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## YEAR-END REPORT FOR 2005

MSEK	Quarter			Full year	
	4-05	3-05	4-04	2005	2004
Net turnover	<b>4,235</b>	4,082	4,042	<b>16,319</b>	15,653
Operating profit	<b>570</b>	590	352	<b>1,973</b>	1,952
Profit after tax	<b>397</b>	371	249	<b>1,256</b>	1,275
Earnings per share (after dilution), SEK	<b>4.7</b>	4.4	2.9	<b>14.8</b>	15.1
Return on equity, %	<b>10.0</b>	9.6	6.5	<b>8.0</b>	7.9

- The Group's net turnover amounted to MSEK 16,319 (2004: 15,653).
- Profit after tax was MSEK 1,256 (1,275).
- Earnings per share after dilution amounted to SEK 14.8 (15.1). The return on equity was 8.0 % (7.9).
- The operating profit was MSEK 1,973 (1,952). Higher prices for newsprint and magazine paper had a favourable effect on the result, while costs of energy, chemicals and transports increased significantly.

The fourth quarter operating result was MSEK 570, which was MSEK 20 lower than for the previous quarter.

- The Board proposes that a dividend of SEK 11 per share be paid. For the previous year the dividend paid was SEK 10.
- The market situation for newsprint in Europe remained good during the fourth quarter. Holmen Paper's full-year deliveries increased by 2 % in relation to the previous year. Negotiations on price increases are in progress.

The market situation for virgin fibre board in Europe remained good during the fourth quarter. Iggesund Paperboard's full-year deliveries were 2 % lower than in the previous year owing to lower production. Prices were stable.

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### Business areas

Holmen Paper	Quarter			Full year	
	4-05	3-05	4-04	2005	2004
Net turnover, MSEK	2,235	2,197	2,076	8,442	7,814
Operating profit, MSEK	137	259	69	637	487
Operating margin, %	6	12	3	7	6
Return on operating capital, %	5	10	3	6	5
Production, 1,000 tonnes	464	447	449	1,773	1,739
Deliveries, 1,000 tonnes	465	452	465	1,764	1,731

The market situation in Europe for newsprint remained good during the fourth quarter with high capacity utilisation. Total deliveries to Europe in 2005 were 1 % higher than for the previous year. Demand for coated printing paper increased by 1 % while SC paper declined by 1 %.

Holmen Paper's deliveries rose by 2 % in relation to 2004. Deliveries to Europe increased, whereas exports to non-European markets declined. Deliveries were 3 % higher in the fourth quarter than in the third. Capacity utilisation continued at a high level. Prices, including currency effects, were on average 5 % higher in 2005 than in the previous year. Negotiations are in progress on prices for 2006 and they are expected to result in increases.

Holmen Paper's operating result for 2005 was a profit of MSEK 637 (487). Price increases and higher deliveries improved the result. On the other hand, the result was also affected by unfavourable currency effects and substantial cost increases for energy and other input goods. Costs of some MSEK 65 incurred in preparation for and on the commissioning of the new newsprint machine in Madrid, mainly in respect of increased manning, affected the result for 2005. The first paper on the machine was produced at the end of the year according to plan.

In relation to the third quarter, the result declined by MSEK 122 to MSEK 137, mainly owing to seasonally higher costs for energy, personnel and maintenance, as well as costs associated with the commissioning of the new newsprint machine.

Iggesund Paperboard	Quarter			Full year	
	4-05	3-05	4-04	2005	2004
Net turnover, MSEK	1,226	1,238	1,164	4,860	4,877
Operating profit, MSEK	169	181	110	626	809
Operating margin, %	14	15	9	13	17
Return on operating capital, %	17	18	11	16	20
Production, paperboard, 1,000 tonnes	136	124	116	493	502
Deliveries, paperboard, 1,000 tonnes	123	123	122	492	501

The market situation in Europe for virgin fibre board remained good during the fourth quarter with a high level of deliveries. For 2005 as a whole deliveries rose by 3 % in relation to 2004 as a result of growth in Central and Eastern Europe. Exports to non-European markets continued at a significantly lower level, also after the Finnish labour dispute.

