



**Annual Report 2005**  
The Swedish Co-operative Union (KF)

# Contents

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02	From the President
04	The Co-operative Union's long-term aims
10	Global commitment
12	The Swedish FMCG sector in 2005
13	KF's consumer work
16	The consumer co-operative societies' activities
20	Coop Norden
22	KF Fastigheter (Real Estate)
24	MedMera
26	KF Invest
27	KF Sparkassa (Savings Association)
30	KF Media
32	Other operations
34	Employees
38	Directors' Report
41	Income Statement, the KF Group
42	Balance Sheet, the KF Group
44	Changes in equity/Cash Flow Statement, the KF Group
45	Income Statement, KF Parent Society
46	Balance Sheet, KF Parent Society
48	Changes in equity/Cash Flow Statement, KF Parent Society
49	Accounting principles
51	Changes to the Group structure during 2005
52	Notes
68	Auditor's Report
69	Key ratios
70	Membership influence
72	The Board's activities
73	From the Chairperson
74	KF's board
76	KF's management

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KF's annual report for 2005 consists of a general presentation of KF's commitments and activities, as well as KF's annual accounts for 2005. It is aimed at elected representatives and members of the consumer co-operatives, employees of the KF Group, associated companies and consumer co-operative societies, as well as suppliers, customers and business partners. The annual report is also available at [www.kf.se](http://www.kf.se)

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**KF's 107th General Meeting will be held at Vår Gård Saltsjöbaden on 25 April 2006.**

# This is KF

The Swedish Co-operative Union (KF) is the union of the country's 58 consumer co-operative societies with around three million members.

KF has two principle roles. One is to be a union for the consumer co-operative societies, the other is to be an active owner of Coop Norden and the wholly owned subsidiaries. In the roles of union and owner, KF contributes towards development of the consumer co-operative FMCG (Fast Moving Consumer Goods) operations and helps to give members of the Swedish co-operative movement the opportunity to buy good products at good prices in attractive shops.

KF owns 42 per cent of Coop Norden, the biggest FMCG player in the Nordic region. KF also operates wholly owned businesses that support the

FMCG operations through KF Fastigheter (Real Estate), MedMera, KF Invest, the service companies KF Shared Services and KF Föreningsrevision (Society Audit), as well as the media company KF Media and the conference venue Vår Gård Saltsjöbaden. Through KF Konsument (Consumer Affairs), KF works on consumer issues through lobbying and skills development in order to make it easier for consumers to make their choices and to create additional consumer benefit for members.

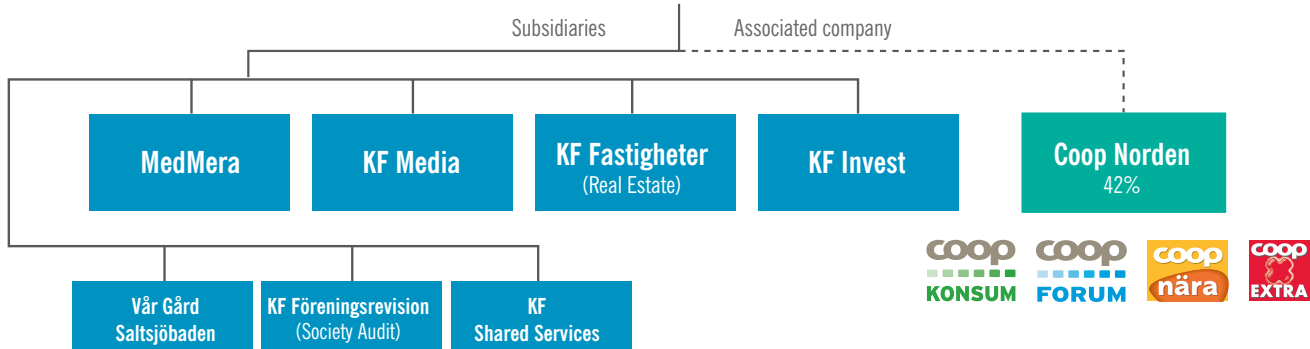
In 2005 KF continued to be profitable and financially strong. The profit after financial items totalled SEK 715 million (1 084). The return on equity was 9.8 (18.6) per cent and the debt/equity ratio 0.03 (0.01).



3 million members in 58  
consumer co-operative societies



KF Parent Society



# The year in brief

## Positive result and strong finances

KF recorded a strong financial result for 2005, with a profit before taxation of SEK 715 million (1 084). KF's financial status continued to be very strong, with a debt/equity ratio of 0.03 (0.01). The net debt at the end of 2005 totalled SEK 190 million (68).

## Investments in the FMCG operations

Coop Norden's operating profit before capital gains and structural provisions totalled SEK 68 million (209). With the effects of the successful property sales in Sweden and after the provision for structural costs, the operating profit totalled SEK 1 325 million. The financial base and the conditions for investing in the business have thus been improved considerably. However, the Swedish business performed modestly, and a wide-ranging series of measures was initiated in 2005 involving price reductions, efficiency improvements and co-ordinated marketing.

