

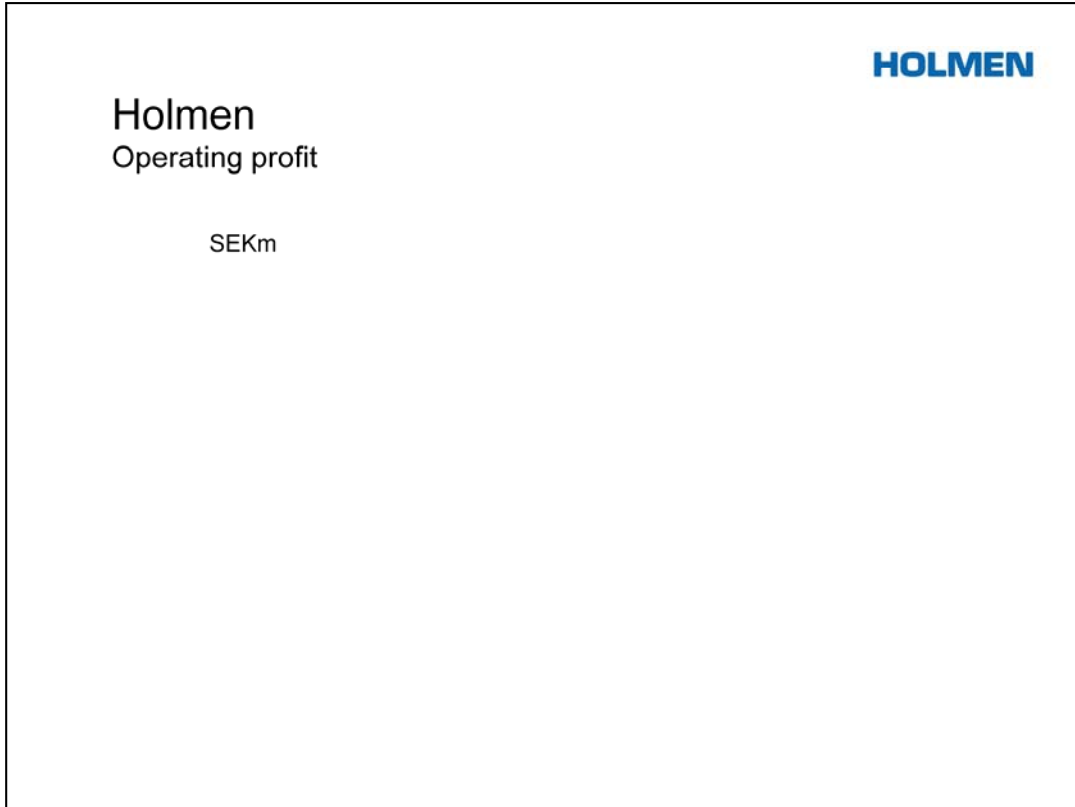


## Magnus Hall

President and CEO



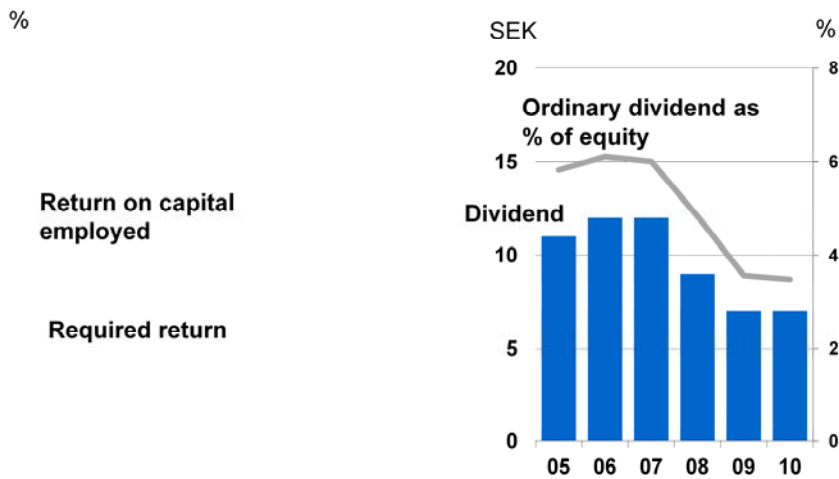
Mr chairman, esteemed shareholders, ladies and gentlemen! It's time to summarise 2010, which was a very strong year for large parts of Holmen's operations. The exception consisted of our printing paper operation, which experienced tough conditions. This meant that the year was characterised by further staff reductions, efficiency enhancements and cost cuts, but in parallel also ongoing and new investments for the future. Immense commitment and drive are important to Holmen, which I would like to emphasise through this report.



