



## Year-end report

### 1 January – 31 December 2007

- EOS Russia was listed on First North, part of the OMX Nordic Exchange on 25 June 2007
- During 2007 MSEK 2,879 was raised through share issues in kind and cash
- Net asset value at the end of the period was MSEK 2,807 (SEK 99.68 per share)
- Consolidated net income amounted to MSEK 107 for the full year 2007
- Number of shares outstanding at the end of the period was 28,162,734



#### Significant events after the end of the reporting period

- At an extraordinary shareholders' meeting on 24 January new articles of association were adopted which included an increase in the limitations on share capital.
- The board made a decision that EOS Russia shall make the preparations necessary for a listing on the Nordic List of the OMX Nordic Exchange Stockholm
- The date of the annual general meeting (AGM) was changed to 22 April 2008 from 24 April 2008



## EOS Russia

EOS Russia (EOS) was founded in the spring of 2007 in order to capitalize on investment opportunities arising as a result of the deregulation, restructuring and privatization of the Russian electricity sector.

EOS Russia AB is the Group's parent company and is headquartered in Stockholm, Sweden. EOS Russia (Cyprus) Ltd is a subsidiary of EOS AB and is located in Limassol, Cyprus. All investments are conducted by the subsidiary, which holds the complete investment portfolio of EOS. EOS was founded in its present form in May 2007 when the company decided to carry out a directed share issue to a number of institutional investors and investors of institutional character, paid for in kind or in cash. The company listed on First North on 25 June 2007. The financial year is 1 January – 31 December.

The founders of EOS believe that the assets in the Russian electricity industry are currently undervalued due to the complex restructuring that is underway, as well as the still relatively underdeveloped equity market in Russia.

## Russian electricity industry reform

A comprehensive reform program is gradually being implemented in the Russian electricity sector until 2011<sup>1</sup>. The reason for the reform is the considerable investment need that has emerged as a result of rapidly increasing electricity demand. The goal of the reform is to ensure an attractive climate in order to facilitate for the major new investments required to satisfy the need for power generation, as well as associated distribution and transmission grids.

UES (Unified Energy System of Russia), the Russian state-controlled electricity holding company has majority shareholdings in regional utilities, such as electricity producers and distributors.

The restructuring of UES was initiated as a reaction to the low level of investments seen in the Russian electricity sector over recent years. In order to create an attractive climate for private investments the government initiated the restructuring which will be finalized with the break-up of UES into different companies in July 2008, in which UES shareholders will receive a proportional shareholding<sup>1</sup>.

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<sup>1</sup> Source: <http://www.rao-ees.ru>

## Market development

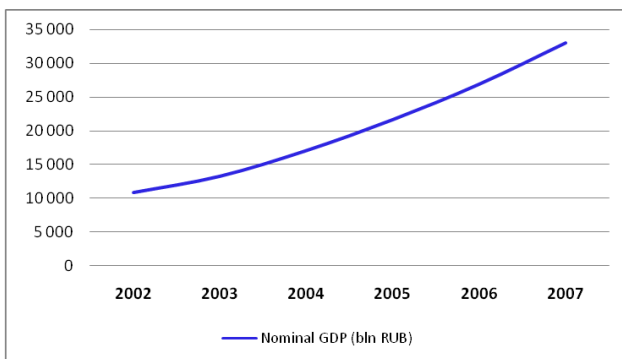
The strong growth of the Russian economy continued in 2007, with GDP growth of 8.1%<sup>2</sup>. As in previous years, the growth is increasingly being driven by domestic demand. In 2007, private consumption increased by 13%<sup>2</sup>, retail 15%<sup>2</sup> and construction 18%<sup>2</sup>, whereas oil production only grew by 2%<sup>2</sup>.

The continued high oil price to the oil companies has been virtually fully taxed away by the government, with the oil windfall being saved in the stabilization funds. These funds now represent some of the largest national sovereign funds in the world.

In recent years, Russia has also seen a big jump in investments. Fixed investments increased by 21%<sup>2</sup> in 2007.

