

Annual General Meeting 2017

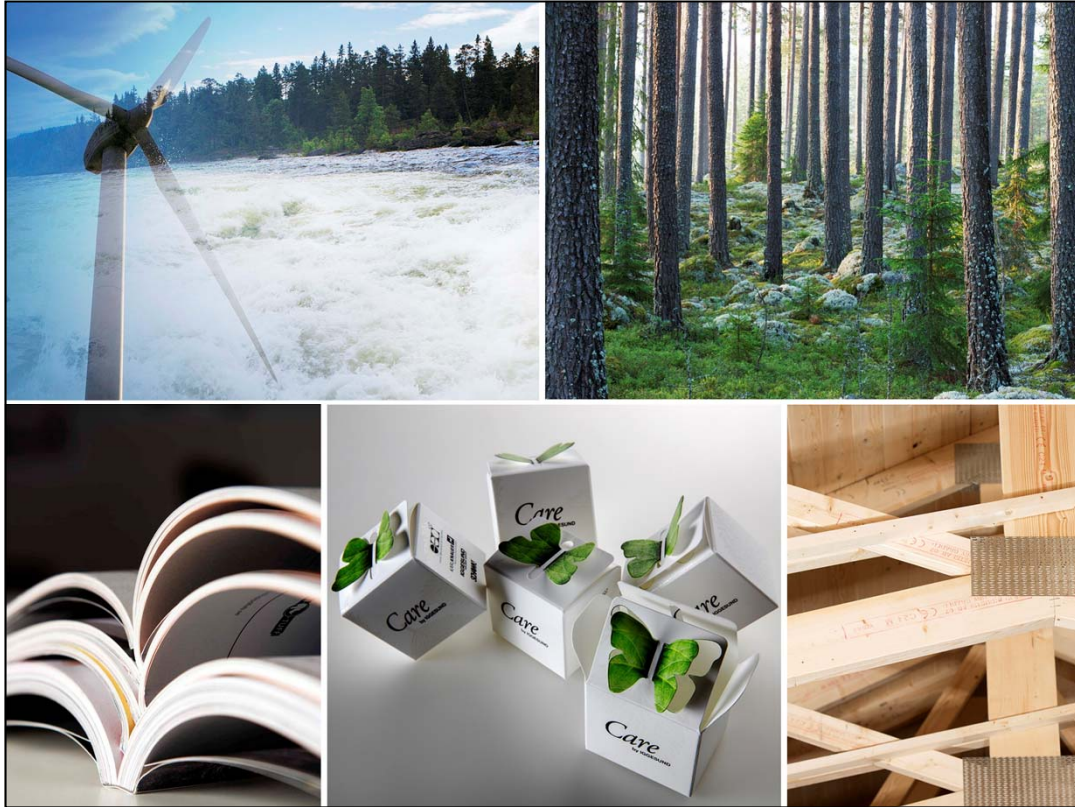


27 March 2017



Mr Chairman, esteemed shareholders,

The forest is a fantastic resource. It is where we source the renewable raw material that enables us to produce high-quality, cost-effective and not least sustainable products that are appreciated by customers all over the world. With a history stretching back 400 years, Holmen has a long tradition of managing and processing natural resources. Producing our own energy and operating resource-efficient production units allows us to generate value on several fronts for shareholders, customers and wider society.



Holmen is a company with its own forest and profitable industries, with forest and hydro power accounting for two-thirds of its 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, our business brings substantial climate benefits, as it reduces the amount of carbon dioxide in the atmosphere by over two million tonnes per year.

Holmen's financial situation is strong with low net financial debt, which gives us stability but also the freedom and opportunity to develop the company.