Group earnings decreased compared to 2009. If we look at the individual business areas, we see a diversified picture, in which profitability improved for all operations except printing paper, where earnings fell substantially. Lower newsprint prices and higher costs of fibre explain the drop in earnings. Net sales were down from SEK 18.1 billion to SEK 17.6 billion. Operating profit excluding items affecting comparability was down from SEK 1.6 billion to SEK 1.3 billion.

Record-breaking earnings were noted for Holmen Skog and Holmen Energi. Earnings for Iggesund Paperboard also show that we have left the global recession behind us that characterised the last few years of the decade.

## Profitability and dividend



The Board proposes dividend of SEK 7 per share this year, which is unchanged from 2009.

We see that the Group achieved a weak result in 2010 and has major investments ahead. However, the Group also has a stable financial situation. Together, these form the basis of the Board's proposal to be decided on.

I will now comment on the results and the situation in each business area in more detail.

## Newsprint Europe

Market growth, %

	2007	2008	2009	2010
Demand	0	-3	-14	+2
Imports	+61	-16	-19	-25

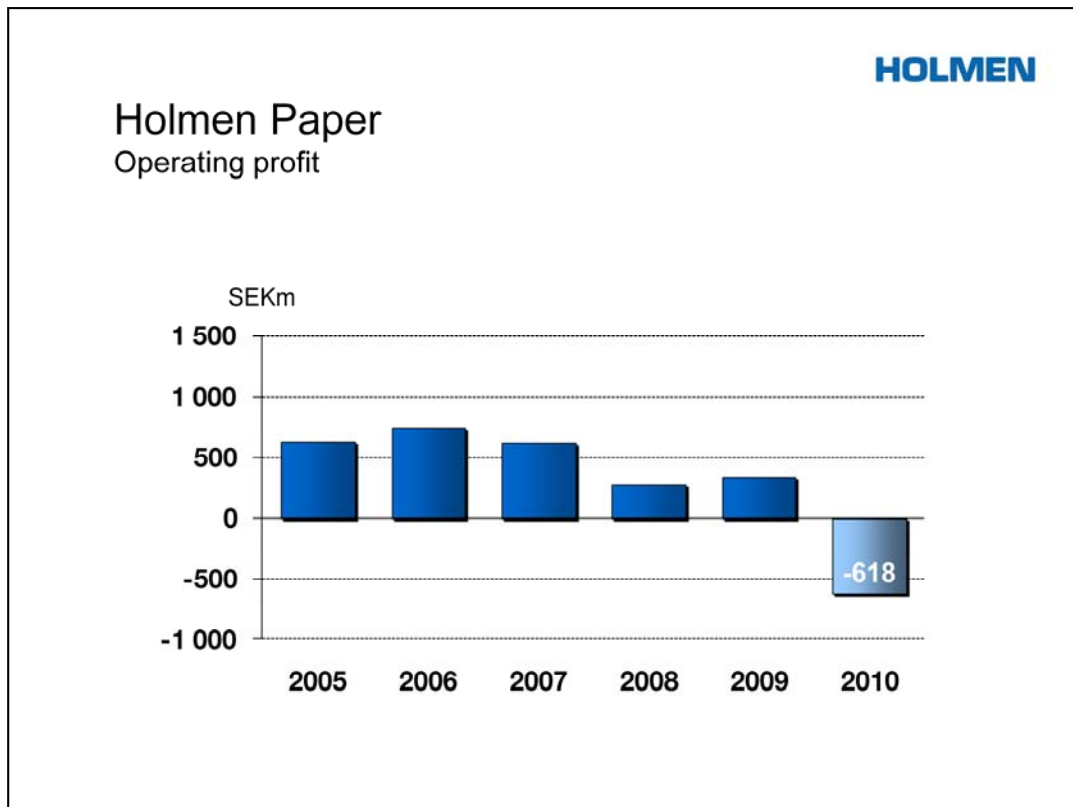
Source: Cepiprint

The past year was another in a succession of extremely difficult years for the newsprint industry in Europe. Despite a stronger economy, demand remained weak during the year.