The reform is planned to lead to a complete transition to market pricing for electricity. According to a decision made by the Russian government and the Presidential Administration, in 2011, the entire electricity market is planned to become a free market. This price liberalization will go hand in hand with the Russian gas market liberalization.

*Development of Russian nominal GDP*



Source: Rosstat

## Sector development

The reform of the Russian electricity sector has led to companies being created through spinoffs from the so called “Energos” and, in certain cases, independent power stations. These companies have been consolidated into larger companies focused on one activity, i.e. generation, transmission, distribution and sales, across previous regional boundaries.

UES spun off its ownership in OGK-5 and TGK-5 during the fall of 2007. On 1 July 2008 the structural transformation of UES will be completed when UES spins off all remaining assets to its shareholders and the UES shares are delisted.

<sup>2</sup> Bank of Finland, BOFIT Forecast for Russia 1/2008

## Operational and financial results

### Group

EOS recorded a net profit from investing activities of MSEK 270 during the fourth quarter compared to a net profit of MSEK 186 for the full year. Operating costs were MSEK 27.9 for the fourth quarter and MSEK 61.2 for the full year. Net financial items for the quarter amounted to MSEK -3.9 and MSEK -18.4 for the full year. Net financial items for the full year include interest income of MSEK 1.0 and interest expenses totaling MSEK -9.9. The remaining part is made up of results from hedging activities. The net profit for EOS during the fourth quarter was MSEK 238 compared to MSEK 107 for the full year (SEK 4.97 per average number of shares outstanding).

EOS net asset value at December 31 was MSEK 2,807 representing an increase of MSEK 692 since 30 September 2007. Net asset value was negatively

impacted by exchange rate translation differences of MSEK -114.

### Parent Company

The parent company's operating result was MSEK -13.9 for the full year. Operating costs amounted to MSEK -23.7 for the full year. Net financial items amounted MSEK 14.0 for the full year. The net income for the full year was MSEK 0.1.

During the fourth quarter, the number of shares outstanding increased by 5,058,451.

The total number of shares outstanding at 31 December 2007 was 28,162,734.

Approximately MSEK 486 was raised through a directed share issue in kind and cash during the fourth quarter. In total EOS raised MSEK 2,879 during 2007.

## Group investments

Throughout the year the company made several placements:

Date	Placements		
	MSEK	MUSD	
May	1,285	199	to 48 institutions
June	651	101	in combination with the listing on First North
June	159	25	to a Canadian institution
July	235	36	to clients of Glitnir
July	63	10	to an institutional investor
October	486	75	to clients of Troika Dialog
	<b>2,879</b>	<b>445</b>	

*Translated with SEK/USD 6.47 at 31 Dec., 2007*

All proceeds from the new share issues have been invested in Russian utilities shares.

EOS' investment strategy is such that the Group initially has a substantial exposure to UES. In addition to UES, EOS has invested in less-liquid companies active in other areas of the electricity sector.

EOS plans to be heavily invested in UES at the time of the break-up in mid-2008.

As per 31 December, 2007 EOS' portfolio consisted of the assets listed in the table below.

### EOS Russia's portfolio

Asset	Market value		Share of EOS portfolio, %
	MSEK	MUSD	
UES	2,277	352	80,5%
Thermal generation	134	21	4,7%
Distribution	192	30	6,8%
Hydro generation	202	31	7,1%
Other	24	4	0,9%
<b>Total</b>	<b>2,829</b>	<b>438</b>	<b>100.0%</b>

## UES

UES is the major electricity holding company in Russia, and accounted for 70% of Russia's total electricity production and 33% of heat production<sup>3</sup> at the end of 2006. The largest shareholders as of September 30, 2007 in UES were the Russian state (53 per cent) and Gazprom (14 per cent)<sup>3</sup>. The government currently dominates the electricity sector through its controlling interest in UES. UES has direct and indirect ownership as well as in most cases control of most of the regional and other individual power plants in Russia.

After the completion of the Russian electricity reform, mentioned earlier, power production based on gas, coal and oil will be mainly privately owned.

