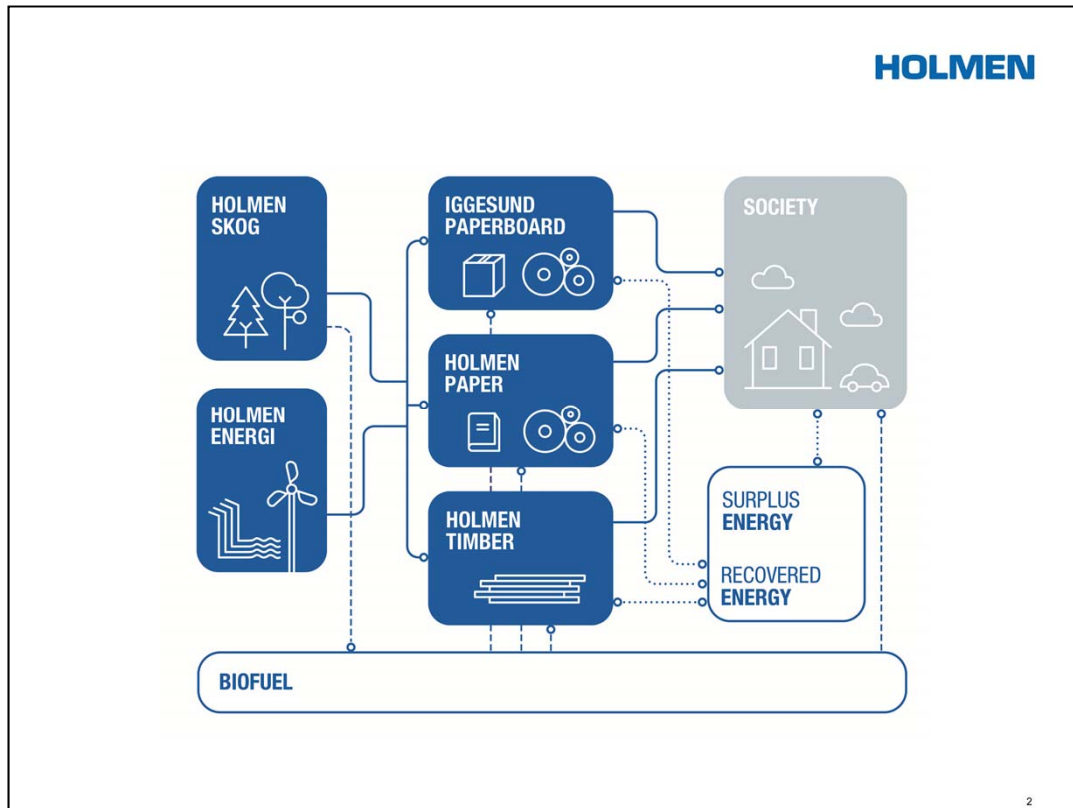
13 April 2016

Mr Chairman, esteemed shareholders,

Large sections of the forest industry, including Holmen, are facing both structural and economic challenges. We have therefore implemented large and significant changes to ensure a continued successful business. Our ability to adapt to a changing world and take on new challenges is key to our success.

With regard to industrial operations, during the year we made our business smaller but more efficient within paper, with a more productive and flexible saw mill operation and a modern consumer board business with potential for growth. The sale of the Madrid newsprint mill has resulted in even lower business risk and the opportunity to achieve good earnings performance within paper.

Our significant renewable forest and energy assets and a large-scale industrial operation with expertise in high-performance consumer board make Holmen a relevant company for the long term.



The growing forest is the basis of Holmen’s business. From the renewable material yielded by the forest and using the energy generated by our own energy assets, the Group’s paper mills and sawmills currently produce consumer board, paper and wood products. By-products produced at our facilities, including bark, are used for energy generation at our own plants or sold for energy production that is not based on fossil fuels.

By focussing on financial stability and profitability, combined with a responsible approach to the environment, employees and the communities in which we operate, Holmen has created the conditions for a business that generates value for shareholders, customers and other stakeholders.



Holmen practises active forestry with high growth. The volume of wood is built up over 70–90 years and after harvesting a new growth cycle begins. The key to long-term profitability in forestry is high growth and increased productivity in both forest management and harvesting. The Group’s forest holdings amount to approximately 1.3 million hectares, of which just over one million are productive forest land. We are 60 per cent self-sufficient in wood, and electricity production from wholly and partly owned hydro and wind power facilities, together with the electricity production at our larger mills, provides for just over half of the Group’s electricity consumption.

