# Investment AB Kinnevik

Annual Report 2005

## Annual General Meeting 2006

**Date and venue**
The Annual General Meeting will be held on Thursday, 11 May 2006, at 1:30 p.m. at the Skandia Cinema, Drottninggatan 82, Stockholm. The doors will open at 12:30 p.m. and registration will be conducted until 1:30 p.m., when the doors will be closed.

**Who is entitled to participate?**
Shareholders who intend to participate in the Annual General Meeting shall
- be entered in the register of shareholders maintained by VPC AB (Swedish Securities Depository & Clearing Organization) on Friday, 5 May 2006
- notify the Company of their intention to participate not later than Friday, 5 May 2006, at 3:00 p.m.

**How to be entered in the register of shareholders**
Shares can be registered in the register of shareholders maintained by VPC AB in the name of the owner or the nominee. Shareholders whose shares are registered in the names of nominees must temporarily reregister the shares in their own name to be entitled to participate in the Meeting. Shareholders requiring such reregistration must inform the nominee of this in sufficient time prior to 5 May 2006.

**How to notify intention to participate**
Shareholders can notify the Company of their intention to participate by using one of the following alternatives
- the Company's website, www.kinnevik.se
- by telephone, +46 (0) 433 74756
- by writing to the Company at: Investment AB Kinnevik, Box 2094, SE-103 13 Stockholm, Sweden

**Notification should include the following information:**
- Name
- Personal identification number / corporate registration number
- Address and telephone number
- Shareholding
- Representatives, if applicable

If participation is based on written power of attorney, this should be submitted in conjunction with notification of participation in the Annual General Meeting.
Notification must be submitted to the Company not later than Friday, 5 May 2006.

**Nomination Group**
During the Autumn, a Nomination Group was formed comprising Cristina Stenbeck on behalf of Emesco AB and other shareholders, Wilhelm Klingspor on behalf of the Klingspor family, Mats Lagerqvist on behalf of Robur, Björn Lind on behalf of SEB Fonder and SEB Trygg Liv and Tomas Nicolin on behalf of Alecta, who together represent more than 50% of the voting rights in Kinnevik. Information about the work of the Nomination Group can be found on Kinnevik's corporate website at www.kinnevik.se.
The Nomination Group will submit a proposal for the composition of the Board of Directors that will be presented to the 2006 Annual General Meeting for approval.
Shareholders who wish to submit proposals to the Nomination Group should contact:
E-mail: agm@kinnevik.se
Letter: Company Secretary, Investment AB Kinnevik, Box 2094, SE-103 13 Stockholm, Sweden

## Financial information

Interim Report Q1, 24 April 2006
Interim Report Q2, 24 July 2006
Interim Report Q3, 23 October 2006
Year-end Report 2006, February 2007
Annual Report for 2006, March 2007
Annual General Meeting, May 2007

”Nearly seventy years of entrepreneurial tradition
under the same group of principal owners”

# Contents

# Historical background

The predecessor of Investment AB Kinnevik was founded on 18 December 1936, by a group of friends, and the business has been carried on by their descendents, now in the third generation. Thus the Company embodies nearly seventy years of entrepreneurship under the same group of principal owners. The original investments mainly took the form of purchases of substantial minority holdings in listed companies, with price as an important criterion. Decisions on investments are often made against the prevailing market trend, or contrary to generally accepted views. As other investors tend to give too much credence to these views the return on their investments is consequently often lower than the market average.

Since it was founded, the Group has owned large agricultural properties. Investments were originally made principally in heavy manufacturing, in the forest products, in the iron and steel industries and in fabrication associated with these industries. In 1978, shares of Fagersta AB were acquired for the purpose of seeking to coordinate the steel operations of Fagersta and Sandvik. When Skanska AB, in cooperation with Investment AB Beijer, acquired major holdings of shares in Sandvik AB, Kinnevik sold its Sandvik shares in the autumn of 1983. In 1984, agreements were finally reached to restructure the Swedish specialty steel industry. The stainless-steel production assets of Fagersta AB were sold to other manufacturers. Fagersta AB was then merged into a single entity with its major shareholder, Investment AB Kinnevik.

Kloster Speedsteel AB, Kinnevik's last major investment in specialty steel manufacturing, was sold in 1991.

In 1992, Kinnevik made a tender offer to acquire the outstanding minority shares in Korsnäs AB, a company in which Kinnevik has been a shareholder since 1936. The merger of Korsnäs and Kinnevik created the opportunity to invest Korsnäs' surplus in other more rapidly expanding areas of operation.

Since the prices of established companies appeared high, Kinnevik chose in the 1980s and 1990s not to invest in these, but to set up companies around new products or services, largely in information distribution in the broadest sense of the term, from telecommunications to television. Kinnevik or its subsidiary companies, invested in operating cellular mobile telephone systems since 1981; establishing and operating DBS satellite operations since 1985; operating credit card telephone and credit card transaction systems since 1986; providing cable-TV services since 1987; newspaper publishing since 1987; commercial TV broadcasting since 1987; independent TV production since 1988; in distribution of pay-TV since 1989; television home-shopping since 1989; radio broadcasting since 1991; digital mobile telecommunications since 1992; teletext services since 1993; international telecommunications since 1993; national telecommunications since 1994; the Metro daily newspaper and debt-recovery services since 1995. Internet and IT-related companies, as well as customer service operations, were started in 1996. Although errors were certainly committed, these ventures now appear to be successful overall.

During the build-up phase, it was advantageous for the new operations to be included in Kinnevik, which had a conglomerate-like organization. This enabled the operations to benefit from collective financial assets and management resources.

When the companies had achieved a certain maturity, it was desirable to highlight the financial values and enable a higher degree of independence, which is why Kinnevik has successively spun off a number of subgroups to shareholders over the past decade. The shares in Tele2 AB (formerly NetCom AB) ("Tele2") were spun off to shareholders in 1996 and Modern Times Group MTG AB ("MTG") in 1997. The shares in Metro International S.A. ("Metro") were spun-off from MTG to their shareholders in 2000. At Kinnevik's Annual General Meeting in 2001, a decision was approved to spin off the shares in Transcom WorldWide S.A. ("Transcom").

Invik & Co. AB ("old Invik") was formed in 1985 following a division of Kinnevik's then operations within long-term industrial management and corporate development, and within asset and financial operations. The latter operations were placed in Kinnevik's wholly owned subsidiary old Invik, after which shareholders in Kinnevik received an offer to subscribe for shares in old Invik. Through old Invik's shareholding in Kinnevik old Invik received shares in Tele2, MTG, Metro and Transcom as dividends.

In February 2004, the Boards of Industriförvaltnings AB Kinnevik and old Invik decided to merge the companies. The merger, which was completed in summer 2004, marked the end of the period with two holding companies with cross-shareholdings. Old Invik was the company that remained after the merger, and following the merger the Company changed its name to Investment AB Kinnevik ("Kinnevik"). In conjunction with this, the name of the wholly owned subsidiary Modern Finance Group AB was changed to Invik & Co. AB ("Invik") and financial operations in old Invik were subsequently transferred to Invik, which thus emerged as a sub-group to Kinnevik. Old Invik's portfolio of listed holdings was not transferred to Invik and was after the merger owned by Kinnevik. Subsequently, the Kinnevik Annual General Meeting in 2005 resolved to distribute the shares in Invik to Kinnevik shareholders, following which the shares in Invik, now as a streamlined group with subsidiaries active in the financial sector, were listed on the Stockholm Stock Exchange's O-List as of 1 September.

As of 31 December 2005, the total value of the spun-off shares in Tele2, MTG, Metro, Transcom and Invik amounted to SEK 73,692 million.

# Five-year Summary

| **Summary of Income Statement** [1] (SEK million) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | 4,618 | 4,600 | 5,660 | 6,110 | 6,120 |
| Operating income | 353 | 1,526 | 716 | 1,325 | 318 |
| Change in fair value of financial assets | 3,893 | – 2,544 | – | – | – |
| Result from participation in associated companies | – | – | 2,675 | – 4,297 | – 487 |
| Result after net financial items | 4,647 | – 1,198 | 3,325 | – 3,946 | – 462 |
| Result for the year | 4,097 | – 1,417 | 3,731 | – 4,109 | – 570 |
| **Summary of cash-flow statement** (SEK million) | | | | | |
| Cash flow from operations | 52 | 1,128 | 806 | 791 | 568 |
| Cash flow from investing activities | 266 | 1,775 | – 483 | 323 | – 1,203 |
| Cash flow from financing activities | – 34 | – 2,802 | – 483 | – 1,052 | 443 |
| Cash flow from discontinued operations | – 367 | – 33 | – | – | – |
| Cash flow for the year | – 83 | 68 | – 160 | 62 | – 192 |
| **Key ratios** | | | | | |
| Operating margin | 7.6% | 33.2% | 12.7% | 21.7% | 5.2% |
| Profit margin | 100.6% | – 26.0% | 58.7% | – 64.6% | – 7.5% |
| Capital employed, SEK million | 31,022 | 30,262 | 19,700 | 17,039 | 23,715 |
| Return on capital employed | 15.9% | – 3.4% | 20.5% | – 17.2% | – 0.1% |
| Return on shareholders' equity | 18.9% | – 7.2% | 37.8% | – 37.5% | – 4.0% |
| Equity/assets ratio | 70% | 58% | 65% [2] | 43% [2] | 55% [2] |
| Net debt (excluding Invik), SEK million | 7,249 | 7,168 | 6,803 | 6,820 | 7,553 |
| Debt/equity ratio, multiple | 0.3 | 0.7 | 0.7 | 1.1 | 0.7 |
| Risk capital ratio | 72.3% | 60.3% | 57.7% | 48.6% | 56.9% |
| **Data per share** [3] | | | | | |
| Average number of shares (000s) | 263,982 | 242,134 | 220,285 | 220,285 | 220,285 |
| Earnings per share, SEK [4] | 15.52 | – 5.85 | 16.94 | – 18.65 | – 2.59 |
| Shareholders' equity per share, SEK | 88.32 | 83.05 | 52.27 | 37.32 | 62.18 |
| Market price B share at 31 December, SEK | 74.00 | 70.75 | 67.43 | 24.86 | 47.43 |
| Dividend per share, SEK | 1.60 [5] | 0.25 [6] | 1.57 | 1.14 | 0.57 |
| Direct yield | 2.2% | 0.4% | 2.3% | 4.6% | 1.2% |
| P/E ratio | 4.8 | – 12.1 | 4.0 | – 1.3 | – 18.3 |

1) IFRS have been applied from 2005. Figures for 2004 have been recalculated to be in line with IFRS. 2001-2003 have not been recalculated and are reported in accordance with earlier principles based on recommendations from the Swedish Financial Accounting Standards Council.
2) Adjusted for hidden reserves in the share portfolio.
3) All information adjusted for the exchange ratio at merger with old Invik in July 2004, in which one old Kinnevik share entitled to 3.5 shares in Investment AB Kinnevik.
4) Including discontinued operations.
5) Proposed cash dividend.
6) Cash dividend, excluding distribution in kind of shares in Invik & Co. AB.

For definitions of key ratios, see page 84.

# Board of Directors

The Board of Directors, President and Company Secretary of Investment AB Kinnevik.
Left to right: Thorbjörn Hallström, Erik Mitteregger, Edvard von Horn,
Cristina Stenbeck, Wilhelm Klingspor, Pehr G Gyllenhammar, Stig Nordin, Vigo Carlund,
Jan-Henrik Sandberg, Mikael Larsson, Hans Wahlbom and Bo Gidlund.

**Pehr G Gyllenhammar** *Chairman*
Director, born 1935. Chairman of the Board of Investment AB Kinnevik since 2004 and of European Financial Services Round Table (EFR) and Reuters Founders Share Company Ltd. Vice Chairman of the Board of Rothschild Europe.
Independent in relation to the Company, management and the Company's major shareholders.
Shareholding: 3,000 Series A shares and 12,000 Series B shares.

**Cristina Stenbeck** *Vice Chairman*
B.Sc., born 1977. Vice Chairman of the Board of Industriförvaltnings AB Kinnevik during the period 2003-2004, of Investment AB Kinnevik since 2004 and of Metro International S.A. since 2003. Member of the Board of Millicom International Cellular S.A., Modern Times Group MTG AB, Tele2 AB, Invik & Co. AB and Transcom WorldWide S.A.
Independent in relation to the Company and management, dependent in relation to the Company's major shareholders.
Shareholding: -

**Thorbjörn Hallström** *Employee representative / Board member*
Project engineer, born 1950. Employee representative of Industriförvaltnings AB Kinnevik during the period 1996-2004 and of Investment AB Kinnevik since 2004.
Dependent in relation to the Company and management, independent in relation to the Company's major shareholders.
Shareholding: 35 Series B shares.

**Edvard von Horn** *Board member*
B.A., born 1943. Member of the Board of Industriförvaltnings AB Kinnevik during the period 1992-2004 and of Investment AB Kinnevik since 2004.
Independent in relation to the Company, management and the Company's major shareholders.
Shareholding: 176,793 Series A shares and 39,221 Series B shares.

**Wilhelm Klingspor** *Board member*
Forest Engineer, born 1962. Member of the Board of Industriförvaltnings AB Kinnevik during the period 1999-2004 and of Investment AB Kinnevik since 2004.
Independent in relation to the Company and management, dependent in relation to the Company's major shareholders.
Shareholding: 935,848 Series A shares and 647,542 Series B shares.

**Erik Mitteregger** *Board member*
Graduate in business administration, born 1960. Member of the Board of Investment AB Kinnevik since 2004. Chairman of the Board of Aspiro AB. Member of the Board of Firefly AB, Invik & Co. AB and Wise Group AB.
Independent in relation to the Company, management and the Company's major shareholders.
Shareholding: 35,000 Series A shares.

**Stig Nordin** *Board member*
Director, born 1943. Member of the Board of Industriförvaltnings AB Kinnevik during the period 1992-2004 and of Investment AB Kinnevik since 2004.
Dependent in relation to the Company, management and the Company's major shareholders.
Shareholding: 39,668 Series B shares.

**Jan-Henrik Sandberg** *Employee representative / Board member*
Boiler plant operator, born 1959. Employee representative of Industriförvaltnings AB Kinnevik during the period 2002-2004 and of Investment AB Kinnevik since 2004.
Dependent in relation to the Company and management, independent in relation to the Company's major shareholders.
Shareholding: 10 Series B shares.

**Bo Gidlund** *Employee representative / Deputy*
Born 1958. Employee representative of Investment AB Kinnevik since 2004.
Dependent in relation to the Company and management, independent in relation to the Company's major shareholders.
Shareholding: 101 Series B shares.

**Hans Wahlbom** *Employee representative / Deputy*
Born 1950. Employee representative of Industriförvaltnings AB Kinnevik during the period 1996-2004 and of Investment AB Kinnevik since 2004.
Dependent in relation to the Company and management, independent in relation to the Company's major shareholders.
Shareholding: 57 Series A shares and 101 Series B shares.

**Vigo Carlund**
*President and CEO of Investment AB Kinnevik*
(not a Member of the Board)
See under Senior Executives.

**Mikael Larsson**
*Chief Financial Officer Investment AB Kinnevik*
(Company Secretary, not a Member of the Board)
See under Senior Executives.

**Honorary Member**
**Agriculturalist Bo von Horn**

**Auditors**
At the Annual General Meeting 2004 the audit firm Ernst & Young AB was elected as auditors with Erik Åström as auditor in charge.

**Erik Åström**, born 1957. Authorized Public Accountant of Industriförvaltnings AB Kinnevik during the period 2001-2004 and of Investment AB Kinnevik since 2004. Erik Åström has audit engagements in a number of listed companies such as Hakon Invest, H&M Hennes & Mauritz, Modern Times Group MTG and onetwocom.

# Senior Executives

Left to right,
back row Mikael Larsson, Peter Buckley, Henrik Persson
front row Peter Sandberg, Vigo Carlund, Sture Gustavsson

**Vigo Carlund** *President and CEO Investment AB Kinnevik.* Born 1946. Employed since 1968. Other assignments for listed companies: Chairman of the Board Metro International S.A. Vice Chairman of the Board Tele2 AB. Member of the Boards of Millicom International Cellular S.A., Modern Times Group MTG AB, Invik & Co. AB and Transcom WorldWide S.A. Shareholding: 419,560 Series B shares.

**Mikael Larsson** *Chief Financial Officer.* Born 1968. Graduate in Business Administration. Employed since 2001. Shareholding: 1,750 Series B shares.

**Henrik Persson** *Director Corporate Communications / Portfolio Review.* Born 1974. Graduate in Business Administration. Employed since 2004. Shareholding: 2,000 Series B shares.

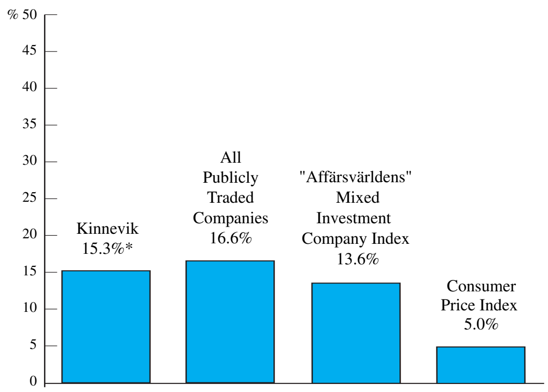
**Peter Sandberg** *President Korsnäs.* Born 1967. Graduate in Business Administration. Employed since 2005. Shareholding: –

**Peter Buckley** *President Korsnäs Packaging.* Born 1965. Graduate in Business Administration. Employed since 2001. Shareholding: –

**Sture Gustavsson** *President Mellersta Sveriges Lantbruks.* Born 1959. Agriculturalist. Employed since 1994. Shareholding: –

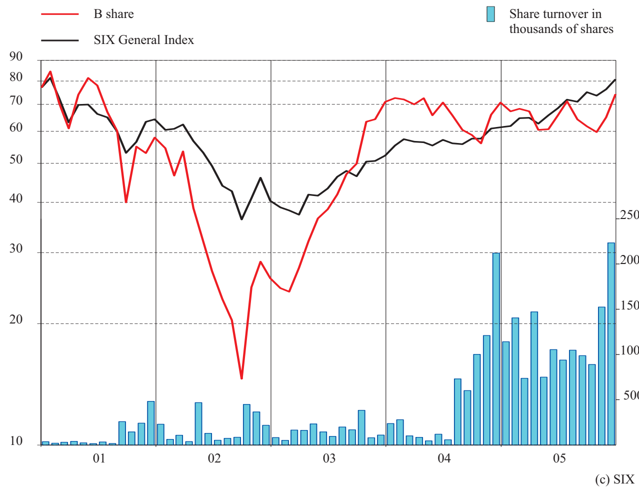
**The Kinnevik share**
As per 31 December 2005, the total number of shares outstanding amounted to 263,981,930, of which 50,197,050 are Series A shares and 213,784,880 are Series B shares. The share's par value is SEK 0.10. One Series A share carries entitlement to ten votes and one Series B share one vote. Kinnevik's Series A and B shares have been listed on the Stockholm Stock Exchange since 12 November 1992. Following the merger with old Invik in July 2004, the share is listed on the O-List of the Stockholm Stock Exchange and is included in the Attract 40 segment. The shares are traded under the symbols KINV A and KINV B. A round lot comprises 100 shares.

**Effective Annual Average Rate of Return on Share Ownership 1976-2005**




* Including the value of dividends of Tele2, MTG, Metro, SEC, Invik (1985 and 2005) and Transcom and the value of share subscription offers.

**Kinnevik's share price during 2001-2005**




**Share-price trend and trading**
The above charts present the Kinnevik share's price trend during the past 28 and five years, respectively. The historical share price has been adjusted to account for the merger with old Invik on 28 July 2004. For each Series A share in old Kinnevik, 3.5 new Series A shares were received in old Invik (name changed to Investment AB Kinnevik), and for each Series B share in old Kinnevik, 3.5 new Series B shares were received in old Invik. Furthermore, the historical price trend has been adjusted downward for the distribution of all shares in Transcom and Invik. On 4 September 2001, all shares in Transcom were distributed to Kinnevik's shareholders and on 30 August 2005 all shares in Invik were distributed to Kinnevik's shareholders.

During the year, an average of 560,331 Series B shares was traded per trading day, corresponding to SEK 37 million.

**Kinnevik options**
The Kinnevik option was listed on OM in October 1993. In 2005, an average of 157 option contracts were traded per day, corresponding to 15,734 shares.

# Ownership Structure

Kinnevik's 20 largest shareholders in terms of capital and votes in Kinnevik according to VPC at 31 December 2005.

| Shareholder | Series A shares | Series B shares | Percentage of capital | Percentage of votes |
|---|---|---|---|---|
| Emesco Group | 22,681,467 | 0 | 8.6 | 31.7 |
| The estate of Jan H Stenbeck | 9,754,000 | 0 | 3.7 | 13.6 |
| Klingspor family | 5,661,696 | 2,112,536 | 2.9 | 8.2 |
| Alecta | 1,155,700 | 12,819,400 | 5.3 | 3.4 |
| von Horn family | 2,383,609 | 286,303 | 1.0 | 3.4 |
| Robur funds | 0 | 23,987,203 | 9.1 | 3.4 |
| Sapere Aude Trust | 2,245,630 | 0 | 0.9 | 3.2 |
| Korsnäs AB's social fund | 1,324,466 | 32,920 | 0.5 | 1.9 |
| Pictet & CIE* | 1,102,380 | 542,800 | 0.6 | 1.6 |
| Fourth AP Fund | 0 | 10,861,000 | 4.1 | 1.5 |
| SEB funds* | 0 | 10,677,671 | 4.0 | 1.5 |
| Hugo Stenbeck's Trust | 839,555 | 170,000 | 0.4 | 1.2 |
| Skandia Liv* | 236,404 | 3,604,565 | 1.5 | 0.8 |
| Nordea funds* | 137,100 | 4,146,950 | 1.6 | 0.8 |
| SHB/SPP funds* | 0 | 5,228,898 | 2.0 | 0.7 |
| S I F | 0 | 5,179,890 | 2.0 | 0.7 |
| AMF Pension funds | 0 | 4,818,500 | 1.8 | 0.7 |
| Catella funds | 0 | 4,078,512 | 1.5 | 0.6 |
| Skagen funds | 0 | 3,224,100 | 1.2 | 0.5 |
| SEB Trygg Försäkring* | 0 | 3,215,400 | 1.2 | 0.4 |
| Other | 2,675,043 | 118,798,232 | 46.1 | 20.2 |
| Total | 50,197,050 | 213,784,880 | 100.0 | 100.0 |

* For own and others account.

Number of shareholders at 31 December 2005 was 37,769 (35,303).

| Size of shareholding | Number of shareholders | Percent | Number of shares | Percent |
|---|---|---|---|---|
| 100,001 - | 215 | 0.57 | 198,583,461 | 75.23 |
| 50,001 - 100,000 | 137 | 0.36 | 9,769,823 | 3.70 |
| 10,001 - 50,000 | 895 | 2.37 | 18,699,094 | 7.08 |
| 5,001 - 10,000 | 1,219 | 3.23 | 9,035,619 | 3.42 |
| 1,001 - 5,000 | 8,041 | 21.29 | 18,790,815 | 7.12 |
| 1 - 1,000 | 27,262 | 72.18 | 9,103,118 | 3.45 |
| Total | 37,769 | 100.00 | 263,981,930 | 100.00 |

# *Annual and Consolidated Reports 2005*

**Strategy**
The aim of Investment AB Kinnevik is to generate value for its shareholders, primarily by value growth. The business comprises the long-term development of operating companies and administering a share portfolio of long-term investments in a small number of listed companies. Kinnevik seeks to play an active role on the boards of its companies, together with other large, long-term shareholders. The basis for this work is the awareness that every company has strived, and should continually strive, to strengthen its unique position. The guiding principle is the long-term increase in value added in the operations.

Kinnevik was formed in 1936 by the three families von Horn, Klingspor and Stenbeck, who remain significant owners of the company. Ever since the formation, Kinnevik's values have built on simple, but distinct principles: confidence, reliability, openness and helpfulness. Kinnevik's successful long-term efforts have not permitted shortcuts. Returns on Kinnevik's investments have often occurred long after the investments were made.

Kinnevik's operations have been built around an in-depth understanding of the link between industrial development and international trade. After the spin off of subgroups Tele2, MTG, Metro, Transcom and Invik to Kinnevik's shareholders during the past decade, Kinnevik remains an active shareholder in these companies through membership on their Boards of Directors. For the portfolio companies, the value of a long-term and financially strong owner is substantial since it provides a long-term approach to investments and strategy.

**Organization**
After distributions in kind and divestments, Kinnevik's business activities are organized in four business areas.

Korsnäs Holding with subsidiaries and associated companies in the areas of operation:
– Korsnäs Industrial for production of liquid packaging board, White Top Liner, sack and kraft paper, as well as fluff pulp at Korsnäsverken in Gävle.
– Korsnäs Forestry for forest management and supplies of raw materials.
– Korsnäs Packaging for production of paper sacks and paper bags, with ten wholly or part-owned production plants in Europe. On 15 December Kinnevik reached an agreement regarding the sale of Korsnäs Packaging; also refer to "Significant events during 2005."

Mellersta Sveriges Lantbruk ("MSLA") manages agricultural activities in Sweden and Poland.

Additionally, Kinnevik has a considerable share portfolio in a small number of listed companies, including Tele2, Millicom, MTG, Metro and Transcom. Kinnevik participates actively in the companies' development through board representation. The shareholdings provide Kinnevik with the financial substance required for business development or, alternatively for the acquisition of positions in other companies.

**Return**
Since 1976, the Kinnevik share has generated an average effective return of 15.3% annually as a result of rising share prices and dividends, including the value of subscription offers. During the past five years, the Kinnevik share provided an average real return of 10.9% annually. At year-end, Kinnevik's class B shares were listed at SEK 74, which means that the effective return was 17.3% for 2005. The calculation of the effective return is based on the assumption that shareholders retained their allotment of shares in Tele2, MTG, Metro, Transcom and Invik.

At the Annual General meeting on 12 May the shareholders approved the Board's proposal of a non-cash dividend in the form of a distribution of all shares in Invik. The reason for the distribution was to use a separate listing of Invik shares to highlight the value represented by the company and thus to create value for Kinnevik shareholders. The shareholders received one class A share in Invik for each ten class A shares held in Kinnevik, and one class B share in Invik for each ten class B shares held in Kinnevik. The record date for the distribution in kind was 30 August and trading in Invik shares on the Stockholm Stock Exchange's O-List commenced on 1 September. In addition to the non-cash dividend of shares in Invik the AGM also decided on a cash dividend of SEK 0.25 per share.

The market value of the Group's holdings of listed securities increased by 20% during the year (based on share portfolio as per 31 December), equal to SEK 4,380 million including dividends received, and amounted on 31 December 2005 to SEK 25,692 million. The change in value is shown in the consolidated income statement in accordance with IFRS.

**Significant events during 2005**
In March Kinnevik subscribed for convertible debentures in Invik amounting to SEK 235 million. The debentures, which carry annual interest of 3.5%, may be converted into shares from 1 December 2006 until 30 November 2011 at the price of SEK 52. Full conversion will result in the creation of an additional

4,519,230 shares, corresponding to 14.6% of the capital and not more than 25.0% of the voting rights in Invik after conversion. In accordance with the resolution by the Annual General Meeting, Kinnevik subsequently distributed all of the shares in Invik to Kinnevik shareholders, see under Return above.

On 15 November Korsnäs AB entered into an agreement with Sveaskog Förvaltnings AB for the acquisition of its subsidiary AssiDomän Cartonboard Holding AB ("Frövi") for a total consideration of SEK 3,650 million in cash on an enterprise value basis. The acquisition fits well into Korsnäs' successful operation within advanced highly refined board and paper products for the packaging industry. Frövi's technical production capacity is 400,000 tons cartonboard of which 250,000 tons chemical pulp per annum is produced internally. In 2004 Frövi had revenues of SEK 2,437 million and an EBITDA of SEK 542 million. In 2004, the combination of Korsnäs Industrial (that is, excluding Korsnäs Packaging and Korsnäs Forestry) and Frövi had a total production capacity of 1.1 million tons paper and cartonboard and had revenues of SEK 6,244 million and an EBITDA of SEK 1,532 million. Frövi has recently received a concession to increase the production capacity to 450,000 tons cartonboard. The industrial logic of the transaction is strong and the synergies between Korsnäs and Frövi are significant. The integration process is expected to produce annual run-rate synergies in the area of SEK 150 million. The acquisition of Frövi will be mainly financed with an increase of Korsnäs' existing syndicated loan facility. The transaction is subject to approval by competition authorities and is expected to be finalized in the first half of 2006.

On 23 November it was announced that Korsnäs AB has signed a new supply agreement with Tetra Pak. The agreement is valid for 2006-2009 and comprises approximately 1.6 million tons liquid packaging board and means that Korsnäs continues to increase its deliveries to Tetra Pak. The agreement is independent of Korsnäs' announced acquisition of Frövi and does not include any deliveries from Frövi to Tetra Pak.

Korsnäs Packaging's purchase of sack paper from Korsnäs Industrial has declined in recent years, due in part to Korsnäs Industrial focusing its production on more high-value-added products and partly because Korsnäs Packaging purchased primarily unbleached sack paper at more competitive prices from other suppliers. As a result of this, the synergies between Korsnäs Industrial and Korsnäs Packaging have declined. Against this background, Kinnevik decided during the year to divest Korsnäs Packaging and on 15 December Kinnevik entered into an agreement to sell Korsnäs Packaging to the Russian packaging group JSC Segezha Pulp and Paper Mill ("Segezha") for a total consideration of EUR 73.5 million (SEK 693 million) in cash on an enterprise value basis. The transaction is subject to approval by competition authorities and is expected to be finalized in the first half of 2006.

**Consolidated earnings**

Against the background that Invik was distributed to Kinnevik's shareholders and the agreement to sell Korsnäs Packaging reached in December 2005, Invik and Korsnäs Packaging are reported in the consolidated statement of income as Net profit/loss from discontinued operations. Invik is included through to the date the distribution was completed, 31 August 2005. Korsnäs Packaging's assets and operating liabilities are reported separately in Kinnevik's balance sheet at 31 December 2005 as assets and liabilities held for sale.