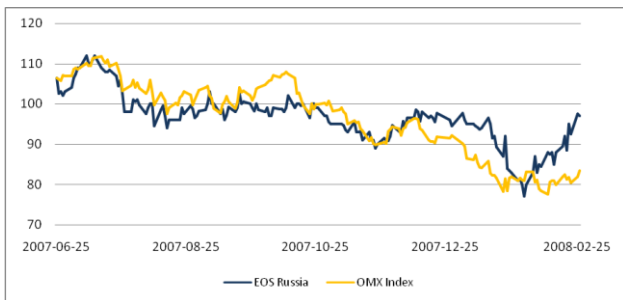
<sup>3</sup> Source: <http://www.rao-ees.ru>

## EOS Russia's share price development

The closing price of EOS share at 28 December, 2007 was SEK 94.5, corresponding to a decline during the fourth quarter of 4% (the OMX Stockholm 30 index lost 11.5% during the same period) and of 11.3% since the listing on June 25 (OMX Stockholm 30 index was down 13.5% during the same time period).

EOS share declined 8.9% from 25 June, 2007 until 26 February, 2008 compared to the OMX Stockholm 30 Index that declined 21.6% during the same period.

*Share price development 25 June, 2007 – 26 February, 2008  
EOS Russia AB (EOS SS) vs. OMX index*



Source: Bloomberg

## Other information

### Creation of the Group

EOS Russia AB is the parent company of the group and was registered in December 2005. During the first period of business the company was inactive. When the group in its present form was founded on 8 May, 2007, the parent company decided to direct a new share issue paid in cash or in kind to institutional investors. The group investments are made by the subsidiary EOS Russia (Cyprus) Ltd.

### Organization

The number of employees (full time) in the group as of December 31, 2007 was five (5), of which three (3) were employed by the parent company.

### Related party transactions

#### Group

The group company EOS Russia (Cyprus) Ltd has as of 31 December 2007 accrued a cost and a corresponding debt of MSEK 48.3, of which MSEK 20.9 is accounted for as a liability and MSEK 27.4 represents a provision of possible future dividends in accordance with the current agreement with the preference shareholders. The preference shares give no residual right to a part of the group's net assets or profit, but instead guarantee compensation depending on the result of (i) the company's yearly share price development, (ii) the development of the group's net asset value from 2008-2012 and (iii) the difference between a total of 0.5% per quarter of the group's net asset value less actual operating costs.

#### Parent company

EOS Russia AB has not granted any loans, warranties or guarantees to or for the benefit of board members or management. No agreements on benefits to board members or management following the completion of their respective assignment exist. None of the board members or management has any direct or indirect participation in business transactions with the group, which are or were unusual in nature or with regards to terms, and which occurred in the current or previous fiscal year.

### Provisions

EOS Russia

Biblioteksgatan 11, 111 46 Stockholm

<http://www.eos-russia.com> | [info@eos-russia.com](mailto:info@eos-russia.com) | Phone +46 (0) 8 407 31 50

Apart from what has already been explained under “*Related party transactions*”, no provisions related to uncertainties have been accounted for.

## Risks

### Group

Almost all the group’s assets are invested in shares of Russian power utility companies with no diversification in country or sector risk. The main part of the group’s assets is invested in shares on the Russian market. Russian securities trading legislation is more rudimentary than in many other countries, and there are few effective directives or requirements for disclosures about offers, sales or equity trading. The stock market is less liquid and more volatile in Russia than the United States or Western Europe. As a result, the company’s investment portfolio may exhibit greater price volatility and poorer liquidity than one that focuses on securities of listed companies in more highly developed countries.

Besides being smaller, less liquid and more volatile, the Russian market is less developed and more limited in its ability to generate historical data. A large percentage of securities transactions are brokered outside the regulated exchanges. The legislation covering fraud and insider trading is rudimentary and has been only partially accepted by market players. The market’s disciplinary board lacks the resources to enforce the legislation that has been passed.

### Parent Company

The risks associated with the activities for the group may also affect the parent company indirectly via the ownership of a subsidiary. Also, as the shares in the parent company are issued and traded in SEK and the group investments are held in USD or Russian Roubles, investors are subject to currency exchange fluctuations.