Iggesund Paperboard's deliveries were 2 % lower than for 2004 as a whole owing to low production during the first half of the year. Deliveries during the fourth quarter were broadly the same as in the previous quarter. After a weak first half-year production improved significantly to reach a record level during the fourth quarter. Prices were stable.

Iggesund Paperboard's operating result for 2005 was a profit of MSEK 626 (809). The decline is explained by lower production and significant increases in the cost of wood, energy and chemicals.

In relation to the third quarter, the profit declined by MSEK 12 to MSEK 169 owing to seasonally higher costs.

A decision was made in December 2005 to invest MSEK 415 in the KM 2 board machine at Iggesund Bruk. The main object of the investment is to improve the quality and the quality consistency of the products, thereby creating the conditions for the further development of the mill's products for the most demanding applications in the graphic and packaging segments.

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<b>Iggesund Timber</b>	<b>4-05</b>	Quarter 3-05	4-04	Full year <b>2005</b>	2004
Net turnover, MSEK	<b>123</b>	98	117	<b>460</b>	492
Operating profit/loss, MSEK	<b>12</b>	-2	-5	<b>13</b>	5
Operating margin, %	<b>10</b>	-3	-5	<b>3</b>	1
Return on operating capital, %	<b>22</b>	-4	-10	<b>6</b>	2
Production, 1,000 m <sup>3</sup>	<b>64</b>	39	56	<b>222</b>	205
Deliveries own sawmill, 1,000 m <sup>3</sup>	<b>61</b>	49	52	<b>229</b>	195

Conditions on the sawn timber market improved gradually during the year. Prices have been raised somewhat from low levels.

Iggesund Timber's operating profit for the year as a whole was MSEK 13 (5). The result was favourably affected by higher production after a new log infeed

was commissioned in the summer, and by a decline in raw material costs. On the other hand, prices were slightly lower than in 2004.

In relation to the third quarter, the result improved by MSEK 14 owing to higher production and profit from the divestment of the merchanting business in Holland.

<b>Holmen Skog</b>	<b>4-05</b>	Quarter 3-05	4-04	Full year <b>2005</b>	2004
Net turnover, MSEK	<b>973</b>	820	1,014	<b>3,858</b>	3,780
of which external customers	<b>538</b>	444	586	<b>1,701</b>	2,141
Operating profit, MSEK	<b>165</b>	115	137	<b>537</b>	586
Return on operating capital, %	<b>7</b>	5	6	<b>6</b>	7
Harvesting in company forests, 1,000 m <sup>3</sup>	<b>702</b>	578	712	<b>2,334</b>	2,608

Holmen Skog's operating profit for 2005 was MSEK 537 (586). The decline is largely due to the storm that hit southern Sweden at the beginning of the year, which resulted in lower prices and higher harvesting costs during the year. The result includes sales of property intended for nature reserves of MSEK 56

(2004: 60), of which MSEK 39 was taken into the fourth quarter account.

In relation to the third quarter, the result improved by MSEK 50 to MSEK 165. The increase was a result of high income from property sales.

<b>Holmen Kraft</b>	<b>4-05</b>	Quarter 3-05	4-04	Full year <b>2005</b>	2004
Net turnover, MSEK	<b>412</b>	358	344	<b>1,480</b>	1,258
of which external customers	<b>118</b>	111	102	<b>419</b>	344
Operating profit, MSEK	<b>121</b>	70	59	<b>301</b>	178
Return on operating capital, %	<b>17</b>	10	8	<b>10</b>	6
Production of hydroelectric power, GWh	<b>311</b>	336	414	<b>1,236</b>	1,054

Holmen Kraft's operating profit for the year as a whole amounted to MSEK 301 (178). Production has been higher than normal, especially in the third quarter, and the price level also has risen. The result includes capital gains of MSEK 58 on sales of power grid assets in the fourth quarter.

In relation to the third quarter, the profit rose by MSEK 51 to MSEK 121.

