

# Investment AB Kinnervik

Skippsturen 18  
P.O. Box 2094  
SE-103 13 Stockholm Sweden  
[www.kinnervik.se](http://www.kinnervik.se)



Publ. Reg. no. 556047-9742  
Phone +46 8 562 000 00  
Fax +46 8 20 37 74

## INTERIM REPORT 2006 1 JANUARY – 30 SEPTEMBER

- The market value of the Group's holdings of listed securities increased by 7% during the first nine months of the year, equal to SEK 1,848 million including dividends received from Tele2 and Transcom totaling SEK 260 million. On 30 September 2006 the market value of the listed share portfolio amounted to SEK 27,319 million.
- Revenue for the wholly owned Korsnäs Industrial increased compared to prior year from SEK 2,873 million to SEK 3,940 million during the first nine months 2006, of which revenue for the recently acquired Korsnäs Frövi amounted to SEK 828 million from the date of consolidation on 1 June 2006. The operating profit for Korsnäs Industrial increased from SEK 299 million to SEK 616 million, of which Korsnäs Frövi is included with SEK 95 million. The operating profit for the first nine months of 2005 was adversely affected by approximately SEK 185 million by the rebuild of Paper Machine 4 and extended maintenance stoppage.
- Korsnäs' integration work pertaining to the acquisition of Frövi continues according to plan. The goal to achieve synergy effects of at least SEK 150 million annually remains. In order to realize the synergies, the company today estimates that restructuring costs of about SEK 150 million will be charged against income in the fourth quarter of 2006 and first half of 2007.
- Revenue for the Group totaled SEK 4,538 million (3,419) and operating profit was SEK 602 million (302) for the reporting period.
- Including the increase in the fair value of financial assets and result from discontinued operations, the Group reported a profit after tax of SEK 2,357 million (632) for the first nine months of the year.
- The profit per share for continuing operations was SEK 8.97 (2.10).

## MANAGEMENT

The market value of the Group's holdings of listed securities increased by 7% during the first nine months of the year, equal to SEK 1,848 million including dividends received from Tele2 and Transcom WorldWide ("Transcom") totaling SEK 260 million. On 30 September 2006 the market value of the listed share portfolio amounted to SEK 27,319 million. On 20 October the corresponding amount was SEK 28,636 million. The change in value is shown in the consolidated income statement.

Since 1976, the Kinnevik share has generated an average total 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 has provided an average total return of 24.0% annually. The calculation of the total return is based on the assumption that shareholders retained their allotment of shares in Tele2, Modern Times Group ("MTG"), Metro International ("Metro"), Transcom and Invik & Co. ("Invik").

## SIGNIFICANT EVENTS DURING THE THIRD QUARTER

On 3 July, Kinnevik announced that the Company, as the majority shareholder in Millicom International Cellular ("Millicom"), supports the decision of the Millicom Board to finalize the company's strategic review that did not result in a sale

## BOOK AND MARKET VALUE OF ASSETS

	A shares	B shares	Equity interest (%)	Voting interest (%)	Book value 30 Sept 2006 (SEK m)	Market value 30 Sept 2006 (SEK m)	Change since 31 Dec 2005 <sup>1)</sup>
<b>Listed holdings</b>							
Tele2	25,830,229	99,651,296	28.2	45.3	9,286	9,286	- 11%
Millicom International Cellular	37,835,438		37.7	37.7	11,294	11,294	40%
Metro International	103,408,699	129,138,208	44.2	39.2	2,070	2,070	- 33%
Modern Times Group MTG	9,821,336	113,675	14.9	47.6	3,760	3,760	21%
Transcom WorldWide	12,627,543		17.4	34.7	909	909	15%
<b>Total listed holdings</b>					<u>27,319</u>	<u>27,319</u>	<u>7%</u>
<b>Unlisted and other holdings</b>							
Korsnäs Industrial and Forestry <sup>2)</sup>			100	100	7,229	11,368 <sup>4)</sup>	
Mellersta Sveriges Lantbruk <sup>3)</sup>			100	100	315	350	
Invik convertible, option element					327	327	
Other assets and liabilities					- 5	0	
<b>Total unlisted holdings</b>					<u>7,866</u>	<u>12,045</u>	
Interest bearing net debt including convertible loan in Invik					- 9,940	- 9,940	
<b>Total equity / net asset value</b>					<u>25,245</u>	<u>29,424</u>	
<b>Net asset value per share, SEK</b>						111.5	
<b>Closing price B share 30 September 2006, SEK</b>						86.0	
<b>Net asset value discount</b>						23%	

<sup>1)</sup> Including dividends received.

<sup>2)</sup> Including 5% of the shares in Bergvik Skog and 41% of the shares in Karskär Energi.

<sup>3)</sup> Including 22% of the shares in Black Earth Farming.

<sup>4)</sup> Consensus among analysts covering Kinnevik.

of the company. Millicom's decision was caused by the Board's assessment that the potential purchaser with whom Millicom had conducted discussions since May could not offer a binding and sufficiently attractive offer in a reasonable time limit, given Millicom's positive development. Millicom's share price has from 18 January, the date before announcement of the strategic review, until 20 October increased by 58% from USD 27.9 to USD 44.2.

On 1 August Mia Brunell became the new President and Chief Executive Officer of Kinnevik. Mia Brunell succeeded Vigo Carlund, who retired after 37 years with the group, of which seven years as President and CEO of Kinnevik. Vigo Carlund was elected to the Board of Directors of Kinnevik at the Annual General Meeting in May 2006 and has participated in the work of the Board of Directors from 1 August.

#### **CONSOLIDATED RESULT FOR THE THIRD QUARTER**

Total revenues for the third quarter of the year amounted to SEK 1,831 million, compared with SEK 1,140 million in the year-earlier period, of which Korsnäs Frövi accounted for SEK 626 million in the current year.

Operating profit amounted to SEK 299 million (170). Korsnäs Frövi's operating profit for the third quarter of 2006 was SEK 99 million and was negatively impacted by SEK 6 million in cost of goods sold due to inventory being reported at fair value in the purchase price allocation at acquisition. An arbitration loss with regard to production tax on electricity supplied to Korsnäs in 1996 was charged against operating profit in the amount of SEK 14 million during the third quarter of 2006.