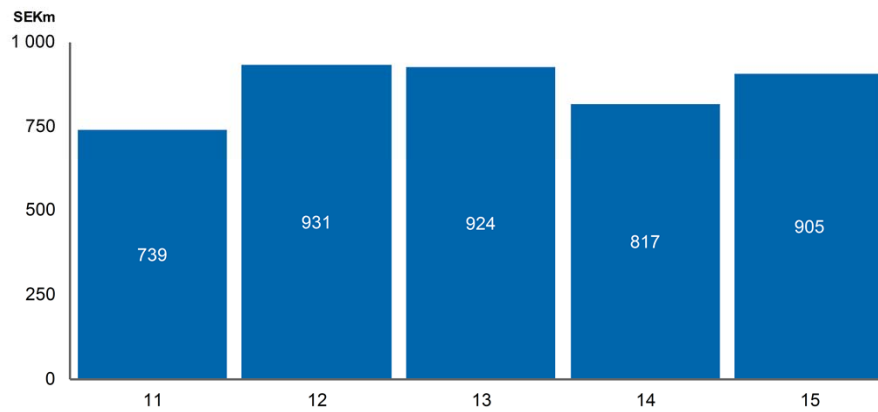
These forest and energy assets are of great value to Holmen and account for two-thirds of its assets. They contribute to stable earnings that increase over time and they also form the basis for Holmen’s brand as a sustainable company.



The climate negotiations in Paris at the end of 2015 led to world leaders adopting a global climate agreement. Under the agreement, measures must be taken to maintain and improve the ability to capture and store greenhouse gases. The emphasis on the specific importance of forests is of particular interest in this regard.

The global climate agreement's targets can only be achieved through greater use of existing renewable and climate-smart products such as consumer board, paper and wood products and the development of new materials and products to replace fossil fuel-based materials. Utilising forest raw materials at every stage of the processing chain to generate the greatest possible value is fundamental to continuing to build a long-term sustainable and profitable business.

## Operating profit, forest



Excl. items affecting comparability

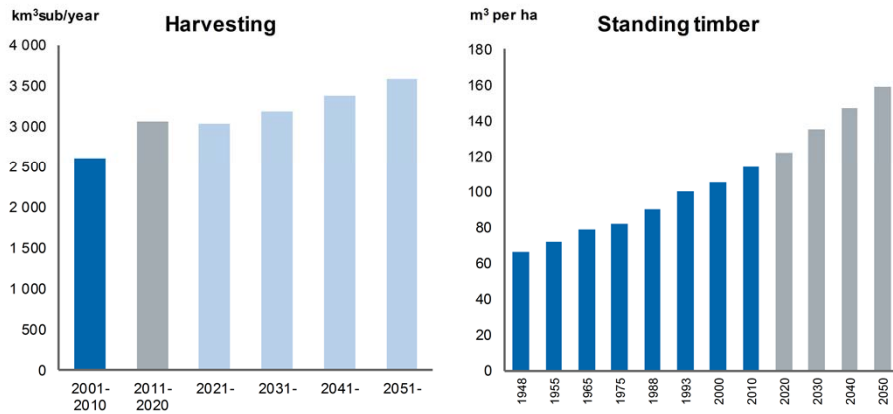
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For the Holmen Skog business area, earnings from operations for 2015 increased by SEK 103 million to SEK 638 million, mainly owing to lower costs for handling storm fellings and the effects of implemented rationalisations. Operating profit, which includes a change in value of SEK 267 million, totalled SEK 905 million.



As a result of active forestry, the volume of wood in Sweden's forests has almost doubled over the past 100 years. The ability of the forest to absorb carbon dioxide, in combination with a growing forest stand, also helps counteract climate change. But it must be borne in mind that the forest's absorption of carbon dioxide changes over time and is governed by the age of the trees. Younger and middle-aged stands, where growth is greatest, absorb more carbon dioxide than older stands, where growth is in decline. The rule of thumb is therefore simple: The more the volume of wood in our forests grows, the greater the benefit in terms of carbon capture. This is why a managed forest is better for the climate than an unmanaged one.

