

# Corporate Governance Report

Corporate governance in the Kinnevik Group is based on Swedish legislation and other market regulation. Since 1 July 2005, Kinnevik applies the Swedish Code of Corporate Governance (the "Code") and provides explanations for the following departures from the Code during 2007:

- According to the rules of the Code, a majority of the Board members elected at the Annual General Meeting are viewed as not being independent in relation to the Company and its management because two of them have been on the Board for more than 12 years, if the period of time as Board members in Industriförvaltnings AB Kinnevik and Invik & Co. AB ahead of the merger of the companies in 2004 is taken into account.
- The Board Chairman Cristina Stenbeck was appointed Chairman of the Nomination Committee.

Departures from the Code are explained in greater detail in the particular section below.

## Annual General Meeting

The Annual Accounts Act and the Articles of Association determine how notice of the Annual General Meeting and extraordinary meetings shall occur, and who has a right to participate in and vote at the meeting. Distance voting is not available. Minutes of the Annual General Meetings are available on Kinnevik's website.

## Nomination Committee

At the 2007 Annual General Meeting, it was decided that a Nomination Committee consisting of at least three members representing the company's shareholders would be established during September 2007 following consultation with the major shareholders at the time. The Nomination Committee is appointed for one year at a time. The majority of the members of the Nomination Committee must not be Board members or be employed in the company. If a member of the Nomination Committee resigns prematurely, a replacement shall be appointed in a similar manner. Cristina Stenbeck is to be a member of the Nomination Committee and will convene the Nomination Committee. The Nomination Committee will itself appoint a Chairman at the first meeting.

Pursuant to the decision of the Annual General Meeting, Cristina Stenbeck has convened a Nomination Committee ahead of the 2008 Annual General Meeting. The Nomination Committee comprises Cristina Stenbeck, representing Emesco AB and other shareholders, Edvard von Horn representing the von Horn family, Wilhelm Klingspor representing the Klingspor family, Peter Lindell representing AMF Pension, Tomas Nicolin representing Alecta and Marianne Nilsson representing Swedbank Robur Fonder. The Nomination Committee will propose the Board composition, Board fees, audit fees and Chairman of the Annual General Meeting ahead of the 2008 meeting. The Chairman of the Board, Cristina Stenbeck, has been appointed Chairman of the Nomination Committee, an appointment that does not comply with the Code. The other members of the Nomination Committee have explained that the reason why they elected her Chairman of the Nomination Committee is that this is a natural conse-

quence 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 audit firm.

At the 2005 Annual General Meeting, the audit 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 auditor's independence is secured by legislation and 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. Ernst & Young AB has, during 2005-2007, provided certain services in conjunction with the acquisition and sale of companies, and in questions regarding internal controls, IFRS and taxes. Information regarding remuneration appears in the Annual Report in Note 22 to the consolidated accounts and Note 5 to the Parent Company, Auditors' Fees. Information regarding the auditor in charge is also provided in the Annual Report, page 7.

## Board of Directors and Group Management

Board members are elected at the Annual General Meeting for a period expiring at the close of the next Annual General Meeting following their election. The Articles of Association contain 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, according to legislation, the union organizations have the right to appoint two Board members and two deputies.

At the 2007 Annual General Meeting, following a motion from the Company's former Nomination Committee, Vigo Carlund, Wilhelm Klingspor, Erik Mitteregger, Stig Nordin and Cristina Stenbeck were re-elected members of the Company's Board and Allen Sangines-Krause was newly elected as a Board member. The Annual General Meeting elected Cristina Stenbeck as Chairman of the Board. Hans Wahlbom and Per Eriksson were appointed employee representatives and Bo Gidlund and Henrik Nord were appointed deputy employee representatives.

The independence of Board members is specified in the table on page 27. According to the Code, a Board member shall not be deemed to be independent in relation to its Company and management if the member has been a Board member for more than twelve years. Kinnevik does not comply with the Code's independence requirements since if the period they were Board members in Invik & Co. AB and Industriförvaltnings AB Kinnevik ahead of the merger of the companies in 2004 is included, Board members Wilhelm Klingspor and Stig Nordin have been Board members for more than twelve years. However, the Board believes that the advantages of the Board members contributing experience and continuity in the approach to pursuing investment activi-

ties outweigh any disadvantages of them having worked with the company over a lengthy period of time.

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 and Group Management is presented on pages 6-8 of the Annual Report and in Note 27 to the consolidated accounts, Personnel. There are currently no outstanding share-based or share price-related incentive programs relating to the Kinnevik share for the Board or Company management.

### Board work

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. The Board's work and delegation process, instructions for the CEO and reporting instructions are updated and set at least once annually following the Annual General Meeting.

Significant issues that were specially treated by Kinnevik's Board during 2007 include the sale of the Company's shareholdings in Invik & Co. AB, capital structure issues at both Kinnevik as well as the listed associated companies as well as the overall strategy for Korsnäs and the listed holdings. As the basis for discussions concerning the listed associated companies, Kinnevik's management presented independent analyses of each company's operations, assessed future development and evaluated the markets in which they are active.

The Board has established a Remuneration Committee and an Audit Committee. These committees are preparatory bodies for the Board and do not reduce the Board's overall and joint responsibility for the governance of the Company and the decisions made. All Board members have access to the same information.

The Board complies with 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 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 2007, the Kinnevik Board had 11 meetings (excluding the statutory meeting), of which six were held via telephone. Erik Mitteregger was absent during one telephone meeting, Per Eriksson during three telephone meetings and Hans Wahlbom during one telephone meeting. All other Board members attended all of the meetings.