Dividends received in the amount of SEK 225 million represents 20.9 million shares in Metro, which were received from MTG. The dividend was reported at share market value on 1 August, which was the date on which the shares were received.

The net change in the fair value of financial assets and dividends received amounted to an overall decrease of SEK 1,471 million (increase of 1,246), of which Tele2 accounted for an increase of SEK 157 million (increase of 690), Millicom a decrease of SEK 1,003 million (decrease of 74), Metro a decrease of SEK 558 million (decrease of 117), MTG an

increase of SEK 31 million (increase of 522), Transcom a decrease of SEK 92 million (increase of 179) and convertibles in Invik an increase of SEK 42 million (increase of 37).

Other financial income and expenses amounted to a net expense of SEK 109 million (expense of 49), of which net interest expenses were SEK 108 million (expense of 42) and exchange-rate differences were a loss of SEK 1 million (0). The reduced net interest was due to increased loans at the acquisition of Frövi and results for the third quarter being charged with approximately SEK 20 million in interest expenses as a result of the arbitration loss with regard to production tax on electricity within Korsnäs.

The Group reported a loss after financial items of SEK 1,281 million (profit of 1,367).

#### **CONSOLIDATED RESULT FOR THE FIRST NINE MONTHS OF THE YEAR**

Total revenues for the first nine months of the year amounted to SEK 4,538 million, compared with SEK 3,419 million in the year-earlier period. Korsnäs Frövi is included in this year's revenues with SEK 828 million from the time the company was included in the Group on 1 June.

Operating profit amounted to SEK 602 million (302). Korsnäs Frövi's operating profit amounted to SEK 95 million for the period 1 June to 30 September and was negatively impacted by SEK 29 million in cost of goods sold due to inventory being reported at fair value in the purchase price allocation at acquisition. The operating profit for the first nine months of 2005 was adversely affected by approximately SEK 185 million by the rebuild of Paper Machine 4 and extended maintenance stoppage.

The net change in the fair value of financial assets and dividends received amounted to an overall increase of SEK 2,102 million (increase of 656), of which Tele2 accounted for a decrease of SEK 1,160 million (decrease of 408), Millicom an increase of SEK 3,216 million (decrease of 216), Metro a decrease of SEK 971 million (decrease of 318), MTG an increase of SEK 692 million (increase of 1,103), Transcom an increase of SEK 122 million (increase of 385) and convertibles in Invik an increase of SEK 228 million (increase of 37).

Other financial income and expenses amounted

to a net expense of SEK 232 million (expense of 171), of which net interest expenses were SEK 219 million (expense of 146) and exchange rate differences were a loss of SEK 2 million (loss of 7).

The Group reported a profit after financial items of SEK 2,472 million (787).

The Group reported a tax expense of SEK 103 million (233). In comparable figures for 2005, earnings have been charged with SEK 205 million in tax expenses attributable to the outcome of tax disputes related to previous years.

Due to the fact that Invik was spun off to Kinnevik's shareholders and Korsnäs Packaging was divested, Invik and Korsnäs Packaging are reported in the consolidated income statement as Net profit/loss from discontinued operations. Invik is included in comparative figures through to the date of the spin-off, 31 August 2005, and Korsnäs Packaging is included to the date the divestment was finalized, 31 May 2006. The result from discontinued operations amounted to a loss of SEK 12 million (profit of 78), of which SEK 0 million (profit of 108) in Invik and a loss of SEK 12 million (loss of 30) in Korsnäs Packaging.

#### EARNINGS PER SHARE

Earnings per share from continuing operations was SEK 8.97 (2.10) for the first nine months of the year. The total number of shares outstanding at 30 September 2006 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 available liquidity, including short-term investments and unutilized credit facilities, totaled SEK 795 million at 30 September 2006 and SEK 699 million at 31 December 2005.

The Group's interest-bearing net debt amounted to SEK 9,940 million at 30 September 2006 and SEK 7,249 million at 31 December 2005. The change was attributable mainly to the acquisition of Frövi, the divestment of Korsnäs Packaging and dividends paid and received.

The average interest cost for the first nine months of the year amounted to 3.3% (2.8%) (calculated as interest expense in relation to average interest-bearing liabilities). All loans have fixed interest term of no longer than three months.

The Group's cash flow from operations amount-

ed to SEK 1,001 million (negative 158) for the first nine months of the year. The change compared with 2005 is mainly attributable to increase in profit within Korsnäs Industrial, SEK 317 million, a positive change in working capital, SEK 410 million, and decrease in paid taxes, SEK 344 million.

Of the acquisition of subsidiaries for SEK 3,637 million, SEK 3,635 million is the purchase price paid for Frövi (net after cash received totalling SEK 34 million). The payment received from the sale of Korsnäs Packaging, amounted to SEK 601 million (net after deduction of the company's cash balance of SEK 56 million).

Investments in and sales of financial fixed assets are shown in the tables below.

<b>Investments in securities</b>	<b>Amount (SEK Number million)</b>	
<b>1 Jan – 30 Sept 2006</b>		
Black Earth Farming Ltd	9,120,000	106
Relevant Traffic Europe AB	81,124	<u>28</u>
		134
<b>1 Jan – 30 Sept 2005</b>		
Metro A	100,000	2
Millicom convertible	35,000,000	235
Millicom shares	1,616,940	219
Transcom A	687,300	<u>26</u>
		482
<b>Sales of securities</b>	<b>Amount (SEK Number million)</b>	
<b>1 Jan – 30 Sept 2006</b>		
Viking Telecom	1,615,000	<u>3</u>
		3
<b>1 Jan – 30 Sept 2005</b>		
Acando	2,127,580	17
Cherryföretagen	8,780,749	218
Metro B	100,000	2
Millicom convertible	35,000,000	219
Transcom B	687,300	<u>27</u>
		483

Investments in tangible fixed assets amounted to SEK 137 million (421) for the first nine months of the year. The decrease compared with the year-earlier is the result of the upgrading of Paper Machine 4, which was implemented in conjunction with a prolonged maintenance stoppage during the first six months of 2005. This year's maintenance stoppage at Korsnäs will be implemented during the

fourth quarter of the year.