Revenue for the year amounted to SEK 4,618 million compared with SEK 4,600 million in the preceding year.

Operating profit amounted to SEK 353 million (1,526). The comparative figure for 2004 includes Other operating income of SEK 826 million, which is the difference between the acquisition price for old Invik (merged with Industriförvaltnings AB Kinnevik in July 2004) and the fair value of the net assets. Since the acquisition price was lower than the fair value of the net assets, the difference is reported in accordance with IFRS as Other operating income in the consolidated statement of income.

The net change in the fair value of financial assets after dividends received amounted to an overall increase of SEK 4,523 million (decrease of 2,442), of which Tele2 showed an increase of SEK 376 million (decrease of 3,990), Millicom an increase of SEK 2,462 million (increase of 555), Metro a decrease of SEK 402 million (increase of 379), MTG an increase of SEK 1,495 million (increase of 428), Transcom an increase of SEK 377 million (increase of 129) and convertibles in Invik an increase of SEK 98 million (–).

Other financial income and expenses amounted net to an expense of SEK 229 million (expense of 282), of which net interest expenses were SEK 188 million (expense of 211) and exchange rate differences were a loss of SEK 6 million (loss of 17).

The Group reported a profit after financial items of SEK 4,647 million (loss of 1,198).

The Group's earnings have been charged with SEK 205 million in tax expenses related to previous years, attributable to the outcome of tax disputes that were resolved by the Administrative Court of Appeal during the second quarter.

The result from discontinued operations was a loss of SEK 326 million (profit of 46), comprising profit of SEK 108 million (profit of 56) related to Invik and a loss of SEK 434 million (loss of 10) pertaining to Korsnäs Packaging. Korsnäs Packaging's net assets in the 2005 year-end financial statements were written down to SEK 693 million, which corresponds to the purchase consideration Kinnevik will receive from Segezha when the sale is concluded. In addition to the impairment loss on assets of SEK 233 million, the loss in Korsnäs Packaging for 2005 includes restructuring costs in Germany and the UK totaling SEK 53 million and additional pension costs of SEK 125 million related to the UK company's pension plan, which will be closed as a result of the transaction.

**Earnings per share**

The profit per share from continuing operations was SEK 16.75 (loss 6.04) for the year. The total number of shares outstanding at 31 December 2005 was 263,981,930, of which 50,197,050 were class A shares and 213,784,880 class B shares.

**Financial position and investments**

The Group's liquidity reserve comprising cash, bank, short-term investments and unutilized credit facilities, totaled SEK 699 million at 31 December 2005 and SEK 1,203 million at 31 December 2004. In addition, Kinnevik has a SEK 3,500 million committed line of credit from Korsnäs' existing banks for the acquisition of Frövi.

The Group's interest-bearing net debt totaled SEK 7,249 million at 31 December 2005 and SEK 7,168 million at 31 December 2004 (excluding Invik).

The average interest cost for the year amounted to 2.8% (3.4%) (calculated as interest expense in relation to average interest-bearing liabilities).

The Group's cash flow from operations amounted to SEK 52 million (1,128) for the year. The decline compared with 2004 is mainly attributable to rebuild of PM4 and maintenance stoppage in Korsnäs and an increase in taxes paid. A sharp increase in working capital during 2005, which was temporarily at a low

**BOOK AND MARKET VALUE OF ASSETS**

| | A shares | B shares | Equity interest (%) | Voting interest (%) | Book value 31 Dec. 2005 (SEK m) | Market value 31 Dec. 2005 (SEK m) | Change since 31 Dec. 2004 [2] |
|---|---|---|---|---|---|---|---|
| **Listed holdings** [1] | | | | | | | |
| Tele2 | 33,830,229 | 91,651,296 | 28.3 | 49.8 | 10,666 | 10,666 | 3% |
| Millicom International Cellular | 37,835,438 | | 38.2 | 38.2 | 8,078 | 8,078 | 44% |
| Metro International | 96,454,191 | 115,229,193 | 40.2 | 36.6 | 2,815 | 2,815 | – 13% |
| Modern Times Group MTG | 9,821,336 | 113,675 | 15.0 | 47.7 | 3,294 | 3,294 | 83% |
| Transcom WorldWide | 12,627,543 | 0 | 17.4 | 34.8 | 827 | 827 | 83% |
| Viking Telecom | 7,037,952 | | 29.3 | 29.3 | 12 | 12 | – 35% |
| **Total listed holdings** | | | | | 25,692 | 25,692 | 20% |
| **Unlisted holdings** | | | | | | | |
| Korsnäs Industrial and Forestry | | | 100 | 100 | 3,770 | 6,131 [3] | |
| Korsnäs Packaging | | | 100 | 100 | 693 | 693 [3] | |
| Mellersta Sveriges Lantbruk | | | 100 | 100 | 228 | 250 [3] | |
| Other assets and liabilities | | | | | 181 | 200 [3] | |
| **Total unlisted holdings** | | | | | 4,872 | 7,274 | |
| Interest bearing net debt including convertible loan in Invik | | | | | – 7,249 | – 7,249 | |
| **Total equity/net asset value** | | | | | 23,315 | 25,717 | |
| **Net asset value per share, SEK** | | | | | | 97 | |
| **Closing price B share 31 December 2005, SEK** | | | | | | 74 | |
| **Net asset value discount** | | | | | | 24% | |

[1] In accordance with IFRS, listed holdings are valued at fair value, as a result of which reported value and market value are the same.
[2] Net after dividend received and redemption of shares.
[3] Consensus among analysts covering Kinnevik.

level at year-end 2004 due to high accounts payable have also lowered cash flow from operations. The divestment of subsidiaries totaling SEK 3,050 million in the comparative figures for 2004 relate to the payment received for the sale of forestland to Bergvik Skog.

Investments in and sales of listed securities are shown in the tables below.

**Investments in securities**

| | Number | Proceeds (SEK million) |
|---|---|---|
| **1 Jan. - 31 Dec. 2005** | | |
| Metro A | 100,000 | 2 |
| Millicom convertible | 35,000,000 | 235 |
| Millicom | 2,692,903 | 381 |
| MTG A | 110,450 | 33 |
| Transcom A | 687,300 | 26 |
| | | 677 |
| **1 Jan. - 31 Dec. 2004** | | |
| Metro (exchanged for Radio P4) | 2,220,629 | – |
| Millicom | 5,600,000 | 887 |
| Transcom A | 605,000 | 17 |
| Viking Telecom | 2,380,952 | 10 |
| | | 914 |

**Sales of securities**

| | Number | Proceeds (SEK million) |
|---|---|---|
| **1 Jan. - 31 Dec. 2005** | | |
| AcandoFrontec | 2,127,580 | 17 |
| Cherryföretagen | 8,780,749 | 218 |
| Metro B | 100,000 | 2 |
| Millicom convertible | 35,000,000 | 219 |
| MTG B | 110,450 | 34 |
| Transcom B | 2,974,779 | 148 |
| | | 638 |
| **1 Jan. - 31 Dec. 2004** | | |
| AcandoFrontec | 3,808,000 | 25 |
| Radio P4 | 1,902,000 | 20 |
| Radio P4 (exchanged for Metro) | 2,124,820 | – |
| Transcom B | 605,000 | 18 |
| | | 63 |

Investments in tangible fixed assets amounted to SEK 442 million (453) for the year.

The Group's equity/assets ratio was 70% at the end of the year compared to 58% at 31 December 2004.

**Business in operative subsidiaries**

A cold but stable winter, followed by a damp and cool spring and summer, created favorable growing conditions for Mellersta Sveriges Lantbruk in Sweden and Poland. This led to an abundant harvest with generally satisfactory quality. However, sizeable stockpiles throughout Europe generally imposed pressure on prices during the entire year. As a result of the depressed price situation on the market, much of the 2005 harvest was stored pending an expected price upturn during the first half of 2006.

The general upturn in the economy that characterized 2005 only had a marginal effect on Korsnäs' markets. The market for Korsnäs' products was characterized during the year by a weak demand trend in Europe. However, Korsnäs' relatively strong position on the market offset the weak market situation, as a result of which the demand for Korsnäs' products as a whole was stable. Korsnäs' goal-oriented focus on highly processed products continued during the year. Volumes in liquid packaging board and White Top Liner increased, while deliveries of sack and kraft paper as well as fluff pulp declined.

Annual output for Korsnäs' mill during the year totaled 664,000 tons, a decline of 5.5% compared with a year earlier. The lower production is attributable to a six-week production curtailment of PM4 in connection with a major rebuild in the spring of 2005 with the installation of a new coating unit. PM4 is now entirely a cartonboard machine, the same as the existing PM5. The implementation of the project as well as the start-up curve followed the established plans well. The processes for developing the quality of products from PM4 and the quality outcome met the set expectations. In other respects, production at the Korsnäs mill remained at a high level and in a number of areas production records were exceeded, for example PM5 produced 5% more than the annual production in preceding years.

With the increased capacity resulting from the now completed rebuild of the PM4 being used for production of highly value-added paper and board products, the scope for continued production of fluff pulp is reduced. Given this background, it was decided in August that the operations of dryer machine TM6 would be discontinued in the second quarter of 2006. Combined with other measures taken within the framework of the efficiency-enhancement program, the goal is to strengthen margins by about SEK 150 million on an annual basis. At year-end 2005, decisions have been made and actions carried out that realized 75% of the goal, with full effect as of 2007. With respect to the part of the ongoing efficiency-enhancement program that was intended to reduce the workforce by 65-70 positions, the final negotiations held during the fourth quarter established that the number of employees would be reduced by 80 during 2006.

Korsnäs Industrial's operating profit totaled SEK 314 million (656) for the year. Of the deterioration in operating profit, approximately SEK 185 million is attributable to production losses in conjunction with the rebuild of PM4 and the more extensive than usual maintenance curtailment in April. Earnings for the forth quarter also include a provision of SEK 69 million for severance pay in the reduction of 80 full-time employees within the framework of the above mentioned efficiency-enhancement program. Further, prices on wood, energy and chemicals also resulted in approximately SEK 120 million higher cost base compared with the preceding year.

**Research and development**

The rebuild of the PM4 cartonboard machine, including the installation of coating stations, was another important step in Korsnäs' specialization on highly processed cartonboard products. The launch of new coating grades within the Folding Carton and White Top Liner areas is continuing as planned. Simultaneously, Korsnäs is completing its investment in the company's unique hot calendering technology for uncoated products. During the year, a new grade produced using this technology qualified for inclusion in the liquid packaging board area. Korsnäs' hot calendering technology contributed to the development of the Tetra Recart packaging as an alternative to the sue of cans. Korsnäs was a partner in the development of this packaging and is currently the sole supplier of this packaging-board material. The Group's research and development costs totaled SEK 32 million (34), all of which was attributable to Korsnäs Industrial.

**Environment**

The Kinnevik Group is engaged in operations within Korsnäs AB requiring a permit pursuant to the Environmental Code, based on decisions made in 1996. The company's activities requiring permits and/or notification largely have an effect on the external environment through Korsnäs Industrial. This business area produces pulp, paper and paperboard, which mainly affect the external environment through emissions to air and water, and in the form of noise.

For additional information about Korsnäs' environmental efforts, reference is made to the Presentation of operative companies, Korsnäs AB, page 74-75.

## Risk management

The Group's financing and management of financial risks is centralized within Kinnevik's finance function and is conducted on the basis of a finance policy established by the Board of Directors. The Group's operational risks are primarily evaluated and managed within the particular business area and then reported to the Kinnevik Board.

The Group has established a model for risk management, the aims of which are to identify, control and reduce risks. The identified risks and how they are managed are reported to the Kinnevik Board on a quarterly basis.

**Operational risks**

Kinnevik's wholly owned subsidiary Korsnäs accounts for most of the operational risks, which mainly result from relationships with customers in terms of payment ability and the risk of losing an established relationship, as well as with suppliers terms of reliability, quality and price. Korsnäs conducts regular reviews of its customers and suppliers.

The risk that customers fail to fulfill their payment obligations is limited by means of credit checks, whereby all customers are analyzed by sales managers and a credit council at least once annually. Thereafter the customers are monitored continuously by the credit function using, for example, information from Dun & Bradstreet. Deviations in relation to concluded agreements are managed on a continuous basis by the credit council.

Financial hedges are used in order to reduce exposure to temporary fluctuations in electricity prices. The result of these hedges is reported as they mature and for 2005 the result was a loss of SEK 4 million (profit 5). The market value of financial hedges on 31 December was SEK 83 million (negative 20). Korsnäs' net consumption of electricity during the year amounted to approximately 930 GWh and about 80% of estimated net consumption of electricity in Sweden in 2006 is hedged, about 50% for 2007 and about 10% for 2008.

With respect to purchases of timber raw materials, deliveries from Bergvik Skog account for approximately one third of Korsnäs' consumption of pulpwood. In terms of prices, an agreement was reached with Bergvik Skog regarding the period up to the end of 2006 in connection with the company's formation in March 2004.

**Financial risks**
Kinnevik is exposed to financial risks mainly in respect of:

- the equity risk, meaning the risk of changes in the value of the stock portfolio
- the interest rate risk resulting from changes in market interest rates
- the exchange rate risk comprising transaction exposure and translation exposure
- liquidity and refinancing risk, meaning the risk that the cost of financing opportunities will increase or that such opportunities will be limited when loans are renegotiated, and that payment obligations cannot be met due to insufficient liquidity.

The Group's borrowing is primarily arranged in SEK. Foreign subsidiaries are, however, largely financed in local currencies. On an annual basis, the net effect of the Group's in- and outflows in foreign currencies is a net inflow of about SEK 800 million, which mainly comprises Korsnäs Industrial's sales in Euro.

For an additional description of the management of financial risks, refer to Note 33.

**Parent Company**
The Parent Company's revenue amounted to SEK 12 million (12) for the year and administrative expenses totaled SEK 67 million (55).

Dividends received amounted to SEK 462 million (3,020) and the result on the sale of financial fixed assets was a gain of SEK 61 million (23). The net of other financial income and expenses was income of SEK 32 million (70).

The Parent Company's profit after financial items was SEK 512 million (3,072).

Investments in tangible fixed assets amounted to SEK 2 million (2).

The Parent Company's liquidity, including short-term investments and unutilized credit facilities totaled SEK 364 million (864) at the end of the year.

The Parent Company's interest-bearing external liabilities amounted to SEK 4,620 million (3,885).

**Future development**
The Group's future development depends on the trends for the wholly owned and jointly owned investments. Within Korsnäs, the period immediately ahead will be focused on concluding the two structural transactions announced by Kinnevik in November and December 2005.

The divestment of Korsnäs Packaging is expected to be concluded during spring 2006, after the necessary approval of competition authorities has been received. Since deliveries of sack paper from Korsnäs Industrial to Korsnäs Packaging have declined during recent years, the divestment will not have any material impact on Korsnäs Industrial.

Korsnäs' announced acquisition of Frövi will be concluded as soon as permits have been received from the competition authorities concerned. Accordingly, the integration will then commence, whereby a new joint organization will be deployed and annual synergy gains of approximately SEK 150 million realized.

Following an investment in new coating equipment for the PM4, the level of investment at the Korsnäs mill in Gävle is highly favorable. Since Kinnevik is of the opinion that investments in the plant will not exceed annual depreciation for Korsnäs during the years immediately ahead, operating cash flow from operations will at least match operating profit.

With respect to the Company's indebtedness, Kinnevik intends to maintain what is regarded in the forest products industry as normal indebtedness in relation to the operating cash flow from Korsnäs, while simultaneously having low indebtedness in relation to the listed stock portfolio.

**Events after the end of the reporting period**
On 19 January 2006, Kinnevik announced that as the largest shareholder in Millicom it supports the decision by Millicom's Board to review strategic options for the company. The review was in response to Millicom having been contacted by a large number of potential acquirers of the company. When any additional significant information is available, it will be announced.

**Proposed treatment of unappropriated earnings**
The following amounts are at the disposal of the Parent Company's Annual General Meeting:

| | |
|---|---|
| Unrestricted equity, SEK | 11,952,540,686 |

The Board and the President propose that the unappropriated earnings at the disposal of the Annual General Meeting be disposed of as follows:

| | |
|---|---|
| Cash dividend of SEK 1.60 per share, amounting to | 422,371,088 |
| Carried forward | 11,530,169,598 |
| Total | 11,952,540,686 |

# Consolidated Statement of Income

for the period 1 January – 31 December (SEK million)

| | 2005 | 2004 |
|---|---|---|
| Revenue, Note 2 | **4,618** | 4,600 |
| Cost of goods and services | **– 4,085** | – 3,658 |
| **Gross profit** | **533** | 942 |
| Selling costs | **– 54** | – 65 |
| Administration costs | **– 223** | – 218 |
| Research and development costs | **– 32** | – 34 |
| Other operating income, Note 4 | **151** | 912 |
| Other operating expenses, Note 4 | **– 28** | – 28 |
| Share of profit/loss of associates accounted for using the equity method | **6** | 17 |
| **Operating profit, Note 2, 5** | **353** | 1,526 |
| Dividends received, Note 6 | **630** | 102 |
| Change in fair value of financial assets, Note 7 | **3,893** | – 2,544 |
| Interest income and other financial income, Note 8 | **30** | 33 |
| Interest expenses and other financial expenses, Note 8 | **– 259** | – 315 |
| **Profit / loss after financial items** | **4,647** | – 1,198 |
| Taxes, Note 9 | **– 224** | – 265 |
| **Net profit / loss for the year from continuing operations** | **4,423** | – 1,463 |
| Net profit/loss from discontinued operations, Note 10 | | |
| Invik | **108** | 56 |
| Korsnäs Packaging | **– 434** | – 10 |
| **Net profit / loss for the year, Note 25, 30, 31, 32** | **4,097** | – 1,417 |
| Attributable to equity holders of the Parent Company | **4,097** | – 1,417 |
| Earnings per share before and after dilution, SEK: * | | |
| – from continuing operations | **16.75** | – 6.04 |
| – from discontinued operations | **– 1.23** | 0.19 |
| Proposed dividend per share, SEK | **1.60** | |
| Average number of shares outstanding before/after dilution | **263,981,932** | 242,133,655 |

* See definitions on page 84.

# Consolidated Statement of Cash Flow

for the period 1 January – 31 December (SEK million)

| | 2005 | 2004 |
|---|---|---|
| **Operations** | | |
| Operating profit for the year | **353** | 1,526 |
| Adjustment for depreciation, Note 5 | **351** | 356 |
| Other operating income at the merger with Invik | **–** | – 826 |
| Other non-cash items | **– 24** | – 55 |
| Taxes paid | **– 369** | – 47 |
| **Cashflow from operations before change in working capital** | **311** | 954 |
| Change in inventory | **– 30** | – 224 |
| Change in accounts receivable and other operating assets | **66** | – 95 |
| Change in accounts payable and other operating liabilities | **– 295** | 493 |
| **Cash flow from operations** | **52** | 1,128 |
| **Investing activities** | | |
| Sales of subsidiaries | **0** | 3,050 |
| Investments in tangible and biological fixed assets | **– 442** | – 453 |
| Sales of tangible and biological fixed assets | **75** | 16 |
| Investments in shares and other securities | **– 677** | – 1,096 |
| Sales of shares and other securities | **638** | 91 |
| Dividend received | **648** | 111 |
| Change in loan receivables | **16** | 27 |
| Interest received | **8** | 29 |
| **Cash flow from investing activities** | **266** | 1,775 |
| **Financing activities** | | |
| Borrowing | **793** | 353 |
| Amortisation of loans | **– 517** | – 2,504 |
| Interest paid | **– 244** | – 305 |
| Dividend paid | **– 66** | – 346 |
| **Cash flow from financing activities** | **– 34** | – 2,802 |
| **Total cash flow from continuing operations** | **284** | 101 |
| **Discontinued operations** | | |
| Amortisation of loan from Invik | **– 158** | – 30 |
| Cash flow in Korsnäs Packaging, Note 10 | **– 28** | – 44 |
| Lending to Korsnäs Packaging | **– 181** | 41 |
| **Cash flow from discontinued operations** | **– 367** | – 33 |
| **Cash flow for the year** | **– 83** | 68 |
| Exchange rate differences in liquid funds | **14** | – 2 |
| **Cash and bank, opening balance** | **281** | 215 |
| **Cash and bank, closing balance, Note 19** | **212** | 281 |

# Consolidated Balance Sheet

31 December (SEK million)

| ASSETS | 2005 | 2004 |
|---|---|---|
| **Fixed assets** | | |
| Intangible assets, Note 11 | **17** | 101 |
| Tangible and biological fixed assets, Note 11 | **3,851** | 4,328 |
| Financial assets accounted at fair value through profit and loss, Note 12 | **26,318** | 22,672 |
| Investment in companies accounted for using the equity method, Note 13 | **70** | 148 |
| Other fixed assets | **21** | 79 |
| Deferred tax assets, Note 9 | **0** | 42 |
| **Total fixed assets** | **30,277** | 27,370 |
| **Current assets** | | |
| Inventories, Note 15 | **994** | 1,183 |
| Interest-bearing receivables, Note 16 | **0** | 1,333 |
| Trade and other receivables, Note 17 | **636** | 993 |
| Prepayments, Note 18 | **27** | 176 |
| Short-term investments, Note 19 | **3** | 2,568 |
| Cash and cash equivalents, Note 19 | **185** | 1,170 |
| **Total current assets** | **1,845** | 7,423 |
| **Total assets continuing operations** | **32,122** | 34,793 |
| Assets held for sale, Korsnäs Packaging, Note 10 | **1,135** | |
| **TOTAL ASSETS** | **33,257** | 34,793 |

| SHAREHOLDERS' EQUITY AND LIABILITIES | 2005 | 2004 |
|---|---|---|
| **Shareholders' equity, Note 20** | | |
| **Equity attributable to equity holders of the Parent Company** | | |
| Share capital | **26** | 27 |
| Other contributed capital | **6,868** | 6,867 |
| Reserves | **26** | 6 |
| Retained earnings including net profit/loss for the year | **16,395** | 13,209 |
| | **23,315** | 20,109 |
| **Minority interest in equity** | **0** | 0 |
| **Total shareholders' equity** | **23,315** | 20,109 |
| **Long-term liabilities** | | |
| Interest-bearing loans, Note 21 | **6,882** | 6,840 |
| Provisions for pensions, Note 22 | **478** | 672 |
| Other provisions, Note 23 | **177** | 635 |
| Deferred tax liability, Note 9 | **727** | 885 |
| Other liabilities | **4** | 4 |
| **Total long-term liabilities** | **8,268** | 9,036 |
| **Short-term liabilities** | | |
| Interest-bearing loans, Note 21 | **347** | 2,641 |
| Provisions, Note 23 | **58** | 1,216 |
| Trade and other payables, Note 24 | **813** | 1,731 |
| Income tax payable | **12** | 54 |
| Prepaid income | **2** | 6 |
| **Total short-term liabilities** | **1,232** | 5,648 |
| **Total liabilities continuing operations** | **9,500** | 14,684 |
| Liabilities directly associated with the assets held for sale, Korsnäs Packaging, Note 10 | **442** | |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **33,257** | 34,793 |

**Pledged assets, Note 26**

**Contingent liabilities, Note 27**

**Off-balance sheet items in securities operations, Note 28**

# Movements in Shareholders' equity of the Group

| | Share capital | Other contri-buted capital | Reserves | Retained earnings | Total share-holders' equity |
|---|---|---|---|---|---|
| Opening balance, 1 January 2004 | 629 | 3,344 | 0 | 15,109 | 19,082 |
| Transfer due to reverse acquisition | – 621 | 621 | – | – | – |
| Contribution for merger/new share issue | 19 | 4,676 | – | – | 4,695 |
| Elimination of cross-ownership on merger | – | – 1,774 | – | – 137 | – 1,911 |
| Translation difference | – | – | 6 | 0 | 6 |
| Cash dividend [1] | – | – | – | – 346 | – 346 |
| Subtotal items reported directly against shareholders' equity | – 602 | 3,523 | 6 | – 483 | 2,444 |
| Net result 2004 | – | – | – | – 1,417 | – 1,417 |
| Closing balance, 31 December 2004 | 27 | 6,867 | 6 | 13,209 | 20,109 |
| Translation difference | – | – | 33 | – | 33 |
| Cancellation of shares without payment | – 1 | 1 | – | – | – |
| Cash dividend [2] | – | – | – | – 66 | – 66 |
| Distribution in kind [3] | – | – | – 13 | – 845 | – 858 |
| Subtotal items reported directly against shareholders' equity | – 1 | 1 | 20 | – 911 | – 891 |
| Net result 2005 | – | – | – | 4,097 | 4,097 |
| Closing balance, 31 December 2005 | 26 | 6,868 | 26 | 16,395 | 23,315 |

[1] The Annual General Meeting held on 13 May 2004, resolved in favor of paying a cash dividend of SEK 5.50 per share (pre merger), a total of SEK 346 million.
[2] The Annual General Meeting held on 12 May 2005, resolved in favor of paying a cash dividend of SEK 0.25 per share, a total of SEK 66 million.
[3] The Annual General Meeting held on 12 May 2005, resolved in favor of a distribution in kind of Invik, a total of SEK 858 million.

# Parent Company Statement of Income

for the period 1 January – 31 December (SEK million)

| | **2005** | 2004 |
|---|---|---|
| Revenue, Note 2 | **12** | 12 |
| Administration costs | **– 67** | – 55 |
| Other operating income, Note 4 | **12** | 2 |
| **Operating loss, Note 5** | **– 43** | – 41 |
| Dividends received, Note 6 | **462** | 3,020 |
| Earnings on sale of financial assets | **61** | 23 |
| Interest income and other financial income, Note 8 | **294** | 308 |
| Interest expenses and other financial expenses, Note 8 | **– 262** | – 238 |
| **Profit / loss after financial items** | **512** | 3,072 |
| Change of untaxed reserves | **– 4** | – |
| **Profit / loss before taxes** | **508** | 3,072 |
| Taxes | **– 170** | – 181 |
| **Net profit/loss for the year, Note 25, 30, 31, 32** | **338** | 2,891 |

# Parent Company Statement of Cash Flow

for the period 1 January – 31 December (SEK million)

| | 2005 | 2004 |
|---|---|---|
| **Operations** | | |
| Operating loss | **– 43** | – 41 |
| Non-cash items | **– 22** | – 22 |
| Taxes paid | **– 322** | 0 |
| **Cash flow from operations before change in working capital** | **– 387** | – 63 |
| Change in account receivables and other operating assets | **4** | 30 |
| Change in account payable and other operating liabilities | **– 8** | 24 |
| **Cash flow from operations** | **– 391** | – 9 |
| **Investing activities** | | |
| Investments in tangible fixed assets | **– 2** | – 2 |
| Investments in shares and other securities | **– 270** | – 281 |
| Sales of shares and other securities | **108** | 473 |
| Dividend received | **462** | 20 |
| Change in loan receivables | **16** | 170 |
| Interest received | **8** | 29 |
| **Cash flow from investing activities** | **322** | 409 |
| **Financing activities** | | |
| Borrowing | **886** | 200 |
| Amortization of loans | **– 150** | – 430 |
| Change in intra-Group balances | **– 442** | 308 |
| Change in short-term investments | **16** | – 9 |
| Interest paid | **– 122** | – 107 |
| Dividend paid | **– 66** | – 346 |
| **Cash flow from financing activities** | **122** | – 384 |
| **Cash flow for the year** | **53** | 16 |
| **Cash and bank, opening balance** | **30** | 14 |
| **Cash and bank, closing balance** | **83** | 30 |

# Parent Company Balance Sheet

31 December (SEK million)

| ASSETS | 2005 | 2004 |
|---|---|---|
| **Fixed assets** | | |
| Tangible fixed assets, Note 11 | | |
| Equipment | **3** | 2 |
| Financial fixed assets | | |
| Shares and participations in Group companies, Note 14 | **8,582** | 9,481 |
| Receivables from Group companies | **6,510** | 6,321 |
| Shares and participations in associated companies, Note 14 | **5,597** | 5,609 |
| Receivables from associated companies, Note 32. | **235** | 10 |
| Shares and participations in other companies, Note 14 | **28** | 28 |
| Deferred tax receivable, Note 9 | **1** | – |
| Other long-term interest-bearing receivables, Note 32 | **20** | 43 |
| | **20,973** | 21,492 |
| **Total fixed assets** | **20,976** | 21,494 |
| **Current assets** | | |
| Current receivables | | |
| Non-interest-bearing | | |
| Accounts receivable | **1** | 3 |
| Receivables from Group companies | **8** | 2,081 |
| Other receivables | **2,538** | 8 |
| Accrued income, Note 17 | **6** | 0 |
| Prepayments, Note 18 | **13** | 10 |
| | **2,566** | 2,102 |
| Short-term investments | **0** | 17 |
| Cash and cash equivalents | **83** | 30 |
| **Total current assets** | **2,649** | 2,149 |
| **TOTAL ASSETS** | **23,625** | 23,643 |

| SHAREHOLDERS' EQUITY AND LIABILITIES | 2005 | 2004 |
|---|---|---|
| **Shareholders' equity, Note 20** | | |
| Restricted equity | | |
| Share capital | **26** | 27 |
| Premium reserve | **–** | 3,880 |
| Revaluation reserve | **–** | 190 |
| Legal reserve | **6,868** | 2,987 |
| | **6,894** | 7,084 |
| Unrestricted equity | | |
| Retained earnings | **11,615** | 9,459 |
| Net result | **338** | 2,891 |
| | **11,953** | 12,350 |
| **Total shareholders' equity** | **18,847** | 19,434 |
| **Untaxed reserves** | **4** | – |
| **Provisions** | | |
| Provision for pensions, Note 22 | **30** | 31 |
| Deferred tax liability, Note 9 | **–** | 151 |
| Other provisions, Note 23 | **33** | 59 |
| | **63** | 241 |
| **Long-term liabilities** | | |
| Interest-bearing | | |
| External interest-bearing loans, Note 21 | **4,520** | 3,885 |
| Liabilities to Group companies | **35** | 26 |
| **Total long-term liabilities** | **4,555** | 3,911 |
| **Short-term liabilities** | | |
| Interest-bearing | | |
| External interest-bearing loans, Note 21 | **100** | – |
| Non-interest-bearing | | |
| Accounts payable | **3** | 3 |
| Liabilities to Group companies | **6** | 1 |
| Other liabilities | **29** | 29 |
| Accrued expenses, Note 24 | **18** | 24 |
| | **56** | 57 |
| **Total current liabilities** | **156** | 57 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **23,625** | 23,643 |
| **Pledged assets, Note 26** | **12,855** | 13,249 |
| **Contingent liabilities, Note 27** | **74** | 94 |

# Movements in Shareholders' equity of the Parent Company

| | Share capital | Premium reserve | Revaluation reserve | Legal reserve | Un-restricted equity | Total |
|---|---|---|---|---|---|---|
| Opening balance, 1 January 2004 | 629 | 357 | 190 | 2,987 | 9,842 | 14,005 |
| Transfer due to reverse acquisition | – 621 | 621 | – | – | – | – |
| Contribution for merger/new share issue | 19 | 4,676 | – | – | – | 4,695 |
| Elimination of cross-ownership on merger | – | – 1,774 | – | – | – | – 1,774 |
| Cash dividend [1] | – | – | – | – | – 346 | – 346 |
| Group contribution, net | – | – | – | – | – 37 | – 37 |
| Subtotal items reported directly against shareholders' equity | – 602 | 3,523 | – | – | – 383 | 2,538 |
| Net result 2004 | – | – | – | – | 2,891 | 2,891 |
| Closing balance, 31 December 2004 | 27 | 3,880 | 190 | 2,987 | 12,350 | 19,434 |
| Cancellation of shares without payment | – 1 | 1 | – | – | – | – |
| Cash dividend [2] | – | – | – | – | – 66 | – 66 |
| Distribution in kind [3] | – | – | – | – | – 853 | – 853 |
| Transfer | – | – 3,881 | – 190 | 3,881 | 190 | – |
| Group contribution, net | – | – | – | – | – 6 | – 6 |
| Subtotal items reported directly against shareholders' equity | – 1 | – 3,880 | – 190 | 3,881 | – 735 | – 925 |
| Net result 2005 | – | – | – | – | 338 | 338 |
| Closing balance, 31 December 2005 | 26 | – | – | 6,868 | 11,953 | 18,847 |

[1] The Annual General Meeting held on 13 May 2004, resolved in favor of paying a cash dividend of SEK 5.50 per share (pre merger), a total of SEK 346 million.

