

Corporate governance report



Holmen AB is a Swedish public limited company, listed on the Stockholm Stock Exchange (Nasdaq OMX Nordic) since 1936. The stock exchange incorporated the Swedish Code of Corporate Governance (the Code) into its rules for listed companies in 2005. This corporate governance report complies with the rules of the Code and the directions for its application. The corporate governance report has not been examined by the company's auditor.

Swedish Code of Corporate Governance

The Code's rules from 2005 were revised in 2008 and cover general meetings of shareholders, appointment of the Board and auditors, other aspects of the Board, company management and information on corporate governance.

The Code is part of self-regulation in Swedish business and is based on the "comply or explain" principle. This means that a company complying with the Code may deviate from individual rules but must report the reasons for each deviation.

Laws and articles of association

First, Holmen AB is obliged to comply with the Swedish Companies Act, the rules accompanying its listing on Nasdaq OMX Nordic, Stockholm, and good stock market practice. The Code is an integral part of the stock exchange's regulations. Holmen shall also comply with the company's articles of association.

Shareholders

At year-end, Holmen AB had 30 425 shareholders. See pages 28–30 for information on the share, ownership structure and other details.

General meetings 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 information about registering intention to attend and entitlement to participate in and vote at the meeting, a numbered agenda of the items to be addressed, information on the proposed dividend and the basic content of other proposals. Shareholders or proxies are entitled to vote for the full number of shares owned or represented and can notify the company of their intention to attend the AGM via the company's website and other means.

Notices convening an Extraordinary General Meeting (EGM) called to deal with the company's articles of association shall be sent no earlier than six and no later than four weeks before the meeting. Notices convening other EGMs shall be sent no earlier than six and no later than two weeks before the meeting.

Proposals for submission to the meeting 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 on the website.

The 2009 AGM was held in Swedish, and the material presented was in Swedish. The notice

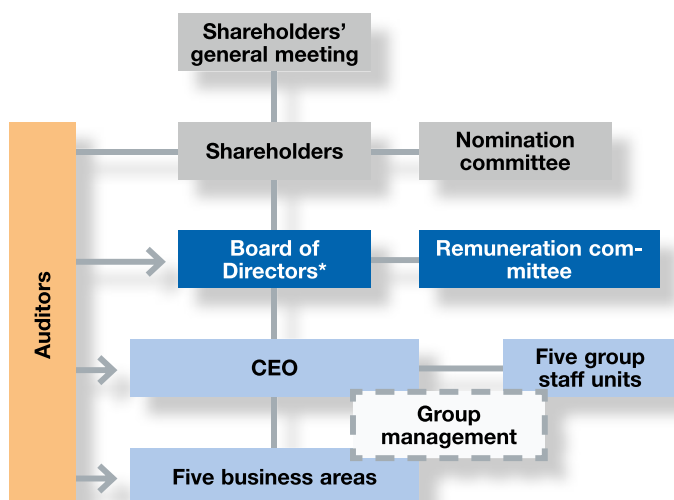
Composition of the nomination committee

Name	Representing	Before AGM:		Independent of the:	
		2009	2010	company	major shareholders
Per Welin	L E Lundbergföretagen*	x (Chairman)		Yes	No
Mats Guldbbrand	L E Lundbergföretagen*		x (Chairman)	Yes	No
Alice Kempe	Kempe Foundations*	x	x	Yes	Yes
Fredrik Lundberg	L E Lundbergföretagen* (Board Chairman)	x	x	No	No
Håkan Sandberg	Handelsbanken incl. pension fund*	x	x	Yes	Yes

* At 31 August 2009, L E Lundbergföretagen controlled 52.0 per cent of the votes, the Kempe Foundations controlled 16.9 per cent and Handelsbanken including the pension fund controlled 9.1 per cent.

convening the meeting, the agenda, the CEO's speech and the minutes are available on the website. The entire Board, the Group management and the company's auditor were present. At the meeting, shareholders had the opportunity to ask and receive answers to questions on issues such as Holmen's environmental work, the proposed dividend, the plans to take part in possible future nuclear power expansion, market trends in 2009, **Holmen Paper's efficiency improvement programme and the new Braviken Sawmill.** Ossián **Ekdahl** from Första AP-fonden and Åsa Nisell from Swedbank Robur Fonder checked and approved the minutes of the meeting. It was not possible to follow or participate in the meeting from other locations using communication technology. No such possibility is planned for the 2010 meeting either.