The Group's equity/assets ratio was 65% at 30 September 2006 compared to 70% at 31 December 2005.

The Group's borrowing is primarily arranged in SEK. On an annual basis, the net flow in foreign currencies is a net inflow of about SEK 1,000 million, comprised mainly of Korsnäs Industrial's sales in Euro.

## **KORSNÄS**

Subsequent to the acquisition of Frövi and the finalization of the divestment of Korsnäs Packaging in May 2006, Korsnäs and its subsidiaries conduct operations in the packaging material sector (Korsnäs Industrial) at the two mills, Korsnäs Gävle and Korsnäs Frövi, and the purchase of wood and fiber (Korsnäs Forestry). Korsnäs also owns 5% of the shares in Bergvik Skog and 41% of the shares in Karskär Energi. The transactions finalized during the second quarter emphasized Korsnäs' strategy of focusing on its successful operations in highly processed cartonboard and paper products for the packaging industry.

On a pro forma basis, if Frövi had been acquired and Korsnäs Packaging divested already before 2005, total revenues for Korsnäs amounted to SEK 5,435 million (5,090) and operating profit to SEK 794 million (559) for the first nine months of the year. The operating profit for the first nine months of 2005 was adversely affected by approximately SEK 185 million by the rebuild of Paper Machine 4 and extended maintenance stoppage.

### **Korsnäs Industrial**

The first nine months of the year were characterized by stronger demand compared with the year-earlier period. Delivery volumes for paper, pulp and board products increased by 3% to 791 thousand tons for Korsnäs Gävle and Korsnäs Frövi in total. During the period, demand for Liquid Packaging Board was normal, with increasing volumes compared with the corresponding period in 2005. The market for White Top Liner has improved slightly and Korsnäs was able to secure its market position in Europe. The trend for folding cartonboard has been positive, with increased volumes during the period. The market for sack and kraft paper was flat with stable prices and Korsnäs' volumes of white paper increased in line with the strategy following

closure of production of fluff pulp in April. Compared with 2005, the intended changes of the product portfolio for Korsnäs Gävle, from unbleached paper and fluff pulp to increased portion of highly processed board products and white sack and kraft paper, have now been realized.

During the first nine months, production amounted to 816 thousand tons, which is 8% higher than for the year-earlier period. This represents an overall production record for all board and paper machines at Korsnäs Gävle and Korsnäs Frövi. The primary reasons for the increase in production are investments in Board Machine 5 at Korsnäs Frövi during the autumn of 2005 and the upgrade of Paper Machine 4 during the spring of 2005. In the fourth quarter, equipment for back coating will be installed in Board Machine 5 at a cost of approximately SEK 100 million during a two-week long maintenance stoppage at Korsnäs Frövi. At Korsnäs Gävle, during a one-week maintenance stoppage, a new headbox will be installed at a cost of approximately SEK 50 million in Paper Machine 2 to further enhance the quality of the machine's demanding bleached products.

Integration work pertaining to the acquisition of Frövi continues according to plan. The goal to achieve synergy effects of at least SEK 150 million annually remains. In order to realize the synergies, the company today estimates that restructuring costs of about SEK 150 million will be charged against income in the fourth quarter of 2006 and first half of 2007.

During the first nine months of the year, total revenue for Korsnäs Industrial amounted to SEK 3,940 million (2,873), of which Korsnäs Frövi's sales amounted to SEK 828 million from the date the company was consolidated on 1 June 2006. Operating profit for Korsnäs Industrial amounted to SEK 616 million (299) of which Korsnäs Frövi is included with SEK 95 million. Korsnäs Frövi's operating profit for the period June – September was negatively impacted by SEK 29 million as a result of higher cost for goods sold regarding inventories, which in the purchase price allocation prepared at time of acquisition of Frövi were reported above Frövi's production costs, see Appendix 1. The operating profit for the first nine months of 2005 was adversely affected by approximately SEK 185 million by the rebuild of Paper Machine 4 and extend-

ed maintenance stoppage. Significant cost increases for electricity, oil and oil-price-sensitive chemicals also had a negative influence on the profit for the first three quarters of 2006. In addition to increased market prices, energy prices were also negatively affected by a breakdown of one of the back-pressure aggregates belonging to the associated company Karskär Energi. SEK 14 million related to an arbitration loss pertaining to production tax on electricity in 1996 was charged against operating profit during the third quarter of 2006.

On a pro forma basis, if Frövi had been acquired already before 2005, total revenues for Korsnäs Industrial amounted to SEK 4,881 million (4,593) and operating profit to SEK 768 million (540) for the first nine months of the year.

### **Korsnäs Forestry**

During the third quarter, price-increase initiatives from the second quarter were implemented in newly signed contracts. In the part of the Swedish timber market where Korsnäs is active, prices for softwood pulpwood and spruce pulpwood, as well as spruce saw timber and pine saw timber increased, while prices for hardwood pulpwood remained unchanged. Korsnäs' contracts with Bergvik Skog and Sveaskog mean that the price increases will not fully influence Korsnäs' purchase prices until 2007. Prices in the Baltic region and Russia have begun to rise again following a price drop in the spring and early summer.

Within the Latvian company Sia Latgran, pellets production remains above the expected volume. Market prices for pellets and fuel wood chips continued to increase during the period.

During the first nine months of the year, Korsnäs Forestry's revenue amounted to SEK 1,377 million (1,258) and operating profit to SEK 26 million (19).

### **MELLERSTA SVERIGES LANTBRUK**

Due to the long, hot and dry summer, this year's harvest was the lowest in many years. The draught affected spring sown crops the hardest, where harvest levels were at 50-60% of the recent years' average harvest. In general, the autumn sown types coped somewhat better, which was probably due to an early vegetative development phase. In Poland, harvest levels in general declined even more than in Sweden.