On 1 December 2005, Holmen purchased an interest in Vattenfall's hydroelectric power assets for MSEK 85. As a result of the purchase, which corresponds to a normal year's production of some 26 GWh, Holmen raises its interest in the Tuggen power station on the Ume river. In a parallel transaction, Holmen sold power grid assets to Vattenfall.

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### Group comments

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#### Net financial items and financing

Net financial costs for the year as a whole amounted to MSEK 233 (cost: 206). The increase is due to higher indebtedness.

The Group's net financial debt increased by MSEK 1,660 to MSEK 6,536. The increase is explained by the investment in the new newsprint machine in Madrid. The debt/equity ratio was 0.41 (31 December 2004: 0.31). The equity ratio was 50.0 % (53.9).

Financial liabilities amounted to MSEK 7,248 (5,335), of which MSEK 4,349 were short term. Liquid funds and financial receivables amounted to MSEK 712. The Group has committed unutilised long-term credit facilities of approximately MSEK 6,400.

#### Tax

The Group's tax charge amounted to MSEK 484 (charge 471), which corresponds to 28 % of the pre-tax profit. The tax charge was lower than normal in the fourth quarter, mainly due to lower taxation of divestments.

#### Hedging of exchange rates and electricity prices

The result of currency hedging was a loss of MSEK 111 (profit 218), which is stated within the operating result. For 2006, 90 % of the Group's estimated net flows in euro are hedged and 70 % in sterling at average exchange rates of 9.25 and 13.69 respectively. For 2007 some 50 % of the flows in euro are hedged at an exchange rate of 9.48.

The price of approximately 85 % of the Group's estimated net consumption of electricity in Sweden in 2006 has been hedged. For the 2007-2015 period, the price of 70-75 % of the Group's estimated net consumption has been hedged.

#### Capital expenditure

The Group's capital expenditure amounted to MSEK 3,170 (1,291), of which MSEK 2,309 related to the new newsprint machine in Madrid. Depreciation according to plan amounted to MSEK 1,167 (1,156).

#### Employees

The average number of employees in the Group was 4,868 (full-year 2004: 4,897).

#### Parent company

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**Holmen** is a forest products industry group with the capacity to produce 2.7 million tonnes of paper and paperboard per year. The EU countries, which account for some 90 % of the Group's turnover, are by far the largest market. **Holmen Paper** produces paper for daily newspapers, magazines, directories and advertising matter at three Swedish mills and one Spanish mill. **Iggesund Paperboard** produces paperboard for packaging and graphic purposes at one Swedish and one English mill. **Iggesund Timber** produces sawn timber at one Swedish sawmill. **Holmen Skog** manages the Group's one million hectares of forests and the annual volume harvested in company forests is some 2.5 million cubic metres. Holmen's annual wood consumption is some 4.5 million cubic metres. **Holmen Kraft** produces in a normal year some 1,100 GWh of electric power at wholly and partly owned hydroelectric power stations in Sweden. Holmen's annual power consumption is some 4,200 GWh.

The parent company's (Holmen AB) net turnover amounted to MSEK 13,324 (12,761). The profit after net financial items amounted to MSEK 1,129 (1,302). Liquid funds amounted to MSEK 318 (31 December 2004: 223). The parent company's capital expenditure (excluding investments in shares) amounted to MSEK 36 (16).

#### Dividend

The Board proposes that the Annual General Meeting to be held on 28 March 2006 resolves in favour of paying a dividend of SEK 11 per share. For the previous year, a dividend of SEK 10 per share was paid. It is proposed that 31 March be the date of record for entitlement to dividend.

#### Share buy-back

The Annual General Meeting held on 5 April 2005 gave the Board a renewed mandate to make decisions to buy back up to 10 % of the company's shares. This mandate was not exercised. The Board proposes that the 2006 Annual General Meeting also gives the Board a mandate to buy back and transfer shares in the company.

#### Adoption of IFRS

As of 2005, Holmen applies the IFRS (International Financial Reporting Standards) in its consolidated financial statements. The figures and financial ratios for 2004, the comparative year, have been adjusted into line with the new principles, except for IAS 32 and 39. Information regarding the adoption of IFRS is provided on pages 9-11.