It was announced on 11 May 2009 that the 2010 AGM would take place in Stockholm on 24 March 2010.



* The audit committee comprises all Board members except for members employed in the company.

Nomination committee

The AGM decided to set up 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. Prior to the 2009 AGM, the nomination committee consisted of Per Welin (L E Lundbergföretagen), Alice Kempe (Kempe Foundations), Håkan Sandberg (Handelsbanken incl. pension fund) and Fredrik Lundberg (Board chairman). Membership of the committee prior to the 2010 AGM is unchanged, except Mats Guldbbrand has replaced Per Welin as the representative of L E Lundbergföretagen. Mats Guldbbrand is chairman of the nomination committee in the run-up to the 2010 AGM. The majority of the committee members are independent of the company and its management. Two are independent of the shareholder controlling the most votes, namely L E Lundbergföretagen. One member is a Board member.

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

For the 2010 AGM, the nomination committee proposes the re-election of Fredrik Lundberg (also proposed for re-election as Board chairman), Carl Bennet, Magnus Hall, Carl Kempe, Curt Källströmer, Hans Larsson, Ulf Lundahl and Göran Lundin. Lilian Fossum has declined re-election. The nomination committee also proposes to the AGM that Louise Lindh be elected to the Board as a new member.

The proposed Board fee is SEK 2 475 000, including SEK 550 000 for the chairman and SEK 275 000 for each of the other members. These are the same fees as in the preceding year. The CEO does not receive a Board fee.

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. There is no rule regarding the maximum period a Board member may serve.

The 2009 AGM re-elected Fredrik Lundberg, Lilian Fossum, Magnus Hall, Carl Kempe, Curt Källströmer, Hans Larsson, Ulf Lundahl and Göran Lundin to the Board. Carl Bennet was elected to the Board to replace Bengt

Pettersson, who declined re-election. Fredrik Lundberg was elected chairman. At the statutory first meeting of the new Board in 2009, 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.

As defined by the Code, seven AGM-elected members are deemed independent of the company. Of these, five are also deemed independent of the company's major shareholders and satisfy all the criteria for experience. The largest shareholders, each controlling more than 10 per cent of the votes, are L E Lundbergföretagen and the Kempe Foundations. The CEO is the only Board member with an executive position in the company.

Information about the members of the Board is provided on pages 36–37.

The Board's activities

The Board held nine meetings in 2009, four in connection with the company's publication of its quarterly reports. At one of these meetings the Board visited Iggesund Mill and Iggesund Sawmill. A two-day meeting was devoted to strategic business planning, and one meeting to the Group's budget for 2010. The other two meetings were held in conjunction with the AGM. During the year the Board paid special attention to strategic, financial and accounting issues, follow-up of business operations and major investment matters. On two occasions the company's auditors reported directly to the Board, presenting their observations from their audit of the final accounts and the company's internal control system. Attendance levels were very high; two members were not able to come to one Board meeting each. The activities of the Board follow a plan that intends to ensure that the Board obtains all requisite information. Each year the Board decides on written working procedures and issues written instructions relating to the division of responsibilities between the Board and the CEO and the information that the Board is to receive continually on financial developments and other key events.

Employees of the company participate in Board meetings to submit reports. The secretary of the Board is the company's general counsel.

Board members as from the 2009 AGM

Name	Function	Elected	Committees*	Independent of the:		Attendance at board meetings
				company	major shareholders	
Board members						
Fredrik Lundberg	Chairman	1988	Remuneration committee	No	No	9/9
Carl Kempe	Dep. Chairman	1983			Yes	No
Carl Bennet	Member	2009			Yes	Yes
Lilian Fossum	Member	2004			Yes	Yes
Curt Källströmer	Member	2006			Yes	Yes
Hans Larsson	Member	1990	Remuneration committee		Yes	Yes
Ulf Lundahl	Member	2004			Yes	No
Göran Lundin	Member	2001			Yes	Yes
Magnus Hall	Member, president and CEO	2004			No	Yes
Total					7/9	6/9
Representatives of the employees						
Steewe Björklundh	Member	1998				
Kenneth Johansson	Member	2004				
Karin Norin	Member	1999				
Stig Jacobsson	Dep. member	2004				
Andreas Rastbäck	Dep. member	2008				
Tommy Åsenbrygg	Dep. member	2009				

* The entire Board, except for members employed in the company, form the audit committee.