Thanks to decreased imports to Europe, increased deliveries in export markets outside of Europe, and certain capacity reductions, capacity utilisation was nevertheless relatively high. We continue to believe that future consumption will drop in Europe, which will necessitate further capacity reductions in the long run.



During the year, Holmen Paper continued its ambitious programme of cost cuts, efficiency enhancements, quality improvements and production adaptation to tackle the tough market conditions. At the Swedish units in Hallstavik and Braviken, the proportion of standard newsprint is being reduced and replaced by niche products, such as Holmen Book, Holmen XLNT and the new product Holmen VIEW, which was launched during the year and is made at Hallsta Paper Mill. These grades of paper are mainly used for magazines, catalogues, books and printed advertising. Production of standard newsprint is gradually being reduced.



Holmen Paper's earnings were very weak in 2010. Deliveries rose by about 2 per cent, but operating result fell significantly compared to the preceding year and amounted to a loss of SEK 618 million, excluding items affecting comparability. The combination of much lower prices for newsprint and price increases for recovered paper, one of our most important raw materials, made the situation very problematic.

The ongoing efficiency improvements and cost reductions were therefore bolstered by further measures:

- A decision was made during the year to further reduce the workforce at Hallsta Paper Mill by about 150 jobs while maintaining existing production volume.
- Production on paper machine PM 61 at the mill in Madrid will be shut down today. The decision was made in early 2011 and is a natural step due to the recent profitability levels of the machine. The right conditions for future profitability are deemed to be lacking. The mill in Madrid will continue to operate using PM 62, a modern and competitive machine with which we see good potential for profitable growth.

In conjunction with preparation of the annual accounts, impairment loss of SEK 555 million was recognised on non-current assets in Spain and a SEK 231 million provision for restructuring costs was made regarding the operations in Spain and Hallsta.



# VÄLJ PAPPER

HOLMEN



**Det här är vad vuxna svenskar älskar mest.**

En av sju "vuxna" av 10 personer av svenskarna älskar fruktadokumenter av papper och kartong. Bland de älskade dokumenterna finns också papper och kartong.

Papper kommer från en källa som är ren och säker. Det är ett naturligt material som inte innehåller några kemikalier. Det är ett miljövänligt material som inte innehåller några kemikalier. Det är ett miljövänligt material som inte innehåller några kemikalier.

Från Svenska Pappersindustrier eller på [www.papper.se](#)



**Det här är vad dina middagsgäster längtar efter.**

En av sju "vuxna" av 10 personer av svenskarna älskar fruktadokumenter av papper och kartong. Bland de älskade dokumenterna finns också papper och kartong.

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**Vi vet vad svenska män egentligen vill ha.**

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Paper for graphics printing is exposed to increasingly tough competition from new media and new user interfaces. However, I am convinced that paper products have a future.

A short film is currently doing the rounds, for example on YouTube, and it forms part of a campaign titled "Choose paper!". The initiative came from the Swedish Forest Industries Federation and its industry companies, including Holmen. The aim is to highlight the practical and climate advantages of paper. Let's watch the film!





As mentioned: *“The packaging of the future literally grows on trees.”* And this is an appropriate link to the next part, which is about our paperboard operations! Iggesund Paperboard is our business area for solid bleached board and folding boxboard, which are used in high-quality packaging for consumer products.