## Member value

The number of members in the consumer co-operative societies grew during the year by about 60 000 net to around 3 000 000. During the year these members redeemed reward vouchers through the Coop MedMera membership card that generated discounts to a value of approx. SEK 410 million. During the year KF Konsument (Consumer Affairs) started up as a skills and

co-ordination centre for consumer issues within the co-operative movement. A large number of activities relating to relevant consumer issues were undertaken in collaboration with the consumer co-operative societies during the year.

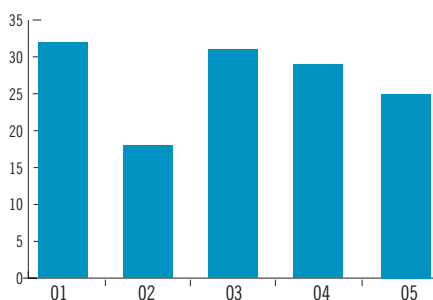
## Development of current operations

Most of KF's wholly owned subsidiaries experienced positive growth during the year. KF Fastigheter (Real Estate) and KF Invest performed well and reported increased operating profits. The market value of the portfolios also increased. MedMera continued to develop its financial services, and since the beginning of the year it has been registered as a credit market company under the auspices of the Swedish Financial Supervisory Authority. KF Media, which includes such names as Akademibokhandeln, Bokus, PAN Vision and Norstedts Förlagsgrupp, recorded positive growth in sales, albeit with a significant, negative profit trend, primarily because of major one-off write-downs in PAN Vision, where an extensive recovery programme has been initiated.

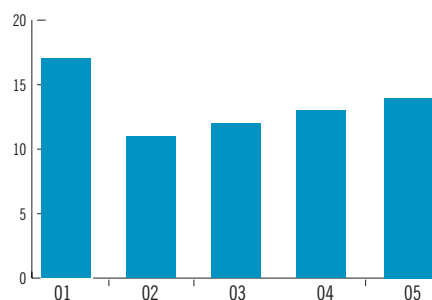
## New President and CEO

In November 2005 Börje Fors was succeeded in his position by Lars Idermark, who had previously been President of the Second AP Fund. Börje Fors remained as President of the subsidiary KF Media until the end of February 2006.

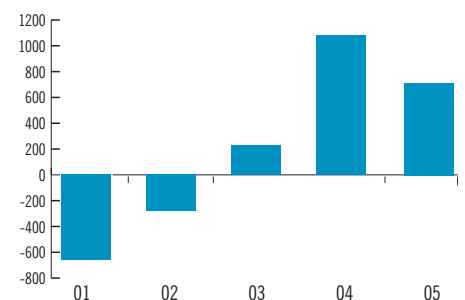
Sales (SEK billion)



Assets (SEK billion)



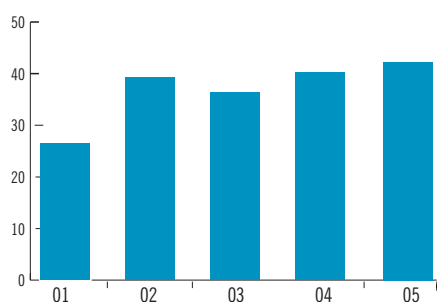
Profit after financial items, (SEK million)



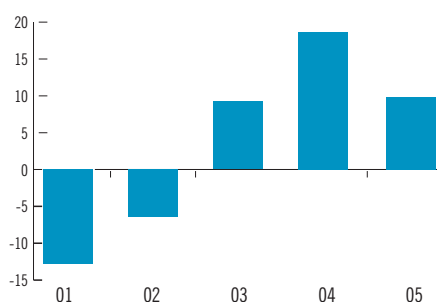
# Five-year summary

Five-year summary	2005	2004	2003	2002	2001
<b>The KF Group</b>					
Sales excl. VAT, SEK billion	25.2	29.0	31.6	18.5	32.2
Profit after financial items, SEK million	715	1084	228	-280	-662
Number of sales outlets in Sweden, KF	56	54	177	174	661
Average number of employees	1 220	1 321	3 576	3 758	17 361
<b>Coop Norden in Sweden</b>					
Number of sales outlets, Coop Sweden*	361	383	398	416	
Average number of employees, Coop Sweden*	9 007	9 866	11 591	12 322	
* Up to and including 2001 Coop Sverige's business, sales outlets and employees were included in the KF Group.					
<b>Consumer co-operative societies</b>					
Retail sales excl. VAT, SEK billion	15,7	16,0	16,2	16,0	15,0
Number of sales outlets	444	470	502	520	547
Average number of employees	7 700	8 317	8 591	8 676	8 821
Number of consumer co-operative societies	58	60	63	65	67
<b>Number of members (,000)</b>	<b>3 000</b>	<b>2 940</b>	<b>2 876</b>	<b>2 791</b>	<b>2 678</b>