## Significant events after the end of the reporting period

At EOS’s extraordinary shareholders’ meeting on 24 January new articles of association were adopted, including an increase in the limitations on share capital.

The board made a decision that EOS will make the preparations necessary for a listing on the Nordic List of the OMX Nordic Exchange Stockholm.

## Annual general meeting

The date of the annual general meeting (AGM) was changed to 22 April 2008 from 24 April 2008. The AGM will be held in Stockholm and the summons to the meeting will be made public in mid-March.

## Annual report

EOS’s annual report will be made available on the company web site at the latest two weeks before the annual general meeting.

## Nomination Committee

The Nomination Committee comprises Seppo Remes, EOS’s Chairman of the Board, Jesse Aarnio from Palkki, Christian Kock from Varma, Morten Springborg from Carnegie Asset Management and Patrick Erne from Reichmuth & Co. The Nomination Committee will make proposals for the compensation to the board and auditors, and proposals as to processes for appointing a committee for the 2009 shareholders’ meeting.

## Dividend

EOS’s main objective is to generate shareholder value by investing in Russian power company shares until 2012. EOS plans to reinvest capital gains. The board of directors has not made a proposal for a dividend for the financial year 2007.

Stockholm February 27, 2008  
EOS Russia AB (publ)

Sven Thorngren  
CEO

## Financial calendar

- 04-22-08, Annual General Meeting
- 05-21-08, Interim report 1 January – 31 March 2008
- 08-26-08, Interim report 1 January – June 30 2008

Reports and Press Releases in Swedish and English are available on the EOS' web site:

**[www.eos-russia.com](http://www.eos-russia.com)**

### Contact information:

Sven Thorngren, CEO  
+46-8-407 31 50  
[sven.thorngren@eos-russia.com](mailto:sven.thorngren@eos-russia.com)

Ulf-Henrik Svensson, CFO,  
+46-8-407 31 50  
[ulf-henrik.svensson@eos-russia.com](mailto:ulf-henrik.svensson@eos-russia.com)

Ann-Sofi Jönsson, Investor Relations  
+46-8-407 31 50  
[ir@eos-russia.com](mailto:ir@eos-russia.com)

EOS Russia

Biblioteksgatan 11, 111 46 Stockholm

<http://www.eos-russia.com> | [info@eos-russia.com](mailto:info@eos-russia.com) | Phone +46 (0) 8 407 31 50



# Report on Review of Interim Financial Information

## Introduction

We have reviewed the interim report of EnergyO Solutions AB (publ), reg. no 556694-7684, for the period 1 January – 31 December 2007. The board of directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

## Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SÖG) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily into persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially narrower in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for the group and in accordance with the Annual Accounts Act for the parent company.

Stockholm December 27, 2008  
KPMG Bohlins AB

Anders Tagde  
Authorized public accountant

## Consolidated Income Statement in summary

Amounts in TSEK	2007	2007
	1/10-31/12	1/1-31/12
Change in value in securities	269 321	185 873
Dividends received	364	507
<b>Net profit/loss - Investing activities</b>	<b>269 685</b>	<b>186 381</b>
Operating costs	-27 886	-61 166
<b>Operating profit/loss</b>	<b>241 799</b>	<b>125 214</b>
Financial income	179	1 022
Financial expenses	-4 039	-19 457
<b>Operating profit/loss before taxes</b>	<b>237 939</b>	<b>106 779</b>
Income tax expense	-76	-103
<b>Net profit for the period</b>	<b>237 863</b>	<b>106 676</b>
<b>Attributable to:</b>		
Equity holders of the company	237 863	106 676
<b>Earnings per share</b>		
Basic earnings per average share (SEK)	8,46	4,97
Diluted earnings per average share (SEK)	8,46	4,97
Average number of shares outstanding	28 106 529	21 464 951
Total number of shares outstanding	28 162 734	28 162 734

EOS Russia

Biblioteksgatan 11, 111 46 Stockholm

<http://www.eos-russia.com> | [info@eos-russia.com](mailto:info@eos-russia.com) | Phone +46 (0) 8 407 31 50

