

Corporate governance

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

AT YEAR-END Holmen had 28 176 shareholders. Swedish private individuals made up the largest category of owners, comprising 25 768 shareholders. This corresponds to 91.2 per cent of the total number of 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' 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. See pages 53–55 for further information on the shares and ownership structure.

General meeting of shareholders

THE NOTICE convening the annual general meeting 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 for the full number of shares owned or represented and can notify the company of their intention to attend the AGM by letter, telephone, e-mail or the company's website. 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 on the website.

AGM 2016. It was announced on 20 April 2015 that the 2016 AGM would take place in Stockholm on 13 April 2016.

Nomination committee

COMPOSITION AND MANDATE. The AGM resolved to establish a nomination committee to consist of the chairman of the Board and one representative from each of

ANNUAL GENERAL MEETING 2015

The 2015 AGM and the material presented was in Swedish. The notice convening the meeting, the agenda, the CEO's speech and the minutes are available on the company's website. 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 Eva Axelsson of KPA Pension and Martin Wallin of Lannebo Fonder.

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 2016 meeting.

the three shareholders in the company that control the most votes at 31 August each year. The composition of the nomination committee for the 2015 and 2016 AGMs is shown in the table. 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.

PROPOSAL TO THE BOARD. For the 2016 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, Louise Lindh, Ulf Lundahl, Henriette Zeuchner and Henrik Sjölund, and that Lars Josefsson be elected as a new Board member. Göran Lundin has declined re-election.

Composition of the Board

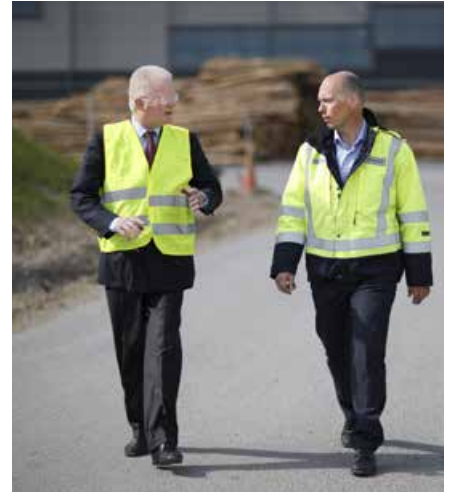
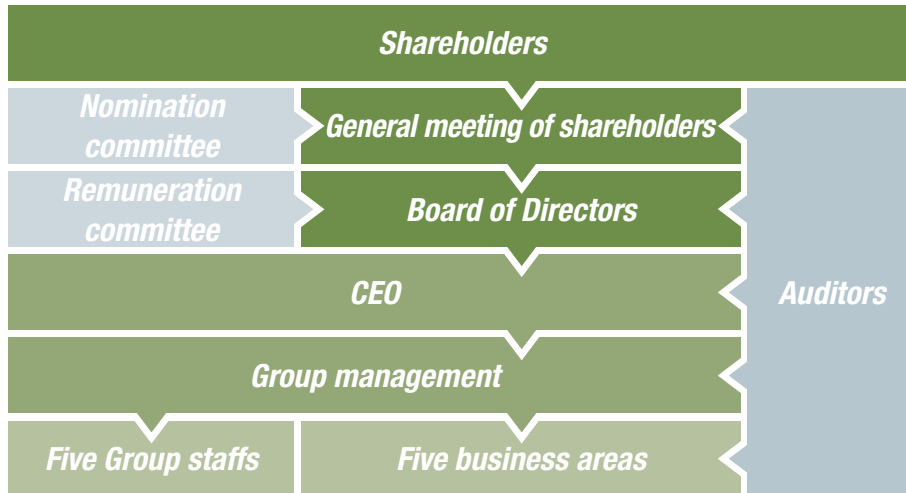
ANNUAL ELECTION. The members of the Board are elected each year by the AGM for the period until the end of the next AGM. According to the company's articles of association, the Board shall have 7–11 members, and they are to be elected at the AGM. The company's articles of association contain no other 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 2015 AGM re-elected Fredrik Lundberg, Carl Bennet, Lars G Josefsson, Carl Kempe, Louise Lindh, Ulf Lundahl, Göran Lundin and Henrik Sjölund to the Board and elected Henriette Zeuchner as a new Board member. Fredrik Lundberg was re-elected chairman. At the statutory first meeting of the new Board in 2015, 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 50–51.





The Board's activities

INFORMATION AND WORKING PROCEDURES. The activities of the Board follow a plan that, among other things, aims to ensure that the Board obtains all requisite information. Each 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.