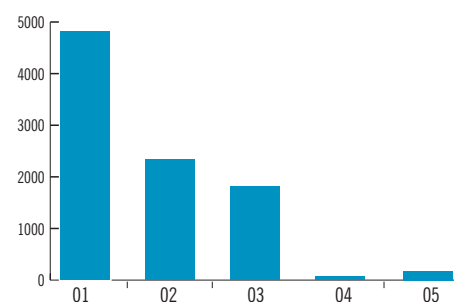
Equity/assets ratio (%)



Return on equity (%)



Net debt (SEK million)



# From the President

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The monopoly has been broken, the cartels shattered, borders opened. Competition is becoming tougher in an increasingly global retail market. A well-managed retail business takes many forms. Pressure on prices and a large range of products gives consumers greater choice. At the same time this places tougher demands. To be able to make conscious consumer choices, more information and knowledge is required. These demands are reinforced by the awareness that our choices affect the environment in which we live.

The conditions are radically different compared to the consumer co-operative's successful years in the twentieth century, but the needs remain. The challenge is to regain the initiative and to develop the modern consumer co-operative far more rapidly than before so that it can respond to tomorrow's demands and preferences. The main objective is to provide members, who jointly own the consumer co-operative, with access to good products at good prices in modern, competitive shops. With attractive offers, information and knowledge, the consumer co-operative must contribute towards simplifying and facilitating conscious consumer choices.

Meeting tomorrow's demands requires strength and the power to grow. It is therefore crucial for our success that there is good profitability in our business activities.

## Turning the corner with Coop Norden

The increasingly tough competition and the greater internationalisation of the FMCG market were the starting points for the creation of Coop Norden. The aim was that increased co-ordination and collaboration in the Nordic region would make the business more efficient and more competitive, thus giving the co-operative outlets in Sweden, Norway and Denmark better opportunities to create member value.

So far Coop Norden has not met these expectations. The operating profit before capital gains and structural provisions was a modest SEK 68 million. With the effects of the successful sales of Coop Sverige's properties in 2005 and the provision for structural costs, the operating profit totalled SEK 1.3 billion. This has tangibly improved the financial base and the conditions for investing in and renewing the business. The market position in both Denmark and Norway improved in 2005. Coop Danmark recorded its best-ever operating profit.

In Sweden both the market position and profitability were dramatically worse than the previous year for the second year in succession. There is now a significant programme of measures in place that will be implemented in 2006, involving efficiency improvements, greater co-ordination, organisational changes, cost reductions, restructuring and the closure of shops. At the same time strong, proactive initiatives are required in new, attractive retail locations.

To reverse this trend we need to see a real show of force with a focus on improved owner control and cost adaptation, combined with greater freedom for the companies in each country, without reducing Coop Norden's benefits of scale. But the overall concept of Coop Norden is totally correct. However, the effects of the merger are



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taking longer than expected to emerge, which is not unusual in large, complex mergers. The strength and the potential in Coop Norden do nevertheless mean that there is good reason to be optimistic about the future.

## KF's responsibility towards the co-operative retail sector

With a 42 per cent holding, KF is the biggest minority owner in Coop Norden. KF must be an active owner, which means a responsibility to drive the co-operative movement's transformation from a Nordic and a Swedish perspective.

KF's sound finances create the conditions for playing a leading role in the development of Coop Norden, in parallel with initiatives to reinforce the retail societies in Sweden. The profit after financial items at KF totalled SEK 715 million. The financial status has been improved considerably, and KF is now in principle free of debt. This healthy trend is based on positive financial results in most of KF's wholly owned subsidiaries. All of these also have strong potential for development.

In order to reinforce the position of consumers in various ways, KF will also be placing further emphasis on its role as a lobbyist on consumer and consumption-related issues.

## An open culture creates commitment and desire

The management and control of KF's business will be reviewed during 2006. The aim is to adapt the organisation to KF's various roles as a union for Sweden's consumer co-operative societies and part-owners of the biggest retail company in the Nordic region, and as a Group with a number of wholly owned, operational subsidiaries. Roles and responsibilities must be communicated and clarified. KF must become more open and more proactive in the future.

## The vision

The consumer co-operative has a unique business concept based on co-operation, owner influence and a share in the surplus in relation to purchases made. The business must also contribute towards the sustainable development of society. I

am of the opinion that the Swedish consumer co-operative is needed now more than ever. But healthy development requires active, committed, articulate consumers and members. In modern society there is certainly no lack of commitment to matters involving the environment, resources and energy. New technologies in the fields of genetic engineering, medicine, biotechnology, food production and animal welfare affect all consumers. Ethical issues and the social role and responsibility of companies in production and distribution chains across all borders are becoming increasingly important. This is where the consumer co-operative should once more assume its leading role.

It is the task of the consumer co-operative to support consumers to achieve long-term levels and patterns of consumption that are sustainable in a future where energy and environmental problems will pose a challenge for the whole of western society and our welfare. The consumer co-operative must be more open to changes and new solutions than has been the case for many years. Those who have an insight, are receptive and have the ability to understand the requirements of the future will be the winners of the 21st century.