### Remuneration Committee

The Remuneration Committee's assignment comprises issues of salaries, pension terms and conditions, any other bonus systems and other terms and conditions of employment for the management of the Parent Company and CEOs of the Group's business areas, refer to page 31 in the Annual Report for principles applied in 2007. The Remuneration Committee's task also includes preparing proposals for joint criteria for incentive programs in Kinnevik's portfolio companies.

As regards the CEO of the Parent Company, the Remuneration Committee prepares the aforementioned issues for decision and presents information to the Board, including proposal for decision. As regards other management employees in the Parent Company and CEOs of the business areas, the Remuneration Committee shall make decisions in the aforementioned questions, after which such decisions shall be presented for the Board at the next Board meeting.

Cristina Stenbeck, Wilhelm Klingspor and Erik Mitteregger were members of the Remuneration Committee during 2007. Wilhelm Klingspor was the Committee Chairman.

The Remuneration Committee shall meet not less than once a year, and more frequently as required, and minutes of these meetings shall be kept. The Remuneration Committee held two meetings in 2007, which were attended by all members.

### 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 develop-

Board member	Board member since	Function	Independent in relation to the Company and its management	Independent in relation to major shareholders (>10% of voting rights or capital)
Cristina Stenbeck	2003 <sup>1)2)</sup>	Chairman of the Board, member of the Remuneration Committee	Yes	No
Vigo Carlund	2006	Board member	No (CEO until 2006)	Yes
Wilhelm Klingspor	1991 <sup>2)</sup>	Board member, Chairman of the Remuneration Committee, member of the Audit Committee	Yes (however, Board member for more than 12 years, see above)	Yes
Erik Mitteregger	2004	Board member, Chairman of the Audit Committee, member of the Remuneration Committee	Yes	Yes
Stig Nordin	1992 <sup>1)</sup>	Board member, member of the Audit Committee	Yes (however, Board member for more than 12 years, see above)	Yes
Allen Sangines-Krause	2007	Board member	Yes	Yes
Per Eriksson	2006	Employee representative, Board member	No	Yes
Hans Wahlbom	1996 <sup>1)</sup>	Employee representative, Board member	No	Yes
Bo Gidlund	2004	Employee representative, deputy	No	Yes
Henrik Nord	2007	Employee representative, deputy	No	Yes

<sup>1)</sup> Refers to Industriförvaltnings AB Kinnevik up to the merger with Invik & Co. AB 2004.

<sup>2)</sup> Refers to Invik & Co. AB up to the merger with Industriförvaltnings AB Kinnevik 2004.

ment 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 and Erik Mitteregger were members of the Audit Committee during 2007. The Chairman of the Committee was Erik Mitteregger.

The Audit Committee shall meet four times annually 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 kept at the Audit Committee's meetings and are reported to the Board at its next meeting. The Audit Committee held six meetings in 2007, of which three were held via telephone, and were attended by all members. The external auditors participated in three of the meetings and issued their reports on the results of their examination to both the Audit Committee and the Board of Directors both orally and in writing. The auditors also held a routine Directors only session for year end.

### **Report on internal control of financial reporting**

#### **Control environment**

The purpose of the Board of Directors' rules of procedure and instructions for the CEO and Board committees is to ensure a distinct division of roles and responsibility that promotes the efficient management of operational and financial risks. The Board has also adopted a number of fundamental guidelines of significance to activities involving internal controls, which are described in Kinnevik's Policy and Procedure Manual and include instructions governing the financial reporting of results, forecasts and budgets, authorization procedures, purchasing policies, 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 efforts to maintain efficient internal control. The Company's operational risks are reported each quarter to the Board, categorized on the basis of what can and cannot be influenced, their consequences and financial impact in the event of them materializing, and how and who exercises ongoing control over each risk and how these can be minimized.

#### **Risk assessment and control activities**

During 2007, the work to implement a model for assessing the risk of errors in accounting and in financial reporting was concluded. The purpose of this program is to ensure that Kinnevik has reliable in-house controls and to evaluate regularly how well the controls work. Kinnevik has decided to base the model on the COSO's framework for internal control. Income statement and balance sheet items in which the risk of significant errors can typically arise encompass financial instruments in the case of the Parent Company, which primarily consist of the Company's holdings of shares in listed associated companies. For the wholly owned subsidiary Korsnäs, sales, purchases of timber, energy and other

input goods, inventory and the investment process are the most significant items and processes. Efforts to document work routines and evaluate controls regarding these items and processes were completed during the year.

#### **Internal audits**

The Company engages external auditors that are responsible for following up and evaluating work involved in risk management and internal control. This work includes the monitoring of compliance with set guidelines. The internal auditors conduct their work on instructions from the Audit Committee and are continuously reporting the results of their examination in the form of written reports to the committee.

#### **Information and communication**

Kinnevik's Policy and Procedure Manual and other guidelines of importance to financial reporting are updated at least once annually. 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 and other various constituencies like shareholders, board members, employees and customers.

#### **Follow-up**

The Board of Directors continuously evaluates the information provided by Company management and the Audit Committee. The Audit Committee's work to monitor 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.

#### **Compliance with rules, confidence and responsibility**

Compliance with laws and regulations, responsibility and market confidence in Kinnevik are some of the key issues with which the Board actively works. 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, 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 towards all forms of bribery and political contributions are described. With respect to these matters, Kinnevik encourages management in the companies Kinnevik invests in to have similar standards to ensure that there are appropriate processes for identifying and managing risks related to social responsibilities, and to report them and what measures have been adopted by the respective company's Board. 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 the Company's auditors have not examined it.

Stockholm, 5 March 2008

Board of Directors