Stockholm 2 February 2006

Magnus Hall  
President and CEO

This report has not been examined by the company's auditors. The interim report for January-March 2006 will be published on 27 April. The 2006 AGM will be held in Stockholm at 4.00 pm on 28 March.

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### Accounting principles

The year-end report is made up in accordance with IAS 34 Interim Financial Reporting. The accounting principles, in contrast to the latest published annual report, have been harmonised with IAS/IFRS. The effects of this change are described on pages 9–11. Otherwise, the accounting principles for this year-end report are unchanged in relation to the latest published annual report.

Operating profit and loss account, MSEK	Quarter			Full year	
	4-05	3-05	4-04	2005	2004
Net turnover	4,235	4,082	4,042	16,319	15,653
Operating costs	-3,381	-3,209	-3,414	-13,205	-12,570
Depreciation according to plan	-292	-287	-285	-1,167	-1,156
Interest in earnings of associate companies	8	4	9	26	25
Operating profit	570	590	352	1,973	1,952
Net financial items	-54	-60	-54	-233	-206
Profit after financial items	516	530	298	1,740	1,746
Tax	-119	-159	-49	-484	-471
Profit for the period	397	371	249	1,256	1,275
Operating margin, %	13.3	14.4	8.5	11.9	12.3
Return on capital employed, %	10.2	10.7	6.8	9.0	9.5
Return on equity, %	10.0	9.6	6.5	8.0	7.9
Earnings per share (before dilution), SEK	4.7	4.4	2.9	14.8	15.3
Earnings per share (after dilution), SEK	4.7	4.4	2.9	14.8	15.1
Information for calculation of earnings per share					
Profit for the period	397	371	249	1,256	1,275
Interest convertible loan	-	-	-	-	2
Adjusted profit	397	371	249	1,256	1,277
Average number of shares (million)					
Before dilution	84.8	84.8	84.8	84.8	83.6
After dilution*	84.8	84.8	84.8	84.8	84.5

\* Relates to a convertible loan and warrants that were converted into and subscribed to shares during the first quarter of 2004.

MSEK	Net turnover				Operating profit/loss			
	Quarter	Quarter	Full year	Full year	Quarter	Quarter	Full year	Full year
	4-05	3-05	2005	2004	4-05	3-05	2005	2004
Holmen Paper	2,235	2,197	8,442	7,814	137	259	637	487
Iggesund Paperboard	1,226	1,238	4,860	4,877	169	181	626	809
Iggesund Timber	123	98	460	492	12	-2	13	5
Holmen Skog	973	820	3,858	3,780	165	115	537	586
Holmen Kraft	412	358	1,480	1,258	121	70	301	178
Group central costs and other	-	-	-	-	-34	-33	-141	-113
	4,969	4,711	19,100	18,221	570	590	1,973	1,952
Intra-group sales	-734	-629	-2,781	-2,568	-	-	-	-
	4,235	4,082	16,319	15,653	570	590	1,973	1,952

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<b>Balance sheet, MSEK</b>	<b>2005 31 Dec</b>	<b>2004 31 Dec</b>
<b>Assets</b>		
Intangible fixed assets		
Goodwill	586	523
Other	72	36
Tangible fixed assets	23,025	20,775
Financial fixed assets		
Shares and participations	1,739	1,754
Financial receivables	74	58
Other receivables	19	20
Deferred tax receivable	321	273
Current assets		
Inventories	2,518	2,399
Current receivables	3,191	2,750
Financial receivables	58	34
Liquid funds	580	367
	<b>32,183</b>	<b>28,989</b>
<b>Equity and liabilities</b>		
Equity	16,079	15,523
Minority interest	-	112
Deferred tax liability	5,143	5,177
Financial liabilities		
Long-term	2,899	2,927
Short-term	4,349	2,408
Operating liabilities	3,713	2,842
	<b>32,183</b>	<b>28,989</b>
Debt/equity ratio	0.41	0.31
Equity ratio, %	50.0	53.9