Lars Idermark  
President and CEO

# The Co-operative Union's long-term aims

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## The consumer co-operative's business concept

*"...The consumer co-operative shall enable its members through their consumption to contribute towards a society characterised by economic development, ecological sustainability, social trust and collaboration. This shall be achieved primarily through:*

- *The sale and provision of goods and services that, on the basis of members' requirements and preferences, provide economic, ecological and social added value.*
- *Skills development and information that gives members a basis on which to plan their purchases and their finances.*
- *Lobbying on consumer issues...*"

From KF's statutes

## KF's role and objective

The Swedish Co-operative Union (KF) has two principle roles. One is to be a union for the consumer co-operative societies, the other is to be an active owner of Coop Norden and the wholly owned subsidiaries. In the roles of union and owner, KF contributes towards development of the consumer co-operative FMCG operations and helps to give members of the Swedish consumer co-operative the opportunity to buy good products at good prices in attractive shops.

KF's objective for the co-operative FMCG shops is that they must be profitable and competitive, and provide clearly defined benefits for members.

To make it easier for members and customers to be able to make conscious choices in their consumption, KF must also work on information and lobbying in matters relating to consumers and consumption.

KF must be financially strong and essentially independent of loans from banks. As a professional, active owner, KF must work to develop its

wholly owned subsidiaries. This work is undertaken by such means as active board work, a clear specification of requirements in terms of profitability and prioritisation, and ongoing analytical support. In 2005 the financial ownership requirements were further clarified and tightened for all businesses.

KF's aim is that all wholly owned subsidiaries in Coop Norden shall achieve and maintain market profitability and yields, as well as being competitive in the long term.

## Strategic cornerstones

The main focus of the consumer co-operative is on the consumer co-operative FMCG operations. The businesses now within KF are primarily necessary, strategic cornerstones to support and develop the FMCG operations. KF Fastigheter (Real Estate) is primarily the consumer co-operative's skills centre for real estate matters, but it is also an active manager of the real estate portfolio. MedMera develops member benefits through the Coop MedMera concept. KF Invest offers financing and investment capacity to the KF Group and the consumer co-operative societies, and engages in active asset management in order to guarantee a good return on members' deposited funds.

## The consumer co-operative FMCG operations

KF is a significant player in the Swedish FMCG market, both as a owner and a union. Through its ownership of Coop Norden, KF and its Nordic equivalents constitute the biggest player in the Nordic market. There is tough competition in the FMCG operations and the turnover rate is high. This trend has affected both Coop Norden and the retail societies, which is why the consumer co-operative's total market share has declined in recent years.



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## Coop Norden

As the biggest owner in Coop Norden, KF encourages healthy, profitable development of the company by working with the other owners to make clear demands, draw up business and capital supply plans, drive management issues and in general to work actively as a board. In 2005 the owners' work was focused on analysis, implementation and follow-up in collaboration with the owners and management of Coop Norden, and with the collaborating societies in the Nordic region.

In recent years Coop Norden has experienced a negative trend, especially in Sweden. Since its formation in 2002, the company has posted a negative net profit figure, and the market share has fallen in Sweden. The operating profit in 2005 excluding capital gains and structural provisions totalled SEK 68 million. Including the profit from property sales, the profit was SEK 1.3 billion. The co-operative's market share of FMCGs in Sweden was 16.2 per cent (17.5).

In response to this negative trend, KF has increased its demands on the company. Within the framework of the change project "Coop Norden 2007" the owners formulated financial targets for 2007/2008, including for the operating margin, which are on a par with comparable businesses. Coop Norden is not currently satisfying the owners' financial and market requirements.

In addition to active board work, KF is contributing financial strength, expertise in the field of business development and, through the subsidiary KF Fastigheter (Real Estate), real estate expertise to develop the retail locations for all of the Swedish consumer co-operative, including Coop Sverige.

## Consumer co-operative societies

As the consumer co-operative societies' union, it is also KF's role to encourage the transformation in the FMCG operations that is being driven by the societies. Many of these have been affected significantly by the increased competitive pressure.

## Owner control

KF is a significant owner in companies that operate in the Swedish and Nordic retail sector, with a focus on FMCGs. KF's influence in associated companies and subsidiaries is based on its share, as well as on trust and expertise. On this basis, an active role as a owner is exercised in order to find means of guaranteeing good, long-term development and increasing the value of the share. Active ownership is exercised by board members in the companies with an association with KF, and through ongoing dialogue between KF and senior representatives of the companies.

KF has drawn up owner requirements for all companies in the form of financial targets and a follow-up procedure. In its role as owner, KF demands a competitive market return on a par with comparable businesses. At the same time KF requires that all business activities be run in line with consumer co-operative principles and

values, which are formulated in the statutes and in the steering value document the Compass.