In the European market, price levels have increased significantly since mid-year. The increase amounts to an entire 50% of certain types. This relationship has led to the EU commission deciding to sell part of the intervention stock that is in Europe. The main portion of this will be sold on the internal European market. Since this decision was made public, price increase rates have come to a standstill and leveled off at a price that is 40% above applicable intervention prices.

During the first nine months of the year, revenue for Mellersta Sveriges Lantbruk amounted to SEK 37 million (41) and operating profit was SEK 0 million (3), of which the share of loss in the Russian operations Black Earth Farming amounted to SEK 3 million (-).

### **NEW VENTURES**

#### **Black Earth Farming**

The investment in Black Earth Farming has developed favorably and the company currently has 90,000 hectares of arable land under its control. In principle, this means that the company has already fulfilled its long-term acquisition goal from spring 2006 to acquire 50,000 to 100,000 hectares of land. Since the price level of land is considered to continue to be attractive, the company is continuing to acquire land. Work to cultivate the land has already been started and during the autumn the first acreage was harvested and the harvest sold. The work with cultivating the land will be intensified in the time immediately ahead and the company intends to secure additional financing during the fourth quarter of 2006 for the continued expansion. The investment of 22% of the capital in Black Earth Farming is reported in the Mellersta Sveriges Lantbruk business area in Kinnevik's segment reporting.

#### **Relevant Traffic Europe**

In September, Kinnevik invested SEK 28 million in a new share issue in Relevant Traffic Europe AB. Following the new share issue, Kinnevik owns 36% of the votes and capital in the company and have options to later acquire additional shares from the company's other shareholders, so that Kinnevik's ownership will increase to 51%.

Relevant Traffic is a European full-service company within search marketing. The company has 40

employees in its offices in France, Spain, the UK and Sweden. Customers comprise everything from online retailers, banks and travel agencies to small niche companies striving to be available when their services or products are being sought on search engines or price comparison sites. Relevant Traffic's goal is to maximize their customers' yield on implemented marketing by providing relevant traffic, which includes search engines, contextual environments and price comparison sites. For the fiscal year that ended on 30 April 2006, sales for the Group amounted to SEK 52 million.

### **Kontakt East Holding**

After the end of the reporting period, Kinnevik purchased and subscribed for shares in a new share issue in Kontakt East Holding AB prior to its listing on First North in November. The investment will correspond to an ownership of just below 20% in the company. Kontakt East owns the search services company Yellow Pages Russia, YPR.

### **TELE2**

The market value of Kinnevik's shareholding in Tele2 amounted to SEK 9,286 million at 30 September 2006.

Tele2 provides products and services within fixed and mobile telephony, broadband and cable TV. Tele2 has 31 million customers in 22 countries.

During the third quarter, Tele2 established a joint ownership company, Plusnet, with German QSC, aimed at offering broadband services in Germany. Tele2 owns 32.5% of Plusnet and will be investing EUR 50 million to finance its expansion.

In July, Tele2 acquired four GSM operators in northwestern Russia for USD 35 million, on a debt-free basis.

On 3 October, Tele2 announced that it has reached an agreement to divest its French fixed and broadband businesses to SFR for approximately SEK 3.3 billion.

Tele2's shares are listed on the Stockholm Stock Exchange's Nordic list for large-cap companies in the telecommunications services sector.

### **MILlicom INTERNATIONAL CELLULAR**

The market value of Kinnevik's shareholding in Millicom amounted to SEK 11,294 million on 30 September 2006.

Millicom provides affordable, widely accessible

and readily available pre-paid cellular telephony services to all market segments in 17 countries in Latin America, Africa and Asia, which together represent a market of 433 million people.

On 30 June, Millicom had 10.9 million subscribers in the countries in which it is active.

In August, Millicom acquired 50% and one vote in the Columbian mobile operator Colombia Movil S.A. E.S.P. for USD 125 million.

Millicom's shares are listed on NASDAQ in New York and the Stockholm Stock Exchange's Nordic list for large-cap companies in the telecommunications services sector.

### **METRO INTERNATIONAL**

The market value of Kinnevik's holding of shares in Metro amounted to SEK 2,070 million on 30 September 2006.

Metro is the world's largest and fastest growing international newspaper. 70 Metro editions are published in 93 major cities in 21 countries in 19 languages across Europe, North & South America and Asia. The newspapers are distributed free of charge, with income being generated almost exclusively from sales of advertising space.

In September, Metro divested its Finnish operations to Sanoma Corporation.

During the third quarter, Metro signed a strategic alliance agreement with Stampen AB, in order to jointly cover the market in the Gothenburg area. Stampen is one of the leading media groups in Sweden and publishes Gothenburg's largest daily, Göteborgsposten.

Metro's shares are listed on the Stockholm Stock Exchange's Nordic list for mid-cap companies in the consumer discretionary sector.

### **MODERN TIMES GROUP MTG**

The market value of Kinnevik's shareholding in MTG amounted to SEK 3,760 million on 30 September 2006.

MTG is an international entertainment-broadcasting group with operations in more than 30 countries around the world. MTG is the largest Free-to-air and Pay-TV operator in Scandinavia and the Baltics, the largest shareholder in Russia's largest independent television network CTC Media, and the number one commercial radio operator in the Nordic region. Viasat Broadcasting –

MTG's business area for all TV operations – transmits TV channels to 21 countries in Europe and reach 80 million people daily.

In September, Viasat Broadcasting announced that it was launching TV via broadband, IPTV, in Denmark. Viasat has concluded an agreement with the Danish broadband supplier Dansk Bredband, which means that customers can receive Viasat's pay-TV package via the broadband network.

During the third quarter, MTG submitted a bid for all outstanding shares in P4 Radio Hele Norge ASA. At the time of registration of the listing prospectus, MTG owned 97.1% of the share capital in Radio P4.

MTG's shares are listed on the Stockholm Stock Exchange's Nordic list for large-cap companies in the consumer discretionary sector.

### **TRANSCOM WORLDWIDE**

The market value of Kinnevik's shareholding in Transcom amounted to SEK 909 million on 30 September 2006.