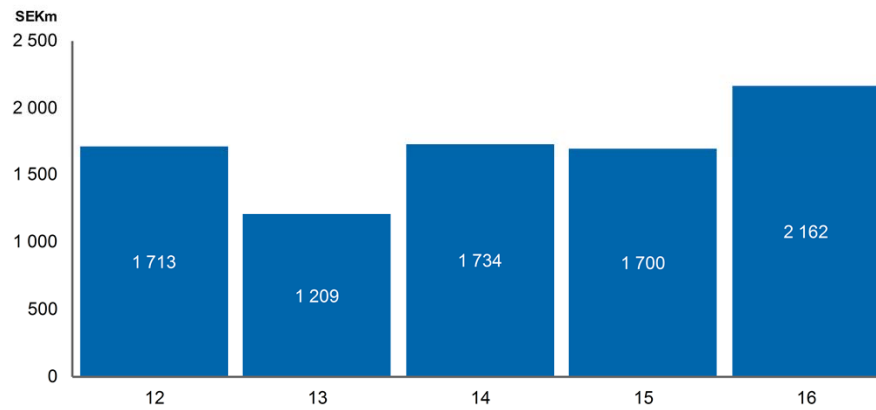
Today we will be talking about 2016. It was an eventful year that included the sale of the paper mill in Madrid. Coupled with increased sales of new products, this has shifted the focus of our paper business towards magazine and book paper.

In paperboard, sales to new customers were up in the highest quality segments, both within and outside Europe. At the same time, we completed an investment programme that gives us the potential to increase paperboard production by around 10 per cent in 2017.

Deliveries of wood products grew following investments in increased capacity, and costs fell due to production at Braviken Sawmill being better adapted to the supply of raw material.

Within our forest business, harvested volumes fell back to normal levels after a few years of higher volumes, while hydro power production reduced as a result of lower rainfall.

Operating profit, Group



Excl. items affecting comparability

In summing up the year, we can report that the operating profit for the Group rose by SEK 462 million to SEK 2 162 million (excluding items affecting comparability). The increase is due primarily to an upswing in paper, where we have successfully reversed a negative trend. The year's strong results are also testament to the success of our investments and long-term strategy.

Now I would like to look more specifically at our five business areas.



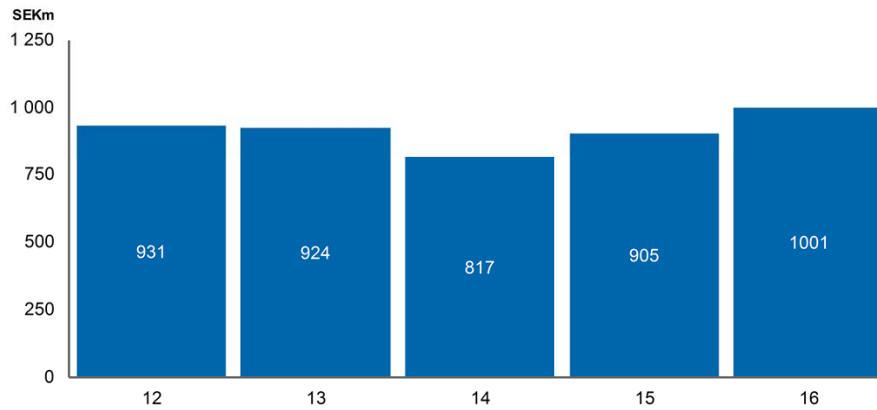
The growing forest is the starting point for all Holmen's business. Active and sustainable forestry is conducted on over a million hectares of productive forest land owned by Holmen. Harvesting equates to 85 per cent of the annual growth and amounted to around 3 million cubic metres in 2016.



For over a hundred years, the forest has been managed with a long-term perspective and a far-reaching focus on nature conservation that preserves biodiversity. The growth of the forest and its value are dependent to a large extent on how it is managed. The foundation is laid when new forest is planted. As a result of research and development, today's seedlings grow faster than those planted when I was young, and they are more resistant to insect attack and other hazards. Together, Holmen's two nurseries produce 35 million seedlings each year, with the majority planted on our own land.