<b>Change in equity, MSEK</b>	<b>2005 31 Dec</b>	<b>2004 31 Dec</b>
Opening equity	15,523	16,977
Effect on equity of adoption of IAS 39	34	-
New share issue through conversion and subscription	-	474
Dividend paid	-848	-3,199
Currency differences foreign group and associate companies	148	-4
Change in market value of hedge-accounted items, IAS 39	-34	-
Profit for the year	1,256	1,275
Closing equity	<b>16,079</b>	<b>15,523</b>

<b>Pledged assets and contingent liabilities, MSEK</b>	<b>2005 31 Dec</b>	<b>2004 31 Dec</b>
Pledged assets	99	1,661
Contingent liabilities	1,314	1,258

<b>Share structure</b>			
<b>Share</b>	<b>Votes</b>	<b>Number of shares</b>	<b>Number of votes</b>
A	10	22,623,234	226,232,340
B	1	62,132,928	62,132,928
Total number of shares		84,756,162	288,365,268

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<b>Cash flow analysis, MSEK</b>	Full year	
	2005	2004
<b>Current operations</b>		
Profit after financial items	1,740	1,746
Adjustments for items not included in cash flow etc*	908	1,031
	2,648	2,777
Tax paid	-516	-378
<b>Cash flow from current operations before changes in working capital</b>	2,132	2,399
Cash flow from changes in working capital		
Change in inventories	-85	-193
Change in operating receivables	-333	-198
Change in operating liabilities	757	323
<b>Cash flow from current operations</b>	2,471	2,331
<b>Investment activities</b>		
Acquisition of minority interest in subsidiary	-67	-
Acquisition of fixed assets	-3,102	-1,291
Sale of fixed assets	140	96
<b>Cash flow from investment activities</b>	-3,029	-1,195
<b>Financing activities</b>		
Change in financial liabilities and receivables	1,613	1,387
New share issue through conversion and subscription	-	474
Dividend paid	-848	-3,199
<b>Cash flow from financing activities</b>	765	-1,338
<b>Cash flow for the period</b>	207	-202
Opening liquid funds	367	570
Currency differences liquid funds	6	-1
<b>Closing liquid funds</b>	580	367

\* The adjustments consist primarily of depreciation according to plan, capital gains/losses on sales of fixed assets, interest in earnings of associate companies and effects of adjustments according to IAS 41 and IAS 39.

<b>Change in net financial debt, MSEK</b>	Full year	
	2005	2004
Opening net financial debt	-4,876	-3,304
Effect on net financial debt of adoption of IAS 39	-60	-
Cash flow		
Current operations	2,471	2,331
Investment activities	-3,029	-1,195
New share issue through conversion and subscription	-	474
Dividend paid	-848	-3,199
Acquisition of minority interest in subsidiary	-112	-
Currency effects	-82	17
<b>Closing net financial debt</b>	-6,536	-4,876