## Solid bleached board and folding boxboard Europe

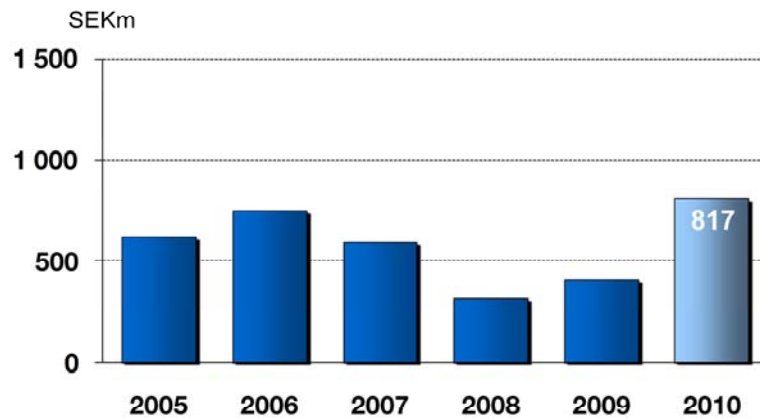
Market growth, %

	2007	2008	2009	2010
Demand	+5	-2	-9	+8

Source: Cepiprint

In Europe demand rose by 8 per cent in 2010 compared to the preceding year, which was a complete recovery from levels seen during the recession. The improvements paved the way for increases in the prices of both solid bleached board and folding boxboard. Order figures were very robust throughout the year, and the mills in Iggesund and Workington were kept busy.

Iggesund Paperboard  
Operating profit



Operating profit for Iggesund Paperboard practically doubled compared to 2009 and reached SEK 817 million. The keys to this success were high capacity utilisation teamed with a better sales mix.

The restructuring work, with the shutdown of board machine BM 1 at Workington Mill at the end of 2009, proved highly beneficial in reducing costs and improving the product mix to include a higher degree of refinement.

Iggesund Paperboard's Invercote and Incada brands remain market leaders in Europe. Their high and consistent quality makes them very versatile. Along with the finishing options offered by the lamination facilities in Strömsbruk, Iggesund Paperboard has an exceptionally attractive product portfolio.



During the year, Holmen decided on a significant investment in a new recovery boiler and turbine at Iggesund Mill. You can see from the picture that we have already made good progress. The investment is necessary to further develop one of our most profitable mills, but it is also highly significant in terms of energy supply. The new recovery boiler and turbine allow the mill to be completely self-sufficient in electricity and to run the operation without using any fossil fuels. This is of course very positive out of a sustainability perspective .

The plan is to commission the new recovery boiler in June 2012.



It's complete! Scandinavia's most efficient and most modern sawmill. The first log was sawn for customers in Braviken on 12 January. Production consists of spruce construction timber that is sold to customers primarily in Scandinavia and in the European market. This new facility, combined with the sawmill in Iggesund and its production of pine joinery timber, makes Holmen Timber a complete supplier of sawn timber.

During 2011, production of sawn timber is expected to amount to around 300 000 cubic metres, rising to 550 000 cubic metres by 2013. The sawmill is designed to be able to produce 750 000 cubic metres, although this would require extra investments in expanded drying and planing capacity.

Our new sawmill clearly symbolises Holmen Timber's strategy of having large-scale, efficient and suitably located facilities that produce first-class wood products for demanding customers.





There are many positive signals in the area of wood construction. There is increasing talk of the advantages of building in wood. The areas of application are increasing and new markets are emerging. The growth in exports of sawn timber to North Africa is expected to continue, and China is another highly interesting market with significant potential.

## Holmen Timber

### Operating profit

SEKm

The market for sawn timber was unstable during the year. Despite a high level of activity at the end of the year, Holmen Timber's deliveries were down 9 per cent compared to the previous year. The harsh winter hampered production due to the raw-material shortage. Sales prices were higher than in 2009.

Operating profit for 2010 was SEK 20 million, nearly the same as in 2009 when it reached SEK 21 million. SEK 28 million of the year's costs were for the new organisation in Braviken without equivalent production.



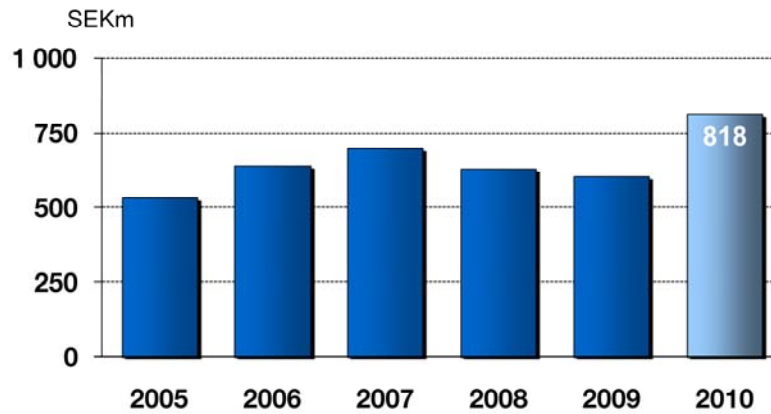


The UN has declared 2011 the International Year of Forests. Here in Sweden you could say that each year is the year of forests. This applies in particular to Holmen, which is Sweden's fourth-largest forest owner. Through our big holdings, Holmen is 60 per cent self-sufficient in wood. Holmen Skog thereby plays a pivotal role in the Group's stability and earning capacity.