Thanks to better seedlings and active silviculture measures, our younger forests are thus growing faster than those that are currently ready for harvesting. This means that 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. The fact is that the volume of wood in our forests is growing by 1 per cent per year. Through sustainable forestry, we can therefore harvest more while the volume of wood grows.

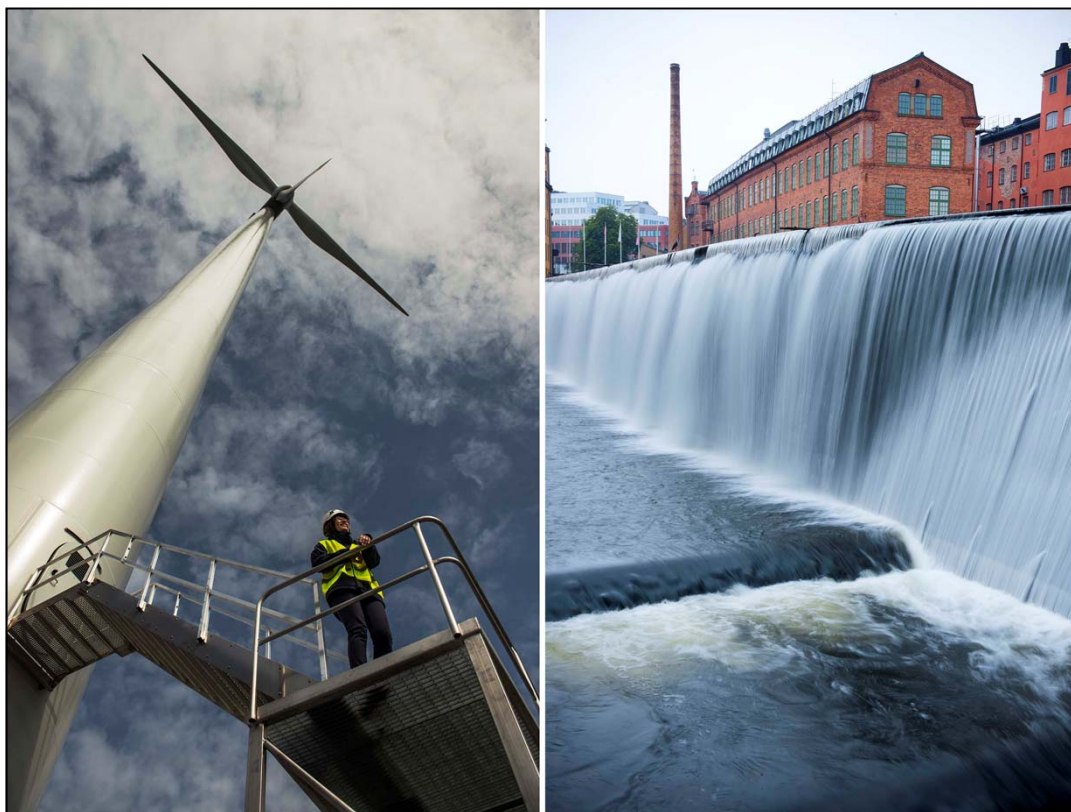
Operating profit, forest



Excl. items affecting comparability

The Forest business area’s earnings from operations rose by SEK 48 million to SEK 686 million in 2016. Operating profit, which includes a change in value of SEK 315 million, totalled SEK 1 001 million.

The harvested volume fell back somewhat, returning to normal levels after a few years of higher volumes caused by storm felling. However, we 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.