## Greater extraction and increased growth



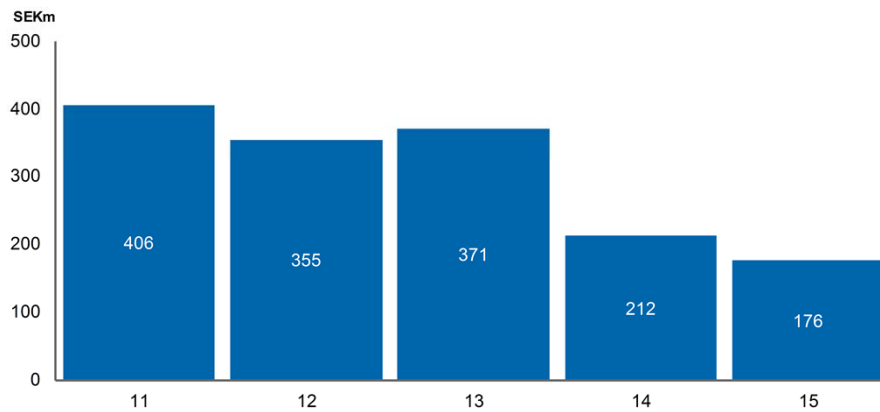
The need for raw material from the forest for construction, packaging, hygiene purposes and energy is also driven by the steadily expanding global population. In other words, there are a number of reasons to continue managing our forests in an active and sustainable way.

Increased growth and productivity are key to long-term profitability in forestry. The focus is not only on fully exploiting current methods and technology, but also on developing new methods. Optimised use of resources and benefits in terms of the climate are guiding principles throughout the process, from tree breeding to silviculture and harvesting. Growth in our forest has long exceeded the extraction of wood and we are working towards a target of increasing growth by 25 per cent by 2050 compared with base year of 2007.

There is no doubt that the forest has good prospects as a raw material, especially amid a transition to a bioeconomy in which products made from fossil fuel-based raw materials are being replaced with renewable alternatives. But in order to increase growth in the forest in the long term and be able to extract more raw material, the right to manage the forest is fundamental. This is a key question for the Swedish forest industry, but it is ultimately a question of ownership rights that I and Holmen take very seriously and that we will defend by all means.

Let us now move on to the Holmen Energi business area.

## Operating profit, renewable energy



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As with our forest assets, our energy assets in the form of hydro and wind power are renewable and, theoretically, have an infinite lifespan. Holmen is also the only Swedish industrial company with its own energy assets.

Operating profit for Holmen Energi amounted to SEK 176 million in 2015. Electricity production was just over 15 per cent higher than usual, but earnings decreased as a result of low electricity prices.

Since entering regular operation, the 17 wind turbines at Varsvik wind farm have performed in line with expectations.





Hydro power, which accounts for 90 per cent of Holmen's energy assets, has a unique advantage among other renewable energy sources in that it can be regulated. By increasing or reducing the flow of water passing through the turbine, production can to some extent be adapted based on demand. This makes hydro power a highly significant component of the Swedish energy system and a never-ending source of energy. In an energy system that will be increasingly based on renewable sources, hydro power contributes significant value for society.

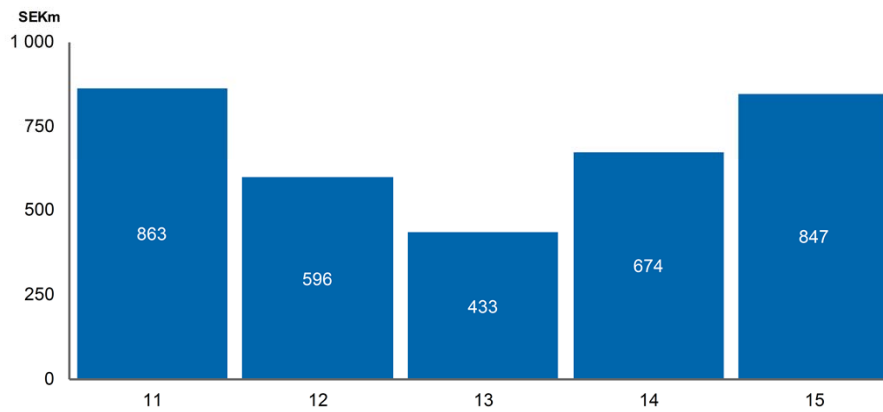


A hydro power station can supply climate-smart, renewable energy for more than a hundred years as long as it is maintained and developed. For every kilowatt hour produced by hydro power, electricity generated from energy sources with a greater environmental impact, such as oil and coal, can be reduced. Existing hydro power stations can also be made more effective, but political decisions and environmental investigations unfortunately risk limiting these opportunities. Instead, the conditions for hydro power have deteriorated. Tax on power plant properties has increased dramatically in recent years, which, given current market conditions, means in practice that we cannot count on reinvestments being made in our facilities, which is of course an unsustainable situation and very serious for future energy supply.

Meanwhile, wind power faces the challenge of there being too many electricity certificates on the market and unpredictable long-term development. This means that it is currently unprofitable to build more wind turbines.

We will now move on to our product-oriented business areas.