Transcom is Europe's largest outsourced Customer Relationship Management (CRM) and Credit Management Solutions (CMS) provider in terms of geographic footprint. Transcom provides solutions in CRM and CMS for companies in such industries as telecommunications, electronic trading, travel and tourism, retail, financial services and in utilities.

During the third quarter, Transcom opened its second call center in Belgium.

In October, Transcom reached an agreement with Société Française du Radiotéléphone (SFR), for the supply of CRM services in France.

In October, Transcom also opened a new call center in Concepción, Chile. The new service center is Transcom's first in Latin America and initially will provide services to the Spanish market.

Transcom's shares are listed on the Stockholm Stock Exchange's Nordic list for mid-cap companies within the industrials sector.

### **INVIK & CO.**

Kinnevik holds convertible debt instruments in Invik with a nominal value of SEK 235 million, which may be converted to 4,519,230 shares corresponding to 14.6% of the capital and a maximum of 25.0% of the voting rights in Invik. Conversion may be carried out from 1 December 2006 through

30 November 2011. On 30 September 2006, the convertibles were valued at SEK 562 million in Kinnevik's accounts.

The Invik Group consists of companies focusing on insurance, banking and fund management. A common feature of the companies in the group is that they seek larger market shares in their selected growth segments, providing the basis for rapid growth with profitability.

In September, Invik Fonder launched a new hedge fund, which is a pledged version of the Graal hedge fund.

Invik's shares are listed on the Stockholm Stock Exchange's Nordic list for mid-cap companies within the financial and real estate sector.

### **PARENT COMPANY**

The Parent Company's revenue amounted to SEK 11 million (9) for the first nine months of the year and administrative expenses totaled SEK 56 million (40). Administrative expenses for the first nine months of 2006 include provision for remuneration of the Company's former President in the amount of SEK 26 million. The provision has been reported in connection with the President announcing in March that he intended to step down as of 1 August and subsequently is entitled to 60% of his fixed salary on that date up to the age of 65.

Dividends received amounted to SEK 328 million (462) and the change in fair value of financial assets amounted to SEK 228 million (37) referring to convertibles in Invik. The net of other financial income and expenses was income of SEK 49 million (7).

The Parent Company's profit after financial items was SEK 561 million (476).

Investments in tangible fixed assets amounted to SEK 1 million (1).

The Parent Company's liquidity, including short-term investments and unutilized credit facilities totaled SEK 394 million at 30 September 2006 and SEK 364 million at 31 December 2005.

The Parent Company's interest-bearing external liabilities amounted to SEK 4,525 million as of 30 September 2006 and SEK 4,620 million as per 31 December 2005.

### **ACCOUNTING PRINCIPLES**

In preparing the consolidated financial statements, International Financial Reporting Standards (IFRS), as adopted by the EU, are applied from 2005. This

report has been prepared in accordance with the Annual Accounts Act and IAS 34 Interim Financial Reporting in accordance with the requirements imposed by recommendation RR 31, Interim reports for corporate groups, of the Swedish Financial Accounting Standards Council.

The accounting principles applied in this report are similar to those described in the annual report for 2005, with the exception of the valuation of financial assets at fair value through profit and loss in the Parent Company's financial statements. These were earlier reported at cost. As in the past, shares and participations in listed associated companies are reported at acquisition value in the Parent Company's financial statements.

#### **KINNEVIK ANNUAL GENERAL MEETING 2007**

The 2007 Annual General Meeting will be held on 10 May 2007 in Stockholm.

Shareholders wishing to have a matter considered at the Annual General Meeting should submit their proposals in writing to [agm@kinnevik.se](mailto:agm@kinnevik.se) or to The Company Secretary, Investment AB Kinnevik, Box 2094, SE-103 13 Stockholm, Sweden, at least seven weeks before the Annual General Meeting in order to guarantee that the proposal may be included in the notice to the meeting.

Further details on how and when to register will be published in advance of the Annual General Meeting.

#### **NOMINATION COMMITTEE FOR THE 2007 ANNUAL GENERAL MEETING**

A Nomination Committee of major shareholders in Kinnevik has been convened in accordance with the resolution of the 2006 Annual General Meeting. The Nomination Committee is comprised of Cristina Stenbeck on behalf Emesco AB and other shareholders; Wilhelm Klingspor on behalf of the Klingspor family; Mats Lagerqvist on behalf of Robur Fonder; and Tomas Nicolin on behalf of Alecta, who together represent more than 50% of the voting rights in Kinnevik. The composition of the Nomination Committee may be changed to reflect any changes in the shareholdings of the major shareholders during the nomination process. Information about the work of the Nomination Committee can be found on Kinnevik's corporate

website at [www.kinnevik.se](http://www.kinnevik.se).

The Nomination Committee will submit a proposal for the composition of the Board of Directors, remuneration for the Board of Directors and the auditor and proposal on the Chairman of the Annual General Meeting of 2007 that will be presented to the 2007 Annual General Meeting for approval.

Shareholders wishing to propose candidates for election to the Board of Directors of Kinnevik should submit their proposals in writing to [agm@kinnevik.se](mailto:agm@kinnevik.se) or to The Company Secretary, Investment AB Kinnevik, Box 2094, SE-103 13 Stockholm, Sweden.

#### **FINANCIAL REPORTS**

The preliminary publication date for the year-end release for 2006 is 19 February 2007.

Stockholm, 23 October 2006

President and Chief Executive Officer

This interim report has not been subject to specific review by the Company's auditors.