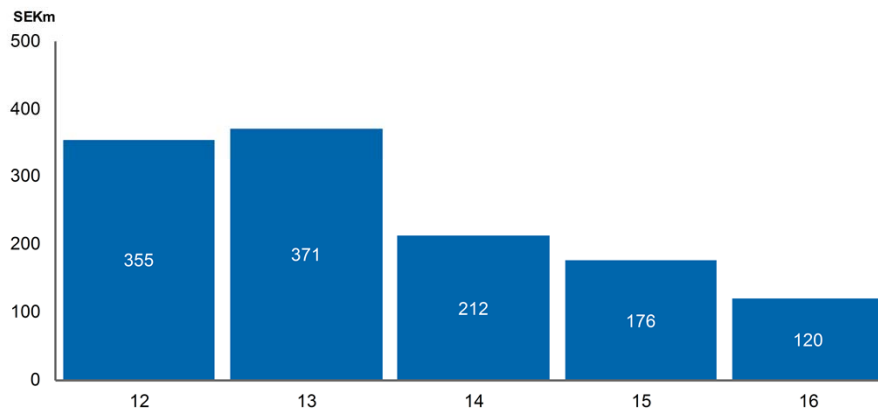
The forest combines with our energy assets to form the basis of our business.

In a normal year, the renewable energy production from 21 hydro power stations and 4 wind farms amounts to 1.2 TWh. Hydro power production was significantly lower than usual in 2016, which kept overall energy production down at just under 1.1 TWh.

The Swedish energy agreement that was approved over the summer brought positive news for hydro power. 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.

Holmen's hydro power stations are stable and effective suppliers of renewable energy. And in contrast to other renewable energy sources, hydro power is controllable, which is a real strength in an energy system that is increasingly based on weather-dependent renewable sources. Holmen's production of hydro and wind power, together with the electricity production at the larger mills, covers half of the Group's electricity consumption.

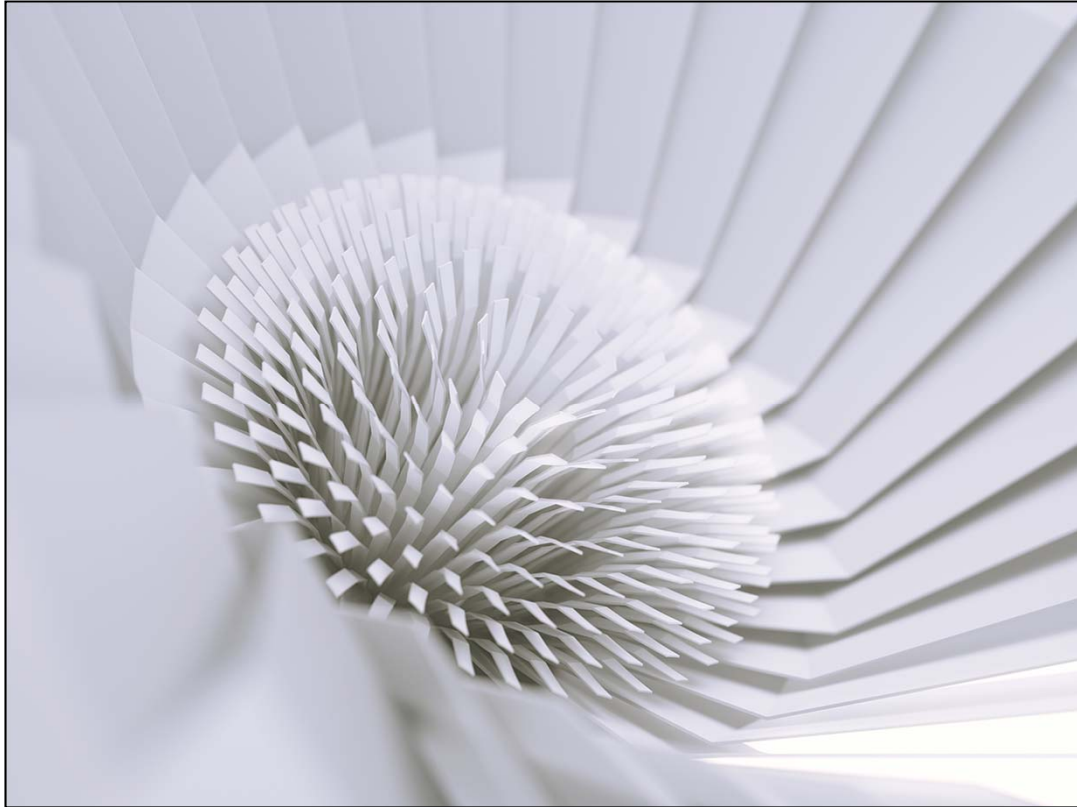
Operating profit, renewable energy



Operating profit for the Energy business area amounted to SEK 120 million.

