HOLMEN

2007
ANNUAL REPORT

Reporting

Holmen will publish the following financial reports during the remainder of 2008:

Interim report, January-March	**8 May**
Interim report, January-June	**13 August**
Interim report, January-September	**12 November**

Year-end report for 2008 **5 February 2009.**

Annual General Meeting

The 2008 Annual General Meeting will be held on **Wednesday 2 April** in Stockholm. The Board has proposed **Monday 7 April 2008** as the date of record for entitlement to dividend.

For further information on the Annual General Meeting, see page 80.

Two reports for 2007

Holmen's shareholders are the main audience for the annual report, which is published in both English and Swedish. It is posted in Week 11 to those shareholders who have notified that they wish to receive it.

Apart from the annual report, Holmen also publishes a sustainability report. It is entitled Holmen and its World and is mainly intended for customers and employees. It is published in English and Swedish in connection with the 2008 AGM. A Spanish version will be published in May.

Contents

The year in brief

- The demand for Holmen's printing paper, paperboard and sawn timber remained firm. Deliveries of printing paper were unchanged in relation to 2006, while they increased of sawn timber, and decreased of paperboard due to an extensive production stop for rebuilding.
- On average the business areas' product prices were higher than in 2006.
- Sharp increases in the cost of wood and recovered paper affected the result negatively, as did extra costs associated with the rebuilding and maintenance stops.
- The operating profit fell from MSEK 2 303 to MSEK 2 286, if one excludes the net income items of MSEK 557 affecting profitability for 2007, which were the result of the revaluation of fixed assets.
- Holmen Paper launched a cost-reduction and efficiency programme as well as a review of the production strategy.
- The Board made a decision to invest some MSEK 1 100 in a new sawmill adjacent to Braviken paper mill in Norrköping. The sawmill is planned to come into production in the autumn of 2009.

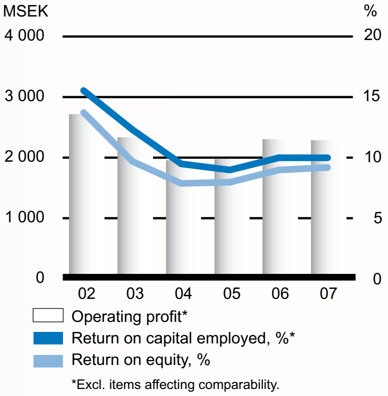
The rebuilding of one of Iggesunds Bruk's two board machines was successfully completed as planned. One effect is higher productivity.

The construction of a new pulp line began at Braviken paper mill. It is expected to be ready by August 2008. Its output is intended to meet the total

Key Facts	2007	2006
Net turnover, MSEK	**19 159**	18 592
Operating profit, MSEK	**2 843**	2 303
Operating profit excl. items affecting comparability, MSEK	**2 286**	2 303
Profit for the year, MSEK	**1 505**	1 459
Earnings per share, SEK	**17.8**	17.2
Dividend per share, SEK	**12***	12
Return on capital employed, %**	**10.0**	10.0
Return on equity, %	**9.2**	9.0
Debt/equity ratio	**0.35**	0.36
Capital expenditure, MSEK	**1 433**	1 079
Average number of employees	**4 931**	4 958

* Proposal of the Board
** Excl. items affecting comparability

Operating profit



The quality and consistency of Iggesund's Invercote products will therefore be further improved.

Holmen Skog trained all its employees using a new, third edition of Guidelines for Sustainable Forestry. Apart from the personnel, contractors and their employees were provided with the guidelines, which is a valuable aid when carrying out measures that are deemed to raise the production of wood in company forests by 25 % over the coming thirty years.

pulp requirements of PM51 and a quarter of the pulp needed by PM53. Thanks to new refiners the mill's annual electricity requirements are estimated to decline by around 150 GWh.

Holmen used more than one million tonnes of recovered paper in its production of newsprint and telephone directory paper. A new unit for sorting recovered paper was brought into production at an investment cost of MSEK 55 at the mill in Madrid, which uses around one-half of the total volume of recovered paper.

The sawmill in Norrköping is to be built alongside Braviken paper mill.

Comment by the CEO

Holmen's operations enjoyed firm demand in 2007 and we raised our prices in all three product areas. Even so, the result failed to reach the level we had reason to expect in a year like this, and regarding Holmen Paper it was quite insufficient. The main explanation is on the cost side. The strong market resulted in dramatic rises in costs, especially for fibre raw materials. The weak trend in the US dollar also had an effect, even though our payment flows in that currency represent only 10% or so of our sales. The low exchange rate for US dollar was one factor behind the increased pressure of supply on the European market.

Our largest business area, Holmen Paper, had a difficult year. After raising the price of newsprint by 4-5% for the third consecutive year, we foresaw higher margins on printing paper sales. These hopes were unfortunately dashed, and margins narrowed owing to higher costs and some market related production stops. The market for newsprint was affected by lower consumption in North America, where producers seized export opportunities that were supported by a weak US dollar. Exports to Europe almost doubled, which of course affected Holmen's deliveries to our main market.

Further increases in newsprint price will have to be made if we are to restore our profitability to a reasonable level. We can not cope with the dramatic cost increases by just efficiency improvements.

The aim of expanding within MF Magazine, the product area between traditional newsprint and magazine paper, was achieved, albeit only marginally. However, we succeeded with this at a time when the total market was contracting, which underlines our strength. Much of this success is due to the machine for MF Magazine, which was brought into production in 2002 at the Hallsta paper mill.

Measures to improve profitability

We have now taken three strong measures within Holmen Paper to improve profitability within printing paper. The first involves further rationalisation and efficiency improvements. Given the cost situation and the production structure of the highest class, Holmen will remain strong. We are stepping up the pace of the ongoing efficiency programmes. The second measure is to close down unprofitable and inefficient capacity. The efficiency programme announced for the Hallsta paper mill, which involves closing down the oldest paper machine and a radical downsizing of the workforce is a difficult decision for our employees, but one that is necessary for securing the mill's future. The closure of the machine and some changes to the product mix will reduce Holmen's standard newsprint capacity by around 15%. Throughout this industry there is a need to move in the same direction in order to bring about a healthier market balance. We can hardly count on any help from a dramatic increase in consumption in the coming years. The third measure involves a further shift away from standard newsprint towards other products. In Spain we are now reducing our production of newsprint to make way for LWC Recycled and we are taking further measures to promote growth within MF Magazine at our Swedish mills.

Niche strategy leads to success

2007 was a very exciting year for Iggesund Paperboard. Demand for virgin fibre board rose by 5% and prices were increased in several segments. In addition, in order to benefit from the buoyant market, Iggesund concentrated on the development project that involved the comprehensive rebuilding of the biggest board machine at Iggesunds Bruk. The rebuilding was successful and will put us in a good position to raise the quality of our products. However, it involved a temporary loss of volume, which had a negative impact on both growth and profitability.

Iggesund's successes build upon an explicit niche strategy aimed at markets that are particularly demanding in terms of quality and service. This strategy will be accentuated in 2008 with the introduction of new, improved Invercote products from the rebuilt machine.

Holmen Timber had a very successful year in 2007. Profitability was exceptionally high throughout the entire sawn timber industry, and our operations held their own very well in relation to our competitors. Towards the end of the year the market weakened considerably, which resulted in restocking and prices starting to decline. This is mainly explained by the high production of sawn timber in Europe due to the increased supply of saw logs caused by storm fellings, and weaker exports to the USA and Japan.

More legs to stand on

Holmen's strategy has centred on growth within printing paper and paperboard. The decision to invest in a new sawmill at Braviken represents the development of a third "product leg". Sawn timber offers useful potential in terms of growth. Sawmills are also important sources of raw materials for the pulp and paper mills as well as for biofuel-based energy production, as the harvesting of saw logs more or less always also results in the felling of pulpwood and makes biofuel available. When all these elements combine in the complex that is now being planned for Norrköping, there will be valuable synergies, just as there are in Iggesund where we already have the same situation.

The Braviken sawmill project is in progress and it will consist of a complete saw line including a planing mill. Production is expected to start in the autumn of 2009. The maximum capacity will be 750 000 cubic metres of whitewood structural timber. The project is based on state-of-the-art productivity conditions.

The sourcing of raw materials makes great demands on Holmen Skog and the new sawmill will strengthen Holmen's role as a partner for local forest-owners as we will be buyers of all types of wood from the forest. The aim is for Holmen to be perceived as the natural partner, which will be very demanding in terms of how we conduct our business.

Increased focus on wood and energy

In strategic terms, we are now increasing focus also on our raw material-oriented business areas Holmen Skog and Holmen Energi in response to the dramatic increases in the cost of wood and energy. The high costs make it even more profitable to invest in higher production of wood and energy. We are also stepping up our focus on the procurement of recovered paper, which is part of

Holmen Paper; an area that expanded during 2007.

Wood prices have risen as a consequence of the high demand and owing to Russia's export duties have reduced the flow of imports into Finland in particular. This in turn has an effect on the wood market in the rest of Scandinavia. On top of this comes the growing need of thermal power stations for biofuel, increasingly in the form of pulpwood, and this growth will accelerate over the next few years. To achieve cost-effective harvesting of wood for biofuel is still a priority development issue at Holmen Skog.

Valuable land for wind power

Holmen Energi is looking into several interesting possibilities for increasing production. One natural development is to convert forest fuel into pellets, and such a project is being planned at Iggesund. The Braviken Sawmill will also put us in a position to complement the complex in Norrköping with a pellets facility for processing the fuel that is a bi-product from the sawmill. Furthermore we are looking at the potential for wind power. Holmen owns 1.3 million hectares of land, which provides an excellent basis for the development of wind power. The areas of land with the right wind conditions and reasonable prospects of being given a permit are highly valued. Holmen Energi is now investigating how we, in the best possible way, could capitalise on these assets. We believe that suitable land areas for establishing wind parks soon will become limited.

The forest industry a pioneer

The effect of carbon dioxide emissions on the climate has become the important issue globally. The EU Commission's climate package, which was presented at the start of 2008 and established goals for 2020, set out explicit demands for energy saving and use of renewable energy sources. Holmen is in a very good position to meet these sustainability targets. We manufacture products and bioenergy from a climate-neutral and renewable raw material – wood. Our forestry is long term; the growth and volume of standing timber in the Group's forests are expanding year by year. Our industry has long been a pioneer in the use of bioenergy and we will naturally take full advantage of our opportunities to make increasing use of it. Holmen is taking active measure to make more efficient use of energy and reduce its consumption of oil. Our goal for 2020 at the latest is to have reduced the consumption of fossil fuels at our Swedish units by as much as 90%, which corresponds to around 240 000 tonnes of carbon dioxide emissions. I would also like to emphasise the important role of nuclear power as a source of carbon dioxide-free energy. Holmen is keen to see the capacity expanded and we have expressed interest in participating in such projects.

You can read more about what we are doing in the field of sustainability in Holmen and its World 2007!

Unchanged dividend proposed

In my introduction I stated that we are not satisfied with our profitability. Admittedly, the return on operating capital was 10%, which means that we achieved our target of covering the cost of capital. However, shareholders saw the price of the Holmen shares fall during the year and the dividend proposal is an unchanged SEK 12 per share. The problems in the printing paper area are our most serious challenge, and as a consequence of the higher costs we wrote down asset values within Holmen Paper by MSEK 1 603 during the fourth quarter. So we are now implementing a tough, but necessary cost reduction programme, not least at the mill in Hallsta.

We will drive through the changes that are needed. Thanks to our sound financial position we are still well placed to finance investments in commercially sound, development projects within all our business areas. We can see many challenges and therefore opportunities ahead of us.

Prospects for the rest of 2008

The negotiations on printing paper prices for 2008 are still underway. The market was relatively strong at the end of 2007 but high imports of newsprint from North America are causing some uncertainty. The discussions on paperboard prices are still to come, and during the fourth quarter Iggesund announced some price increases for the spring of 2008. When it comes to sawn timber, prices look as if they will be lower, at least during the first half of the year.

The cost of the important raw materials – wood, recovered paper, pulp and energy – is on a high level at the beginning of 2008. The effects will be moderated by the Group's relatively high level of self-sufficiency and long-term hedging of the prices of electricity purchased for the Swedish units. Nonetheless we will still feel the effect of these high costs. We will continue to work hard in order to improve our result. In the short term the restructuring programme at Hallsta is expected to incur some costs.

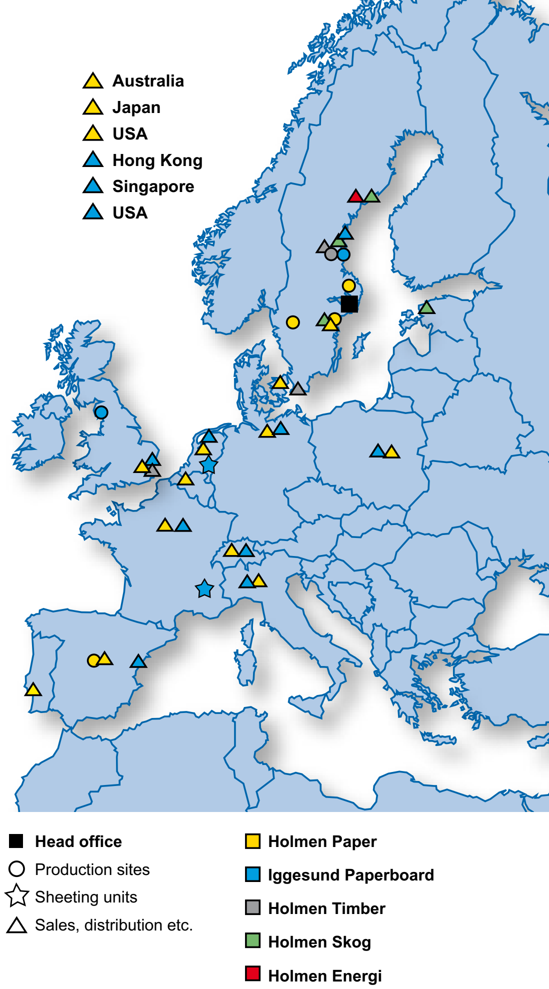
Stockholm 15 February 2008

Magnus Hall

Magnus Hall
President and CEO

Holmen in brief

Holmen is a forest products group manufacturing and selling printing paper, paperboard and sawn timber. The Group also owns forest and power assets. The net turnover in 2007 amounted to MSEK 19 159 and the number of employees was about 4 900. Holmen is a public company whose Series "A" and Series "B" shares are listed on the OMX Nordic Exchange Stockholm, Large Cap.



Great Britain, Germany, and Spain are Holmen's largest individual markets, along with Sweden. Publishers in these countries are the largest buyers of Holmen's printing paper. Most of the paperboard sales go to German, British and French packaging converters. Great Britain and the Scandinavian countries are the main markets for sawn timber. Five of the seven production facilities are located in Sweden, as are ten of the 14 paper and board machines. The Group's forest and hydro power assets are also located in Sweden, as is the sawmill. Production also takes place in Spain (printing paper) and England (paperboard). Around 3 600 of the Group's total of 4 900 employees work in Sweden.

In business for four centuries in 2009

In 2009, Holmen will have been in business for 400 years. The company has its origins in an arms factory set up in Norrköping on an island (holme in Swedish. Hence the name Holmen) in the Motala river in 1609, from which Holmen evolved. Iggesund's history also goes back to the 17th century, when, in 1665, a paper mill in Östanå became the first industrial facility in the district.

Five business areas

The Group's five business areas each have full commercial responsibility for their operations. Holmen Paper (printing paper), Iggesund Paperboard (paperboard) and Holmen Timber (sawn timber) are the manufacturing business areas, the first two of which account for some 80% of Holmen's net turnover. Holmen Skog and Holmen Energi have responsibility for forest and power assets respectively. The timber volume on Holmen's one million hectares of forestland is some 117 million cubic metres, and each year some 2.5 million cubic metres are harvested. The annual growth in company forests amounts to some 3 million cubic metres. The degree of self-sufficiency is around 50%. Some 1 100 GWh of electricity are produced by the Group in a normal year at its wholly and partly owned hydro power stations in Sweden. Over and above this, another 500 GWh or so of back pressure power is produced at the major mills. The degree of self-sufficiency in electricity is just over 30%.

One of the largest in Europe

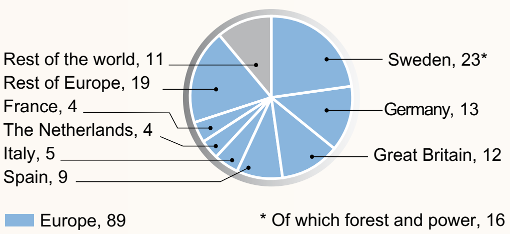
Holmen can produce some 2.8 million tonnes of printing paper and paperboard per year. With an annual production capacity of 2 185 000 tonnes, Holmen is Europe's fifth largest producer of printing paper. When it comes to virgin fibre board, Holmen, with its annual capacity of 590 000 tonnes, is Europe's third largest producer. The capacity to produce sawn timber is 300 000 cubic metres per year.

Paper and paperboard

In the form of words and images printing paper carries messages and furthers communication. In the same way paperboard gives the contents of a package their profile. Holmen's white printing paper is used mainly for daily newspapers, weekly and monthly magazines, supplements, direct advertising, books and catalogues. Business and sporting newspapers, for example, are printed on coloured paper.

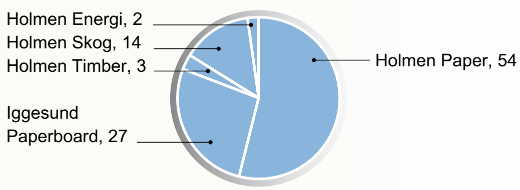
Packaging for tobacco, perfume, medical products, chocolates and confectionery, and food, where the demands for high quality print are particularly rigorous, is produced from paperboard made by Iggesund, which is also used for CD sleeves and printed matter.

Net turnover by market, %



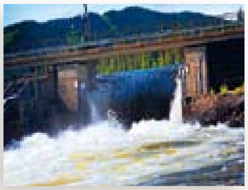
* Of which forest and power, 16

Net turnover by business area, %



The raw material-oriented business areas – Holmen Skog and Holmen Energi – supply wood and electricity respectively to the product-oriented business areas – Holmen Paper, Iggesund Paperboard and Holmen Timber. The diagram shows how the products are produced and in what connections consumers see or use them.

Holmen Skog
supplies the Swedish units with wood that is harvested in company forests, bought from other private forest-owners, or imported.



Holmen Energi
supplies the Swedish units with electricity that is generated in wholly and partly owned hydro power stations, in back-pressure turbines at the mills, or purchased.

Holmen Paper
produces printing paper on ten paper machines.

Iggesund Paperboard
produces solid bleached board and folding box board on four board machines.

Holmen Timber
produces sawn timber at the Iggesund Sawmill.

The paper is used for newspapers, magazines, directories, direct advertising and books.

The paperboard is used in consumer packaging and for graphic purposes.

The sawn timber is used in the manufacture of windows, floors, doors, furniture etc.

1. Iggesunds Bruk supplies Holmen Timber's nearby sawmill with steam for drying sawn timber and heating.
2. In its turn the sawmill supplies the paperboard mill with chips for the production of pulp.
3. Holmen Paper's Hallsta, Braviken and Madrid mills use recovered paper in their production, mainly of newsprint and directory paper.

Holmen Paper

Products: White and coloured newsprint, magazine paper, directory paper and book paper

Customers: Daily newspaper and magazine publishers, directory publishers and printers

Mills: Hallsta, Braviken, Madrid and Wargön

Production capacity/year: 2 185 000 tonnes

Number of machines: 10.

Iggesund Paperboard

Products: Solid bleached board and folding box board for packaging and graphical applications

Customers: Converters of paperboard for packaging, printers and merchants

Mills: Iggesunds Bruk and Workington

Production capacity/year: 590 000 tonnes

Number of machines: 4.

Holmen Timber

Product: Redwood sawn timber

Customers: Joinery and furniture industries, manufacturers of solid flooring, planing mills and builders' merchants

Mill: Iggesund Sawmill

Production capacity/year: 300 000 cubic metres

Saw line: 1.

Holmen Skog

Operations: Responsibility for supply of wood to the Group's Swedish units and management of company forests, wood trading

Land holdings: 1 265 000 hectares, of which 1 037 000 hectares of productive forestland

Timber volume: 117 million cubic metres.

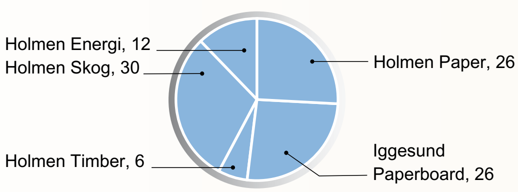
Holmen Energi

Operations: Responsibility for coordination of the Group's energy issues, for supply of energy to the Group's Swedish units and for management of the Group's hydro power stations

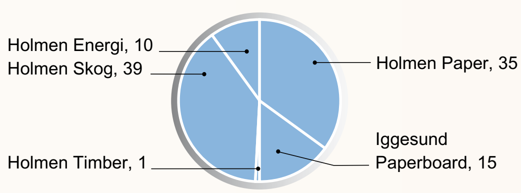
Number of wholly and partly owned hydro power stations: 23

Production capacity/year (hydro power): 1 113 GWh.

Operating profit by business area, excluding items affecting comparability, %



Operating capital by business area, %



Strategy

Business areas	Growth	Production
Holmen's business is conducted through three product-oriented business areas **Holmen Paper** – Printing paper **Iggesund Paperboard** – Paperboard **Holmen Timber** – Sawn timber two raw material-oriented business areas **Holmen Skog** – Forest and wood **Holmen Energi** – Electric power and energy	Holmen shall develop the business areas via organic growth and selective acquisitions through **Attractive products** **Active marketing** **Market-driven product development** **Higher production at mills, in forests and energy** **Committed employees**	Holmen shall have high quality and low production costs by means of **Large-scale production** **Rational processes** **Active purchasing** **Integrated procurement of raw materials: wood, energy and recovered paper** **High competence and efficient organisation**

Financial targets	Sustainability
Profitability Holmen's profitability and return shall consistently exceed the market cost of capital.	**Financial development** Healthy profitability and strong finances shall create a platform from which Holmen can promote long term the sustainable development of its commercial partners, employees, shareholders and the society.
Capital structure The financial position shall be strong with a debt/equity ratio of 0.3–0.8.	**Social responsibility** Holmen shall respect ethical and social norms and be a preferred commercial partner and responsible member of the community. Committed management shall motivate and develop Holmen's employees.
Dividend Ordinary dividend paid each year shall correspond to 5–7 % of equity.	**Environmental responsibility** Holmen's operations shall be characterised by a holistic approach that involves protection of the environment and lean use of raw materials and energy.

Business areas

Product-oriented business areas

Holmen's strategy and business concept involves focusing on growth and development within printing paper, paperboard and sawn timber. The overall object of the Group's business is to offer customers attractive products of high quality as well as good service, and to do so using cost-effective means that will enable Holmen to remain a competitive supplier.

Holmen must satisfy the customers' high demands for efficient printing and converting of the products into suitable end products with customer appeal. It is important that the customers can use the products successfully in combination and competition with other media and advertising or other packaging materials.

Market. Holmen's main market is Europe, which accounts for some 90% of the Group's sales.

Holmen Paper's printing paper has a strong position among European daily newspaper publishers, who take some two-thirds of the sales. Telephone directory publishers, retailers, printers and book publishers are complementary customer segments.

On the paperboard market, Iggesund Paperboard's largest category of customer is converters who make packaging. Merchants and printers who purchase paperboard for graphic products are also important customers. Iggesund holds a leading position in Europe for solid bleached board and is also an important actor in the folding box board segment. Holmen Paper has a market share in Europe of around 10% within standard newsprint, while the market share of improved newsprint, telephone directory paper (TDP) and book paper is some 25%. For virgin fibre board Iggesund has a market share of some 20%.

In Sweden, printing paper is sold direct to customers. Elsewhere, it is sold by sales companies in most EU countries, Switzerland, Australia, the USA and Japan.

Paperboard is sold from a central sales office in the Netherlands, with sales personnel and technicians in the Europe-

Increasingly, record publishers are using paperboard for CD sleeves rather than plastic. The Rolling Stones released their Rolled Gold + collection last November, including a special, limited edition of 200 000 copies. The sleeve was made of Invercote from Iggesund.

an countries. There are also sales subsidiaries in Hong Kong, Singapore and the USA.

Sawn timber is sold directly to customers. There are sales companies in Sweden and England.

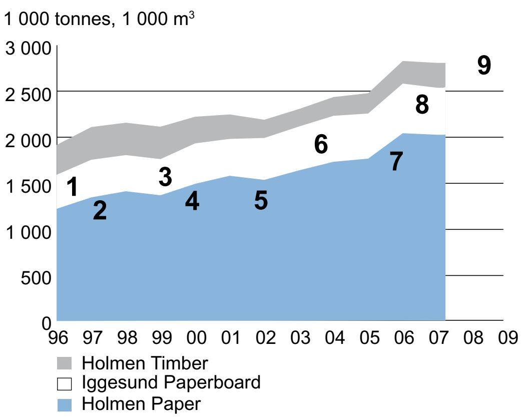
Products marketed on functionality. The marketing of Holmen's products mainly involves highlighting their functionality. The paper and paperboard shall be recognised for their good printability and runnability in the customers' machines. Demands for higher print quality and faster printing and converting are increasing. Converters demand characteristics that allow the paperboard to undergo processes such as folding, foiling, laminating and embossing to achieve attracting packaging. When making comparisons with products from other producers, customers take quality and price into consideration. Service and especially the ability to deliver the right product at the right time are also of great importance.

Holmen also markets the products through a number of brand names.

Competitors. With its capacity of 2 185 000 tonnes per year, Holmen Paper is the fifth largest producer in Europe of printing paper. UPM and Stora Enso with around 7 and 6 million tonnes respectively are the largest. See diagram on page 15 for competitors in Europe within printing paper.

Iggesund ranks number three in Europe in virgin fibre solid bleached board and folding box board, with its annual capacity of 590 000 tonnes. The main competitors are Stora Enso and M-real. See diagram on page 17 for competitors in Europe within virgin fibre board. Holmen Timber is a relatively small player in Europe. The market share is under 1%.

Volume growth and major investments



1 Rebuilding board machine KM2 Iggesunds Bruk
2 New paper machine PM53 Braviken
3 Rebuilding board machine BM2 Workington
4 Acquisition Papelera Peninsular (Madrid)
5 New paper machine PM11 Hallsta
6 Rebuilding BM2 Workington KM1 Iggesunds Bruk
7 New paper machine PM62 Madrid
8 Rebuilding board machine KM2 Iggesunds Bruk
9 New sawmill Braviken Sawmill

Growth

The markets for paper, paperboard and sawn timber are relatively mature, and growth on the market for Holmen's products in Europe has been running at an average rate of a few per cent per year over the past decade. Holmen's goal is to grow and remain a strong supplier with efficient production. The Group will develop and expand its own production of wood and energy. Most of the growth is organic and the result of product improvements and increasing production volumes in existing product areas. In recent years, Holmen has been growing in terms of volume by 4-5% a year in the product areas. Little of the growth has been an effect of acquisition. The latest major acquisition was the mill in Madrid in 2000.

Production

Large-scale and efficient production facilities and skilled employees result in high productivity and efficient use of input goods and capital. For long-term investments to be successful, and to achieve economies of scale as well as development, it is necessary to have an effective interaction between marketing, product development and production increases. Basic volumes of certain products are combined with selective ventures involving higher added value or improved products for both existing and new customer groups.

Holmen's research and development (R&D) activities are decentralised and directed towards supporting the needs of the business in terms of product development and efficient processes. Responsibility for R&D rests on each business area. The Group's R&D costs in 2007, including expenditure on external R&D, such as industry-wide projects and joint research with universities and institutes of technology, amounted to some MSEK 100.

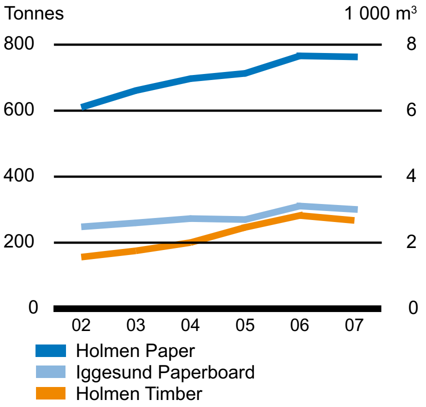
The external R&D activities involve joint research with several different research and development institutions and bodies, such as the Swedish STFI-Packforsk, MoRe Research, The Royal Institute of Technology, Mittuniversitet (University of Central Sweden), the University of Karlstad, the Swedish University of Agricultural Sciences, and Skogforsk. In England, Holmen collaborates with the University of Manchester, and in Spain with the Complutence University in Madrid.

Holmen Skog plays an active role in forestry development in Sweden. In recent years, this has resulted in several new methods for harvesting and rejuvenation. Holmen Skog is also involved in a large number of research projects carried on under the aegis of the Swedish University of Agricultural Sciences.

Alongside an efficient production process, the cost of raw materials and

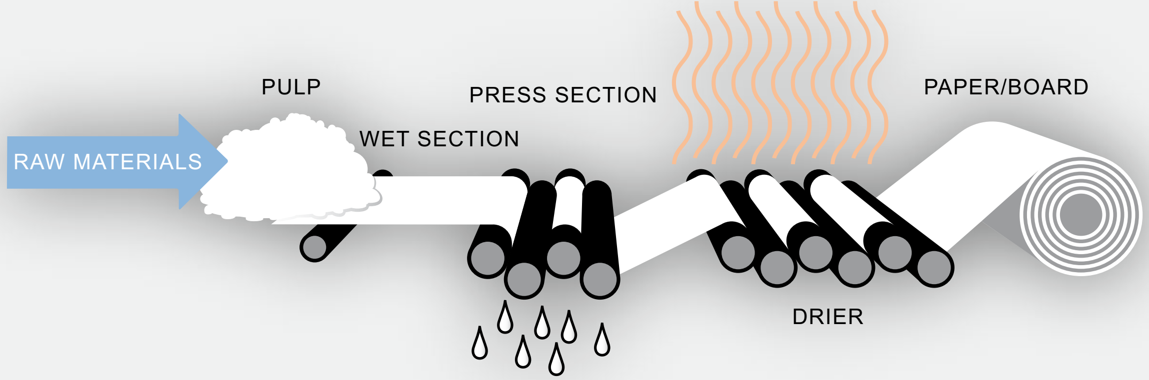
Large-scale production contributes to the efficient use of raw materials and capital.

Production per employee-year



The production process

This highly simplified picture illustrates the production process in a paper and paperboard machine. In reality, the machines differ quite significantly. The raw materials consist mainly of wood and/or recovered paper, electricity and chemicals. The pulp, which is produced by chemical or mechanical means, passes along a web in the machine. Firstly, it passes through a wet section, then a press section and finally the paper/board is dried on the web, which by then is running between numerous cylinders. The final process is to roll it on reels and cut it to the reel or sheet sizes the customers have ordered.




The cost of wood has a significant effect on Holmen's competitive position.

transportation is an important factor influencing competitiveness. Holmen has integrated backwards along the production chain by owning forests, recovered paper collection companies and power stations. Wood, energy and recovered paper are the main raw materials used by Holmen.

The sawmills play an important role on the wood market as they buy the best wood (saw logs) from forest-owners and sell large quantities of bi-products, mainly chips, to pulp and paper mills. This was one of the factors behind the investment in the Iggesund Sawmill and the decision to build the Braviken Sawmill adjacent to the Braviken paper mill.

Wood, a renewable raw material. Provided forests are well managed, they will last for ever. Wood – the renewable raw material – is the foundation of Holmen's production of paper, paperboard and sawn timber. Wood is mainly procured on the Swedish market, where wood is also sold. Some wood is imported, primarily from Estonia.

Holmen owns one million hectares of productive forestland and the standing timber volume amounts to 117 million cubic metres. The self-sufficiency ratio for the Group's Swedish units is around 60%.

Recovered paper becomes new products. Old newspapers, magazines and directories are collected for use as recovered paper to make new products. Recovered paper is procured in Sweden, Spain, Portugal, France and Great Britain. In 2007 Holmen used some one million tonnes of recovered paper in its production of newsprint and TDP. The admixture of recovered paper amounts on average to around 50% in these products, while the remainder consists of virgin fibre. The mill in Madrid uses solely recovered paper.

Company-generated and purchased energy. Energy is obtained from the company's wholly and partly owned hydro power stations, back pressure turbines at the mills, by purchase of electricity and the recovery and purchase of thermal energy. Energy is also generated through the combustion of biofuel in the form of recovered liquors, bark and wood residues, or from oil and natural gas. The electricity generated at the Group's wholly and partly owned hydro power stations and back pressure turbines at the mills corresponds to just over 30% of the electricity consumed by the Swedish units. The mills in Madrid and Workington obtain energy from gas-fired, combined thermal power and electricity installations completed with local electricity purchases.