[2] The Annual General Meeting held on 12 May 2005, resolved in favor of paying a cash dividend of SEK 0.25 per share, a total of SEK 66 million.

[3] The Annual General Meeting held on 12 May 2005, resolved in favor of a distribution in kind of Invik, a total of SEK 853 million.

## Note 1

### Summary of significant accounting policies

The consolidated financial statements of Investment AB Kinnevik (publ) for 2005 have been approved for publication in accordance with a Board decision of 17 February 2006. The balance sheets and the income statements for the Group and the Parent Company require the adoption of the Annual General Meeting. The Group's principal business is described under Note 2.

The Parent Company Investment AB Kinnevik (publ), with corporate registration number 556047-9742, has its head office at Skeppsbron 18, Box 2094, SE-103 13 Stockholm.

**Statement of compliance**

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS). Since the Parent Company is a company that is active in the EU, only EU-approved IFRS are applied. The consolidated accounts have also been prepared in accordance with Swedish law, applying the Financial Accounting Standards Council's recommendation RR30 (Supplementary accounting rules for groups).

The Parent Company's accounts have been prepared in accordance with Swedish law, applying the Financial Accounting Standards Council's recommendation RR32 (Reporting of legal entities). This means that application of the IFRS valuation and disclosure rules includes the deviations reported in the Parent Company's accounting principles.

**Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investments in forest and other biological assets, derivative financial instruments and financial assets valued at fair value through profit and loss. The consolidated statements are presented in Swedish kronor (SEK) and all values are rounded to the nearest million except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as of 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

The consolidated financial statements include the Parent Company and all companies in which the Parent controls more than 50% of the votes or in any other way exercises a controlling influence.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the result for the part of the reporting year during which the Group has control.

The consolidated accounts are prepared using the purchase method. The difference between the acquisition value of shares in a subsidiary and the fair value of identifiable assets and liabilities of that subsidiary at the time of acquisition is reported as goodwill.

Intercompany transactions, balance sheet items and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated, unless the transaction evidences the need to write down the transferred asset.

Minority interests represent the portion of profit or loss and net assets in companies that is not held by the Parent Company shareholders and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

**Foreign currency translation**

The functional and presentation currency of the Parent Company and its Swedish subsidiaries is Swedish kronor (SEK). Transactions in foreign currencies are initially recorded in the functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. Realized and unrealized exchange gains/losses on receivables and liabilities of an operating nature are reported in operating income, while exchange rate difference on financial assets and liabilities in foreign currencies are reported among financial items.

As at the reporting date, the assets and liabilities of subsidiaries that have not the same functional currency as the Parent Company are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date. Their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the income statement.

Long-term monetary balances between the Parent Company and subsidiaries may be deemed to represent an extension or a contraction of the Parent Company's net investment in the subsidiary. Foreign currency differences arising on such balances are therefore charged directly to shareholders' equity as a translation difference.

**Intangible assets**

Intangible assets with a finite useful life are measured on initial recognition at cost and are then carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated on a straight-line schedule based on the acquisition value of the asset and its estimated useful life.

Goodwill consists of the amount by which the acquisition value exceeds the fair value of the Group's share in the identifiable net assets of the acquired subsidiary/associated company at the time of acquisition. Goodwill from the acquisition of subsidiaries is reported as intangible assets. Intangible assets including goodwill are tested for impairment annually to identify any possible need of a write-down and is reported at its acquisition value less accumulated write-downs. Gains or losses on the divestment of a unit include the remaining reported value of the goodwill relating to the divested unit.

Goodwill is distributed among cash-generating units when it is tested with respect to a possible need for a write-down.

**Tangible and biological assets**
Property, plant and equipment are reported net after deductions for accumulated depreciation. Depreciation is calculated on a straight-line schedule based on the acquisition value of the asset and its estimated useful life. The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end.

Forest and other biological assets are recorded at their fair value.

**Impairment**
Assets are assessed with respect to the reduction in their value whenever events or changes in circumstances indicate that the reported value might not be recoverable. To calculate the impairment requirement, assets are grouped in cash-generating units. An impairment loss is done in the amount by which the assets' reported value exceeds its recovery value. The recovery value is the higher of an assets' fair value, less the cost of sale and the value in use.

**Financial instruments**
A financial asset or financial liability is recognized in the balance sheet when the company becomes a party to the instrument's contractual terms. Accounts receivable are recognized when the invoice is sent. A liability is recognized when the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not yet been sent.

A financial asset is derecognized from the balance sheet when the rights in the contract are realized, expire or the company loses control over them. The same applies for a portion of a financial asset. A financial liability is derecognized from the balance sheet when the obligation in the contract is met or in some other manner is extinguished. The same applies for a portion of a financial liability.

Acquisition and divestment of financial assets are reported on the transaction date, which is the date on which the company commits to acquire or divest the assets, except in the case the company acquires or divests listed securities when settlement date reporting is applied.

*Financial assets*
Financial assets that are listed on an active market such as trading securities, or for which a reliable assessment is deemed possible in another way, are valued at their fair value through profit and loss.

The fair value of financial instruments traded on an active market is based on the market prices listed on the closing date. The listed market price used for the Group's financial assets is the current bid price. For companies with two classes of shares the market price for the most liquid share class is used.

When establishing the fair value of other financial instruments, methods that in every individual case are assumed to provide the best estimation of fair value have been used. The fair value of other shareholdings is based on values established in accordance with forecast cash flow during the five years immediately ahead, apart from those cases where the companies themselves assess the market value of their assets according to IFRS, in which case the fair value of the shareholding is calculated as a portion of the reported net assets in the company. For assets and liabilities maturing within one year, a nominal value adjusted for interest payments and premiums is assumed to provide a good approximation to fair value.

*Associates*
Companies in which the Group has significant influence and which is not a subsidiary are regarded as associated companies.

Listed holdings are valued at their fair value and in accordance with IAS 28 point 1, listed associated companies are also reported at their fair value.

Unlisted associated companies are accounted for using the equity method. Adjustments are made to bring into line any dissimilar accounting policies that may exist before the Group's interest in earnings is calculated.

Adjustments for intra-group profits / losses arising out of transactions with associated companies are made in connection with the calculation of the Group's consolidated interest in earnings and capital. Elimination of such intra-groups profits / losses occurs in pace with their realization through the sale of the particular assets to external parties and/or by reduction of the Group's ownership interest in the associated company.

*Loan receivables, trade and other receivables*
Loan receivables and other receivables are non-derivative financial assets with defined or definable payments and defined maturities that are not listed on an active market. The values established are amortized cost, and the valuation is based on the effective interest method (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument).

Trade receivables, which generally have 30-90 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Accounts receivable pertain to a large number of customers in Sweden and the rest of Europe. The Group deals solely with well-established and creditworthy counterparties, which reduces the credit risk.

Credit risks pertaining to the Group's other financial assets, which include cash and cash equivalents, are the risks of failure to pay by counterparties. The maximum risk corresponds to the financial instruments' reported value.

*Financial liabilities*
Financial liabilities not held for trading are measured at accrued acquisition value, which is determined based on the effective interest rate calculated when the liability was assumed. This means that surplus and deficit values as well as direct costs in conjunction with assuming of loans are distributed over the term of the liability.

Long-term liabilities have an expected term of exceeding one year, while current liabilities have a term of less than one year.

Trade payables have short expected term and are valued at nominal value.

*Fair value of financial instruments*
Financial fixed assets are valued at their fair value. For other financial assets and liabilities, there are no material differences between reported and fair values.

*Hedge Accounting*
The carrying values of recognized assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

**Inventories**
Inventory of raw materials, excluding wood from the Group's own forests, consumables, work in progress and finished goods are valued at the lower of cost and net sales value. Inventory is valued on a First-In, First-Out (FIFO) basis.

Felling rights, representing the cost to acquire the right to fell timber on land that the Group does not own, are valued at acquisition cost and are expensed when the corresponding wood is used in production or sold. Felling rights are reclassified as raw materials (logs and timber) as the timber is harvested based on the relationship between the remaining book value of the felling rights and the estimated volume of recoverable timber.

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than VAT), and transport, handling and other costs directly attributable to the acquisition of inventories. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Net sales value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**Pensions and other post-employment benefits**
Pension commitments are reported as a liability in the balance sheet and calculated on the basis of actuarial assumptions taken into account such features as the estimated future pay adjustments.

The Group's pension commitments primarily consist of defined benefit multiemployer pension plans and by other defined benefit plans, of which one is funded.

The Group has one defined benefit multiemployer plan, which is insured with the mutual insurance company Alecta (ITP plan). There is a lack of sufficient information to permit the reporting of the Group's proportional share of the defined benefit commitment and of the plan assets and costs associated with this plan. Consequently, the plan is reported as if it was a defined contribution plan, which means that the expenses incurred are reported as a cost.

In addition, the Group has three defined benefit pension plans covering employees in Sweden, Germany and the UK. The cost of providing benefits in accordance with these plans are determined separately for each plan via the Projected Unit Credit Method (PUCM method) on the basis of actuarial assumptions specific for each individual plan.

Actuarial gains and losses are not reported as long as the accumulated gains or losses are less than 10% of the highest of the commitment's present value and fair value of any assets under management. If the accumulated gain or loss exceeds the highest of the aforementioned limit values, the excess gain/loss is reported over the remaining average outstanding employment period for employees covered by the plan.

The increase in the provision for unfunded pension plans, due to the passage of time is recognized as an interest cost.

**Other provisions**
Provisions are reported when the Group has a legal or informal obligation resulting from events that have occurred, there is a higher probability than not that an outflow of resources is required to settle the commitment, and it has been possible to calculate the amount in a reliable manner. Provisions are discounted in the accounts.

**Revenue recognition**

*Sale of products*
Revenue from the sale of products, net of allowance for returns and discounts, is recognized when products are delivered and significant risks and benefits associated with ownership of the goods are transferred and can be reliably measured.

*Rendering of services*
Revenue from the sale of services is recognized at the time the service is rendered to the customer, after deductions for discounts.

*Interest*
Revenue is recognized as the interest accrues to the net carrying amount of the financial assets.

*Dividends received*
Dividends received are recognized when the shareholders' right to receive the payment is assessed as certain.

**Research and Development costs**
Research and development costs are charged to the income statement during the year they arise, unless the company can demonstrate that the amount will be able to generate future economic benefit.

**Marketing costs**
Advertising costs and other marketing activities are expensed as they arise.

**Government grants**
Financial contributions from governments, public authorities and similar local, national or international bodies are reported when there is reasonable assurance that the terms and conditions associated with the contribution are commercially fulfilled and the contribution will be received. Contributions are accrued systematically in the same manner and over the same periods as the costs which the contributions are designed to offset.

**Income tax**
The total tax on the year's income consists of current and deferred tax. Taxes are stated in the income statement except when the underlying transaction is charged directly against equity, in which case the related tax effect is also stated in equity. Current tax expense is the tax that is to be paid or received for the year in question, plus correction of

tax expense for earlier periods. Deferred tax is calculated on the basis of the temporary differences between the book values of assets and liabilities and their value for tax purposes. The amounts are calculated on the basis of how these differences can be expected to be evened out and using the tax rates and rules in effect or announced as of the closing date. Temporary differences are not recorded in the case of differences attributable to interests in subsidiaries and associated companies that are not expected to be taxable in the foreseeable future. In the consolidated financial statements, untaxed reserves are divided into deferred tax liability and equity. The deferred tax asset component of deductible temporary differences and tax loss carry forwards is only recorded in so far as it is likely that these will result in a lower tax payment in the future.

**Dividends paid**

For dividends in kind, the net assets value is recorded as dividend. Cash dividends to shareholders are recorded in the accounting period the dividend is approved.

**Leases**

Leases are classified in the consolidated accounts as financial leases or operational leases. A financial lease is when the financial risk and benefits are associated with the ownership of an item is essentially transferred from the lessee to the lessor, regardless of whether or not the lessee retains the legal right of ownership of the asset. For financial leases, the leasing asset is reported as an asset and the obligation for future payments as a liability in the balance sheet. An operating lease is a lease that does not fulfill the conditions for financial leases. For operating leases, the rental expense is reported in the lessee's accounts distributed equally over the period during which the asset is used, even if the payments are made according to some other schedule.

**Discontinued operations**

A discontinued operation is a separate line of business or geographical area of operation that either has been disposed of or is classified as assets held for sale. Non-current assets and disposal groups are classified as held for disposal when they are available for immediate disposal and the disposal is highly probable. For this to be the case, the Board of Directors must be committed to a plan to sell the asset, a program to locate a buyer and complete the plan must have been initiated and the sale should, under normal circumstances, be completed within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of its carrying amount and fair value less the costs to sell.

When an operation is classified as discontinued, the net profit after tax from discontinued operations and the post-tax gain or loss recognized on the measurement to fair value less costs to sell the operations are reported separately in the income statement under Profit/loss from discontinued operations. Previous reporting periods are restated. In the balance sheet assets and liabilities are disclosed separately for discontinued operations from the period in which the operation has been classified as discontinued. Previous reporting periods are not restated.

**Cash flow statement**

For purposes of the Parent Company and the consolidated cash-flow statements, the Group include among cash and cash equivalents investments with original duration of maximum three months. The book value of these items corresponds to fair value. Cash and cash equivalents as shown in both the cash flow statement and the balance sheet include funds that are blocked.

**New accounting principles as from 2006**

In 2005 a number of new IFRS standards, amendments to IFRS standards, and IFRIC interpretations of existing IFRS standards have been issued. They have not yet entered into force and have not been applied in the preparation of the consolidated financial statements for 2005. The following new standards, amendments and interpretations are expected to become applicable to the Group, but are not expected to have any impact on the consolidated financial statements, apart from a requirement for extended disclosure in some cases:

– amendment to IAS 19 Employee Benefits (as from 2006);
– amendment to IAS 39 Financial Instruments: Recognition and Measurement (as from 2006);
– amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates (as from 2006);
– IFRIC 4 Determining Whether an Arrangement Contains a Lease; (as from 2006);
– IFRS 7 Financial Instruments: Disclosures (as from 2007); and
– amendment to IAS 1 Presentation of Financial Statements regarding Capital Disclosures (as from 2007).

**Parent Company's accounting principles**

The Parent Company's accounting principles for the valuation of financial instruments and pension liabilities deviate from the principles applied by the Group. Financial instruments are not marked to fair value as they are in the Group; instead they are reported at acquisition cost. Pension liabilities are reported in accordance with Swedish principles.

**Significant judgments and assumptions**

The preparation of the annual financial statements and consolidated financial statements includes a number of estimates and assumptions. The application of these estimates and assumptions affects the reporting and disclosures. Accounting policies that require more significant judgments by the board and the management in the application of IFRS, and assumptions and estimations in matters that are inherently uncertain, are summarized below.

In accordance with IAS 28, that deals with accounting for shares in associated companies, Kinnevik can recognize such shares at fair value through profit or loss or apply the equity method of accounting. The board and management has made the judgment that an accounting at fair value through profit or loss reflects in the best way how the group follows and evaluates its shares in listed associated companies. Listed shares in associated companies are therefore reported at fair value in the balance sheet, whereas the change in fair value affects the result for the year. Consequently, the reported results and equity of Kinnevik are primarily affected by changes in the fair value of the shares and only indirectly by the reported results of the associated companies, as opposed to an accounting according to the equity method.

Actuarial assumptions and other assumptions and estimations when estimating the provisions for pensions (Note 22) and other provisions (Note 23) could have a material impact on the financial statements. The estimates used are based on experience, market information and practice, and are regularly reviewed.

**Note 2**

## Segment reporting

Kinnevik is a diversified company whose business consists of the long-term development of operative companies. Kinnevik also has significant holdings in a small number of listed companies, including Tele2 AB ("Tele2"), Modern Times Group MTG AB ("MTG"), Metro International S.A. ("Metro"), Millicom International Cellular S.A. ("Millicom"), Transcom WorldWide S.A. ("Transcom") and Invik & Co. AB ("Invik").

The Kinnevik Group is organized into the following three primary segments reported as continuing operations:

Korsnäs, together with its subsidiaries and associated companies in two business areas: packaging materials ("Korsnäs Industrial") and supply of wood and fiber ("Korsnäs Forestry").

1. Korsnäs Industrials' activities center on the Korsnäsverken complex in Gävle, which has an annual capacity of 700,000 tons of pulp. The total output of kraft pulp is processed within the complex into paperboard, sack and kraft paper and fluff pulp. Paperboard is the largest product area in terms of volume, where liquid packaging board is used for packaging of beverages, and white top liner is used as the outer layer in corrugated board packaging.
2. Korsnäs Forestry supplies Korsnäs Industrial's pulp and paper mill with wood harvested from purchased felling rights, and wood purchased from outside suppliers, as well as pursuing forestry in line with external wood delivery agreements.
3. Mellersta Sveriges Lantbruks AB ("MSLA") together with its subsidiaries is engaged in farming in Sweden and Poland. MSLA owns the Ullevi estate, near Vadstena in Sweden, and the Barciany and Podlawki estates in north-east Poland. The total acreage amounts to 665 hectares in Sweden and 6,708 hectares in Poland.

In addition to the three segments reported above, Kinnevik owned the Korsnäs Packaging segment at 31 December 2005, which is reported as discontinued operations in the income statements and balance at 31 December 2005. In December 2005, Kinnevik concluded an agreement concerning the sale of this segment; also see below Note 10. Korsnäs Packaging produce paper sacks for industrial use in Europe with ten wholly or part-owned production units and have an annual production capacity of about 850 million sacks.

Since the segments within Invik (Banque Invik, Modern Insurances, Invik Asset Management and Fischer Partners) were discontinued through the distribution of Invik to Kinnevik's shareholders during 2005, they are reported in the income statement under discontinued operations up to 31 August 2005, the time when the distribution was finalized. See further Note 10.

| **Segment reporting 2005** | Korsnäs Industrial | Korsnäs Forestry | Mellersta Sveriges Lantbruk | Parent Company, holding companies, eliminations | **Total continuing operations** | **Total discontinued operations, Note 10** | Eliminations | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External | 3,779 | 699 | 52 | 9 | **4,539** | 2,367 | – | 6,906 |
| Internal | 79 | 1,042 | – | – 1,042 | **79** | 2 | – 81 | – |
| Total revenue | 3,858 | 1,741 | 52 | – 1,033 | **4,618** | 2,369 | – 81 | 6,906 |
| **Operating profit** | 314 | 62 | 8 | – 31 | **353** | – 257 | – | 96 |
| Dividends received | | | | 630 | **630** | – | – | 630 |
| Change in fair value of financial assets | | | | 3,893 | **3,893** | – | – | 3,893 |
| Net financial items | | | | – 229 | **– 229** | – 24 | – | – 253 |
| **Profit/loss after financial items** | | | | | **4,647** | – 281 | – | 4,366 |
| Taxes | | | | – 224 | **– 224** | – 45 | – | – 269 |
| **Net profit/loss for the year** | | | | | **4,423** | **– 326** | **–** | **4,097** |

| | Korsnäs Industrial | Korsnäs Forestry | Mellersta Sveriges Lantbruk | Parent Company, holding companies, eliminations | **Total continuing operations** | **Total discontinued operations, Note 10** | Eliminations | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | | | |
| Operating assets | 4,797 | 443 | 228 | 127 | **5,595** | 915 | | 6,510 |
| Financial fixed assets | | | | 26,339 | **26,339** | 193 | | 26,532 |
| Short-term investments, cash and cash equivalents | | | | 188 | **188** | 27 | | 215 |
| **Total assets** | | | | | **32,122** | **1,135** | | **33,257** |
| Operating liabilities | 599 | 208 | 3 | 254 | **1,064** | 316 | | 1,380 |
| Provision for pensions | | | | 478 | **478** | 105 | | 583 |
| Deferred tax liability | | | | 727 | **727** | – | | 727 |
| Interest-bearing loans | | | | 7,231 | **7,231** | 21 | | 7,252 |
| **Total liabilities** | | | | | **9,500** | **442** | | **9,942** |
| **Depreciation** | – 330 | – 11 | – 7 | – 3 | **– 351** | – 66 | | – 417 |
| **Investments** | 425 | 8 | 7 | 2 | **442** | 109 | | 551 |
| **Segment reporting 2004** | | | | | | | | |
| **Revenue** | | | | | | | | |
| External | 3,668 | 744 | 32 | 17 | **4,461** | 1,975 | – | 6,436 |
| Internal | 139 | 1,010 | – | – 1,010 | **139** | 5 | – 144 | – |
| Total revenue | 3,807 | 1,754 | 32 | – 993 | **4,600** | 1,980 | – 144 | 6,436 |
| **Operating profit** | 656 | 85 | 7 | 778 | **1,526** | 111 | – | 1,637 |
| Dividends received | | | | 102 | **102** | – | – | 102 |
| Change in fair value of financial assets | | | | – 2,544 | **– 2,544** | – | – | – 2,544 |
| Net financial items | | | | – 282 | **– 282** | – 26 | – | – 308 |
| **Profit / loss after financial items** | | | | | **– 1,198** | 85 | – | – 1,113 |
| Taxes | | | | – 265 | **– 265** | – 39 | – | – 304 |
| **Net profit / loss for the year** | | | | | **– 1,463** | **46** | **–** | **– 1,417** |
| **Assets and liabilities** | | | | | | | | |
| Operating assets | 4,734 | 469 | 212 | – 354 | 5,061 | 7,263 | – 39 | **12,285** |
| Financial fixed assets | | | | 22,609 | 22,609 | 64 | – 466 | **22,207** |
| Short-term investments, cash and cash equivalents | | | | 254 | 254 | 47 | – | **301** |
| **Total assets** | | | | | **27,924** | **7,374** | **– 505** | **34,793** |
| Operating liabilities | 784 | 232 | 3 | 50 | 1,069 | 5,606 | – 39 | **6,636** |
| Provision for pensions | | | | 469 | 469 | 200 | – | **669** |
| Deferred tax liability | | | | 863 | 863 | 17 | – | **880** |
| Interest-bearing loans | | | | 6,510 | 6,510 | 455 | – 466 | **6,499** |
| **Total liabilities** | | | | | **8,911** | **6,278** | **– 505** | **14,684** |
| **Depreciation** | – 334 | – 12 | – 6 | – 4 | – 356 | – 68 | – | **– 424** |
| **Investments** | 438 | 6 | 5 | 3 | 452 | 65 | – | **517** |

Revenue comprises total sales proceeds net of sales discounts, VAT and other taxes directly connected to the revenue.

Of total revenue of SEK 6,906 million (6,436), SEK 5,757 million (5,696) is attributable to sale of goods and SEK 1,149 million (740) to sale of services.

Sales to one single customer represented 33% and 33% respectively, of total revenue for the years 2005 and 2004.

External revenue cover sales to all parties other than the Parent Company and its subsidiaries. For information on sales to related parties, refer to Note 32. Internal sales prices are set in the same manner as external sales, that is, on commercial terms.

Intra-Group revenue in the Parent Company totaled SEK 12 million (12).

Operating assets for Invik and its business segments pertain to all assets. For other business segments, these entail intangible ant tangible fixed assets, investment in companies accounted for using the equity method, inventories and short-term non interest-bearing receivables.

Operating liabilities for Invik and its business segments pertain to all liabilities. For other business segments, these involve other provisions and short-term non interest-bearing liabilities.

**Revenue distributed by geographic market**

The geographic distribution of revenue is based upon the geographic location of the buyer.

| | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| **2005** | | | |
| Sweden | 868 | 993 | 1.861 |
| Other Nordic countries | 49 | 196 | 245 |
| Rest of Europe | 2,395 | 1,130 | 3,525 |
| North and South America | 25 | 19 | 44 |
| Asia | 1,069 | 12 | 1,081 |
| Africa | 133 | 17 | 150 |
| | **4,539** | **2,367** | **6,906** |
| **2004** | | | |
| Sweden | 988 | 617 | 1,605 |
| Other Nordic countries | 53 | 305 | 358 |
| Rest of Europe | 2,344 | 1,019 | 3,363 |
| North and South America | 20 | 29 | 49 |
| Asia | 919 | 0 | 919 |
| Oceania | 1 | 0 | 1 |
| Africa | 136 | 5 | 141 |
| | **4,461** | **1,975** | **6,436** |

**Distribution of operating profit / loss by geographic market**

| | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| **2005** | | | |
| Sweden | 292 | 95 | 387 |
| Other Nordic countries | 0 | 21 | 21 |
| Rest of Europe | 61 | – 373 | – 312 |
| | **353** | **– 257** | **96** |
| **2004** | | | |
| Sweden | 1,506 | 63 | 1,569 |
| Other Nordic countries | 0 | 25 | 25 |
| Rest of Europe | 20 | 21 | 41 |
| North America | – | 2 | 2 |
| | **1,526** | **111** | **1,637** |

**Distribution of assets by geographic market**

| | Continuing operations | Discontinued operations | Eliminations | Total |
|---|---|---|---|---|
| **2005** | | | | |
| **Operating assets** | | | | |
| Sweden | 5,273 | 0 | | 5,273 |
| Other Nordic countries | – | 286 | | 286 |
| Rest of Europe | 322 | 629 | | 951 |
| **Other assets** | | | | |
| Financial fixed assets | 26,339 | 193 | | 26,532 |
| Short-term investments, cash and cash equivalents | 188 | 27 | | 215 |
| | **32,122** | **1,135** | | **33,257** |
| **2004** | | | | |
| **Operating assets** | | | | |
| Sweden | 4,741 | 3,533 | – 39 | 8,235 |
| Other Nordic countries | 0 | 266 | – | 266 |
| Rest of Europe | 320 | 3,464 | – | 3,784 |
| **Other assets** | | | | |
| Financial fixed assets | 22,609 | 64 | – 466 | 22,207 |
| Short-term investments, cash and cash equivalents | 254 | 47 | – | 301 |
| | **27,924** | **7,374** | **– 505** | **34,793** |

**Distribution of investments by geographic market**

| | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| **2005** | | | |
| Sweden | 430 | – | 430 |
| Other Nordic countries | – | 18 | 18 |
| Rest of Europe | 12 | 91 | 103 |
| | **442** | **109** | **551** |
| **2004** | | | |
| Sweden | 443 | 3 | 446 |
| Other Nordic countries | 0 | 8 | 8 |
| Rest of Europe | 9 | 54 | 63 |
| | **452** | **65** | **517** |

## Note 3
## Significant acquisitions and divestments

**2005**

In accordance with decision taken by Kinnevik's AGM, all the shares in Invik were distributed to the shareholders. 30 August was approved as the record date for the distribution in kind and trading on the O List of the Stockholm Stock Exchange commenced on 1 September, see also Note 10.

On 15 November Korsnäs AB entered into an agreement with Sveaskog Förvaltnings AB for the acquisition of its subsidiary AssiDomän Cartonboard Holding AB ("Frövi") for a total consideration of SEK 3,650 million in cash on an enterprise value basis. The acquisition of Frövi will be mainly financed with an increase of Korsnäs' existing syndicate loan facility. The transaction is subject to approval by competition authorities and is expected to be finalized in the first half of 2006.

On 15 December Kinnevik entered into an agreement to sell Korsnäs Packaging to the Russian packaging group JSC Segezha Pulp and Paper Mill ("Segezha"), see also Note 10.

**2004**

On 16 February it was announced that the Boards of Invik & Co. AB ("old Invik") and Industriförvaltnings AB Kinnevik ("old Kinnevik") had drawn up a joint merger plan for the companies. The merger was conducted through old Kinnevik being absorbed into old Invik by a legal merger of limited liability companies in which old Kinnevik shares were exchanged for new shares in old Invik. For each Series A share in old Kinnevik, 3.5 new Series A shares were received in old Invik, and for each Series B share in old Kinnevik, 3.5 new Series B shares were received in old Invik. On 28 July the merger was completed and at the extraordinary meeting of shareholders on 26 August it was decided that the Company's name be changed from Invik & Co. AB to Investment AB Kinnevik.