## Operating profit, consumer board



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Iggesund Paperboard's deliveries amounted to 499 000 tonnes in 2015, which was 1 per cent higher than in 2014. Operating profit for the year amounted to SEK 847 million. The improvement was due to reduced production costs and a weaker Swedish krona.



As a market leader in the highest quality consumer board segment, our Invercote and Incada brands give us a strong position on a growing market. Both Invercote and Incada are manufactured from fresh fibre from sustainably managed forests. The combination of fresh fibre and the consumer board's special properties with high, even quality enables the production of attractive and functional packaging solutions that can beneficially replace packaging made from fossil fuel-based raw materials.

We are continuing to consolidate our strong position in Europe and are also developing a platform for global growth on selected markets. We know we have the potential to grow, but it requires us to continue focussing on good customer relationships, cost effectiveness and productivity.



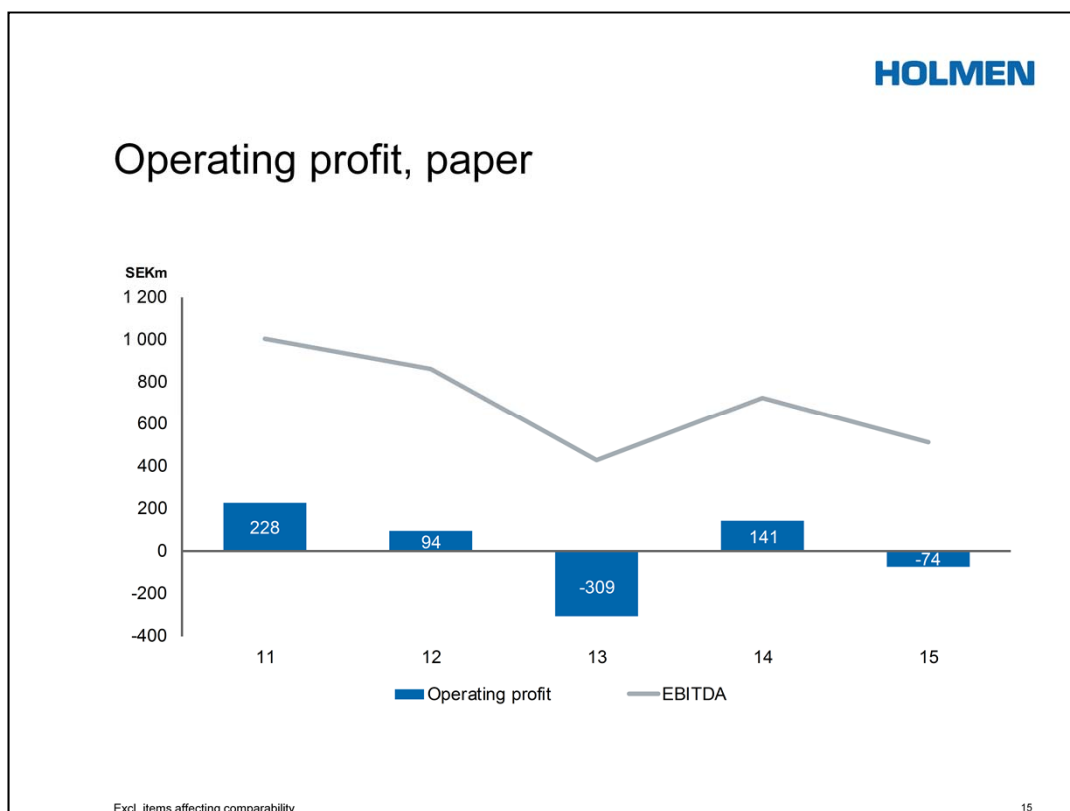
Production was good at both our mills in 2015. The capacity project at the pulp factory in Iggesund was completed according to plan, enabling us to achieve continued organic growth, while in Workington we made investments to increase board machine capacity for 2016. Overall, there is potential to raise consumer board production by around 10 per cent.

In November, we carried out a maintenance and rebuilding shutdown at the mill in Iggesund. This included an upgrade of the recovery boiler so that it now only needs to be inspected every 24 months. This longer inspection interval gives us more production days, which will boost the mill's capacity.

We have put together the following film to demonstrate the challenge that shutting down a mill presents.

## Film about the shutdown at Iggesund





Deliveries for the Holmen Paper business area and our paper business amounted to 1 325 000 tonnes in 2015, which was 2 per cent higher than in 2014. Speciality paper in the form of magazine and book paper accounted for 60 per cent of deliveries.