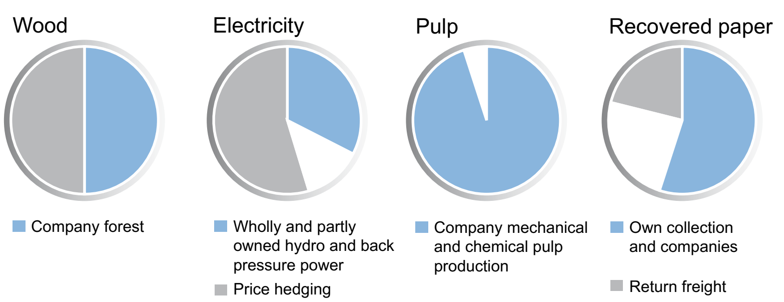
Financial targets

Profitability

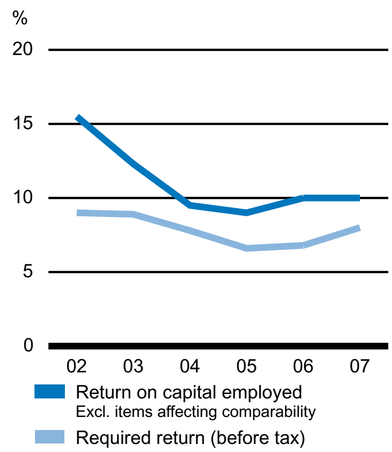
Holmen's profitability target is to earn a sustainable return that is higher than the market cost of capital. This profitability target is used to control the business. At Group level, a key ratio for profitability – Value Added – is computed. This is based on the operating result less the cost of capital and tax. This provides a simple and sufficiently fair yardstick that is continuously followed up at Group, business area and production unit levels. The Group's profitability over the past few years has exceeded the cost of capital. Nonetheless there are units in the Group whose profitability have to be improved.

Holmen's business is capital intensive and much of the development is the result of investing in additional capacity and improved production. Investments are also often combined with cost rationalisa-

Self-sufficiency, raw materials



Return on capital employed



tion. To assess the profitability of the investments a model is used to calculate the present value of the cash flows, i.e. estimated future cash flows are discounted by the weighted cost of capital.

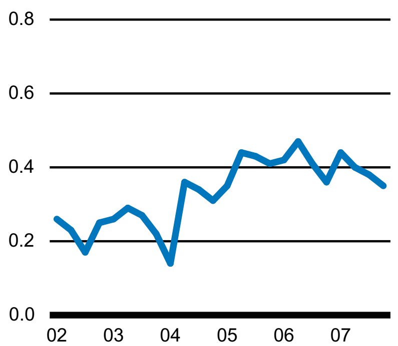
The computation of the cost of capital involves weighting the cost of borrowed capital and equity and multiplying the result by the capital invested in the business. The cost of equity is computed as interest plus a premium adjusted to the level of risk, with capital invested in production operations being given a higher risk premium (5%) than capital invested in forest and power assets (2%).

The Group's weighted cost of capital for the current operations is computed on the basis of short-term market interest rates and was in 2007 just over 9% for production operations and just over 6% for forest and power, calculated on the result before tax. The cost of capital used for evaluating investment projects is based on long-term market interest rates and was in 2007 just over 11% for production operations.

Capital structure

Holmen shall have a strong financial position that provides financial stability and enables it to make correct, long-term business decisions relatively independently of the state of the economy and external financing possibilities. The target for the debt/equity ratio is 0.3–0.8, and the adjustment to this target is one aspect of the strategic planning.

Debt/equity ratio



Holmen shall pay extra dividend or buy back shares when the capital structure and the financing requirements of the business permit. In addition to ordinary dividends, Holmen has paid extra dividends for the financial years 1998, 2000 and 2003. Shares have been bought back once, in 2000.

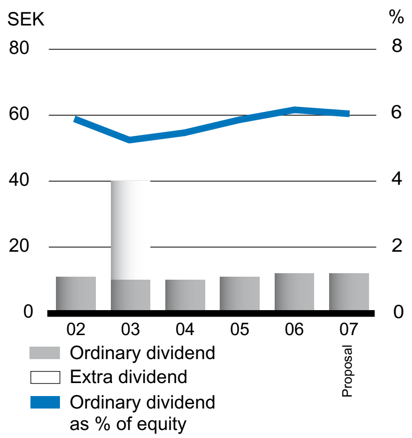
The 2007 Annual General Meeting mandated Holmen's Board to buy back shares in the company. This mandate has not been exercised. There is no explicit goal for share buy-back. Holmen has used it as a complement to dividends as a means of adjusting the capital structure when conditions are deemed favourable.

If Holmen achieves its profitability target the funds that are generated internally are estimated to be sufficient to finance the ordinary dividend and the annual growth of 3–4%. Higher profitability would over time permit the payment of extra dividends, share buy-backs, major investment projects or acquisitions.

Dividend

Holmen shall pay an ordinary dividend each year that corresponds to 5–7% of equity. This represents a relatively stable and high annual dividend. The Board has proposed that the 2008 Annual General Meeting resolves in favour of paying a dividend of SEK 12 per share, which corresponds to 6.0% of equity. Over the past ten years the ordinary dividend has averaged 5–6% of equity. This means that half of the earnings per share have been paid out by way of ordinary dividend.

Dividend per share



Sustainability

Holmen's development is to be based on a sustainable approach to profitability and the use of resources. The raw materials, wood and recovered paper, and the products are adapted to the eco-cycle and recoverable.

Holmen is taking measures to make more efficient use of electricity and thermal energy, to reduce emissions of fossil carbon dioxide and to increase energy self-sufficiency.

The Group is a member of the UN's Global Compact, which means that the company supports international guidelines relating to human rights, social conditions, the environment, and union rights.

Holmen adopts a long-term perspective to its relations with its employees, and it has established a personnel policy that focuses on developing leadership, the organisation and the employees.

Employees

A number of strategic goals have been established for Holmen's human resources (HR) activities. They relate to factors such as the climate at work, leadership, performance reviews, number of accidents and share of female managers. The overall measures relating to competence procurement, leadership and the organisation are followed up using key ratios and Holmen Inblick, the employee survey.

Future recruitment and managerial and leader development to meet future needs were continuously given priority in the HR activities in 2007. During the 2009–2015 period the number of employees at the Swedish units who retire each year will be twice as many as during the 2000–2005 period. In order to meet the recruitment requirements, Holmen is creating contacts with schools and universities. Measures to ensure the supply of good recruits in the future have in recent years been directed towards high schools and universities. The proportion of graduates among new recruits is currently around 40%. The aim is to raise this level.

Priority is given to the development of existing and future managers. Potential managers are identified and the target is to fill at least 75% of managerial vacancies by internal appointment. Special attention is devoted to women with managerial potential.

The share of female managers in Holmen rose to 11% of the total in 2007, and the Group aims to raise this proportion even further. A network of female managers in the Group is taking active steps to enable the company to offer better support to women who wish to develop within Holmen.

During the year sick leave at the Swedish units fell to 4.7% (2006: 4.8%). The level at non-Swedish units was some 4%.

In 2007, the employee survey, Holmen Inblick, was carried out for the third time. The survey focused on whether employees consider they have the conditions needed to do a good job, and on identifying management strengths and

Holmen's personnel policy is oriented towards developing leadership, the organisation and the employees.

weaknesses. Holmen Inblick is a useful instrument for improving the leadership. Each manager has to take responsibility for this as a competent manager has considerable influence on the employees' drive and their readiness to do a good job, which in turn has an effect on Holmen's profitability.

Generally, the result of the survey was favourable. Not only the human capital index, but also the leadership index, rose and they are well above the average for a handful of other Swedish process industries.

A Holmen Inblick survey specifically for managers was carried out at the end of 2007. Its results will be ready in the spring of 2008, and they will serve as a basis for focused activities to develop the roles of each individual manager.

Holmen's aim is that HR issues relating to recruitment, competence development, rehabilitation and discontinuation should be handled in a uniform way throughout the Group. The new HR system that will be introduced in 2008 will be a useful means of achieving this end.

It will be introduced successively in Sweden during the course of 2008 and will facilitate HR management for managers as well as their personnel. The HR system will be introduced at units outside Sweden in 2010 and thereafter.

Environment and climate

Environmental aspects of Holmen's business are regulated by laws and permits in each individual country. The organisation and management of the Group's environmental activities are based on the Group's environmental policy. The environmental impact of production remains within the limits laid down by the environmental authorities. The forests are managed with the long-term goal of producing more wood while also providing a habitat for the many species living there.

The activities at the mills and the forestry are certified in accordance with ISO 14001. The forestry is also certified in accordance with FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification schemes).

Holmen takes a pro-active approach to measures that contribute to sustainable development and help to reduce effects on the climate. Holmen is affected by the rules in the Kyoto Protocol regarding trading in emission rights as the Group's mills have been included in the system since 2005. Holmen fosters energy efficiency, the development of types of energy that are neutral with regard to carbon dioxide, such as hydro power and wind power.

The decision to build a sawmill adjacent to the paper mill in Braviken also represents a new venture in terms of the environment. Growing forests absorb carbon dioxide, which is then stored for a very long time in the form of end products made of sawn timber. Moreover, wood can often be used instead of other materials that require large quantities of energy to produce, and thus give rise to carbon dioxide emissions. It is also considered that the sawmill will make it possible to expand bioenergy production and improve transport efficiency.

Energy. Holmen participates in Sweden and England in voluntary energy efficiency programmes that offer energy-intensive manufacturers an alternative to taxes. This benefits the business as such and focuses attention within the company on energy issues; it is therefore expected to improve energy efficiency and reduce climatic impact. The energy management system introduced at the Group's Swedish mills is also expected to be introduced in Workington in 2008. Madrid is next to introduce such a system.

Holmen is taking active steps to improve energy efficiency and to reduce its consumption of oil, as well as having challenging climate goals. This means that between now and 2020 the use of fossil fuels by the Swedish mills will be reduced by 90%, which corresponds to emissions of around 240 000 tonnes of carbon dioxide.

Holmen and Vattenfall are engaged in a joint project to further improve energy efficiency at Holmen's mills. The aim is to strengthen Holmen's competitive position by identifying and implementing energy-saving measures.

"Holmen and its World" is the Group's sustainability report; its purpose is to describe Holmen's activities to ensure sustainable development. The aim is to provide straightforward answers to questions asked by the Group's stakeholders about environmental and social responsibility and financial development. The 2007 edition will be published in English and Swedish at the end of March and can be ordered on the website. The Spanish version is expected to be ready in May.

In 2007, as in 2005 and 2006, Holmen was included on several indices for sustainable development and corporate social responsibility. Inclusion in indices of this type is recognition for the company's financial, environmental and social responsibility. Holmen is for instance listed on Swedbank Robur's Ethical Funds, Banco Environmental Funds, the FTSE4Good Index Series and Storebrand's SRI Index (Socially Responsible Investments).

Holmen Paper

Operations in 2007

The market for newsprint in Europe was stable and deliveries were on the same level as in 2006. Higher volumes of imports from North America strengthened the supply on the market, whilst European producers increased their exports mainly to Asia. Capacity utilisation for the year as a whole was 92%. Total deliveries to Europe of standard newsprint were unchanged in relation to the previous year. Demand for SC paper in Europe rose by 4%, and for coated printing paper by 5%. In total, deliveries of wood-containing printing paper to Europe increased by just over 2%. Holmen Paper's total deliveries of printing paper were broadly unchanged in relation to 2006 and amounted to 2 025 000 tonnes.

The operating profit excluding items affecting comparability was MSEK 623 in relation to MSEK 754 in 2006. Moreover, write-downs of MSEK 569 in the value of goodwill and of MSEK 1 034 in the value of tangible fixed assets were charged against the result. The write-downs were made necessary by the high cost of recovered paper, wood and energy.

On average, the prices of Holmen Paper's products were some 2% higher than last year, but this could not compensate fully for the cost increases of input goods such as wood, recovered paper and pulp, as well as costs in connection with maintenance and rebuilding stops. The weak US dollar and low prices caused a deterioration in the profitability of sales outside Europe.

Capital expenditure amounted to MSEK 584 (686) and included the rebuilding of a newsprint machine and the construction of a new energy-efficient pulp line at Braviken, and the modernisation of pulp production at Hallsta.

The number of employees was 2 666 (2 667).

Market

The European market for printing paper amounts to some 25 million tonnes annually, of which newsprint accounts for 11 million tonnes. Daily newspaper publishers accounted for 85% of the newsprint consumption in 2007. Free newspapers have been a fast-growing segment over the past ten years, and they now account for 4% of the total consumption of newsprint. Retailers and printers account for 11%. Publishers of free newspapers and producers of direct advertising have been and still represent a growing customer segment for newsprint. By contrast, the effects of falling paid newspaper circulations and competition from electronic media have had some adverse impact on demand.

The market for magazine paper amounts to some 14 million tonnes per year. The largest buyers are retailers, magazine publishers, and printers. In magazine paper, SC paper and coated paper, the strongest forces driving demand are the growing volume of direct advertising, new magazine titles, and product catalogues. The future of traditional family magazines and conventional telephone directories is less certain. The market for telephone directory paper, which amounts to some 500 000 tonnes per year, is mature and characterised by a small number of strong national buyers. The total market for book paper in Europe is around 2 million tonnes per year, more than half of which consists of uncoated paper for paperbacks and other such publications. There is demand in this segment for FSC-certified paper such as Holmen Book.

The object of Holmen Paper's market strategy, with focus on Europe, is to develop competitive commercial concepts in the customer segments newspaper publishers, telephone directory publishers, retailers, printers, and book publishers. The overall position on the market is characterised by a strong platform of standard newsprint for newspaper publishers with production in both northern and southern Europe. Holmen Paper's share of the European market for standard newsprint is some 10%.

In addition, there is a relatively high proportion of special products, such as improved newsprint, coloured newsprint, directory paper and book paper, where Holmen Paper's share of the European market is some 25%. The capacity for production of coated and uncoated magazine paper is relatively small.

The market share in the commercial print segment, where customers include retailers, magazine publishers and printers, is some 5 %.

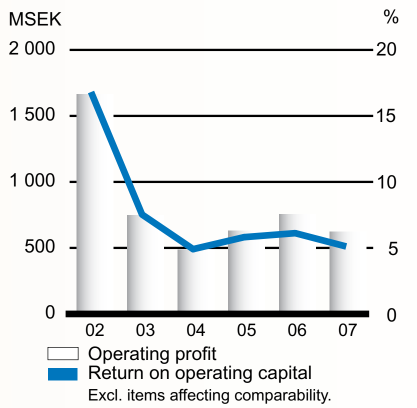
Growth

Over the past five years Holmen Paper has increased its deliveries by 6% on average, thanks to new capacity and productivity improvements. In the future, the focus will be on higher added value

Facts	2007	2006
Net turnover, MSEK	10 345	10 140
Operating profit, MSEK	-980	754
Operating profit excl. items affecting comparability, MSEK	623	754
Operating capital, MSEK	9 971	11 541
Average number of employees	2 666	2 667
Share of sales in Europe, %	86	86
Production, 1 000 tonnes	2 034	2 044

Items affecting comparability relate to write-down of goodwill and tangible fixed assets of MSEK 1 603 in 2007.

Result



products, and the development of products to suit more demanding printing techniques such as heatset and gravure. The main aim is to improve and develop the cooperation with customers, primarily those defined as partner customers; a further aim is to strengthen the commitment of the employees. The fierce competition on the printing paper market will make growing demands for quality and product development, market positioning and cost efficiency.

Efficiency

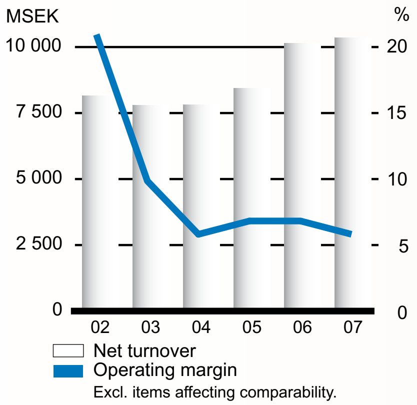
Holmen Paper has initiated a cost reduction and efficiency programme. The business area also intends to modify its production strategy and product mix. The volume of standard newsprint is to be reduced by a total of 150 000 tonnes per year. The new strategy includes reviewing the structure of Hallsta paper mill with the object of discontinuing production on PM2, the oldest of the mill's four paper machines, which has a capacity of around 110 000 tonnes per year. The high cost of wood, recovered paper and energy has initiated this structural overhaul, the aim of which is to create better future conditions not only for paper production but also for energy and pulp production at Hallsta. The proportion of standard newsprint produced in Madrid will also be reduced in favour of higher added value products.

The aim of the cost reduction and efficiency programme is to achieve significant reductions in both variable and fixed costs in 2008 and 2009 by reducing manning and the cost of input goods. Parallel to this, ongoing investments in the production process are helping to improve productivity and profitability. One example is the current investment project in a new pulp line at Braviken. The new line will be commissioned in August 2008.

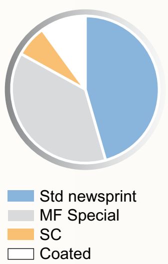
The decision to build the new sawmill adjacent to the printing paper mill will create a strategically important complex at Braviken for the production of paper, sawn timber and energy (see also page 19).

Newspapers are important tools for use in teaching at schools. The content raises pupils' awareness of a wide range of different topics, while cuttings of headlines and illustrations put their imagination to work.

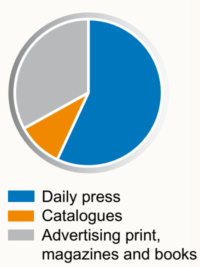
Net turnover and operating margin



Products

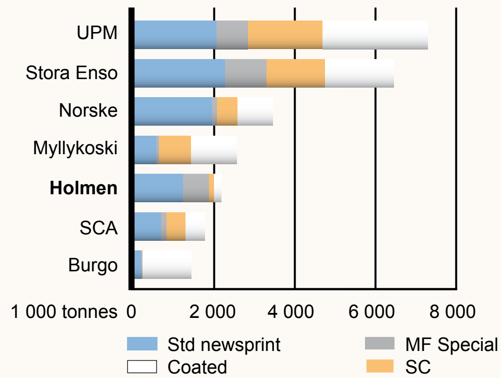


End-products



Leading producers 2007

Printing paper, capacity in Europe



Iggesund Paperboard

Operations in 2007

The market for virgin fibre board in Europe was strong in 2007 and capacity utilisation at European producers was high. The growth rate in Europe was 5% with the East European market continuing its very strong growth.

Iggesund Paperboard's deliveries amounted to 516 000 tonnes, which was 4% lower than in 2006. The decline was caused by the extensive production stop in connection with the rebuilding of the KM2 board machine at Iggesunds Bruk in the autumn of 2007.

The prices of both solid bleached board and folding box board were increased during the year.

Net turnover declined to MSEK 5 100 compared to MSEK 5 240 in 2006.

The operating profit was MSEK 599 (752). The decline is mainly due to lower deliveries and higher costs as a consequence of the stop for the rebuilding and higher wood prices.

Capital expenditure increased to MSEK 689 (351). At Iggesund, apart from the extensive rebuilding of the board machine, the lime sludge reburning kiln was upgraded. Furthermore, a number of energy investment projects were begun. A new reeling machine was installed at Workington.

The number of employees was 1 704 (1 744).

Market

Global consumption of paperboard is around 32 million tonnes per year. Consumption of the grades produced by Iggesund – virgin fibre solid bleached board (SBB) and folding box board (FBB) – accounts for some 9 million tonnes a year, of which the European market consumes just over 2 million tonnes. The growth rate has been running at around 5% over the past two years, which is higher than normal and a consequence of the generally good economic conditions and high growth in Eastern Europe. The largest European markets for solid bleached board and folding box board are Germany, with 20% of consumption, Great Britain (14%) and France (9%). Most of the subsidiary markets showed positive developments, except for Great Britain, where the market contracted.

With its very strong brand names, Invercote and Incada, Iggesund has a market share of some 20% of the market for virgin fibre board in Europe. Invercote solid bleached board is strongest on the European paperboard market. It is produced at Iggesund and accounts for around two-thirds of the business area's turnover. Incada folding box board is produced at Workington in England, where it has a leading role on the domestic market.

Production in Europe migrates towards the eastern regions, partly on account of higher private consumption, partly because Eastern Europe has rising net exports of high quality packaging. In response to these market developments, Iggesund has strengthened its representation in East Europe, primarily by setting up a sales office in Poland.

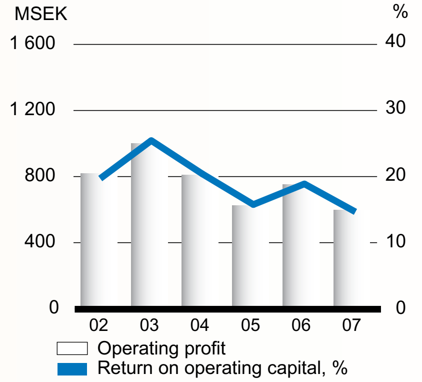
Converters of board into packaging are Iggesund's largest customer segment. The demands made on the packaging, and thus also on the packaging material, are increasing constantly. Convenience, quality requirements and the need for producers to use brand-name profiling, mean that customised functions are increasingly being incorporated into packaging solutions. Furthermore, the appearance of the packaging in the store is becoming a more and more important factor affecting the choice of material. Trends in private consumption, which at the global level was high in 2007, have a major impact on the demand for paperboard. Higher consumption generally leads to a greater use of packaging. Other factors that result in rising consumption of packaged goods are urbanisation, changes in household size, and lifestyle.

The market for tobacco board is stable and consists of a small number of large international players with very high quality and service demands. The trend towards greater use of hard board packs instead of soft paper packs, and the constantly rising demands on packaging design are becoming even more explicit. In recent years, printing and conversion of packages like production of cigarettes have been moved eastwards.

The large number of end customers on the market for graphic board means that the greater part of the volume is sold through an extensive network of merchants, where the degree of consolidation is constantly increasing. High and consistent quality is the main factors influencing merchants' interest in Invercote and Incada in the graphic segment.

Facts	2007	2006
Net turnover, MSEK	5 100	5 240
Operating profit, MSEK	599	752
Operating capital, MSEK	4 180	3 935
Average number of employees	1 704	1 744
Share of sales in Europe, %	86	86
Production, 1 000 tonnes	513	542

Result



Attractive, strong and informative labels printed on paperboard from Iggesund make it easier for consumers to make a conscious product choice in a clothing store, for example.

Digital printing is gaining ground all time, and this is making new and growing demands in connection with sales.

Growth

In recent years, Iggesund has grown at an average rate of 3% a year as a result of higher productivity at the mills and active canvassing of the market. The improvements have been brought about by means of some extensive rebuilding projects and several minor small investments to improve efficiency.

The KM2 board machine in Iggesund was rebuilt in the autumn of 2007, which will provide a foundation for further development of Invercote solid bleached board. The new equipment will make possible changes in the board's structure, and at the same time create greater potential to optimise quality. Higher quality consistency is one of the most important improvements and is essential to enable customers to achieve the desired end result as well as making it possible to print and/or process the paperboard with predictable precision. This will enable customers to optimise their manufacturing processes.

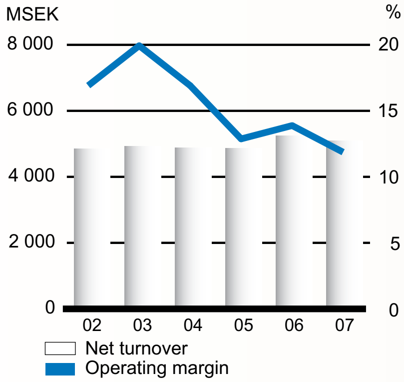
A further effect of the rebuilding is that surface characteristics will improve, which will have a positive effect on printability. Cleaner board will be even more neutral in terms of odour and taste, a feature that is in particular high demand in the confectionery and tobacco segments. Thanks to the rebuilding a platform will be created from which Iggesund can further consolidate its position of technical leadership.

Parallel to the rebuilding of the board machine at Iggesund the water handling system was improved and the lime sludge reburning kiln was replaced. The new kiln will make possible effective recovery of chemicals from the production process.

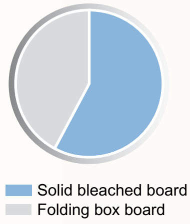
During the year, Workington continued with the optimisation of the Incada product family. The results show quite clearly that Incada has consolidated its position and broadened its customer base, not least in the tobacco board segment.

The processing operations at Strömsbruk continued to develop new plastic laminated products based on paperboard from Workington and Iggesunds Bruk.

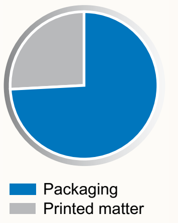
Net turnover and operating margin



Products

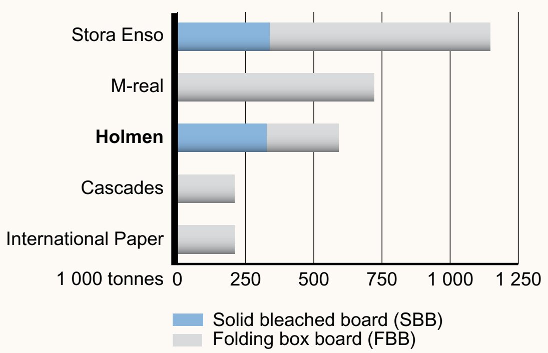


End-products



Leading producers 2007

Virgin fibre board, capacity in Europe



Holmen Timber

Operations in 2007

The market situation for sawn timber was very strong in 2007, but weakened slightly towards the end of the year as a consequence of higher supplies in Europe and lower consumption in the USA and Japan.

Holmen Timber's deliveries rose by 6% to 262 000 cubic metres as a result of higher production at the sawmill in Iggesund and a good market. Prices were raised successively during the first three quarters and remained more or less stable during the fourth quarter. On average, Holmen Timber's price level was 22% higher than in 2006.

The operating profit excluding item affecting comparability was MSEK 146 (80). The improvement is mainly due to the higher prices, but the higher deliveries also contributed to the improvement. At the same time, raw material costs rose as a result of increases in saw log prices during the year. The result also includes MSEK 60 in respect of a reversal of a write-down in fixed assets at Iggesund Sawmill made in 2001 affecting comparability.

Capital expenditure amounted to MSEK 63 (5), and related mainly to new debarking machines and the new Braviken sawmill.

The number of employees at Holmen Timber was 97 (87).

Market

The total consumption of sawn timber in Europe amounts to just over 100 million cubic metres per year. The growth rate has been almost 3% per year over the past five years, with a much higher rate on emerging markets.

The climate and greater understanding of the greenhouse effect is benefiting demand for wood, as carbon dioxide is stored in the end product when it is used to make houses, for instance.

Holmen Timber's customers are mainly within the joinery industry, and include manufacturers of windows, solid wooden floors and laminated board, as well as planing mills. Great Britain and Scandinavia, which account for some 70% of sales, are the main markets, while there are complementary markets in North Africa and the Middle East.

Growth

The Braviken Sawmill project was launched during the year and in October Holmen's Board decided to build the large sawmill in Norrköping to produce whitewood structural timber. The sawmill will be ready for production in the autumn of 2009, and once it has reached its planned size, it will have the capacity to produce 750 000 cubic metres per year. See next page.

Since 2002 Holmen Timber has increased its production by 40% to 272 000 cubic metres in 2007. Parallel to this, manning has been reduced from 138 to 97. This was accomplished by concentrating production at Iggesund Sawmill on redwood sawn timber, by reviewing and overhauling the organisation, and by carrying out some investments, mainly in a new grading unit and a new log infeed.

In February 2007, a combi-shift was introduced as a means of further raising output. The shift works alternate weeks on the saw and in the grading unit, which will allow production to be raised by some 40 000 cubic metres on an annual basis. The higher manning has resulted in a flexible organisation with the capacity to increase the production volume.

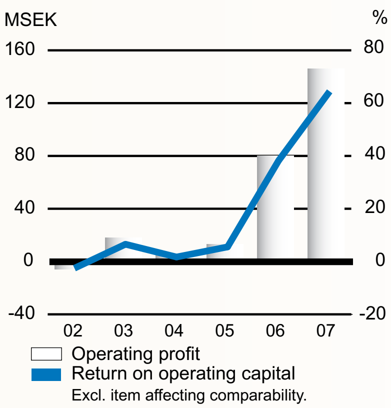
To enable Iggesund Sawmill to utilise its additional capacity and sustain long-term profitability large quantities of pine saw logs will be required. Holmen Timber and Holmen Skog, which handles saw log purchasing for the sawmill, have launched the Hälsinge pine project to draw attention to the growing raw material requirements.

Andrew Nichols of Holmen Timber Ltd discusses quality at Travis Perkins, a major buyer of sawn timber from Holmen in UK.

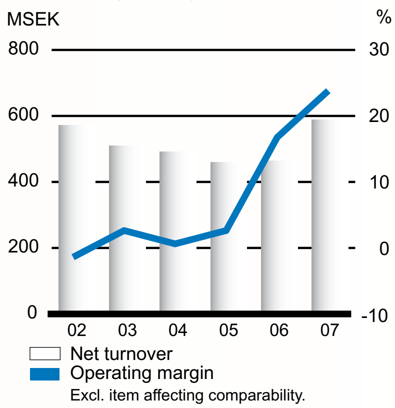
Facts	2007	2006
Net turnover, MSEK	589	465
Operating profit, MSEK	206	80
Operating profit excl. item affecting comparability, MSEK	146	80
Operating capital, MSEK	345	208
Average number of employees	97	87
Share of sales in Europe, %	70	80
Production, 1 000 m^3	272	247

Item affecting comparability relate to reversal of write-down of MSEK 60 in 2007.

Result



Net turnover and operating margin



The Braviken sawmill will be built adjacent to the paper mill, which will enable it to use the existing infrastructure at the site. Wood procurement represents an additional coordination benefit. The new complex that will be created at Braviken corresponds to Holmen's complex in Iggesund – the picture shows the timber intake in the foreground and the board mill in the background.

Braviken Sawmill

Holmen's plans to invest in a sawmill adjacent to the Braviken paper mill in Norrköping will eventually result in the creation of Scandinavia's largest facility for the production of sawn timber. Once it has reached its planned size, the sawmill will have the capacity to produce 750 000 cubic metres of whitewood products per year. The intention is for the sawmill to come into production in the autumn of 2009.

The investment cost amounts to some MSEK 1 100 and relates to a sawmill with the utmost in productivity and cost efficiency, and thus a healthy earning capacity.

By locating the sawmill alongside the paper mill the Group will strengthen its sourcing of raw materials not only for the sawmill but also for the paper mill, half of whose fibre consumption consists of spruce pulpwood and the rest of recovered paper.

The sawmill will produce structural timber mainly intended for the principal markets in Scandinavia and Great Britain, but it will also market its products in other European countries, Japan and the USA.

With the new sawmill, which is expected to employ around 140 people once it is operating at its planned capacity, Holmen will also be a significant supplier of structural timber. The Iggesund Sawmill, with its annual capacity of 300 000 cubic metres of redwood products, concentrates its marketing on the carpentry and joinery industries.

It is estimated that the combination of the existing printing paper mill and the new sawmill will result in significant coordination gains, not only with regard to wood sourcing but also because the sawmill can make use of the infrastructure already in place at the site.

It will also open the door to effective energy solutions, as the Group will gain access to ample supplies of chips from the sawmill and to forest fuel in connection with harvesting. These biofuels can eventually be utilised within the framework of the complex. In the next few years Holmen will need to invest in a new biofuel boiler at Braviken. This could make possible a substantial increase in the production of energy at the mill.

The decision to invest in a new sawmill alongside the Braviken paper mill means that substantial volumes of spruce timber will need to be obtained. Holmen Skog will thus become an even stronger player in the region as the business area will be a buyer of all types of wood: sawn timber, pulpwood and bi-products in the form of branches, tops and stubs.

Holmen Skog

Operations in 2007

The volume of harvesting in Holmen's forests amounted to 2.6 million cubic metres, which was the same as in the previous year.

Holmen Skog's operating profit excluding item affecting comparability increased by MSEK 59 to MSEK 702 due to higher wood prices. The operating profit includes a revaluation of MSEK 2 100 affecting comparability, which was carried out during the fourth quarter (see note 11).

Capital expenditure amounted to MSEK 79 (29).

The number of employees rose to 409 (402), mainly owing to expanded purchasing activities and biofuel ventures.

Market

The Swedish forest products industry's consumption of wood amounts to just over 75 million cubic metres (total volume under bark) a year. Most of the wood comes from Swedish forests. Imports from the Baltic countries and Russia account for some 10 million cubic metres.

Half of the wood harvested in the country consists of saw logs; 38% of pulpwood and 8% of forest fuel.

The demand for saw logs continued to rise as a consequence of the good market situation for sawn timber during the first half of the year. The demand for pulpwood continued at broadly the same level as in the previous year. During the year, Russia raised its duties on wood exports. In combination with declining volumes of storm-felled timber, this contributed to the rise in wood prices.

Pulpwood prices throughout the country rose by 15-20%. The prices of spruce and pine saw logs rose to a corresponding extent in northern and central Sweden. In southern Sweden only the prices of pine saw logs rose. The price of imported pulpwood rose sharply, or by some 70% in relation to the previous year.

Holmen's wood procurement

In 2007, Holmen's Swedish units consumed 4.5 million cubic metres of wood. In total, Holmen Skog procured 10.6 (10.1) million cubic metres, of which 6.0 (5.5) million were delivered to outside customers, such as sawmills and forest products industries, mainly those in northern Sweden where most of Holmen's forests are located, but where the Group has no mills. During the year, some 2.6 million cubic metres were harvested in company forests. Holmen Skog's purchases of wood from private forest-owners increased in all parts of the country. Additional quantities were obtained by purchase from and exchange with other forest companies and sawmills, as well as in the form of imports, mainly from Estonia.