EVALUATION. 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 2015 assessment for the nomination committee,

which will form the basis for the planning of the Board's activities for the coming year.

Remuneration

PREPARATION. 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 Annual General Meeting.

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

BOARD MEETINGS IN 2015

The Board held nine meetings in 2015, 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 conjunction with a study visit to Hallsta Paper Mill and the Varsvik wind farm. One meeting dealt with the Group's budget for 2016. Two meetings were held in connection with the company's AGM. The Board also paid special attention to strategic, financial and accounting issues, monitoring 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 accounts and internal control. All AGM-elected board members attended all the meetings.

BOARD MEMBERS AS OF THE 2015 AGM

BOARD MEMBERS	POSITION	ELECTED	ATTENDANCE	FEE (SEK)	INDEPENDENT OF THE:	
					COMPANY	MAJOR SHAREHOLDERS
Fredrik Lundberg*	Chairman	1988	9/9	650 000	Yes	No
Carl Kempe	Deputy chairman	1983	9/9	325 000	Yes	No
Carl Bennet*	Member	2009	9/9	325 000	Yes	No
Lars G Josefsson	Member	2011	9/9	325 000	Yes	Yes
Louise Lindh	Member	2010	9/9	325 000	Yes	No
Ulf Lundahl	Member	2004	9/9	325 000	Yes	Yes
Göran Lundin	Member	2001	9/9	325 000	Yes	Yes
Henriette Zeuchner	Member	2015	9/9	325 000	Yes	Yes
Henrik Sjölund	Member, President and CEO	2014	9/9	–	No	Yes
Total					8/9	5/9

* Representatives of the remuneration committee

EMPLOYEE REPRESENTATIVES

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

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

Tommy Åsenbrygg, member, elected 2009
Martin Nyman, deputy member, elected 2010

COMPOSITION OF THE NOMINATION COMMITTEE

NAME	REPRESENTING	BEFORE AGM:		INDEPENDENT OF THE:	
		2016	2015	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 2015, 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.

AT THE 2015 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.

FOR THE 2016 AGM the Board is proposing the following guidelines. The guidelines apply to agreements entered into after the AGM's resolution:

The remuneration of the CEO and the senior management shall consist of a fixed market-based salary. Other benefits, mainly car and accommodation, shall, insofar as they are provided, represent a limited part of the remuneration. No variable remuneration shall be paid other than possible share-related incentive programmes determined by the AGM.

The retirement age is normally 65. Pension benefits should be based on defined contributions and comply with the ITP plan. Additional defined-contribution pension solutions may occur.

The period of notice shall be six months, regardless of whether notice is given by the company or the member of senior management. In the event of notice being given by the company, severance pay can be paid corresponding to no more than 18 months' salary.

A remuneration committee appointed from among the members of the Board shall handle matters pertaining to the CEO's salary and other conditions of employment and submit proposals on such issues to the Board for decision. Detailed principles for determining the salaries, pension rights and other remuneration for senior management shall be laid down in a pay policy adopted by the remuneration committee.

The Board is entitled to depart from these guidelines in individual cases should special reasons exist. In the event of such a deviation, information about this and the reasons for such deviation shall be submitted to the next AGM.

THESE GUIDELINES and information about remuneration are presented in Note 4 on page 70.

The 2015 AGM approved the Board fee and payment of the auditors' fee as invoiced.

Group management

RESPONSIBILITY AND COMPOSITION. 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 includes nine individuals: the company's CEO, the heads of four business areas and the heads of four Group staffs.

MEETINGS IN 2015. Group management met on 10 occasions in 2015, dealing 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. Work on updating policies and guidelines is ongoing and a code of conduct was established during the year.

Information on the CEO and other members of Group management is provided on page 52.

Audit

KPMG, which has been Holmen's auditor since 1995, was re-elected by the 2015 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.

AUDIT PROCESS. 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 take place in January–February.

DUTIES OF THE BOARD. 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 2015 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 one further meeting.

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 2015 is stated in Note 5 on page 71. KPMG is required

to assess its independence before making decisions on whether to provide Holmen with independent advice alongside its audit assignment.

Internal control

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.

PURPOSE AND STRUCTURE. Holmen's internal control activities have two purposes: to ensure that the Group lives up to its objectives for financial reporting (see box on page 49) and to minimise risks of fraud to which the Group may be subject.