KF's controlling work as a owner follows a structured methodology. It consists of a clear specification of requirements in the form of financial targets and target areas, and is formulated in the companies' business plans and project plans based on the results for the period. The business plan forms the basis of the planning of measures in the companies' operations. The methodology also includes the implementation of and follow-up on activities and profit trends against the business plan, project plan and target figures. Follow-up on the companies' performance is communicated on an ongoing basis to each company's board in order to ascertain quickly whether the company is performing according to plan. The owner requirements are used for such purposes as financial control of the businesses, evaluation of the management of each company and as a yardstick in budget discussions.

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It is a prerequisite for this transition that the structure of the societies is developed. The number of retail societies at the end of the year was 53, a reduction compared to the previous year. The trend towards fewer, but stronger regional societies is expected to continue.

KF offers expertise in the field of real estate and business development to support the work of these societies on development and efficiency improvement. KF also encourages Coop Norden and the societies to increase their collaboration, so that they can make use of the benefits of scale in everything from purchasing, product range and pricing philosophy to the design of shops and concepts.

Societies that do not run their own FMCG business, the so-called member interest societies, exercise their influence on the FMCG operations by means of consultancy agreements with Coop Norden and through KF's share in Coop Norden. They take part in formalised consultations with KF and Coop Sverige to discuss matters relating to business operations, for example when opening new shops. The societies also collaborate to a large extent with the local FMCG business.

## Member benefits

One of KF's main objectives is to make membership of the consumer co-operative attractive. Alongside competitive FMCG operations, KF also offers a number of benefits, largely channelled through the MedMera concept, the consumer co-operative's joint membership card, and KF Sparkassa (Savings Association), which enables members to save at competitive interest rates.

MedMera, which was formed in 2004, has given KF an extra boost in driving the development of member benefits and the membership concept, providing a service to both members and to the FMCG operations. MedMera undertakes active development work in the field of customer relationship management (CRM) to support Coop Sverige and the shops in their contact with members. The financial services have been further developed, for instance with MedMera Invoice, a service in which the member pays for purchases

retrospectively against an invoice. Since January 2006 MedMera AB has been registered as a credit market company under the auspices of the Swedish Financial Supervisory Authority.

## Consumer issues

The consumer co-operative must be a driving force in consumer issues and the dissemination of information to create the right conditions for members to be able to make conscious choices in their consumption. In 2004 KF initiated a new centre of competence and co-ordination, KF Konsument (Consumer Affairs), in order to drive consumer issues more effectively through a partnership between KF and the societies.

Much of the practical consumer work aimed at members is undertaken by the societies on the basis of jointly developed concepts, for example specialist presentations and in-store events on the subject of "Sund Mat" (Healthy Eating) in 2005. Together with Coop Sverige, KF publishes the series of brochures entitled "Bra att veta" ("Worth Knowing").

## Administrative work

KF manages the assets that members lend to the consumer co-operative. Member lending must be safely invested and the assets managed in such a way that KF has a high level of financial preparedness. At the end of the year the debt/equity ratio was 0.03. This means that KF's liquid interest-bearing assets correspond to external borrowing including member deposits in KF Sparkassa (Savings Association). KF may not use members' funds to finance the business. Apart from the securities portfolio, KF manages a real estate portfolio through KF Fastigheter (Real Estate) with a market value of SEK 4.9 billion. KF also owns the media group KF Media.









# Global commitment

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KF has a long tradition of global commitment through the International Co-operative Alliance and the co-operative movement's development aid activities. This commitment is an expression of KF's values as compiled in the Compass, the consumer co-operative's shared values and beliefs, and in KF's statutes.

## The International Co-operative Alliance

KF is a member of the International Co-operative Alliance (ICA), which was formed in 1895. ICA is an international non-governmental organisation (NGO) that represents, unites and serves co-operatives all over the world and provides them with, among other things, information.

The ICA's members are national and international co-operative movements in a broad range of sectors: banking and insurance, agriculture, health, real estate, industry and FMCGs. 223 organisations from 89 countries were members at the end of 2005. ICA represented 800 million members through these organisations. This makes ICA the biggest NGO in the world.

## Swedish Co-operative Centre (SCC)

Swedish Co-operative Centre (Kooperation Utan Gränser) was formed in 1958 as a non profit-making association to provide support for development in countries with widespread poverty. The association has 62 member organisations, including KF, Coop Norden, LRF, HSB, Folksam, OK, Föreningssparbanken and Lantmännen.

Support is based on the concept that development cannot be created from the outside. SCC therefore provides "help for self-help" through the spreading of knowledge in collaboration with local partner organisations. The main areas are agriculture and rural development, homes, savings and credit. There are operations in a total of 23 countries. In 2005 total income was SEK 193 million, most of which comprised subsidies from SIDA (the Swedish International

Development Co-operation Agency) for project and information activities. Fund raising generated SEK 33 million, of which around SEK 7 million was for reconstruction work following the tsunami.