This business area has a key and exciting task of supplying the new sawmill with wood. But the flow from the forest includes several challenges, such as how can we increase productivity in wood deliveries and harvesting? One actual example is the project titled *En Trave Till* [One more pile]. An industry-wide project is under way to test use of larger logging trucks that can hold an extra load of timber. This can reduce fuel consumption by up to 20 per cent.

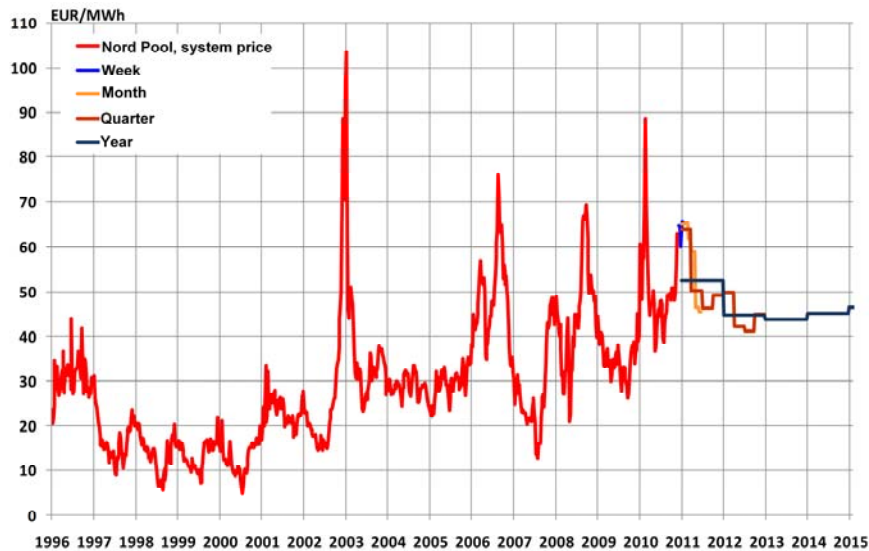
## Holmen Skog Operating profit



Holmen Skog achieved record-breaking earnings in 2010. This was partly attributable to a new estimate of future income and a related revaluation of our forest assets. As a result of this, we obtained, in accounting terms, non-recurring income of more than SEK 1 billion. Robust demand and in particular higher wood prices characterised the year.

Harvesting in Holmen's forests rose somewhat during the year, from 2.9 million to 3.0 million cubic metres of wood.