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Quarterly figures	2005					2004				
	Full year	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1
<b>Profit and loss account, MSEK</b>										
Net turnover	16,319	4,235	4,082	4,201	3,801	15,653	4,042	3,824	3,884	3,903
Operating costs	-13,205	-3,381	-3,209	-3,464	-3,151	-12,570	-3,414	-2,967	-3,146	-3,043
Depreciation according to plan	-1,167	-292	-287	-295	-293	-1,156	-285	-288	-291	-292
Interest in earnings of associate companies	26	8	4	7	7	25	9	-1	13	4
<b>Operating profit</b>	<b>1,973</b>	<b>570</b>	590	449	364	1,952	352	568	460	572
Net financial items	-233	-54	-60	-62	-57	-206	-54	-57	-53	-42
<b>Profit after financial items</b>	<b>1,740</b>	<b>516</b>	530	387	307	1,746	298	511	407	530
Tax	-484	-119	-159	-116	-90	-471	-49	-149	-119	-154
<b>Profit for the period</b>	<b>1,256</b>	<b>397</b>	371	271	217	1,275	249	362	288	376
Earnings per share, SEK										
before dilution	14.82	4.68	4.38	3.20	2.56	15.31	2.94	4.27	3.40	4.70
after dilution	14.82	4.68	4.38	3.20	2.56	15.12	2.94	4.27	3.40	4.52
<b>Key figures</b>										
Operating margin, %	11.9	13.3	14.4	10.5	9.4	12.3	8.5	14.9	11.5	14.6
Return on capital employed, %	9.0	10.2	10.7	8.3	6.9	9.5	6.8	11.0	8.9	11.2
Return on equity, %	8.0	10.0	9.6	7.0	5.5	7.9	6.5	9.6	7.0	8.6
<b>Net turnover, MSEK</b>										
Holmen Paper	8,442	2,235	2,197	2,180	1,830	7,814	2,076	2,005	1,941	1,792
Iggesund Paperboard	4,860	1,226	1,238	1,237	1,159	4,877	1,164	1,228	1,212	1,273
Iggesund Timber	460	123	98	123	116	492	117	109	132	134
Holmen Skog	3,858	973	820	1,042	1,023	3,780	1,014	799	953	1,014
Holmen Kraft	1,480	412	358	333	377	1,258	344	291	272	351
	19,100	4,969	4,711	4,915	4,505	18,221	4,715	4,432	4,510	4,564
Intra-group sales	-2,781	-734	-629	-714	-704	-2,568	-673	-608	-626	-661
	16,319	4,235	4,082	4,201	3,801	15,653	4,042	3,824	3,884	3,903
<b>Operating profit, MSEK</b>										
Holmen Paper	637	137	259	180	61	487	69	178	121	119
Iggesund Paperboard	626	169	181	124	152	809	110	249	205	245
Iggesund Timber	13	12	-2	3	0	5	-5	1	3	6
Holmen Skog	537	165	115	140	117	586	137	127	144	178
Holmen Kraft	301	121	70	39	71	178	59	41	19	59
Group central costs and other	-141	-34	-33	-37	-37	-113	-18	-28	-32	-35
	1,973	570	590	449	364	1,952	352	568	460	572
<b>Operating margin, %</b>										
Holmen Paper	7	6	12	8	3	6	3	9	6	7
Iggesund Paperboard	13	14	15	10	13	17	9	20	17	19
Iggesund Timber	3	10	-3	3	0	1	-5	1	1	4
Group	12	13	14	11	9	12	9	15	12	15
<b>Operating capital, MSEK</b>										
Holmen Paper	11,452	11,452	11,142	10,688	10,062	9,659	9,659	9,704	9,526	9,520
Iggesund Paperboard	3,965	3,965	3,916	4,089	3,987	3,871	3,871	3,964	4,053	4,055
Iggesund Timber	230	230	228	231	236	231	231	243	256	285
Holmen Skog	8,919	8,919	8,947	8,886	8,838	8,842	8,842	8,850	8,831	8,806
Holmen Kraft	2,958	2,958	2,930	2,928	2,928	2,930	2,930	2,923	2,916	2,917
Group central costs and other	-87	-87	85	55	211	-118	-118	62	64	43
	27,437	27,437	27,248	26,877	26,262	25,415	25,415	25,746	25,646	25,626
<b>Deliveries</b>										
Newsprint and magazine paper, 1,000 tonnes	1,764	465	452	454	393	1,731	465	439	429	398
Paperboard, 1,000 tonnes	492	123	123	127	119	501	122	127	123	129
Sawn timber, 1,000 m <sup>3</sup>	229	61	49	62	57	195	52	44	49	50

## **Adoption of IFRS**

As of 1 January 2005, Holmen applies the International Financial Reporting Standards (IFRS) to its consolidated financial statements. This is a consequence of an EU directive that applies to all listed companies in the EU.

The adoption of IFRS means that the comparative figures for 2004 have been adjusted, except for IAS 32 and IAS 39 Financial Instruments. The rules for the adoption of IFRS and recomputation of figures can be found in IFRS 1 First-time Adoption of IFRS.

The Swedish Financial Accounting Standards Council's recommendations have been harmonised with the IFRS rules in many areas. As far as Holmen is concerned, the adoption of IFRS has mainly involved the below commented changes and adjustments. The effects on the profit and loss account and the balance sheet are presented on pages 10–11.