## Vi "Plant Trees"

KF formed the Vi "Plant Trees" foundation in 1983 based on an initiative in the "Vi" magazine. The original idea was to plant trees to prevent erosion. The activities now are far broader. Vi "Plant Trees" vision is to create an ecologically sustainable environment in the form of a green belt around Lake Victoria and good living conditions for families of small farmers.

In 2005 total income was SEK 52 million, of which around SEK 28 million comprised a subsidy from SIDA. Fund raising generated around SEK 19 million. During the period 1997-2005 Vi "Plant Trees" has also received support from Coop NKL and Norad, the Norwegian equivalent of SIDA.

## KF Project Center

The KF Project Center was formed in 1986 as a "network company". Since 2000 it has been owned by Koopi, of which KF is a part-owner. The business supports the development of co-operative organisations and strengthens democracy and member value in its business partners. The concept is to offer practical "know-how" in the form of organisational development and training. The KF Project Center is run on a non profit-making basis, and collaborates with a number of aid organisations. The business concentrates primarily on Asia, as well as Eastern and Central Europe.



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## Fund raising and aid activities

In 2005 KF made aid contributions to a value of 50 öre per member in the consumer co-operative. The total amount of SEK 1.5 million was divided between SCC and Vi “Plant Trees”. Coop Sverige and most societies also contributed 3 öre for every carrier bag sold and gave priority to SCC collection boxes at the in-store checkouts.

## Bistånd på köpet (Shopping Aid)

In October 2001 was launched Bistånd på köpet (Shopping Aid) through the Coop MedMera card. Members with a Coop MedMera Account can automatically round up payments to the nearest whole krona, and thus contribute towards co-operative aid. The money is shared between

SCC and Vi “Plant Trees”. At the end of the year 132 000 members had signed up to Bistånd på köpet (Shopping Aid), which collected more than SEK 3.3 million in aid during 2005.

## Biståndsknappen (The Aid Button)

Since the end of 2004, in many of Coop Sverige’s shops there has been the facility to make a new kind of donation to SCC and Vi “Plant Trees”. Instead of getting a receipt from the machine for returnable bottles, which can be taken to the checkout to exchange for cash, there is the option of pressing Biståndsknappen (The Aid Button). The cash is then given straight to the aid organisation. In 2005 around SEK 4.2 million was collected via Biståndsknappen (The Aid Button).



# The Swedish FMCG sector in 2005

Since the early 1900s KF has been a major player in the development of the Swedish FMCG sector. In recent years market conditions have changed, with increasing competition and pressure on prices. The consumer co-operative continued to lose market share in the Swedish FMCG sector in 2005.

## Market trends

In 2005 the FMCG sector in Sweden experienced volume growth of around 2 per cent. This is on a par with the rate of volume growth in 2003 and means that in 2005 the FMCG sector performed better than in 2004, when volume growth was 1.4 per cent. During the year the consumer co-operative's market share was 16.2 per cent (17.5). Comparable competitors improved their market positions, and low-price players are continuing to win market share. The consumer co-operative is the second largest player in the Swedish FMCG sector.

Hypermarkets saw the strongest performance during the year, with growth in revenue of around 5 per cent, followed by the low-price sector (hard discount), whose market share rose by 1.8 percentage points to 3.7 per cent. The rate at which new shops in the hard discount sector

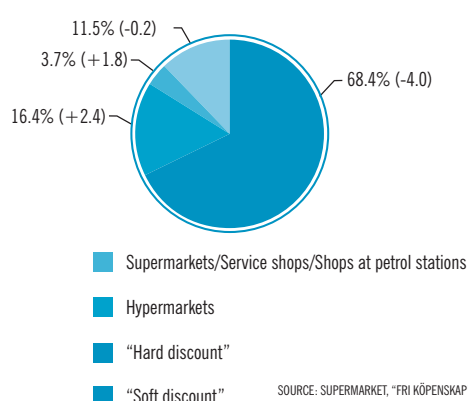
opened slowed down somewhat in 2005, although sales per shop increased strongly. The positive trend is due not only to low prices, but also probably due to major adjustments to the product range during 2005. By contrast, supermarkets and service shops performed poorly. The market share for these outlets dropped by 4 percentage points to 68 per cent.

## Tough competition on price

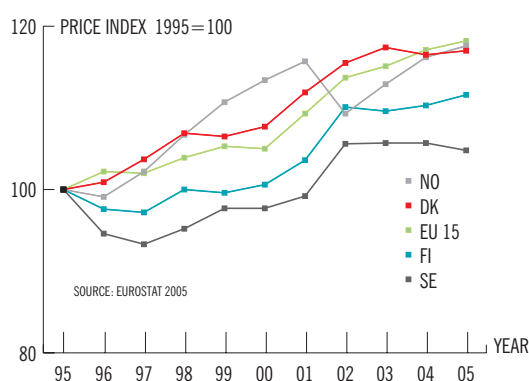
The trend in the various industry segments reflects the overall pattern in the FMCG sector: increasingly tough competition on price. Sweden is starting to approach the price level in the FMCG sector in the rest of Europe. Sweden is just above the average in all EU countries, and for the second year in succession the prices of FMCGs fell.