Operating income for 2015 was SEK -74 million, excluding items affecting comparability. The decrease in profit was due to lower selling prices, as well as costs and production losses from a rebuilding shutdown at Braviken Paper Mill. This was partly offset by a weaker Swedish krona and the implemented rationalisations.

The extensive fire at the paper mill in Hallstavik at the end of the year was a significant challenge for our organisation. Fortunately no personnel were injured, and following intensive clean-up and repair work we were able to restart one of the paper machines less than two weeks later. The second paper machine has also been in operation since early March and the mill is now back to full production.



Following the sale of the Madrid operation, Holmen's paper products are entirely based on fresh fibre. This means that no recovered fibre is included in our modern magazine and book papers. But how does this fit with the Group's ecocycle approach and Holmen's ambitious sustainability efforts? Very well actually. Of course, the recovered paper system needs the addition of fresh fibre. There would be no recovered fibre without fresh fibre. And Holmen's fresh fibre-based printing paper is also traceable. It can be traced back to Swedish forests, which are managed responsibly.





Holmen Paper is in the middle of extensive change management and in 2015 it took an important step towards achieving its speciality paper strategy by investing in a new product focus for the PM 53 paper machine in Braviken. Hallsta Paper Mill is a good example that this strategy can work, with book and magazine paper having replaced the newsprint that it previously produced.

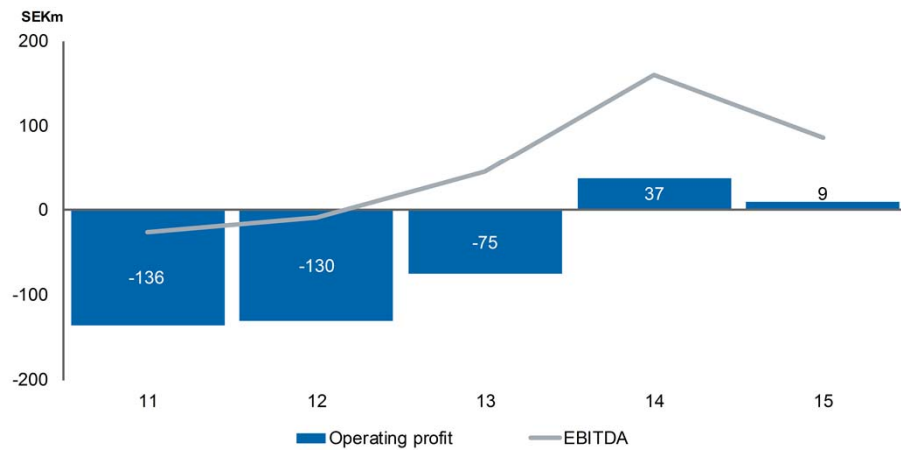
In mid-March 2016 we entered into an agreement to sell our newsprint mill in Madrid. This decision was entirely consistent with our focus on fresh fibre-based speciality paper.

A smaller, more agile and much more efficient organisation focused on speciality paper gives us a larger customer base with greater opportunities to grow on more markets without additional major investments. We also need to focus strongly on marketing and continue to adjust plants to make them more efficient and reduce costs.

The sale of the mill in Madrid and our focus on speciality paper in the two remaining Swedish mills means there are also good opportunities for healthy operating profit in the paper business.

Finally, we have wood products.