As mentioned before, low rainfall and run-off into our reservoirs resulted in lower than usual production. In fact rainfall was 15 per cent lower than average. We have been able to partially compensate for the drop in production by concentrating production on times with better prices, but unlike everyone sitting here, we would appreciate a little more rain this year than we had last year, at least in the locations where we have our power stations.

After Forest and Energy I'll move on to our product-focused business areas, starting with Paperboard.

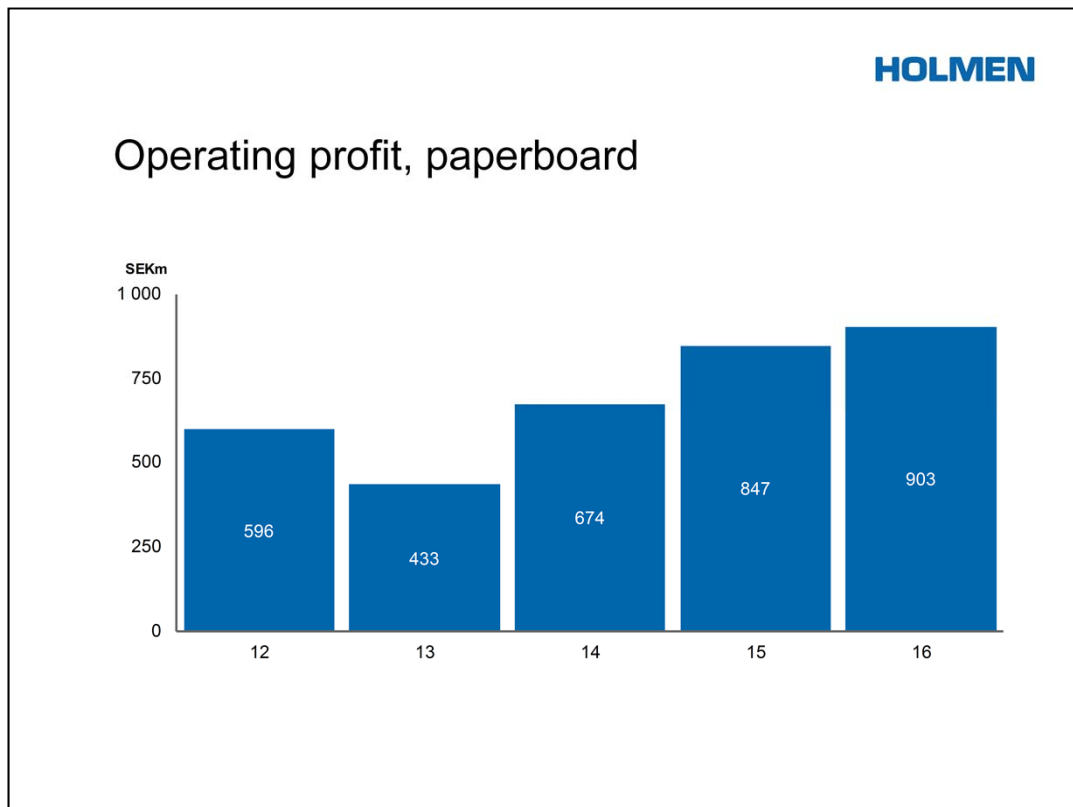


Holmen's paperboard is a market leader in the highest quality segments for consumer packaging and consumer board for advanced graphical printing. Deliveries from our two mills, one in Iggesund, Sweden and one in Workington in the UK, amounted to a little under 500 000 tonnes in 2016.