## Electricity prices, Nord Pool



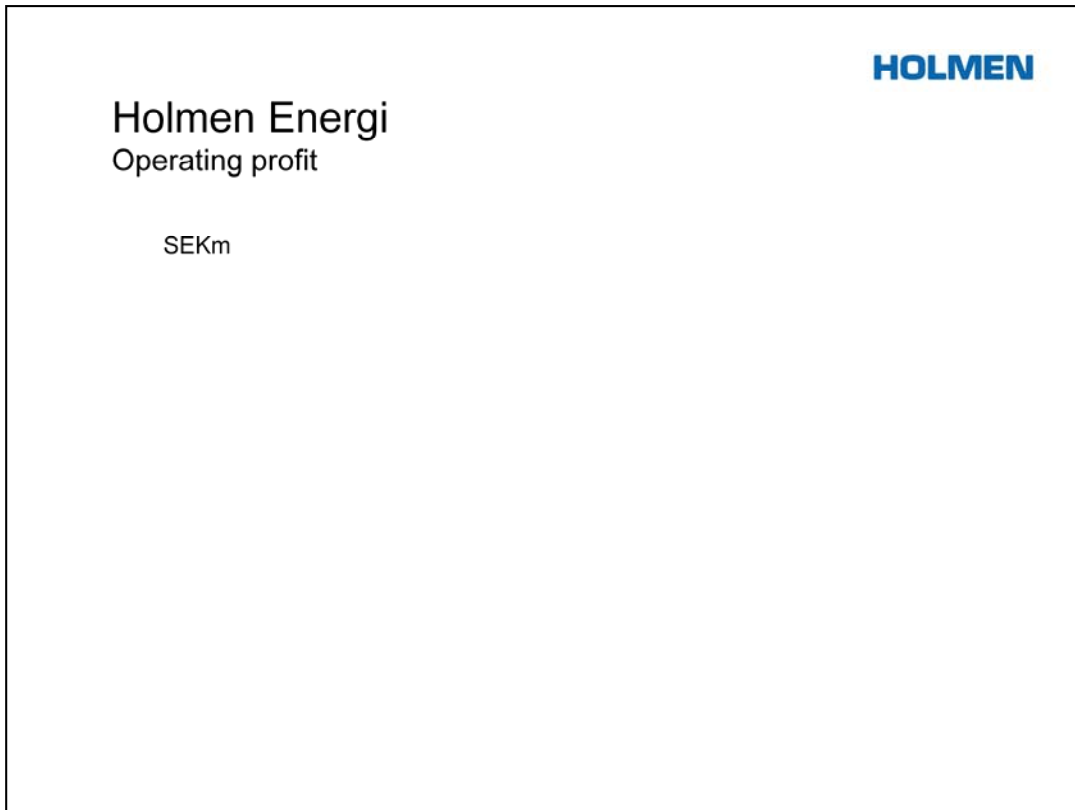
Source: Nordpool, Svensk Energi

Energy was yet again a hot topic – especially during the cold months of the year. The fact is that we had four very cold winter months in 2010, resulting in painfully high energy prices. Although we have largely protected the company with long-term agreements, the energy issue remains very significant in the short and long term. Due to the prevailing electricity prices, we were forced to curtail production during the winter, which in some cases risked affecting deliveries to our customers. That is the short-term perspective. In the long term, we need a stable electricity supply, with greater capacity and additional players for reasonably predictable prices. In 2010, Holmen signed a new long-term electricity supply agreement with Vattenfall, which covers around a third of our requirements for purchased electricity in 2016–2021.



Holmen Energi includes several development areas, such as

- Wind power, where the ambition is to produce 1 TWh of electrical energy from wind power in 2020. Wind surveys have been in progress on Holmen's land since 2009.
- Through co-ownership of the VindIn wind power company, a wind farm is operating successfully in Skutskär and another is being built outside of Örnsköldsvik.
- With the E.ON company, we are developing a wind farm that may be able to produce more than 300 GWh/year when complete.
- We are open to building more wind farms with partners, but in certain cases we may decide to build on our own. However, we would like facilities for much more than 1 TWh to be built on our land, so that we can increase the value of the land through leasing income.
- Holmen Biorefinery Development Centre was established in 2009 and its tasks include creating new energy-related products. At present we are studying how we can produce biogas, through anaerobic digestion of our wastewater, for use in the transport system. Several extremely exciting projects are under way here.



Like Holmen Skog, the Holmen Energi business area achieved record-breaking earnings. Its operating profit rose for the fourth consecutive year, this time from SEK 414 million to SEK 495 million. The improvement is thanks to high electricity prices, but also high production.