## Consolidated Balance Sheet in summary

Amounts in TSEK	2007 31/12	2006 31/12
<b>Assets</b>		
Property, plant and equipment	4 665	-
Current tax assets	25	-
Prepaid expenses and accrued income	2 756	-
Other receivables	2 173	-
Shares and participations	2 967 710	-
Cash and cash equivalents	19 376	100
<b>TOTAL ASSETS</b>	<b>2 996 705</b>	<b>100</b>
<b>EQUITY</b>		
Share capital	281 627	100
Other contributed equity	2 533 105	-
Reserve	-114 122	-
Retained earnings, including net income for the period	106 676	-
<b>Total Equity</b>	<b>2 807 287</b>	<b>100</b>
<b>Provisions</b>	<b>27 402</b>	<b>-</b>
<b>LIABILITIES</b>		
Loans and borrowings	121 227	-
Accounts payable	2 883	-
Other liabilities	21 900	-
Accrued expenses and deferred income	16 005	-
<b>Total current liabilities</b>	<b>162 016</b>	<b>0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 996 705</b>	<b>100</b>

## Changes in Shareholder's Equity

Amounts in TSEK	2007 31/12	2006 31/12
<b>Opening balance as per balance sheet</b>	<b>100</b>	<b>100</b>
Issue of shares	2 814 632	-
Reserve	-114 122	-
Net Income	106 676	-
<b>Closing balance</b>	<b>2 807 287</b>	<b>100</b>

## Consolidated Statement of Cash Flows

Amounts in TSEK	2007 1/1-31/12	2006 1/1-31/12
<b>Cash flows from operating activities</b>		
Operating profit for the period	106 779	-
Adjustment for non-influential cash items		
Unrealised gain	-201 619	-
Depreciation	12	-
Other	27 402	-
Income tax expense	-100	-
<b>Net cash from operating activities before change in working capital</b>	<b>-67 525</b>	<b>0</b>
<b>Cash flows from change in working capital</b>		
Increase (-)/Decrease (+) in operating receivables	-5 051	-
Increase (+)/Decrease (-) in operating liabilities	41 065	-
<b>Net cash used in operating activities</b>	<b>-31 510</b>	
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-4 798	-
Acquisition of investment property	-4 393 710	-
Proceeds from sale of investment property	1 509 901	-
<b>Net cash used in investing activities</b>	<b>-2 888 606</b>	<b>0</b>
<b>Cash flows from financing activities</b>		
Loans raised	124 799	-
Issue of shares	2 814 632	-
<b>Net cash from financing activities</b>	<b>2 939 431</b>	<b>0</b>
Cash flow for the period	19 314	-
Cash and cash equivalents at beginning of the year	100	100
Effect of exchange rate fluctuations on cash held	-38	-
<b>Cash and cash equivalents at the end of the period</b>	<b>19 376</b>	<b>100</b>

## Parent Company Income Statement in summary

Amounts in TSEK	2007 1/1-31/12	2006 1/1-31/12
Other income	9 750	-
Operating expenses	-23 690	-
<b>Operating profit/loss</b>	<b>-13 940</b>	<b>0</b>
Result from participations in Group companies	13 522	-
Financial income	559	-
Financial expenses	-47	-
<b>Operating profit/loss before taxes</b>	<b>95</b>	<b>0</b>
Income tax expense	-26	-
<b>Net profit for the period</b>	<b>68</b>	<b>0</b>

## Parent company Balance Sheet in summary

Amounts in TSEK	2007 31/12	2006 31/12
<b>Assets</b>		
Property, plant and equipment	583	-
Financial fixed assets	2 803 686	-
Current Assets	11 037	-
Cash and cash equivalents	18 026	100
<b>TOTAL ASSETS</b>	<b>2 833 331</b>	<b>100</b>
<b>EQUITY</b>		
Share capital	281 627	100
Other contributed equity	2 533 107	-
Retained earnings, including net income for the period	68	-
<b>Total Equity</b>	<b>2 814 802</b>	<b>100</b>
<b>LIABILITIES</b>		
Accounts payable	2 883	-
Other liabilities	562	-
Accrued expenses and deferred income	15 084	-
<b>Total liabilities</b>	<b>18 529</b>	<b>0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 833 331</b>	<b>100</b>

## Note 1 Main accounting principles

### Accounting standards and legal requirements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations announced by the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the EC Commission for application within the EU. In addition, the Swedish Financial Accounting Standards Council's standard RR 30:06, Supplementary Accounting Regulations for Groups is applied.