On 18 March the sale was completed of Korsnäs' Swedish forestland, as announced in December 2003, to the newly established company Bergvik Skog AB. The majority of the shares in Bergvik Skog were sold to institutional investors. Korsnäs and Stora Enso hold 5.0% and 43.3%, respectively of the shares in Bergvik Skog. Korsnäs received SEK 3,050 million from the sale of its forest company and paid SEK 176 million for 5% of the shares in Bergvik Skog.

## Note 4
## Other operating income

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Exchange gains on operating receivables/liabilities | **34** | 16 | **–** | – |
| Capital gains on disposal of tangible fixed assets | **3** | 6 | **–** | – |
| Freighting of external goods | **28** | 29 | **–** | – |
| Change in value of forest | **40** | 4 | **–** | – |
| Difference between purchase price and the net assets for old Invik | **–** | 826 | **–** | – |
| Other | **46** | 31 | **12** | 2 |
| | **151** | 912 | **12** | 2 |

## Other operating expenses

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| Exchange losses on operating receivables/liabilities | **– 19** | – 23 |
| Capital losses on disposal of tangible fixed assets | **– 5** | – 3 |
| Other | **– 4** | – 2 |
| | **– 28** | – 28 |

## Note 5
## Depreciation

Operating profit/loss includes depreciation as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Buildings, land and land improvements | **– 41** | – 41 | **–** | – |
| Machinery and other technical plant | **– 287** | – 289 | **–** | – |
| Equipment and tools | **– 23** | – 26 | **– 1** | – 1 |
| | **– 351** | – 356 | **– 1** | – 1 |

| Depreciation is split per cost category as follows: | Group 2005 | Group 2004 | Parent Company 2005 | Parent Company 2004 |
|---|---|---|---|---|
| Cost of goods and services | **– 336** | – 333 | **–** | – |
| Selling costs | **0** | – 4 | **–** | – |
| Administration costs | **– 12** | – 15 | **– 1** | – 1 |
| Research and development costs | **– 3** | – 4 | **–** | – |
| | **– 351** | – 356 | **– 1** | – 1 |

## Note 6
## Dividends received

| | Group 2005 | Group 2004 | Parent Company 2005 | Parent Company 2004 |
|---|---|---|---|---|
| **Group companies** | | | | |
| Invik & Co. | – | – | **235** | – |
| Kinnevik International | **–** | – | **–** | 3,000 |
| | **–** | – | **235** | 3,000 |
| **Associated companies** | | | | |
| Tele2 | **627** | 92 | **227** | 10 |
| **Other companies** | | | | |
| Bergvik Skog | **3** | – | – | – |
| MTG Intressenter | – | 10 | – | 10 |
| | **3** | 10 | **–** | 10 |
| | **630** | 102 | **462** | 3,020 |

## Note 7
## Change in fair value of financial assets

| | Group 2005 | Group 2004 |
|---|---|---|
| **Remaining holdings** | | |
| AcandoFrontec | – | 10 |
| Bergvik Skog | **41** | – |
| Cherryföretagen | **–** | 36 |
| Metro International | **– 402** | 379 |
| Millicom International Cellular | **2,478** | 555 |
| Modern Times Group MTG | **1,495** | 428 |
| Tele2 | **– 251** | – 4,082 |
| Transcom WorldWide | **377** | 129 |
| Viking Telecom | **– 6** | – 5 |
| MTG Intressenter | **–** | – 7 |
| Convertible loan Invik & Co. | **98** | – |
| | **3,830** | – 2,557 |
| **Disposed holdings** | | |
| AcandoFrontec | **4** | – |
| Cherryföretagen | **36** | – |
| Invik & Co. (before merger) | **–** | – 23 |
| Millicom International Cellular convertible | **– 16** | – |
| Transcom WorldWide | **39** | – |
| Radio P4 Hele Norge | **–** | 36 |
| | **63** | 13 |
| | **3,893** | – 2,544 |

## Note 8
## Interest income and other financial income

| | Group 2005 | Group 2004 | Parent Company 2005 | Parent Company 2004 |
|---|---|---|---|---|
| Interest income from third-parties | **14** | 17 | **10** | 12 |
| Interest income from Group companies | **–** | – | **284** | 295 |
| Interest income from Group companies reported as discontinued operations | **16** | 16 | **–** | – |
| Other financial income | **–** | – | **–** | 1 |
| | **30** | 33 | **294** | 308 |

## Interest expense and other financial expenses

| | Group 2005 | Group 2004 | Parent Company 2005 | Parent Company 2004 |
|---|---|---|---|---|
| Interest expense to third-parties | **– 197** | – 224 | **– 127** | – 110 |
| Interest expense PRI | **– 21** | – 20 | **0** | 0 |
| Interest expense to Group companies | **–** | – | **– 67** | – 104 |
| Write-downs of financial fixed assets | **– 12** | – | **– 57** | – 7 |
| Exchange-rate differences | **– 6** | – 17 | **– 11** | – 11 |
| Other financial expenses | **– 23** | – 54 | **–** | – 6 |
| | **– 259** | – 315 | **– 262** | – 238 |

## Note 9
## Taxes

| **Distribution of profit/loss after financial items** | Group 2005 | Group 2004 |
|---|---|---|
| Sweden | **4,589** | – 1,223 |
| Outside Sweden | **58** | 25 |
| | **4,647** | – 1,198 |
| **Distribution of current tax expenses** | | |
| Sweden | **– 346** | 0 |
| Outside Sweden | **– 1** | – 22 |
| **Distribution of current tax expense** | | |
| Sweden | **121** | – 243 |
| Outside Sweden | **2** | 0 |
| **Total tax charge for the year** | **– 224** | – 265 |
| **Current tax expense** | | |
| Tax expense for the period | **– 7** | 0 |
| Adjustment of current tax expense for previous years | **– 340** | – 22 |
| | **– 347** | – 22 |
| **Deferred tax expense** | | |
| Deferred tax related to temporary differences | **19** | 18 |
| Deferred tax expense on utilization of tax loss carryforwards | **– 114** | – 163 |
| Change of provision arising from tax disputes | **218** | – 98 |
| | **123** | – 243 |
| **Total tax charge for the year** | **– 224** | – 265 |

| Reconciliation of effective tax rate | Group | | | |
|---|---|---|---|---|
| | **2005** | % | 2004 | % |
| Profit/loss before tax | **4,647** | | – 1,198 | |
| Income tax at statutory rate of Parent Company, 28% | **– 1,301** | **– 28%** | 335 | 28% |
| Foreign tax rate differential | **0** | **0%** | 0 | 0% |
| Non-taxable income due to the merger between old Kinnevik and old Invik | **–** | **–** | 231 | 19% |
| Change in fair value of financial assets | **1,090** | **23%** | – 712 | – 59% |
| Non-taxable dividends received | **176** | **4%** | 29 | 3% |
| Tax attributable to previous years | **– 205** | **– 4%** | – 22 | – 2% |
| Share of profit/loss of associates accounted for using the equity method | **2** | **0%** | 5 | 0% |
| Provision for potential tax payments due to tax disputes | **–** | **–** | – 98 | – 8% |
| Other | **14** | **0%** | – 33 | – 3% |
| Effective tax/tax rate | **– 224** | **– 5%** | – 265 | – 22% |

| Deferred tax assets | Group | |
|---|---|---|
| | **2005** | 2004 |
| Pensions and other provisions | **13** | 0 |
| Tax loss carryforwards | **19** | 217 |
| | **32** | 217 |
| **Provisions for deferred tax** | | |
| Tangible and biological fixed assets | **– 731** | – 742 |
| Pensions | **–** | – 7 |
| Reserves in insurance and securities operations | **–** | – 65 |
| Provision for any additional tax arising from tax disputes | **– 28** | – 246 |
| | **– 759** | – 1,060 |
| **Net provision for deferred tax** | **– 727** | – 843 |

Of deferred tax liabilities on SEK 731 million (742) for tangible and biological fixed assets, SEK 729 million (742) is attributable to untaxed reserves in the form of accumulated excess depreciation.

Deferred tax is not stated for associated companies and subsidiaries, as any dividend paid by these companies will not give rise to a tax liability, and no divestments that could give rise to capital gains taxation are planned for the foreseeable future.

| Distribution of deferred tax assets | Group | |
|---|---|---|
| | **2005** | 2004 |
| Sweden | **32** | 140 |
| Outside Sweden | **0** | 77 |
| | **32** | 217 |
| **Distribution of provisions for deferred tax** | | |
| Sweden | **– 759** | – 1,046 |
| Outside Sweden | **0** | – 14 |
| | **– 759** | – 1,060 |
| Net | **– 727** | – 843 |

Of net deferred tax receivable/provision of SEK 727 million (843), the following have been reported as a receivable or provision in the consolidated balance sheet:

| | | |
|---|---|---|
| Receivable deferred tax for Denmark, the Netherlands, Germany and Czech Republic | **–** | 42 |
| Provisions for deferred tax for Sweden and Luxembourg (31 December 2004) | **– 727** | – 885 |
| Net | **– 727** | – 843 |

**Tax loss carryforwards**
The Group's tax loss carryforwards in Sweden were SEK 67 million (456) at 31 December. Deferred tax receivables of SEK 19 million (128) were reported in the Group's balance sheet as regards these tax loss carryforwards, which are matched by future years' profits in Sweden.

**Tax disputes**
In 2005, the Administrative Court of Appeal issued its judgments regarding a number of cases concerning Kinnevik. Of the three principal items of dispute, Kinnevik won one issue and lost two. Kinnevik won the issue concerning the sale of Korsnäs' power assets in 1993, but lost the issue concerning withdrawal taxation of an option in Millicom issued to MTG and the issue concerning tax loss carryforwards within SCD Invest AB and its subsidiaries. Neither the National Tax Board nor Kinnevik have appealed the first two verdicts, although SCD Invest has requested that it be granted the right of appeal to the Swedish Supreme Administrative Court in respect of the size of the company's tax loss carryforwards, which the company claims should be SEK 1,585 million higher than the level ruled in the Administrative Court of Appeal. No deferred tax assets related to the tax loss carryforwards were reported in the Group at 31 December 2005. Considered on the whole, the verdicts issued by the Administrative Court of Appeal in 2005 resulted in a tax cost of SEK 205 million being charged against consolidated profit for the fiscal year and in tax attributable to prior years being paid in an amount of SEK 340 million.

After completion of a tax audit, the National Tax Board has appealed the Parent Company's tax returns for 2001 and 2002. The dispute has been with the County Administrative Court since 2004 for its ruling. In total within the Group (excluding SCD Invest), there are ongoing tax disputes concerning tax loss carryforwards of SEK 144 million and social security fees of SEK 20 million. If the rulings concerning these matters are negative for the Company, the Company will have to pay SEK 67 million in additional income tax and employer contributions. At 31 December 2005, the Company had made a provision of SEK 51 million for additional income tax and employer contributions, including fees and interest expense.

## Note 10
## Discontinued operations

**Invik & Co. AB**
The shareholders voted at the Annual General meeting on 12 May 2005 in favor of the Board's proposal of a non-cash dividend in the form of a distribution of all share in Invik & Co. AB (”Invik”) (former Modern Finance Group AB). The shareholders received one class A share in Invik for each ten class A shares held in Kinnevik, and one class B share in Invik for each ten class B shares held in Kinnevik. On 17 August, the Stockholm Stock Exchange's Companies Committee approved the Invik B share for listing. 30 August was approved as the record date for the distribution in kind and trading on the O List of the Stockholm Stock Exchange commenced on 1 September. Given the background that Invik has been spun off to Kinnevik's shareholders Invik is reported in the Consolidated Income statement under Net profit from discontinued operations during the period up until 31 August when the spin-off was implemented. Invik and subsidiaries conduct operations in the financial sector in the following segments:

– Banque Invik, based in Luxembourg, conducts banking operations at its head office in Luxembourg and at its Swedish branch in Stockholm in the form of advanced consulting for asset management, financial advisory services for companies, credit-card issuing, fund management and administrative services.
– Modern Insurances consists of direct insurance operations in Sweden (non-life and life) and reinsurance operations conducted within Luxembourg-based Modern Re. The non-life insurance operations focus on private individuals and small-scale companies active in profitable niches. Within corporate insurance, the fastest growth is occurring in the product and group insurance segments. The life insurance company focuses on the unit-linked insurance market and has grown sharply since its formation in 2002.
– Invik Asset Management engages in discretionary asset management and fund operations within Aktie-Ansvar. In January 2006, Invik divested the discretionary asset management operations.
– Fischer Partners conducts stockbrokerage and trading operations on the stock exchanges in Stockholm, Helsinki, Oslo, Copenhagen, Tallinn, Riga, Vilnius, Warsaw and Moscow, and on Eurex, the German derivative exchange. Fischer Partners is one of the leading companies within electronic customer trading in the Northern European markets.

**Korsnäs Packaging AB**
On 15 December Kinnevik entered into an agreement to sell Korsnäs Packaging to the Russian packaging group JSC Segezha Pulp and Paper Mill (”Segezha”) for EUR 73.5 million (SEK 693 million) in cash on an enterprise value basis. The transaction is subject to approval by competition authorities and is expected to be finalized in the first half of 2006. Against this background Korsnäs Packaging's assets and operating liabilities are reported as assets and liabilities held for sale in the consolidated balance sheet per 31 December 2005 and Korsnäs Packaging's net profit/loss reported as Net profit/loss from discontinued operations in the income statement for 2005 as well as in the comparative figures for 2004.

| Discontinued operations 2005 | Korsnäs Packaging | Banque Invik | Modern Insurances | Invik Asset Management | Fischer Partners | Parent Company eliminations Invik | **Total discontinued operations** |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External | 1,289 | 174 | 700 | 60 | 144 | – | 2,367 |
| Internal | 0 | 2 | 1 | – 2 | 3 | – 2 | 2 |
| Total revenue | 1,289 | 176 | 701 | 58 | 147 | – 2 | 2,369 |
| Operating expenses | – 1,727 | – 133 | – 690 | – 37 | – 160 | – 7 | – 2,754 |
| Other operating income | 19 | 0 | 80 | 6 | 22 | – 4 | 123 |
| Share of profit / loss of associates accounted for using the equity method | 5 | – | – | – | – | – | 5 |
| **Operating profit / loss** | – 414 | 43 | 91 | 27 | 9 | – 13 | – 257 |
| Net financial items | – 17 | – | – | – | – | – 7 | – 24 |
| **Profit / loss after financial items** | – 431 | 43 | 91 | 27 | 9 | – 20 | – 281 |
| Taxes | – 3 | – 12 | – 25 | – 8 | – 3 | 6 | – 45 |
| **Net profit / loss for the year** | **– 434** | **31** | **66** | **19** | **6** | **– 14** | **– 326** |
| **Assets and liabilities** | | | | | | | |
| Operating assets | 915 | | | | | | 915 |
| Financial fixed assets | 193 | | | | | | 193 |
| Short-term investments, cash and cash equivalents | 27 | | | | | | 27 |
| **Total assets** | **1,135** | | | | | | **1,135** |
| Operating liabilities | 316 | | | | | | 316 |
| Provisions for pensions | 105 | | | | | | 105 |
| Interest-bearing loans | 21 | | | | | | 21 |
| **Total liabilities** | **442** | | | | | | **442** |
| **Depreciation** | – 63 | – 1 | – 2 | – | – | – | – 66 |
| **Investments** | 109 | | | | | | 109 |

The loss in Korsnäs Packaging includes impairment loss on assets of SEK 233 million, restructuring costs in Germany and the UK totaling SEK 53 million and additional pension costs of SEK 125 million related to the UK company's pension plan, which will be closed as a result of the transaction. Net assets were written down to SEK 693 million in Kinnevik's 2005 year-end financial statements, which corresponds to the purchase consideration Kinnevik will receive from Segezha when the sale is concluded.

**Discontinued operations 2004**

| | Korsnäs Packaging | Banque Invik | Modern Insurances | Invik Asset Management | Fischer Partners | Parent Company eliminations Invik | **Total discontinued operations** |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External | 1,252 | 101 | 485 | 38 | 92 | 7 | 1,975 |
| Internal | 0 | 5 | 0 | 0 | 0 | – | 5 |
| **Total revenue** | 1,252 | 106 | 485 | 38 | 92 | 7 | 1,980 |
| Operating expenses | – 1,258 | – 90 | – 486 | – 26 | – 97 | – 6 | – 1,963 |
| Other operating income | 27 | 0 | 40 | – 6 | 30 | – 1 | 90 |
| Share of profit / loss of associates accounted for using the equity method | 4 | – | – | – | – | – | 4 |
| **Operating profit / loss** | 25 | 16 | 39 | 6 | 25 | – | 111 |
| Net financial items | – 26 | – | – | – | – | – | – 26 |
| **Profit / loss after financial items** | – 1 | 16 | 39 | 6 | 25 | – | 85 |
| Taxes | – 9 | – 5 | – 13 | – 2 | – 9 | – 1 | – 39 |
| **Net profit / loss for the year** | **– 10** | **11** | **26** | **4** | **16** | **– 1** | **46** |
| **Assets and liabilities** | | | | | | | |
| Operating assets | 995 | 2,508 | 2,516 | 250 | 994 | – | 7,263 |
| Financial fixed assets | 64 | – | – | – | – | – | 64 |
| Short-term investments, cash and cash equivalents | 47 | – | – | – | – | – | 47 |
| **Total assets** | **1,106** | **2,508** | **2,516** | **250** | **994** | **–** | **7,374** |
| Operating liabilities | 298 | 2,309 | 1,951 | 211 | 837 | – | 5,606 |
| Provisions for pensions | 200 | – | – | – | – | – | 200 |
| Deferred tax liability | 17 | – | – | – | – | – | 17 |
| Interest-bearing loans | 455 | – | – | – | – | – | 455 |
| **Total liabilities** | **970** | **2,309** | **1,951** | **211** | **837** | **–** | **6,278** |
| **Depreciation** | – 61 | – 2 | – 3 | – 1 | – 1 | – | – 68 |
| **Investments** | 60 | 2 | 2 | 0 | 1 | – | 65 |

**Cash flow in Korsnäs Packaging**

| | **2005** | 2004 |
|---|---|---|
| Cash flow from operations | **– 100** | 186 |
| Cash flow from investing activities | **– 109** | – 25 |
| Cash flow from financing activities | **0** | – 164 |
| Cash flow to / from Kinnevik | **181** | – 41 |
| **Cash flow for the year** | **– 28** | – 44 |
| Exchange rate difference in liquid funds | **8** | – 1 |
| Cash and bank, opening balance | **47** | 92 |
| Cash and bank, closing balance | **27** | 47 |

## Note 11
## Intangible fixed assets

Intangible fixed assets totaling SEK 17 million (101) include goodwill of SEK 17 million (17) and other intangible assets of SEK – million (84) (relating to Invik).

Goodwill acquired through acquisition is allocated to two cash-generating units, Korsnäs Industrial and Korsnäs Forestry. Goodwill is tested for impairment on a yearly basis.

| Cash-generating units | **2005** | 2004 |
|---|---|---|
| Korsnäs Industrial | **2** | 2 |
| Korsnäs Forestry | **15** | 15 |
| | **17** | 17 |

## Tangible and biological fixed assets

For purposes of calculating depreciation, fixed assets are classified on the basis of their estimated useful economic lives according to the following categories:

| | |
|---|---|
| Industrial buildings | 20 – 67 years |
| Office buildings | 20 – 67 years |
| Residential buildings | 20 – 67 years |
| Land improvements | 25 – 30 years |
| Machinery and equipment | 3 – 25 years |

| **Group 2005** | Buildings land, land improvements | Forest, agricultural properties | Machinery, technical plants | Equipment, tools | Construction in progress, advances | Total |
|---|---|---|---|---|---|---|
| Opening acquisition values | 1,762 | 148 | 7,399 | 519 | 425 | 10,253 |
| Less assets in discontinued operations | – 283 | – | – 973 | – 237 | – 28 | – 1,521 |
| Investments for the year | 5 | 1 | 5 | 6 | 425 | 442 |
| Sale/scrapping for the year | – 25 | – 49 | – 22 | – 5 | – | – 101 |
| Reclassification for the year | 89 | – | 664 | 17 | – 770 | – |
| Revaluation to fair value for the year | – | 40 | – | – | – | 40 |
| Translation difference | 2 | 10 | 5 | 0 | 1 | 18 |
| Closing acquisition values | 1,550 | 150 | 7,078 | 300 | 53 | 9,131 |
| Opening accumulated depreciation | – 942 | – | – 4,588 | – 390 | – 5 | – 5,925 |
| Less assets in discontinued operations | 101 | – | 678 | 194 | 5 | 978 |
| Sale/scrapping for the year | 1 | – | 17 | 2 | – | 20 |
| Depreciation for the year | – 41 | – | – 287 | – 23 | – | – 351 |
| Translation difference | 0 | – | – 2 | 0 | – | – 2 |
| Closing accumulated depreciation | – 881 | – | – 4,182 | – 217 | – | – 5,280 |
| Closing residual value | 669 | 150 | 2,896 | 83 | 53 | 3,851 |
| Tax assessment value, buildings | 1,848 | | | | | |
| Tax assessment value, land | 56 | 74 | | | | |

| Group 2004 | Buildings, land, land improvements | Forest, agricultural properties | Machinery, technical plants | Equipment, tools | Construction in progress, advances | Total |
|---|---|---|---|---|---|---|
| Opening acquisition values | 1,834 | 3,137 | 7,399 | 511 | 104 | 12,985 |
| Merger with old Invik | 4 | – | 2 | 16 | – | 22 |
| Investments for the year | 6 | 1 | 19 | 11 | 480 | 517 |
| Sale/scrapping for the year | – 89 | – 3,006 | – 133 | – 44 | – 1 | – 3,273 |
| Reclassification for the year | 11 | – | 119 | 28 | – 158 | – |
| Revaluation to fair value for the year | – | 4 | – | – | – | 4 |
| Translation difference | – 4 | 12 | – 7 | – 3 | – | – 2 |
| Closing acquisition values | 1,762 | 148 | 7,399 | 519 | 425 | 10,253 |
| Opening accumulated depreciation | – 950 | – | – 4,355 | – 391 | – 5 | – 5,701 |
| Sale/scrapping for the year | 26 | – | 118 | 39 | – | 183 |
| Depreciation for the year | – 53 | – | – 330 | – 41 | – | – 424 |
| Reclassification for the year | 33 | – | – 32 | – 1 | – | – |
| Translation difference | 2 | – | 11 | 4 | – | 17 |
| Closing accumulated depreciation | – 942 | – | – 4,588 | – 390 | – 5 | – 5,925 |
| Closing residual value | 820 | 148 | 2,811 | 129 | 420 | 4,328 |
| Tax assessment value, buildings | 1,880 | | | | | |
| Tax assessment value, land | 61 | 62 | | | | |

**Parent Company**

| Equipment | 2005 | 2004 |
|---|---|---|
| Opening acquisition values | **10** | 9 |
| Investments for the year | **2** | 2 |
| Sale/scrapping for the year | **0** | – 1 |
| Closing acquisition values | **12** | 10 |
| Opening accumulated depreciation | **– 8** | – 8 |
| Sale/scrapping for the year | **0** | 1 |
| Depreciation for the year | **– 1** | – 1 |
| Closing accumulated depreciation | **– 9** | – 8 |
| Closing residual value | **3** | 2 |

## Note 12
## Financial assets accounted at fair value through profit and loss

| Group 2005 | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|
| **Associated companies** | | | | | |
| Metro International S.A. | | Luxembourg | 211,683,384 | 40/37 | 2,815 |
| Millicom International Cellular S.A. | | Luxembourg | 37,835,438 | 38 | 8,078 |
| Modern Times Group MTG AB | 556309-9158 | Stockholm | 9,935,011 | 15/48 | 3,294 |
| Tele2 AB | 556410-8917 | Stockholm | 125,481,525 | 28/50 | 10,666 |
| Transcom WorldWide S.A. | | Luxembourg | 12,627,543 | 17/35 | 827 |
| Viking Telecom AB | 556330-3055 | Gothenburg | 7,037,952 | 29 | 12 |
| | | | | | 25,692 |
| **Other companies** | | | | | |
| Bergvik Skog AB | 556610-2959 | Falun | 353 | 5 | 218 |
| Modern Holdings Inc. | | USA | 2,646,103 | 18 | 26 |
| MTG Intressenter AB | 556519-8529 | Stockholm | 3,075 | 12 | 1 |
| Other | | | | | 7 |
| | | | | | 252 |

| | | | | | |
|---|---|---|---|---|---|
| **Other financial assets** | | | | | |
| Convertible loan in Invik | | | | | 340 |
| Financial receivables in other associated companies | | | | | 13 |
| Other interest-bearing receivables | | | | | 21 |
| | | | | | 374 |
| **Total** | | | | | **26,318** |

| Group 2004 | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Boook value |
|---|---|---|---|---|---|
| **Associated companies** | | | | | |
| Cherryföretagen AB | 556090-4251 | Solna | 8,780,749 | 28/26 | 183 |
| Metro International S.A. | | Luxembourg | 211,683,384 | 40/37 | 3,218 |
| Millicom International Cellular S.A. | | Luxembourg | 35,142,535 | 36 | 5,219 |
| Modern Times Group MTG AB | 556309-9158 | Stockholm | 9,935,011 | 15/47 | 1,798 |
| Tele2 AB | 556410-8917 | Stockholm | 41,827,175 | 28/50 | 10,917 |
| Transcom WorldWide S.A. | | Luxembourg | 14,915,022 | 21/33 | 532 |
| Viking Telecom AB | 556330-3055 | Gothenburg | 7,037,952 | 29 | 18 |
| | | | | | 21,885 |
| **Other companies** | | | | | |
| AcandoFrontec AB | 556272-5092 | Stockholm | 2,127,580 | 3/4 | 13 |
| Bergvik Skog AB | 556610-2959 | Falun | 353 | 5 | 177 |
| Modern Holdings Inc. | | USA | 2,646,103 | 18 | 26 |
| MTG Intressenter AB | 556519-8529 | Stockholm | 3,075 | 12 | 1 |
| Other | | | | | 6 |
| | | | | | 223 |
| **Other financial assets** | | | | | |
| Investment assets Unit Link | | | | | 490 |
| Financial receivables in associated companies | | | | | 13 |
| Other interest-bearing receivables | | | | | 61 |
| | | | | | 564 |
| **Total** | | | | | **22,672** |

| **Reconciliation of book value** | Shares in associated companies | Shares in other companies | Other financial assets | Total |
|---|---|---|---|---|
| Opening balance, 1 January 2005 | 21,885 | 223 | 564 | 22,672 |
| Less discontinued operations | – | – | – 506 | – 506 |
| Investment in convertible loan in Invik | – | – | 235 | 235 |
| Capitalized interest on loan receivables | – | – | 8 | 8 |
| Amortisation of loan receivables | – | – | – 21 | – 21 |
| Write-down of loan receivables | – | – | – 12 | – 12 |
| Exchange rate difference on loan receivables | – | – | 8 | 8 |
| Investments | 442 | – | 235 | 677 |
| Sales | – 402 | – 17 | – 219 | – 638 |
| Gain on exchange of shares | 2 | – | – | 2 |
| Change in value of disposed holdings, Note 7 | 75 | 4 | – 16 | 63 |
| Change in value of remaining holdings, Note 7 | 3,690 | 42 | 98 | 3,830 |
| Closing balance, 31 December 2005 | 25,692 | 252 | 374 | 26,318 |

## Note 13
## Investments in companies accounted for using the equity method

| Group 2005 | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Boook value |
|---|---|---|---|---|---|
| Karskär Energi AB | 556018-9481 | Gävle | 12,331 | 41 | 64 |
| SCD Invest AB | 556353-6753 | Stockholm | 10,584,250 | 91/50 | 0 |
| Sia Latgran | | Latvia | 432 | 40 | 6 |
| | | | | | **70** |

| Group 2004 | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Boook value |
|---|---|---|---|---|---|
| Karskär Energi AB | 556018-9481 | Gävle | 12,331 | 41 | 78 |
| Modernac S.A. | | Luxembourg | 6,370 | 49 | 6 |
| Sacchifficio Tordera SpA | | Italy | 100,000 | 50 | 42 |
| SCD Invest AB | 556353-6753 | Stockholm | 10,584,250 | 91/50 | 0 |
| Sia Latgran | | Latvia | 432 | 40 | 5 |
| Valvosacco SpA | | Italy | 33,800 | 20 | 17 |
| | | | | | **148** |

| | **2005** | 2004 |
|---|---|---|
| **The Group's share of the associate's balance sheet** | | |
| Current assets | **70** | 148 |
| Fixed assets | **72** | 114 |
| Short-term liabilities | **– 21** | – 54 |
| Long-term liabilities | **– 51** | – 60 |
| **Net assets** | **70** | 148 |
| **The Group's share of the associate's revenue and profit** | | |
| Revenue | **133** | 124 |
| Profit | **10** | 19 |