### **IAS 19 Employee Benefits**

Holmen has been applying IAS 19 since 2003. The adoption of IFRS involves the zeroing as of 1 January 2004 of unrecognised actuarial gains and losses in respect of defined benefit pension plans. This has resulted in a reduction of MSEK 65 in the pension deficit (difference between pension assets and commitments under defined benefit pension plans), which reduced net financial liabilities by the same amount. After deduction of deferred tax, equity has increased by MSEK 47.

### **IAS 1 Presentation of Financial Statements**

According to IAS 1, minority interests in the balance sheet are to be stated as a separate item within equity. However, Holmen has opted not to reclassify these, as the outstanding minority interests were acquired in March 2005.

### **IAS 39 Financial Instruments: Recognition and Measurement**

According to IAS 39, all financial assets and liabilities, including derivatives, shall be stated at either fair value or acquisition cost, depending on how they are classified. In the case of assets and liabilities that are stated at fair value, the revaluation result arising shall be stated in the income statement or taken against equity in the balance sheet, depending on whether or not hedge accounting is used.

In Holmen's case, the primary change is that the fair value of financial assets and liabilities that are hedge accounted are stated in the balance sheet. Holmen uses hedge accounting in accordance with IAS 39 in respect of currency hedging of transaction and translation exposures, hedging of interest rate risk, and hedging of electricity price risk. Holmen makes use of the opportunity to value liabilities at actual value for a loan raised in 2005 that satisfies the relevant criteria. This loan had a market value of MSEK 438 on 31 December and an acquisition value of MSEK 452.

The introduction of IAS 39 meant that working capital as at 1 January 2005 increased by MSEK 107, net financial debt by MSEK 60, deferred tax by MSEK 13 and equity by MSEK 34. The result stated in Holmen's accounts is largely unchanged in relation to past practice. The introduction of IAS 39 has therefore had an insignificant effect on the consolidated result for 2005.

### **IAS 41 Agriculture**

Holmen's forest holdings have earlier been stated at acquisition cost after adjustment for revaluations. According to IFRS, forest assets are to be divided into growing forests, which are stated in accordance with IAS 41, and land, which is stated in accordance with IAS 16.

According to IAS 41, growing forest shall be valued and stated at fair value at the end of each accounting period. In the absence of market prices or other comparable valuation, biological assets shall be valued at the discounted value of the future cash flow from the assets. Changes in fair value are stated in the income statement.

Holmen's view is that there are no relevant market prices that can be used to value forest holdings as large as Holmen's. The forests are therefore valued by calculating the discounted value of expected future cash flows from the growing forests. Cash flow is calculated for the coming 100 years, which is judged to be the harvesting cycle of a forest. The cash flow is calculated on the basis of harvesting volumes in accordance with Holmen's latest harvesting plan and estimates of future price and cost development. The cost of replanting has been taken into account as replanting after harvesting is a statutory obligation. The cash flow before tax is discounted using an interest rate of 6.25 %, which is estimated to be a long-term cost of capital in the forestry. Deferred tax liability has been calculated on the total value of the growing forests.

The land on which the forest is growing is valued at acquisition cost in accordance with IAS 16.

The adoption of IFRS meant that the book value of Holmen's forest assets on 1 January 2004 increased from MSEK 6,301 to MSEK 8,661, of which growing forest represents MSEK 8,561. The deferred tax liability on forest assets at the same time rose from MSEK 1,715 to MSEK 2,397. Equity increased by MSEK 1,678.

At the end of 2004, the value of growing forest was MSEK 8,622. The change in the value of the growing forest is taken into the income statement, which meant that for 2004 the operating profit increased by MSEK 60, in relation to the previous accounting principles. The tax charge has at the same time increased by MSEK 17, which corresponds to the change in deferred tax on the growing forest.