The parent company applies the same accounting principles as the group, except in the cases stated below in the section "Parent Company accounting principles".

#### The conditions for establishing the financial reports for the parent company and the group.

The parent company's functional currency is Swedish kronor, which is also the reporting currency of the parent company and the group. The financial statements are presented in SEK. Unless otherwise indicated, all amounts are rounded off to the nearest thousand SEK. Figures in the reports are based on a consolidation system in SEK. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers.

Assets and liabilities are accounted for at historical cost, with the exception of some financial assets and liabilities accounted for at fair value. Financial assets and liabilities carried at fair value are derivatives, financial assets classified as financial assets at fair value through profit or loss or available-for-sale financial assets.

#### Critical judgments when applying accounting policies and key sources of estimation uncertainty

The preparation of financial reports always involves a degree of judgment and estimations. The main such areas for EOS are deemed to be the following:

Management has assessed that the remunerations that are linked to the net asset value of the company are not derivatives. The investment portfolio of the company will in some part consist of shares where management has assessed that the instruments do not have prices quoted on an active market. In these situations, management will establish fair values based on valuation techniques. In relation to fair values established based on price quotations from active markets, the fair values based on valuation techniques will be more uncertain.

When valuing share-related compensations (see below), future share-related compensations based on future share issues are not considered due to uncertainties on how to apply IFRS 2 in this respect. The valuations only take into consideration share issues carried out per the date of delivering the interim report.

An area characterized by uncertainty in the calculations the company makes in relation to future actual outcome, is the calculation of the debt and cost for share-related compensations. This uncertainty is predominantly characterized by (a) uncertainty in assumptions about volatility dependant on the future mix of the asset portfolio, (b) unknown future strike prices and (c) time to maturity. The corresponding uncertainty regarding employee remuneration is predominantly in unknown future strike prices.

#### Basis for consolidation

The consolidated financial statements include the parent company and its subsidiaries. A subsidiary is a company over which the parent company has a controlling influence. Controlling influence means to, directly or indirectly, have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are included in the consolidated financial statements using the purchase method. According to the purchase method, the acquisition is considered a transaction by which the group indirectly acquires the assets of the subsidiary and assumes its liabilities and contingent liabilities. The cost of acquisition is determined by means of an acquisition analysis in connection with the acquisition. The analysis establishes both the cost of acquisition and the fair value of acquired identifiable assets plus the liabilities and contingent liabilities assumed. The cost of acquisition consists of the fair value of assets paid, liabilities incurred or assumed and equity instruments issued as consideration for acquired net assets, plus any transaction costs directly attributable to the acquisition.

Where the cost exceeds the net fair value of acquired assets and liabilities and contingent liabilities assumed, the difference is accounted for as goodwill. When the difference is negative, it is directly recognized in the income statement. A subsidiary is included in the consolidated financial statements as of the time of acquisition until the date on which the controlling influence ceases. Inter-company assets, liabilities, income, costs and unrealized profit or loss arising from inter-company transactions between group companies are eliminated in their entirety.

#### **Foreign currency translation**

Transactions in foreign currency are carried out to the functional currency at the rate of exchange on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate on the balance sheet date. Foreign currency differences that arise from translations are recognized in profit or loss. Non-monetary assets and liabilities recognized at historic cost are translated at the exchange rate on the transaction date

#### **Foreign operations**

Assets and liabilities in foreign operations are translated from their functional currency to the reporting currency of the group (Swedish kronor), at the exchange rate on the balance sheet date. Income and expenses in a foreign operation are translated to Swedish kronor at an average exchange rate comprising of an approximation of exchange rates prevailing at each transaction date. Translation differences that arise from currency

translation of foreign operations are recognized directly in equity as translation reserve.