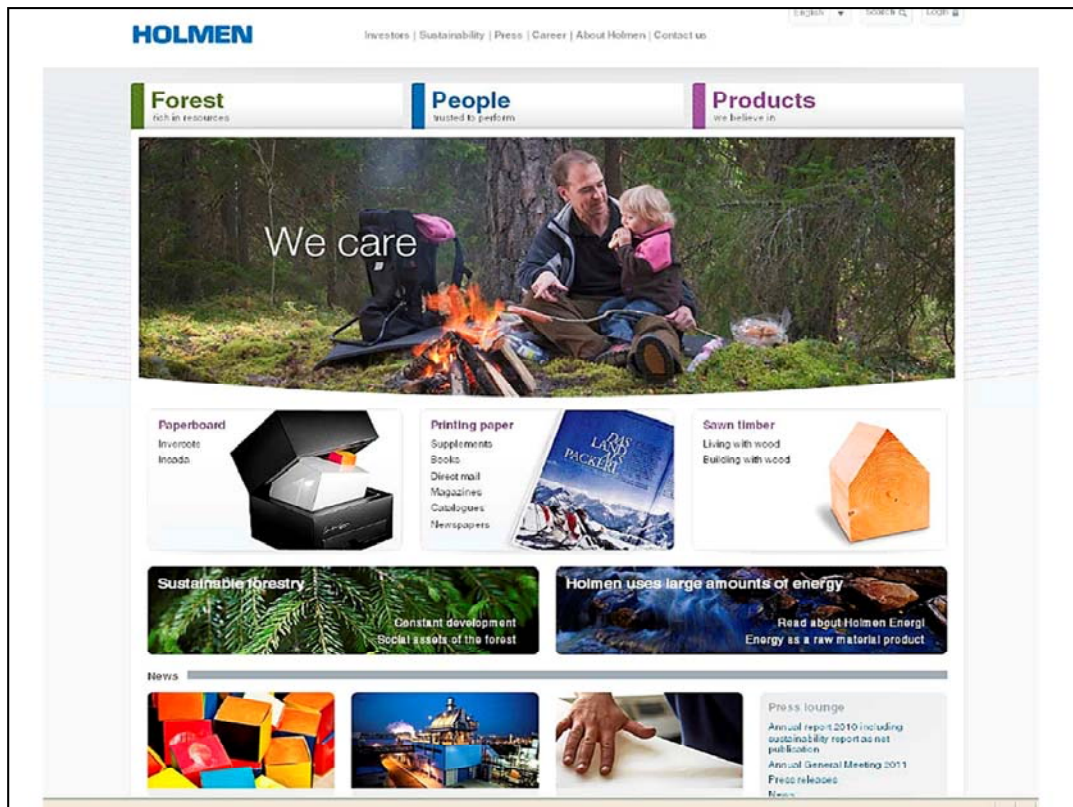
Holmen's products are made of wood sourced from sustainably managed forests and recovered paper. Managed forest has a positive impact on climate by capturing and storing carbon dioxide in the trees when they grow and also in products such as sawn timber and paper. These products are to form the basis of a profitable business.

What do I mean by this? I mean that Holmen is a fundamentally sustainable company; sustainability forms part of our day-to-day work and is also a natural part of the operations. This is why we have also chosen to present a clear report on this work in the year's annual report.

In light of this, it perhaps comes as no real surprise that Holmen meets the criteria for the highest reporting level GRI A+. But this does not happen automatically. It is important to be transparent and that Holmen is awarded a high ranking in lists of corporate indexes and by the environmental funds that rate companies' sustainability.

If you would like to find out more, I can recommend our new publication *Holmen and sustainability*, which you can pick up on your way out.





I would also like to advertise our new website, which is just a week old. It provides interested shareholders with information about our operations, history, share data and everything you could ever want to know about our products. If you are also a forest owner, I promise you will find many practical tips about forest stewardship and other matters.



Our business outlook currently looks a little brighter:

We have managed to increase newsprint prices to the same level as in 2009. Combined with our restructuring work taking effect at Holmen Paper, which has included staff cuts, capacity closures, efficiency improvements and development of new grades of paper, it is my opinion that Holmen has created a good position to build on. However, continually high raw-material prices will necessitate price rises to compensate for this in the future as well.

The outlook for our paperboard operation remains very favourable. The market for sawn timber is somewhat weaker, but construction in Europe should pick up more speed as the economy grows stronger. Wood prices remain high, which benefits the Holmen Skog business area, but adversely affects our mills. The water levels in the reservoirs are low, which may adversely affect hydro power production at the start of the year.



**HOLMEN**

## Agenda 2011

- Implement structural changes decided on in Spain and Hallsta
- Strong focus on increasing MF Magazine sales
- Continued product refinement in paperboard
- High ambition in getting the sawmill in Braviken fully operational
- Focus on stability and productivity

Ladies and gentlemen, I would like to conclude with the agenda that we are currently working to.

- Implement structural changes decided on in Spain and Hallsta
- Strong focus on increasing MF Magazine sales
- Continued product refinement in paperboard
- High ambition in getting the sawmill in Braviken fully operational
- Focus on stability and productivity

And with that, ladies and gentlemen, I would like to hand you over to the chairman.

**HOLMEN**