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## IFRS 3 Business Combinations

IFRS 3 means that goodwill is not subject to systematic depreciation. In Holmen's case, this meant that the goodwill arising on the acquisition of Holmen Paper Madrid in 2000 no longer is depreciated according to plan. Instead, this goodwill will be reviewed annually to determine the need, if any, for depreciation. Goodwill

on Holmen's balance sheet at 1 January 2004 amounted to MSEK 528. The operating profit for 2004 has improved by MSEK 32, in relation to the previous accounting principles.

Holmen has not recalculated acquisitions made before 1 January 2004. There were no acquisitions in 2004.

## IFRS adjustments

Profit and loss account, MSEK	2004 Oct - Dec				2004 Jan - Dec			
	According to earlier principles	Changed principles		According to IFRS	According to earlier principles	Changed principles		According to IFRS
		IFRS 3	IAS 41			IFRS 3	IAS 41	
Net turnover	4,042			4,042	15,653			15,653
Operating costs	-3,423		9	-3,414	-12,630		60	-12,570
Depreciation according to plan	-293	8		-285	-1,188	32		-1,156
Interest in earnings of associate companies	9			9	25			25
<b>Operating profit</b>	<b>335</b>	<b>8</b>	<b>9</b>	<b>352</b>	<b>1,860</b>	<b>32</b>	<b>60</b>	<b>1,952</b>
Net financial items	-54			-54	-206			-206
<b>Profit after financial items</b>	<b>281</b>	<b>8</b>	<b>9</b>	<b>298</b>	<b>1,654</b>	<b>32</b>	<b>60</b>	<b>1,746</b>
Tax	-43	-3	-3	-49	-443	-11	-17	-471
<b>Profit for the period</b>	<b>238</b>	<b>5</b>	<b>6</b>	<b>249</b>	<b>1,211</b>	<b>21</b>	<b>43</b>	<b>1,275</b>

Balance sheet, MSEK	2003				2004
	31 Dec	IFRS 3	IAS 19	IAS 41	1 Jan IFRS
<b>Assets</b>					
Intangible fixed assets					
Goodwill	528				528
Other	28				28
Tangible fixed assets	18,278			2,360	20,638
Financial fixed assets					
Shares and participations	1,767				1,767
Other	44				44
Deferred tax receivable	295		-20		275
Current assets					
Inventories	2,204				2,204
Current receivables	2,539				2,539
Financial receivables	105				105
Liquid funds	570				570
	26,358	0	-20	2,360	28,698
<b>Equity and liabilities</b>					
Equity	15,254		45	1,678	16,977
Minority interest	112				112
Deferred tax liability	4,557			682	5,239
Financial liabilities					
Long-term	1,914		-65		1,849
Short-term	2,130				2,130
Operating liabilities	2,391				2,391
	26,358	0	-20	2,360	28,698
Debt/equity ratio	0.22				0.19
Equity ratio, %	58.3				59.5

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Balance sheet, MSEK	2004 31 Dec	IFRS 3	IAS 19	IAS 41	2004 31 Dec IFRS	IAS 39	2005 1 Jan IFRS
<b>Assets</b>							
Intangible fixed assets							
Goodwill	491	32			523		523
Other	36				36		36
Tangible fixed assets	18,354			2,421	20,775		20,775
Financial fixed assets							
Shares and participations	1,754				1,754		1,754
Other	20				20		20
Deferred tax receivable	304	-11	-20		273		273
Current assets							
Inventories	2,399				2,399		2,399
Current receivables	2,750				2,750	145	2,895
Financial receivables	92				92	13	105
Liquid funds	367				367		367
	26,567	21	-20	2,421	28,989	158	29,147
<b>Equity and liabilities</b>							
Equity	13,737	21	45	1,720	15,523	34	15,557
Minority interest	112				112		112
Deferred tax liability	4,476			701	5,177	13	5,190
Financial liabilities							
Long-term	2,992		-65		2,927		2,927
Short-term	2,408				2,408	73	2,481
Operating liabilities	2,842				2,842	38	2,880
	26,567	21	-20	2,421	28,989	158	29,147
Debt/equity ratio	0.36				0.31		0.31
Equity ratio, %	52.1				53.9		53.8