Development

In 2007, Holmen Skog began to apply its new silviculture programme. It is estimated that the potential exists to increase production by 25% within 30 years and that silvicultural practices will become more efficient. The factor behind the new programme is the growing need for wood and biofuel in Sweden. More than 1 200 people, employees and contractors, underwent training in how to apply the new programme as part of the largest training exercise ever in the business area.

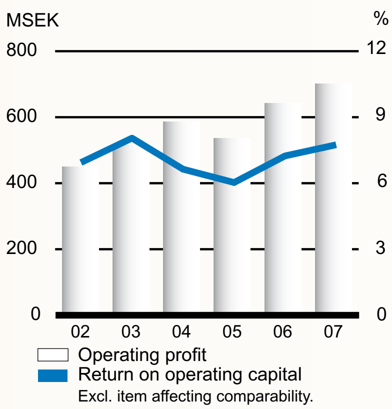
Biofuel has become an increasingly important part of the product range. Demand is growing constantly as a result of the construction of biofuel-fired district heating plants, mainly in Central Sweden. Holmen Skog has expanded its organisation for the procurement of biofuel, and this now covers all the areas in which the company is active.

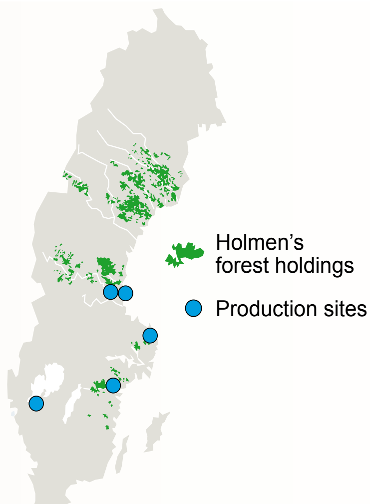
In 2007, Holmen's Swedish units consumed 4.5 million cubic metres of wood.

Facts	2007	2006
Operating profit, MSEK	2 802	643
Operating profit excl. item affecting comparability, MSEK	702	643
Operating capital, MSEK	11 264	9 001
Average number of employees	409	402
Harvesting in company forests, million m^3	2.6	2.6
Wood deliveries to company mills, million m^3	4.5	4.6

Item affecting comparability relates to revaluation of forests of MSEK 2 100 in 2007.

Result





Holmen Energi

Operations in 2007

Holmen Energi's production of hydro power amounted to 1 193 GWh (934). This was 7% higher than normal and was due to ample supplies of water.

The operating profit amounted to MSEK 272 (197). The improvement is mainly explained by higher production.

Capital expenditure amounted to MSEK 14 (6). The Bågede power station was extensively renovated during the year, which kept it out of production for five months. Furthermore, the purchasing process began for a new power station on the river Iggesund that will replace three old ones that have served their time. It is expected to come into production at the end of 2009.

Market

The total production of electricity in Sweden corresponds to some 145 TWh per year, just under half of which is hydro power. The summer season in 2007 was characterised by wide variations in water levels and high flows in southern Sweden, low in the centre of the country, and normal in the north. At the turn of the year, Sweden's reservoirs were around 72% full (66). On average, the spot price of electricity, albeit with wide month-on-month variations, was lower than in 2006. Forward prices rose, and for 2008 as a whole they rose by around 25% after fluctuating widely in the autumn.

Holmen's energy supply

Holmen's total consumption of electricity in 2007 amounted to 5 123 (5 145) GWh. The Swedish printing paper mills account for the greater part of this total. The company-generated hydro power and back-pressure power at the large mills correspond to 34% of the Group's electricity consumption in Sweden, with the remainder being purchased.

Holmen Energi is responsible for providing Holmen's Swedish mills with electricity. The Group's exposure to fluctuations in electricity prices is limited by means of long-term, fixed-price supply agreements, complemented with financial price hedging (see page 41). Holmen Energi's own power production is priced at market prices and reduces the Group's electricity needs.

Development

Holmen Energi's mandate has been broadened to include greater responsibility for coordinating energy issues within the Group. Issues relating to biofuel and wind power are important, but so is the development of alternative sources of energy. This results in higher energy production and helps to reduce carbon dioxide emissions from fossil fuels. A pre-study has been started in the field of biofuel to explore the prospects for a pellet plant in Iggesund.

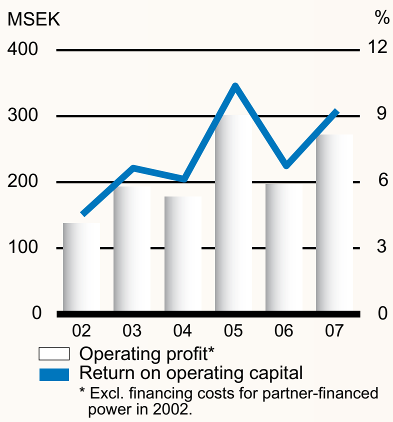
The concept of wind power is also being examined and this could result in wind power stations being constructed on Holmen's land in the form of partly or wholly owned ventures with a variety of associates. One of Holmen's projects relates to the development of wind power in association with other large electricity consumers within the framework of Vind-In, a partly owned company with the target annually to produce 1 TWh of electricity within five years. An inventory has been made of locations where hydro power could be expanded in the form of rights to waterfalls on Holmen's land. The result of this inventory is being studied further.

Holmen and Vattenfall are taking joint action to improve energy efficiency at Holmen's mills. The results are still turning out well.

The concept of wind power is being examined, which could result in wind power stations being constructed on Holmen's land.

Facts	2007	2006
Operating profit, MSEK	272	197
Operating capital, MSEK	2 960	2 965
Average number of employees	8	9
Company-generated hydro power, GWh	1 193	934

Result



Annual Report

The Board of Directors and the CEO of Holmen Aktiebolag (publ), Company Registration No. 556001-3301, herewith submit their annual report on the activities of the parent company and the Group for the financial year 2007. The annual report including the audit report, comprises pages 24–65. The result of the year's activities and the financial position of the parent company and the Group are presented in the Report of the Directors and the accompanying income statements and balance sheets, together with the notes and supplementary information. The Group's income statement and balance sheet and the parent company's income statement and balance sheet will be submitted to the Annual General Meeting for adoption.

This is a translation of the Swedish Annual Report of Holmen Aktiebolag (publ). In the event of inconsistency between the English and the Swedish versions, the Swedish version shall prevail.

Contents

Report of the Directors

General background

Markets The demand for newsprint in Europe was unchanged in relation to 2006, while imports from North America rose. The demand for SC paper increased by 4%, and for coated printing paper by 5%.

The market situation in Europe for virgin fibre board remained firm in 2007. Deliveries from European producers to Europe were 5% higher than in 2006, mainly as a result of strong growth in Eastern Europe. Capacity utilisation was high at European producers.

Seen overall, the market situation for sawn timber was very strong in 2007, but it weakened during the second half of the year.

Result The Group's turnover increased by 3% to MSEK 19 159. The increase is mainly due to higher prices for newsprint, paperboard and sawn timber. The operating profit amounted to MSEK 2 843. This figure includes net items affecting comparability of MSEK 557, of which MSEK 2 100 was an effect of revaluating forests and negative MSEK 1 603 was an effect of writing down the value of goodwill and tangible fixed assets within Holmen Paper and MSEK 60 was due to the reversal of an earlier write-down in the value of tangible fixed assets within Holmen Timber. The positive effect of items affecting comparability on the result after tax amounted to MSEK 36.

The operating profit excluding items affecting comparability amounted to MSEK 2 286 (2006: 2 303). The result was favourably affected by higher prices but was also negatively affected by the higher cost of wood and recovered paper, extensive maintenance and rebuilding stops, and lower deliveries.

Holmen Paper's deliveries were broadly unchanged in relation to 2006. Production capacity could not be utilised to the full. On average, prices were some 2% higher than in the previous year. Holmen Paper's operating profit, excluding items affecting comparability, for 2007 amounted to MSEK 623 (754). Despite higher newsprint prices in Europe, the result declined as a consequence of higher prices for wood, recovered paper and pulp, and of costs incurred in connection with maintenance and rebuilding stops. The weak US dollar and low prices caused a deterioration in the profitability of sales outside Europe. The operating result including items affecting comparability for 2007 was a loss of MSEK 980. This figure includes write-down of MSEK 569 in the value of goodwill and of MSEK 1 034 in the value of tangible fixed assets. The reason for the write-down is the high cost of recovered paper, wood and energy.

Iggesund Paperboard's deliveries declined by 4% in relation to the record level of 2006, owing to an extensive rebuilding stop at Iggesunds Bruk. However, demand for the company's products was firm, and prices were increased during the second half of the year. The operating profit for 2007 amounted to MSEK 599, which was MSEK 153 lower than in the previous year. The decline is mainly due to lower deliveries and higher costs as a consequence of the rebuilding stop, as well as higher wood prices. Increases in selling prices had a favourable effect on the result.

Holmen Timber's operating profit excluding item affecting comparability was MSEK 146, which is MSEK 66 higher in relation to the previous year. The improvement in the result is due to higher prices and increased deliveries.

Raw material costs also rose. Deliveries increased by 6% as a result of a strong market and higher productivity at the sawmill. The operating profit including item affecting comparability was MSEK 206. This figure includes MSEK 60 in respect of the reversal of the write-down in the value of fixed assets at the Iggesund Sawmill in 2001.

Holmen Skog's operating profit amounted to MSEK 2 802. The result before changes in value of biological assets rose by MSEK 85 to MSEK 613 as a consequence of higher wood prices. Biological assets (forests) are valued at fair value. The change in value, i.e. the increase in the value of forests less harvesting during the period, amounted to MSEK 2 189 (115). The change includes a revaluation of MSEK 2 100 carried out during the fourth quarter in which price and cost assumptions were changed and the discount rate was lowered (see note 11).

Holmen Energi's operating profit increased by MSEK 75 to MSEK 272. The improvement is explained largely by higher production in relation to the low level of 2006.

During the year, the shareholding in Norrköpings Hamn och Stuveri AB was divested to the Norrköping Municipality. The capital gain on the sale amounted to MSEK 105, which was stated centrally at Group level.

Net financial costs amounted to MSEK 261 (cost 247). The average interest rate paid on loans during the year was 4.1% (3.5).

The Group's tax charge amounted to MSEK 1 077 (charge 597), which corresponds to 42% of the profit before tax. The items affecting comparability have increased the deferred tax liability by net MSEK 521 which is stated as tax charge. The deferred tax liability was increased by MSEK 588 as a result of the revaluation of forests, and reduced by MSEK 67 as a result of the write-down and reversal of write-down in the value of fixed assets in the Swedish business. No deferred tax receivable has been stated in respect of write-down in the value of goodwill and Spanish tangible fixed assets. Estimated exclusive of the effect of items affecting comparability, the tax rate was 29%.

The profit after tax amounted to MSEK 1 505 (1 459). Earnings per share amounted to SEK 17.8 (17.2). The return on equity was 9.2% (9.0).

Review at Hallsta Holmen intends to reduce the annual volume of standard newsprint by a total of 150 000 tonnes by altering the Holmen Paper business area's production strategy and product mix. The changes will include a review of Hallsta paper mill's structure with the object of discontinuing production on PM2, the oldest of the mill's four paper machines with a capacity of around 110 000 tonnes per year.

Capital expenditure The Group's capital expenditure amounted to MSEK 1 433 (1 079). Depreciation according to plan amounted to MSEK 1 337 (1 346). During the year, Iggesunds Bruk's KM2 board machine was rebuilt to produce Invercote solid bleached board of a higher and more consistent quality at a total investment cost of MSEK 415. A further MSEK 295 was invested in the rebuilding of the mill's lime sludge reburning kiln in order to improve the recovery of chemicals. A start was made to the building of a new pulp line at the Braviken paper mill with the aim of reducing electricity consumption. The project is expected to be completed in the autumn of 2008 at a cost of MSEK 460.

A decision was made in October 2007 to invest in a new sawmill adjacent to the Braviken paper mill in Norrköping. When Braviken Sawmill reaches its planned size it will have the capacity to produce 750 000 cubic metres of whitewood sawn timber per year. Production is planned to start in the autumn of 2009. The investment cost is expected to be around MSEK 1 100.

Cash flow The Group's cash flow from current operations amounted to MSEK 2 476. The cash flow absorbed by investment activities amounted to MSEK 1 315. This includes MSEK 119 relating to sales of fixed assets, primarily the sale of shares in Norrköpings Hamn och Stuveri AB. A dividend of MSEK 1 017 was paid to the shareholders.

Financing and financial risk management The Group's financial net debt declined during the year by MSEK 8 to MSEK 5 977. The closing debt/equity ratio declined to 0.35 (31 December 2006: 0.36). The Group's target for this ratio is an interval between 0.3 and 0.8. Financing during the year was arranged by the issue of commercial papers with durations of up to one year, and by way of short-term bank loans. Some of the company's bond loans have matured and some of other long-term liabilities have been amortised. Liquid funds were placed with banks.

The result of hedges to cover sales denominated in foreign currencies was a profit of MSEK 38 (83), which is stated in the operating result. For 2008, some 90% of the Group's estimated net flows in euro are hedged at an average rate of 9.25 and for 2009 some 75% of the flows are hedged at an average rate of 9.36. The coming four months' flows in sterling and US dollars are hedged.

The prices of 85-95% of the Group's estimated net consumption of electricity in Sweden during the 2008-2012 period are hedged. The corresponding figure for the 2013-2015 period is around 70%.

The Group's financial risk management is described in note 2.

Research and development The Group is engaged in research and development both internally at business area level and externally in association with several players, mainly industry-wide, and in association with universities and colleges. The Group's total investments in research and development in 2007 amounted to around MSEK 100.

Expectations in respect of future developments

In 2007 the Group's paperboard and sawn timber products were in very firm demand and it was possible to raise prices. The prices of printing paper were also increased while demand remained broadly unchanged and imports, into Europe, above all from Canadian producers increased. In the paperboard area Holmen has announced some price increases for the spring of 2008. Negotiations on printing paper prices for 2008 are in progress. On the sawn timber market, prices on average declined towards the end of 2007, and look like falling further, at least during the first half of 2008. The weakness of the US dollar had a negative impact on Holmen's exports and is also contributing to the intensifying competition on the European market. Only some of the sales denominated in US dollars and sterling have been hedged for 2008. However, Holmen's largest export currency, the euro, has been hedged for 2008, albeit at slightly lower levels than in 2007. The cost of energy, wood, recovered paper and pulp, which are Holmen's most important raw materials, have risen sharply in recent years. Holmen's self-sufficiency moderates the effects, as do the long-term price hedges of electricity for the Swedish units. The high cost situation remains at the beginning of 2008. In the short term, the structuring programme at Hallsta is expected to incur some restructuring costs. Holmen's level of capital expenditure is expected to be relatively high in 2008 as a consequence of a number of major investment projects.

Information on risks and uncertainties

Income Holmen's income comes mainly from the sale of printing paper, paperboard, and sawn timber in Europe. Changes in prices and deliveries depend largely on the market balance in Europe. This in turn is influenced by demand patterns there, development of production among European producers and changes in imports into Europe, as well as by the potential to export profitably from Europe. The Group also exports to countries outside Europe and the conditions for such exports also have an influence on income.

Costs Holmen's principal production costs are those of wood, recovered paper, energy, pulp and chemicals. In addition, the costs of distribution, personnel, maintenance and capital are significant. Costs are determined primarily by changes in the prices of input goods and personnel, and also by how successful the Group is in improving production and administrative efficiency.

A one percentage point change in deliveries, prices and costs is estimated to have the following effect on the operating result (MSEK)*:

	Deliveries	Price
Products		
Printing paper	40	100
Paperboard	25	50
Sawn timber	3	5
Company's own raw materials		
Wood from company forests**	7	11
Company-generated electricity**	3	4

	Costs
Wood**	20
Recovered paper	12
Pulp	6
Electricity**	15
Other energy	5
Chemicals	14
Distribution costs	15
Other variable costs	6
Personnel	27
Other fixed costs	15

* Based on revenue and costs for 2007.

** In the case of wood and energy, the sensitivity of the Group's net purchases, taking into account company production of raw materials is MSEK 9 and MSEK 11 respectively. In the case of electricity the price of 80% of the net consumption has been hedged for coming years, as an effect of price hedging of Swedish electricity procurement (see note 2).

Currencies Holmen's result is affected by currency fluctuations mainly because a significant proportion of the Group's sales are invoiced in other currencies than its costs. Currency hedging is used to reduce this exposure. Taking account of estimated currency flows a one percentage point change in the average exchange rate would have the following effect (MSEK):

	Net
SEK/EUR	50
SEK/USD	10
SEK/GBP	3

Disregarding currency hedging (see note 2).

Interest rates Calculated on the basis of the duration and net debt as of 31 December 2007, a one percentage point change in market interest rate from the 2007 level would influence the result for 2008 by some MSEK 19. As loans at fixed rates of interest mature the exposure to changes in market interest rates will increase. Disregarding durations the exposure to a one percentage point change in the market interest rate is MSEK 60. See note 2.

Important assessments and estimates Note 26 provides an account of significant assessments and estimates which, were they to change, would affect the result in 2008.

Financial targets

Profitability target Holmen's profitability target is consistently to earn a return in excess of the market cost of capital. This target is used to control the business. The Group uses the concept of Value Added, which is defined as the operating result less the cost of capital and tax. This is a simple and accurate enough definition of profitability that is regularly followed up at Group, business area, and production unit level. In recent years, the Group's profitability has fluctuated between 8% and 10%, defined as the return on equity, and has therefore exceeded the estimated cost of capital. However, there are some units in the Group whose profitability must be improved.

Capital structure Holmen shall have a strong financial position that provides financial stability and allows the company to make correct, long-term commercial decisions relatively independently of the state of the economy and the ability to arrange external financing. The target for the debt/equity ratio is 0.3-0.8 and achieving this target is one aspect of the Group's strategic planning. At the end of 2007, the debt/equity ratio was 0.35.

Dividend The Group's target is that the ordinary dividend should correspond to 5–7% of its equity. This represents a relatively stable and high annual dividend. The Board proposes to the Annual General Meeting on 2 April 2008 that it resolve that an unchanged dividend of SEK 12 per share be paid, which corresponds to 6% of the Group's closing equity. Over the past ten years the ordinary dividend has corresponded on average to 5-6% of equity. This means that half of the earnings per share have been paid out by way of ordinary dividends.

Share buy-back At the Annual General Meeting held on 28 March 2007, Holmen's shareholders renewed the Board's mandate to make decisions to buy back up to 10% of the company's shares. The mandate has not been exercised and the company has no holdings of its own shares. There is no specific target for share buy-back. It has been used as a complement to dividend payments to adjust the capital structure when circumstances are judged to be favourable. The Board proposes that also the 2008 Annual General Meeting gives the corresponding mandate to buy back and transfer up to 10% of the shares in the company.

Provided that Holmen achieves its profitability target it is considered that the funds generated internally are sufficient to finance ordinary dividend and annual growth of 3-4%.

The Group's financial targets were not changed during the year.

Share information

Holmen has 84 756 162 shares in issue, of which 22 623 234 are Series "A" shares and 62 132 928 are Series "B" shares. Each "A" share carries 10 votes and each "B" share carries one vote. Otherwise the shares have the same rights. There are no statutory restrictions on the transferability of the shares nor are there any pursuant to the company's articles.

At the end of the year, L E Lundbergföretagen AB's (co. reg. no. 556056-8817) holding of Holmen shares accounted for 51.8% of the total number of votes and 27.6% of the capital, which means that a Group relationship exists between L E Lundbergföretagen AB, whose registered office is in Stockholm, and Holmen. The Kempe Foundations' holdings of Holmen shares amounted at the year-end to 16.8% of the votes and 6.9% of the capital. The holdings of other shareholders controlled less than 10% of the votes. A list of major shareholders is provided on pages 74-75, the Holmen share. The employees have no holdings of Holmen shares via a pension fund or the like. There is no restriction on how many votes each shareholder may cast at the Annual General Meeting.

According to the company's articles of association, the Board shall have between seven and eleven members, who are elected at the Annual General Meeting. The company's articles contain no other rules regarding the appointment or release of board members or regarding amendments to the articles.

Board's proposal for guidelines for determining the salaries and other benefits of senior management

The Board proposes that the 2008 Annual General Meeting makes a decision on the following guidelines for determining the salaries and other benefits of the CEO and Senior management, viz. the heads of business areas and of staffs who report direct to the CEO. For the guidelines adopted by the 2007 AGM, see note 5.

Pay and other benefits The remuneration of the CEO and Senior management shall consist of a fixed market-based salary. Other benefits, mainly car and accommodation, insofar as they occur, shall represent a limited proportion of the remuneration. There shall be no variable salary components.

Pension The ordinary retirement age shall be 65 years. The company and the employee shall each be entitled to request that retirement be taken from the age of 60. A pension before the age of 65 shall be defined benefit or defined contribution. Pension from 65 shall be in accordance with the ITP plan. Over and above this, the employee shall be able to draw a complementary old-age pension. Such a complementary pension shall involve a successive changeover from the earlier arrangements with a defined benefit pension to an arrangement with a defined contribution pension.

Notice and severance pay The period of notice should normally be one year, when notice is given by the company, and six months if notice is given by the employee. In the event of notice being given by the company, it shall be possible to pay severance pay corresponding to up to 24 months' salary.

Incentive scheme Decisions on equity-related and share price-related incentive schemes intended for senior management shall be made by the Annual General Meeting.

Remuneration committee A remuneration committee appointed from among members of the Board shall prepare issues relating to the pay and other conditions of employment of the CEO for submission to the Board for decision. More detailed principles for pay formation, pensions and other benefits of other senior management shall be provided in the pay policy established by the remuneration committee.

Departures in individual cases The Board shall be entitled to depart from these guidelines in individual cases in the event of special circumstances. In the event of such a departure, information and an explanation why shall be given to the next Annual General Meeting.

Option programme

The Board proposes to the Annual General Meeting that it decide on an option programme for the employees and senior management. The proposal would involve that the company is issuing call options in return for bought-back shares on market conditions.

Employees

The average number of employees in the Group was 4 931 (4 958). The change is mainly due to retirements in connection with a previously decided programme of job cuts.

Holmen Paper made a decision in 2007 to reduce the work force at the business area's units by around 100 positions. A review of the Hallsta paper mill's structure has also been launched with the object of closing PM2, the oldest of the mill's four paper machines. This is expected to result in the number of employees at the mill being reduced by around 30%.

The sick leave rate at Holmen's Swedish units declined in 2007 to 4.7% from the previous year's level of 4.8%. This means that the declining trend of the past several years continues. The target is to get the sick leave rate at the Swedish units down under 4.5% in 2008. In 2003, Holmen began to measure what is known as the good health index, which is defined as the proportion of the employees who had no day of sick leave during a calendar year. In 2007 the good health index for Holmen's Swedish business was 45%, one percentage point higher than in 2006.

The number of occupational accidents resulting in sick leave declined slightly. No fatal accidents have occurred in the Group for a very long time.

The proportion of female managers has risen to 11% from 9% in the previous year. Seven female managers are members of management groups at business area and mill levels. Holmen's Board has two female members, one of whom is elected by the Annual General Meeting, while the other is an employee representative. Ingela Carlsson will take up the position as Senior Vice President of Public Relations and become a member of the Senior management. Christer Lewell will then retire. See also note 5 and pages 72-73.

Environmental information

The environmental aspects of Holmen's business are regulated by laws and permits in each country. The allocation of environmental responsibility and the organisation and management of its environmental activities are based on the Group's environmental policy. At the production sites various types of rules are integrated as key elements in the planning of production and investments.

The environmental status of Holmen's facilities is high as a result of investments in process and treatment equipment and the continuous process of improvement within the framework of the environmental and energy management systems at the mills and the statutory, official supervision.

Activities in Sweden At the end of 2007 Holmen was engaged in environmentally-hazardous activities at seven facilities, three of which had environmental permits pursuant to the Environment Protection Act and another three had permits pursuant to the Code of Environmental Statutes. As of 1 January 2008 the seventh facility, the processing unit at Strömsbruk, is a business required to submit an environmental report. The processing unit at Strömsbruk has been incorporated into Iggesunds Bruk's organisation since the beginning of 2007.

The sales of these units accounted for 61% of the Group's net turnover.

Environmental activities are largely a matter of planning issues pertaining to the environmental permits issued by the relevant authorities. Most of the environmental impact of these facilities takes the form of emissions into air and water, and the generation of noise and waste. As much attention is nowadays being given to the climate end energy, considerable interest is being given to issues relating to fossil fuels and biofuel.

Numerous environmental projects, investigations and measures were carried out in 2007, of which those mentioned below are just a few.

- Measures are being taken to make more effective use of energy at Holmen's mills. The Swedish mills are participating in the Energy Agency's Programme for Energy Efficiency. These mills have introduced SS 62 77 50-certified energy management systems.
- Measures to save electricity and thermal energy at Hallsta resulted in a decline of 45% in the consumption of oil between 2006 and 2007.
- Several measures are being taken at Iggesunds Bruk to reduce the use of thermal energy and fossil fuels that will have a full effect in 2009. Oil consumption is expected to decline by around 75%
- Several joint projects together with forest scientists are in progress in the forest operations to improve the efficiency of silvicultural measures.
- Several projects explored the potential to find external, environmentally-sound ways of using waste.
- A number of investigations have been carried out in consultation with the environmental authorities at industrial sites that had been contaminated by operations that are discounted and belonged to Holmen. In 2007 these investigations included the sawmills at Stocka, Håstaholmen and Sikeå, and the sulphite mills in Strömsbruk, Domsjö and Loddby.

The Braviken and Wargön mills were audited in accordance with the Code of Environmental Statutes in 2002. Skärnäs Hamnterminal has been certified according to the Code since 1999. Hallsta has a permit in accordance with the Environment Protection Act of 2000. Iggesunds Bruk had its permit renewed in 2003 in accordance with the same Act, in accordance with which the Iggesund Sawmill also received a permit in 1994.

Hallsta, Iggesunds Bruk and the Iggesund Sawmill have submitted to the respective supervisory authority accounts of how they intend to comply with the requirements of the EU's IPPC Directive by 30 October 2007.

The application for an environmental permit in accordance with the Code of Environmental Statutes for the harbour in Vargön has been submitted to the County Administrative Authority. No other permits of any significance need to be renewed or reviewed in 2008.

In the autumn of 2007, Holmen's Board made a decision to build a sawmill adjacent to the paper mill in Braviken. An application for a permit under the Code of Environmental Statutes for the business at the sawmill was submitted to the County Administrative Authority at the beginning of 2008.

Holmen Energi produces electricity at Holmen's wholly and partly owned hydro power stations. The permits that all of these units have pursuant to the Water Rights (rules in the Environmental Code) include environmental conditions. In 2006 a decision by the Environmental Court granted a permit to construct a new power station on the river Iggesund, which will replace three old existing power stations on the site and will come in production at the end of 2009.

A review of past water rights decisions may be requested on the basis of the Code of Environmental Statutes. In the case of the river Ljusnan, on which Holmen Energi has power stations, such a review is now underway.

The Group's mills are participating in the EU trade in carbon dioxide emission rights. The Swedish mills are also active in the trade in electricity certificates.

The activities in company forests, and at all facilities, were certified at the end of 2007 in accordance with ISO 14001. The forestry was also certified in accordance with FSC and PEFC.

During the year there were a few cases in which threshold values were exceeded, incidents, and some complaints relating to mill and forestry activities. They did not have any effect on the result and were resolved by means of corrective measures within the environmental management systems.

Activities outside Sweden The mills in Workington in England, and in Madrid, Spain, are engaged in activities having some kind of environmental impact. Their sales corresponded to 20% of the Group's net turnover.

In 2002, Workington received an environmental permit for its activities pursuant to the EU's IPPC Directive. In 2006, Madrid received an environmental permit for its activities pursuant to the same Directive.

The mills in Workington and Madrid are certified in accordance with ISO 14001. An energy management system will be introduced at the mill in Workington in 2008. Madrid is next to introduce such a system.

Environmental report Holmen's environmental activities in 2007 are described in "Holmen and its World 2007", which will be published at the end of March 2008. It will also be published on Holmen's website, which will also provide links to additional information on the environment. Taken together this constitutes Holmen's complete environmental reporting for 2007.

Income statement

GROUP, MSEK	Note	2007	2006
Net turnover	3	19 159	18 592
Other operating income	4	642	501
Change in value of biological assets	11	2 189	115
Change in inventory of finished products and work in progress		62	91
Capitalised work on own account		-	5
Raw materials, goods for resale and consumables		-10 146	-9 666
Personnel costs	5	-2 664	-2 538
Other operating costs	6, 20	-3 531	-3 462
Depreciation according to plan	9, 10	-1 337	-1 346
Write-downs	9, 10	-1 543	-
Interest in earnings of associated companies	12	12	11
Operating profit		**2 843**	**2 303**
Financial income	7	17	15
Financial costs	7	-279	-262
Profit before tax		**2 582**	**2 056**
Tax	8	-1 077	-597
Profit for the year		**1 505**	**1 459**
Attributable to:			
Parent company's shareholders		1 505	1 459
Earnings per share (SEK)		17.8	17.2
Average number of shares (million)		84.8	84.8

Earnings per share before and after dilution are the same since there are no outstanding warrants or convertibles that can cause dilution.

Statement of recognised income and expense

GROUP, MSEK	2007	2006
Cash flow hedges		
Revaluation of derivatives stated in equity	-209	306
Brought forward from equity to the income statement	-34	-142
Brought forward from equity to fixed assets	2	1
Actuarial profits and losses	61	47
Translation difference on foreign operation	-29	-88
Hedge of currency risk in foreign operation	-33	53
Tax attributable to items stated direct in equity	51	-75
Total changes stated direct in equity, excluding transactions with company's owners	**-192**	**102**
Profit for the year	1 505	1 459
Total change in equity, excluding transactions with company's owners	**1 314**	**1 561**
Attributable to:		
Parent company's shareholders	1 314	1 561
Effect due to change of accounting principle at 1 January 2006		
Profits brought forward	-	-72

Balance sheet

GROUP at 31 December, MSEK	Note	2007	2006
Fixed assets			
Intangible fixed assets	9	42	627
Tangible fixed assets	10	12 984	13 782
Biological assets	11	11 073	8 830
Shares in associated companies	12	1 745	1 731
Other shares and participations	12	7	11
Long-term financial receivables	13	108	130
Deferred tax receivables	8	301	354
Total fixed assets		**26 261**	**25 464**
Current assets			
Inventories	14	3 063	2 606
Accounts receivable	15	3 004	2 812
Current tax receivable	8	21	138
Other operating receivables	15	460	582
Short-term financial receivables	13	39	55
Liquid funds	13	394	484
Total current assets		**6 982**	**6 677**
Total assets		**33 243**	**32 141**
Equity	16		
Share capital		4 238	4 238
Other contributed capital		281	281
Reserves		-16	211
Profits brought forward incl. profit for the year		12 429	11 906
Total equity attributable to the parent company's shareholders		**16 932**	**16 636**
Long-term liabilities			
Long-term financial liabilities	13	2 452	2 503
Pension provisions	17	247	356
Other provisions	8, 18	658	626
Deferred tax liabilities	8	5 482	5 030
Total long-term liabilities		**8 840**	**8 515**
Short-term liabilities			
Short-term financial liabilities	13	3 819	3 775
Liabilities to suppliers	19	2 338	2 063
Current tax liability	8	17	28
Provisions	18	102	91
Other operating liabilities	19	1 196	1 033
Total short-term liabilities		**7 471**	**6 990**
Total liabilities		**16 311**	**15 505**
Total equity and liabilities		**33 243**	**32 141**

For information on the Group's pledged assets and contingent liabilities see note 21.

Cash flow analysis

GROUP, MSEK	Note	2007	2006
Current operations			
Profit before tax	25	2 582	2 056
Adjustments for items not included in cash flow*		629	1 225
Paid income taxes		-390	-664
Cash flow from current operations before changes in working capital		**2 821**	**2 617**
Cash flow from changes in working capital			
Change in inventories		-457	-89
Change in operating receivables		-213	-117
Change in operating liabilities		325	-53
Cash flow from current operations		**2 476**	**2 358**
Investment activities			
Acquisition of tangible fixed assets		-1 373	-1 051
Sale of tangible fixed assets		11	102
Acquisition of intangible fixed assets		-7	-18
Sale of intangible fixed assets		-	3
Acquisition of biological assets		-53	-10
Sale of biological assets		6	27
Acquisition of shares and participations		-1	0
Sale of shares and participations		102	-
Cash flow from investment activities		**-1 315**	**-947**
Financing activities			
Raised long-term loans		-	741
Amortisation of long-term loans		-344	-1 435
Change in short-term financial liabilities	25	109	129
Change in financial receivables		-1	-1
Dividend paid to the parent company's shareholders		-1 017	-932
Cash flow from financing activities		**-1 253**	**-1 498**
Cash flow for the year		**-91**	**-87**
Opening liquid funds		484	580
Currency difference in liquid funds		1	-9
Closing liquid funds		**394**	**484**

* The adjustments consist primarily of depreciation according to plan, change in value of biological assets, write-downs and reversal of write-down of fixed assets, currency effects and revaluations of fair value of financial instruments as well as gains/losses of sale of fixed assets.