## Note 14
## Financial assets in the Parent Company

| Shares and participations in subsidiaries (SEK 000s) | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|
| America Cup Café AB | 556569-7686 | Stockholm | 1,000 | 100 | **100** |
| Assuransinvest AIA AB | 556051-6238 | Stockholm | 295,384 | 100 | **92,792** |
| Bryggvik by the Sea AB | 556024-5341 | Stockholm | 20,000 | 100 | **2,424** |
| Gamla Stans Bryggeri AB | 556503-2884 | Stockholm | 1,000 | 100 | **–** |
| Gefle Borg Bryggeri AB | 556489-9689 | Gävle | 1,736,000 | 99 | **–** |
| Frevik AB | 556281-6040 | Stockholm | 1,000 | 100 | **1,136** |
| Fällvik AB | 556476-4958 | Stockholm | 1,000 | 100 | **100** |
| Invik International S.A, | | Luxembourg | 500,000 | 100 | **0** |
| Kinnevik International AB | 556033-4640 | Stockholm | 40,000 | 100 | **8,484,048** |
| Collect Sweden AB | 556061-4124 | Stockholm | – | 100 | **–** |
| Förvaltnings AB Eris & Co. | 556035-7179 | Stockholm | – | 100 | **–** |
| Goodguy AB | 556579-7692 | Stockholm | – | 100 | **–** |
| Mellersta Swedens Lantbruks AB | 556031-9013 | Vadstena | – | 100 | **–** |
| AB Agrovik | 556278-5880 | Vadstena | – | 100 | **–** |
| Plonvik Sp.zo.o. | | Poland | – | 100 | **–** |
| Rolnyvik Sp.zo.o | | Poland | – | 100 | **–** |
| Millcellvik AB | 556604-8285 | Stockholm | – | 100 | **–** |
| Korsnäs Holding AB | 556170-7703 | Stockholm | – | 100 | **–** |
| Crown Sacks & Systems (Holding) Ltd | | UK | – | 100 | **–** |
| Korsnäs Paper Sacks Ltd | | UK | – | 100 | **–** |
| Korsnäs AB | 556023-8338 | Gävle | – | 100 | **–** |
| AB Stjernsunds Bruk | 556028-6881 | Gävle | – | 100 | **–** |

| | | | | | |
|---|---|---|---|---|---|
| Trävaru AB Dalerne | 556044-3920 | Gävle | – | 100 | – |
| Combi Shipping AB | 556153-9932 | Gävle | – | 100 | – |
| Diacell AB | 556155-2786 | Gävle | – | 100 | – |
| Korsnäs Advanced Systems AB | 556560-8527 | Gävle | – | 100 | – |
| Korsnäs France S.A. | | France | – | 100 | – |
| Korsnäs GmbH | | Germany | – | 100 | – |
| Korsnäs Italia S.r.l. | | Italy | – | 100 | – |
| Korsnäs Latvia Sia | | Latvia | – | 100 | – |
| Sia Freja | | Latvia | – | 100 | – |
| Korsnäs Luxembourg Holding AB | 556581-8126 | Gävle | – | 100 | – |
| Korsnäs Packaging d.d | | Serbia-Montenegro | – | 100 | – |
| Korsnäs Packaging Holding AB | 556051-3789 | Gävle | – | 100 | – |
| Korsnäs Sales Ltd | | UK | – | 100 | – |
| Korsnäs Sågverks AB | 556024-8477 | Gävle | – | 100 | – |
| Latsin Sia | | Latvia | – | 100 | – |
| Marma Skog 31 AB | 556580-2203 | Gävle | – | 100 | – |
| Korsnäs Packaging d.o.o. | | Croatia | – | 87 | – |
| Korsnäs Packaging AB | 556286-4099 | Gävle | – | 100 | – |
| Korsnäs d.o.o. | | Croatia | – | 100 | – |
| Korsnäs d.o.o. | | Serbia-Montenegro | – | 100 | – |
| Korsnäs Edam BV | | The Netherlands | – | 100 | – |
| Korsnäs Finland OY | | Finland | – | 100 | – |
| Korsnäs Oriana Ukraine | | Ukraine | – | 75 | – |
| Korsnäs Packaging France S.A. | | France | – | 100 | – |
| Korsnäs Packaging Nordic A/S | | Denmark | – | 100 | – |
| Korsnäs Packaging SAU | | Spain | – | 100 | – |
| Korsnäs Packaging Sp. z.o.o. | | Poland | – | 100 | – |
| Korsnäs Packaging SRL | | Rumania | – | 100 | – |
| Korsnäs Packaging SRO | | Czech Republic | – | 100 | – |
| Korsnäs Packaging SRO | | Slovakia | – | 100 | – |
| Korsnäs Wilhelmstal GmbH Papiersackfabriken | | Germany | – | 100 | – |
| Icoma FBS Packtechnik GmbH | | Germany | – | 100 | – |
| Korsnäs Packaging Inc. | | USA | – | 100 | – |
| Korsnäs Strömsnäs AB | 556094-7631 | Gävle | – | 100 | – |
| Industriförvaltnings AB Kinnevik | 556094-7623 | Stockholm | – | 100 | – |
| Kinnevik BV | | The Netherlands | – | 100 | – |
| N.P. Birraria Hugo’s | | Kosovo | – | 100 | – |
| Latellana AG | | Switzerland | – | 100 | – |
| Sillender Oü | | Estonia | – | 100 | – |
| Svenska JCB AB | 556306-0960 | Järfälla | – | 100 | – |
| Svenska Traktor AB | 556051-6352 | Järfälla | – | 100 | – |
| Kinnevik Radio AB | 556237-4594 | Sollentuna | 7,500 | 100 | **1,207** |
| Kinnevik S.A. | | Luxembourg | 1,249 | 100 | **0** |
| Krogvik AB | 556248-7966 | Stockholm | 10,000 | 100 | **100** |
| Ludvika Personalservice KB | 916582-0268 | Ludvika | – | 100 | **100** |
| Vilandeproduktionsvik AB | 556081-0037 | Stockholm | 3,000 | 100 | **300** |
| | | | | | **8,582,307** |

**Reconciliation of the book value of shares in subsidiaries (SEK million)**

| | |
|---|---|
| Opening balance, 1 January 2005 | 9,481 |
| Distribution in kind of subsidiary | – 854 |
| Write-downs | – 45 |
| Closing balance, 31 December 2005 | 8,582 |

| Shares in associated companies (SEK 000s) | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Boook value |
|---|---|---|---|---|---|
| Metro International S.A. | | Luxembourg | 182,367,081 | 35/25 | **825,626** |
| Modern Cartoons Ltd | | USA | 2,544,000 | 23 | **0** |
| Modern Times Group MTG AB | 556309-9158 | Stockholm | 9,935,011 | 15/48 | **1,132,952** |
| Tele2 AB | 556410-8917 | Stockholm | 45,369,480 | 10/23 | **3,476,079** |
| Transcom WorldWide S.A. | | Luxembourg | 7,152,046 | 10/20 | **162,333** |
| | | | | | **5,596,990** |

**Reconciliation of the book value of shares and participations in associated companies (SEK million)**

| | |
|---|---|
| Opening balance, 1 January 2005 | 5,609 |
| Investment in associated companies | 35 |
| Transferred to other shares | 0 |
| Sales | – 47 |
| Closing balance, 31 December 2005 | 5,597 |

| Shares in other companies (SEK 000s) | Reg. no. | Registered office | Number of shares | Capital/ voting (%) | Boook value |
|---|---|---|---|---|---|
| Modern Holdings Inc. | | USA | 2,646,103 | 18 | **26,400** |
| MTG Intressenter AB | 556519-8529 | Stockholm | 3,075 | 12 | **665** |
| Radio Components Sweden AB | 556573-3846 | Stockholm | 2,346,337 | 19 | **0** |
| Shared Services S.A. | | Luxembourg | 100 | 15 | **10** |
| Tenant-owner apartments | | | | | **639** |
| | | | | | **27,714** |

**Reconciliation of book value of shares in other companies (SEK million)**

| | |
|---|---|
| Opening balance, 1 January 2005 | 28 |
| Transferred from shares in associated companies | 0 |
| Closing balance, 31 December 2005 | 28 |

## Note 15
## Inventories etc

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| Raw materials and consumables | **283** | 328 |
| Felling rights | **31** | 36 |
| Work in progress | **59** | 59 |
| Finished products and goods for resale | **516** | 639 |
| Work on contract | **0** | 2 |
| Other | **105** | 119 |
| | **994** | 1,183 |

## Note 16
## Interest-bearing receivables

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| Interbank market | **–** | 251 |
| Lending market | **–** | 1,047 |
| Other interest-bearing receivables | **0** | 35 |
| | **0** | 1,333 |

## Note 17
## Trade and other receivables

| | Group 2005 | Group 2004 |
|---|---|---|
| Trade receivables | **404** | 623 |
| Trade receivables against companies reported as discontinued operations | **55** | – |
| Receivables in insurance companies | **–** | 62 |
| Fund payment receivables | **–** | 14 |
| Tax receivables | **65** | 30 |
| Accrued income | **46** | 114 |
| Other receivables | **66** | 150 |
| | **636** | 993 |

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Accrued income** | **2005** | 2004 | **2005** | 2004 |
| Accrued sales revenue | **31** | 64 | **–** | – |
| Accrued interest income | **0** | 1 | **6** | – |
| Other accrued income | **15** | 49 | **–** | 0 |
| | **46** | 114 | **6** | 0 |

For trade receivables and other receivables to related parties, refer to Note 32.

## Note 18
## Prepayments

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Prepaid rents | **3** | 4 | **–** | 1 |
| Prepaid insurance premiums | **2** | 21 | **1** | 1 |
| Prepaid commission | **–** | 23 | – | – |
| Credit-card expenses | **–** | 76 | – | – |
| Other | **22** | 52 | **12** | 8 |
| | **27** | 176 | **13** | 10 |

## Note 19
## Cash and cash equivalents

| | Group 2005 | Group 2004 |
|---|---|---|
| Cash at banks | **185** | 1,170 |
| Cash and cash equivalents in discontinued operations, Note 10 | **27** | – |
| | **212** | 1,170 |

In addition to cash and cash equivalents reported above, the Group had on 31 December undrawn credit facilities of SEK 511 million (902). Cash and cash equivalents includes cash at banks in Invik of SEK – million (889).

## Short-term investments

| | Group 2005 | Group 2004 |
|---|---|---|
| Interbank market | **–** | 998 |
| Lending market | **–** | 725 |
| Fixed income securities | **–** | 678 |
| Shares, funds and convertible notes | **3** | 167 |
| | **3** | 2,568 |

## Note 20
## Shareholders' equity

Change in shareholders' equity from the preceding year's balance sheet are presented in Movements in Shareholders' equity of the Group (page 22) and Movements in Shareholders' equity of the Parent Company (page 27).

**Share capital**

Investment AB Kinnevik's share capital as of 31 December 2005 was distributed among 263,981,930 shares with a par value of SEK 0.10 per share. During 2004 and 2005, the following changes occurred in the Group's share capital:

| | Class A shares | Class B shares | Total |
|---|---|---|---|
| 31 December 2003 (old Invik) | 3,408,699 | 4,351,301 | 7,760,000 |
| Share split 10:1, completed 28 April | 34,086,990 | 43,513,010 | 77,600,000 |
| Reclassification of A shares to B shares | – 5,312,726 | 5,312,726 | 0 |
| Merger payment to old Kinnevik's shareholders | 25,337,088 | 164,959,151 | 190,296,239 |
| 31 December 2004 | 54,111,352 | 213,784,887 | 267,896,239 |
| Shares cancelled without repayment in accordance with decision at 2005 AGM | – 3,914,302 | – 7 | – 3,914,309 |
| 31 December 2005 | 50,197,050 | 213,784,880 | 263,981,930 |

Distribution by class of shares was as follows:

| | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| | Number of shares | Par value (SEK 000s) | Number of shares | Par value (SEK 000s) |
| A shares | 50,197,050 | 5,020 | 54,111,352 | 5,411 |
| B shares | 213,784,880 | 21,378 | 213,784,887 | 21,378 |
| | 263,981,930 | 26,398 | 267,896,239 | 26,790 |

One A share entitles to 10 votes and one B share to 1 vote.

During the period 2001-2003, there were no changes in old Kinnevik's share capital. All shares provide equal rights to participation in Kinnevik's assets and earnings. To the knowledge of the Board, there are no share agreements or share associations in Kinnevik.

There are no convertibles or warrants in issue. The Board has no authorization to repurchase or issue shares, options or similar.

**Other contributed capital in the Group**

Other contributed capital consist of the Parent Company's premium reserve, which resulted from the conversion of a convertible loan during 1997 and 1998 and capital contributed through the merger of old Invik and old Kinnevik in 2004, as well as the Parent Company's legal reserves.

**Reserves in the Group**

Reserves reported in the Group consist of exchange-rate differences arising from the translation of the accounts of subsidiaries using a functional currency other than SEK.

**Retained earnings in the Group**

Retained earnings that are reported in the Group include the current and preceding year's profit, equity reserve pertaining to participations in associated companies that due to the application of the equity method is entered at a value that exceeds the level resulting from application of the acquisition value method, and the equity portion in untaxed reserves.

## Note 21
## Interest-bearing loans

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| **Interest-bearing long-term loans** | | | | |
| Liabilities to credit institutions | **6,782** | 6,499 | **4,420** | 3,885 |
| Liabilities to Invik | **100** | – | **100** | – |
| Borrowing by Invik's banking operations | – | 341 | **–** | – |
| | **6,882** | 6,840 | **4,520** | 3,885 |
| **Interest-bearing short-term loans** | | | | |
| Liabilities to credit institutions | **67** | 122 | **–** | – |
| Liabilities to Invik | **100** | – | **100** | – |
| Liabilities to Korsnäs Packaging | **180** | – | – | – |
| Borrowing from the public within Invik | **–** | 2,467 | **–** | – |
| Other short-term liabilities within Invik | – | 52 | **–** | – |
| | **347** | 2,641 | **100** | – |

Terms for liabilities to Invik will be seen at Note 32.

On 31 December 2005, Kinnevik's debt to Korsnäs Packaging amounted to SEK 180 million and consisted of external interest-bearing liabilities within Korsnäs Packaging that will be settled before the divestment is completed or be deducted from the sales consideration of SEK 693 million that Kinnevik will receive from Segezha for the company on a debt-free basis.

For assets pledged as security for external interest-bearing loans, see Note 26.

A summary of maturities and other terms and conditions pertaining to liabilities to credit institutions is presented below. On 31 December 2005, the average remaining maturity for all credit facilities amounted to 2.5 years.

Capitalised borrowing costs totaled SEK 0 million (1) for the year.

| **Lending institution SEK million** | **Credit facility as per 31 Dec. 2005** | **Utilised amount 31 Dec. 2005** | **Utilised amount 31 Dec. 2004** | **Un-utilised amount 31 Dec. 2005** | **Un-utilised amount 31 Dec. 2004** | **Currency** | **Maturity** |
|---|---|---|---|---|---|---|---|
| **Long-term loans** | | | | | | | |
| **Parent Company** | | | | | | | |
| Banque et Caisse d'Epargne de l'Etat, Luxembourg | 200 | 200 | 200 | 0 | 0 | SEK | March 2007 |
| Calyon Bank Stockholm Branch | 500 | 500 | 0 | 0 | 500 | SEK | Dec. 2009 |
| Commerzbank International S.A. | 270 | 270 | 270 | 0 | 0 | SEK | May 2007 |
| Nordea Bank AB (publ) | 1,200 | 1,200 | 1,015 | 0 | 185 | SEK | Oct. 2007-Oct. 2009 |
| Svenska Handelsbanken AB (publ) | 2,400 | 2,250 | 2,400 | 150 | 0 | SEK | Aug. 2007-Aug. 2009 |
| **Total Parent Company** | 4,570 | 4,420 | 3,885 | 150 | 685 | | |
| **Other Group companies** | | | | | | | |
| The Bank of Nova Scotia [1] | 2,500 | 2,303 | 2,500 | 197 | 0 | SEK / EUR etc | May 2006-May 2008 |
| Landshypotek AB (publ) | 37 | 37 | 23 | 0 | 0 | SEK | Not specified |
| Other | 22 | 22 | 91 | 0 | 0 | | |
| **Total Group** | 7,129 | 6,782 | 6,499 | 347 | 685 | | |
| **Short-term loans** | | | | | | | |
| **Parent Company** | | | | | | | |
| Nordea Bank AB (publ) [2] | 31 | 0 | 0 | 31 | 31 | SEK | Dec. 2006 |
| Svenska Handelsbanken AB (publ) [2] | 100 | 0 | 0 | 100 | 100 | SEK | Dec. 2006 |
| **Total Parent Company** | 131 | 0 | 0 | 131 | 131 | | |
| **Other Group companies** | | | | | | | |
| Nordea Bank AB (publ) [2] | 70 | 46 | 0 | 24 | 70 | SEK | Dec. 2006 |
| Other | 30 | 21 | 122 | 9 | 16 | | |
| **Total Group** | 231 | 67 | 122 | 164 | 217 | | |
| **Total long-and short-term Group** | 7,360 | 6,849 | 6,621 | 511 | 902 [3] | | |

All loans have a maximum interest maturity of three months and carry interest at STIBOR or a similar basic interest rate plus a margin of 0.6-0.7%.

1) Syndicated facility with Bank of Nova Scotia (facility agent), Calyon Bank Stockholm Branch, DnB Nor Bank ASA, Nordea Bank AB (publ), Skandinaviska Enskilda Banken AB (publ) and Svenska Handelsbanken AB (publ) as participating banks. The loan includes certain financial covenants concerning financial key ratios for Korsnäs, mainly EBITDA in relation to net debt. As of 31 December 2005 Korsnäs complied with all financial covenants.

2) Overdraft facility

3) In addition to SEK 902 million in unutilised credit facilities within Kinnevik as per 31 December 2004, the Group had SEK 266 million in unutilised facilities within Invik's securities trading business.

## Note 22
## Provisions for pensions

The following tables present an overview of the items included in net cost for the compensation reported in the consolidated income statement for the Groups' two (2004 three) defined benefit pension plans covering one employer. They also show some information regarding the result of endowment insurance and the amounts reported in the consolidated balance sheet for each pension plan.

**Net cost of defined benefit pension plans 2005**

| | Sweden | UK | Total |
|---|---|---|---|
| Earned during the year | 5 | 6 | 11 |
| Interest component in the increase during the year of the present value of the pension commitment | 21 | 21 | 42 |
| Anticipated return on plan assets | – | – 22 | – 22 |
| Expense due to curtailment | – | 23 | 23 |
| Reported pension cost, net | 26 | 28 | 54 |

**Reported provision, 31 December 2005**

| | Sweden | UK | Total |
|---|---|---|---|
| Commitments | 494 | 456 | 950 |
| Plan assets | – | – 459 | – 459 |
| Unreported actuarial net gains | – | 3 | 3 |
| Unreported actuarial net losses | – 16 | – | – 16 |
| Reported provision | 478 | 0 | 478 |

**Changes in reported provisions 2005**

| | Sweden | Germany | UK | Total |
|---|---|---|---|---|
| Reported provisions, 1 January 2005 | 474 | 103 | 95 | 672 |
| Less discontinued operations | – | – 103 | – | – 103 |
| Benefits paid | – 28 | – | – 130 | – 158 |
| Increase | 32 | – | 28 | 60 |
| Translation differences | – | – | 7 | 7 |
| Reported provisions, 31 December 2005 | 478 | – | 0 | 478 |

**Primary assumptions used in setting the pension undertaking 2005 (%)**

| | Sweden | UK |
|---|---|---|
| Discount rate | 4.75 | 4.75 |
| Future pay increases | 3.00 | 3.25 |
| Future pension increases | 2.00 | 2.75 |

**Net cost of defined benefit pension plans 2004**

| | Sweden | Germany | UK | Total |
|---|---|---|---|---|
| Earned during the year | 6 | 0 | 6 | 12 |
| Interest component in the increase during the year of the present value of the pensions commitment | 25 | 6 | 20 | 51 |
| Anticipated return on plan assets | – | – | – 19 | – 19 |
| Reported pension cost, net | 31 | 6 | 7 | 44 |

**Reported provision, 31 December 2004**

| | Sweden | Germany | UK | Total |
|---|---|---|---|---|
| Commitments | 476 | 109 | 360 | 945 |
| Plan assets | – | – | – 268 | – 268 |
| Unreported actuarial net gains | – | – | 3 | 3 |
| Unreported actuarial net losses | – 2 | – 6 | – | – 8 |
| Reported provision | 474 | 103 | 95 | 672 |

**Changes in reported provisions 2004**

| | Sweden | Germany | UK | Total |
|---|---|---|---|---|
| Reported provisions, 1 January 2004 | 473 | 106 | 114 | 693 |
| Benefits paid | – 30 | – 8 | – 24 | – 62 |
| Increase | 31 | 6 | 7 | 44 |
| Translation differences | – | – 1 | – 2 | – 3 |
| Reported provisions, 31 December 2004 | 474 | 103 | 95 | 672 |

**Primary assumptions used in setting the pension undertaking 2004 (%)**

| | Sweden | Germany | UK |
|---|---|---|---|
| Discount rate | 5.25 | 5.75 | 5.50 |
| Future pay increases | 3.00 | * | 3.25 |
| Future pension increases | 2.00 | 1.25 | 2.75 |

* No new earning.

Fees paid during the year for pension insurance policies covered by Alecta (reported as a defined contribution plan) amount to SEK 4 million (5). Alecta's surplus may be distributed to policyholders and/or the insured. At year-end 2005, Alecta's surplus in form of collective solvency ratio was 128% (128%).

## Note 23
## Other provisions

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Compulsory redemption of shares | **4** | 4 | **–** | – |
| Severance pay | **91** | 42 | **–** | – |
| Commitment relating to deficit in UK pension scheme | **99** | – | **–** | – |
| Dispute, employer's fees | **23** | 47 | **23** | 47 |
| Underwriting reserves | **–** | 1,722 | – | – |
| Other | **18** | 36 | **10** | 12 |
| | **235** | 1,851 | **33** | 59 |
| Long-term | **177** | 635 | | |
| Short-term | **58** | 1,216 | | |
| | **235** | 1,851 | | |

| | Group 2005 | Parent Company 2005 |
|---|---|---|
| Opening balance, 1 January 2005 | **1,851** | **59** |
| Less discontinued operations | **– 1,745** | **–** |
| Severance pay completed | **– 29** | **–** |
| New provision for severance pay | **78** | **–** |
| Commitment relating to deficit in UK pension scheme | **99** | **–** |
| Paid disputable employer's fees | **– 24** | **– 24** |
| Release of other provisions | **– 2** | **– 2** |
| Other new provisions | **7** | **–** |
| Closing balance, 31 December 2005 | **235** | **33** |

The provision of SEK 91 million for severance pay at 31 December 2005 includes severance pay of SEK 69 million connected to the reduction of the workforce by 80 annual employees within the framework of the ongoing efficiency-enhancing program within Korsnäs and severance pay of SEK 9 million for employees of Korsnäs Packaging's UK subsidiary.

## Note 24
## Trade and other payables

| | Group 2005 | Group 2004 |
|---|---|---|
| Trade payables | **376** | 820 |
| Advances from customers | **4** | 11 |
| Liabilities to associated companies | **0** | 2 |
| Liabilities to insurance companies | **–** | 84 |
| Advances to insured | **–** | 9 |
| Fund payment liabilities | **–** | 90 |
| Accrued expenses | **372** | 470 |
| Other liabilities | **61** | 245 |
| | **813** | 1,731 |

| **Accrued expenses** | Group **2005** | Group 2004 | Parent Company **2005** | Parent Company 2004 |
|---|---|---|---|---|
| Accrued expenses for purchase of goods | **62** | 38 | **–** | – |
| Accrued personnel expenses | **148** | 211 | **7** | 7 |
| Accrued interest expenses | **10** | 18 | **9** | 9 |
| Accrued energy costs | **33** | 27 | **–** | – |
| Accrued freight costs | **10** | 12 | **–** | – |
| Accrued organization expenses | **1** | 5 | **1** | 4 |
| Other | **108** | 159 | **1** | 4 |
| | **372** | 470 | **18** | 24 |

Trade payables are non-interest bearing and generally settled within 30 days. For trade payables and other payables to related parties, refer to Note 32.

## Note 25
## Leasing agreements

Group companies have concluded a number of agreements covering the rental of premises and other fixed assets. During 2005, SEK 109 million (94) was paid in accordance with operational leasing agreements, including Invik until 31 August. The amount includes Korsnäs' leasing of RoRo vessels in the amount of SEK 76 million (71).

Future minimum payments for agreements concluded for leased assets as of 31 December:

| | **2005** Premises and other fixed assets | **2005** RoRo vessels | 2004 Premises and other fixed assets | 2004 RoRo vessels |
|---|---|---|---|---|
| 2005 | | | 29 | 70 |
| 2006 | **18** | **75** | 23 | 70 |
| 2007 | **15** | **77** | 18 | – |
| 2008 | **10** | **78** | 12 | – |
| 2009 | **7** | **–** | 8 | – |
| 2010 | **6** | **–** | 2 | – |
| 2011 | **3** | **–** | – | – |
| 2012 and later | – | – | – | – |
| | **59** | **230** | 92 | 140 |

As of 31 December 2005, the Group had no financial lease agreements.

## Note 26
## Pledged assets

| | Group 2005 | Group 2004 | Parent Company 2005 | Parent Company 2004 |
|---|---|---|---|---|
| **For own liabilities** | | | | |
| **For liabilities to credit institutions** | | | | |
| Real estate mortgages | **2,038** | 2,024 | **–** | – |
| Shares in subsidiaries | **3,393** | 3,772 | **8,484** | 8,484 |
| Shares in associated companies and other companies | **7,236** | 5,905 | **4,371** | 4,765 |
| Chattel mortgages | **600** | 600 | **–** | – |
| Own holdings of securities | **–** | 185 | **–** | – |
| Re-pledged customer securities | | 137 | **–** | – |
| Cash and cash equivalents, short-term investments | **23** | 25 | **0** | 0 |
| **For own contingent liabilities** | | | | |
| **For agreements on securities clearing** | | | | |
| Undertakings related to derivatives trading (solely for customers' account) | **–** | 152 | **–** | – |
| **For other undertakings** | | | | |
| **For borrowed securities** | | | | |
| Lending to credit institutions | **–** | 517 | **–** | – |
| Re-pledged customer securities | **–** | 527 | **–** | – |
| | **13,290** | 13,844 | **12,855** | 13,249 |

## Note 27
## Contingent liabilities

| | Group 2005 | Group 2004 | Parent Company 2005 | Parent Company 2004 |
|---|---|---|---|---|
| Sureties and guarantees | **60** | 61 | **0** | 7 |
| Sureties and guarantees for subsidiaries | **–** | – | **74** | 87 |
| Guarantee commitments, FPG | **10** | 10 | **0** | 0 |
| | **70** | 71 | **74** | 94 |

**Disputes**

See Note 9 Taxes.

## Note 28
## Off-balance sheet items

| | Group 2005 | Group 2004 |
|---|---|---|
| **For securities operations** | | |
| Undrawn portion of credit card limit | **–** | 1,514 |
| Borrowed securities | **–** | 159 |
| Client funds | **–** | 145 |
| | **–** | 1,818 |

**Note 29**
## Average number of employees

| | 2005 men | 2005 women | 2004 men | 2004 women |
|---|---|---|---|---|
| **Group** | | | | |
| Sweden | **1,088** | **193** | 1,075 | 172 |
| Germany | **171** | **42** | 190 | 55 |
| Latvia | **188** | **27** | 186 | 24 |
| Denmark | **144** | **55** | 139 | 56 |
| Poland | **106** | **26** | 107 | 35 |
| The Netherlands | **88** | **6** | 96 | 6 |
| Spain | **83** | **12** | 79 | 10 |
| UK | **50** | **17** | 55 | 17 |
| Czech Republic | **87** | **23** | 75 | 20 |
| Serbia-Montenegro | **60** | **17** | 60 | 20 |
| Ukraine | **86** | **10** | 24 | 7 |
| Rumania | **41** | **12** | 36 | 8 |
| Finland | **3** | **3** | 3 | 4 |
| France | **9** | **1** | 8 | 1 |
| Croatia | **2** | **1** | 3 | 1 |
| Luxembourg | **20** | **24** | 18 | 7 |
| | **2,226** | **469** | 2,154 | 443 |
| Total number of employees | | **2,695** | | 2,597 |
| **Parent Company** | | | | |
| Stockholm | **4** | **4** | 3 | 5 |

In the calculation of average number of employees Invik has been included from 1 July 2004 until 31 August 2005 while Korsnäs Packaging has been included for the entire period.

## Distribution of women and men on the Board and in the management group

| | 2005 men | 2005 women | 2004 men | 2004 women |
|---|---|---|---|---|
| **Group*** | | | | |
| Board members | | | | |
| Elected by the AGM | **21** | **5** | 75 | 9 |
| Employee representatives, ordinary | **4** | **–** | 4 | – |
| Employee representatives, deputies | **4** | **–** | 4 | – |
| President | **1** | **–** | 1 | – |
| Vice President | **–** | **–** | 2 | – |
| Other senior executives | **5** | **–** | 8 | – |
| | **35** | **5** | 94 | 9 |

* As regards the distribution of women and men in the Board and the management group, the Group has been defined as the following companies 2005: Investment AB Kinnevik, Korsnäs AB, Korsnäs Packaging AB and Mellersta Sveriges Lantbruks AB. 2004: Investment AB Kinnevik, Korsnäs AB, Korsnäs Packaging AB, Invik & Co. AB, Banque Invik S.A., Moderna Försäkringar AB, Moderna Försäkringar Sak AB, Moderna Försäkringar Liv AB, Invik Kapitalförvaltning AB, Aktie-Ansvar AB, Fischer Partners Fondkommission AB and Mellersta Sveriges Lantbruks AB.

| | 2005 men | 2005 women | 2004 men | 2004 women |
|---|---|---|---|---|
| **Parent Company** | | | | |
| Board members | | | | |
| Elected by the AGM | **5** | **1** | 5 | 1 |
| Employee representatives, ordinary | **2** | **–** | 2 | – |
| Employee representatives, deputies | **2** | **–** | 2 | – |
| President | **1** | **–** | 1 | – |
| Vice President | **–** | **–** | 2 | – |
| Other senior executives | **2** | **–** | 2 | – |
| | **12** | **1** | 14 | 1 |

**Note 30**
## Salaries, other remuneration and social security expenses (SEK 000s)

| | 2005 Board, President and Vice Presidents | 2005 Other employees | 2004 Board, President and Vice Presidents | 2004 Other employees |
|---|---|---|---|---|
| **Group** | | | | |
| Companies in Sweden | **40,512** | **568,632** | 36,888 | 597,002 |
| Companies abroad | **17,147** | **318,560** | 28,843 | 295,995 |
| Total salaries and other remuneration | **57,659** | **887,192** | 65,731 | 892,997 |
| Social security expenses | **54,043** | **340,755** | 35,418 | 325,046 |
| Of which, pension expense* | **21,008** | **161,421** | 13,945 | 152,140 |
| **Parent Company** | | | | |
| Salaries and other remuneration | **14,733** | **5,448** | 16,681 | 4,078 |
| Social security expenses | **7,867** | **2,486** | 8,785 | 1,787 |
| Of which, pension expense* | **2,792** | **1,004** | 2,925 | 466 |

* Relates to present and former Board members, Presidents and Vice Presidents.