#### **FOR FURTHER INFORMATION, PLEASE VISIT WWW.KINNEVIK.SE OR CONTACT:**

Mia Brunell, President and Chief Executive Officer  
tel +46 (0) 8 562 000 00

Henrik Persson, Information and Investor Relations  
tel +46 (0) 8 562 000 87, mobile +46 (0) 70 762 00 87

*Investment AB Kinnevik's objective is to increase shareholder value, primarily through net asset value growth. The Parent Company manages a portfolio of long-term investments in a number of listed companies such as Tele2, Modern Times Group MTG, Millicom International Cellular, Metro International, Transcom WorldWide and Invik. Kinnevik plays an active role on the Boards of its listed holdings.*

*The Company's subsidiaries are principally active in cartonboard and paper production through Korsnäs, and farming through Mellersta Sveriges Lantbruk.*

*Investment AB Kinnevik's class A and class B shares are listed on the Stockholm Stock Exchange's Nordic list for large-cap companies within the financial and real estate sector. The ticker codes are KINV A and KINV B.*

## CONDENSED CONSOLIDATED INCOME STATEMENT (SEK million)

	2006	2005	2006	2005	2005
	1 Jan -	1 Jan -	1 July -	1 July -	Full year
	30 Sept	30 Sept	30 Sept	30 Sept	
Revenue	4,538	3,419	1,831	1,140	4,618
Cost of goods and services	<u>- 3,706</u>	<u>- 2,951</u>	<u>- 1,441</u>	<u>- 894</u>	<u>- 4,085</u>
<b>Gross profit</b>	<b>832</b>	<b>468</b>	<b>390</b>	<b>246</b>	<b>533</b>
Selling, administration, research and development costs	- 299	- 218	- 119	- 70	- 309
Other operating income	105	94	38	32	151
Other operating expenses	- 37	- 46	- 6	- 35	- 28
Share of profit/loss of associates accounted for using the equity method	<u>1</u>	<u>4</u>	<u>- 4</u>	<u>- 3</u>	<u>6</u>
<b>Operating profit</b>	<b>602</b>	<b>302</b>	<b>299</b>	<b>170</b>	<b>353</b>
Dividends received	488	630	225	0	630
Change in fair value of financial assets	1,614	26	- 1,696	1,246	3,893
Interest income and other financial income	18	20	1	8	30
Interest expenses and other financial expenses	<u>- 250</u>	<u>- 191</u>	<u>- 110</u>	<u>- 57</u>	<u>- 259</u>
<b>Profit / loss after financial items</b>	<b>2,472</b>	<b>787</b>	<b>- 1,281</b>	<b>1,367</b>	<b>4,647</b>
Taxes	<u>- 103</u>	<u>- 233</u>	<u>- 54</u>	<u>- 26</u>	<u>- 224</u>
<b>Net profit / loss for the period from continuing operations</b>	<b>2,369</b>	<b>554</b>	<b>- 1,335</b>	<b>1,341</b>	<b>4,423</b>
Net profit / loss from discontinued operations					
- Invik	-	108	-	44	108
- Korsnäs Packaging	<u>- 12</u>	<u>- 30</u>	<u>-</u>	<u>- 26</u>	<u>- 434</u>
<b>Net profit / loss for the period</b>	<b><u>2,357</u></b>	<b><u>632</u></b>	<b><u>- 1,335</u></b>	<b><u>1,359</u></b>	<b><u>4,097</u></b>
<b>Attributable to equity holders of the Parent</b>	<b>2,355</b>	<b>632</b>	<b>- 1,336</b>	<b>1,359</b>	<b>4,097</b>
Earnings per share before /after dilution, SEK:					
- from continuing operations	8.97	2.10	- 5.06	5.08	16.75
- from discontinued operations	- 0.05	0.30	-	0.07	- 1.23
Average number of shares before /after dilution	263,981,930	263,981,934	263,981,930	263,981,930	263,981,932

**CONDENSED CONSOLIDATED CASH-FLOW STATEMENT (SEK million)**

	2006	2005	2005
	1 Jan - 30 Sept	1 Jan - 30 Sept	Full year
Operating profit	602	302	353
Adjustment for non-cash items	336	231	327
Taxes paid	– 19	– 363	– 369
<b>Cash flow from operations before change in working capital</b>	<b>919</b>	<b>170</b>	<b>311</b>
Change in working capital	– 82	– 328	– 259
<b>Cash flow from operations</b>	<b>1,001</b>	<b>– 158</b>	<b>52</b>
Acquisition of subsidiaries	– 3,637	–	–
Disposal of subsidiaries	601	–	–
Investments in tangible and biological fixed assets	– 137	– 421	– 442
Sales of tangible and biological fixed assets	14	1	75
Investments in shares and other securities	– 134	– 482	– 677
Sales of shares and other securities	3	483	638
Dividends received	263	648	648
Change in loan receivables	10	–	16
Interest received	– 18	– 10	– 8
<b>Cash flow from investing activities</b>	<b>– 2,999</b>	<b>239</b>	<b>266</b>
Change in interest-bearing liabilities	2,596	359	276
Interest paid	– 229	– 193	– 244
Dividend paid	– 422	– 66	– 66
<b>Cash flow from financing activities</b>	<b>1,945</b>	<b>100</b>	<b>– 34</b>
<b>Total cash flow from continuing operations</b>	<b>– 53</b>	<b>181</b>	<b>284</b>
Amortisation on loan from Invik	–	– 158	– 158
Cash flow in Korsnäs Packaging	29	– 27	– 28
Lending to Korsnäs Packaging	– 79	– 124	– 181
<b>Cash flow to / from discontinued operations</b>	<b>– 50</b>	<b>– 309</b>	<b>– 367</b>
<b>Cash flow for the period</b>	<b>– 103</b>	<b>– 128</b>	<b>– 83</b>
Exchange rate differences in liquid funds	– 2	12	14
<b>Cash and bank, opening balance</b>	<b>212</b>	<b>281</b>	<b>281</b>
<b>Cash and bank, closing balance</b>	<b>107</b>	<b>165</b>	<b>212</b>