Change in financial net debt	2007	2006
Opening financial net debt	-5 985	-6 639
Cash flow		
Current operations	2 476	2 358
Investment activities	-1 315	-947
Dividend paid	-1 017	-932
Actuarial revaluation of pension liability	61	47
Currency effects and changes in fair value	-197	128
Closing financial net debt	**-5 977**	**-5 985**

Parent company

INCOME STATEMENT, MSEK	Note	2007	2006
Net turnover		14 414	14 070
Other operating income	4	321	372
Change in inventory of finished products and work in progress		73	46
Raw materials, goods for resale and consumables		-7 695	-7 089
Personnel costs	5	-2 018	-1 906
Other external costs	6, 20	-3 681	-3 855
Depreciation according to plan	10	-24	-26
Operating profit		**1 390**	**1 612**
Income from interest in Group companies	7	64	6
Income from interest in associated companies	7	0	0
Income from other shares and participations	7	105	0
Interest income and similar income	7	163	235
Write-downs of financial fixed assets	7, 23	-1 508	-
Interest costs and similar costs	7	-341	-284
Profit after financial items		**-127**	**1 569**
Appropriations	24	-97	-486
Profit before tax		**-224**	**1 083**
Tax	8	-324	-314
Profit for the year		**-548**	**769**

BALANCE SHEET, at 31 December, MSEK	Note	2007	2006
Assets			
Fixed assets			
Intangible fixed assets	9	10	21
Tangible fixed assets	10	2 552	2 534
Financial fixed assets			
Shares and participations	12, 23	15 557	12 984
Long-term financial receivables	13	320	1 729
Total fixed assets		**18 439**	**17 268**
Current assets			
Inventories	14	2 331	1 937
Operating receivables	15	2 620	2 480
Current tax receivable	8	-	119
Short-term placements	13	1 627	4 390
Liquid funds	13	303	380
Total current assets		**6 881**	**9 306**
Total assets		**25 321**	**26 574**
Equity and liabilities			
Equity	16		
Restricted equity			
Share capital		4 238	4 238
Statutory reserve		1 577	1 577
Revaluation reserve		100	100
Non-restricted equity			
Profits brought forward		5 068	5 013
Profit for the year		-548	769
Total equity		**10 435**	**11 697**
Untaxed reserves	24	**2 696**	**2 599**
Provisions			
Pension provisions	17	48	40
Tax provisions	8, 18	45	45
Other provisions	18	186	171
Deferred tax liability	8	632	679
Total provisions		**911**	**935**
Liabilities			
Long-term financial liabilities	13	3 520	4 205
Short-term financial liabilities	13	4 707	4 754
Current tax liabilities	8	4	-
Operating liabilities	19	3 049	2 384
Total liabilities		**11 279**	**11 343**
Total equity and liabilities		**25 321**	**26 574**

Pledged assets and contingent liabilities		2007	2006
Pledged assets	21	6	6
Contingent liabilities	21	790	858

STATEMENT OF RECOGNISED INCOME AND EXPENSE, MSEK	2007	2006
Cash flow hedges		
Revaluation of derivatives stated in equity	-19	279
Brought forward from equity to the income statement	-103	-156
Brought forward from equity to fixed assets	2	1
Group contribution paid	-11	-115
Group contribution received	400	370
Tax attributable to items stated direct in equity	34	-35
Total changes stated direct in equity, excluding transactions with company's owners	**303**	**344**
Profit for the year	-548	769
Total change in equity, excluding transactions with company's owners	**-245**	**1 113**
Effect due to change of accounting principle at 1 January 2006		
Retained earnings	-	22

CASH FLOW ANALYSIS, MSEK	Note	2007	2006
Current operations			
Profit after financial items	25	-127	1 569
Adjustments for items not included in cash flow*		1 588	-7
Paid income taxes		-213	-650
Cash flow from current operations before changes in working capital		**1 248**	**912**
Cash flow from changes in working capital			
Change in inventories		-395	-49
Change in operating receivables		-197	-47
Change in operating liabilities		581	264
Cash flow from current operations		**1 237**	**1 080**
Investment activities			
Acquisition of tangible fixed assets		-36	-28
Sale of tangible fixed assets		8	33
Acquisition of intangible fixed assets		-5	-1
Sale of intangible fixed assets		0	3
Acquisition of subsidiaries		0	-
Sale of subsidiaries		72	-
Acquisition of shares and participations		-7	0
Sale of shares and participations		110	-
Cash flow from investment activities		**143**	**7**
Financing activities			
Raised long-term loans		-	1 162
Amortisation of long-term loans		-979	-1 410
Change short-term financial liabilities	25	116	279
Change financial receivables		35	-478
Dividend paid to the parent company's shareholders		-1 017	-932
Group contribution received		400	513
Group contribution paid		-11	-159
Cash flow from financing activities		**-1 456**	**-1 025**
Cash flow for the year		**-77**	**62**
Opening liquid funds		380	318
Closing liquid funds		**303**	**380**

* The adjustments consist primarily of depreciation according to plan, write-downs of fixed assets, currency effects and revaluations of fair value of financial instruments as well as gains/losses of sale of fixed assets.

Notes to the financial reports

Amounts in MSEK, except where otherwise stated

List of notes

Note 1 Accounting principles

The accounting principles for the Group presented below have been applied consistently to all periods included in the Group's financial statements except where otherwise stated below. The Group's accounting principles have been applied consistently to the reporting by and the consolidation of the parent company, subsidiary companies and associate companies.

Compliance with standards and statutory requirements

The consolidated financial statements are made up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretative recommendations issued by the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the EC Commission for application within the EU. The Swedish Financial Accounting Standards Council's recommendation (RFR 1.1 Complementary Accounting Rules for the Group) has also been applied.

The parent company applies the same accounting principles as the Group except in the cases that are commented on separately under each section. The parent company's accounts are made up in accordance with RFR 2.1. The differences between the principles applied by the parent company and those applied by the Group are due to restrictions in the right of the parent company to apply IFRS as a consequence of the Swedish Annual Accounts Act and the law regulating the accounting treatment of pensions, and in some cases for tax reasons.

Valuation principles applied in the making up of the financial statements of the parent company and the Group

Assets and liabilities are stated at acquisition value, except for biological assets and certain financial assets and liabilities, which are valued at fair value. In the parent company biological assets and financial liabilities are not valued at fair value.

Operative currency and reporting currency

The operative currency is the currency used in the primary financial environments in which the companies conduct their business. The parent company's operative currency is the Swedish krona, which is also the reporting currency of the parent company and the Group. This means that the financial reports are presented in Swedish kronor.

Assessments and estimates in the financial statements

Making up the financial statements in accordance with IFRS requires the company's management to make assessments and estimates, as well as to make assumptions that affect the application of the accounting principles and the stated amounts for assets, liabilities, income and costs. The actual outcome may deviate from these assessments and estimates.

The assessments and estimates are reviewed regularly. Changes in assessments are taken into the accounts for the period in which the change is made if the change only affects that period, or in the period the change is made and in later periods if the change also affects coming periods. See also note 26 Important assessments and estimates.

Changes in accounting principles

IFRS 7 Financial Instruments: The information and related amendments in IAS 1 Presentation of Financial Statements requires the provision of large amounts of information regarding the importance of financial instruments for the company's financial position and result as well as qualitative and quantitative information on the nature and extent of any risk. IFRS 7 and related amendments in IAS 1 have involved the provision of additional information in the consolidated financial statements for 2007 on the Group's financial targets and capital management.

The standard does not involve any change in accounting principles but only changes in the disclosure requirements for financial instruments.

RFR 1.1 and RFR 2.1 have been applied in advance by the Group and parent company respectively.

IFRS 8 Operating Segments stipulates what an operative segment is and what information has to be provided about such segments in the financial reports. The standard is to be applied to the financial year that begins on 1 January 2009 or later. Holmen has not decided to apply this standard in advance.

Reporting by segment

A segment is a part of the Group that is identifiable for accounting purposes and that either provides goods or services of a particular type (lines of business) or within a given economic environment (geographical area) that is exposed to risks and opportunities that differ from those in other segments. The primary criterion for classification of the Group's segments is their line of business. The secondary criterion is geographic area.

Classification etc

Fixed assets, long-term liabilities and provisions consist in all essentials solely of amounts that are expected to be recovered or paid more than 12 months after the closing date. Current assets and short-term liabilities consist in all essentials solely of amounts that are expected to be recovered or paid within 12 months of the closing date.

Consolidation principles

Subsidiary companies

A subsidiary company is a company over which the parent company, Holmen AB, exercises control. Control means the ability direct or indirect, to formulate a company's financial and operative strategies with the object of obtaining economic benefits. In the determination of whether one company has control over another, shares with a potential entitlement to vote and that can be exercised or converted at short notice are taken into account.

The consolidated financial statements are made up using the acquisition method, whereby the parent company indirectly acquires the assets and assumes the liabilities of the subsidiary, valued at fair value. The difference between the acquisition cost of the shares and the fair value of the identifiable acquired net assets is treated as goodwill. The subsidiary companies' income and costs, and their assets and liabilities, are stated in the consolidated financial statements as of the date when the Group gains control (acquisition date) until such time as the Group no longer has control. Intra-Group receivables and liabilities, transactions between companies in the Group and therewith related unrealised gains are eliminated in their entirety.

Associated companies

Shareholdings in associated companies, in which the Group controls a minimum of 20% and a maximum of 50% of the votes, or otherwise exercises a significant influence, are stated in accordance with the equity method, except for associated companies having a negligible effect on the Group's results and financial position.

The equity method means that the value of the shares in the associated company stated in the consolidated accounts corresponds to the Group's interest in the associated company's equity and any residual value of the goodwill and negative goodwill arising upon consolidation. The Group's interest in the net earnings of associated companies after tax and minorities, and adjusted for any depreciation or reversal of acquired goodwill and negative goodwill respectively is stated in the consolidated income statement as "Interest in earnings of associated companies". Dividends received from the associated company reduce the stated value of the investment. Unrealised profits arising as a consequence of transactions with associated companies are eliminated in relation to the interest in the capital.

When the Group's interest in the stated losses of the associated company exceeds the value of the shares stated in the consolidated accounts the value of the shares is written down to zero. Losses are also netted off against unsecured long-term financial balances that, in financial terms, consist of part of the owning company's net investment in the associated company. Any further losses are not stated unless the Group has provided guarantees to cover losses incurred by the associated company. The equity method is applied until such time as the significant influence no longer exists.

Foreign currency

Transactions denominated in foreign currencies

Transactions in foreign currencies are translated into the operative currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated into the operative currency at closing date exchange rates. Currency differences arising on such translations are stated in the income statement. Non-monetary assets and liabilities that are stated at historical acquisition value are translated at the exchange rates prevailing on the transaction date.

Financial statements of foreign businesses

The assets and liabilities of foreign businesses, including goodwill and other premiums/negative goodwill arising on consolidation are translated in the consolidated financial statements from the foreign business's operative currency to the Group's reporting currency (Swedish krona) at closing date exchange rates. The income and costs of foreign businesses are translated into Swedish kronor at an average rate that consists of an approximation of the exchange rates prevailing on the date of each transaction. Translation differences arising from currency translations of foreign businesses are taken direct against equity as a translation reserve. Any effects accompanying the hedging of net investments are stated direct in the translation reserve in equity. In the event of a foreign business being divested the accumulated translation differences attributable to the business are recognised, after deduction of any currency hedging, in the consolidated income statement. The company has opted to value the accumulated translation differences attributable to foreign businesses at zero at the time of the changeover to IFRS.

Commission companies

The parent company's business is largely conducted through commission companies: Holmen Paper AB, Iggesund Paperboard AB, Holmen Timber AB, Holmen Skog AB and Holmen Energi AB.

The parent company is liable for all commitments entered into by these commission companies. All income, costs, assets and liabilities, which arise in the operations conducted by the commission companies, are stated in Holmen AB's accounts except most parts of investments made as well as some divestments of forest properties, that are stated in some of the Group's subsidiaries.

Income

Net turnover

By net turnover is meant invoiced sales (excluding value added tax) of products, wood and energy. The amount stated is reduced by discounts, and similar reductions in income, and also includes currency differences related to the sales. Sales are stated after the Group has transferred to the buyer the critical risks and benefits associated with ownership of the sold goods, and has no remaining right or possibility to retain actual control over the sold goods.

Other operating income

Income from activities not forming part of the main business is stated as other operating income. This item mainly includes sales of bi-products, rent and land lease income, income from allotted electricity certificates in pace with electricity production that fulfils the allotment conditions, income earned from emission rights and capital gains/losses on sales of fixed assets.

State grants are stated in the balance sheet as deferred income when it is reasonably certain that the grant will be received and that the Group will satisfy the conditions associated with the grant. Grants are periodised systematically in the income statement in the same way and over the same periods as the costs the grants are intended to cover. State grants related to assets are stated in the balance sheet as a reduction in the book value of the asset.

Financial income and costs

Financial income and costs consist of interest income and interest costs, dividend income and revaluations of financial instruments valued at fair value, as well as unrealised and realised currency gains and losses.

Interest income on receivables and interest costs on liabilities are calculated by using the effective interest method. Interest costs are charged against the result in the period to which they relate, regardless of how the borrowed funds are used. Interest costs include transaction costs for loans, which are periodised over the duration of the loan; this also applies to any difference between the funds received and the amount repaid. Dividend income is stated when the dividend is established and the right to receive payment is judged to be certain.

Taxes

Income tax comprises current tax and deferred tax. It is stated in the income statement except when the underlying transaction is taken direct against equity, in which case the associated tax effect is also taken direct against equity. Current tax is the tax to be paid or received for the year in question, using the tax rates that have been decided on, or to all intents and purposes decided on as of the closing date. This also includes any adjustment to current tax attributable to previous periods. Deferred tax is calculated using the balance sheet method on the basis of temporary differences between stated values and values for tax purposes of assets and liabilities, applying the tax rates and rules that have been approved or announced as of the closing date. Temporary differences are not taken into account in goodwill arising upon consolidation, nor in differences attributable to interests in subsidiary and associate companies that are not expected to become liable to taxation in the foreseeable future. In the parent company's accounts, untaxed reserves are stated inclusive of deferred tax liability.

Deferred tax receivables in respect of tax-deductible temporary differences and loss allowances are stated only to the extent that it is likely they will be utilised and entail lower tax payments in the future. Deferred tax receivables and deferred tax liabilities in the same country are stated net.

Financial instruments

Financial instruments are valued and stated in the consolidated financial statements in accordance with IAS 39. The parent company applies the same principles, subject to the restrictions referred to in Chapter 4 § 14 of the Annual Accounts Act.

A financial asset or liability is stated in the balance sheet when the company becomes a party in accordance with the contractual conditions of the instrument. A financial asset is removed from the balance sheet when the rights referred to in the contract have been realised or mature, or when the company loses control over them. A financial liability is removed from the balance sheet when the undertaking in the contract is performed or expires in some other way. Spot transactions are stated in accordance with the settlement date principle.

Money at bank, loan receivables and accounts receivable are valued at their amortised cost. These assets are reviewed regularly for impairment on the basis of objective criteria for such assets. Any currency differences are stated in net financial items or the operating result, depending on the purpose of the holding. Shares and capital interests that are not in subsidiaries or associate companies are valued at acquisition value. It has not been possible to apply the fair value principle, as it has not been possible to determine reliable market values.

Financial liabilities are valued initially at the value of funds received after deduction of any transaction costs. Normally, the liabilities are valued regularly at their amortised cost using the effective interest method. In those cases where funds received fall short of the amount to be repaid, the difference is periodised over the duration of the loan using the effective interest method. Loans that are hedged against changes in their value and loans that are stated on the basis of the fair value option are, however, stated at their fair value. The fair value option has been applied to one loan with the object of arriving at a fairer result. The result of the revaluation is stated within net financial items or the operating result, depending on the purpose of the holding. The effective share of the hedges of net assets abroad is taken direct to equity. In the parent company accounts, no loans have been valued at fair value.

Derivatives and hedge accounting

All derivatives are valued at fair value and stated in the balance sheet. More or less all derivatives are held for hedging purposes. The effective share of cash flow hedges of changes in fair value is stated within equity until the time when the hedged item occurs, when the accumulated result is transferred from equity to the income statement to meet and match the hedged transaction. In the case of hedging of investments, the acquisition value of the hedged item is instead adjusted when it occurs. The ineffective part of the hedge is stated direct in the income statement. For the hedging of fair value, the change in the value of the derivative is stated direct in the income statement. Changes in the value of the hedged item are stated in a corresponding way. Changes in the value of hedges relating to net investments in foreign businesses are stated regularly in equity. Realised results are retained in equity until the business is divested, when the accumulated result is taken into the income statement. In the case of derivatives that do not fulfil the criteria for hedge accounting, the changes in value are stated within the operating result or within net financial items, depending on the purpose of the holding.

Computation of fair value

The fair value of financial instruments that are traded on an active market is based on listed market prices. In the absence of listed market prices, fair value is computed using the discounted cash flow. When the discounted cash flow is calculated all variables, such as discount rates and exchange rates, used in the calculation are taken from market listings. Currency options are valued using the Black & Scholes formula.

Intangible fixed assets

Goodwill represents the difference between the acquisition cost of acquired businesses and the fair value of the acquired assets, assumed liabilities and contingent liabilities. Goodwill is valued at acquisition value less any accumulated write-downs in value. Goodwill arising in connection with the acquisition of associated companies is included in the book value of the interest in such companies. As regards goodwill arising on acquisitions that took place before 1 January 2004, the Group, when the transition to IFRS took place, did not apply IFRS retroactively, but instead, the book value as of that date will in the future serve as the Group's acquisition value, after being tested for impairment.

Research costs are taken into the income statement when they are incurred. Development costs are capitalised in the case of major projects to the extent they are expected to generate financial benefits in the future. Other development expenditures are taken into the income statement as costs when they are incurred. Development costs capitalised in the balance sheet are stated at their acquisition value less accumulated depreciation and write-downs.

Intangible fixed assets also include emission rights, patents, licences and IT systems. Emission rights are initially stated at market price when allotted as an intangible fixed asset and as deferred income. During the year, allotments are recognised in income and a provision corresponding to the actual emissions is stated as a cost.

Intangible assets are depreciated over periods of between five and ten years, except for goodwill and emission rights. Goodwill is allotted to cash-generating units and is tested for impairment annually. Emission rights are tested for impairment on the basis of current market prices.

Tangible fixed assets

Tangible fixed assets are stated at acquisition cost after deduction of accumulated depreciation and any write-downs. Tangible fixed assets that consist of parts with different utility periods are treated as separate components of tangible fixed assets. Additional expenditure is capitalised only if it generates financial benefits for the company. The key factor determining whether or not additional expenditure is added to the acquisition cost is if it relates to the replacement of identifiable components or parts thereof, in which case the expenditure is capitalised. The cost is also added to the acquisition value in cases where a new component is created. Any undepreciated book values for replaced components or parts of components are disposed of and stated as a cost in connection with the replacement. The Group does not capitalise the interest component in the acquisition value of fixed assets.

The book value of a tangible fixed asset is removed from the balance sheet in connection with divestment or disposal or when no financial benefits can be expected from the use of the asset. The profit or loss arising on the divestment or disposal of an asset consists of the difference between the selling price and the book value of the asset, less any direct selling costs. Profits and losses are stated in the accounts in the same way as other operating income/costs.

Depreciation according to plan is based on original acquisition values less any write-downs. Depreciation is provided linearly over the estimated utility period of the asset. Land is not depreciated.

The following utility periods (years) are used:

Machinery for hydro power production	20–40
Administrative and warehouse buildings, dwellings	20–33
Production buildings, land installations, and machinery for pulp, paper and paperboard production	20
Machinery for sawmills	12
Other machinery	10
Forest roads	10
Equipment	4

Should there be any indication that the book value is too high, an analysis is made in which the recoverable value of single or inherently related types of assets is determined at the higher of the net selling price and the utility value. The net selling price is the estimated selling price after deduction of the estimated cost of selling the asset. The utility value is measured as expected future discounted cash flow. A write-down is reversed if there has been any positive change in the circumstances upon which the determination of the recoverable value is based. A reversal may be made up to, but not exceeding, the book value that would have been entered, less depreciation, if there had been no write-down.

Leasing

In the consolidated accounts leasing is classified as financial leasing or operational leasing. The leasing of fixed assets for which the Group in all essentials is exposed to the same risks and benefits as if the asset were directly owned is classified as financial leasing. The leased asset is stated as a fixed asset and the future leasing charges as interest-bearing liability. Interest costs are periodised over the leasing period in the form of an amount that corresponds to a fixed rate of interest for the liability stated for the period in question. Variable charges are stated as costs in the periods they are incurred. The leasing of assets over which the lessor in all essentials retains ownership is classified as operational leasing and the leasing charge is stated as a cost. Within the parent company all leasing agreements are classified as operational.

Biological assets

The Group divides all its forest assets for accounting purposes into growing forests, which are stated as biological assets at fair value, and land, which is stated at acquisition cost. Any changes in the fair value of the growing forests are taken into the income statement. Holmen's assessment is that there are no relevant market prices for valuing forest holdings as large as Holmen's. They are therefore valued by estimating the present value of expected future cash flows from the growing forests. See note 11.

In the parent company biological assets are valued in accordance with RFR 2.1. This means that biological assets classified as fixed assets are stated at acquisition value adjusted for revaluations taking into account the need, if any, for write-downs in value.

Felling rights are stated as inventories. They are acquired with a view to secure Holmen's raw material requirements through harvesting. Any measurable biological change does not occur between the acquisition date and harvesting.

Inventories

Inventories are valued at the lower of acquisition value or production cost after allowing for necessary obsolescence, or net selling price. The acquisition value of inventories is calculated by using the First in- First out-method (FIFO). The net selling value is the estimated selling price in current operations after deduction of the estimated costs of completion and effecting the sale. The acquisition value of finished products manufactured by the company comprises direct production costs and a reasonable share of indirect costs.

Remunerations to employees

Pension costs and pension commitments

Commitments to pay premiums to defined contribution plans are stated as a cost in the income statement as and when they are earned.

The Group's net commitment in respect of defined benefit plans is calculated separately for each plan by making an estimate of the future benefits the employees will have earned by virtue of their employment in current and earlier periods; these benefits are discounted to their present value and any unstated costs in respect of employment during earlier periods and the actual value of any plan assets are deducted. The discount rate is the closing date rate for a first class corporate bond with a duration corresponding to the Group's pension commitments. If there is no active market for such corporate bonds the market rate for government bonds with a corresponding duration is used instead. The calculation is performed by a qualified actuary using the projected unit credit method for the part of the pension commitments that is defined benefit. When the benefits provided by a plan are improved the proportion of the increased benefit that is attributable to the employees' employment during earlier periods is stated as a cost in the income statement and periodised linearly over the average period until the benefit has been earned in full. If the whole of the benefit has already been earned a cost is stated direct in the income statement.

In the parent company's accounts, different grounds are used for computation of defined benefit pension plans from those referred to in IAS 19. The parent company complies with the provisions of the pension security law and the Swedish Financial Supervisory Authority's regulations as this is a condition for the right to make deductions for tax purposes. The main differences in relation to the rules in IAS 19 relate to how the discount rate of interest is established, the computation of the defined benefit commitment on the basis of the current pay level without any assumption regarding pay increments in the future, and the statement of all actuarial profits and losses in the income statement when they arise.

Severance pay

Severance pay in connection with the premature discontinuation of personnel is only stated in the accounts if it is demonstrably shown that there is an obligation, without any reasonable possibility of withdrawing it, as a result of a formal, detailed plan to release an employee before the normal time. When severance pay is paid in the form of an offer to encourage voluntary departure, a cost is stated if it is likely that the offer will be accepted and the number of people who will accept the offer can be reliably estimated.

Short-term compensation

Short-term compensation to employees is calculated without being discounted and stated as a cost when the related services are provided.

Provisions

A provision is stated in the balance sheet when the company has a legal or informal commitment as a consequence of a past event and it is likely there will be an outflow of resources to regulate the commitment and a reliable estimate of the amount can be made. When the effect of when a payment is made is of importance, provisions are computed by discounting the expected future cash flow to an interest rate before tax that reflects the current market assessment of the time-value of money and, should it be appropriate, the risks associated with the debt. A provision to cover restructuring is stated once the Group has established a detailed and formal restructuring plan and the restructuring process has either begun or been publicly announced. No provisions are made for future operating costs.

Provisions are made in the income statement to cover the cost of environmental measures associated with previous business activities that do not contribute to present or future income when a payment obligation is likely and the amount can be assessed with a reasonable degree of accuracy.

Reserves to cover future silvicultural measures are calculated on the basis of interpretations of the applicable forestry laws and regulations whenever it is likely that a payment obligation will arise and once the amount can be assessed to a reasonable extent.

Contingent liabilities

A contingent liability is stated when there is a potential commitment that originates in past events, the existence of which will be confirmed only by one or several uncertain future events, or when there is a commitment that is not stated as a liability or provision as it is not likely that an out-flow of resources will be required.

Group contributions and shareholder contributions of legal entities

Group contributions and shareholder contributions are stated in accordance with the interpretations by the emerging issues task force of the Swedish Financial Reporting Board (UFR 1). Shareholder contributions are taken direct against equity by the recipient and capitalised under shares and participations by the donor to the extent that no write-down in value is required. Group contributions are stated on the basis of their financial implications. For example, this means that Group contributions paid in order to minimise the Group's total tax payments are taken direct against retained earnings after deduction of their actual tax effect.

Miscellaneous

The figures presented are rounded to the nearest integer or equivalent. The absence of a value is indicated by a dash (-).

Note 2 Financial risk management

The Group's and the parent company's financial activities and management of financial risks are centralised within Group Finance. The activities are carried out on the basis of a financial policy established by the Board and are characterised by a low level of risk. The aim is to minimise the Group's capital costs by using suitable means of financing and to manage and control the Group's financial risks effectively. The most important parts of this management are described below. Credit risks in relation to the Group's customers are managed by the respective business area and are described in Note 15 Operating receivables.

Currency risk

Transaction exposure

Holmen has a significant proportion of its sales in other currencies than its costs. In order to reduce the effect of currency fluctuations on the result, Holmen hedges its net currency flows, mainly by means of currency forwards and sometimes complemented by currency options. The net currency flows in euro, sterling and US dollar for the coming four months are always hedged. This normally corresponds to accounts receivable and orders in hand. The Board can decide to hedge flows for a longer period if this is deemed suitable in the light of product profitability, competitive position and currency situation.

At the beginning of 2007, the Group had hedged most of the estimated currency flows in euros for 2007 and some of the flows in sterling and US dollars. The result of currency hedges is stated in the operating result upon maturity and in 2007 there was a profit of MSEK 38 (83). At the end of 2007 some 70% of the estimated net currency flows for 2008 were hedged, and some 55% of estimated flows for 2009, see table.

Transaction exposure, 31 December 2007, MSEK*

	12 months	2008			2009		
	estimated net flows	Total hedges	Average rate	%	Total hedges	Average rate	%
EUR	5 000	4 400	9.25	90	3 900	9.36	75
GBP	300	100	13.23	30			
USD	1 000	400	9.46	40			
Other	500						
Totalt	**6 800**	**4 900**		**70**	**3 900**		**55**

* The figures in the table are rounded.

The market value of outstanding currency hedges amounted on 31 December 2007 to neg. MSEK 123, of which neg. MSEK 9 were stated in the income statement for 2007 and neg. MSEK 115 in equity, as hedge accounting is applied. Of these amounts neg. MSEK 80 will be stated in the income statement in 2008 and neg. MSEK 35 in the income statement for 2009.

Currency exposures arising from capital expenditure in a foreign currency is distinguished from normal transaction exposure. Normally, 90-100% of the currency exposure associated with major investments is hedged. The market value of outstanding investment hedges on 31 December 2007 was MSEK 1 (neg. 7), which has been stated against equity. When a hedge expires the result is added to the acquisition value of the fixed asset that has been hedged. During the period the acquisition value of hedged items was affected by neg. MSEK 2.

Translation exposure

The Group's stated result is affected by changes in exchange rates when the results of foreign subsidiaries are translated into Swedish kronor. This exposure is normally not hedged. The Group's equity is affected by changes in exchange rates when assets and liabilities of foreign subsidiaries are translated into Swedish kronor. The need to hedge this exposure (known as equity-hedge) is judged from case to case, and is arranged on the basis of the value of net assets at Group level. The hedges take the form of currency forwards or foreign currency loans.

Net assets and equity-hedge at 31 December 2007, MSEK

	Net assets	Equity-hedge
EUR	4 017	3 811
GBP	1 489	450
Other	33	0

In 2007 the result of equity-hedging was a loss of MSEK 33, which has been taken direct to consolidated equity. The market value of outstanding hedges amounted on 31 December 2007 to neg. MSEK 79, of which neg. MSEK 31 relate to financial derivatives and neg. MSEK 48 to loans. The accumulated change in value as a result of equity-hedging is stated in the income statement in connection with the divestment of the foreign business.

The effect on the consolidated result of changes in exchange rates is described in the Report of the Directors.

Interest rate risk

The Group's financing costs are affected by changes in the market interest rate. The interest rate duration of the Group's financial assets and liabilities is normally short. The Board can decide to lengthen the duration in order to limit the effect of a rise in interest rates. During the year, the duration has varied between 16 and 25 months, and was 25 months at the end of 2007. Derivatives in the form of interest swaps and FRAs are used to manage the duration without altering the underlying loans. On 31 December 2007 the market value of these instruments was MSEK 22, which is stated against equity, as hedge accounting is applied. Of this total, some MSEK 22 is expected to be stated in the income statement for 2009 or later. The duration of the net debt, its breakdown by currency and the average interest rate for various durations are shown in the table below, where derivatives that have an effect on the currency distribution and duration of the liabilities are taken into account.

Interest rate duration of financial net debt at 31 December 2007

	Total	-1 yrs	1-3 yrs	3-5 yrs	>5 yrs	Other
SEK	-2 096	-1 346	-750	0	0	0
EUR	-3 850	-1 315	-392	-1 289	-854	0
GBP	-97	92	0	0	0	-189
Other	67	67	0	0	0	0
Financial net debt	**-5 977**	**-2 504**	**-1 141**	**-1 289**	**-854**	**-189**
Average interest rate, %	4.6	5.5	3.4	4.5	4.3	2.2

The items in the Other column mainly relate to pension provisions in England.

The effect on the consolidated result of changes in exchange rates is described in the Report of the Directors.

Financing risk

Holmen reduces the risk that raising capital and refinancing of maturing loans will be difficult or expensive by spreading the maturities of its financial liabilities and by having committed credit facilities available. The Group has an unutilised committed credit facility of MEUR 600 available until 2012. Holmen's financial net debt at 31 December 2007 amounted to MSEK 5 977, of which financial liabilities and interest-bearing provisions were MSEK 6 518, liquid funds amounted to MSEK 394 and financial receivables to MSEK 147. The maturity structure of financial liabilities and assets is shown in the table below.

	Financial		Unutilised
	Assets	Liabilities	credit facilities
2008	433	3 861	
2009	46	579	
2010	18	1 007	
2011	4	128	
2012-	40	943	5 670
Total	**541**	**6 518**	**5 670**

During the year the financing was arranged mainly via Holmen's Swedish commercial paper programme within a limit of MSEK 6 000 and via a Swedish Medium Term Note programme with a limit of MSEK 4 000. As of 31 December 2007, MSEK 3 555 was outstanding within the commercial paper programme and MSEK 1 567 within the MTN programme. Holmen has a BBB+ long-term corporate credit rating and an A-2/K-1 short-term rating with stable outlook from Standard & Poor's, the credit rating agency.

Raw materials

In order to reduce the exposure to changes in electricity prices, the Group makes use of physical supply agreements at fixed prices and financial hedges. Decisions to hedge electricity prices are made on the basis of guidelines adopted by the Board. The result of financial hedges is taken into the accounts upon maturity and amounted to neg. MSEK 4 in 2007. The market value of outstanding financial hedges at 31 December 2007 was MSEK 1, which is stated in equity, as hedge accounting is applied. These amounts are expected to be taken into the income statement in 2008.

In 2007, Holmen's net purchases of electricity in Sweden amounted to some 2 800 GWh. The price of some 85-95% of the Group's estimated net consumption of electricity in Sweden for 2008–2012 is hedged. For 2013–2015 the price of some 70% has been hedged. The hedges consist mainly of physical fixed price contracts. There is an OTC market for trading in financial contracts based on certain paper and pulp products. Holmen has so far made only limited use of these markets to hedge prices in connection with sales or purchases.

The effect on the consolidated result of changes in exchange rates is described in the Report of the Directors.

Financial credit risk

The Group's financial transactions give rise to credit risks in relation to financial counterparties. The risk of a counterparty not meeting its commitments is limited by selecting creditworthy counterparties, limiting exposure to individual counterparties, and by the use of ISDA and FEMA agreements.

At 31 December 2007, the Group had outstanding derivative contracts for a nominal value of some SEK 15.8 billion and a market value of neg. MSEK 165. Calculated in accordance with Finansinspektionen's guidelines for financial institutions, Holmen's total counterparty risk on its derivative instruments would amount to MSEK 139 at 31 December 2007. It is estimated that the maximum credit risk associated with other financial assets corresponds to the nominal value.

Credit risks in relation to the Group's customers are handled by each business area and described in more detail in note 15 Operating receivables.

Insurance

Holmen insures its facilities against property damage and sequential loss. The level of risk accepted varies from one facility to another, but is maximised at some MSEK 30 for any one loss. The Group's forests are not insured as they are widely dispersed throughout the country and the risk of simultaneous damage over large areas of the forestland is therefore estimated to be small.