The Board evaluates its activities each year, and the nomination committee has been informed of the content of the 2009 evaluation. This will serve as a basis for planning the Board's work in the next few years.

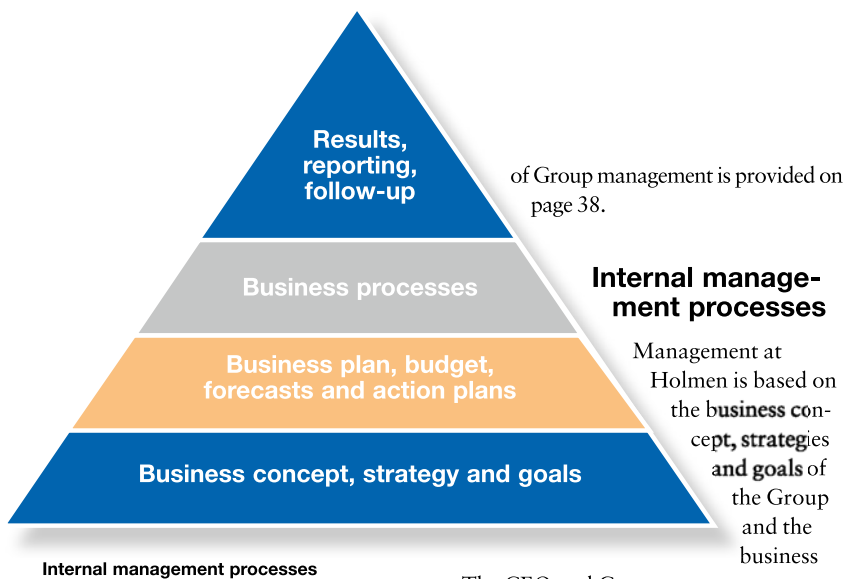
Group management

The Board has delegated operative responsibility for management of the company and the Group to the CEO. The Board annually decides on instructions covering the distribution of responsibilities between the Board and the CEO.

Holmen's Group management consists of 11 individuals: the CEO, the heads of the five business areas and the heads of the five Group staffs units.

Group management met on 11 occasions in 2009, dealing with matters such as earnings trends and reports before and after Board meetings, business plans, budget, investments, internal control, policies and reviews of market conditions, general development of the economy and other external factors affecting the business. Projects relating to business areas and Group staff units were also discussed and decided on.

Information on the CEO and other members



Internal management processes

areas. The CEO and Group management are accountable to the Board and are responsible for the operational activities, which are decentralised to five business areas. The Group staff units are in charge of coordinating certain matters, such as business administration and finance, human resources, legal affairs, technology and public relations.

The Group uses annual, rolling, three-year business plans to break down goals and strategies into action plans and activities that can be measured and evaluated. These business plans are important to the long-term strategic control of the Group. The Group also uses annual budgets, forecasts and action plans for its day-to-day management of operations.

Various business processes, such as sales, purchasing and production, are used to manage operational activities at business area level with a view to achieving the business targets and implementing the agreed action plans.

The results are followed up through regular financial reports, and approved measures are reviewed through additional follow-ups.

Remuneration

The Board has appointed a remuneration committee consisting of Fredrik Lundberg and Hans Larsson. The committee held several informal meetings during the year at which it prepared matters pertaining to the remuneration and other employment conditions of the CEO and submitted proposals to the Board. Remuneration and other employment conditions of 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 Group applies the principle that each

manager's manager must approve decisions on remuneration in consultation with the relevant personnel manager.

At the 2009 AGM, the Board chairman gave an account of the Board's proposed guidelines on remuneration to the CEO and other members of senior management. The AGM adopted the guidelines in the proposal. Information on the Board's proposal to the 2010 AGM for guidelines on remuneration to the CEO and other members of senior management is presented in the administration report on page 49.