The major structural investments that we have implemented at our two paperboard mills have gradually yielded results. The first was the recovery boiler in Iggesund, followed by a biofuel boiler in Workington. This has led to a significantly improved cost position, while at the same time bringing major 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.

The global market for packaging board is growing, but competition is rising as new capacity enters the market. Our ambition is to increase deliveries following the completed investments and we see potential to grow sales in the premium segment not only in Europe, but also in Asia and the USA.



2016 was affected by refits at both our mills, but we still managed to deliver good results over the year, with the operating profit for the Paperboard business area amounting to SEK 903 million.

Production hit new heights during periods of the year and the challenge now is to attain stability at this higher level. Sales in the premium segment will continue to grow through ongoing product development, plus investments in additional sales resources and distribution centres outside Europe.

Let us now move on to the Paper business area.



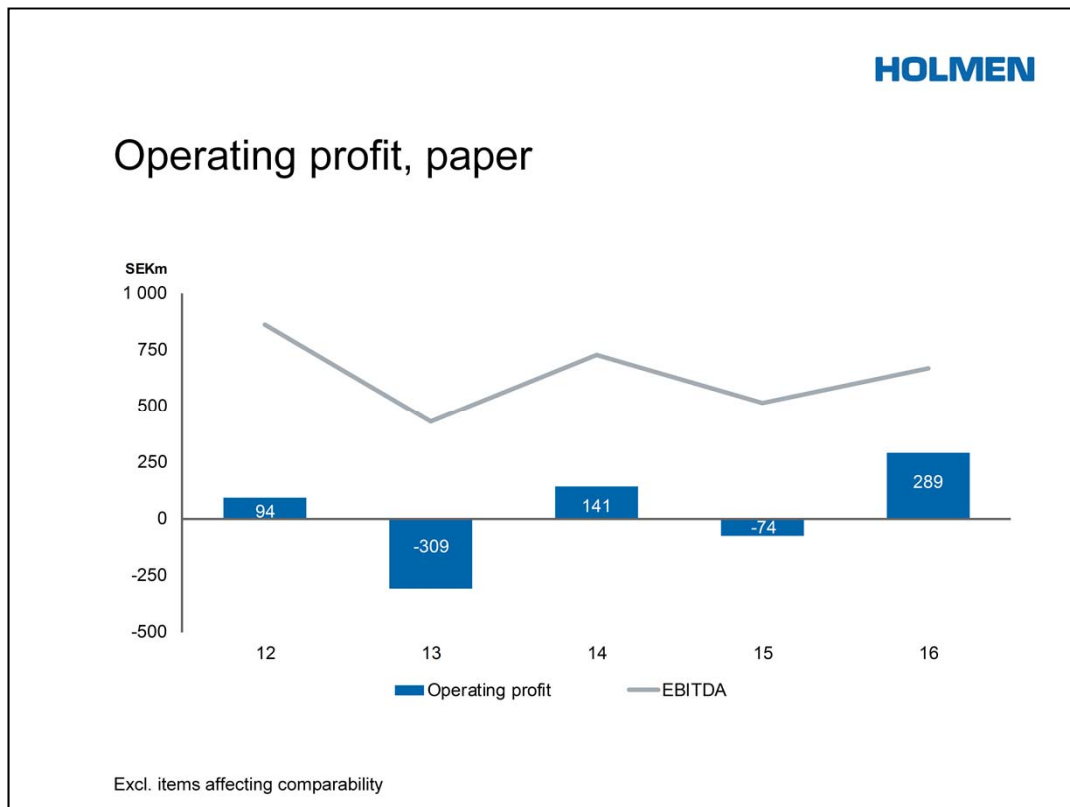
Following the successful sale of the mill in Madrid, our paper production now focuses entirely on magazine and book paper that makes the most of the properties of fresh fibre. Deliveries amounted to over 1.1 million tonnes in 2016.