Note 3 Reporting by segment

BUSINESS AREAS 2007	Holmen Paper	Iggesund Paperboard	Holmen Timber	Holmen Skog	Holmen Energi	Group central costs and other	Total Group
Net turnover							
External	10 345	5 084	589	2 727	415	-	19 159
Internal	0	17	0	2 048	1 175	-3 239	-
Other operating income	139	170	24	178	9	122	642
Change in value of biological assets	-	-	-	2 189	-	-	2 189
Operating costs	-8 955	-4 317	-445	-4 314	-1 309	3 062	-16 279
Depreciation according to plan	-914	-355	-23	-26	-17	-1	-1 337
Write-downs	-1 603	-	60	-	-	-	-1 543
Interest in earnings of associated companies	9	-	2	-	-	-	12
Operating result	-980	599	206	2 802	272	-56	2 843
*Operating result excluding items affecting comparability**	*623*	*599*	*146*	*702*	*272*	*-56*	*2 286*
Net financial items							-261
Tax							-1 077
Profit for the year							1 505
Operating margin, %	-10	12	35				15
Operating margin excluding items affecting comparability,%*	6	12	24				12
Return on operating capital, %	-9	15	87	30	9		8
Return on operating capital excluding items affecting comparability, %*	5	15	64	8	9		8
Operating assets	11 585	5 020	411	12 572	3 122	-309	32 400
of which shares in associated companies	146		6		1 593	0	1 745
Operating liabilities	1 614	840	66	1 308	162	320	4 310
Operating capital	9 971	4 180	345	11 264	2 960	-630	28 090
Deferred tax receivable							301
Deferred tax liability							-5 482
Capital employed							22 909
Financial assets							541
Financial liabilities							6 518
Financial net debt							5 977
Cash flow from current operations	731	223	68	540	269	645	2 476
Capital expenditure	584	689	63	79	14	4	1 433

* Items affecting comparability relate to write-down of MSEK 1 603 by Holmen Paper, the reversal of previous write-down of MSEK 60 by Holmen Timber, and the revaluation of forests of MSEK 2 100.

GEOGRAPHIC AREAS 2007	Sweden	Great Britain	Spain	Other areas	Total Group
External net turnover	4 487	2 383	1 709	10 580	19 159
Operating capital	23 129	1 146	3 758	57	28 090
Capital expenditure	1 236	73	95	30	1 433

External net turnover by product area	Group 2007	Group 2006	Parent company 2007	Parent company 2006
Newsprint and magazine paper	10 149	9 961	8 071	7 989
Paperboard	4 953	5 063	2 910	3 100
Pulp	117	147	117	258
Sawn timber	589	465	589	465
Wood	2 727	2 258	2 727	2 258
Power	415	505	0	0
Other	210	193	0	0
	19 159	**18 592**	**14 414**	**14 070**

External net turnover by market	Group 2007	Group 2006	Parent company 2007	Parent company 2006
Sweden	4 487	4 181	4 031	3 639
Great Britain	2 383	2 502	1 594	1 766
Germany	2 509	2 651	2 054	2 251
Spain	1 709	1 665	438	518
The Netherlands	728	693	630	544
France	754	787	429	471
Italy	954	912	585	544
Rest of Europe	3 639	3 054	2 998	2 548
Rest of the world	1 997	2 147	1 654	1 789
	19 159	**18 592**	**14 414**	**14 070**

BUSINESS AREAS 2006	Holmen Paper	Iggesund Paperboard	Holmen Timber	Holmen Skog	Holmen Energi	Group central costs and other	Total Group
Net turnover							
External	10 140	5 224	465	2 258	505	-	18 592
Internal	-	17	-	1 783	1 186	-2 986	-
Other operating income	103	177	18	160	12	31	501
Change in value of biological assets	-	-	-	115	-	-	115
Operating costs	-8 585	-4 310	-381	-3 645	-1 489	2 840	-15 570
Depreciation according to plan	-913	-356	-24	-28	-17	-8	-1 346
Interest in earnings of associated companies	9	-	2	-	-	-	11
Operating result	754	752	80	643	197	-123	2 303
Net financial items							-247
Tax							-597
Profit for the year							1 459
Operating margin, %	7	14	17				12
Return on operating capital, %	6	19	38	7	7		8
Operating assets	13 166	4 744	258	9 930	3 109	-69	31 138
of which shares in associated companies	131		3		1 597		1 731
Operating liabilities	1 625	809	50	929	144	284	3 841
Operating capital	11 541	3 935	208	9 001	2 965	-353	27 297
Deferred tax receivable							354
Deferred tax liability							5 030
Capital employed							22 621
Financial assets							649
Financial liabilities							6 634
Financial net debt							5 985
Cash flow from current operations	1 244	1 172	108	590	202	-958	2 358
Capital expenditure	686	351	5	29	6	2	1 079

GEOGRAPHIC AREAS 2006	Sweden	Great Britain	Spain	Other areas	Total Group
External net turnover	4 181	2 502	1 665	10 244	18 592
Operating capital	21 164	1 167	4 927	39	27 297
Capital expenditure	763	69	241	6	1 079

The primary criterion for dividing the business into segments is the Group's business areas. This agrees with the Group's operative structure and the internal reporting to Senior management and the Board. Intra-Group sales between one segment and another are based on an internal market price. The segment named "Group central costs and other" includes, apart from Group staffs and Group central functions that are not allocated to other segments, the elimination of intra-Group sales. No income statement items beneath operating result are allocated to the respective business areas.

In the Holmen Group, the business areas have responsibility for the management of the operative assets and liabilities. The operating capital in each segment includes all assets and liabilities employed by the business area, such as fixed assets, inventories and other external receivables and liabilities. Capital interests in associate companies are stated separately. Receivables and liabilities between segments that have arisen from intra-Group sales are included in each segment's operating capital. Financing and tax issues are handled at Group level. Consequently, financial assets and liabilities, including pension liability, are not allocated to the business areas; nor are current and deferred tax receivables and liabilities.

The secondary criterion for division into segments is based on geographical territories. Net external turnover is stated on the basis of where Holmen's customers are located. Operating capital and capital expenditure are stated on the basis of the countries in which the Group is active and consequently on the geographical location of the assets and liabilities.

Note 4 Other operating income

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Sales of by-products	264	242	120	149
Emission rights	1	5	1	5
Electricity certificates	49	41	49	41
Sales of fixed assets	9	42	8	29
Sale of shares and participations	117	0	0	0
Rental and leasing income	21	20	16	17
Silviculture contracts	53	46	53	46
Other	128	105	76	85
Total	**642**	**501**	**321**	**372**

Of the sales of by-products MSEK 92 relate to ejects from production, MSEK 126 to sawdust, bark, chips etc., and MSEK 46 to external sales of energy. Income from electricity certificates received from the production of renewable energy at the Group's Swedish mills amounted to MSEK 49 (41). The Group has been allotted emission rights which, for the most part, have been used for its own production. The surplus resulted in a stated profit of MSEK 1 (5). The item Other includes MSEK 105 from the sale of shares in Norrköpings Hamn och Stuveri AB and MSEK 12 from the sale of shares in Holmen Reinsurance.

Note 5 Employees, personnel costs and remunerations to senior management

	2007		2006	
	Average number of employees	Of which women	Average number of employees	Of which women
Parent company				
Sweden	3 580	606	3 611	612
Group companies				
Sweden	48	5	49	6
Australia	3	1	5	1
Belgium	3	2	3	2
Denmark	3	2	3	2
Estonia	22	6	22	5
France	30	7	30	7
Germany	17	7	17	7
Great Britain	521	49	523	50
Hong Kong	5	1	5	1
Ireland	0	0	1	0
Italy	7	4	7	4
The Netherlands	122	47	127	45
Poland	6	3	4	3
Portugal	2	1	2	1
Singapore	5	3	5	3
Spain	540	85	526	76
Switzerland	7	3	8	3
USA	10	3	10	3
Total Group companies	**1 351**	**229**	**1 347**	**219**
Total Group	**4 931**	**835**	**4 958**	**831**

AGM's guidelines for the salaries and other remuneration to Senior management

The 2007 AGM decided on the following guidelines for determining the salaries and other remuneration of the CEO and other Senior management, namely the business area managers and heads of Group staffs who report direct to the CEO.

Salary and another remuneration

The remuneration of the CEO and the Senior management shall take the form of a fixed, market-based salary. Other perquisites, largely car and housing, shall, insofar as they are provided, represent a small proportion of the remuneration. No variable salary components shall be paid.

Pension

The normal retirement age shall be 65. The company and the executive are each entitled to request that pension be drawn from 60 years of age at the earliest. A pension drawn before the age of 65 shall be defined benefit or defined contribution. Pension after the age of 65 shall adhere to the ITP plan. Over and above this the executive shall be entitled to a complementary old-age pension. In the case of complementary pension there shall be a gradual transition from the existing arrangement with a defined benefit pension to an arrangement whereby the pension is defined contribution.

Notice of termination and severance pay

Notice of termination should normally be one year, if it is given on the initiative of the company, or six months if it is on the initiative of the executive. In the event of notice being given by the company it shall be possible to pay severance pay corresponding to no more than 24 months' salary.

Remuneration committee

The Board has elected from among its members a remuneration committee to consider matters relating to the CEO's salary and other terms of employment, and to submit proposals to the Board for decision. The committee has also adopted a salary policy that contains detailed principles for pay formation, pensions and other remuneration for the Senior management.

Departures in individual cases

The Board shall be entitled to depart from these guidelines if in an individual case special reasons exist to do so. Should there be such a departure, information pertaining to it and the reason for it shall be provided at the next annual general meeting.

Remuneration of Board and Senior management

Board

A fixed board fee shall be paid to the members of the Board elected by the Annual General Meeting, except for the CEO. For 2007, the fee amounted to SEK 2 475 000 (2 250 000). The chairman received a fee of SEK 550 000 (500 000), and each of the other members (except for the CEO) received SEK 275 000 (250 000).

Senior management

The CEO's salary and other remuneration for 2007 amounted to SEK 6 051 694 (6 047 548). In 2007, the total pension cost attributable to the CEO (ITP cost and the cost of benefits over and above ITP and special pay tax), calculated in accordance with IAS 19, amounted to SEK 6 515 136 (1 341 675). This includes a lump-sum cost of SEK 4 048 444 as a result of a change in the pension plan.

In 2007, the salaries and other remuneration of the other Senior management, viz. the five business area managers and the heads of the five Group staffs who report direct to the CEO, amounted to a total of SEK 16 079 241 (16 353 466). The total pension cost (ITP cost and the cost of benefits over and above ITP and special pay tax), calculated in accordance with IAS 19, for this group amounted in 2007 to SEK 12 055 707 (14 600 902).

For Senior management the company is required to give 12 months' notice and the employee six months. In the event of notice being given by the company, severance pay corresponding to between one and two years' salary can be paid, depending on age. For the CEO, severance pay of two years' salary shall be paid.

All Senior management are employed by the parent company.

Pension commitments on behalf of Board and Senior management

Holmen's pension commitments over and above the ITP plan in respect of the CEO amounted on 31 December 2007 to MSEK 14 (6) and in respect of the Senior management to MSEK 52 (45), calculated in accordance with IAS 19. The Group also has commitments in respect of members of the Board who are former CEOs of the company, namely Bengt Pettersson MSEK 6 (6) and Göran Lundin MSEK 7 (7). The pension commitments are covered by plan assets placed with independent pension funds (see note 17), apart from MSEK 6 (0) in respect of the CEO.

Wages, salaries, other remuneration and social security charges

	2007				2006			
	Wages and remuneration	Of which Board, Senior management and president of Group companies[1)]	Social security costs	Of which pension costs	Wages and remuneration	Of which Board, Senior management and president of Group companies[1)]	Social security costs	Of which pension costs
Group								
Sweden	1 415	24	626	98	1 368	24	575	128
Other Nordic countries	2	1	0	0	2	1	0	0
France	14	1	6	0	13	1	6	0
The Netherlands	48	3	9	3	44	3	9	4
Spain	180	1	43	0	170	1	42	0
Great Britain	215	5	49	22	211	5	40	21
Germany	11	1	2	0	12	1	4	2
Rest of Europe	21	4	5	1	20	4	5	1
Other countries	14	4	2	0	16	4	1	0
Total Group	**1 920**	**44**[3)]	**744**	**126**[2)]	**1 856**	**44**[3)]	**682**	**156**[2)]
Parent company	1 397	23	621	97	1 350	23	556	121

1) The group comprising the Board (8 individuals excl. the CEO), Senior management (11 individuals) and president of Group companies (19 individuals) consists in the case of the Group of 38 (38) individuals, and of the parent company of 19 (19) individuals.
2) Of the Group's pension costs, MSEK 21 (19) relate to the category Senior management and presidents of Group companies. The Group's pension commitments on their behalf, calculated for the Group in accordance with IAS 19, amount to MSEK 66 (51) as at 31 December 2007. These commitments are covered by plan assets placed with independent pension funds, except for MSEK 6 (0) on behalf of the CEO.
3) Bonuses amounting in total to MSEK 0 (0) were paid to presidents of non-Swedish Group companies.

	Group		Parent company	
Female representation, %	**2007**	**2006**	**2007**	**2006**
Board (excl. deputy members)	8	8	8	8
Senior management, business area managements and presidents of Group companies	8	6	6	3

	Group		Parent company	
Sick leave in Sweden, %	**2007**	**2006**	**2007**	**2006**
Total sick leave	4.7	4.8	4.7	4.8
Long-term sick leave (>60 days)	2.7	2.8	2.7	2.8
Sick leave, men	4.2	4.4	4.2	4.4
Sick leave, women	7.0	6.9	7.0	6.9
Employees below 29 years of age	2.3	2.3	2.3	2.4
Employees between 30 and 49 years of age	4.4	4.7	4.4	4.7
Employees of 50 years of age and above	5.7	5.6	5.7	5.6

Note 6 Auditors' fee and remuneration

The audit firm KPMG Bohlins was elected by the 2004 Annual General Meeting as Holmen's auditors for a period of four years. KPMG audits the books of Holmen and almost all of its subsidiaries. Election of auditors for the 2008-2011 period will take place at the 2008 AGM.

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Remuneration to KPMG				
Audit assignment	7.3	6.6	4.5	3.7
Other assignments	2.9	5.0	1.3	1.1
Total	**10.2**	**11.6**	**5.8**	**4.8**
Other auditors	0.3	0.3	-	-
Total	**10.5**	**11.9**	**5.8**	**4.8**

By audit assignment is meant the examination of the annual report and accounts, the administration by the Board and the CEO, other duties that are incumbent on the company's auditors, the provision of advice or other support resulting from observations in connection with the audit or the performance of other such duties. All other activities are defined as other assignments. Over and above the audit assignment, Holmen has consulted KPMG on tax and accounting issues and for various investigations.

Note 7 Income from financial instruments

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Financial income				
Dividend income from Group companies	-	-	4	6
Dividend income from other companies	0	0	0	0
Capital gains on sales of Group companies	-	-	60	-
Capital gains on sales of shares and participations	-	-	105	-
Net profit/loss				
Valuation of assets/liabilities at fair value via income statement				
- Trading stock	4	2	4	55
Interest income	13	13	159	180
Total financial income	**17**	**15**	**333**	**241**
Financial costs				
Write-down in value of shares in Group companies	-	-	-1 508	-
Net profit/loss				
Valuation of assets/liabilities at fair value via income statement				
- Trading stock	-115	89	-126	57
- Other	-6	-12	-6	-9
Liquid funds	-1	8	-1	8
Financial liabilities valued at accrued acquisition value	100	-98	90	-66
Total net profit/loss	**-22**	**-13**	**-43**	**-10**
Interest costs	-257	-249	-299	-274
Financial costs	**-279**	**-262**	**-1 850**	**-284**
Net financial items	**-261**	**-247**	**-1 517**	**-42**

The net profits and losses stated in net financial items relate primarily to currency adjustments in respect of internal lending, hedging of internal lending, and currency adjustments of liquid funds and hedging of liquid funds. They also include revaluations of loans valued at fair value via the income statement and interest swaps to hedge loans at fixed interest rates.

A sum of MSEK 19 is included in net financial items in respect of revaluations of financial instruments valued at fair value by calculation of discounted cash flows on the basis of available market rates of interest and exchange rates. Changes in the value of the loan that is valued at fair value has had the effect of increasing the result by MSEK 21, of which changes in market interest rates accounted for MSEK 4. The accumulated change in value of MSEK 53 is stated in the income statement. The change in the value of the loan that has been hedged in respect of its fair value increased the result by MSEK 2 while derivative interest swaps reduced the result by MSEK 2. There are not changes in value in respect of loans in the parent company.

The income from financial instruments included in the operating result is shown in this table:

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Currency gains/losses on account receivable and liabilities to suppliers	-76	-99	-79	-85
Net profit/loss on derivatives stated in operating capital	33	142	-6	176
Interest income on accounts receivable	0	0	0	0
Interest costs on liabilities to suppliers	-1	-1	-1	-1
Write-down in value of accounts receivable	-10	-43	-6	-39

The derivatives included in the operating result relate to hedging of accounts receivable and liabilities to suppliers.

Note 8 Taxes

Tax charge stated in income statement

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Current tax	-506	-453	-337	-324
Deferred tax	-571	-144	13	10
	-1 077	**-597**	**-324**	**-314**

The Group's deferred tax charge for the period relates for the most part to the revaluation of biological assets, see also information below the table showing change in deferred tax liability/receivable.

The difference between the nominal Swedish tax rate and the effective tax rate arises in the following way, %

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Swedish income tax rate, %	28.0	28.0	28.0	28.0
Difference tax rate on foreign activities	-0.1	-0.5	-	-
Non-taxable income and non-deductible costs	-0.9	0.0	-167.9	0.1
Standard interest on tax allocation reserve	0.7	0.7	-8.3	1.3
Effect of not stated loss allowances and temporary differences	14.9	0.0	0.0	0.0
Tax attributable to previous periods	-0.5	-0.2	0.1	-0.3
Changed tax rate on deferred tax receivable	0.2	1.5	-	-
Other	-0.8	-0.5	3.2	-0.1
Tax rate	**41.7**	**29.0**	**-145.0**	**29.0**

The tax effect of loss allowances and temporary differences as a consequence of write-downs in the value of goodwill and tangible fixed assets in the Group's Spanish operations in 2007 has not been stated as a deferred tax receivable.

The parent company's effective tax rate for 2007 is affected by non-deductible write-downs in the value of shares in Group companies. Excluding these write-downs the tax rate would have been 25%.

Tax charged against equity

At Group level, a tax charge of MSEK 51 (charge 75) relating to cash flow hedging, hedging of net investments in foreign currencies, and the actuarial revaluation of pension liabilities has been stated direct against equity. For the parent company tax of MSEK 151 (charge 99) in respect of Group contributions and tax of MSEK 34 (charge 35) in respect of cash flow hedging have been stated direct against equity.

Taxes as stated in balance sheet

	Group 2007	Group 2006	Parent company 2007	Parent company 2006
Deferred tax receivables				
Loss carry-forward	348	408	-	-
Pension provisions	53	92	-	-
Deferred tax liabilities stated net among deferred tax receivables	-105	-146	-	-
Other	5	0	-	-
Total deferred tax receivables	**301**	**354**	**-**	**-**
Current tax receivable	21	138	-	119
Total tax receivables	**323**	**492**	**-**	**119**

	Group 2007	Group 2006	Parent company 2007	Parent company 2006
Deferred tax liabilities				
Fixed assets				
Biological assets*	3 100	2 472	677	678
Machinery and equipment	1 480	1 588	-	-
Buildings and other real property	212	225	-5	-5
Tax allocation reserve	753	725	-	-
Other, including deferred tax receivables stated net among deferred tax liabilities	-62	20	-40	6
Total deferred tax liabilities	**5 482**	**5 030**	**632**	**679**
Provisions for taxes	426	424	45	45
Current tax liability	17	28	4	-
Total tax liabilities	**5 925**	**5 482**	**681**	**724**

* For parent company, relates to forestland

The change in the net of deferred tax receivable and deferred tax liability is explained in this table.

2007	Group Opening balance	Group Stated in the income statement	Group Other changes	Group Translation differences	Group Closing balance	Parent company Opening balance	Parent company Stated in the income statement	Parent company Stated in equity	Parent company Closing balance
Biological assets*	-2 472	-627	-1	-	-3 100	-678	1	-	-677
Tangible fixed assets	-1 923	122	1	4	-1 796	5	0	-	5
Pension provisions	94	-13	-26	-2	53	-	-	-	-
Loss carry-forward	408	-52	-10	2	348	-	-	-	-
Tax allocation reserve	-725	-28	0	0	-753	-	-	-	-
Other	-58	28	98	-1	68	-6	12	34	40
Deferred net tax liability	**-4 676**	**-571**	**63**	**3**	**-5 181**	**-679**	**13**	**34**	**-632**

2006	Group Opening balance	Group Stated in the income statement	Group Other changes	Group Translation differences	Group Closing balance	Parent company Opening balance	Parent company Stated in the income statement	Parent company Stated in equity	Parent company Closing balance
Biological assets*	-2 437	-35	0	-	-2 472	-678	-	-	-678
Tangible fixed assets	-1 948	40	0	-15	-1 923	3	2	-	5
Pension provisions	112	-4	-14	0	94	-	-	-	-
Loss carry-forward	374	40	7	-13	408	-	-	-	-
Tax allocation reserve	-588	-137	0	0	-725	-	-	-	-
Other	-304	304	-61	3	-58	27	8	-41	-6
Deferred net tax liability	**-4 791**	**208**	**-68**	**-25**	**-4 676**	**-648**	**10**	**-41**	**-679**

* For parent company, relates to forestland

The deferred tax charge stated in the income statement relates in all essentials to changes in temporary differences, except for in the Group where the change in stated loss carry-forward is due to the utilisation of loss allowances and to the effect of lower tax rates. In the income statement, a tax charge of MSEK 0 (charge 352) in respect of changes in tax provisions has been stated as a deferred tax charge. Other changes at Group level include deferred tax stated direct against equity of MSEK 67 (charge 46) in respect of a change in hedge reserve, a charge of MSEK 26 (charge 14) in respect of actuarial revaluations, and MSEK 20 (-) in respect of divestments.

Of the deferred tax receivable in respect of tax loss allowances, a sum of MSEK 153 relates to allowances with no time limitations regarding when they may be utilised. Other tax allowances expire if they are not utilised between 2015 and 2022. Tax loss allowances and temporary differences for which deferred tax receivables have not been stated in the income statement and balance sheet amount to MSEK 1 728, of which MSEK 198 will expire in 2012 and MSEK 108 in 2022. Whether a deferred tax receivable is stated or not depends on an assessment of how likely it is that the Group will be able to utilise it by netting it off against taxable profits in the future.

Note 9 Intangible fixed assets

Goodwill	Group 2007	Group 2006
Opening balance	557	586
Re-classification	-	-7
Write-down during the year	-569	-
Translation differences	12	-22
	0	**557**

The estimated recoverable value for units within the Holmen Paper business area declined significantly in 2007, mainly as a result of further increases in the cost of recovered paper, wood and energy, and fell short of the closing book value. Consequently, goodwill was written down by MSEK 569 to MSEK 0, and tangible fixed assets were written down by MSEK 1 034 (see note 10). The Group's goodwill was all stated in the accounts of Holmen Paper and derived largely from the acquisition of the newsprint mill in Madrid in 2000. The recoverable value has been estimated as value in use. The cash flow has been discounted by a weighted average cost of capital, which corresponds to 10.4% (9.2) before and 7.3% (6.7) after tax.

Other intangible fixed assets	Group 2007	Group 2006	Parent company 2007	Parent company 2006
Accumulated acquisition values				
Opening balance	90	85	21	37
Capital expenditure	7	18	5	1
Change in emission rights	-20	-12	-16	-16
Sales and retirements	-	-1	-	-1
Translation differences	-2	0	-	-
	74	**90**	**10**	**21**
Accumulated depreciation according to plan				
Opening balance	20	13	-	-
Depreciation for the year	12	7	-	-
Translation differences	1	-	-	-
	32	**20**	**-**	**-**
Closing residual value according to plan	**42**	**70**	**10**	**21**

Other intangible fixed assets consist for the most part of rights to use electricity grids (MSEK 12) and IT systems (MSEK 19). Holmen's intangible fixed assets were largely acquired from external sources. Apart from emission rights all other intangible fixed assets have determinable utilisation periods and are written off over 5-10 years.

The Group's investments for the year in intangible fixed assets relate largely to IT projects.

Note 10 Tangible fixed assets

Group	Forestland 2007	Forestland 2006	Buildings, other land and land installations 2007	Buildings, other land and land installations 2006	Machinery and equipment 2007	Machinery and equipment 2006	Work in progress and advance payments to suppliers 2007	Work in progress and advance payments to suppliers 2006	Total Group 2007	Total Group 2006
Accumulated acquisition values										
Opening balance	100	100	5 493	5 292	24 763	24 663	201	63	30 557	30 118
Capital expenditure	-	-	30	242	1 274	670	69	139	1 373	1 051
Re-classifications	-	-	-5	18	7	-	-	-	2	18
Sales and disposals	-	-	-3	-5	-256	-373	-	-	-260	-378
Translation differences	-	-	47	-54	39	-197	0	-1	86	-252
	100	**100**	**5 561**	**5 493**	**25 826**	**24 763**	**270**	**201**	**31 758**	**30 557**
Accumulated depreciation and write-down according to plan										
Opening balance	-	-	2 384	2 252	14 391	13 545	-	-	16 775	15 797
Depreciation for the year according to plan	-	-	241	144	1 084	1 195	-	-	1 325	1 339
Write-downs of the year	-	-	-	-	1 034	-	-	-	1 034	-
Reversal of previous write-downs	-	-	-	-	-60	-	-	-	-60	-
Re-classifications	-	-	-	-	-	-	-	-	-	-
Sales and disposals	-	-	-3	-3	-248	-290	-	-	-252	-293
Translation differences	-	-	-5	-9	-43	-59	-	-	-48	-68
	-	**-**	**2 617**	**2 384**	**16 157**	**14 391**	**-**	**-**	**18 774**	**16 775**
Closing residual value according to plan	**100**	**100**	**2 944**	**3 109**	**9 670**	**10 372**	**270**	**201**	**12 984**	**13 782**

Parent company	Forestland 2007	Forestland 2006	Buildings, other land and land installations 2007	Buildings, other land and land installations 2006	Machinery and equipment 2007	Machinery and equipment 2006	Total parent company 2007	Total parent company 2006
Accumulated acquisition values								
Opening balance	58	51	139	139	198	197	395	387
Capital expenditure	14	8	0	0	22	20	36	28
Re-classifications	-	-	-	-	7	-	7	-
Sales and disposals	0	-1	0	0	-24	-19	-24	-20
	72	**58**	**139**	**139**	**203**	**198**	**414**	**395**
Accumulated depreciation according to plan								
Opening balance	-	-	124	122	155	143	279	265
Depreciation for the year	-	-	2	2	23	24	24	26
Sales and disposals	-	-	0	0	-24	-12	-24	-12
	-	**-**	**126**	**124**	**154**	**155**	**280**	**279**
Accumulated revaluations								
Opening balance	2 417	2 420	1	1	-	-	2 418	2 421
Sales and disposals	0	-3	0	-	-	-	0	-3
	2 417	**2 417**	**1**	**1**	**0**	**0**	**2 418**	**2 418**
Closing residual value according to plan	**2 489**	**2 475**	**14**	**16**	**49**	**43**	**2 552**	**2 534**

Assessed tax values	Group 2007	Group 2006	Parent company 2007	Parent company 2006
Assessed tax values relate to assets in Sweden				
Forest and agricultural property	10 106	10 111	5 074	5 075
Buildings, other land and land installations	3 031	3 058	28	28
	13 137	**13 169**	**5 102**	**5 103**

The estimated recoverable value for units within the Holmen Paper business area declined significantly in 2007, mainly as a result of further increases in the cost of recovered paper, wood and energy, and fell short of the closing book value. Consequently, goodwill was written down by MSEK 569 to MSEK 0 (see note 9), and tangible fixed assets were written down by MSEK 1 034, of which MSEK 734 relates to the business area's Spanish operations and MSEK 300 to Swedish units. An earlier write-down within Holmen Timber has been reversed, which raised the value of the assets by MSEK 60. The reversal of previous write-downs is a consequence of a significant improvement in profitability as a result of a stronger market situation and higher cost efficiency. The recoverable value has been estimated as a utility value. The year's capital expenditure was reduced by MSEK 11 as a result of the support received from the State Energy Authority of MSEK 40 in total for the construction of a new pulp line at the Braviken paper mill.

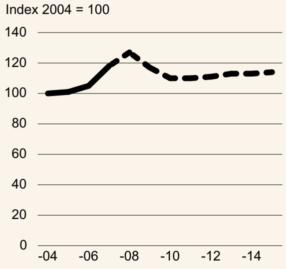
Note 11 Biological assets

At Group level, forest assets are classified as growing forest, which is stated as a biological asset at fair value, and land, which is stated at acquisition cost. Holmen's assessment is that no relevant market prices are available that can be used to value forest holdings as extensive as Holmen's. The valuation is therefore made by calculating the present value of expected cash flows from the growing forests. This calculation of cash flows is made for the coming 100 years, which is regarded as the harvesting cycle of the forests. The cash flows are calculated on the basis of harvesting volumes according to Holmen's current harvesting plan and assessments of future price and cost changes. The cost of re-planting has been taken into account as re-planting after harvesting is a statutory obligation.

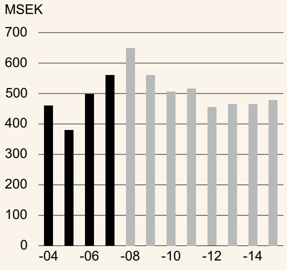
In total, Holmen owns 1 037 000 hectares of productive forestland, with a volume of 117 million forest cubic metres of standing timber, of which 67 000 hectares with 12 million cubic metres of standing timber have been set aside as nature reserves. Harvesting volumes are estimated on the basis of harvesting plans. According to the current plan, which came into effect in 2000, it is estimated that the annual harvesting until 2009 will on average amount to 2.5 million cubic metres per year. The harvesting volume is then planned to successively increase to 3.0 million cubic metres per year in about 40 years' time. This corresponds to an average increase in harvesting of 0.4% per year. Some 55% of the wood harvested consists of saw logs, which is sold to sawmills, and the remainder consists of pulpwood, which is sold to the pulp and paper industry.

In 2007, the cash flow from the growing forests rose to MSEK 547 (499), mainly as a result of price increases in 2006 and 2007. On average, the cash flows in 2001-2007 have been approximately MSEK 460 per year. Holmen based its valuation of 31 December 2007 on the prices prevailing at the end of the year for estimating the cash flows for 2008. The assumption was then made that prices will fall between now and 2010, see graph below. From 2010 and thereafter long-term price assumptions for prices have been used, with an annual increase of 1% until 2035 and of 2% thereafter. Costs are estimated to rise from their current level at a rate of about 2% a year. The cash flow forecast used in the valuation in accordance with IAS 41 is calculated on the basis of these price and cost assumptions and the current harvesting plan. The forecast for 2008-2015 is shown in the graph below. The cash flows for the period 2016-2035 are estimated to increase by 0.6% per year, after which they are expected to increase by the assumed level of inflation of 2%.

Average price
Actual and forecast



Cash flow
Actual and forecast



The cash flows are discounted using an interest rate of 5.5% (2006: 6.25) after tax. The discount rate has been calculated on the basis of the Group's target for its debt/equity ratio (on average 0.55), an assumed long-term, nominal risk-free return of 4.5%, a risk premium of 1% for borrowed capital and of 2% for equity. Tax is taken into account at a rate of 28%.

Deferred tax, viz. the tax that is expected to be charged against the result of harvesting in the future, has been calculated on the total value of growing forests.

The value of the biological assets was estimated at the end of 2007 at MSEK 11 073, or the value of the estimated cash flows before tax. The attributable deferred tax liability was estimated at MSEK 3 100. The net book value after tax of the growing forests was thus MSEK 7 973. The change in the value of the growing forests can be divided into:

	2007	**2006**
Opening balance	8 830	8 704
Acquisition of growing forest	53	10
Sales of growing forest	0	-4
Change due to harvesting	-547	-499
Change in fair value	2 736	614
Other changes	1	5
Closing book value	**11 073**	**8 830**

The net effect of the change in fair value and the change as a result of harvesting is stated in the income statement as Change in value of biological assets. In 2007 this item amounted to MSEK 2 189 (115) and was due largely to changes of some MSEK 550 in the assumptions regarding future prices and costs and a reduction of some MSEK 1 550 in the discount rate. The change in price assumptions is a consequence of the big rise in market prices that took place in 2006-2007, which is to some part expected to be lasting. On the cost side, the change is due to developments turning out to be different from earlier future estimates. The discount rate has been reduced as a consequence of long-term market interest rates being lower for a long period of time than the level previously used for arriving at the discount rate.

The table below shows how the value of biological assets would be affected by changes in the most significant valuation assumptions:

	Change in value (MSEK)	
	Before tax	After tax
Annual change, + 0.1% per year		
Harvesting rate	400	290
Price inflation	400	290
Cost inflation	-240	-170
Change in level, +1%		
Harvesting	150	110
Prices	260	190
Costs	-140	-100
Discount rate, +0.1%	-240	-170

Note 12 Interest in associated companies and other shares and participations

	Group		Parent company	
Associated companies	**2007**	**2006**	**2007**	**2006**
Opening balance	1 731	1 622	77	7
Capital expenditure	0	0	0	0
Divestments	-	-	-	-
Re-classifications	-	106	-	70
Interest in associated companies' results	12	11	-	-
Translation difference	3	-8	-	-
Write-downs	-	-	-	-
Closing balance at 31 December	**1 745**	**1 731**	**77**	**77**

The parent company's opening balance includes accumulated write-downs of MSEK 34. There was no write-down during the year.