In salaries, other remuneration and social security expenses for the Group Invik is included from 1 July until 31 August 2005 and Korsnäs Packaging is included for the entire period.

Pension obligations and similar benefits for former Board members, presidents and vice presidents of the Parent Company amount to SEK 13,697,000 (14,009,000), while the same items for the Group total SEK 75,646,000 (75,652,000). These amounts are included among liabilities in the balance sheets of the Parent Company and the Group.

**Principles**

The Annual General Meeting decides the total fee to ordinary members of the Board, while the Board decides the allotment of fees. Travel expenses are settled against invoice.

Following consultation with the nomination group, the Board appoints members and Chairman in the Remuneration Committee. The tasks of the Remuneration Committee cover issues involving pay, pension terms and conditions, bonus systems and other employment terms and conditions for the President and Vice Presidents, if any, in the Parent Company and for the presidents of the Group's business areas.

As far as business area presidents are concerned, the Remuneration Committee decides regarding the aforementioned matters, following which such decisions are presented to the Board at the next Board meeting. Concerning the President and Vice Presidents, the Remuneration Committee prepares the aforementioned matters for approval, and provides the Board with documentation for a decision, including a decision proposal.

Pehr G Gyllenhammar, Cristina Stenbeck, Wilhelm Klingspor and Erik Mitteregger have been appointed members of the Remuneration Committee. The Committee Chairman is Wilhelm Klingspor.

Remuneration to the President and other senior executives consists of basic salary, variable salary/bonus, and benefits in the form of a company car and pension. Variable salary/bonus within Kinnevik and Korsnäs may not exceed 50% of their basic salary, and are calculated according to a combination of results achieved, overhead control and productivity. Within Invik, senior executives had until the distribution was implemented on 1 September 2005 individually tailored incentive programs in which a variable portion proceeds on the basis of various criteria in which the earnings for the subsidiary are the most significant.

By other senior executives within Kinnevik is meant the five individuals, and any representatives, who are presented together with the President on page 8. By other senior executives within Invik is meant, until the company was spun off from Kinnevik on

1 September 2005, president Anders Fällman and the presidents of the business areas Banque Invik (Pierre Arens), Fischer Partners (Claes Österlin), Invik Asset Management (Per Molin) and Modern Insurances (Lars Nordstrand).

**Board fees**

In accordance with the decision of the Annual General Meeting on 12 May concerning fees to the Board of Investment AB Kinnevik, a fee of SEK 3,846,000 (3,052,000) was paid to the Board during the year, of which, pursuant to a Board decision, SEK 2,000,000 (1,425,000) was paid to the Chairman and SEK 350,000 (302,000) to the Deputy Chairman. Over and above this total fees SEK 150,000 (275,000) was paid to the Deputy Chairman for Board positions with subsidiaries. Other Board members in the Parent Company's Board received fees amounting in total to SEK 450,000 (750,000) for Board positions with subsidiaries.

## Remuneration for the President, Vice Presidents and other senior executives

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| | **President** | **Vice Presidents** [1] | **Other senior executies** [2] | President | Vice Presidents | Other senior executives [2] |
| Salaries | **7,482** | **4,477** | **15,012** | 7,303 | 5,663 | 10,066 |
| Variable remuneration/bonus | **2,800** | **0** | **4,812** | 2,100 | 2,670 | 7,330 |
| Benefits | **90** | **104** | **344** | 62 | 137 | 188 |
| Pension expenses | **1,423** | **959** | **3,025** | 1,423 | 1,024 | 1,969 |

[1] Information about Vice Presidents refers for 2005 to remuneration to Anders Fällman and Per Lindberg during the period 1 January – 31 May.

[2] Remuneration to senior executives within Invik is included for the period 1 July 2004 - 31 August 2005.

The President of the Parent Company Vigo Carlund received salary and benefits of SEK 7,572,000 (7,365,000) as well as a bonus of SEK 2,800,000 (2,100,000). Pension premium payments of 20% of fixed salary were paid. The retirement age for the President is 65, but he is entitled to step down no earlier than June 2006 and then receive 60% of the fixed salary up to the age of 65. In the event of notice being served by the Company, he is entitled to salary during a notice period of 24 months. Severance compensation is netted off against salary received from any new employment during the period of notice.

For the other five senior executives, there are the customary pension commitments within the framework of the public pension plan in a maximum of 20% of fixed salary, with entitlement to retirement at the age of 65. Pension premiums are paid to insurance companies. For other senior executives, in the event of notice being served by the Company, there is entitlement to salary during a notice period of a minimum of six and a maximum of 12 months. Severance pay is netted off against salary received from any new employment during the period of notice.

For the President of Korsnäs Packaging, there is an incentive program based on the targets attained during the period 2003-2006. As of 31 December 2005, this commitment is estimated to amount to SEK 6,000,000.

## Note 31
## Auditors' fees

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| To Ernst & Young | | | | |
| Audit assignments | **3.2** | 4.0 | **0.7** | 0.8 |
| Other assignments | **2.7** | 3.5 | **0.6** | 1.4 |
| To PricewaterhouseCoopers | | | | |
| Audit assignments | – | 2.4 | – | 0.1 |
| Other assignments | – | 4.8 | – | 3.2 |

Other assignments Ernst & Young refer to consultation in connection with acquisitions and disposals of companies, questions regarding IFRS and tax advice.

## Note 32
## Related-party transactions

During 2004 and 2005, Kinnevik engaged in transactions with the following related companies:

| Related companies | Relationship |
|---|---|
| Invik & Co. AB (”Invik”) | 2004 refers to old Invik until the merger with old Kinnevik on 28 July. Old Invik had shares in old Kinnevik, providing considerable influence over old Kinnevik. 2005 refers to the sub-group to Kinnevik that was spun off to Kinnevik’s shareholders at 31 August. Information for 2005 refers therefore only to the period September-December. |
| Tele2 AB (”Tele2”) | Associated company of Kinnevik, refer to Note 12. |
| Modern Times Group MTG AB (”MTG”) | Associated company of Kinnevik, refer to Note 12. |
| Metro International S.A. (”Metro”) | Associated company of Kinnevik, refer to Note 12. |
| Transcom WorldWide S.A. (”Transcom”) | Associated company of Kinnevik, refer to Note 12. |
| Millicom International Cellular S.A. (”Millicom”) | Associated company of Kinnevik, refer to Note 12. |
| Audit Value Inc. (”Audit Value”) | Parties related to Kinnevik own shares in Audit Value, providing considerable influence over Audit Value. |
| Great Universal Inc. (”Great Universal”) | Parties related to Kinnevik own shares in Great Universal, providing considerable influence over Great Universal. |
| Modern Holdings Inc. (”Modern Holdings”) | Along with related companies, Kinnevik owns shares in Modern Holdings, providing considerable influence over Modern Holdings. |
| NC Intressenter AB (”NC Intressenter”) | Associated company of Kinnevik until September 2004 |
| SCD Invest AB (”SCD Invest”) | Associated company of Kinnevik, refer to Note 13. |
| Shared Value Ltd. (”Shared Value”) | Parties related to Kinnevik own shares in Shared Value, providing considerable influence over Shared Value. |
| Search Value Partners Ltd. (”Search Value”) | Parties related Kinnevik own shares in Search Value, providing considerable influence over Search Value. |
| Viking Telecom AB (”Viking Telecom”) | Associated company of Kinnevik, refer to Note 12. |

All transactions with related parties have taken place at arm’s length basis, i.e. on market conditions. In connection with acquisitions and divestments, independent valuations were used as a basis for negotiations on the final price. In all agreements relating to goods and services prices are compared with up-to-date prices from independent suppliers in the market to ensure that all agreements are entered into on market conditions.

**Commercial agreements with related parties**

- Invik (until the merger in July 2004 and after the distribution in kind in August 2005), MTG, Metro, Tele2 and Transcom rent office premises in Stockholm from Kinnevik.
- After the merger with old Invik in July 2004 until Invik was spun off to Kinnevik’s shareholders in August 2005, Kinnevik sold bank, insurance, financing and other administrative services to Metro, Millicom, MTG, Tele2 and Transcom.
- Kinnevik buys financing and other administrative services from Invik.
- Kinnevik buys telephony services from Tele2 in a number of countries in which the companies are engaged in business.
- Kinnevik buys CRM services from Transcom.
- Kinnevik buys internal audit services from Audit Value and recruitment services from Search Value. Up to October 2004 information services were bought from Shared Value.

**Acquisitions and divestments from / to related parties**

The following acquisitions and divestments from / to related parties took place in 2004 and 2005:

- On 5 July 2004, Kinnevik sold 2,124,820 shares in P4 Radio Hele Norge to MTG and simultaneously acquired 2,220,629 A shares in Metro from MTG in a non-cash transaction.

**Financial loan transactions with related parties**

- In November 1995, Modern Holdings issued a USD 4.1 million convertible loan to Kinnevik and in November 2000, Kinnevik extended an additional USD 1.7 million to Modern Holdings. During 2004, both loans were renegotiated, whereby part-payment was received and the interest rate reduced on the remaining loan, which extends to 2008, and is amortized at a rate of USD 119,000 per quarter. The new loan carries an interest rate of 4% and interest is paid quarterly. At 31 December 2005, the loan receivable totaled SEK 11 million.

– In November 1995, Kinnevik provided a loan of USD 1.3 million to Great Universal. An interest rate of 5% was applied to this loan. In February 2004, the loan was repaid in its entirety, including accumulated interest.

– In November 1995, the company now called Great Universal issued a USD 4.3 million convertible loan to Kinnevik with a redemption date of 28 December 2005. The loan carries interest at 5%. Interest is paid annually in December. In October and December 2005, Great Universal amortized USD 2 million. The remaining amount was unpaid at 31 December 2005. At 31 December 2005 Kinnevik has, due to Great Universals weak financial position, written down the receivable by SEK 12 million to SEK 6 million (USD 800.000).

– With the object of capitalizing Transcom before distributing it to Kinnevik's shareholders in 2001, Kinnevik issued a convertible loan to Transcom on 15 May 2001. The loan was for a nominal amount of EUR 27.5 million, and the conversion price was EUR 3.53 per share. The loan extended to 15 May 2004, but was repaid in its entirety in February 2004.

– A loan of SEK 100 million was granted to Invik in June 2003 and in May 2004 an additional SEK 200 million was extended as a loan to Invik. The loan carried interest at a rate of Stibor and a margin of + 2.5%. A special schedule for the loan was drawn up in accordance with the provisions in the Swedish Companies Act governing loans to shareholders. The loan was amortized during June 2004 and the remaining amount of SEK 222 million was eliminated when the merger of the two companies was completed on 28 July 2004.

– On 15 December 2003, Kinnevik acquired 10,863,000 of Millicom's 2% Senior Convertible PIK Notes for USD 68,007,453. After conversion these notes correspond to 1,010,512 shares in Millicom. Overall, Kinnevik owned on 31 December 2003 13,205,000 of Millicom's senior convertible PIK notes, which corresponded to 1,228,372 shares upon conversion (4,913,488 after share split). In March 2004, all notes were converted to shares in Millicom.

– During the period 1 October to 11 November 2004, Kinnevik extended SEK 150 million as a loan to Tele2. The loan carried an interest rate of 3-month Stibor + a margin of 1.0%.

– On 30 November 2004, Kinnevik announced that it was participating in the new share issue conducted by Millicom, whereby an additional 4,050,000 shares were acquired for SEK 635 million as well as convertible notes for USD 35 million (SEK 235 million). Payment for the shares was made in December 2004, while payment for the convertible notes was made in January 2005. Kinnevik sold the convertible notes on the market in June 2005 for SEK 219 million.

– In March 2005 Kinnevik subscribed for convertible debentures in Invik amounting to SEK 235 million. The debentures, which carry annual interest of 3.5%, may be converted into shares from 1 December 2006 until 30 November 2011 at the price of SEK 52. Full conversion will result in the creation of an additional 4,519,230 shares, corresponding to 14.6% of the capital and not more than 25.0% of the voting rights in Invik after conversion. As of 31 December 2005, fair value of the debentures amounted to SEK 340 million.

– Following the distribution of the shares in Invik, Kinnevik has an interest-bearing loan to Invik amounting to SEK 200 million as per 31 December 2005. The loan will be repaid semi-annually in an amount of SEK 50 million, starting on 31 March 2006. The loan carries interest at 6-month STIBOR plus a margin of 0.50%.

**Other transactions with related parties**

– On 16 February 2004 it was announced that the Boards of old Invik and old Kinnevik had drawn up a joint merger plan for the companies. The merger was conducted by means of a legal merger of limited liability companies, in which old Kinnevik shares were exchanged for new shares in old Invik. Each Series A share in old Kinnevik provided 3.5 new Series A shares in old Invik and each Series B share in old Kinnevik provided 3.5 new Series B shares in old Invik. On 28 July, the merger was completed and the extraordinary meeting of shareholders on 26 August resolved to change the name of the Company from Invik & Co. AB to Investment AB Kinnevik.

– In May 2004, Kinnevik subscribed for 2,380,952 newly issued shares in Viking Telecom shares for a total of SEK 10 million, corresponding to an issue price of SEK 4.20 per share.

The following is a summary of Kinnevik's revenue, expense, receivables and liabilities to and from related parties. Deposits and lending in Banque Invik's banking business are not stated separately for related parties.

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Revenue** | **2005** | 2004 | **2005** | 2004 |
| Invik | **1.0** | – | **0.0** | – |
| Metro | **2.7** | 4.8 | **0.7** | 0.1 |
| Millicom | **3.9** | 3.0 | **–** | – |
| Modern Holdings | **0.1** | – | **–** | – |
| MTG | **6.0** | 3.0 | **–** | – |
| Shared Value | **–** | 0.1 | **–** | – |
| Tele2 | **19.0** | 6.3 | **–** | – |
| Transcom | **5.1** | 1.5 | **–** | – |
| | **37.8** | 18.7 | **0.7** | 0.1 |

| Operating expenses | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Audit Value | **– 0.4** | – 0.6 | **–** | – |
| Invik | **– 1.4** | – | **– 1.4** | – |
| MTG | **– 0.2** | – 0.1 | **–** | – |
| Search Value | **–** | – 1.6 | **–** | – 0.6 |
| Shared Value | **– 0.5** | – 2.9 | **– 0.5** | – 2.9 |
| Tele2 | **– 6.9** | – 10.2 | **– 0.9** | – 0.2 |
| Transcom | **0.0** | – 0.5 | **0.0** | – |
| | **– 9.4** | – 15.9 | **– 2.8** | – 3.7 |

| Interest income | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Great Universal | **1.5** | 1.7 | **1.5** | 1.7 |
| Invik | **6.3** | – | **6.3** | – |
| Modern Holdings | **0.5** | 0.4 | **0.5** | 0.4 |
| SCD Invest | **0.0** | 0.9 | **0.0** | 0.9 |
| Tele2 | **–** | 0.5 | **–** | 0.5 |
| | **8.3** | 3.5 | **8.3** | 3.5 |

| Interest expenses | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Invik | **– 1.5** | – | **– 1.5** | – |
| NC intressenter | **–** | – 0.1 | **–** | – 0.1 |
| | **– 1.5** | – 0.1 | **– 1.5** | – 0.1 |

| Financial receivables from associated companies | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Invik | **340** | – | **235** | – |
| SCD Invest | **–** | – | **–** | 10 |
| Other associated companies | **13** | 13 | **–** | – |
| | **353** | 13 | **235** | 10 |

| Other long-term interest-bearing receivables | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Great Universal | **6** | 28 | **6** | 28 |
| Modern Holdings | **12** | 13 | **12** | 13 |
| | **18** | 41 | **18** | 41 |

| Accounts receivable and other current receivables | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Invik | **1** | – | **–** | 0 |
| Metro | **0** | 1 | **0** | 1 |
| MTG | **1** | 1 | **0** | – |
| Tele2 | **0** | 3 | **–** | – |
| | **2** | 5 | **0** | 1 |

| Interest-bearing loans | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Invik | **200** | – | **200** | – |
| | **200** | – | **200** | – |

| Accounts payable and other non-interest-bearing liabilities | Group 2005 | 2004 | Parent Company 2005 | 2004 |
|---|---|---|---|---|
| Tele2 | 1 | 2 | **–** | – |

## Note 33
## Financial risk management

The Group's financing and management of financial risks is centralized within Kinnevik's finance function and is conducted on the basis of a finance policy established by the Board of Directors. The Group has established a model for risk management, the aims of which are to identify, control and reduce risks. The identified risks and how they are managed are reported to the Kinnevik Board on a quarterly basis.

Kinnevik is exposed to financial risks mainly in respect of:

- the equity risk, meaning the risk of changes in the value of the stock portfolio
- the interest rate risk resulting from changes in market interest rates
- the exchange rate risk comprising transaction exposure and translation exposure
- liquidity and refinancing risk, meaning the risk that the cost of financing opportunities will increase or that such opportunities will be limited when loans are renegotiated, and that payment obligations cannot be met due to insufficient liquidity.

**Equity risk**

Kinnevik's strategy is to participate actively in the companies in which the Group invests. The operations include management of a stock portfolio comprising considerable investments in a small number of listed companies. Accordingly, the portfolio is concentrated to a small number of companies, which makes the return dependent on how well these companies and their particular industries develop. By being an active owner, the return can be maximized and the risks controlled.

The concentrated portfolio also results in a significant liquidity risk in the portfolio, in that it is difficult for Kinnevik during a limited time to make major changes in the portfolio's composition without this affecting the share price.

Parts of the stock portfolio are used as collateral for Kinnevik's loans from credit institutions. On 31 December 2005, 28% of the stock portfolio was used as collateral for Group loans; also refer to Note 26.

The equity risk associated with Kinnevik's portfolio may be illustrated by stating that a 1% change in the prices of all of the listed shareholdings at 31 December 2005 would have affected earnings and shareholders' equity by approximately SEK 250 million.

**Interest rate risk**

Kinnevik's policy is to maintain short interest periods because the Company believes that this leads to lower interest expense over time. The Group has no borrowing subject to periods of fixed interest exceeding three months. On 31 December 2005, all of Kinnevik's liabilities to credit institutions, SEK 6,849 million, was exposed to interest rate changes, of which SEK 6,319 million to changes in STIBOR and SEK 530 million to changes in Euribor. It would take three months for an increase in short-term interest rates to gain its full impact on Kinnevik's interest expense. Accordingly, if the interest rate at 31 December 2005 had risen from 2.4% to 3.4%, the average interest expense on an annualized basis would have risen by SEK 68 million. According to Kinnevik, effects of any increase of the interest rate in the Company is managed efficiently, primarily via the operating cash flow from Korsnäs and secondarily via the leveraging or sale of listed shares.

**Exchange rate risk**

*Transaction exposure*

The Group's revenues arise mainly in SEK and EUR. The operating expenses also arise mainly in SEK and EUR, with SEK accounting for most of the flows in the Swedish operations. The Group's policy is to endeavor to match revenues and costs in the same currency. The net flow of the Group's inflow and outflow in foreign currency in 2005 amounted to a net inflow of approximately SEK 800 million (2004: 1,000), which consisted mainly of EUR. The Group's policy is not to hedge this transaction exposure by using, for example, forward contracts, because the Group is dealing with a continuously even net inflow of foreign currency for which, over time, hedging measures would also be affected by exchange rate changes. A change in the EUR/SEK rate by SEK 0.10 would have affected consolidated profit in 2005 by approximately SEK 8 million.

*Translation exposure*

Translation exposure arises when the earnings and shareholders' equity of foreign subsidiaries are translated into SEK, and insofar as capital employed within the Group is financed in a currency other than the capital employed in the particular company.

Kinnevik's policy is to use external borrowing in various currencies to finance capital employed in the same currency. If this is not possible and significant temporary currency exposures exist, the Group's finance policy permits the use of forward contracts. On 31 December 2005, there were no outstanding forward contracts. Translation exposure arising from the translation of the foreign subsidiaries' earnings and shareholders' equity is not hedged. After the divestment of Korsnäs Packaging in 2006, this type of translation exposure will not be of material importance to Kinnevik.

In addition to the translation exposure existing in the operative subsidiaries, Kinnevik owns shares in listed companies that engage in foreign operations. Millicom, a company that reports in USD, is listed in the United States and conducts operations in 16 countries in Latin America, Asia and Africa, accounts for the principal exchange rate risk.

**Liquidity and refinancing risk**

Kinnevik's liquidity risk is limited because listed shares account for a large part of the Company's assets. On 31 December 2005, the company also had cash and cash equivalents and granted but unutilized credit facilities amounting to SEK 699 million.

Kinnevik's refinancing risk is limited because the Company has loans from a number of different banks that mature at different times. On 31 December 2005, the available credit facility amounts from credit institutions totaled SEK 7,360 million and the average remaining term to maturity was 2.5 years. The Company also had access to committed lines of credit pertaining to an extension of the existing syndicated loan of SEK 2,500 million to Korsnäs AB for an additional 2.5 years and to expand the loan by a further SEK 3,500 million for five years in connection with the acquisition of AssiDomän Cartonboard Holding AB ("Frövi").

## Note 34
## Information concerning the effects of transition to IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). Transition to IFRS as of 1 January 2005 is reported in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. Comparison information for 2004 is restated in accordance with the new principles. This also applies to IAS 39 Financial Instruments, which the Group has chosen to apply even for the 2004 comparison year. Acquisitions prior to 1 January 2004 are not restated and IAS 19 Employee Benefits has not been applied retroactively. Accumulated differences arisen on the translation of the assets and liabilities of subsidiaries that do not have the same functional currency as the Parent Company are reported separately from 1 January 2004.

From an accounting point of view, the areas in which Swedish standards differ from IFRS and which have a material impact on Kinnevik's accounts in 2004 are the following:

| | According to financial statements 31 Dec. 2003 | Effect of IAS 19 Employee Benefits [1] | Effect of IFRS 3 Business Combinations [2] | Effect of IAS 28, 39 Financial assets [3] | Effect of IAS 41 Agriculture [4] | According to IFRS 1 Jan. 2004 |
|---|---|---|---|---|---|---|
| **Condensed consolidated balance sheet 1 January 2004** | | | | | | |
| **Fixed assets** | | | | | | |
| Intangible fixed assets | 21 | – | – 4 | – | – | 17 |
| Tangible and biological fixed assets | 6,816 | – | – | – | 468 | 7,284 |
| Financial assets accounted at fair value through profit and loss | 12,245 | – | – | 7,193 | | 19,438 |
| Investment in companies accounted for using the equity method | 125 | – | – | – | – | 125 |
| Other fixed assets | 55 | – | – | – | – | 55 |
| | 19,262 | – | – 4 | 7,193 | 468 | 26,919 |
| **Current assets** | 2,118 | – | – | – | – | 2,118 |
| **TOTAL ASSETS** | 21,380 | – | – 4 | 7,193 | 468 | 29,037 |
| **Shareholders' equity** | 11,515 | – 88 | – 4 | 7,193 | 466 | 19,082 |
| **Long-term liabilities** | 8,935 | 88 | – | – | 2 | 9,025 |
| **Short-term liabilities** | 930 | – | – | – | – | 930 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | 21,380 | – | – 4 | 7,193 | 468 | 29,037 |

| Consolidated income statement 2004 | According to financial statements 2004 | Effect of IFRS 3 Business Combi- nations [2)] | Effect of IAS 28, 39 Financial assets [3)] | Effect of IAS 41 Agri- culture [4)] | According to IFRS 2004 |
|---|---|---|---|---|---|
| Revenue | 4,600 | – | – | – | 4,600 |
| Cost of goods and services | – 3,658 | – | – | – | – 3,658 |
| **Gross profit** | **942** | **–** | **–** | **–** | **942** |
| Selling, administration, research and development expenses | – 317 | – | – | – | – 317 |
| Income from corporate development | 461 | – | – | – 461 | – |
| Other operating income | 82 | 826 | – | 4 | 912 |
| Other operating expenses | – 33 | 5 | – | – | – 28 |
| Share of profit/loss of associates accounted for using the equity method | – | – | 17 | – | 17 |
| **Operating profit** | **1,135** | **831** | **17** | **– 457** | **1,526** |
| Result from participations in associated companies | 224 | – | – 224 | – | – |
| Dividends received | 10 | – | 92 | – | 102 |
| Change in fair value of financial assets | – 7 | – | – 2,537 | – | – 2,544 |
| Income from sale of securities | 30 | – | – 30 | – | – |
| Net financial items | – 280 | – | – 2 | – | – 282 |
| **Profit/loss after financial items** | **1,112** | **831** | **– 2,684** | **– 457** | **– 1,198** |
| Taxes | – 497 | – | 233 | – 1 | – 265 |
| **Net profit/loss for the year from continuing operations** | **615** | **831** | **– 2,451** | **– 458** | **– 1,463** |
| Net profit/loss from discontinued operations | | | | | |
| Invik | 57 | – 1 | – | – | 56 |
| Korsnäs Packaging | – 10 | – | – | – | – 10 |
| **Net profit/loss for the year** | **662** | **830** | **– 2,451** | **– 458** | **– 1,417** |

| Condensed consolidated balance sheet 31 December 2004 | According to financial statements 2004 | Effect of IFRS 3 Business Combinations [2] | Effect of IAS 28, 39 Financial assets [3] | Effect of IAS 41 Agriculture [4] | According to IFRS 2004 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible fixed assets | 42 | 59 | – | – | 101 |
| Tangible and biological fixed assets | 4,317 | – | – | 11 | 4,328 |
| Financial assets accounted at fair value through profit and loss | 17,091 | 679 | 4,902 | – | 22,672 |
| Investment in companies accounted for using the equity method | 148 | – | – | – | 148 |
| Other fixed assets | 121 | – | – | – | 121 |
| | 21,719 | 738 | 4,902 | 11 | 27,370 |
| **Current assets** | 7,388 | – | 35 | – | 7,423 |
| **TOTAL ASSETS** | 29,107 | 738 | 4,937 | 11 | 34,793 |
| **Shareholders' equity** | 14,461 | 738 | 4,902 | 8 | 20,109 |
| **Long-term liabilities** | 9,033 | – | – | 3 | 9,036 |
| **Short-term liabilities** | 5,613 | – | 35 | – | 5,648 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | 29,107 | 738 | 4,937 | 11 | 34,793 |

1) IAS 19 was applied in the accounts already under Swedish GAAP with effect from 1 January 2004, why the change has no effect on income statement and balance sheet in 2004.

2) Application of IAS 28 point 1 and IFRS 3 mean that old Invik's holdings in listed associated companies are reported at their fair value on the acquisition date. Also, intangible assets in Invik identified in connection with the acquisition are reported. Since the purchase price for Invik was less than the fair value of the net assets, SEK 826 million is reported as other operating income in the third quarter 2004.

3) In line with IAS 39, which Kinnevik also applies in the comparison year, listed holdings are valued at their fair value. In accordance with IAS 28 point 1, Kinnevik also reports listed associated companies at their fair value. The change in fair value of listed holdings in associated companies and other companies is reported in the consolidated income statement. The equity method is applied solely for unlisted companies.

4) IAS 41 entails that the forest assets are reported at their fair value, with value change reported in the consolidated income statement, and forestland at the deemed cost. Accordingly, no capital gain arose on the sale to Bergvik Skog in the first quarter of 2004. Subsequent to the sale to Bergvik, the effect is marginal.

The Board of Directors and the Managing Director hereby certify that, to the best of our knowledge, the annual and consolidated reports have been prepared in accordance with generally accepted accounting principles for stock market companies, that the information presented is consistent with actual conditions and that nothing of significant importance has been omitted that would affect the view of the Company and the Group presented in the annual and consolidated reports.

Stockholm 17 February 2006

| | | |
|---|---|---|
| Pehr G Gyllenhammar<br>Chairman | Cristina Stenbeck<br>Vice Chairman | Thorbjörn Hallström |
| Edvard von Horn | Wilhelm Klingspor | Erik Mitteregger |
| Stig Nordin | Jan-Henrik Sandberg | Vigo Carlund<br>Chief Executive Officer and President |

Our Audit Report was issued on 17 February 2006

Ernst & Young AB

Erik Åström
Authorized Public Accountant

# Auditors' Report

To the annual meeting of the shareholders of
Investment AB Kinnevik
(Corporate identity number 556047-9742)

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Investment AB Kinnevik for the year 2005. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of 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 managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we 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 managing director. We also examined whether any board member or the managing director 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 accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual 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 administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm 17 February 2006

Ernst & Young AB

Erik Åström
Authorized Public Accountant

Corporate governance within the Kinnevik Group is based on Swedish legislation, the Stockholm Stock Exchange's listing requirements, listing agreement and the regulations and recommendations issued by relevant self-regulatory bodies, such as the Swedish Industry and Commerce Stock Exchange Committee. As of 1 July 2005, Kinnevik applies the Swedish Code of Corporate Governance ("the Code"). Kinnevik applies the Code in accordance with the "comply or explain" principle, meaning that deviations from the Code are permissible but must be explained.

**General shareholder meeting**
The invitation to the Annual General Meeting must be sent not earlier than six weeks and not later than four weeks prior to the Meeting. Notice of Extraordinary General Meeting must be issued not earlier than six weeks and not later than two weeks prior to the Meeting. Notice of Extraordinary General Meeting convened to address amendments to the Articles of Association must be issued not earlier than six weeks and not later than four weeks prior to the Meeting. To be entitled to participate in the General Meeting, shareholders must be registered as shareholders on the record date, which occurs five weekdays prior to the Meeting. Shareholders must also notify the Company of their intention to attend the Meeting not later than 3 p.m. on the day stipulated in the notice convening the Meeting. The latter mentioned day must not be a Sunday, any other public holiday, a Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and must not be more than the five weekdays before the Meeting.