## Operating profit, wood products



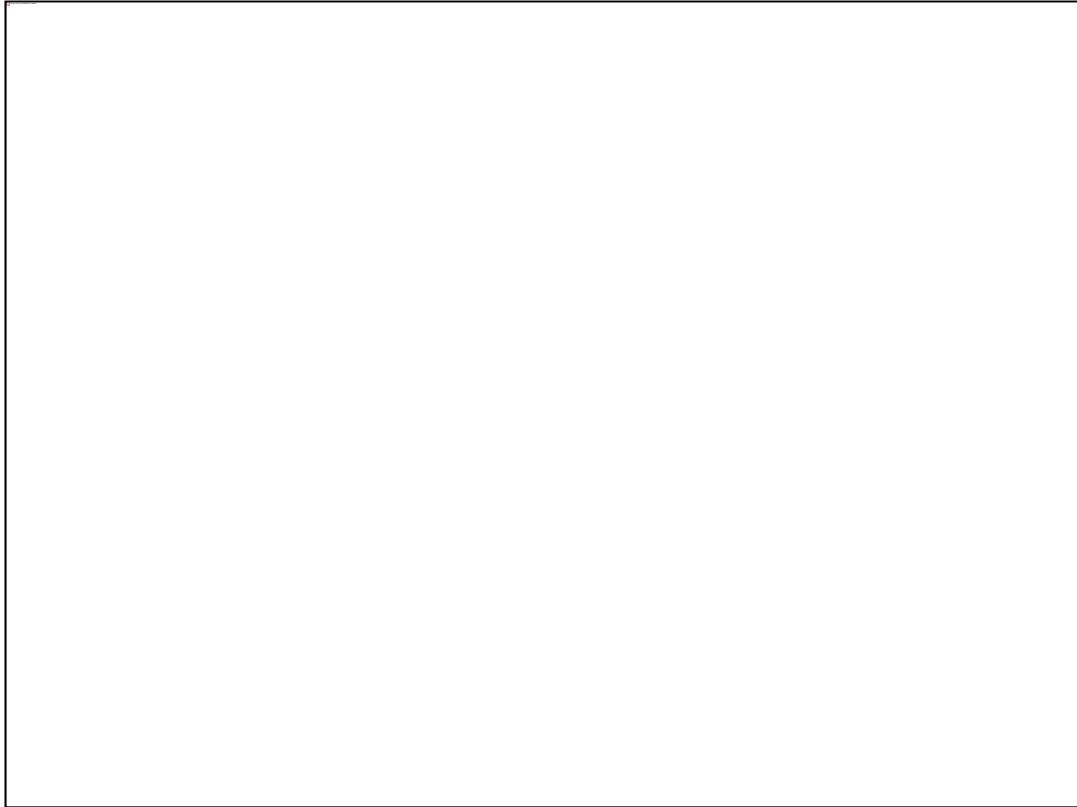
Excl. items affecting comparability

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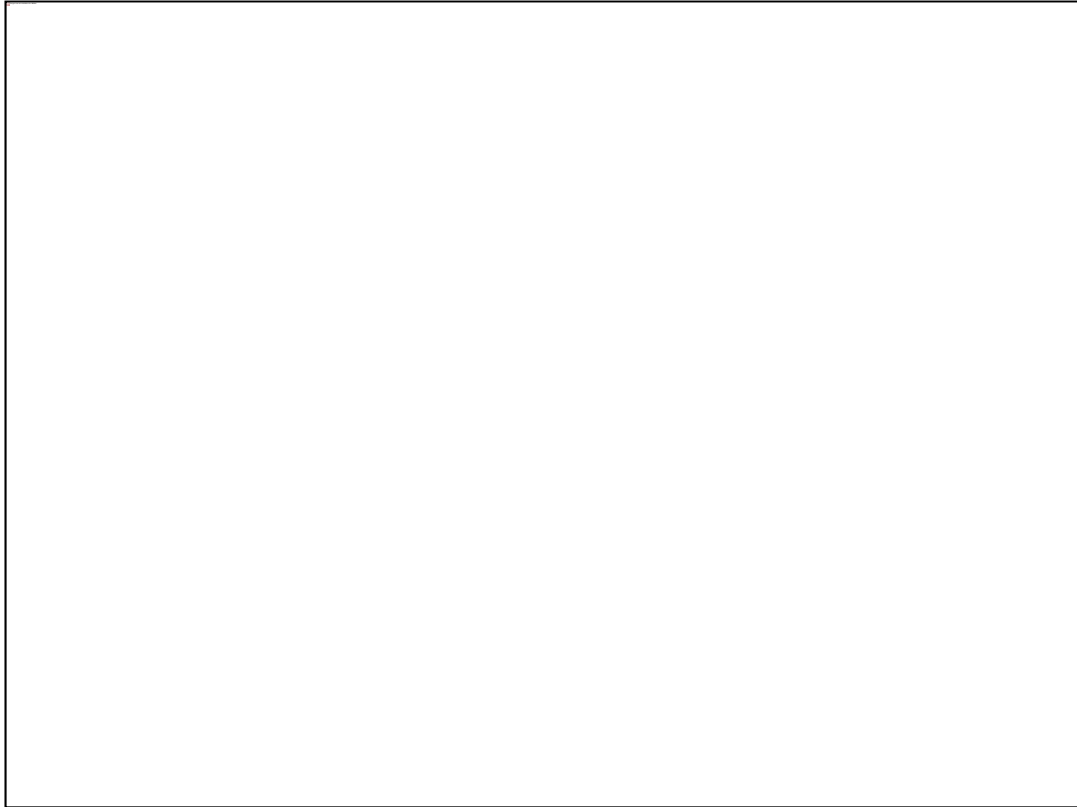
Holmen Timber's deliveries in 2015 amounted to 730 000 cubic metres, which was slightly higher than in 2014.