	Group		Parent company	
Other shares and participations	**2007**	**2006**	**2007**	**2006**
Opening balance	11	117	10	80
Capital expenditure	1	0	1	0
Divestments	-5	-	-5	-
Re-classifications	-	-106	-	-70
Translation difference	0	-	-	-
Write-downs	-	-	-	-
Closing balance at 31 December	**7**	**11**	**6**	**10**

There were no write-downs in the value of other shares and participations during the year. In 2007, the holding in Norrköpings Hamn och Stuveri AB was divested to the Municipality of Norrköping. The proceeds of the sale amounted to MSEK 105.

Parent company and Group holdings of shares and participations in associate companies

				2007			**2006**		
	Reg. No.	Registered office	No. of partici-pations	Interest % 1)	Book value at parent company SEK 1 000	Value of holding in Group accounts, SEK 1 000	Interest % 1)	Book value at parent company SEK 1 000	Value of holding in Group accounts, SEK 1 000
Brännälvens Kraft AB	556017-6678	Arbrå	5 556	13.9	-	36 400	13.9	-	36 400
Gidekraft AB	556016-0953	Örnsköldsvik	990	9.9	99	99	9.9	99	99
Harrsele AB	556036-9398	Sundsvall	9 886	49.4	-	1 481 561	49.4	-	1 484 690
HECA AB	556587-7825	Stockholm	2 500	50.0	2 178	6 036	50.0	1 978	3 605
Industriskog AB	556193-9470	Falun	25 000	33.3	128	128	33.3	128	128
Pressretur AB	556188-2712	Stockholm	334	33.4	-	-	33.4	-	-
PÅAB, Pappersåtervinning AB	556142-5116	Norrköping	500	50.0	109	109	33.4	63	63
Vattenfall Tuggen AB	556504-2826	Lycksele	683	6.83	74 755	74 755	6.3	74 755	74 755
Baluarte Sociedade de Recolha e Recuperação de Desperdicios, Lda, Portugal		Alcochete	2	50.0	-	34 871	50.0	-	31 324
Ets Emilie Llau SA, France		Lorp-Sentaraille	1 073	38.0	-	35 929	38.0	-	32 662
Peninsular Cogeneración SA, Spain		Madrid	4 500	50.0	-	75 506	50.0	-	66 986
Other shares owned by the parent company					37	37		37	37
					77 306	**1 745 431**		**77 060**	**1 730 749**

1) Percentage of shares and percentage of votes are the same except where otherwise stated.

Parent company and Group holdings of shares and participations in other companies

				2007			**2006**		
	Reg. No.	Registered office	No. of partici-pations	Interest % 1)	Book value at parent company SEK 1 000	Value of holding in Group accounts, SEK 1 000	Interest % 1)	Book value at parent company SEK 1 000	Value of holding in Group accounts, SEK 1 000
Parent company									
Norrköpings Hamn och Stuveri AB	556007-2679	Norrköping	-	-	-	-	27.0	4 603	4 603
SweTree Technologies AB	556573-9587	Umeå	57 500	2.7	5 000	5 000	2.7	5 000	5 000
VindIn AB	556713-5172	Stockholm	100	7.1	810	810	10.0	10	10
Miscellaneous shares owned by the parent company					587	587		487	487
					6 397	**6 397**		**10 100**	**10 100**
Parent company									
Miscellaneous shares						719			744
					6 397	**7 116**		**10 100**	**10 844**

1) Percentage of shares and percentage of votes are the same except where otherwise stated.

The holdings Brännälvens Kraft AB, Gidekraft AB, Harrsele AB and Vattenfall Tuggen AB refer to interests in hydro power stations. The holdings entitle the Group to buy some of the electricity produced at cost price, which means that the associated company only earns a limited profit. Purchased electricity is sold to external customers at market price, and the result is stated in the Group accounts within the Holmen Energi business area. Brännälvens Kraft AB, Gidekraft AB and Vattenfall Tuggen AB are classified as associated companies even though the holdings are less than 20%, since the consortium agreements provide significant influence over each company's activities.

Summary of financial information relating to the Group's and parent company's associated companies is provided below. The table shows total amounts for the associated companies, not the interest owned.

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Income	1 639	1 261	635	377
Result	31	34	7	9
Assets	1 709	1 650	984	929
Liabilities	1 093	916	764	558
Equity	616	734	220	371

Note 13 Financial instruments

Group, 2007	Items stated at fair value via income statement: Loans valued at fair value	Items stated at fair value via income statement: Derivatives	Derivatives with hedge accounting	Accounts receivable and loan receivables	Assets available for sales	Other liabilities	Total book value	Fair value
Financial instruments included in financial net debt								
Long-term financial receivables								
Placements with credit institutions				18			18	18
Derivatives		16	23				39	39
Other financial receivables				52			52	52
		16	**23**	**70**			**108**	**108**
Short-term financial receivables								
Unrealised currency difference and accrued interest				6			6	6
Derivatives		1	14				16	16
Other financial receivables				17			17	17
		1	**14**	**24**			**39**	**39**
Liquid funds								
Short-term deposit of liquid funds				17			17	17
Money at bank				377			377	377
				394			**394**	**394**
Long-term liabilities								
MTN loans	196					1 365	1 562	1 548
Derivatives		16	8				24	24
Other financial liabilities	392					475	866	851
	588	**16**	**8**			**1 840**	**2 452**	**2 423**
Current liabilities								
Commercial paper programme						3 509	3 509	3 509
Liabilities to financial institutions						32	32	32
Current portion of long-term loans						101	101	101
Derivatives		14	47				61	61
Unrealised currency difference and accrued interest						102	102	102
Other current liabilities						13	13	13
		14	**47**			**3 758**	**3 819**	**3 819**
Financial instruments not included in financial net debt								
Other shares and participations					7		7	
Accounts receivable				3 004			3 004	3 004
Derivatives (stated among operating receivables)		9	19				27	27
Derivatives (stated among fixed assets)								
Liabilities to suppliers						2 338	2 338	2 338
Derivatives (stated among operating liabilities)		17	130				147	147

Long-term financial receivables consist of long-term interest-bearing deposits with financial institutions, financial receivables from other companies, which, in all essentials, are interest-bearing, and prepaid costs relating to committed credit facilities. Over and above this, the figure includes the fair values of long-term derivatives. The parent company's receivables from Group companies include a significant share of interest-free balances between Swedish, wholly-owned Group companies.

Short-term financial receivables consist of interest-bearing placements and lending for durations of up to one year, accrued interest income and unrealised capital gains.

Short-term financial receivables have in all essentials durations of less than three months, and thus involve a very limited interest rate risk.

By liquid funds is meant money at bank and placements that can be readily converted into cash for a known amount and with a duration of no more than three months from the date of acquisition, which also means that the interest rate risk is negligible.

Liquid funds are placed on deposit with banks or in short-term deposit accounts at banks.

The average rate of interest on the Group's financial assets in 2007 was around 4.4% (3.5).

Group, 2006	Items stated at fair value via income statement							
	Loans valued at fair value	Derivatives	Derivatives with hedge accounting	Accounts receivable and loan receivables	Assets available for sales	Other liabilities	Total book value	Fair value
Financial instruments included in financial net debt								
Long-term financial receivables								
Placements with credit institutions				19			19	19
Derivatives		13	33				46	46
Other financial receivables				63			63	63
		13	**33**	**83**			**130**	**130**
Short-term financial receivables								
Unrealised currency difference and accrued interest				7			7	7
Derivatives		18	7				25	25
Other financial receivables				23			23	23
		18	**7**	**30**			**55**	**55**
Liquid funds								
Short-term deposit of liquid funds				300			300	300
Money at bank				183			183	183
				484			**484**	**484**
Long-term liabilities								
MTN loans	198					1 325	1 523	1 519
Derivatives		13	5				18	18
Other financial liabilities	412					549	962	952
	611	**13**	**5**			**1 874**	**2 503**	**2 489**
Current liabilities								
Commercial paper programme						3 273	3 273	3 273
Liabilities to financial institutions						57	57	57
Current portion of long-term loans								
Derivatives		2	7				9	9
Unrealised currency difference and accrued interest						88	88	88
Other current liabilities						348	348	348
		2	**7**			**3 766**	**3 775**	**3 775**
Financial instruments not included in financial net debt								
Other shares and participations					11		11	
Accounts receivable				2 812			2 812	2 812
Derivatives (stated among operating receivables)		38	158				196	196
Derivatives (stated among fixed assets)			-7				-7	-7
Liabilities to suppliers						2 063	2 063	2 063
Derivatives (stated among operating liabilities)		0	12				12	12

Loan liabilities, accrued interest costs, unrealised capital losses and fair values of derivatives are stated as financial liabilities.

Financial liabilities are in all essentials interest bearing. The parent company's liabilities to Group companies include a significant amount of interest-free liabilities to and from Swedish wholly-owned subsidiaries.

Liabilities that are valued at fair value amount to MSEK 588. The amount repayable in respect of these liabilities is MSEK 538. The maturity structure and average rate of interest on the Group's liabilities are shown in note 2. Of the parent company's liabilities, MSEK 4 707 mature within one year and MSEK 381 later than five years after the closing date.

In addition to the above identified financial assets and liabilities, also pension liabilities (see note 17) are included in the financial net debt.

The fair value in the table above has either been taken direct from listed market prices or by calculating the discounted future cash flows. In cases were the latter method is used, all variables used in the calculation, such as discount rates and exchange rates, are taken from market listings. The difference between fair value and book value arises because certain liabilities and assets are not valued at fair value in the balance sheet, but are stated at their accrued acquisition value. When it has not been possible to determine a reliable market value for shares and participations, they have been excluded from the table above.

Parent company, 2007	Items stated at fair value via income statement							
	Loans valued at fair value	Derivatives	Derivatives with hedge accounting	Accounts receivable and loan receivables	Assets available for sales	Other liabilities	Total book value	Fair value
Financial instruments included in financial net debt								
Long-term financial receivables								
Placements with credit institutions								
Derivatives		16	23				39	39
Receivables from Group companies				252			252	252
Other financial receivables				29			29	29
		16	**23**	**282**			**320**	**320**
Short-term financial receivables								
Unrealised currency difference and accrued interest				6			6	6
Derivatives		1	14				16	16
Receivables from Group companies				1 588			1 588	1 588
Other financial receivables				17			17	17
		1	**14**	**1 611**			**1 627**	**1 627**
Liquid funds								
Short-term deposit of liquid funds								
Money at bank				303			303	303
				303			**303**	**303**
Long-term liabilities								
MTN loans						1 565	1 565	1 544
Derivatives		16	8				24	24
Liabilities to Group companies						1 474	1 474	1 474
Other financial liabilities						456	456	456
		16	**8**			**3 496**	**3 520**	**3 499**
Current liabilities								
Commercial paper programme						3 509	3 509	3 509
Liabilities to financial institutions						30	30	30
Current portion of long-term loans						101	101	101
Derivatives		14	47				61	61
Unrealised currency difference and accrued interest						102	102	102
Liabilities to Group companies						896	896	896
Other current liabilities						8	8	8
		14	**47**			**4 646**	**4 707**	**4 707**
Financial instruments not included in financial net debt								
Other shares and participations					6		6	
Accounts receivable				2 059			2 059	2 059
Derivatives (stated among operating receivables)		9	113				121	121
Derivatives (stated among fixed assets)								
Liabilities to suppliers						1 557	1 557	1 557
Derivatives (stated among operating liabilities)		17	119				137	137

Parent company, 2006	Items stated at fair value via income statement							
	Loans valued at fair value	Derivatives	Derivatives with hedge accounting	Accounts receivable and loan receivables	Assets available for sales	Other liabilities	Total book value	Fair value
Financial instruments included in financial net debt								
Long-term financial receivables								
Placements with credit institutions								
Derivatives		13	33				46	46
Receivables from Group companies				1 640			1 640	1 640
Other financial receivables				42			42	42
		13	**33**	**1 682**			**1 729**	**1 729**
Short-term financial receivables								
Unrealised currency difference and accrued interest				7			7	7
Derivatives		25					25	25
Receivables from Group companies				4 335			4 335	4 335
Other financial receivables				23			23	23
		25		**4 365**			**4 390**	**4 390**
Liquid funds								
Short-term deposit of liquid funds				170			170	170
Money at bank				210			210	210
				380			**380**	**380**
Long-term liabilities								
MTN loans						1 525	1 525	1 520
Derivatives		13	5				18	18
Liabilities to Group companies						2 129	2 129	2 129
Other financial liabilities						533	533	522
		13	**5**			**4 187**	**4 205**	**4 189**
Current liabilities								
Commercial paper programme						3 273	3 273	3 273
Liabilities to financial institutions						55	55	55
Current portion of long-term loans								
Derivatives		7	2				9	9
Unrealised currency difference and accrued interest						88	88	88
Liabilities to Group companies						986	986	986
Other current liabilities						343	343	343
		7	**2**			**4 745**	**4 754**	**4 754**
Financial instruments not included in financial net debt								
Other shares and participations					10		10	
Accounts receivable				1 907			1 907	1 907
Derivatives (stated among operating receivables)		38	148				186	186
Derivatives (stated among fixed assets)			-7				-7	-7
Liabilities to suppliers						1 298	1 298	1 298
Derivatives (stated among operating liabilities)			22				22	22

Note 14 Inventories

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Raw materials and consumables	890	837	593	578
Saw logs and pulpwood	243	130	207	117
Finished products, goods for resale and work in progress	1 376	1 314	1 027	953
Felling rights etc	554	325	504	289
	3 063	**2 606**	**2 331**	**1 937**

Write-downs of inventories of the year that are taken against the result amount to MSEK 10 (16) for the Group and to MSEK 3 (25) for the parent company.

Note 15 Operating receivables

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Accounts receivable	3 004	2 812	2 059	1 907
Receivables from Group companies	-	-	132	134
Receivables from associate companies	37	17	37	17
Prepaid costs and accrued income	100	95	49	63
Derivatives	27	196	121	186
Other receivables	296	274	221	173
	3 464	**3 394**	**2 620**	**2 480**

Accounts receivable are stated after deduction of expected credit losses. The Holmen Paper business area's accounts receivable account for 62% of the Group's total accounts receivable, while Iggesund Paperboard's account for 25%. The Group's accounts receivable mainly relate to European customers. Accounts receivable denominated in foreign currencies are valued at closing date exchange rates. The fair values of derivatives relate to hedges for future cash flows.

Customer credit risk The risk that the Group' customers will not fulfil their payment obligations is limited by mean of credit status enquiries, internal credit limits per customer and, in some cases, by insuring accounts receivable against bad debts. Holmen's exposure to individual customers is limited and on aggregate the five largest customers account for some 10% of the Group's total sales. As of 31 December 2007 some 58% (29) of the Group's accounts receivable were insured against credit losses.

The provision for expected credit losses on accounts receivable amounted to MSEK 60 (72) as of 31 December 2007 and it has been stated net together with accounts receivable. During the year the provisions declined by MSEK 23 (13) due to proven credit losses and to a change in the provision of feared credit losses of MSEK 10 (42).

As of 31 December 2007 accounts receivable of MSEK 64 (76) had been due for payment for more than 30 days, excluding accounts receivable for which provisions had been made. The maturity structure of these items is shown in the table below:

MSEK	**2007**	**2006**
Total accounts receivable	3 004	2 812
Of which overdue > 30 days*	64	76
Of which overdue > 60 days**	10	44

* incl. overdue >60 days
** excluding bad debts/provisions recognised against income

A decision has been made that it is not deemed necessary to write down any accounts receivable that have not yet fallen due.

Note 16 Equity

Group	Share capital	Other capital contribution	Reserves: Translation reserve	Reserves: Hedge reserve	Profit brought forward incl. profit for the year	Total
Opening balance at 1 January 2006	**4 238**	**281**	**142**	**0**	**11 346**	**16 007**
Change during the year, Hedge reserve				165		165
Change during the year, Translation reserve			-35			-35
Actuarial revaluations					47	47
Tax attributable to items stated direct in equity			-15	-46	-14	-75
Total changes stated direct in equity excl. transactions with the company's shareholders	**0**	**0**	**-50**	**119**	**33**	**102**
Profit for the year					1 459	1 459
Total change in equity excl. transactions with the company's shareholders	**0**	**0**	**-50**	**119**	**1 492**	**1 561**
Dividend paid					-932	-932
Closing balance at 31 December 2006	**4 238**	**281**	**92**	**119**	**11 906**	**16 636**
Change during the year, Hedge reserve				-241		-241
Change during the year, Translation reserve			-62			-62
Actuarial revaluations					61	61
Tax attributable to items stated direct in equity			9	67	-26	51
Total changes stated direct in equity excl. transactions with the company's shareholders	**0**	**0**	**-53**	**-174**	**35**	**-192**
Profit for the year					1 505	1 505
Total change in equity excl. transactions with the company's shareholders	**0**	**0**	**-53**	**-174**	**1 540**	**1 314**
Dividend paid					-1 017	-1 017
Closing balance at 31 December 2007	**4 238**	**281**	**39**	**-55**	**12 429**	**16 932**

	Restricted equity			Non-restricted equity			
Parent company	Share capital	Statutory reserve	Revaluation reserve	Hedge reserve	Profit brought forward	Profit for the year	Total
Adjusted equity at 1 January 2006	**4 238**	**1 577**	**100**	**16**	**4 648**	**937**	**11 516**
Transfer of result for 2005					937	-937	0
Change during the year, Hedge reserve				124			124
Dividend paid					-932		-932
Effects of Group contributions					255		255
Tax attributable to items stated direct in equity				-35			-35
Profit for the year						769	769
Closing balance at 31 December 2006	**4 238**	**1 577**	**100**	**105**	**4 908**	**769**	**11 697**
Transfer of result for 2006					769	-769	0
Change during the year, Hedge reserve				-120			-120
Dividend paid					-1 017		-1 017
Effects of Group contributions					389		389
Tax attributable to items stated direct in equity				34			34
Profit for the year						-548	-548
Closing balance at 31 December 2007	**4 238**	**1 577**	**100**	**19**	**5 049**	**-548**	**10 435**

At 31 December 2007, the registered share capital was divided into 84 756 162 shares.

Any holdings of the company's own shares are stated as a reduction in equity. Acquisitions of the company's own shares are stated as a deduction from equity, proceeds of sales of the company's own shares are stated as an increase in equity, and transaction costs are stated direct in equity. As at 31 December 2007 the company has no holdings of its own shares.

The hedge reserve consists of the effective proportion of the accumulated net change in the fair value of a cash flow hedging instrument attributable to underlying hedging transactions that have not yet occurred.

The translation reserve consists of all currency rate differences that arise in connection with the translation of the financial reports of foreign businesses that make up their financial reports in a currency other than the currency in which the Group's financial reports are presented. The Group presents its financial reports in Swedish kronor. The translation reserve also includes currency rate differences arising in connection with the revaluation of liabilities and derivatives that are classified as instruments for hedging of net investments in a foreign business.

Share capital

	31 December 2007			31 December 2006		
Parent company	Number	Quota value	MSEK	Number	Quota value	MSEK
Share capital						
Series "A"	22 623 234	50	1 131.2	22 623 234	50	1 131.2
Series "B"	62 132 928	50	3 106.6	62 132 928	50	3 106.6
	84 756 162		**4 237.8**	**84 756 162**		**4 237.8**

The Board proposes that the Annual General Meeting to be held on 2 April 2008 resolves in favour of paying an unchanged dividend of SEK 12 per share. The proposed dividend totals MSEK 1 017. Last year the dividend was SEK 12 per share (MSEK 1 017).

Assets and liabilities valued at fair value in accordance with Chapter 4 §14a of the Annual Accounts Act has reduced the parent company's equity by MSEK 46 (increase: 176). At Group level the valuation of derivatives and other financial instruments has reduced the equity by MSEK 201 (increase: 148).

Holmen's profitability target is to earn a return that is consistently above the market cost of capital. The ordinary dividend shall amount to 5-7% of equity. The target for the debt/equity ratio is 0.3-0.8. Neither the parent company nor any of the subsidiary companies are subject to external capital requirements, except for Holmen Försäkring AB, the Group's insurance company that insures Group companies internally, which is covered by the Swedish Financial Supervisory Authority's rules regulating the ratio between equity and risk. For a more detailed description of the Group's capital management see the Report of the Directors on pages 26-27.

Note 17 Pension provisions

Occupational pensions for collective employees in Sweden are defined contribution.
Holmen has defined benefit occupational pension plans for its salaried employees in Sweden (ITP plan) and for most of the employees in England. These plans provide benefits that are based on the final salary and period of employment. The scheme in England has been closed for new entrants since the end of June 2004, since when new employees have been offered a defined contribution pension scheme. Most of the pension commitments on behalf of salaried employees in Sweden are secured by insurance policies with Alecta (traditional ITP). The premium for employees who have opted for the alternative ITP plan is cost-neutral in relation to the traditional ITP (paid up premium). As Alecta cannot provide sufficient information to permit the ITP plan to be stated in the accounts as defined benefit it is stated in accordance with URA 42 as defined contribution. This year's premiums for pension insurances taken out with Alecta amounted to MSEK 48 (45), of which MSEK 46 (39) relates to old age and family pensions. They are included among personnel costs in the income statement. Alecta's surplus can be allocated to policyholders and/or the persons insured. At the end of 2007, Alecta's surplus in the form of the collective surplus was 152% (143).

The commitments arising out of the pension schemes in England are placed in trusts. The commitments over and above the ITP plan for the Senior management in Sweden are secured by means of a pension fund and for MSEK 6 (0) by means of entering as a liability. These commitments are stated in the Group as defined benefit plans in accordance with IAS 19.

Defined benefit plans

The change in the defined benefit commitment and the change in investment assets are specified in the table below. Most of the commitments relate to pension plans in England.

Commitment	**2007**	**2006**
Commitment at 1 January	-1 866	-1 818
Cost for employment during current period	-33	-34
Interest costs	-90	-82
Actuarial profit	67	15
Premiums paid by employees	-9	-20
Pensions paid	89	68
Transferred from provisions	-10	-20
Re-classifications	7	-
Currency rate differences	76	25
Commitment at 31 December	**-1 769**	**-1 866**

Plan assets	**2007**	**2006**
Fair value of plan assets at 1 January	1 510	1 400
Expected return	85	74
Actuarial profit	-6	32
Premiums paid by employer	67	63
Premiums paid by employees	9	20
Pensions paid	-76	-61
Currency rate differences	-67	-18
Fair value of assets at 31 December	**1 521**	**1 510**
Pension provisions, net	**-247**	**-356**

Of the total commitments, MSEK 54 (55) relate to those that are unfunded, while the remaining commitments are entirely or partly funded.

The parent company's commitments amounted to MSEK 48 (40), which were unfunded. Over and above this the parent company has pension commitments amounting to MSEK 126 (127), which are secured by plan assets with an independent pensions foundation whose value amounted to MSEK 135 (141).

During the year pension costs of MSEK 33 (34) in respect of defined benefit plans were stated as a personnel cost. The cost of interest on the pension liability amounted during the year to MSEK 90 (82), and the expected return on the plan assets amounted to MSEK 85 (74). The net effect of these items is stated as an interest cost under net financial items. In the case of the parent company the cost of defined benefit pension commitments amounted to MSEK 18 (1).

The actuarial revaluation for the year amounted to MSEK 61 (47) and has been stated direct in equity. The actuarial revaluation is shown in this table.

Actuarial revaluation	**2007**	**2006**
Commitment		
Adjustments based on experience	4	15
Change in actuarial assumptions	63	0
Plan assets		
Adjustments based on experience	-6	32
Change in actuarial assumptions	-	-
	61	**47**

An accumulated amount of MSEK 41 in respect of actuarial revaluations has been stated against equity.

In 2008 Holmen's payments into the defined benefit plans are expected to be MSEK 58.

Plan assets	2007	2006
Shares	694	685
Bonds	681	608
Liquid funds	147	217
	1 521	**1 510**

The plan assets do not include any financial instruments issued by any Group company and no assets that are used by the Group.

Significant actuarial assumptions (weighted averages), %	2007 31 Dec	2006 31 Dec
Discount rate	5.5	5.0
Expected return on plan assets	6.0	5.8
Pay increases in the future	4.3	4.0
Inflation in the future	3.3	3.0

The expected return on interest-bearing securities has been estimated on the basis of gilt-edged 10-year bonds, and for shares a risk premium has been added. In 2007, the estimated return exceeded the actual return by MSEK 6.

Historical information	2007	2006	2005	2004	2003
Current value of commitments	-1 769	-1 866	-1 818	-1 474	-1 358
Fair value of plan assets	1 521	1 510	1 400	1 138	1 039
Net	**-247**	**-356**	**-418**	**-336**	**-319**

Note 18 Other provisions

	Provisions for taxes		Silviculture provision		Other provisions		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Group								
Opening balance	424	72	140	135	153	143	717	350
Provisions during the period	2	352	77	82	60	54	138	488
Utilised during the period	0	0	-75	-77	-20	-44	-96	-121
Closing balance	**426**	**424**	**141**	**140**	**193**	**153**	**759**	**717**
Of which long-term part of the provisions	426	424	59	68	173	134	658	626
Of which short-term part of the provisions	0	0	81	72	20	19	102	91
Parent company								
Opening balance	45	45	140	135	31	44	216	224
Provisions during the period	0	0	77	82	34	28	111	110
Utilised during the period	0	0	-75	-77	-20	-41	-95	-118
Closing balance	**45**	**45**	**141**	**140**	**46**	**31**	**231**	**216**
Of which long-term part of the provisions	45	45	59	68	21	12	126	125
Of which short-term part of the provisions	0	0	81	72	24	19	106	91

The provision for taxes relates primarily to disputes with tax authorities in various countries, see note 26. The silviculture provision relates to a provision to cover coming reforestation measures to be taken after completion of final harvesting that are normally carried out within three years after harvesting. Other provisions relate primarily to obligations to restore the environment, as well as personnel and restructuring costs.

Note 19 Operating liabilities

	Group		Parent company	
	2007	2006	2007	2006
Liabilities to suppliers	2 338	2 063	1 557	1 298
Liabilities to Group companies	-	-	616	380
Liabilities to associated companies	45	25	9	-
Accrued costs and deferred income	732	775	489	516
Derivatives	147	12	137	22
Other current liabilities	272	221	241	168
Total	**3 534**	**3 096**	**3 049**	**2 384**

The parent company's accrued costs and deferred income consist largely of personnel costs of MSEK 260 (300) and discounts of MSEK 47 (78).

Fair values of derivatives relate in all essentials to hedges for future cash flows. See note 2 and note 13.

Note 20 Operational leasing

The leasing charges, which mainly correspond to minimum leasing charges and mainly are fixed charges amounted in 2007 to MSEK 19 (22) and the parent company's amounted to MSEK 15 (17). The Group's leasing contracts relate largely to forklift trucks. During the 2007 financial year no leasing contracts of significance for the business were entered into. No leased equipment has been leased out.

The breakdown of future, non-cancellable minimum leasing charges is as follows:

	Group			Parent company		
	2008	2009-2013	2014-	2008	2009-2013	2014-
Future minimum leasing charges	15	10	-	12	7	-
Present value of future minimum leasing charges	14	9	-	11	6	-

The contracts have remaining durations ranging from 1 to 5 years.

The Group's future minimum leasing charges in 2006 amounted to MSEK 36. The parent company's amounted to MSEK 24.

Apart from leasing agreements Holmen has time charter contracts in respect of six ships that are used to distribute the company's products. The contracts were entered into in 2006 and have between 1 year and 9 years to run.

Note 21 Pledged assets and contingent liabilities

Group	Pledged assets value Property mortgages	Other pledged assets	Total pledged assets 2007	Total pledged assets 2006
Own liabilities				
Financial liabilities	6	18	24	26
Other commitments	0	76	76	67
Total	**6**	**94**	**100**	**93**
Parent company				
Own liabilities				
Financial liabilities	6	0	6	6
Other commitments	0	0	0	0
Total	**6**	**0**	**6**	**6**

The Group's pledged assets in respect of other commitments relate to loans raised by the associated company Peninsular Cogeneración SA.

	Group		Parent company	
Contingent liabilities	**2007**	**2006**	**2007**	**2006**
Guarantees on behalf of Group companies	-	-	449	507
Guarantees on behalf of associated companies	1	1	-	-
Other contingent liabilities	914	940	341	351
Total	**915**	**941**	**790**	**858**

The parent company's guarantees on behalf of Group companies relate mainly to guarantees for loans raised by the subsidiary Iggesund Kraft AB and for payments for investments by the subsidiary Holmen Paper Madrid S.L.

The Group's other contingent liabilities mainly relate to tax litigation in progress that relates to disputed amounts for which no provisions have been made.

The Swedish environmental authorities may, on the basis of the Swedish Environmental Code, raise the issue of soil tests and site restoration at discontinued units. Responsibility for restoring the ground is determined from case to case, often with the aid of a reasonability assessment. Holmen has environment-related contingent liabilities that cannot at present be quantified, but that could involve costs in the future.

Note 22 Related parties

Of the parent company's net turnover of MSEK 14 414 (14 070), 0.3% (0.2) relates to deliveries to Group companies. The parent company's purchases from Group companies are negligible.

There are significant financial receivables and liabilities between the parent company and its Swedish subsidiaries, which do not carry interest.

The parent company has a related party relationship with its subsidiary companies (see note 23).

L E Lundbergföretagen AB is a large shareholder in Holmen (see page 74). Holmen rents office premises for MSEK 7 (7) from Fastighets AB L E Lundberg, which is a group company within the L E Lundbergföretagen AB.

In 2007, Fredrik Lundberg, who is CEO and principal shareholder in L E Lundbergföretagen, received a fee of SEK 550 000 as chairman of Holmen.

Transactions with related parties are priced at market conditions. The equity holdings in associated companies that produce hydro power entitle the Group to buy the electricity produced at cost price in relation to the equity interest, which means that the associate company only earns a small profit. Purchased electricity is sold to external customers at market price, and the result is stated in the consolidated accounts within the Holmen Energi business area.

In Spain electricity, gas and recovered paper are purchased from associated companies.

Transactions with related parties

	Sale of products to related parties		Purchase of products from related parties		Other (e.g. interest, dividend)		Liability to related parties		Receivable from related parties	
Group	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Associated companies	156	80	360	438	1	1	45	40	87	67
Parent company										
Subsidiary companies	49	27	304	282	107	146	2 985	3 495	1 972	6 109
Associated companies	156	80	5	7	1	1	0	0	73	37

For fees and remuneration paid to members of the Board see note 5.

Note 23 Shares in Group companies

Parent company	2007	2006
Accumulated acquisition values		
Opening balance	13 312	13 306
Purchases	1	0
Shareholders' contribution	4 143	6
Divestments	-59	0
Closing balance at 31 December	**17 397**	**13 312**
Accumulated revaluations		
Opening book value	2 299	2 299
Closing balance at 31 December	**2 299**	**2 299**
Accumulated write-downs		
Opening book value	2 714	2 714
Write-down for the year	1 508	-
Closing balance at 31 December	**4 222**	**2 714**
Closing book value	**15 474**	**12 897**

The parent company's write-down in the value of shares in Group companies is stated in the income statement under Write-downs of financial fixed assets. In 2007 this item mainly related to the shares in the Spanish business.

In 2007, Holmen AB has converted short-term, internal loans to Group companies into equity, as a result of which "Shares in subsidiary companies" increased by MSEK 4 138 and current assets declined by an equivalent amount.

Holmen Reinsurance (Luxemburg), a subsidiary, was sold during the year. The capital gain on the sale in the parent company is MSEK 60. In the Group the capital gain is MSEK 12 and it is stated in Other operating income.