**SEGMENT REPORTING (SEK million)**

	2006 1 Jan - 30 Sept	2005 1 Jan - 30 Sept	2006 1 July - 30 Sept	2005 1 July - 30 Sept	2005 Full year
<b>Revenue by segment</b>					
Korsnäs Industrial	3,940	2,873	1,641	993	3,858
Korsnäs Forestry	1,377	1,258	451	391	1,741
Eliminations within Korsnäs	<u>- 823</u>	<u>- 761</u>	<u>- 271</u>	<u>- 261</u>	<u>- 1,043</u>
Total Korsnäs	4,494	3,370	1,821	1,123	4,556
Mellersta Sveriges Lantbruk	37	41	8	14	52
Parent Company and other	16	17	4	5	22
Eliminations	<u>- 9</u>	<u>- 9</u>	<u>- 2</u>	<u>- 2</u>	<u>- 12</u>
<b>Total revenue</b>	<u><b>4,538</b></u>	<u><b>3,419</b></u>	<u><b>1,831</b></u>	<u><b>1,140</b></u>	<u><b>4,618</b></u>
<b>Operating profit / loss by segment</b>					
Korsnäs Industrial	616	299	290	176	314
Korsnäs Forestry	<u>26</u>	<u>19</u>	<u>13</u>	<u>2</u>	<u>62</u>
Total Korsnäs	642	318	303	178	376
Mellersta Sveriges Lantbruk	0	3	- 3	2	8
Parent Company and other	<u>- 40</u>	<u>- 19</u>	<u>- 1</u>	<u>- 10</u>	<u>- 31</u>
<b>Total operating profit</b>	<u><b>602</b></u>	<u><b>302</b></u>	<u><b>299</b></u>	<u><b>170</b></u>	<u><b>353</b></u>

<b>CONDENSED CONSOLIDATED BALANCE SHEET (SEK million)</b>	<b>2006 30 Sept</b>	<b>2005 30 Sept</b>	<b>2005 31 Dec</b>
<b>Fixed assets</b>			
Intangible assets	620	17	17
Tangible and biological fixed assets	6,814	4,551	3,851
Financial assets accounted to fair value through profit and loss	28,133	22,398	26,318
<i>whereof interest-bearing</i>	254	301	270
Investment in companies accounted for using the equity method	226	127	70
Other fixed assets	15	60	21
Deferred tax assets	–	38	–
	<u>35,808</u>	<u>27,191</u>	<u>30,277</u>
<b>Current assets</b>			
Inventories	1,421	1,211	994
Trade and other receivables	1,197	820	636
Prepayments	39	30	27
Short-term investments	–	6	3
Cash and cash equivalents	107	165	185
	<u>2,764</u>	<u>2,232</u>	<u>1,845</u>
<b>Total assets continuing operations</b>	<b>38,572</b>	<b>29,423</b>	<b>32,122</b>
Assets held for sale, Korsnäs Packaging	–	–	1,135
<b>Total assets</b>	<b><u>38,572</u></b>	<b><u>29,423</u></b>	<b><u>33,257</u></b>
<b>Shareholders' equity</b>			
Equity attributable to equity holders of the Parent Company	25,234	19,843	23,315
Equity attributable to minority	11	–	–
	<u>25,245</u>	<u>19,843</u>	<u>23,315</u>
<b>Long-term liabilities</b>			
Interest-bearing loans	8,915	6,944	6,882
Provisions for pensions	507	661	478
Other provisions	121	78	177
Deferred tax liability	1,494	751	727
Other liabilities	4	4	4
	<u>11,041</u>	<u>8,438</u>	<u>8,268</u>
<b>Short-term liabilities</b>			
Interest-bearing loans	879	101	347
Provisions	89	39	58
Trade and other payables	1,245	991	813
Income tax payable	63	9	12
Prepaid income	10	2	2
	<u>2,286</u>	<u>1,142</u>	<u>1,232</u>
<b>Total liabilities continuing operations</b>	<b>13,327</b>	<b>9,580</b>	<b>9,500</b>
Liabilities directly associated with the assets held for sale, Korsnäs Packaging	–	–	442
<b>Total shareholders' equity and liabilities</b>	<b><u>38,572</u></b>	<b><u>29,423</u></b>	<b><u>33,257</u></b>

**MOVEMENTS IN SHAREHOLDERS'  
EQUITY OF THE GROUP,  
CONDENSED (SEK million)**

	2006	2005	2005
	1 Jan - 30 Sept	1 Jan - 30 Sept	Full year
Opening balance	23,315	20,109	20,109
Translation differences	– 14	26	33
Cash dividend	– 422	– 66	– 66
Distribution in kind	–	– 858	– 858
Minority's share in acquired companies	9	–	–
Net profit for the period attributable to the minority	2	–	–
Net profit for the period attributable to equity holders of the Parent	2,355	632	4,097
<b>Closing amount</b>	<u><u>25,245</u></u>	<u><u>19,843</u></u>	<u><u>23,315</u></u>

**KEY RATIOS**

	2006	2005	2005
	30 Sept	30 Sept	31 Dec
Debt/equity ratio	0.4	0.4	0.3
Equity ratio	65%	67%	70%
Net debt	9,940	7,234	7,249

**DEFINITIONS OF KEY RATIOS**

Debt/equity ratio	Interest-bearing liabilities divided by shareholders' equity.
Equity ratio	Shareholders' equity as percentage of total assets.
Net debt	Interest-bearing liabilities including pension provisions less the sum of interest-bearing receivables, short-term investments and cash and bank.
Operating margin	Operating profit after depreciation divided by revenue.
Operational capital employed	Average of intangible and tangible fixed assets, investment in companies accounted for using the equity method, inventories and short-term non-interest bearing receivables less other provisions and short-term non-interest bearing liabilities.
Return on operational capital employed	Operating profit after depreciation divided by operational capital employed.