## The Swedish FMCG sector in 2005

Breakdown of industry segments in 2005 (% change):



Price trend for food in the Nordic region and the EU:



# KF's consumer work

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The consumer co-operative movement was started to provide members with pure, genuine products at low prices with honest information. This continues to be the guiding principle of the modern consumer co-operative, even though the world is different today.

In modern society consumers and members face an increasing number of more complex choices, alongside greater competition and a broader range of products. KF works through lobbying and skills development in consumer issues to create better conditions and to make it easier for consumers to make their choices.

In 2004 the consumer co-operative formed KF Konsument (Consumer Affairs), a skills and co-ordination body within the consumer field. With KF Konsument (Consumer Affairs) co-ordinating and supporting the activities of the consumer co-operative societies in the consumer field, the societies' activities can have a greater impact.

Another important element of KF Konsument (Consumer Affairs) work is, in dialogue with the other Nordic owners and representatives of Coop Norden, to contribute towards the development of consumer work in stores and towards developing products and the product range.

With the support of KF Konsument (Consumer Affairs), in 2005 the consumer co-operative societies organised four campaigns under the co-ordinated main heading of "Sund Mat" (Healthy Eating). A total of around 150 presentations were held in the societies on the subjects of Pigga barn (Healthy Children), Piller eller mat (Pills or Food), Mättande mat (Satisfying Food) and Det gröna julbordet (The Green Christmas Table), with around 6 500 participants. Several in-store activities were also arranged on these topics.

KF Konsument (Consumer Affairs) also plays an active role in lobbying. During the year activities included a response to the final report entitled "Bilen, biffen, bostaden; om framtida konsumentpolitik med inriktning på hållbar konsumtion" (Car, food, home: about future consumer policy based on sustainable consumption). At a Nordic level KF Konsument (Consumer Affairs) has worked together with the consumer co-operatives in other Nordic countries to encourage the Nordic Council to harmonise labelling requirements and dietary advice.

In 2006 KF Konsument (Consumer Affairs) intends to conduct an even more extensive dialogue with members, partly via an electronic forum, in order to put forward views to the consumer co-operative societies and Coop Sverige.









# The consumer co-operative societies' activities

The consumer co-operative societies are the foundation of the consumer co-operative movement. At the end of the year there were 58 societies in Sweden with around three million members in total. Between them the societies own KF.

The societies operate on a local/regional level. There are two different types of society. The retail societies run retail operations on their own, while the member interest societies have passed on responsibility for operations to Coop Norden. The member interest societies still have an influence over the FMCG activities through indirect ownership and collaboration.

## Retail societies

At the end of the year there were 53 retail consumer co-operative societies. A society can run anything from one shop to several shops in various industry segments. The shops have to some extent different brands and concepts than Coop Sverige, but Coop Norden is responsible for supplying most of the products.

The retail societies also arrange society activities. As well as gathering members' opinions on the control of the retail sector, activities include lobbying, supportive work and training.

In recent years many of the retail societies have merged in order to increase their competitive strength. At the end of 2005 Konsum Nord and Konsum Jämtland merged. This makes Konsum Nord the biggest retail society, with annual revenue of around SEK 4 billion and around 260 000 members.

Total revenue for the retail societies was SEK 18.7 billion.

- Number of societies: 53
- Number of members: 1 150 146

## Member interest societies

During the 1990s the five consumer co-operative societies Stockholm, Svea, Solidar, Väst and Norrort transferred the operation of their FMCG business to KF. Since 2002 these societies' co-operative shops and hypermarkets have been a part of Coop Norden. These five societies represent 60 per cent of members.

Activity in the so-called member interest societies focuses mainly on issues of member, environmental and consumer policy, as well as owner-related issues. The internal collaboration between the societies is well developed. The member interest societies exercise their influence in the FMCG operations through consultancy agreements with Coop Sverige and through KF's ownership of Coop Norden. They channel the members' influence in shops and supermarkets through shop councils, regional councils and retail councils. The councils act as forums for consultation between the societies, Coop Sverige and KF on matters that affect the business operation and also serve, among other things, to add knowledge of local conditions.

- Number of societies: 5
- Number of members: 1 850 261

The chain concepts within the consumer co-operative FMCG operations:





## Example: Konsumentföreningen Väst

Konsumentföreningen Väst (Consumer co-operative Society) is one of the five so-called member interest societies, which in the early 1990s handed over operation of the shops in their societies' region to KF so that they could concentrate on issues relating to members and the societies. The shops are now a part of Coop Sverige. The society's region stretches from Hova in the north to Falkenberg in the south.