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 and focus on the future.



Our production is now based entirely on fresh fibre, which enables us to produce paper grades with high bulk – 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. If we compare Holmen's latest Annual Report, which includes fresh fibre-based paper and paperboard, with other Annual Reports, the difference is obvious.

The structural downturn for printing paper is forecast to continue, but our strategy is clear. We will grow in the area of magazine and book paper, while reducing deliveries of newsprint. Our paper business is smaller than it was, but it is an efficient and profitable business, and we are in no doubt that it will fare well in a tough market.



Thanks to good production and sales of the magazine product Holmen UNIQ, we have been able to deliver good results in a difficult market. The operating profit for the Paper business area came in at SEK 289 million, with magazine and book paper now accounting for 85 per cent of deliveries.

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 innovative products and clear cost benefits, we will continue to strengthen our position in existing and new markets.

Finally, we have Wood Products.

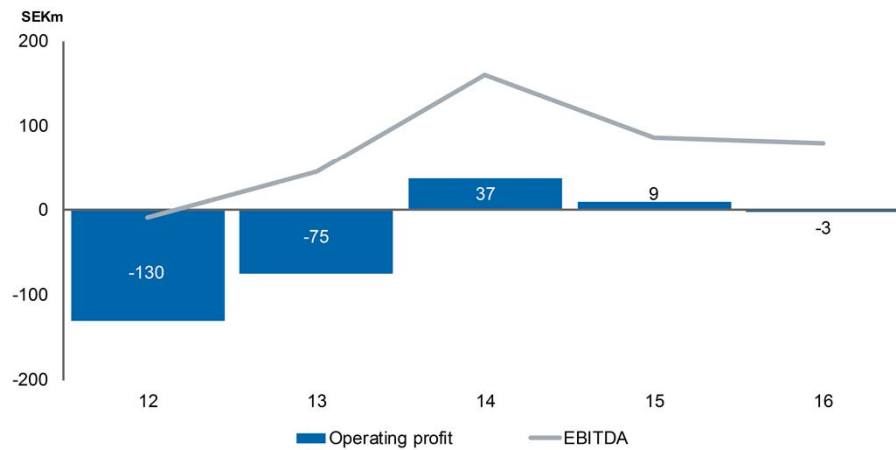


The production of wood products for the joinery and construction industries takes place at two large-scale sawmills integrated with our paperboard and paper mills in Iggesund and Braviken. 2016 saw deliveries of 776 000 cubic metres, up almost 50 000.

The market balance for wood products is reasonable and demand is good in the Nordic region and the rest of Europe, and in the USA and Asia. We also have the potential to increase production slightly in 2017, while also improving the degree of added value.

For a company such as Holmen, with forest holdings plus two large-scale sawmills, processing wood products to add additional value is a natural area for development and we are constantly exploring such opportunities. One step that we took in this direction was the decision in 2016 to invest in a wood treatment plant at Braviken Sawmill. Treated wood forms a large part of the range at builders' merchants, and demand for treated products is growing. With Braviken's central location in a densely populated region, we have excellent opportunities to reach out to builders' merchants with our expanded product range.

Operating profit, wood products



Excl. items affecting comparability

The transition to sawing two types of wood at Braviken and action on the stock and logistics front have lowered costs. At the same time we have been able to increase production in Iggesund after an investment in more efficient flows through the sawmill. Unfortunately this was not sufficient to compensate for the downturn in market prices at the end of 2015. The Wood Products business area has therefore seen a dip in results, with an operating loss of SEK 3 million.

Nevertheless, 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.

The acquisition of Linghems sawmill, a small sawmill located 40 km from Braviken, which was completed last week complement the operations at Braviken and strengthens our position in the market.



There is no doubt that the forest as a raw material has good future prospects, not least in the transition to a more sustainable economy in which products based on fossil raw materials are replaced with renewable alternatives. Paperboard, paper and wood products constitute basic materials in people's everyday lives. And the more our forests are managed and the more our products are used, the greater the benefit for the climate.