Parent company's direct holdings of shares in subsidiaries

				2007		2006	
	Reg. No.	Registered office	No. of participations	Participation, % 1)	Book value SEK 1 000	Participation, % 1)	Book value SEK 1 000
Holmen Paper AB	556005-6383	Norrköping	100	100	100	100	100
Iggesund Paperboard AB	556088-5294	Hudiksvall	1 000	100	100	100	100
Holmen Timber AB	556099-0672	Hudiksvall	1 000	100	100	100	100
Holmen Skog AB	556220-0658	Örnsköldsvik	1 000	100	83	100	83
Holmen Energi AB	556524-8456	Örnsköldsvik	1 000	100	100	100	100
AB Ankarsrums Skogar	556002-5495	Norrköping	1 000	100	41 609	100	41 609
Fiskeby AB	556000-9218	Norrköping	2 000 000	100	646 160	100	646 160
Haradsskogarna AB	556000-6909	Örnsköldsvik	100 640	100	129 450	100	129 450
Holmens Bruk AB	556002-0264	Norrköping	49 514 201	100	4 060 921	100	4 060 921
Holmen Försäkring AB	516406-0062	Stockholm	10 000	100	45 001	100	45 001
AB Iggesunds Bruk	556000-8053	Hudiksvall	6 002 500	100	3 932 558	100	3 932 558
Iggesund Kraft AB	556422-0902	Örnsköldsvik	58 000	100	58 734	100	55 389
Junkaravan AB	556227-3630	Örnsköldsvik	1 537 398	100	549 125	100	549 125
Lägernskog AB	556003-2806	Örnsköldsvik	1 480	100	-	100	1 385
MoDo Capital AB	556499-1668	Stockholm	1 000	100	96 588	100	96 588
MoDo Holding AB	556537-6281	Örnsköldsvik	100	100	462 372	100	462 372
Iggesund Paperboard Europe BV 2)		Amsterdam	-	100	-	100	-
Iggesund Board & Services 2)		Utrecht	-	100	-	100	-
Skärnäs Terminal AB	556008-3171	Hudiksvall	4 800	100	2 913	100	1 913
Ströms Trävaru AB	556000-7857	Örnsköldsvik	400	100	166 200	100	166 200
AB Överums Skogar	556156-0557	Norrköping	1 000	100	53 005	100	53 005
Other Swedish Group companies					107 005		152 080
					10 352 124		**10 394 239**
Holmen France Holding SAS, France		Paris	40 000	100	5 231	100	5 231
Iggesund Decoupe France, S.A, France 2)		Valence	-	100	-	100	-
Holmen Reinsurance SA, Luxembourg		Luxembourg	-	-	-	100	12 000
Holmen UK Ltd, Great Britain		Workington	1 197 100	100	1 518 959	100	1 518 959
Holmen Paper UK Ltd 2)		London	-	100	-	100	-
Iggesund Paperboard (Workington) Ltd 2)		Workington	-	100	-	100	-
Holmen Suecia Holding SL, Spain		Madrid	9 448 557	100	3 577 265	100	939 187
Holmen Paper Madrid SL 2)		Madrid	-	100	-	100	-
Carton y Papel Reciclado SA (Carpa), Spain 2)		Madrid	-	100	-	100	-
Iggesund Paperboard Asia Pte Ltd, Singapore		Singapore	800 000	100	4 273	100	4 273
As MoDo Mets, Estonia		Tallinn	500	100	0	100	0
Other non-Swedish Group companies					15 777		22 868
					5 121 505		**2 502 518**
					15 473 629		**12 896 757**

1) Percentage of shares and percentage of votes are the same except where otherwise stated.
2) Indirect holding.

Note 24 Untaxed reserves

Parent company	31 December 2007	Appropriations	31 December 2006
Accumulated depreciation in excess of plan			
Tangible fixed assets	8	-2	10
Total	**8**	**-2**	**10**
Tax allocation reserve			
Assessment of tax 2003	0	-471	471
Assessment of tax 2004	518	-	518
Assessment of tax 2005	590	-	590
Assessment of tax 2006	520	-	520
Assessment of tax 2007	490	-	490
Assessment of tax 2008	570	570	
	2 688	**99**	**2 589**
Total	**2 696**	**97**	**2 599**

The change during the year in accumulated depreciation in excess of plan consists of depreciation in excess of plan of MSEK 2 (4) as well as sales and disposals of MSEK 0 (0).

Note 25 Cash flow analysis

Interest paid and dividend received

	Group		Parent company	
	2007	**2006**	**2007**	**2006**
Dividend received	0	0	5	6
Interest received	13	11	170	208
Interest paid	-231	-248	-258	-241
Total	**-218**	**-237**	**-83**	**-27**

Change in short-term liabilities

The change in short-term liabilities relates for the most part to borrowing within the Group's commercial paper programme but also to short-term liabilities to credit institutions and other. In 2007 several loans amounting in total to MSEK 14 941 were raised under the commercial paper programme, and loans amounting on aggregate to MSEK 14 705 were repaid.

Note 26 Important assessments and estimates

When making up financial reports the company's management is required to make assessments and estimates that have an effect on the stated amounts. The assessments and estimates that, in the view of the company's management, are of importance for the amounts stated in the annual report, and for which there is a significant risk that future events and new information could alter these assessments and estimates, mainly include:

Biological assets

Holmen's assessment is that no relevant market prices are available that can be used to value forest holdings as extensive as Holmen's. The valuation is therefore made by calculating the present value of expected cash flows from the growing forests. The most significant assumptions made relate to how much harvesting can be increased in the future, what changes there will be in pulpwood and saw log prices, the level of inflation, and what discount rate is used. Note 11 provides a sensitivity analysis for the valuation of changes in these assumptions. In 2007 changes were made to the estimates that had the effect of raising the value of biological assets by MSEK 2 100 over and above normal changes in value. The associated deferred tax liability has increased by MSEK 588. The book value of biological assets was estimated at 31 December 2007 to be MSEK 11 073 and the attributable deferred tax liability was estimated at MSEK 3 100.

Tax

Holmen has set aside MSEK 426 to cover disputes and uncertainties relating to taxes. Holmen has two large tax cases still in progress. One case, which relates to Holmen's subsidiary MoDo Capital (taxes, charges and interest amounting in total to some MSEK 600), has been referred back by the Administrative Court of Appeal to the County Administrative Court. Holmen has applied to appeal to the Supreme Administrative Court of Appeal. The second case relates to Holmen's French subsidiary. In this case, the National Tax Board has applied to the County Administrative Court to have the tax increased by some MSEK 400. See notes 8, 18 and 21.

Net deferred tax receivables are stated at MSEK 301 in the consolidated accounts on the basis of the assessment that it will probably be possible to utilise them to reduce tax payments in the future. Over and above this the Group had loss allowances and fiscal temporary differences corresponding to tax of some MSEK 500 that are not stated in the Group's accounts on the assessment ground that utlilisation must be likely. See note 8.

Pensions

The Group's provision for pensions amounts to MSEK 247 on the basis of defined benefit pension commitments valued at MSEK 1 769 and plan assets provided to cover them are MSEK 1 521. The value of pension commitments is computed on the basis of assumptions regarding discount rates, inflation, future pay increases, and demographic factors. These assumptions are normally updated each year, which has an effect on the size of the stated pension liability and equity. Together with assumptions regarding the expected income from investments these assumptions will have an influence on the coming year's stated pension cost. See note 17.

Environment

Holmen assesses that there is a responsibility for environmentally-related measures that today cannot be quantified, but which could in the future involve costs. See note 21.

Restructuring

A review has been launched at Hallsta paper mill with the object of ceasing production on the oldest of the mill's four paper machines. This review could result in the incurrence of restructuring costs. No provision has been made for this.

Impairment

In 2007 goodwill was written down by MSEK 569 and tangible fixed assets by MSEK 1 034 within the Holmen Paper business area. These write-downs are based on estimates of recovery values on the basis of assumptions regarding future development of prices, volumes and costs, as well as the estimated market cost of capital. Changes in conditions can have an effect on the estimated recovery value. See notes 9 and 10.

Definitions

Capital employed. Operating capital reduced by the net sum of deferred tax receivables and deferred tax liabilities. Average values are calculated on the basis of quarterly data.

Cash flow after capital expenditure. Cash flow from current operations reduced by cash flow from investment activities.

Debt/equity ratio. Financial net debt divided by the sum of equity and minority interests, if any.

Earnings per share. Profit for the year divided by the weighted average number of shares in issue, adjusted for buy-back of shares, if any, during the year and taking dilution, if any, into account. (Earnings per share after dilution).

Equity ratio. Equity plus minority interests, if any, expressed as % of the balance sheet total.

Financial assets. Long-term and short-term financial receivables and liquid funds.

Financial net debt. Long-term and short-term financial liabilities and pension provisions reduced by financial assets.

Items affecting comparability. See Eight-year review on page 78.

Operating capital. Balance sheet total less financial receivables, liquid funds, deferred tax receivable, operating liabilities, tax provision and other provisions. Average values are calculated on the basis of quarterly data.

Operating margin. Operating result (excl. items affecting comparability and interest in earnings of associated companies) expressed as % of net turnover.

Return on capital employed. Operating result (excl. items affecting comparability and divested activities) expressed as % of the average capital employed.

Return on equity. Profit for the year, expressed as % of the average equity calculated on the basis of quarterly data.

Return on operating capital. Operating result (excl. items affecting comparability and divested activities) expressed as % of the average operating capital.

Proposed treatment of unappropriated earnings

The following unappropriated earnings of the parent company are at the disposal of the Annual General Meeting:	SEK
Net profit for the 2007 financial year	-548 000 000
Retained earnings brought forward	5 068 335 492
	4 520 335 492
The Board of Directors propose that	
an ordinary dividend of SEK 12 per share (84 756 162 shares) be paid	1 017 073 944
and that the remaining amount be carried forward	3 503 261 548
	4 520 335 492

The Board of Holmen AB has proposed that the 2008 Annual General Meeting resolve in favour of paying a dividend of SEK 12 per share, or a total of MSEK 1 017, which is unchanged in relation to the previous year.

The proposed dividend means that 6% of the company's equity on 31 December 2007 will be paid out by way of dividend. The proposal is in line with the Board's policy of distributing 5-7% of the company's equity. The proposed dividend corresponds to 68% of the net profit for 2007.

The Board has established that the Group shall have a strong financial position with a debt/equity ratio – defined as financial net debt in relation to equity – in the interval between 0.3 and 0.8. The debt/equity ratio on 31 December 2007 was 0.35. Payment of the proposed dividend would raise the debt/equity ratio by around 0.09.

Holmen AB's equity on 31 December 2007 amounted to MSEK 10 435, of which non-restricted equity was MSEK 4 520. The Group's equity on the same date amounted to MSEK 16 932. According to the IFRS accounting principles no distinction is made at Group level between restricted and non-restricted equity.

The Board considers that payment of a dividend of the amount proposed is defensible in view of the demands made on the company and the Group by the nature, extent and risks associated with the business in terms of the amount of equity required, and taking into account the need for consolidation, liquidity and financial position otherwise. The financial position remains strong after payment of the proposed dividend and it is considered to be fully adequate to enable the company to fulfil its obligations in both the short and the long term, as well as to finance such investments as may be necessary.

The Group's financial statements and the annual report (pages 24-64 in this document) are made up in accordance with the international accounting standards referred to in the European Parliament's and Council's regulation (EG) No 1606/2002 of 19 July 2002 concerning the application of international accounting standards and generally accepted accounting standards. They provide a true and fair picture of the result and financial position of the Group and the parent company. The Report of the Directors for the Group and the parent company provide a true and fair picture of the business, financial position and result of the Group and the parent company and also describe significant risks and uncertainties to which the parent company and other companies in the Group are exposed.

The annual report and the Group's financial statements were approved, as explained above, for publication by the Board in its decision of 20 February 2008. It is proposed that the Group's income statement and balance sheet and the parent company's income statement and balance sheet be adopted by the Annual General Meeting to be held on 2 April 2008.

Stockholm 20 February 2008

Fredrik Lundberg
Chairman

Torgny Hammar
Board member

Hans Larsson
Board member

Steewe Björklundh
Board member

Kenneth Johansson
Board member

Ulf Lundahl
Board member

Lilian Fossum
Board member

Carl Kempe
Deputy chairman

Göran Lundin
Board member

Magnus Hall
Board member and
Chief Executive Officer

Curt Källströmer
Board member

Bengt Pettersson
Board member

Our audit report was submitted on 22 February 2008.

KPMG Bohlins AB

Thomas Thiel
Authorised public accountant

Audit Report

To the Annual General Meeting of the shareholders in Holmen Aktiebolag.
Reg. No. 556001-3301

We have examined the annual report, the consolidated financial statements, the accounting records and the administration of the Board of Directors and the CEO of Holmen AB for the year 2007. The company's annual report is included in the printed version of this document on pages 24-64. The Board of Directors and the CEO have responsibility for these accounting records and the administration of the company as well as for the application of the Annual Accounts Act when making up the annual report and the application of international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act when making up the consolidated financial statements. Our responsibility is to express our opinion on the annual report, the consolidated financial statements and the administration on the basis of our audit.

We have carried out our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable but not absolute assurance that the annual report and the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the CEO and significant estimates made by the Board of Directors and the CEO when making up the annual report and consolidated financial statements as well as evaluating the overall presentation of the information in the annual report and the consolidated financial statements. As a basis for our opinion concerning discharge from liability, we have examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the CEO. We have also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual report has been made up in accordance with the Annual Accounts Act and gives a true and fair view of the company's financial position and the result of its operations in accordance with generally accepted accounting standards in Sweden. The consolidated financial statements are made up in accordance with international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and the result of its operations. The Report of the Directors is consistent with the other parts of the annual report and the consolidated financial statements.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the Report of the Directors and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Stockholm 22 February 2008

KPMG Bohlins AB

Thomas Thiel
Authorised Public Accountant

Corporate Governance Report 2007

Introduction

The Stockholm Stock Exchange incorporated a Swedish Code of Corporate Governance (the Code) into its rules for listed companies in 2005. The Code's rules cover the Annual General Meeting, the appointment of the board and auditors, the Board, company management, and information on corporate governance.

The Code is one aspect of the self-regulation within Swedish business; it is based on the comply or explain principle. This means that a company that complies with the Code may deviate from individual rules but must in such a case provide an explanation of the reasons for each deviation.

This corporate governance report complies with the rules in the Code and the directions for its application. It has not been examined by the company's auditor.

Shareholders

At the end of the year Holmen AB had 30 499 shareholders. Information about the shares, ownership structure etc. is provided on pages 74-75.

Laws and articles of association

In the first instance Holmen AB has to apply the Swedish Companies Act and the rules that follow from the fact that its shares are listed on OMX Nordiska Börs Stockholm (Stockholm Stock Exchange). Holmen shall also follow the rules laid down in its articles of association for the conduct of its business.

General Meeting

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 notice of intention to attend and entitlement to participate in and vote at the meeting, a numbered agenda showing the items to be dealt with, 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. It is possible to give notice of intent to attend the meeting using the company's website and other means.

Notice convening an Extraordinary General Meeting 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. Notice convening other Extraordinary General Meeting shall be sent no earlier than six and no later than two 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 concerning the rights of shareholders to have matters discussed at the Meeting is provided on the website.

The 2007 Annual General Meeting was held in Swedish and the material presented was in Swedish. The notice convening the meeting, the agenda, the CEO's address and the minutes are available on the website. The entire Board, the entire Senior management and the company's auditor were present at the meeting. At the meeting shareholders were given the opportunity to ask and get answers to questions touching on Holmen's prospects for company electricity production and the potential for its forestry activities, as well as the possibility of arranging a share split. Ian Raftell (Swedbank Robur Fonder) and Mikael Wiberg (Alecta) were elected to check and approve the minutes of the meeting. It was not possible to follow or participate in the meeting from any other location using communication technology. It is not planned to make any change in this respect for the 2008 AGM.

It was announced on 21 September 2007 that the 2008 AGM would take place in Stockholm on 2 April 2008.

Nomination Committee

At the 2005 AGM it was decided to set up a Nomination Committee that would consist of the Chairman of the Board and one representative from each of the company's three largest shareholders in terms of voting rights as of 31 August each year. Prior to the 2007 AGM the Nomination Committee consisted of Per Welin (L E Lundbergföretagen), Alice Kempe (Kempe Foundations), Robert Vikström (Handelsbanken incl. pension fund) and Fredrik Lundberg (Chairman of the Board). Membership of the Nomination Committee prior to the 2008 AGM is unchanged. The Nomination Committee's mandate is to submit proposals for election to the Board, for Chairman of the Board, the Board fee and, in applicable cases, for election of auditors and auditors' fee. The Nomination Committee's proposals are presented in the notice convening the AGM and on the website.

The Nomination Committee proposes to the 2008 AGM that the Board shall consist of Fredrik Lundberg, who is also nominated for re-election as Chairman of the Board, Lilian Fossum, Magnus Hall, Carl Kempe, Curt Källströmer, Hans Larsson, Ulf Lundahl, Göran Lundin and Bengt Pettersson.

It is proposed that the Board fee shall be SEK 2 475 000, of which SEK 550 000 shall be paid to the Chairman of the Board and SEK 275 000 to each of the other members. There is no change on the previous year. No Board fee shall be paid to the CEO.

Constitution 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 for which a Board member may serve.

The 2007 AGM re-elected Fredrik Lundberg, Lilian Fossum, Magnus Hall, Carl Kempe, Curt Källströmer, Hans Larsson, Ulf Lundahl, Göran Lundin, and Bengt Pettersson to the Board. Fredrik Lundberg was elected Chairman. At the 2007 statutory meeting of the Board Carl Kempe was elected Deputy Chairman and Lars Ericson, the company's legal counsel, was appointed Secretary of the Board. Over and above these nine members elected by the AGM, the local union organisations have a statutory right to appoint three members and three deputy members.

Among the Board members elected by the AGM are individuals having links with Holmen's major shareholders – L E Lundbergföretagen, the Kempe Foundations and Handelsbanken – as well as individuals who are independent of these. The CEO is the only member of the Board who is operatively employed in the company.

The number of members elected by the AGM who are independent of the company is considered to be seven, if calculated in accordance with the Stockholm Stock Exchange's current listing rules. Of these, four are also considered to be independent of the company's major shareholders and satisfy all the criteria for experience. Based on the Code's definition of independence three of the elected Board members are independent of the company, of whom two are independent of the major shareholders. Holmen does not satisfy the Code's requirement that a majority of the elected members shall be independent of the company and its management. In contrast to Stockholm Stock Exchange's requirements, the rules in the Code state that members who have served on the Board for more than twelve years (in Holmen's case, four members) or have been the company's CEO for the five latest years (in Holmen's case, one, over and above the current CEO) are not independent of the company and/or its management. When deciding on nominations and elections to the Board, no grounds have been found to make any changes in order to satisfy the Code's criteria for independence. Considerable value is attached to the Board's experience of board activities and managerial activities in the forest products and other industries. The cooperation within the Board has also functioned very well and the level of competence and continuity is very high.

Information about the members of the Board is provided on pages 70-71.

The Board's activities

The Board held nine meetings in 2007. Four of them were held in connection with the company's publication of its quarterly reports. A two-day meeting was devoted to strategic business planning. At another two-day meeting the Board visited Holmen Paper's and Iggesund Paperboard's businesses in London. One meeting was devoted to the Group's budget for 2008. The other two meetings were held in connection with the AGM. During the year the Board devoted special attention to strategic, financial and accounting issues, follow-up of the business and major investment projects. The company's auditors reported on three occasions direct to the Board on their observations from their audit of the accounts and the company's internal control system. All members elected by the AGM attended all the Board meetings.

The activities of the Board follow a plan that is intended to ensure that the Board obtains all the information it requires. The Board decides each year on a written set of procedures and issues instructions relating to the division of responsibility between the Board and the CEO and the information that the Board is to receive regularly regarding financial developments and other important events.

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

The Board makes an assessment of its activities each year, and the Nomination Committee has been given information about the contents of the assessment for 2007. This will serve as a basis for planning the activities of the Board in the coming years.

Senior management

The Board has delegated operative responsibility for the administration of the company and the Group to the company's CEO. An instruction covering the distribution of responsibility between the Board and the CEO is approved each year by the Board.

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

The Senior management met on 10 occasions in 2007. At these meetings the management dealt with matters such as earnings, reports before and after Board meetings, business plans, budget, capital expenditure, internal control, policies and reviews of market conditions, general economic development and other external factors affecting the business. Projects relating to the business areas and the Group staffs were also discussed and decided on.

Information on the CEO and the other members of the Senior management is provided on pages 72-73.

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 discussed matters pertaining to the remuneration and other employment conditions of the CEO and submitted proposals to the Board for decision. The remuneration and other employment conditions of Senior management who report direct to the CEO are decided by him in accordance with a pay policy established by the remuneration committee. The Group applies the principle that each manager's manager is required to approve decisions on remuneration in consultation with the respective personnel manager.

The remuneration committee does not satisfy the Code's criteria for independence. Hans Larsson has been a member of Holmen's Board for more than 12 years. As the committee has experience from many years of management and board activities in several companies in different industries, it is considered that there is no reason to change its composition.

At the 2007 AGM the Chairman gave an account of the Board's proposed guidelines for the remuneration of the CEO and other senior management personnel. The AGM adopted the guidelines in accordance with the Board's proposal. Details regarding the guidelines for the remuneration of the CEO and other senior management personnel to be proposed by the Board to the 2008 AGM are provided in the Report of the Directors on pages 27-28.

The 2007 AGM decided on the Board fee and that the auditors' fee should be paid against invoice.

The company does not have any incentive schemes in the form of option or bonus programmes for senior management personnel. Approximately 40 senior managers were invited in 2002 to acquire call options issued by the company's largest shareholder L E Lundbergföretagen at their market price. These options expired at the beginning of 2007.

The Board intends to propose to the 2008 AGM that a new scheme that is intended firstly for most employees, and secondly for senior management personnel be introduced whereby they will be invited to acquire options issued by the company at market price on the basis of bought back shares. Information regarding this proposal is provided in the notice convening the AGM and on the company's website.

Information on remuneration is provided in note 5 on pages 44-45.

Audit

KPMG Bohlins, which has been Holmen's auditor since 1995, was elected by the 2004 AGM as auditor for a period of four years. KPMG Bohlins has since appointed Thomas Thiel, authorised public accountant, as the principal auditor for Holmen. KPMG performs the audit for Holmen and almost all of its subsidiaries.

The annual accounts are examined for the January-September period. The examination of internal procedures and control systems is begun in the second quarter and then continues regularly. The examination and audit of the final annual accounts and the annual report takes place in January-February. The interim report for January-September is subject to review by the auditors.

Holmen has not set up a separate audit committee; instead, the whole Board has responsibility for matters pertaining to the audit. The Board's reporting instruction includes a requirement that the members of the Board shall receive a report each year from the auditors on whether the company's organisation is structured to enable the bookkeeping, administration of funds and the company's financial circumstances otherwise to be controlled in a satisfactory manner. In 2007 the auditors reported to the entire Board on three occasions. Over and above this, the auditors reported to the Chairman of the Board and the CEO on two occasions and to the CEO at a further meeting.

Outside of the audit contract, Holmen has consulted KPMG on the matters pertaining to taxation, accounting and investigations, and in some countries also on matters of commercial law. Details regarding the amount of compensation paid to

The annual report and the sustainability report as well as Holmen Business Report are the Group's printed information to the shareholders and other stakeholders.

KPMG in 2007 are provided in note 6 on page 45. KPMG is required to assess its independence before making decisions on whether to accept additional contracts on behalf of Holmen.

Internal control

This section contains the Board's annual report on how the internal control system is organised insofar as it relates to financial reporting. It is based on the rules in the Code and the guidelines drawn up by project groups within the Confederation of Swedish Enterprise and the Association of Swedish Authorised Public Accountants.

The Board's responsibility for internal control is laid out in the Swedish Companies Act and insofar as it relates to financial reporting it is covered by the Board's reporting instruction for the CEO. Holmen's financial reporting complies with the laws and rules that apply to companies listed on Stockholm Stock Exchange and the local rules in each country where it is active. In addition to external rules and recommendations, this is also covered by internal instructions, directions and systems, as well as by the internal distribution of roles and responsibilities with the object of ensuring sound internal control over financial reporting. Financial reports are made up quarterly and monthly for the Group and its business areas, units and subsidiaries. Forecasts and extensive analyses, along with comments, are provided in connection with the reports, one object of which is to ensure that the financial reports are correct. There are financial functions and controllers with functional responsibility for accounting, reporting and analysis of financial developments at central level in the Group, 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 general review of one interim report. The audit process includes making reviews of the internal control system.

The purpose of Holmen's internal control activities is to ensure that the Group lives up to its goals for financial reporting (see frame below). These activities are based on a common set of instructions and common checklists for important procedures and processes for the Group's financial reporting process. The structure adheres to COSO's guidelines for small listed companies in respect of internal control over financial reporting. COSO's guidelines contain a total of 20 principles in five areas: control environment, risk assessment, control activities, information and communication, and follow-up. They have been modified on the basis of the assessed needs of Holmen's various businesses.

Holmen has no separate audit function (internal audit). The Board does not consider that specific circumstances in the business or other conditions exist that would justify setting up such a function.

Investor Relations

Holmen's information to shareholders and other stakeholders is provided by means of 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 can be accessed on the company's website (www.holmen.com). The website also contains presentation material for past years, and information on corporate governance. The provision of information by the company complies with the information policy established by the Board.

Object 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 fair and accurate 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 commercial decisions at all levels in the Group.

Board of Directors

Stig Jacobsson | Karin Norin | Christer Alenius | Torgny Hammar | Ulf Lundahl | Fredrik Lundberg | Magnus Hall

Fredrik Lundberg
Chairman. Djursholm. Born 1951.
Member since 1988. Master of Engineering and Bachelor of Science (Econ.). D. Econ h.c. and D. Eng. h.c. President and CEO of L E Lundbergföretagen AB. Other significant appointments: Chairman of the Board: Cardo AB and Hufvudstaden AB. Board member: L E Lundbergföretagen AB, Svenska Handelsbanken AB, NCC AB, AB Industrivärden and Sandvik AB.
Shareholding in Holmen: 734 724 shares. Shareholding of L E Lundbergföretagen in Holmen: 23 408 916 shares.

Carl Kempe
Deputy Chairman. Örnsköldsvik. Born 1939. Member since 1983. Licentiate in Engineering. DDr. h.c. Other significant appointments: Chairman of the Board: Kempe Foundations, MoRe Research AB, SweTree Technologies AB and UCFB, UPSC Centre for Forest Biotechnology.
Own and related natural's shareholding in Holmen: 385 125 shares.

Steewe Björklundh
Hudiksvall. Born 1958. Member since 1998. Representative of the employees, LO. Chairman of the Forest and Wood Union of the Iggesund Sawmill and of Hudiksvalls Sparbank.
Shareholding in Holmen: 0.

Lilian Fossum
Lidingö. Born 1962. Member since 2004. MBA. CFO and Executive Vice President Axel Johnson AB. Other significant appointments: Board member: Åhléns AB, Svensk Bevakningstjänst AB and Oriflame Cosmetics S.A.
Shareholding in Holmen: 500 shares.

Magnus Hall
Stockholm. Born 1959. Member since 2004. MSc (Industrial Engineering). President and CEO. Other significant appointments: Chairman of the Board: BasEl AB. Board member: CEPI (Confederation of European Paper Industries) – chairman as of 2008 – and Swedish Forest Industries Federation.
Own and related natural's shareholding in Holmen: 12 698 shares.

Torgny Hammar
Hallstavik. Born 1943. Member since 2003. Representative of the employees, PTK.
Shareholding in Holmen: 1 598 shares.

Kenneth Johansson
Söderköping. Born 1958. Member since 2004. Representative of the employees, LO. Section Chairman of Paper-branch 53, Holmen Paper Braviken.
Shareholding in Holmen: 0.

Curt Källströmer
Stockholm. Born 1941. Member since 2006. Advanced education in banking. Other significant appointments: Chairman of the Board: Handelsbanken Spain and Umeå School of Economics. Board member: Stockholmsmässan AB, SBC AB, Wåhlin Fastigheter AB and SSE-MBA.
Shareholding in Holmen: 600 shares.

Lilian Fossum, Bengt Pettersson, Carl Kempe, Göran Lundin, Hans Larsson, Curt Källströmer, Kenneth Johansson, Steewe Björklundh

Hans Larsson
Stockholm. Born 1942. Member since 1990. Bachelor of Arts. Other significant appointments: Chairman of the Board: Nobia AB, Biolight AB, Attendo Holding AB and Valedo Partners Fund 1 AB. Deputy Chairman: Svenska Handelsbanken AB. Board member: Dynea OY.
Shareholding in Holmen: 1 000 shares.

Ulf Lundahl
Lidingö. Born 1952. Member since 2004. Bachelor of Laws and Bachelor of Science (Econ). Executive VP and Deputy President of L E Lundbergföretagen AB. Other significant appointments: Chairman of the Board: Föreningen Enskilda Gymnasiet. Board member: Brandkontoret, IDI AB, Indutrade AB, Ramirent OYJ and St Erik's Eye Hospital Ltd.
Shareholding in Holmen: 4 000 shares.

Göran Lundin
Norrköping. Born 1940. Member since 2001. Engineer. Other significant appointments: Chairman of the Board: Norrköpings Tidningar AB. Board member: Lorentzen & Wettre AB and Fastighets AB L E Lundberg.
Shareholding in Holmen: 1 000 shares.

Bengt Pettersson
Stockholm. Born 1938. Member since 1994. Licentiate in Engineering. Other significant appointments: Chairman of the Board: BabyBjörn AB. Board member: Cardo AB, Econova AB and L E Lundbergföretagen AB.
Shareholding in Holmen: 3 000 shares.

Deputy members

Christer Alenius
Umeå. Born 1945. Deputy member since 2003. Representative of the employees, PTK. Chairman of Leaders Holmen Skog.
Shareholding in Holmen: 1 000 shares.

Stig Jacobsson
Iggesund. Born 1948. Deputy member since 2004. Representative of the employees, LO. Chairman of Paper-branch 15 Iggesund.
Shareholding in Holmen: 0.

Karin Norin
Forsa. Born 1950. Deputy member since 1999. Representative of the employees, PTK. Chairman: Unionen Gävleborg, Unionen Holmen-Iggesund and Unionen's industrial Wood delegation.
Shareholding in Holmen: 0.

Auditors
KPMG Bohlins AB
Principal auditor:
Authorised public accountant
Thomas Thiel

Senior management

Lars Ericson

Håkan Lindh

Björn Kvick

Magnus Hall

Arne Wallin

President and CEO

Magnus Hall
Born 1959. Joined Holmen 1985.
Shareholding in Holmen: 6 000 shares.

Magnus Hall has no significant shareholdings and no interest in companies with whom the Group has important business relations.

For further information about the CEO, see page 70.

Group staffs

Anders Almgren
Executive Vice President.
CFO, Group Finance.
Born 1965. Joined Holmen 1990.
Shareholding in Holmen: 4 100 shares.

Lars Ericson
Head of Group Legal Affairs.
Company secretary.
Born 1959. Joined Holmen 1988.
Shareholding in Holmen: 0.

Thommy Haglund
Head of Group Human Resources.
Born 1950. Joined Holmen 2001.
Shareholding in Holmen: 700 shares.

Christer Lewell
Head of Group Public Relations.
Born 1948. Joined Holmen 1987.
Shareholding in Holmen: 0.

Sven Wird
Head of Group Technology.
Born 1951. Joined Holmen 1995.
Shareholding in Holmen: 50 shares.

Sven Wird, Anders Almgren, Björn Andrén, Christer Lewell, Brynolf Alexandersson, Thommy Haglund

Business areas

Brynolf Alexandersson
Head of Holmen Energi.
as of 13 August.
Born 1957. Joined Holmen 2007.
Shareholding in Holmen: 100 shares.

Björn Andrén
Head of Holmen Skog.
Born 1946. Joined Holmen 1971.
Shareholding in Holmen: 0.

Björn Kvick
Head of Iggesund Paperboard.
Born 1950. Joined Holmen 1983.
Shareholding in Holmen: 0.

Håkan Lindh
Head of Holmen Timber.
Born 1964. Joined Holmen 1994.
Shareholding in Holmen: 0.

Arne Wallin
Head of Holmen Paper.
Born 1954. Joined Holmen 1988.
Shareholding in Holmen: 0.

Sven Wird – head of Group Technology – was up to 12 August
Acting head of Holmen Energi.

The share

Trading on the stock exchange

Holmen's two series of shares are listed on the OMX Nordic Exchange Stockholm, Large Cap. During the year, the price of Holmen's Series "B" shares declined by SEK 58 (19.5%) to SEK 240. At the same time the Affärsvärlden General Index declined by 6.8%. During the past decade, Holmen's share has yielded a total return, including reinvested dividend, of around 12% per year. During the corresponding period, the Affärsvärlden General Index has risen by 10% per year.

At the year end, Holmen's shares had weightings of 0.5% in the Affärsvärlden General Index. The average number of Series "B" shares traded each day was 530 000, which corresponds to a value of MSEK 147. The average number of Series "A" shares traded was 1 000 per day.

Earnings per share

Earnings per share after dilution amounted to SEK 17.8 (17.2). Holmen's earnings per share after dilution have averaged SEK 16 over the past five years.

Dividend

The Board proposes that a dividend of SEK 12 per share be paid. Last year a dividend of SEK 12 per share was paid. The proposed dividend corresponds to 6.0% of equity. Holmen's target is for the ordinary dividend to correspond to 5–7% of equity.

Share buy-back

The 2007 Annual General Meeting gave the Board a mandate to acquire up to 10% of the company's shares. This mandate has not been exercised. The Board proposes that also the 2008 Annual General Meeting will mandate the Board to buy back and transfer up to 10% of the shares in the company.

Share structure

Holmen has 84 756 162 shares, divided upon 22 623 234 Series "A" shares and 62 132 928 Series "B" shares. Each Series "A" share carries ten votes and each Series "B" share one vote. Otherwise, the shares carry the same rights.

Options programme

In September 2002, L E Lundbergföretagen issued 256 000 call options on Holmen's Series "B" shares to 40 senior managers. The options were assigned for cash at market price with expiry in March 2007.

Shareholder structure at 31 December 2007	% of shares	% of votes
L E Lundbergföretagen	27.6	51.8
Kempe Foundations	6.9	16.8
Handelsbanken incl. pension fund	3.1	9.1
Silchester International Investors	8.6	2.5
Swedbank Robur funds	2.3	0.7
HQ funds	1.8	0.5
SEB funds	1.3	0.4
Second AP fund	1.2	0.3
Alecta	1.1	0.3
SHB/SPP funds	0.9	0.3
Other*	45.2	17.3
Total	100.0	100.0
* of which non-Swedish shareholders	25.6	8.2

The ten identified shareholders with the largest holdings ranked by the number of votes they control. Some large shareholders may have their holdings registered under nominee names, in which case they are included among "Other".