Operating profit was SEK 9 million, excluding items affecting comparability. The slight decrease from 2014 was due to lower selling prices and higher costs for logs. The decrease was offset by a weaker Swedish krona and by depreciation being SEK 46 million lower as a result of the impairment made in 2014.

In 2015, investment was made in Braviken Sawmill so that it can now also saw pine. The start-up in the autumn went well and together with the investments in increased productivity at Iggesund Sawmill, this means we are more competitive and have a broader product range.



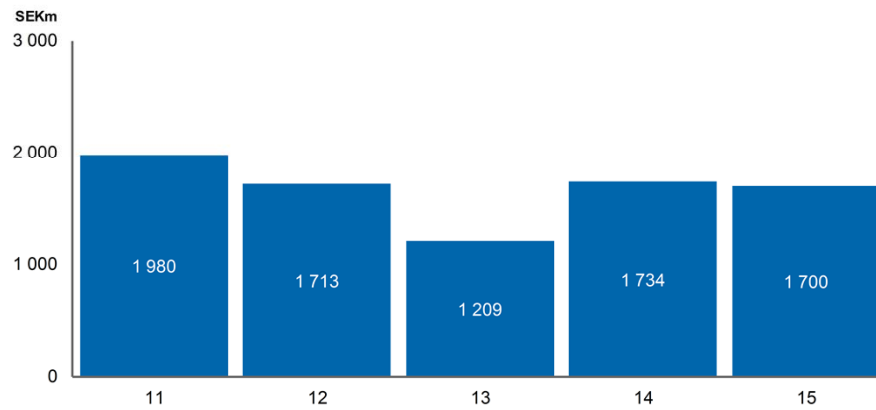
Using wood for construction is efficient in terms of cost and time, and it also has significant benefits in terms of carbon footprint. Constructing buildings from wood sequesters the carbon dioxide that has been absorbed by trees growing in the forest. A further advantage that wood products offers over other products is what is known as the substitution effect. The production of building materials such as concrete and steel results in emissions of fossil carbon dioxide being released into the atmosphere. Constructing buildings from wood instead reduces emissions and also requires less energy for manufacturing and transportation. In the long term, everything points to the advantages offered by wood resulting in increased interest in timber frame construction.



Demand for wood products last year was actually fairly good, but supply was high and this led to prices coming under pressure.

Although in the long term we believe the trend will be positive and expect prices to rise, both the costs for logs and the prices of our products will continue to go up and down on the market. But hopefully this journey will be a little calmer than the new rollercoaster at Kolmården Wildlife Park in Sweden, which is currently being built from wood from Holmen 😊

## Operating profit, Group

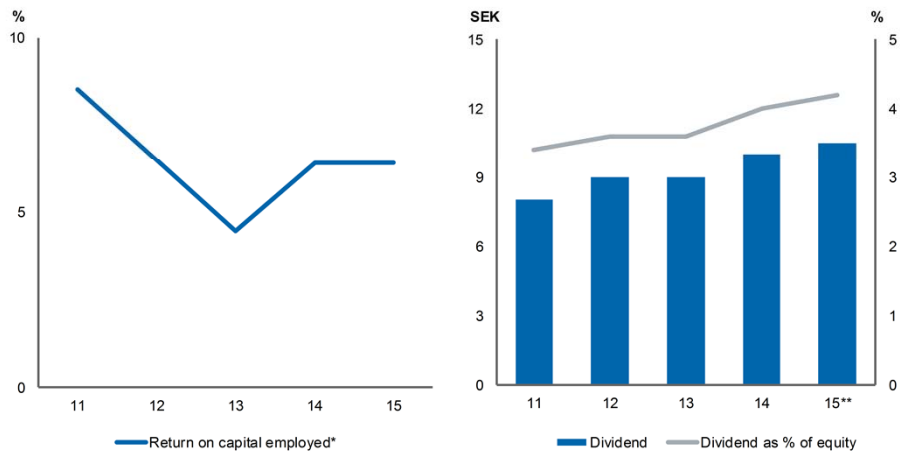


Excl. items affecting comparability

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It's now time to sum up Holmen Group performance in 2015. Consolidated operating profit, excluding items affecting comparability, totalled SEK 1 700 million. Good production, cost rationalisations within the businesses and a weaker krona offset the effects of price decreases and rebuilding and maintenance shutdowns.