Assistants may accompany shareholders to a General Shareholder meeting only if the shareholder has registered the assistant prior to the meeting.

At a General Meeting, each person is entitled to exercise unlimited voting rights on the full number of shares that he or she owns or represents. Minutes of the most recent Annual General Meeting are available on Kinnevik's website.

**Nomination Group**
In accordance with a resolution passed at the 2005 Annual General Meeting, a Nomination Group consisting of major Kinnevik shareholders with Cristina Stenbeck as the convenor has been appointed ahead of the 2006 Annual General Meeting. The Nomination Group comprises Cristina Stenbeck representing Emesco AB and other shareholders, Wilhelm Klingspor representing the Klingspor family, Mats Lagerqvist representing Robur, Björn Lind representing SEB Fonder and SEB Trygg Liv and Tomas Nicolin representing Alecta.

The Nomination Group will nominate members of the Board to be presented for approval by the 2006 Annual General Meeting. Another duty of the Nomination Group will be to nominate a Chairman to direct the business of the Annual General Meeting and to submit motions regarding director fees, the election of auditors and audit fees.

Board Member Cristina Stenbeck has been appointed Chairman of the Nomination Group, an appointment that does not comply with the Code. The other members of the Nomination Group have explained that the reason why they elected her chairman of the Nomination Group is that this is in the best interest of all shareholders and is a natural consequence of the fact that Cristina Stenbeck represents the Company's principal shareholder.

**Auditors**
According to the Articles of Association, the Annual General Meeting must appoint not more than three auditors, with not more than three deputies, or an accounting firm.

At the 2005 Annual General Meeting, the accounting firm Ernst & Young AB, with Authorized Public Accountant Erik Åström as auditor in charge, was appointed Company auditor for the period extending to the close of the 2009 Annual General Meeting. The selection of auditor was preceded by a call for tenders and the evaluation of four major accounting firms. This process was directed by the chairman of the Audit Committee and the entire Audit Committee participated in the evaluation. The Audit Committee's proposal regarding the choice of auditor was presented to the entire Board, following which the Board's recommendation was presented to the Nomination Group. Ernst & Young AB is a member of a worldwide network and satisfies Kinnevik's demand for requisite expertise and geographical coverage. The auditor's independence is secured by means of the audit firm's internal guidelines and by adhering to the Audit Committee's guidelines governing the type of assignments that the audit firm may conduct in addition to the audit.

**Board of Directors**
The term of office of the Board members begins at the close of the AGM and expires at the close of the next AGM following their election. The Articles of Association contains no restrictions regarding the electability of a Board member. According to the Articles of Association the number of Board members can vary between three and nine and not more than three deputy Board members. In addition, the union organizations have the right to appoint two Board members and two deputy Board members.

At the 2005 Annual General Meeting, following a motion from the Company's former nomination group, Pehr G Gyllenhammar, Edvard von Horn, Wilhelm Klingspor, Erik Mitteregger, Stig Nordin and Cristina Stenbeck were elected Members of the Company's Board. At the statutory Board meeting held after the Annual General Meeting, Pehr G Gyllenhammar was re-elected Chairman of the Board and Cristina Stenbeck was re-elected Vice Chairman. Thorbjörn Hallström and Jan-Henrik Sandberg were appointed employee representatives and Bo Gidlund and Hans Wahlbom were appointed deputy employee representatives.

More than half of the current Board Members who were elected by the Annual General Meeting are independent in relation to the Company and Company management. These are Pehr G Gyllenhammar, Edvard von Horn, Wilhelm Klingspor, Erik Mitteregger and Cristina Stenbeck. In the Code, it is stated that a Member of the Board should not be considered independent of the Company and management if the person concerned has been a Member of the Company's Board for more than 12 years. Edvard von Horn and Wilhelm Klingspor, as well as Stig Nordin, have been Board Members for more than 12 years if the time they were Board Members of Industriförvaltnings AB Kinnevik and Invik & Co AB, respectively, prior to the merger of these companies in 2004, is included. Considering the operational and management change that resulted from the merger, Kinnevik's Board does not consider that Edvard von Horn and Wilhelm Klingspor can be regarded as dependent in relation to the Company and Company management, which means the Company deviates from the stipulations of the Code in this respect. For the same reason, the Kinnevik Board does not consider that Stig Nordin can be regarded as dependent. However, because Stig Nordin also held the position of President of old Invik up to April 2001, the Board has chosen to treat Stig Nordin as dependent in relation to the Company and Company management during 2005.

Of the members who, according to the Kinnevik Board, are independent in relation to the Company and Company management, Board Members Pehr G Gyllenhammar, Edvard von Horn and Erik Mitteregger are also independent in relation to the Company's major shareholders.

No member of the Board is employed by the Company with the exception of the representatives of the union organizations.

Information concerning individual Members of the Board, the President and the auditor in charge is presented on pages 6-7 of the Annual Report.

There are no outstanding share or share-price-related incentive programs on the Kinnevik share that focus on the Board or Company management.

**Governance and control**

Kinnevik's Board of Directors is responsible for the overall management of the Group and for organizing its administration in accordance with the Swedish Companies Act. Each year, following the AGM, the Board adopts guidelines for the duties of the Board and delegation of duties between the Board and CEO. The Board's principal duties are to:

– establish the overall goals for the Company's operations and decide on the Company's strategy for achieving the goals,
– ensure that the Company has an efficiently functioning operative management with remuneration terms that are conducive to this aim,
– take decisions about acquisitions and divestments of operations, and about capital investments within Korsnäs that are above and beyond established limits,
– take decisions about guidelines concerning the financing of the Group,
– ensure that the Company's external communication of information is characterized by openness and factuality and provides a correct impression of the Company's profitability, financial position and risk exposure,
– ensure that there are effective systems for the follow-up and control of the Company's operations and financial position in relation to established goals,
– ensure that there are satisfactory control mechanisms to ensure the Company's compliance with laws and other regulations to which the Company's operations are subject,
– ensure that necessary ethical guidelines are established for the Company and its employees, and
– to propose dividends and, where applicable, the repurchase or redemption of Company shares to general shareholder meetings.

The Board appoints the President and the Vice Presidents, if any, in Kinnevik and approves the nominations of the Board members in Korsnäs AB, Korsnäs Packaging AB and Mellersta Sveriges Lantbruks AB. The guidelines also require that a Board meeting be held at least once a quarter and a yearly strategy Board meeting be held, that the CEO release interim reports for the first quarter and the first nine months of the year after obtaining the approval of the Chairman and Vice Chairman and that the Board publish the interim report for the first half of the year, year-end release and the Annual Report.

The guidelines also state that the Board members are to receive written documentation at least one week before each meeting. The instructions to the President also include reporting instructions concerning the material that has to be provided to the Board ahead of each scheduled meeting, including the report from the President and from each business area president, financial information concerning earnings, financial position and cash flow, an analysis of deviations from the budget and previous forecasts and a new forecast concerning the forthcoming four quarters, the current status of any ongoing disputes, a report describing the Company's financing and a human resources report.

The Board has established two committees of the Board, the Audit Committee and the Remuneration Committee. These committees are preparatory bodies for the Board and do not reduce the Board's overall and unanimous responsibility for the handling of the Company and the decisions made. All Board members have access to the same information to enable them to jointly assume responsibility.

The Board has a formal performance review process to assess how well the Board, its committees and processes are performing and how they might be improved. The review also assesses the performance of each Board member and the contribution they make. The performance review for 2005 was conducted in July and August by having each Member of the Board reply to a written questionnaire, following which all of the

Members had individual discussions with the Chairman of the Board. Subsequently, the results of the performance review were discussed at the following Board meeting, whereupon actions were initiated within those areas where the performance review indicated that there was improvement potential.

The Board has appointed Chief Financial Officer Mikael Larsson as the Company secretary. The Company secretary is responsible for ensuring that rules of procedure are complied with and all Board Members can turn to the secretary for advice and assistance in their work for the Board.

During 2005, the Kinnevik Board had ten meetings (excluding the statutory meeting). All elected Members of the Board, apart from Cristina Stenbeck, attended all of the meetings. Cristina Stenbeck attended eight of the ten meetings held.

**Remuneration Committee**

The Board appoints the members and Chairman of the Remuneration Committee. The Remuneration Committee's assignment comprises issues of salaries, pension terms and conditions, bonus systems and other terms and conditions of employment for the President and Vice President, if any, of the Parent Company and Presidents of the Group's business areas.

For the business area Presidents, the Remuneration Committee will make decisions on the above matters and these shall be presented to the Board at its next Board meeting. Concerning the President and Vice Presidents, the Remuneration Committee prepares the aforementioned matters for approval and provides the Board with documentation for a decision, including a decision proposal.

Pehr G Gyllenhammar, Cristina Stenbeck, Wilhelm Klingspor and Erik Mitteregger were members of the Remuneration Committee during 2005. Wilhelm Klingspor is Chairman of the Committee.

The Remuneration Committee shall meet not less than once a year, and as required, and minutes of these meetings shall be taken. The Remuneration Committee held nine meetings in 2005. Pehr G Gyllenhammar attended one meeting, Cristina Stenbeck four meetings and Wilhelm Klingspor and Erik Mitteregger attended all of the meetings. A considerable amount of the Remuneration Committee's work during the year focused on formulating proposals for incentive programs designed for key personnel within Invik, as approved by Kinnevik's Annual General Meeting, and on preparing proposals for joint criteria for incentive programs within Kinnevik's portfolio companies. These matters were delegated to parts of the Remuneration Committee, in order to prepare a decision-making basis for the Kinnevik Board, which explains why only certain members attended a certain number of meetings.

**Audit Committee**

The Board appoints the members and Chairman of the Audit Committee. The Audit Committee's assignment is to maintain and enhance the efficiency of contact with the Group's auditors and to conduct inspections of the procedures applied for accounting and financial reporting, as well as the internal audits within the Group. The Audit Committee's work focuses on the quality and accuracy of the Group's financial accounting and the accompanying reporting, as well as work on internal financial controls within the Company. In addition, the Audit Committee evaluates the auditors' work, qualifications and independence. The Audit Committee monitors the development of the accounting principles and requirements, discusses other significant issues connected with the Company's financial reporting and reports its observations to the Board.

Wilhelm Klingspor, Stig Nordin, Edvard von Horn and Erik Mitteregger were members of the Audit Committee during 2005. The Chairman of the Committee is Erik Mitteregger.

The Audit Committee shall meet four times per year and, as far as possible, the meetings shall follow the schedule for Kinnevik's publication of financial reports. The Committee shall also meet as the need arises. Minutes are taken at the Audit Committee's meetings and are reported to the Board at its next meeting. The Audit Committee held seven meetings in 2005, which were attended by all members. A considerable part of the Audit Committee's work focused on ensuring that the Company complies with the Code. During spring 2005, the Audit Committee engaged in the procurement of the external auditors for the forthcoming four years. On two occasions, the external auditors orally and in writing issued their reports on the results their examination to both the Audit Committee and the Board of Directors.

**Compliance with rules, confidence and responsibility**

Kinnevik regards compliance with laws and regulations, responsibility and the confidence of the market as three of the principal issues on which the Board should focus actively. In the Corporate Social Responsibility policy adopted by the Kinnevik Board, it is stipulated that Group operations must be conducted in compliance with laws, regulations and ordinances, and while observing a high ethical and moral standard. In addition, Kinnevik's approach to matters involving employment equality, safe workplaces, competition issues and zero tolerance of all forms of bribery and political contributions was described. With respect to these matters, Kinnevik requires that the companies in which Kinnevik invests observe similar standards. Kinnevik's social responsibility policy is available in its entirety on the Company's website.

This corporate governance report is not part of the formal Annual Report and it has not been examined by the Company's auditors.

Stockholm, 17 February 2006

Board of Directors

# The Board of Directors' report on internal controls of financial reporting

This report has been prepared in accordance with the Swedish Code of Corporate Governance and the guidance formulated by the Institute for the Accounting Profession in Sweden and the Confederation of Swedish Enterprise, as well as by applying the transitional rules that the Swedish Corporate Governance Board announced on 15 December 2005. This means that the report is limited to a description of how the internal controls of the company's financial reporting are organized. The overall structure of corporate governance within Kinnevik is described in the Corporate Governance Report on page 67-69 and in the Board of Directors' Report on page 12-17.

**Control environment**
The purpose of the Board of Directors' rules of procedure and instructions for the President and Board committees is to ensure a distinct division of roles and responsibility that benefits efficient management of operational risks. The Board has also adopted a number of fundamental guidelines of significance to work involving the internal controls, which are described in Kinnevik's *Policy and Procedure Manual* and include among others instructions governing the financial reporting of results, forecasts and budgets, authorization procedures, investment policies, accounting principles, financial risk management and the internal audit. The Company's management reports regularly to the Board on the basis of established procedures. In addition, the Audit Committee reports on its work. The Company's management is responsible for the system of internal controls required for managing risks associated with ongoing operations. This includes guidelines for the employees concerned to ensure that they understand and realize the importance of their particular roles in the work conducted to maintain efficient internal control.

**Risk assessment and control activities**
During summer 2005, Kinnevik initiated efforts to implement a model for assessing the risk of errors in accounting and in the financial reporting, which is based on the COSO's framework for internal control. The Company has identified a number of items in the income statement and balance sheet where the risk of significant errors can typically arise. From Kinnevik's point of view, the largest balance-sheet item is financial instruments, which mainly consists of the Company's holding of shares in listed associated companies. Particular importance was attached to efforts to design controls that safeguard the existence and valuation of this item. In the wholly owned subsidiaries, the principal balance-sheet item consists of tangible fixed assets, which are assessed continuously in terms of any impairment requirements, and the reporting of cost of goods sold.

**Information and communication**
Kinnevik's *Policy and Procedure Manual* and other guidelines of importance to financial reporting are continuously updated and communicated. Both formal and informal information channels to Company management and the Board of Directors are available for important information from employees. For external communication, guidelines have been compiled in an Information Policy that ensures that the Company complies with the meticulous demands for correct information to the market.

**Follow-up**
The Board of Directors continuously evaluates the information provided by Company management and the Audit Committee. The Audit Committee's work to follow up the efficiency of Company management's efforts in this area is of particular importance to the follow-up of internal controls. This work includes ensuring that action is taken concerning those shortcomings and proposed measures that result from the internal and external audit.

**Internal audit**
The Company has an internal audit function that is responsible for following up and evaluating risk management and internal control. This includes examining compliance with established procedures. The work of the internal audit is planned in consultation with the Audit Committee and examination results are continuously reported to the Committee.

This report is not part of the formal Annual Report and has not been examined by the Company's auditors.

Stockholm, 17 February 2006

Board of Directors

| SEK million | **2005** | 2004 [1] | 2003 [2] |
|---|---|---|---|
| **Key ratios** | | | |
| Revenue | **5,766** | 5,664 | 5,553 |
| Operating profit / loss | **– 38** | 766 | 527 |
| Investment in fixed assets | **542** | 504 | 238 |
| Depreciation | **– 404** | – 407 | – 452 |
| Operational capital employed | **5,190** | 5,553 | 7,773 |
| Return on operational capital employed | **neg.** | 13.8% | 6.8% |
| Number of employees | **2,265** | 2,288 | 2,369 |

1) According to International Financial Reporting Standards (IFRS).

2) According to former accounting principles.

Korsnäs Holding AB is the parent company of Korsnäs and Korsnäs Packaging. Korsnäs and its subsidiaries are engaged in business in packaging materials (Korsnäs Industrial) and acquisition of timber and fiber (Korsnäs Forestry).

**Historical background**

Korsnäs was formed in 1855 when the company's name was Korsnäs Sågverks AB. Today, the company is one of the leading producers of high-quality paperboard and paper products for the packaging industry. Korsnäs Holding has 2,265 (2,288) employees, 1,111 (1,120) of whom work in Sweden.

The business began in 1855 and the sawmill commenced operations in 1858 at Korsnäs, a small village in Dalarna. The business was relocated to Gävle in 1899. Pulp production started at Korsnäsverken in Gävle in 1910, and the company installed its first paper machine in 1925. The production of pulp and paper has successively evolved into Korsnäs' main line of business. The company now has four market pulp machines in production. Korsnäs exited the sawmill industry in 2002, when it sold the Kastet sawmill.

Korsnäs' industrial activities are concentrated at the Korsnäsverken complex in Gävle, which has an annual capacity of 700,000 tons of pulp. The entire production of kraft pulp is processed within the plant into cartonboard, sack and kraft paper, and into fluff pulp using the PM2, PM4 and PM5 paper machines and the TM6 drying machine.

Korsnäs has long had a strategy of concentrating on highly processed goods with a high added value. Paperboard has evolved into the largest product area in terms of volume, where liquid packaging board is used for packaging of beverages, and White Top Liner (WTL) is used as the outer layer in corrugated board packaging. In line with the expansion within the highly processed product segment, an agreement was reached with Sveaskog in November 2005 concerning the acquisition its subsidiary AssiDomän Cartonboard Holding ("Frövi").

Korsnäs has been one of the leading European manufacturers of high-quality sack and kraft paper. A considerable part of the produced sack paper is refined by Korsnäs Packaging's wholly or jointly owned sack mills in Europe into sacks, bags and other types of packaging. During recent years, production and deliveries of sack paper to Korsnäs Packaging has declined in pace with the increase in the production of liquid packaging board and WTL. As a result, the synergies existing between Korsnäs Industrial and Korsnäs Packaging have decreased. In view of this, an agreement was entered into in December 2005 to sell Korsnäs Packaging to JSC Segezha Pulp and Paper Mill, a Russian packaging group. This transaction is expected to be concluded during the first half of 2006.

In 2002 and 2004, Korsnäs divested its Swedish forestland in two transactions. In 2002, slightly more than a third of the forestland was sold to Sveaskog for about SEK 2,000 million. During the first quarter of 2004, ownership of the remaining forestland was restructured, with Korsnäs' and Stora Enso's Swedish forestland being transferred to Bergvik Skog, a newly formed company in which Korsnäs owns 5% of the shares. Korsnäs received SEK 3,050 million as a result of the transaction. Following these divestments, Korsnäs' Swedish forestry ownership comprises approximately 15,000 hectares of special land and rights.

**Korsnäs Industrial**

| SEK million | **2005** | 2004 [1] | 2003 [2] |
|---|---|---|---|
| **Key ratios** | | | |
| Revenue | **3,858** | 3,807 | 3,816 |
| Operating profit | **314** | 656 | 793 |
| Investment in fixed assets | **425** | 438 | 124 |
| Depreciation | **– 330** | – 334 | – 336 |
| Operational capital employed | **4,229** | 3,972 | 4,006 |
| Return on operational capital employed | **7.4%** | 16.5% | 19.8% |
| Number of employees | **1,004** | 1,009 | 1,020 |

1) According to International Financial Reporting Standards (IFRS).

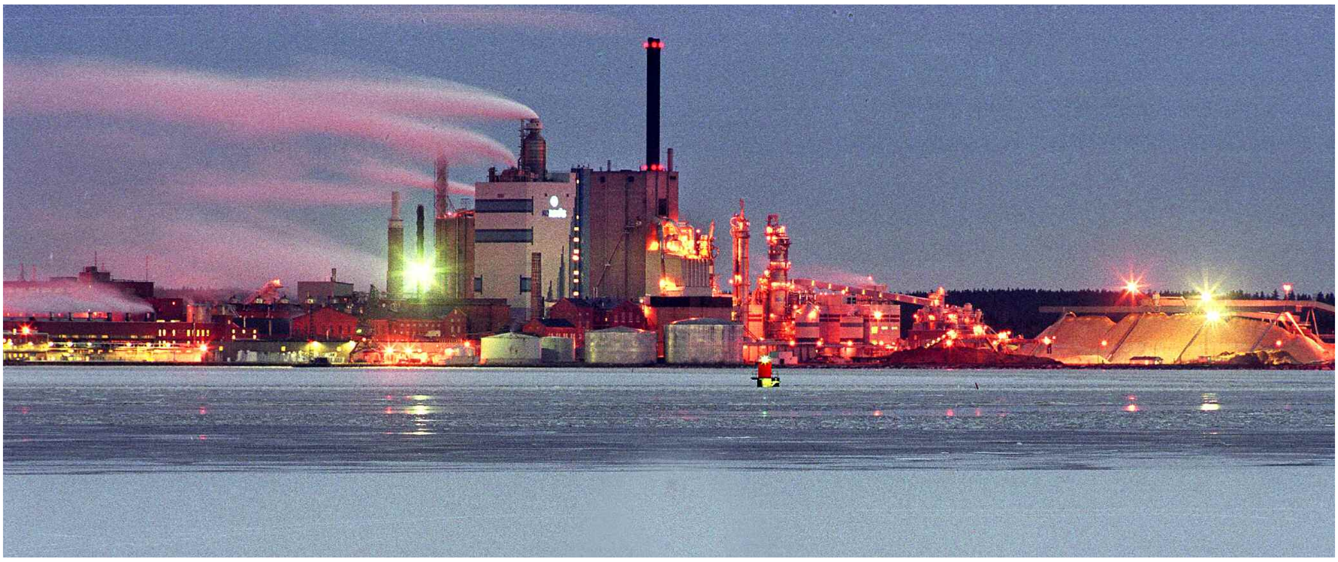
2) According to former accounting principles.

The general upturn in the economy that characterized 2005 only had a marginal effect on Korsnäs' markets. The market for Korsnäs' products was characterized during the year by a weak demand trend in Europe. Despite a stronger US dollar, the competition for sales in the European markets was very strong, resulting in a relatively weak price trend. However, Korsnäs' relatively strong position on the market offset the weak market situation, as a result of which the demand for Korsnäs' products as a whole was stable. In relation to 2004, the delivery volumes for paper, pulp and board products declined by 0.5% to 671,000 tons. The reason for the lower sales volumes is the six-week production curtailment of PM4 in connection with the major rebuild in the spring of 2005 with the installation of a new coating unit.

Nowadays, customers are increasingly demanding various types of product and delivery-service solutions, and Korsnäs aims to offer this at a low total cost to the customer. Korsnäs' long-term strategy, to focus on growth markets and offer a diversity of niche products that meet high demands for strength, print properties and capacity for converting, was successful during the year. This means that the goal-oriented focus on highly processed products will continue. Volumes in liquid packaging board and WTL increased, while deliveries of sack and kraft paper as well as fluff pulp declined.

Annual output for Korsnäs' mill during the year totaled 664,000 tons, a decline of 5.5% compared with a year earlier. The lower production is attributable to the aforementioned production curtailment and the rebuild of PM4, which is now entirely a cartonboard machine, the same as the existing PM5. The implementation of the project as well as the start-up curve followed the established plans well. The processes for developing the quality of products from PM4 and the quality outcome met the set expectations. In other respects, production at the Korsnäs mill remained at a high level and in a number of areas production records were exceeded, for example PM5 produced 5% more than the annual production in preceding years.

With the increased capacity resulting from the now completed rebuild of the PM4 being used for produc-



*Korsnäsverken.*

tion of highly value-added paper and board products, the scope for continued production of fluff pulp is reduced. Given this background, it was decided in August that the operations of dryer machine TM6 would be discontinued in the second quarter of 2006. Combined with other measures taken within the framework of the efficiency-enhancement program, the goal is to strengthen margins by about SEK 150 million on an annual basis. At year-end 2005, decisions have been made and actions carried out that realized 75% of the goal, with full effect as of 2007.

In addition to timber, the largest purchases comprise energy and chemicals. The prices of these components increased substantially during 2005, with the effect that variable costs increased, placing pressure on margins.

In November Korsnäs entered into an agreement with Sveaskog for the acquisition of Frövi for a total consideration of SEK 3,650 million in cash on an enterprise value basis. The acquisition fits well into Korsnäs' successful operation within advanced highly refined board and paper products for the packaging industry. Frövi's technical production capacity is 400,000 tons cartonboard of which 250,000 tons chemical pulp per annum is produced internally. In 2004 Frövi had revenues of SEK 2,437 million and an EBITDA of SEK 542 million. Frövi has recently received a concession to increase the production capacity to 450,000 tons cartonboard. The industrial logic of the transaction is strong and the synergies between Korsnäs and Frövi are significant. The integration process is expected to produce annual run-rate synergies in the area of SEK 150 million. The transaction is subject to approval by competition authorities and is expected to be finalized in the first half of 2006.

Of the deterioration in operating profit totaling SEK 342 million compared to 2004, approximately SEK 185 million is attributable to production losses in conjunction with the rebuild of PM4 and the more extensive than usual maintenance curtailment in April. Prices on wood, energy and chemicals also resulted in approximately SEK 120 million higher cost base compared with the preceding year. Earnings in 2005 also include a provision of SEK 69 million for severance pay in the reduction of 80 full-time employees within the framework of the ongoing efficiency-enhancement program.

**Liquid packaging board**

Liquid packaging board is used to produce packaging for dairy products and cooled beverages, a market that is continuing to show strong growth, especially in Asia. Particular growth is being noted for coated liquid packaging board, as a result of the end customers' increasing demands for print quality on the finished packaging. The global market for liquid packaging board is growing by approximately 4% annually. Korsnäs' deliveries of liquid packaging board rose 2% in 2005. Stora Enso and Frövi are Korsnäs' main competitors within liquid packaging board.

In 2005 Korsnäs has signed a new supply agreement with Tetra Pak. The agreement is valid for 2006-2009 and comprises approximately 1.6 million tons liquid packaging board and means that Korsnäs continues to increase its deliveries to Tetra Pak. The agreement is independent of Korsnäs' announced acquisition of Frövi and does not include any deliveries from Frövi to Tetra Pak.

**White Top Liner**

WTL is used as the outer layer in corrugated board packaging. In 2005, market growth for WTL in Europe was in line with the long-term growth rate of 3-4%. However, Korsnäs' total deliveries in 2005 rose 13% compared with 2004. It was primarily the amount of coated WTL sold that accounted for the sales increase, where market shares also rose. The price trend was negative during the first half of the year and then rose slightly during the fourth quarter. The main markets in Europe are Germany, France and Italy. There are many suppliers on the market, with M-Real being the main competitor.

**Sack and kraft paper**

Sack and kraft paper are used for sacks, paper-bags and food packaging. Although the market conditions in Europe for sack and kraft paper strengthened during the year, it was only possible to implement minor price hikes in the kraft paper segment in 2005. The demand for sack paper has been declining for several years in Europe, whereas it has been growing in other parts of the world. In Europe there is considerable capacity for the production of sack and kraft paper, and some of the output is exported to other markets, mainly in the Middle East, Asia and Latin America. Mondi and Smurfit-Kappa are among the largest integrated producers with their own converting units, while Billerud and UPM Kymmene have considerable capacity but no converting facilities. The latter are also major suppliers of kraft paper. Korsnäs' position in the market is characterized mainly by products with high strength that are readily converted, which offers customer such benefits as lower costs in connection with paper consumption and at the converting stage. One effect of the previously mentioned strategy of concentrating on growth markets is that, in recent years, Korsnäs has reduced its share of the market for sack and kraft paper in favor of other products.

**Fluff pulp**

Fluff pulp is used for hygiene products such as diapers, feminine hygiene products and napkins. In total, the market for fluff pulp is expanding by around 2% annually and prices normally move in line with the general trend in pulp prices. The price of fluff pulp rose during the year, as a result of both price hikes and a stronger US dollar. The largest suppliers in this market are North American companies, principally Weyerheuser and Georgia Pacific. Korsnäs' volumes during 2005 were at the same level as in 2004. As mentioned above, a decision was taken in 2005 to discontinue production of fluff pulp during the second quarter of 2006, and to instead continue to focus on highly refined products.

**Korsnäs Forestry**

| SEK million | **2005** | 2004 [1] | 2003 [2] |
|---|---|---|---|
| **Key ratios** | | | |
| Revenue | **1,741** | 1,754 | 1,441 |
| Operating profit | **62** | 85 | 142 |
| Investment in fixed assets | **8** | 6 | 20 |
| Depreciation | **– 11** | – 12 | – 19 |
| Operational capital employed | **238** | 842 | 2,763 |
| Return on operational capital employed | **26.1%** | 10.1% | 5.1% |
| Number of employees | **261** | 263 | 273 |

1) According to International Financial Reporting Standards (IFRS).

2) According to former accounting principles.

Korsnäs Forestry has responsibility for the purchase of timber and fiber for Korsnäs' pulp and paper mill and for providing forestry services in accordance with the contract with Bergvik Skog. Korsnäs Forestry's external customers are mainly sawmills and spruce fiber consumers in central Sweden.

The high supply of sawn timber as well as soft pulpwood after the storm Gudrun, resulted in reduced wood prices in southern Sweden and the Baltic States during the year. On a full-year basis, slightly less than 10% of Korsnäs' softwood fiber need came from the storm felling areas in Småland Province and Latvia. One of Korsnäs' Latvian felling teams, with work supervisor and personnel working manually with chainsaws was active in Småland during half of 2005. The price level in Korsnäs' normal operating area declined for soft pulpwood, while the price of hard pulpwood rose somewhat. Timber prices were stable within the normal area of operations.

Stocks of soft pulpwood, which were reduced during the three preceding years, rose in 2005 due to the strong flows from the storm felling areas.

Korsnäs' partly owned associated company Latgran in Latvia started up a pellet plant during the year. Toward the end of the year, the plant neared full capacity and demand is favorable.

Korsnäs divested its forest holding in Latvia during the fourth quarter (about 4,500 hectares, of which about 3,700 hectares of productive forestland) for SEK 75 million. The sale does not affect timber supplies to Korsnäs Industrial through the Latvian subsidiary Latsin.

**Research and development**

The rebuild of the PM4 cartonboard machine, including the installation of coating stations, was another important step in Korsnäs' specialization on highly processed paperboard products. The launch of new coated grades within the Folding Carton and WTL areas is continuing as planned. Korsnäs is simultaneously completing its work on the company's unique hot-calendering technology for uncoated products. During the year, a new grade that was produced using this technology qualified for inclusion in the liquid packaging area. Korsnäs and the hot-calendering technology also attracted attention during 2005 when a couple of Tetra Pak engineers were awarded the 2005 Marcus Wallenberg Prize ("the forest products industry's Nobel Prize"). They were awarded the prize for their development of the Tetra Recart liquid packaging technology, as an alternative to the use of cans. Korsnäs was a partner in the development of this packaging and is currently the sole supplier of the paperboard material. Korsnäs' research and development costs totaled SEK 32 million (34).