The structure adheres to guidelines issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in respect of internal control over financial reporting. This framework contains 17 principles divided into five areas: control environment, risk assessment, control activities, monitoring and evaluation, as well as information and communication. They have been modified to suit the estimated needs of Holmen's various operations. Group Finance ensures that internal control is maintained and carries out compliance checks.

The framework for internal control was evaluated and further developed in 2015. Web-based systems support for self-evaluations has been introduced and has made monitoring and feedback easier.

CONTROL ENVIRONMENT. The basis for Holmen's framework for internal control is the control environment, which is defined through policies, guidelines, procedures, instructions and manuals. The control environment is maintained by means of an organisational structure with clearly defined roles and areas of responsibility and individuals' awareness of their role in maintaining adequate internal control. The Board of Directors is ultimately responsible for internal control, in accordance with 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. 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 the company operates.

INTERNAL MANAGEMENT PROCESSES



The Group's strategy provides guidance for Holmen's business operations. Below the Board, the President and CEO and Group management, the business is organised into five business areas with responsibility for the relevant operating activity. The Group staffs are in charge of coordinating certain matters, such as business administration and finance, human resources, legal affairs, technology and public relations.

The Group establishes an annual business plan that addresses strategic issues.

Targets for the coming year are based on a specific process of management by objectives. These targets form the basis for budgeting and specific action plans.

The business areas manage operating activities according to these targets. Sales, purchasing and production processes are in place to support this.

Earnings are monitored by means of continual financial reporting. Measures to be implemented are monitored through additional follow-up procedures.

Holmen's code of conduct provides guidance on day-to-day operations and clarifies what expectations are made of employees. Policies, guidelines and instructions set the frame of reference by clarifying authorisation and rules.

rates. In addition to external rules and recommendations, financial reporting is also covered by internal instructions, directions and systems.

During the year, a code of conduct was established by the CEO. The code provides guidance on day-to-day operations and clarifies what expectations are made of Holmen's employees. Training about the code began in the autumn for all employees. No breaches of the code were detected during the year.

Work is underway to review policies and guidelines, and in 2015 a business ethics policy was adopted, along with related guidelines. The policy addresses matters such as anti-corruption measures and competition issues. Employees in areas such as sales and purchasing that face a high risk of encountering unauthorised behaviour will receive special training in these issues. No cases of corruption were detected during the year. Holmen's Spanish subsidiary is one of many companies that were investigated by the Spanish competition authority (see Note 21 for further details).

RISK ASSESSMENT. Risk assessment activities are based on identifying and evaluating 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 developed 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 as well as to financial transactions (see the section on risk management on pages 42–45).

Where risks are identified, control requirements are developed that must then be adhered to.

CONTROL ACTIVITIES. To ensure that Holmen's financial reporting objectives are met, control requirements are incorporated into the processes that are deemed relevant to Holmen's business: sales, purchasing, investments, personnel, financial statements, payments and IT. These control activities aim to prevent, identify and rectify errors and discrepancies.

The self-assessments that are completed by all Group units set out what control requirements apply for each respective process. These need to state whether the respective control requirements have been met and what proof of

GOALS

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 goals, support correct business decisions at all levels in the Group.

verification exists. As Holmen's various units differ, the self-assessments have been adapted to their various activities.

FOLLOW-UP AND EVALUATION. Follow-up and testing of control activities are performed continually to ensure that risks have been satisfactorily considered and addressed. The self-assessments contain integrated action plans for those control requirements that are not met. The self-assessments are followed up on a continual basis and discrepancies are reported to the steering group for internal control each quarter. Reporting 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-ups are an important tool for understanding what deficiencies may exist in the Group, and how these can be minimised by putting in place new control requirements.

INFORMATION AND COMMUNICATION. The provision of financial information for Holmen's shareholders and stakeholders must be correct, comprehensive, transparent and consistent, and information must be provided on equal terms. The provision of information by Holmen complies with an information policy established by the Board. Events that are considered to have an impact on the share price are made public via press releases. Information to external stakeholders is provided in the annual report, the year-end and interim reports, press releases and presentations broadcast online in connection with the quarterly reports. All material is available on the company's website. The website also contains presentation material for recent years and information on corporate governance.

Financial reporting requirements are communicated to employees via the code of conduct, policies, guidelines and manuals published on the company's intranet. A whistle-blower function is available so that employees and other stakeholders can highlight any deficiencies in Holmen's financial reporting or possible areas of concern at the company. Regulations relating to this function were clarified during the year.