#### **Property, plant and equipment**

Items of property, plant and equipment are measured at cost, less accumulated depreciation and any impairment losses. Cost includes the purchase price and any expenditure directly attributable to bringing the asset to a working condition for its intended use.

Depreciation is made on a straight-line basis over the estimated useful life. The estimated useful life is assessed annually.

#### **Pensions**

There will only be defined contribution pension plans in the group. Pension plans are classified as defined contribution plans when the company's obligation is limited to the amounts it is obliged to pay. The company's obligations regarding contributions to defined contribution plans are recognized as an expense in profit or loss when the employees have rendered services to the company during a given period.

#### **Provisions**

A provision is recognized in the balance sheet when the group has a present legal or constructive obligation as a consequence of an event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

#### **Taxes**

Income tax is comprised of current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity in which case it is recognized in equity. Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been applied by the reporting date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be

available against which temporary differences can be utilized.

### **Financial instruments**

Financial instruments will be classified in accordance with IAS 32 and recognized and measured in accordance with IAS 39.

### **Categories of financial instruments and measurement**

When a financial asset or financial liability is recognized initially, the company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. For financial instruments measured at fair value through profit and loss, transaction costs are recognized directly as expenses when they are incurred.

### **Financial instruments held for trading**

The investments in equity instruments will be classified as held for trading. The investments will consequently be measured at fair value (without any deductions for future transaction costs) with changes in fair values recognized in the income statement

Stand-alone and any potential embedded derivatives that are not closely related to the host contract also belong to the category financial instruments held for trading and will be measured at fair value through the income statement.

### **Financial assets available for sale**

In cases when the company is temporarily over-funded awaiting the appropriate moment for additional investments, the liquidity surplus will be invested in interest rate bearing financial instruments and the investments will for measurement and recognition purposes belong to the category financial assets available for sale. The instruments will accordingly be measured at fair value with changes in fair values recognized directly in equity.

### **Other financial liabilities**

Issued debt instruments and other financial liabilities will be measured at amortized cost

### **Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that the company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the company would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Financial instruments that are measured at fair value will, when possible, be measured at fair value based on prices that are quoted on active markets. According to managements judgment a major part of the investment portfolio does however not have prices quoted on an active market, and valuation techniques will instead be used. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation techniques used by the company incorporates the factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing similar financial instruments. The valuation techniques used by the company are based, as far as possible, on objective market data and as little as possible on entity specific data and judgment. The entity will regularly validate its valuation techniques by comparisons to actual transactions that take place in the market.

### **Equity**

Financial liabilities and equity instruments will be classified and presented in accordance with the substance of the transactions rather than the legal form, in cases where substance and form diverge. Also payments from these instruments will be classified in accordance with the economical substance of the contract. Treasury shares (reacquired own equity instruments) will be presented as deductions of own equity. A purchase of own shares will be accounted for as a deduction of equity and a sale as an increase in equity, with no gain or loss recognized in the income statement. Any transaction cost arising from the purchase or sale of own shares will also be recognized directly in equity.



### **Share-based payments**

Currently, only contracts on cash-settled share-based payments exist. The entity accounts for the services received in a share-based transaction when the services are rendered. The entity measures the services acquired and the liability incurred at the fair value of the liability, in accordance with IFRS 2 rules for share-related compensations settled with equity instruments. The size of the accrual is calculated using a Monte Carlo simulation and Black-Scholes model for option valuation. Until the liability is settled, the fair value of the liability is re-measured at fair value at each balance sheet date and at settlement date, where changes in fair values are recognized in the profit or loss statement.

### **The Parent Company's accounting principles**

The financial statements of the Parent Company are prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Financial Accounting Standards Council's standard RR 32:06, Accounting for legal entities. In addition, all interpretations issued by the Swedish Accounting Standard Council's emerging issues task force, are applied. RR 32:06 implies that the parent company, in its own financial statements, applies all of the EU-approved IFRS and interpretations as far as it is possible within the framework of the Swedish Annual Accounts Act and with due regard to the relationship between accounting and taxation. This standard specifies which exceptions and additions must be applied with regard to IFRS.

### **Subsidiaries**

Holdings in subsidiaries are carried at cost less any impairment losses