**Environment**

Korsnäs industrial and forest operations are ISO 14001 certified and the forest operations are also certified in accordance with the Swedish FSC standard. In addition, the paper mill has hygiene certification in accordance with ADAS.

Korsnäs is engaged in operations requiring a permit pursuant to the Environmental Code, based on decisions made in 1996. The company's activities requiring permits and/or notification largely have an effect on the external environment through Korsnäs Industrial. This business area produces pulp, paper and paperboard, which mainly affect the external environment through emissions to air and water, and in the form of noise.

Following the Environmental Court's ruling in 2002, and the Supreme Environmental Court's ruling in 2003 regarding the points appealed by the company, the company's proposed design of the landfill was approved. At a total cost of SEK 25-30 million, actions are being taken in phases during the years 2003-2008. During autumn 2005, the company received permission from the County Administrative Board in Gävleborg concerning initiation of the construction of a road around the landfill, in the middle of which a sealing screen will be installed. In accordance with the ruling by the County Administrative Board in Gävleborg, the company submitted before 31 December 2004 its response regarding the deferred matters involving emissions to water and of nitrogen oxides from soda boilers. The company proposes that a full/scale trial of wastewater flocculoreaction/precipitation be conducted during 2005/2006. On 3 March 2005, the Environmental Court granted the company permission to install and operate equipment for the coating of end products on the PM4. In a part judgement from 23 August 2005, the Environmental Court deferred its ruling on the emissions to water until 31 December 2006. At the same time, the Court established that atmospheric emissions of nitrogen oxides (regarded as $NO^2$) from the SP4 and SP5 soda boilers would be subject to a benchmark and average monthly limit of not more than 1.2 kilograms of $NO^2$ per ton of pulp and a maximum limit of not more than 800 tons of $NO^2$ annually.

The dioxin issue arose again in 2005. The company is participating in surveys within the framework of the Swedish Forest Products Industry, via SSVL, and with the company that supplies chlorine dioxide to Korsnäsverken. During the second half of 2005, Korsnäsverken's external treatment plant was under severe pressure. Actions were taken in the form of increased dredging and by changing procedures within the PM4.

Korsnäs has also decided to participate in the Program for Energy Efficiency, which entails the introduction of an energy management system.

**Employees and organization**

Korsnäs' development of working practices is designed to create a modern, cost-effective organization. As part of the efficiency-enhancement program, overall staffing within Korsnäsverken continued to be reduced. With respect to the part of the ongoing efficiency-enhancement program that was intended to reduce the workforce by 65-70 positions, the final negotiations held during the fourth quarter established that the number of employees would be reduced by 80 during 2006.

In May, Korsnäs celebrated its first 150 years of successful operations. The celebrations began with a cycle race from Korsnäs, outside Falun, to Korsnäsverken in Bomhus, Gävle. During the following week, employees together with relatives, customers, shareholders and many other interested parties were invited to a dinner, combined with high-class entertainment and a fireworks display. The week ended with the inauguration of the rebuilt PM4 and a market seminar at Gävle Concert Hall.

Since 1993, the company has applied a profit-sharing system whereby the size of the allocation is based on the part of the return that exceeds a certain level. The profit for 2005 was not sufficient to generate profit sharing.


*Korsnäs' 150-years anniversary.*

# Korsnäs Packaging AB

| SEK million | 2005 | 2004 [1] | 2003 [2] |
|---|---|---|---|
| **Key ratios** | | | |
| Revenue | **1,289** | 1,252 | 1,386 |
| Operating profit/loss | **– 414** | 25 | – 408 [3] |
| Investment in fixed assets | **109** | 60 | 94 |
| Depreciation | **– 63** | – 61 | – 97 |
| Operational capital employed | **723** | 738 | 1,048 |
| Return on operational capital employed | **neg.** | 3.4% | neg. |
| Number of employees | **940** | 958 | 1,020 |

1) According to International Financial Reporting Standards (IFRS).

2) According to former accounting principles.

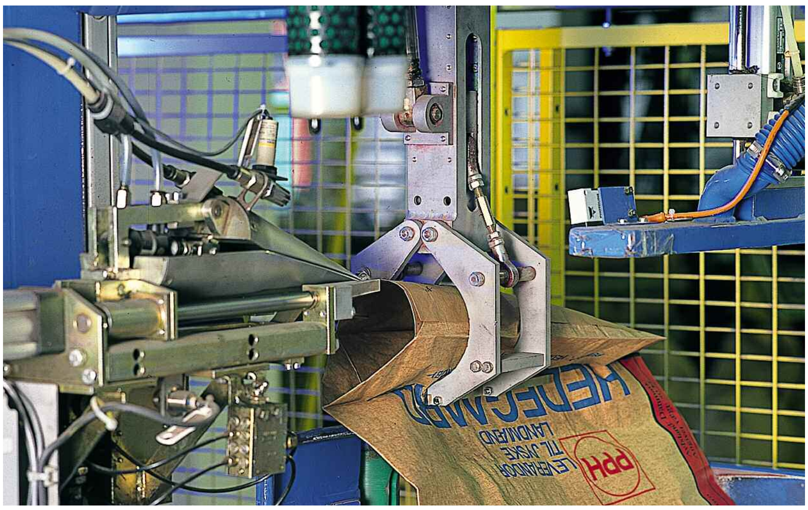
3) Including write-down of fixed assets by SEK 331 million.

Korsnäs Packaging is the second largest producer of high quality paper sacks for industrial use in Europe with ten wholly or part owned production units in nine countries and an annual production of about 850 million sacks. Korsnäs Packaging has 15% of the European market with most of its customers in the cement, agriculture and chemical industries. The principal competitors on this market are Mondi and Smurfit. The comprehensive restructuring measures implemented in Western Europe in recent years have enhanced Korsnäs Packaging's competitiveness in these markets. At the same time, the company successfully capitalized on the high growth rate in Eastern Europe and thus developed a strong position in the expansive markets in this region.

Korsnäs Packaging continued during 2005 to restructure operations with the modernization of the plant in Germany aimed at reducing production costs and invested about SEK 60 million in a new converting line. In September it was decided to cease production in the UK and instead deliver from the other Western European plants to the UK market.

Korsnäs Packaging's purchase of sack paper from Korsnäs Industrial has declined in recent years, due in part to Korsnäs Industrial focusing its production on more high-value-added products and partly because Korsnäs Packaging purchased primarily unbleached sack paper at more competitive prices from other suppliers. As a result of this, the synergies between Korsnäs Industrial and Korsnäs Packaging have declined. Against this background, Kinnevik decided during the year to divest Korsnäs Packaging and in December Kinnevik entered into an agreement to sell the business area to the Russian packaging group JSC Segezha Pulp and Paper Mill ("Segezha") for a total consideration of EUR 73.5 million (SEK 693 million) in cash on an enterprise value basis. Segezha, a privately owned Russian company based in Karelia, is Russia's largest integrated manufacturer of sack paper and paper sacks, and also has considerable exports. The transaction is subject to approval by competition authorities and is expected to be finalized in the first half of 2006.

Korsnäs Packaging's net assets in the 2005 year-end financial statements were written down to SEK 693 million, which corresponds to the purchase consideration Kinnevik will receive from Segezha when the sale is concluded. In addition to the impairment loss on assets of SEK 233 million, the loss in Korsnäs Packaging for 2005 includes restructuring costs in Germany and the UK totaling SEK 53 million and additional pension costs of SEK 125 million related to the UK company's pension plan, which will be closed as a result of the transaction.



*Korsnäs Packaging is the second largest European producer of high quality paper sacks for industrial use.*

| SEK million | 2005 | 2004 [1)] | 2003 [2)] |
|---|---|---|---|
| **Key ratios** | | | |
| Revenue | **52** | 32 | 44 |
| Operating profit | **8** | 7 | 4 |
| Investment in fixed assets | **7** | 5 | 12 |
| Depreciation | **– 7** | – 6 | – 4 |
| Operational capital employed | **203** | 186 | 179 |
| Return on operational capital employed | **3.9%** | 3.8% | 2.2% |
| Number of employees | **120** | 141 | 145 |

1) According to International Financial Reporting Standards (IFRS).

2) According to former accounting principles.

Farming was Kinnevik's original business. Mellersta Sveriges Lantbruk today owns the Ullevi estate outside Vadstena, and the Barciany and Podlawki estates in Poland.

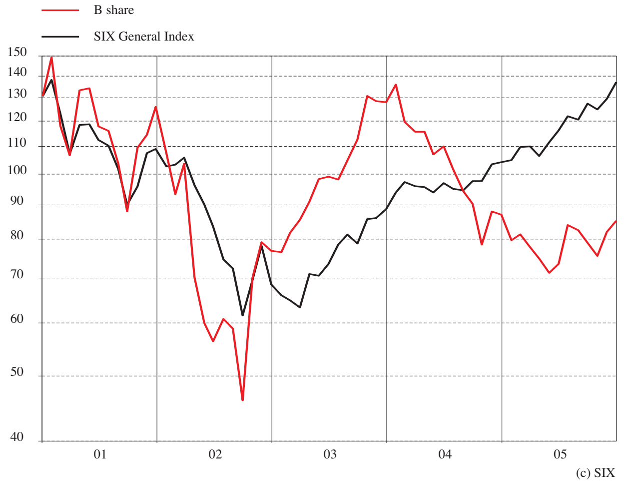
The total acreage is 7,373 hectares, of which 665 hectares are in Sweden. The business concentrates on crop and dairy farming, and all work is conducted in compliance with ecological principles. The Swedish farms are certificated in accordance with the ISO 14001 environmental management standard and the entire acreage is cultivated in accordance with ecological principles. In Poland, milk production is conducted using 630 dairy cows and 550 young stock.

A cold but stable winter, followed by a damp and cool spring and summer, created favorable growing conditions in Sweden and Poland. This led to an abundant harvest with generally satisfactory quality. However, sizeable stockpiles throughout Europe generally imposed pressure on prices during the entire year.

The price trend for ecologically cultivated volumes in Sweden, however, was favorable toward year-end. This was probably due to reduced supply as a result of a moderate harvest combined with rising exports.

In Poland, an unfavorable development of the currency, which strengthened against the euro, also restricted exports of grain and legumes as well as domestic trading, while at the same time the prices of necessities were not affected by the strengthened currency. As a result of the depressed price situation on the market, much of the 2005 harvest was stored pending an expected price upturn during the first half of 2006.


*Harvest of maize silage in Barciany, Poland.*




*Tele2's share price during 2001-2005.*

**TELE2 (28.3% of share capital, 49.8% of voting rights)**

On 31 December 2005, the market value of Kinnevik's holding of Tele2 shares was SEK 10,666 million.

Tele2 provides products and services within fixed and mobile telephony, broadband and cable TV. Tele2 has more than 30 million customers in 23 countries.

Tele2's efforts to offer cheap and simple telecom services throughout Europe are characterized by:

– Flexibility: Tele2 is positioned close to customers needs and are fast-acting.

– Openness: Tele2 is hallmarked throughout by unity, direct decisions and a simple organization.

– Cost awareness: Tele2 is thrifty, invests as late as possible and questions all of its costs.

Tele2 has successfully challenged the old telecom monopolies in Europe by offering households telecom services at the market's lowest prices.

During 2005, Tele2 expanded within the broadband/ADSL segment, by acquiring Versatel of the Netherlands and Comunitel of Spain. The acquisition of Versatel makes Tele2 the largest alternative operator in the Netherlands and Belgium. The acquisition provides Tele2 with new opportunities, when the existing customer base and market expertise are combined with Versatel's network and strong position in the corporate market.

In September, Tele2 acquired Comunitel, which has its own extensive ADSL network and occupies a strong position in the corporate market in Spain. A service that combines fixed telephony with ADSL was launched in November. Following the acquisition of Comunitel, Tele2 is the third largest alternative operator in Spain.

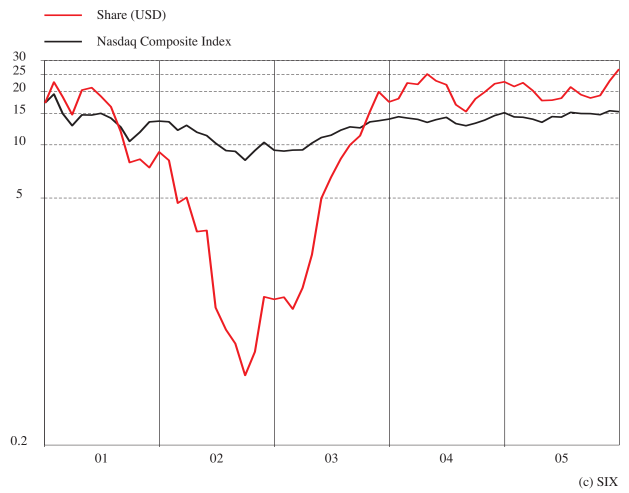
During 2005, Tele2 was the fastest growing mobile operator in Russia, only 2.5 years after the launch of the first GSM network in Irkutsk. As a result of a successful launch of GSM services in another region, Veronezh, and the acquisition of a GSM license in Lipetsk, Tele2's mobile licenses now cover 34.4 million people. In Russia, Tele2's customer base grew by more than 100% during the year and the company is currently the fifth largest mobile operator.

During autumn 2005, a mobile network was launched with great success in Croatia, based on much lower prices compared with existing competitors in the market for mobile services.

Tele2 shares are listed on the Stockholm Stock Exchange's O List, in the Attract 40 segment.

| **Key ratios** | **2005** | 2004 |
|---|---|---|
| SEK million | | |
| Revenue | **49,943** | 43,033 |
| Operating profit | **3,510** | 4,318 |
| Net profit | **2,341** | 3,428 |
| Number of customers per 31 Dec. (million) | **30.3** | 27.8 |

*Tele2's mission is to provide cheap and simple telecom.*



*Millicom's share price during 2001-2005.*

**Millicom (38.2% of capital and votes)**
The market value of Kinnevik's holding of shares in Millicom amounted to SEK 8,078 million on 31 December 2005.

Millicom provides affordable, widely accessible and readily available pre-paid cellular telephony services to all market segments in 16 countries in Latin America, Africa and Asia, which together represent a market of 392 million people.

On 31 December 2005 the total number of subscribers to Millicom's cellular services was 8.9 million (7.7), which is an increase of 16% over the preceding 12-month period. On a pro forma basis, exclusive Vietnam and inclusive Honduras, the subscriber base was 8.9 (5.8) million, which was an increase of 52%. This high intake of subscribers was the result of Millicom's substantial level of investment in the business in 2004, at a time when mobile penetration rates were taking off in all of its markets.

In 2005 Millicom increased its footprint in Africa with the acquisition in September of Oasis, a GSM operation in the Democratic Republic of Congo, from Orascom Telecom Holding SAE. This acquisition brought Millicom's population under coverage in Africa to 146 million across seven countries.

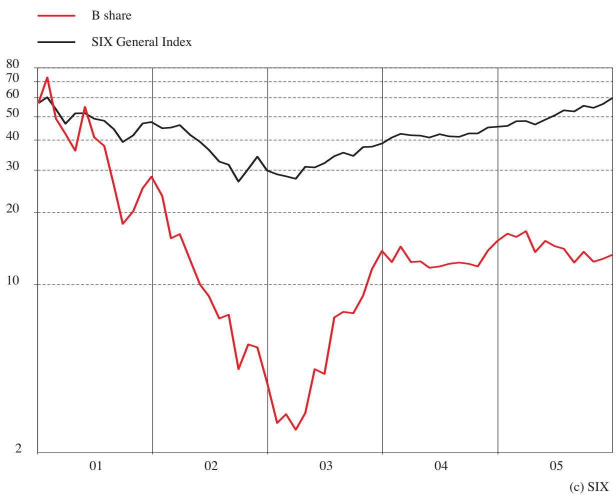
Following the roll out of Millicom's very successful GSM brand 'Tigo' across Latin America in 2004, Millicom also launched the Tigo brand in Chad and Bolivia in 2005.

All of Millicom's 16 businesses operate GSM networks at the end of 2005.

Millicom's shares are listed on Nasdaq in New York and the Attract 40 List of the Stockholm Stock Exchange.

| **Key ratios** | **2005** | 2004 |
|---|---|---|
| USD million | | |
| Revenue | **1,084** | 917 |
| Operating profit | **193** | 247 |
| Net profit | **10** | 66 |
| Number of subscribers per 31 Dec. (million) | **8.9** | 7.7 |

*A sales and customer care center in El Salvador.*




*Metro's share price during 2001-2005.*

**Metro (40.2% of capital, 36.6% votes)**
The market value of Kinnevik's holding of shares in Metro amounted to SEK 2,815 million on 31 December 2005.

Metro is the world's largest and fastest growing international newspaper. 61 Metro editions are published in 88 major cities in 19 countries in 18 languages across Europe, North & South America and Asia. This includes three franchises newspapers: two in South Korea and one in Russia. The newspapers are distributed free of charge, with income being generated almost exclusively from sales of advertising space.

In 2005, Metro expanded its business significantly through circulation increases in a number of established countries notably in Sweden, Finland and Hungary. Moreover, Metro launched no less than 16 new editions: five in Italy, three in Spain, two in France as well as the Porto and Amsterdam editions. Vancouver and Ottawa editions were launched in equal partnership with CanWest Global Communications Corporation and Torstar Corporation. In July, Metro signed a franchise agreement with the most read newspaper in St Petersburg with an option to acquire 51% of the business at later stage. The newspaper was successfully rebranded into Metro this autumn. In October, the Dublin edition was launched in partnership with Associated Newspapers Limited and The Irish Times Limited.

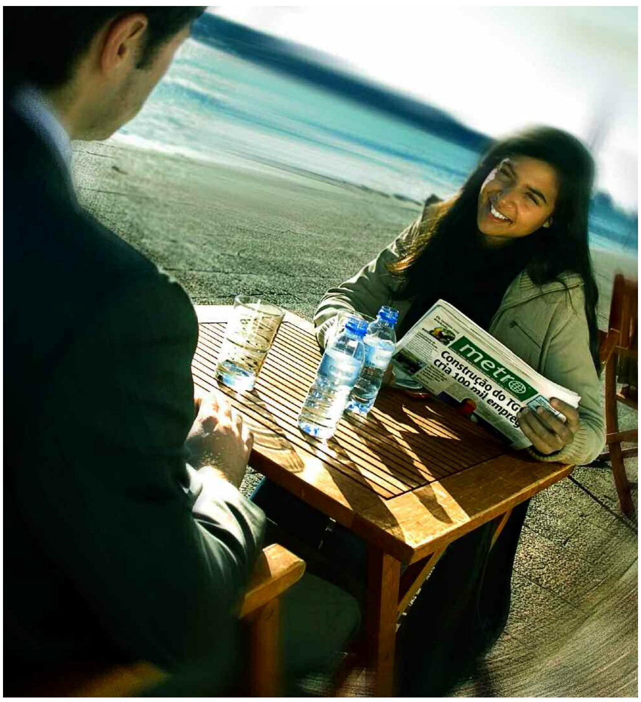
According to the global readership survey conducted by leading independent research company TNS, Metro global readership increased by 22% year on year. This reaffirms Metro's unique global reach – attracting a young, active, well-educated Metropolitan audience of 18.5 million daily readers and more than 37 million weekly readers. Metro has an equal number of male and female readers and 70% are under the age of 45 (TNS Global Survey, November 2005).

Metro's multinational advertising sales continued to grow. High profile deals completed this year includes campaigns for Nokia, Buena Vista and Indesit. Metro's recent work with British Airways was, for the second year running, named best travel and leisure advertising campaign at the international Media & Marketing awards.

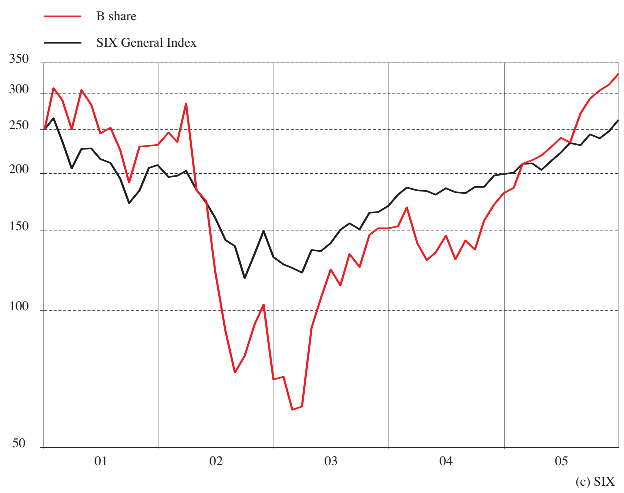
Other significant events that occurred in 2005 includes the sale of a 49% minority interest in Metro Boston to The New York Times Company for USD 15.9 million profit and the launch of several online businesses in the Nordics.

Metro's shares are listed on Stockholm Stock Exchange's O-List.

| **Key ratios** | **2005** | 2004 |
|---|---|---|
| USD million | | |
| Revenue | **360** | 302 |
| Operating loss | **– 3** | – 8 |
| Net loss | **– 7** | – 9 |
| Daily readership (million) | **18.5** | 15.2 |




*Metro is published in 61 editions in 19 countries and reaches more than 18.5 million number of daily readers.*




*MTG's share price during 2001-2005.*

**MTG (15.0% of share capital, 47.7% of voting rights)**
MTG is a leading international media company with TV broadcasting operations in more than 21 European countries. MTG is the largest free-to-air and pay-TV operator in the Nordic region and the Baltic countries, the largest shareholder in Russia's largest independent TV broadcaster - CTC Media Inc., and the largest commercial radio operator in the Nordic region. Viasat Broadcasting is the business area for all of MTG's TV operations. Viasat's channels and packages now reach 86 million TV viewers every day in markets with a combined total population of over 365 million. MTG's geographical expansion, which started in the Baltic countries ten years ago with the launch of TV3, continued in 2005 with the acquisition of 50% of Czech TV channel TV Prima. TV Prima is one of two commercial TV channels available in the Czech Republic and is also MTG's fourth free-to-air (advertising supported) broadcasting business outside the Nordic and Baltic regions. MTG also owns 43.1% of CTC Media in Russia, 100 % of DTV in Russia and 95% of Viasat3 in Hungary. An additional six countries started to broadcast Viasat's pay-TV channels in Central and Eastern Europe during the year and Viasat's mini-pay business had attracted 11.5 million subscribers through third party cable networks by the end of the year. The switch-off of the analogue terrestrial network in Sweden started in three cities in 2005, and TV3, ZTV and TV8 consequently increased their market penetration among Swedish TV households. The switch-off is expected to be completed by February 2008 and MTG's objective is that TV3 will be Sweden's largest commercial TV channel by 2009.

MTG also launched Viasat+ in 2005, which is a revolutionary new PVR (Personal Video Recorder) service. Viasat+ is a satellite receiver and digital video recorder in one box. The new service is integrated with Viasat's Electronic Programme Guide (EPG) and enables Viasat's pay-TV subscribers to easily record and store up to 60 hours of TV entertainment. Viewers can also pause, or even rewind, live broadcasts and can easily record entire TV series or different programs from a certain genre.

MTG also signed an agreement in 2005, which would increase its shareholding in the Bet24 gaming company to 90%. Bet24.com offers its members the opportunity to bet on the results of sporting events, many of which are broadcast live on Viasat's sports channels, and to play poker and casino games. The shareholding in Bet24 provides MTG with considerable exposure to the fast-growing gambling market in Scandinavia and other parts of Europe.

The MTG Group also includes several TV and movie production companies, the largest e-commerce site for entertainment products in the Nordic region – CDON.com, and TV-Shop, which offers direct sales via TV to about 100 million households in Europe.

MTG shares are listed on the Stockholm Stock Exchange's O List, in the Attract 40 segment.

| **Key ratios** | **2005** | 2004 |
|---|---|---|
| SEK million | | |
| Revenue | **8,012** | 6,805 |
| Operating profit | **1,285** | 1,058 |
| Net profit | **1,237** | 746 |

*During the year MTG launched Viasat+, a revolutionary new PVR (Personal Video Recorder) service.*


*Transcom's share price during 2001-2005.*

**Transcom (17.4% of capital, 34.8% of votes)**
The market value of Kinnevik's shares in Transcom amounted to SEK 827 million on 31 December 2005.

Transcom is Europe's largest outsourced Customer Relationship Management (CRM) and Credit Management Solutions (CMS) provider in terms of geographic footprint, and continues to outpace the industry average in growth. Today Transcom operates 47 facilities in 26 countries with more than 12,000 employees, conducting support on behalf of its clients in 33 languages. Transcom provides customer support solutions for companies in such sectors as telecommunications and e-commerce, travel and tourism, retail, financial services and utilities.

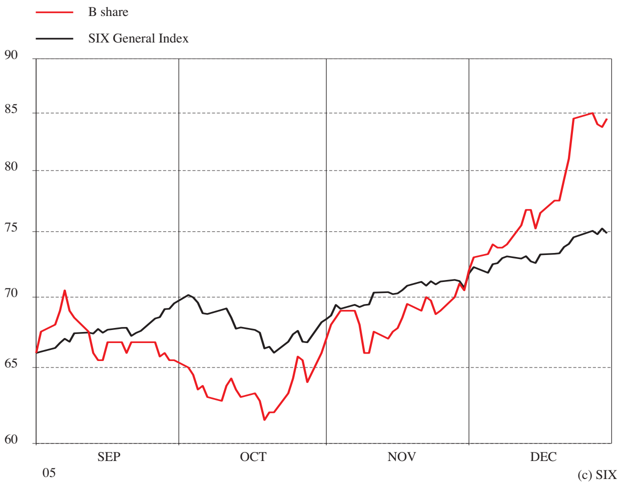
During the year, Transcom opened new contact centers in Tunisia, Croatia, and Spain, and acquired the Czech debt collection company Creditexpress. Several important companies chose Transcom as their supplier this past year, including Delta Air Lines, e-Bay, and Fortis.

Transcom continued in 2005 to focus on increased organic growth within debt collection and now has debt collection operations in 11 countries. Consequently, Transcom is the second most geographically diversified debt-collection company in Europe.

Transcom's shares are listed on Stockholm Stock Exchange's O-List.

| **Key ratios** | **2005** | 2004 |
|---|---|---|
| Euro million | | |
| Revenue | **445** | 370 |
| Operating profit | **33** | 20 |
| Net profit | **25** | 12 |
| Number of employees | **11,700** | 9,900 |


*Transcom operates 47 facilities in 26 countries.*




*Invik's share price during 2005.*

**Invik**

Kinnevik holds convertible debentures in Invik totaling SEK 235 million, which can be converted into 4,519,230 shares corresponding to 14.6% of the share capital and a maximum of 25.0% of the voting rights in Invik. Conversion will be possible as of 1 December 2006 through 30 November 2011.

Invik is active within selected segments of the financial sector in which the Invik Group can create healthy growth and build profitable operations. The Invik Group consists of companies that focus on insurance, banking, fund management, asset management and securities trading. What the Invik companies have in common is that they are endeavoring to increase their market share within selected growth segments, which provides a platform for rapid profitable growth.

In 2005, the Invik companies developed well and strengthened their market shares in several segments:

- Moderna Försäkringar Liv sharply increased the total capital inflow for single-premium and recurring contracts from SEK 420 million in 2004 to SEK 1,645 million in 2005.
- Moderna Försäkringar Sak maintained its leading market position within the boat and MC insurance segments and established a position as the largest supplier of product insurance in the Nordic region during 2005.
- During the year, Banque Invik expanded its asset management operations through the launch of Banque Invik Asset Management in Luxembourg and Banque Invik Kapitalförvaltning in Sweden.
- Fischer Partners has expanded in recent years and was ranked in 2005 as the fourth largest exchange member in Stockholm.
- Aktie-Ansvar's successes within fund management continued during 2005, with a healthy yield and increased flows of capital. During 2005, the assets managed rose by 68% to SEK 7,422 million at year-end.

Invik shares are listed on the Stockholm Stock Exchange's O-List.

| **Key ratios** | **2005** | 2004 |
|---|---|---|
| SEK million | | |
| Revenue | **1,733** | 1,356 |
| Operating profit | **253** | 164 |
| Net profit | **183** | 113 |
| Total assets 31 Dec. | **12,320** | 6,847 |

*Invik is a finance group with a broad product profile focusing on asset management, securities trading, banking and insurance.*

# Definitions of financial key ratios

**Operating margin**
Operating income divided by revenue.

**Profit margin**
Income after financial items divided by revenue.

**Capital employed**
Total assets less non-interest-bearing liabilities less deferred tax liability.

**Return on capital employed**
Income after financial items plus interest expense divided by average capital employed.

**Return on shareholders' equity**
Net profit divided by average shareholders' equity.

**Equity/assets ratio**
Shareholders' equity, including minority holding as a percentage of total assets.

**Net debt**
Interest-bearing liabilities including provisions for pensions less total interest-bearing receivables, short-term investments and cash and cash equivalents.

**Debt/equity ratio**
Interest-bearing liabilities including interest-bearing provisions divided by shareholders' equity.

**Risk capital ratio**
Shareholders' equity including minority interest in shareholders' equity and deferred tax liability divided by total assets.

**Average number of shares**
Balanced average of number of shares outstanding during the year, adjusted for share issues, splits and buybacks.

**Earnings per share**
Income for the year divided by average number of shares.

**Shareholders' equity per share**
Shareholders' equity divided by number of shares.

**Market price**
Market price at 31 December adjusted for share issues and splits.

**Dividend per share**
Proposed dividend per share adjusted for share issues and splits.

**Direct return**
Dividend divided by market price at 31 December.

**P/E ratio**
Market price at 31 December divided by earnings per share.

**Operational capital employed**
For Invik and its areas of operations, this refers to average net assets (assets after deductions for liabilities). For other areas of operation, this refers to the average of intangible and tangible fixed assets, investment in companies accounted for using the equity method, inventory and current non interest-bearing receivables after deductions for other provisions and short-term non interest-bearing liabilities.

**Return on operational capital employed**
Operating income divided by average operational capital employed.

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