The 2009 AGM approved the Board fee and payment of the auditors' fee as invoiced.

In 2008, the Group's employees were invited to acquire call options on class B shares in Holmen at market price. One third of all employees then bought a total of 758 300 call options. Holmen's commitments pursuant to this scheme were secured by buying back some of the company's own shares. See the section on the share and shareholders on pages 28–30 for more details. The 2009 AGM renewed the Board's authorisation to decide on buying back up to 10 per cent of the company's total shares. No buy-backs took place in 2009.

Information about remuneration is provided in note 5 on pages 66–67.

Audit

KPMG, which has been Holmen's auditor since 1995, was elected by the 2008 AGM as auditor for a period of four years. KPMG has since appointed George Pettersson, authorised public accountant, as the principal auditor for Holmen. KPMG audits Holmen AB and almost all of its subsidiaries.

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

Holmen's audit committee comprises all Board members except for members employed in the company, that is, the CEO and employee representatives.

The Board's reporting instructions include a requirement that the members of the Board shall receive a report each year from the audi-

tors on whether 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 2009 the auditors reported to the entire Board at two meetings. Over and above this, the auditors reported to the Board chairman and the CEO on two occasions and to the CEO at another meeting.

In addition to the audit assignment, Holmen has consulted KPMG on matters pertaining to taxation, accounting and investigations, and in some countries also on matters of business law. The remuneration paid to KPMG for 2009 is stated in note 6 on page 67. KPMG is required to assess its independence before making decisions on whether to provide Holmen with independent advice alongside its audit assignment.

Internal control

This section contains the Board's annual presentation of how the internal control system is organised insofar as it relates to financial reporting. The presentation is based on the rules in the Code and the guidelines drawn up by working groups in the Confederation of Swedish Enterprise and FAR SRS (the organisation for highly qualified professionals in the accountancy sector in Sweden).

The Board's responsibility for internal control is laid out in the Swedish Companies Act, and internal control related to financial reporting is covered by the Board's reporting instructions to the CEO. Holmen's 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 it operates. In addition to external rules and recommendations, financial reporting is also covered by internal instructions, directions and systems, as well as internal delegation of roles and responsibilities with the object of ensuring sound internal control over financial reporting. Financial reports are prepared quarterly and monthly in the Group and its business areas, units and subsidiaries. Forecasts and extensive analyses, along with comments, are provided in connection with the reports to help ensure the accuracy of the financial reports. Financial functions and controllers with functional responsibility for accounting, reporting and analysis of financial developments operate at Group level, at business area level and at all major units.

The audit includes the annual statutory audit of Holmen AB's annual report, the statutory audit of the parent company and all subsidiaries (where so required), the audit of internal reporting packages, an audit of the final accounts and a review of one interim report. The audit process also includes reviews of the internal control system.

Holmen's internal control activities aim to ensure that the Group lives up to its objectives for financial reporting (see box). These activities are based on a common set of instructions and common checklists for key procedures and processes for the Group's financial reporting. The structure adheres to guidelines issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for small listed companies in respect of internal control over financial reporting. COSO's guidelines contain 20 principles in five areas: control environment, risk assessment, control activities, information and communication, and follow-up. They have been modified to suit the assessed needs of Holmen's various operations. Holmen's greatest risks regarding financial reporting are linked to the measurement (valuation) of biological assets and property, plant and equipment, as well as being linked to financial transactions.

Holmen has no separate internal auditing function. The Board does not consider that specific circumstances in the business or other conditions exist that justify setting up such a function. In 2008 the company introduced a type of audit procedure whereby experienced accountants and controllers in the Group visit other Group units and examine their internal control procedures. These activities were successful and were therefore also conducted in 2009.

Investor relations

Holmen's information to shareholders and other stakeholders is provided in the annual report, the year-end and interim reports, press releases, the sustainability report *Holmen and its World*, and the shareholders' magazine *Holmen Business Report*, all of which are available on the company's website. The website also contains presentation materials for recent years and information on corporate governance. The provision of information by the company complies with an information policy established by the Board.

Objectives of Holmen's financial reporting

Holmen's external financial reporting shall:

- be correct 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 shall, over and above these three objectives, support correct business decisions at all levels in the Group.