Strategic choices and investments for the future have strengthened Holmen's sustainability profile, which has led to recognition in several contexts. Most recent is our listing on the Global 100, an index of the hundred most sustainable corporations in the world. 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, as well as being the highest ranking Swedish company.

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. But instead of me standing here talking about this, I thought you could hear some of our employees describing Holmen's sustainability work and why they chose to work for Holmen.

Film



Through the absorption of carbon dioxide in the forest and its storage in wood products, plus production of renewable energy, Holmen and the Swedish forest industry are making a major contribution to sustainable development.

But although we are convinced that sustainably managed forests and processing raw material into climate-smart products are the way forward, the picture is not entirely rosy. Among the challenges we face are the right to manage the forest we own and the market's acceptance of fresh fibre-based products in competition with recovered fibre. The way we are permitted to manage our forest is affected by political decisions in both Sweden and Brussels, in a basic question of ownership rights that we take extremely seriously.

We are constantly working on these issues and maintaining an ongoing dialogue with politicians and stakeholder organisations. Last autumn, for example, the Swedish Prime Minister visited our forests outside Örnsköldsvik. This gave me an opportunity to raise a number of pressing issues that are critical for a competitive Swedish forest industry.

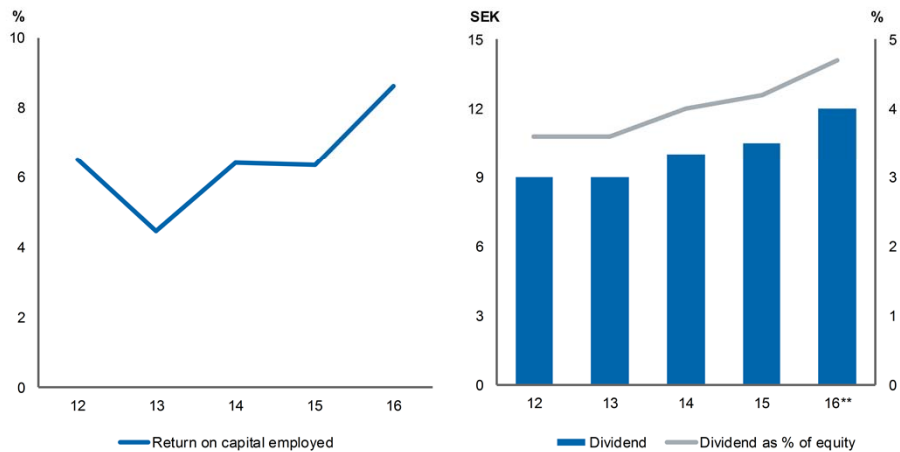


We work with a fantastic raw material, we produce renewable energy, and we have well invested and efficient industrial operations. But the market is tough and we constantly need to challenge ourselves.

To maximise the value and benefit of the forest, we are working intensively 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 new and existing products.

With the initiatives currently underway, the assessment is that forest growth and the extraction of wood could increase by 25 per cent over the next 40 years. Together with the investments we have made in more efficient production processes, not to mention the development of today's products and those of tomorrow, Holmen is in a favourable position and we look forward to a bright future.

Profitability and dividend



* Excl. items affecting comparability
 ** Proposed dividend

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.

In 2016, the return on capital employed amounted to 8.6 per cent, primarily due to the return from paper turning from negative to 10 per cent.

Good cash flow in recent years has enabled us to gradually increase the dividend, while at the same time strengthening our financial position. The Board's proposal to raise the dividend by SEK 1.5 to SEK 12 per share should be seen against the background that in 2016 we succeeded in increasing profits, while at the same time the business developed well and the level of risk within the Group was reduced through the disposal of the mill in Madrid.



Ladies and gentlemen,

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. And that is going to continue.

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

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

HOLMEN