## FINANCIAL KEY RATIOS, BUSINESS AREAS

	2006	2006	2006	2005	2005	2005	2005	2005
	Q 3	Q 2 <sup>1)</sup>	Q 1	Full year	Q 4	Q 3	Q 2	Q 1
<b>Revenue (SEK million)</b>								
Korsnäs Industrial <sup>2)</sup>	1,641	1,250	1,049	3,858	985	993	961	919
Korsnäs Forestry	451	470	456	1 741	483	391	422	445
Eliminations within Korsnäs	- 271	- 277	- 275	- 1,043	- 282	- 261	- 237	- 263
Total Korsnäs	1,821	1,443	1,230	4,556	1,186	1,123	1,146	1,101
Mellersta Sveriges Lantbruk	8	16	13	52	11	14	13	14
<b>Operating profit / loss before depreciation (EBITDA) (SEK million)</b>								
Korsnäs Industrial <sup>2)</sup>	438	273	247	645	103	259	83	200
Korsnäs Forestry	16	10	7	73	46	4	11	12
Total Korsnäs	454	283	254	718	149	263	94	212
Mellersta Sveriges Lantbruk	- 2	5	3	15	7	4	0	4
<b>Operating profit / loss after depreciation (EBIT) (SEK million)</b>								
Korsnäs Industrial <sup>2)</sup>	290	163	163	314	15	176	3	120
Korsnäs Forestry	13	8	5	62	43	2	8	9
Total Korsnäs	303	171	168	376	58	178	11	129
Mellersta Sveriges Lantbruk	- 3	2	1	8	5	2	- 1	2
<b>Operating margin</b>								
Korsnäs Industrial <sup>2)</sup>	17.7%	13.0%	15.5%	8.1%	1.5%	17.7%	0.3%	13.1%
Korsnäs Forestry	2.9%	1.7%	1.1%	3.6%	8.9%	0.5%	1.9%	2.0%
Korsnäs	16.6%	11.9%	13.7%	8.3%	4.9%	15.9%	1.0%	11.7%
Mellersta Sveriges Lantbruk	-37.5%	12.5%	7.7%	15.4%	45.5%	14.3%	- 7.7%	14.3%
<b>Operational capital employed (SEK million)</b>								
Korsnäs Industrial	8,317	5,517	4,144	4,229	4,272	4,349	4,325	4,123
Korsnäs Forestry	261	269	243	238	248	251	229	228
Korsnäs	8,578	5,786	4,387	4,467	4,520	4,600	4,554	4,351
Mellersta Sveriges Lantbruk	311	261	273	203	220	192	185	204
<b>Return on operational capital employed</b>								
Korsnäs Industrial	13.9%	11.8%	15.7%	7.4%	1.4%	16.2%	0.3%	11.6%
Korsnäs Forestry	19.9%	11.9%	8.2%	26.1%	69.4%	3.2%	14.0%	15.8%
Korsnäs	14.1%	11.8%	15.3%	8.4%	5.1%	15.5%	1.0%	11.9%
Mellersta Sveriges Lantbruk	-3.9%	3.1%	1.5%	3.9%	9.1%	4.2%	neg.	3.9%
Production, thousand tons	269	201	181	664	177	180	134	173
Deliveries, thousand tons	270	204	177	671	168	170	169	164

<sup>1)</sup> Korsnäs Frövi is included from 1 June 2006.

<sup>2)</sup> Korsnäs Industrial pro forma including Frövi:

Revenue	1,641	1,650	1,590	6,105	1,512	1,525	1,597	1,471
Operating profit before depreciation (EBITDA)	444	392	388	1,193	213	391	247	342
Operating profit after depreciation (EBIT)	296	237	235	599	59	242	102	196
Operating margin	18.0%	14.4%	14.8%	9.8%	3.9%	15.9%	6.3%	13.3%
Production, thousand tons	269	265	278	1,022	269	264	227	262
Deliveries, thousand tons	270	264	258	1,014	248	251	266	249

## Appendix 1

### Acquisition of 100% of the shares in AssiDomän Cartonboard Holding AB

On 15 November 2005, Korsnäs AB signed an agreement with Sveaskog Förvaltnings AB ("Sveaskog") for the acquisition of all shares in its subsidiary AssiDomän Cartonboard Holding AB ("Frövi"). The acquisition was completed after approval from the European Commission on 12 May 2006. Korsnäs Frövi is fully consolidated in the Group from 1 June 2006 and is reported in the Korsnäs Industrial segment. The purchase price including repayment of Frövi's intra-group loans and transaction costs amounted to SEK 3,669 million. The acquisition generated goodwill of SEK 603 million after surplus value of SEK 831 million was allocated to tangible fixed assets, SEK 29 million to inventory and a deferred tax liability in the amount of SEK 241 million was recorded. The reported surplus value for tangible fixed assets will result in an increase of SEK 69 million in Frövi's depreciation, on a yearly basis, compared with previously reported depreciation. Goodwill, in connection with the acquisition of Frövi, pertains to Korsnäs' expectation of strengthening its position in the market for Liquid Packaging Board and Folding Carton and the expectation of receiving economies of scale, which would result in reduced costs when Frövi is integrated into Korsnäs' existing operations. The purchase price and purchase price allocation are preliminary.

Frövi's operations have contributed to an operating income in the amount of SEK 95 million and a net profit of SEK 41 million for the Group during the period June-September. The above-mentioned adjustment of Frövi's reported value of inventory has had a SEK 29 million negative impact on the operating result for Korsnäs Frövi for the period June-September as a result of increased costs of goods sold from inventory, which on acquisition was reported above Frövi's production costs.

If Frövi had been consolidated from 1 January 2006, the operation would have contributed with sales of SEK 1,768 million, operating profit of SEK 231 million and a net profit of SEK 94 million to the Group's consolidated earnings. The operating profit includes an increase in depreciation of assets totaling SEK 81 million. Net profit also includes financing costs totaling SEK 38 million and a positive tax charge of SEK 33 million. Revenue for the

entire Group had then totaled SEK 5,479 million and net profit had amounted to SEK 2,410 million.

Detail of identifiable assets and liabilities at the time of acquisition:

	Value in Frövis purchase earlier reported value	price allo- cation
<b>Net assets acquired (SEK million)</b>		
Tangible fixed assets	2,307	3,138
Investment in companies accounted for using the equity method	1	1
Inventories	442	471
Other current assets	567	567
Cash and cash equivalents	34	34
Provisions for pensions	- 36	- 36
Deferred tax liability	- 539	- 780
Interest-bearing external loans	- 1	- 1
Trade and other non interest-bearing liabilities	- 328	- 328
Net identifiable assets and liabilities	2,447	3,066
Goodwill on acquisition		603
Total consideration		3,669
Liquid funds in acquired companies		- 34
Cash consideration		3,635

\* Group internal loans totaling SEK 2,095 million, repaid at acquisition, are not included.