## Profitability and dividend



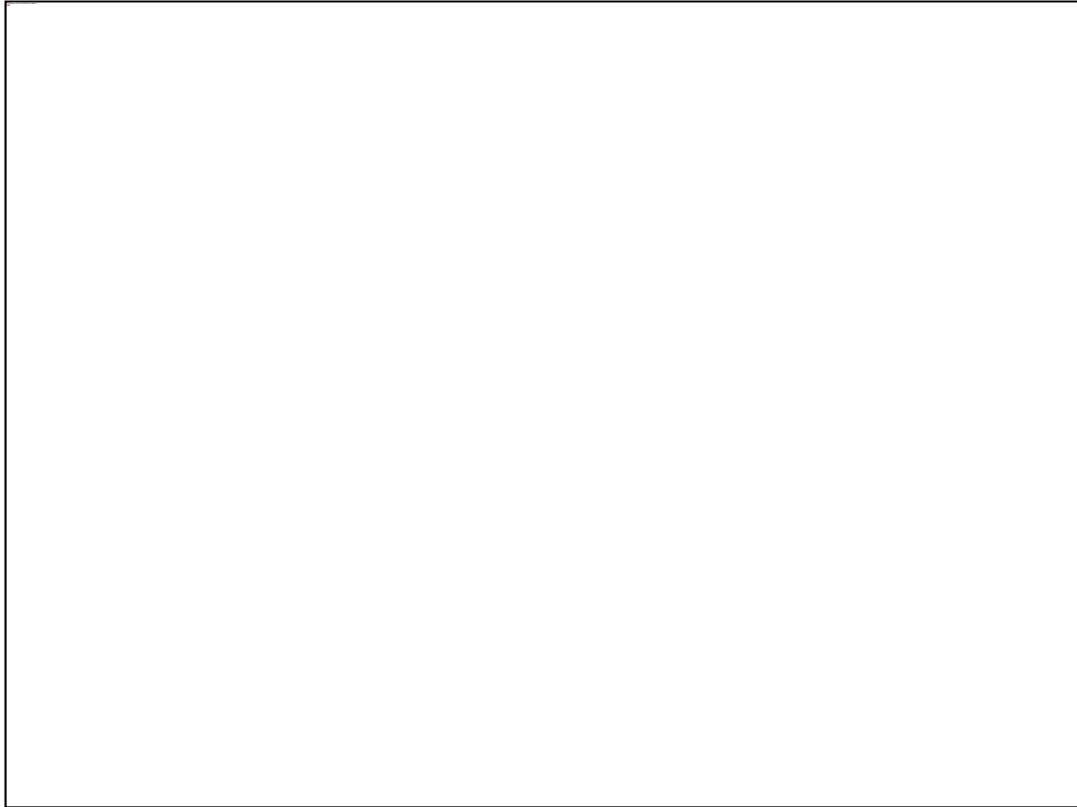
\* Excl. items affecting comparability  
 \*\* Proposed dividend

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Holmen's aim is for forest and energy, which constitute two-thirds of the Group's assets, to provide a stable return on capital employed of at least 5 per cent, and for the industrial business to consistently return more than 10 per cent. Taken together this means that the Group's return should exceed 7 per cent. Return on capital employed in 2015 was 6.4 per cent. Wood products and printing paper showed weak profitability during the year, which meant the Group did not fully achieve its return target.

Holmen's financial position needs to be strong so that we have flexibility when making long-term commercial decisions. In 2015, net financial debt decreased to around SEK 4.8 billion, giving a debt/equity ratio of 0.23.

Against this background, the Board is proposing a dividend of SEK 10.50 per share, which is SEK 0.50 more than for the previous year. The proposed dividend corresponds to 4.2 per cent of equity.



Ladies and gentlemen,

I would like to close by emphasising that Holmen and the modern forest industry have an important role in a future society in which bio-based raw materials and products are increasingly used. And while our forests and the products we produce contribute to the solution to climate and resource problems, they also create opportunities for economic growth and employment.

Although Holmen is well positioned, we operate in a challenging sector. In this respect, it is good that a number of large investments have now been made and that we are entering a quieter investment period with a focus on reaping the potential from the initiatives we have carried out. The marketing challenges that we face require aggressive initiatives to reach new markets and new customers with a well-developed service offering. We are therefore continually reviewing our organisation and our working practices. Lower production costs owing to more efficient processes that enable a lower level of staffing are also necessary to cope with ever increasing competition.

Forest and energy assets are amazing renewable resources with the potential for increased cash flow over time and constitute two-thirds of the Group's assets. Following the sale of the mill in Madrid there is potential to achieve good profitability in our paper business based entirely on fresh fiber. Our leading position on the consumer board market and efficient mills offers a potential for growth. Together with a strong balance sheet, this makes Holmen a stable company for the future.

And with that I will hand you over to the Chairman.

# HOLMEN

[www.holmen.com](http://www.holmen.com)