Changes in share capital, 1998–2007	Change in number of shares	Total No. of shares	Change in share capital, MSEK	Total share capital, MSEK
2001 Withdrawal of shares bought back	-8 885 827	79 972 451	-444.3	3 998.6
2004 Conversion and subscription	4 783 711	84 756 162	239.2	4 237.8

Share structure

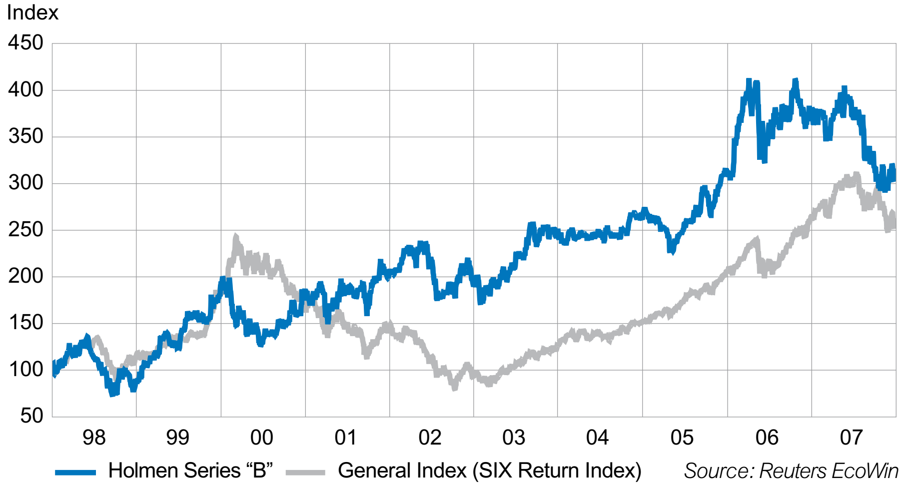
	Votes	No. of shares	No. of votes	Quota value	MSEK
Share					
A	10	22 623 234	226 232 340	50	1 131.2
B	1	62 132 928	62 132 928	50	3 106.6
Total		84 756 162	288 365 268		4 237.8

Ownership structure

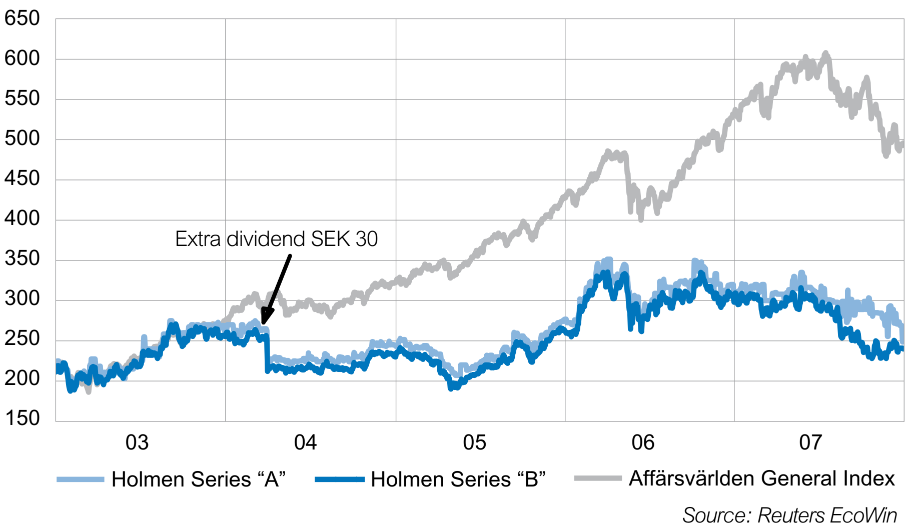
No. of shares	No. of shareholders	Percentage of shares
1– 1 000	28 024	7
1 001–100 000	2 393	18
100 001–	82	75
Total	30 499	100

Total return for Holmen series “B” and General Index

Incl. reinvested dividend, no tax deducted



Share price development for Holmen series “A” and “B” and General Index



Data per share	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998
Earnings after dilution, SEK[1)]	**17.8**	17.2	14.8	15.1	17.5	23.6	26.4	44.7	19.9	27.4
Dividend, ordinary, SEK	**12**[5)]	12	11	10	10	11	10	9	11	10
Dividend, extra, SEK	-	-	-	-	30	-	-	60	-	35
Ordinary dividend as % of:										
Equity	**6**	6	6	6	5	6	6	4	6	5
Closing listed price	**5**	4	4	4	4	5	4	3	4	6
Profit for the year	**67**	70	74	66	55	45	37	20	54	35
Return, equity, %[1)]	**9**	9	8	8	10	14	16	24	11	14
Return, capital employed, %[6)]	**10**	10	9	10	12	16	18	15	17	18
Equity per share, SEK	**200**	196	189	184	192	188	176	213	179	207
Closing listed price, “B”, SEK	**240**	298	262.5	230	255.5	211.5	238.5	280	307	176.5
Average listed price, “B”, SEK	**277**	302	227	228	230	231	226	241	229	208
Highest listed price, “B”, SEK	**316**	335.5	266	264	271	266.5	297.5	320	307	268
Lowest listed price, “B”, SEK	**228**	255	190	210	187.5	192	171	191.5	169	142
Total closing market value, MSEK 1 000	**20.6**	25.3	22.6	19.5	20.4	16.9	19	22.7	27.3	15.7
P/E-ratio[2)]	**13**	17	18	15	14	9	9	6	15	6
EV/EBIT[3) 6)]	**12**	14	15	12	10	8	7	10	11	8
Closing beta value (48 months), “B”[4)]	**0.9**	1.0	0.7	0.6	0.7	0.6	0.7	0.8	1.1	1.5

1) See definitions on page 63. 2) Closing listed price divided by earnings per share. 3) Closing market value plus financial net debt (EV) divided by operating result (EBIT). 4) Measures the sensitivity of the yield on the “B” share in relation to the yield on the Affärsvärlden General Index over a period of 48 months. 5) Proposal of the Board. 6) Excl. items affecting comparability and divested activities.

Production and raw materials

Holmen manufactures its products in Sweden, Great Britain and Spain. The Group's forest holdings and wholly and partly owned hydro power stations are located in Sweden. The table relates to 2007.

Internal procurement of raw materials	Group	Holmen Skog	Holmen Energi
Harvesting in company forests			
Saw logs, 1 000 m^3 fub	1 214	1 214	-
Pulpwood, 1 000 m^3 fub	1 361	1 361	-
Hydro power production, GWh	1 193	-	1 193

Production, 1 000 tonnes	Group	Hallsta	Braviken	Madrid	Wargön	Iggesunds Bruk	Workington	Iggesund Sawmill
Newsprint, standard	1 038	207	457	374	-	-	-	-
MF Special	690	391	277	22	-	-	-	-
SC Paper	131	131	-	-	-	-	-	-
Coated printing paper	175	-	-	32	143	-	-	-
Paperboard	514	-	-	-	-	275	239	-
Market pulp	50	-	-	-	-	50	-	-
Sawn timber, 1 000 m^3	272	-	-	-	-	-	-	272
Consumption of important input goods*								
Wood, 1 000 m^3fub	4 661	1 295	1 000	-	145	1 415	420	620
Recycled fibre, 1 000 tonnes	1 040	105	373	562	-	-	-	-
Market pulp, 1 000 tonnes	174	43	9	-	36	-	86	-
Chemicals, fillers and pigment, 1 000 tonnes	428	116	59	31	63	104	55	0
Electric energy, GWh	4 719	1 928	1 650	268	192	240	424	17
Thermal energy, GWh	1 023	-	-	402	73	-	548	-

* Purchased from outside the production units. In Madrid's case, taking into consideration the 50% interest in the Cogeneración unit for the production of electricity and thermal energy. The Group's consumption is computed net, taking into consideration internal deliveries of chips from the Iggesund Sawmill to Iggesunds Bruk.

Self-sufficiency – energy and fibre

Some 50% of the wood required by the Group is harvested in company forests.

Both virgin fibre and recovered paper are used at the mills Hallsta and Braviken. The mill in Madrid bases its production solely on recovered paper. The paperboard mills only use virgin fibre.

The Group is around 30% self-sufficient in electricity, including the power generated at the large mills.

Energy balance, GWh	2007
Electric energy	
Consumption at mills	**5 199**
Production at mills*	**479**
Company generated hydro power	**1 193**
Net	**-3 527**
Thermal energy, GWh	
Consumption at mills	**6 108**
Production at mills from	
recovered liquors,	
bark and wood residues	**2 829**
purchased fossil fuels*	**1 300**
recovered in the TMP process	**955**
External deliveries	**106**
Net	**-918**

* Incl. Holmen's 50% interest in Cogeneración, Spain

Fibre balance	2007
Wood, 1 000 m^3fub	
Consumption in Sweden	**4 241**
Consumption in England	**420**
Harvesting in company forests	**2 575**
Net	**-2 086**
Recovered paper, 1 000 tonnes	
Consumption in Sweden	**478**
Consumption in Spain	**562**
Pulp, 1 000 tonnes	
Consumption at mills	**2 486**
Production at mills	**2 312**
External deliveries	**50**
Net	**-124**

Quarterly figures

MSEK	2007 Full year	2007 IV	2007 III	2007 II	2007 I	2006 Full year	2006 IV	2006 III	2006 II	2006 I
Income statement										
Net turnover	19 159	5 073	4 637	4 662	4 787	18 592	4 830	4 521	4 661	4 579
Operating costs	-15 548	-4 261	-3 666	-3 802	-3 818	-14 954	-3 894	-3 582	-3 843	-3 634
Depreciation according to plan	-1 337	-337	-332	-332	-336	-1 346	-344	-330	-336	-336
Interest in earnings of associated companies	12	7	3	1	1	11	-3	0	3	10
Items affecting comparability*	557	557	-	-	-	-	-	-	-	-
Operating profit	**2 843**	**1 039**	**642**	**529**	**634**	**2 303**	**590**	**610**	**485**	**619**
Net financial items	-261	-66	-68	-65	-62	-247	-60	-66	-63	-57
Profit before tax	**2 582**	**974**	**573**	**464**	**571**	**2 056**	**529**	**543**	**422**	**562**
Tax	-1 077	-633	-135	-135	-174	-597	-160	-162	-119	-156
Profit for the period	**1 505**	**341**	**438**	**329**	**397**	**1 459**	**369**	**382**	**303**	**406**
Earnings per share, SEK	17.8	4.0	5.2	3.9	4.7	17.2	4.4	4.5	3.6	4.8
Net turnover										
Holmen Paper	10 345	2 798	2 556	2 461	2 530	10 140	2 654	2 547	2 576	2 364
Iggesund Paperboard	5 100	1 239	1 239	1 297	1 326	5 240	1 316	1 294	1 291	1 339
Holmen Timber	589	151	124	164	149	465	129	105	119	112
Holmen Skog	4 775	1 335	1 074	1 200	1 165	4 042	1 067	880	1 019	1 076
Holmen Energi	1 590	462	352	344	433	1 691	445	395	360	491
Intra-group sales	-3 239	-911	-708	-804	-815	-2 986	-781	-699	-704	-803
Group	**19 159**	**5 073**	**4 637**	**4 662**	**4 787**	**18 592**	**4 830**	**4 521**	**4 661**	**4 579**
Operating profit										
Holmen Paper	623	107	241	115	160	754	95	245	185	229
Iggesund Paperboard	599	100	115	178	206	752	209	210	157	176
Holmen Timber	146	37	35	43	32	80	27	17	20	16
Holmen Skog	702	192	145	209	155	643	208	156	128	151
Holmen Energi	272	73	40	45	114	197	87	-10	33	87
Group central costs and other	-56	- 27	66	-61	-34	-123	-37	-8	-38	-40
Items affecting comparability*	557	557	-	-	-	-	-	-	-	-
Group	**2 843**	**1 039**	**642**	**529**	**634**	**2 303**	**590**	**610**	**485**	**619**
Operating margin, %**										
Holmen Paper	5.9	3.6	9.4	4.7	6.3	7.3	3.7	9.6	7.1	9.2
Iggesund Paperboard	11.7	8.1	9.3	13.7	15.6	14.3	15.9	16.2	12.1	13.1
Holmen Timber	24.4	24.0	27.5	25.8	20.8	16.9	20.8	16.0	16.0	14.2
Group	11.9	9.4	13.8	11.3	13.2	12.3	12.3	13.5	10.3	13.3
Return on operating capital, %**										
Holmen Paper	5.3	3.7	8.2	3.9	5.5	6.3	3.3	8.1	6.1	7.7
Iggesund Paperboard	14.6	9.6	11.1	17.4	20.6	18.8	21.1	21.0	15.5	17.6
Holmen Timber	63.9	56.7	61.4	79.3	59.6	37.9	53.1	33.2	37.0	29.3
Holmen Skog	7.7	8.4	6.4	9.2	6.9	7.2	9.3	7.0	5.8	6.8
Holmen Energi	9.2	9.9	5.4	6.1	15.5	6.7	11.8	-1.4	4.5	11.7
Group	8.3	6.9	9.3	7.7	9.4	8.3	8.6	8.7	6.9	8.9
Return, %										
Capital employed**	10.0	8.4	11.2	9.2	11.1	10.0	10.4	10.6	8.3	10.8
Equity	9.2	8.1	10.6	8.2	9.7	9.0	9.0	9.5	7.5	10.0
Deliveries										
Newsprint and magazine paper, 1 000 tonnes	2 025	555	503	477	489	2 021	533	505	511	472
Paperboard, 1 000 tonnes	516	127	125	130	134	536	132	136	131	137
Sawn timber, 1 000 m^3	262	64	53	74	72	248	65	55	66	622

* Items affecting comparability relate to a write-down of MSEK 569 in goodwill and of MSEK 1 034 in tangible fixed assets within Holmen Paper, a reversed write-down of MSEK 60 within Holmen Timber, and a positive revaluation of forests by MSEK 2 100 within Holmen Skog, all of which were taken into the accounts in the fourth quarter of 2007.

** Excl. items affecting comparability.

Eight-year review

MSEK	2007	2006	2005	2004	2003	2002	2001	2000
INCOME STATEMENT								
Net turnover	19 159	18 592	16 319	15 653	15 816	16 081	16 655	15 155
Operating costs	-15 548	-14 954	-13 205	-12 570	-12 306	-12 205	-12 460	-11 843
Depreciation according to plan	-1 337	-1 346	-1 167	-1 156	-1 166	-1 153	-1 126	-1 045
Interest in earnings of associated companies	12	11	20	25	-6	-10	-3	552
Items affecting comparability*	557	-	-	-	-	-	-620	2 023
Operating profit	**2 843**	**2 303**	**1 967**	**1 952**	**2 338**	**2 713**	**2 446**	**4 842**
Net financial items	-261	-247	-233	-206	-212	-149	-152	-101
Profit before tax	**2 582**	**2 056**	**1 734**	**1 746**	**2 126**	**2 564**	**2 294**	**4 741**
Tax	-1 077	-597	-478	-471	-675	-605	-108	-769
Profit for the year	**1 505**	**1 459**	**1 256**	**1 275**	**1 451**	**1 959**	**2 186**	**3 972**
Earnings per share, SEK	17.8	17.2	14.8	15.1	17.5	23.6	26.4	44.7
Net turnover								
Holmen Paper	10 345	10 140	8 442	7 814	7 788	8 164	8 757	7 618
Iggesund Paperboard	5 100	5 240	4 860	4 877	4 920	4 850	4 467	4 186
Holmen Timber	589	465	460	492	510	572	712	762
Holmen Skog	4 775	4 042	3 858	3 780	3 613	3 538	3 982	4 117
Holmen Energi	1 590	1 691	1 480	1 258	1 337	1 120	1 108	1 110
Intra-group sales	-3 239	-2 986	-2 781	-2 568	-2 352	-2 163	-2 371	-2 638
Group	**19 159**	**18 592**	**16 319**	**15 653**	**15 816**	**16 081**	**16 655**	**15 155**
Operating result								
Holmen Paper	623	754	631	487	747	1 664	2 410	1 389
Iggesund Paperboard	599	752	626	809	1 001	818	455	569
Holmen Timber	146	80	13	5	18	-6	-79	-116
Holmen Skog	702	643	537	586	516	450	455	466
Holmen Energi	272	197	301	178	193	-26	49	99
Group central costs and other	-56	-123	-141	-113	-137	-187	-224	-112
	2 286	**2 303**	**1 967**	**1 952**	**2 338**	**2 713**	**3 066**	**2 295**
Items affecting comparability*	557	-	-	-	-	-	-620	2 023
Divested activities	-	-	-	-	-	-	-	524
Operating profit	**2 843**	**2 303**	**1 967**	**1 952**	**2 338**	**2 713**	**2 446**	**4 842**
CASH FLOW								
Profit before tax	2 582	2 056	1 734	1 746	2 126	2 564	2 294	4 741
Adjustment items	629	1 225	914	1 031	1 169	1 050	1 679	-1 486
Paid income tax	-390	-664	-516	-378	-727	-472	-248	-942
Changes in working capital	-345	-259	339	-68	-125	356	61	-388
Cash flow from current operations	**2 476**	**2 358**	**2 471**	**2 331**	**2 443**	**3 498**	**3 786**	**1 925**
Cash flow from investment activities	**-1 315**	**-947**	**-3 029**	**-1 195**	**-726**	**-1 810**	**-1 669**	**-2 019**
Cash flow after capital expenditure	**1 161**	**1 411**	**-558**	**1 136**	**1 717**	**1 688**	**2 117**	**-94**
Share buy-back	-	-	-	-	-	-	-	-2 025
New share issue through conversion and subscription	-	-	-	474	-	-	-	-
Dividend paid	-1 017	-932	-848	-3 199	-880	-800	-5 518	-977

* Items affecting comparability:
Year 2000: Mainly the divestment within the Group of Modo Paper AB, an associated company, for MSEK 1 848, and the repayment of SPP funds of MSEK 175.
Year 2001: Write-down of MSEK 620 in fixed assets.
Year 2007: Write-down of MSEK 569 in goodwill and of MSEK 1 034 in tangible fixed assets within Holmen Paper, a reversed write-down of MSEK 60 within Holmen Timber, and a positive revaluation of forests by MSEK 2 100 within Holmen Skog, all of which were taken into the accounts in the fourth quarter of 2007.

MSEK	2007	2006	2005	2004	2003	2002	2001	2000
BALANCE SHEET								
Fixed assets	24 099	23 258	23 702	21 354	18 878	19 442	18 661	18 534
Deferred tax receivable	301	354	352	273	295	194	203	191
Shares and participations	1 753	1 742	1 739	1 754	1 767	1 721	286	230
Current assets	6 549	6 138	5 709	5 149	4 743	4 922	5 366	5 330
Financial receivables	147	165	132	92	105	54	33	15
Liquid funds	394	484	580	367	570	634	399	2 000
Total assets	**33 243**	**32 141**	**32 214**	**28 989**	**26 358**	**26 967**	**24 948**	**26 300**
Equity	16 932	16 636	16 007	15 635	15 366	15 185	14 072	17 014
Deferred tax liability	5 482	5 030	5 143	5 177	4 557	4 370	4 014	4 264
Financial liabilities and interest bearing provisions	6 518	6 634	7 351	5 335	4 044	4 496	3 593	1 721
Operating liabilities	4 311	3 841	3 713	2 842	2 391	2 916	3 269	3 301
Total equity and liabilities	**33 243**	**32 141**	**32 214**	**28 989**	**26 358**	**26 967**	**24 948**	**26 300**
Operating capital								
Holmen Paper	9 971	11 541	11 452	9 659	9 461	9 884	9 584	8 564
Iggesund Paperboard	4 180	3 935	3 965	3 871	3 885	3 963	4 330	4 877
Holmen Timber	345	208	230	231	277	258	232	411
Holmen Skog	11 264	9 001	8 919	8 842	6 383	6 429	6 517	6 527
Holmen Energi	2 960	2 965	2 958	2 930	2 926	2 877	805	826
Group central costs and other	-630	-354	-87	-118	65	-242	-424	-412
Operating capital	**28 090**	**27 297**	**27 437**	**25 415**	**22 997**	**23 169**	**21 044**	**20 793**
Deferred tax liability, net	-5 181	-4 676	-4 791	-4 904	-4 262	-4 176	-3 811	-4 073
Capital employed	**22 909**	**22 621**	**22 646**	**20 511**	**18 735**	**18 993**	**17 233**	**16 720**
KEY RATIOS								
Operating margin, %*								
Holmen Paper	6	7	7	6	10	21	28	18
Iggesund Paperboard	12	14	13	17	20	17	10	14
Holmen Timber	24	17	3	1	3	-1	-11	-7
Group	12	12	12	12	15	17	18	15
Return on operating capital, %*								
Holmen Paper	5	6	6	5	8	17	26	17
Iggesund Paperboard	15	19	16	20	25	20	9	12
Holmen Timber	64	38	6	2	7	neg	neg	neg
Holmen Skog	8	7	6	7	8	7	7	7
Holmen Energi	9	7	10	6	7	5	7	9
Group	8	8	7	8	10	13	14	12
Return, %								
Capital employed*	10	10	9	10	12	16	18	15
Equity	9	9	8	8	10	14	16	24
Debt/equity ratio	0.35	0.36	0.41	0.31	0.22	0.25	0.22	-0.02
Deliveries								
Newsprint and magazine paper, 1 000 tonnes	2 025	2 021	1 764	1 731	1 655	1 528	1 525	1 560
Paperboard, 1 000 tonnes	516	536	492	501	481	453	410	415
Sawn timber, 1 000 m^3	262	248	229	195	189	220	322	360

Stated in accordance with IFRS from 2004. As far as Holmen is concerned, the principal difference between IFRS and previous accounting principles is that forest assets are valued and stated in the accounts at fair value, that goodwill is no longer depreciated according to plan, and that the fair value of financial assets and liabilities where hedge accounting is applied are taken into the balance sheet.

* Excl. items affecting comparability

Annual General Meeting

Around 300 shareholders attended the 2007 AGM on 28 March. The questions were answered mainly by the chairman (centre), CEO (left) and legal councel, who also kept the minutes.

The 2008 Annual General Meeting of Holmen AB will be held at "Vinterträdgården", Grand Hôtel (entrance Royal), Stockholm, at 4.00 p.m. CET on Wednesday 2 April.

Participation in Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting shall be entered in the register of shareholders maintained by VPC AB by no later than Thursday 27 March 2008, and shall notify the company by no later than 5.00 p.m. CET on Thursday 27 March 2008 at:

Holmen AB
Group Legal Affairs
P.O. Box 5407
SE-114 84 Stockholm
Sweden

Notification may also be made by telephone: +46 8 666 21 11, by fax +46 660 759 78 or via the company's website www.holmen.com

Shareholders whose shares are registered in a nominee name should temporarily re-register their shares in their own name with VPC by no later than Thursday 27 March 2008 to be entitled to participate in the Annual General Meeting.

Dividend

The Board has proposed that a dividend of SEK 12 (12) per share be paid to the shareholders. The Board has proposed Monday 7 April 2008 as the date of record for entitlement to dividend. Provided the Annual General Meeting resolves in favour of the proposal, the dividend is expected to be distributed by VPC on Thursday 10 April 2008. Shareholders are requested to inform their account operator of any change of name and/or address.

Annual Report

The Annual Report for 2007 will be posted in the week beginning 10 March 2008 to shareholders who have informed the company that they wish to receive it.

New shareholders are sent information on how to register to receive the annual report and other financial information. This is done in connection with the distribution of Holmen Business Report (shareholder magazine), which will be published in English and Swedish four times in 2008 and contain year-end and interim reports as well as the latest news about Holmen's business.

Shareholders can order printed and electronically transmitted financial information via the website under Shareholder Service.

Sustainability Report

"Holmen and its World 2007" will be published at the end of March and will describe Holmen's holistic approach to the environment, social responsibility and financial development. The complete sustainability report for 2007 is available on the website. The financial information and Holmen and its World 2007 are available on the website in both English and Swedish. Holmen and its World is also available in Spanish. Orders and subscriptions can be arranged via the website or be sent direct to the company

Holmen AB
Group Public Relations
P.O. Box 5407
SE-114 84 Stockholm
Sweden
Te. +46 8 666 21 00
Fax +46 8 666 21 30
E-mail info@holmen.com
www.holmen.com

Addresses

Holmen AB
Head office
(Strandvägen 1)
P.O. Box 5407
SE-114 84 STOCKHOLM
SWEDEN
Tel +46 8 666 21 00
Fax +46 8 666 21 30
E-mail info@holmen.com
www.holmen.com

Holmen Paper AB
(Vattengränden 2)
SE-601 88 NORRKÖPING
SWEDEN
Tel +46 11 23 50 00
Fax +46 11 23 63 04
E-mail info@holmenpaper.com
www.holmenpaper.com

Holmen Paper Hallsta
SE-763 81 HALLSTAVIK
SWEDEN
Tel +46 175 260 00
Fax +46 175 264 01
E-mail info@holmenpaper.com

Holmen Paper Braviken
SE-601 88 NORRKÖPING
SWEDEN
Tel +46 11 23 50 00
Fax +46 11 23 66 30
E-mail info@holmenpaper.com

Holmen Paper Madrid
Parque Industrial
La Cantueña
C/del Papel 1
ES-28947 FUENLABRADA
(Madrid)
SPAIN
Tel +34 91 642 0603
Fax +34 91 642 2470
E-mail info@holmenpaper.com

Holmen Paper Wargön
SE-468 81 VARGÖN
SWEDEN
Tel +46 521 27 75 00
Fax +46 521 27 75 80
E-mail info@holmenpaper.com

Iggesund Paperboard AB
SE-825 80 IGGESUND
SWEDEN
Tel +46 650 280 00
Fax +46 650 288 00
E-mail info@iggesund.com
www.iggesund.com

Iggesunds Bruk (Mill)
SE-825 80 IGGESUND
SWEDEN
Tel +46 650 280 00
Fax +46 650 285 32
E-mail info@iggesund.com

Workington Mill
WORKINGTON Cumbria
CA14 1JX
GREAT BRITAIN
Tel +44 1900 601000
Fax +44 1900 605000
E-mail info@iggesund.com

Holmen Timber AB
P.O. Box 45
SE-825 21 IGGESUND
SWEDEN
Tel +46 650 280 00
Fax +46 650 203 80
E-mail info@holmentimber.com
www.holmentimber.com

Iggesund Sawmill
P.O. Box 45
SE-825 21 IGGESUND
SWEDEN
Tel +46 650 280 00
Fax +46 650 284 48
E-mail info@holmentimber.com

Holmen Skog AB
(Hörneborgsvägen 6)
SE-891 80 ÖRNSKÖLDSVIK
SWEDEN
Tel +46 660 754 00
Fax +46 660 759 85
E-mail info@holmenskog.com
www.holmenskog.com

Holmen Energi AB
(Hörneborgsvägen 6)
SE-891 80 ÖRNSKÖLDSVIK
SWEDEN
Tel +46 660 754 00
Fax +46 660 755 10
E-mail info@holmenenergi.com
www.holmenenergi.com

The complete list of addresses may be obtained from Holmen's website www.holmen.com

The cover of the annual report is printed on Iggesund Paperboard's solid bleached board, Invercote® Creato 280 gsm. It is embossed and UV-varnished.

The cover photo was taken at Iggesunds Bruk´s automated paperboard reel store. It is shown in full in the spread on pages 22–23.

The annual report is produced by Holmen
Graphic production: Gylling Produktion
Cover layout: Johan Resele

Photo: Rolf Andersson, Lasse Modin and others
Print: Cover Strand Grafiska, Malmö, 2008
Inside pages Strokirk-Landströms, Lidköping, 2008
Translation: Beck Translations, Stockholm.

Holmen in 90 seconds

Operations

Holmen's business is conducted through three product-oriented and two raw materials-oriented business areas. They will be developed via organic growth and selective acquisitions. Europe, which accounts for some 90% of the Group's turnover, is by far the largest market.

The **Holmen Paper** business area produces printing paper for daily newspapers, magazines, directories, advertising matter and books at three Swedish mills and one Spanish mill. **Iggesund Paperboard** produces paperboard for packaging and graphic purposes at one Swedish and one English mill. **Holmen Timber** produces sawn timber at one Swedish sawmill. Production capacity amounts to 2 185 000 tonnes of printing paper, 590 000 tonnes of paperboard and 300 000 cubic metres of sawn timber. **Holmen Skog** manages the Group's one million hectares of forests, where the annual volume harvested amounts to some 2.5 million cubic metres. Holmen's annual wood consumption is approx. 5 million cubic metres. In a normal year **Holmen Energi** produces some 1 100 GWh of electric power at wholly and partly owned hydro power stations in Sweden. Over and above this some 500 GWh of electricity are generated at the mills. Holmen's annual electricity consumption is around 5 100 GWh.

Financial targets

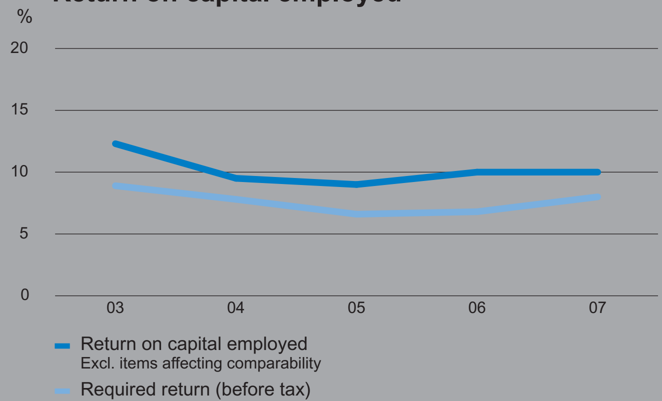
Holmen's profitability shall consistently exceed the market cost of capital. The financial position shall be strong with a debt/equity ratio of 0.3–0.8. The ordinary dividend paid each year shall correspond to 5–7% of equity.

MSEK	2007	2006	2005	2004	2003
Income statement					
Net turnover	**19 159**	18 592	16 319	15 653	15 816
Operating costs	**-15 548**	-14 954	-13 205	-12 570	-12 306
Depreciation	**-1 337**	-1 346	-1 167	-1 156	-1 166
Interest in associated companies	**12**	11	20	25	-6
Items affecting comparability	**557**	-	-	-	-
Operating profit	**2 843**	2 303	1 967	1 952	2 338
Net financial items	**-261**	-247	-233	-206	-212
Profit before tax	**2 582**	2 056	1 734	1 746	2 126
Tax	**-1 077**	-597	-478	-471	-675
Profit for the year	**1 505**	1 459	1 256	1 275	1 451
Operating profit by business area					
Holmen Paper	**623**	754	631	487	747
Iggesund Paperboard	**599**	752	626	809	1 001
Holmen Timber	**146**	80	13	5	18
Holmen Skog	**702**	643	537	586	516
Holmen Energi	**272**	197	301	178	193
Group central costs	**-56**	-123	-141	-113	-137
Items affecting comparability	**557**	-	-	-	-
Group	**2 843**	2 303	1 967	1 952	2 338
Balance sheet					
Fixed assets	**26 153**	25 334	25 793	23 381	20 940
Current assets	**6 549**	6 138	5 709	5 149	4 743
Financial receivables	**541**	669	712	459	675
Total assets	**33 243**	32 141	32 214	28 989	26 358
Equity	**16 932**	16 636	16 007	15 635	15 366
Deferred tax liability	**5 482**	5 030	5 143	5 177	4 557
Financial liabilities	**6 518**	6 634	7 351	5 335	4 044
Operating liabilities	**4 310**	3 841	3 713	2 842	2 391
Total equity and liabilities	**33 243**	32 141	32 214	28 989	26 358
Cash flow					
Current operations	**2 476**	2 358	2 471	2 331	2 443
Investment activities	**-1 315**	-947	-3 029	-1 195	-726
Cash flow after capital expenditure	**1 161**	1 411	-558	1 136	1 717
Key ratios					
Return, %					
capital employed*	**10.0**	10.0	9.0	9.5	12.3
equity	**9.2**	9.0	8.0	7.9	9.7
Debt/equity ratio	**0.35**	0.36	0.41	0.31	0.22
Earnings per share, SEK	**17.8**	17.2	14.8	15.1	17.5
Ordinary dividend, SEK	**12****	12	11	10	10
Extra dividend, SEK	-	-	-	-	30
Closing listed price, B, SEK	**240**	298	262.5	230	255.5
P/E ratio	**13**	17	18	15	14
EV/EBIT*	**12**	14	15	12	10

* Excl. items affecting comparability
** Proposal of the Board

Share price and total return, Holmen B

Return on capital employed



Major shareholders	% of shares	% of votes
L E Lundbergföretagen	27.6	51.8
Kempe Foundations	6.9	16.8
Handelsbanken incl. pension fund	3.1	9.1
Silchester International Investors	8.6	2.5
Swedbank Robur funds	2.3	0.7
HQ funds	1.8	0.5
SEB funds	1.3	0.4
Second AP fund	1.2	0.3
Alecta	1.1	0.3
SHB/SPP funds	0.9	0.3
Other*	45.2	17.3
Total	100.0	100.0
* of which non-Swedish shareholders	25.6	8.2

HOLMEN

Holmen AB (publ) • P.O. Box 5407 • SE-114 84 STOCKOLM • SWEDEN • Tel +46 8 666 21 00 • Fax +46 8 666 21 30
E-mail info@holmen.com • www.holmen.com • Registration number 556001-3301 • Registered office Stockholm