Konsumentföreningen Väst has a very active society. In 2005 around 50 presentations were arranged on subjects such as Hållbar Utveckling (Sustainable Development), Sund Mat (Healthy Eating) and Balans för kropp och själ (Balance for Body and Soul.) Members can also participate in the society's study groups, so-called member circles, which deal with current consumer issues. In total around 2 000 members participated in the society's activities during the year. There are many ways in which members can get involved and make their voices heard in the Väst Consumer co-operative Society. The objective is to increase direct democracy, partly through the Members' Panel on the Internet and reference groups, which can put forward opinions and advice on the society's shops.

The society's Board participates in the Väst regional council with management from KF and Coop Sverige in order to discuss its members' requirements and needs, as well as the co-operative's development.

Founded: 1916

Number of members: 322 318

Increase in number of members during the year: 13 887

Number of shops in society's region: 39 (Of which 9 hypermarkets)

The shops are a part of Coop Sverige.

## Example: Konsum Malmfälten

Konsum Malmfälten was formed in 1994 by the merger of Malmberget Kooperativa Handelsföreningen (Co-operative Trading Society) and Kiruna Konsumentförening (Consumer co-operative Society). The society's region includes the municipalities of Kiruna, Gällivare and Jokkmokk. The community of Lannavaara has Sweden's most northerly Konsum outlet.

During the year Konsum Malmfälten arranged, among other things, two "hälsodagar" (health days) for its members. One of these days was held in Kiruna in October, and is a regular, annual activity. The other took place in Vuollerim, in Jokkmokk municipality, in November. A total of around 200 members took part in the presentations, which covered topics such as life in the open air, children and obesity, art and the joy of dance.

Konsum Malmfälten works actively to listen to its members' views. The society uses such means as reference groups, whose participants include members' representatives. These reference groups bring up opinions of the society's shops. During the year two shops have made use of reference groups, something the society intends to make greater use of in future.

At the society's general meeting in 2005 a decision was made to reduce the number of districts from eight to four, in order to create a more efficient operation.

Founded: 1994

Number of members: 27 403

Increase in number of members during the year: 311

Number of stores: 15 (Of which 2 hypermarkets)

Revenue: SEK 680 million

## Advice and financing support to the societies

KF has developed its role in providing financing support, partly by creating the Finance Committee. Representatives from both KF and the societies work to identify, analyse and deal with the challenges facing the individual societies. During the year KF has supported a number

of retail societies with general business analyses. This work has resulted in concrete action plans and methods for KF's financing support. As the competition in the FMCG market becomes ever tougher, KF will be offering more and more support to the consumer co-operative societies.

## Example: Konsum Gotland

Konsum Gotland (Consumer co-operative Society) has a long tradition of close collaboration with local farmers. Around one third of the bread shelves are filled with products from local bakers.

During the year the society's shop council arranged a number of study visits to local farmers who supply food to the consumer co-operative society's shops. The elected representatives invited members into the shops to discuss matters relating to the local business.

As well as the member discounts from Coop MedMera, members have received several special offers for sporting and cultural events. These discounts have been distributed to more than 2 500 members.

Around 200 members attended Konsum Gotland's four district general meetings in 2005.

Founded: 1919

Number of members: 27 744

Increase in number of members during the year: 114

Number of stores: 7 (Of which 1 hypermarkets)

Revenue: SEK 334 million

## Example: Konsumentföreningen Knäred

Konsumentföreningen Knäred (Consumer co-operative Society) runs one shop in Knäred in Laholm municipality. Around 2 000 people live in the society's region, more than half of whom are members of the consumer co-operative.

The society has taken part in the consumer co-operative's national members' weeks during the year. Every Sunday members have been offered the opportunity to take part in a draw for a gift voucher. During the year Coop MedMera's brochures were distributed to members, which the society intends to continue to do in future years.

Most members have been involved in the business on a voluntary basis, and the society's manager works in the shop every day.

Konsumentföreningen Knäred has direct democracy, which means that all members can take part in the society's general meeting, which is the only members' body in the society.

Founded: 1920

Number of members: 1 101

Increase in number of members during the year: 71

Number of stores: 1

Revenue: SEK 26 million

## The consumer co-operative societies

At the end of 2005 58 consumer co-operative societies were members of the Swedish Co-operative Union (KF). Through their membership the societies own KF.

The societies can report a continued, healthy increase in the number of members. The number of members increased net by 60 313 and totals around three million.

The number of members in each society is used as a basis for the allocation of 94 representatives at the Swedish Co-operative Union's General Meeting.

BESIDES THE CONSUMER CO-OPERATIVE SOCIETIES, THE FOLLOWING ARE MEMBERS OF THE SWEDISH CO-OPERATIVE UNIONS GENERAL MEETING

OK Ekonomisk förening, OK Köping, OK Norrbotten, OK Piteå, OK Värmland, OK Västerbotten, OK Örnköldsvik, Folksam Liv, Folksam Sak, Fonus.

# Consumer co-operative societies

Number of members and sales units in each society's region



# Coop Norden

Coop Norden AB is the biggest FMCG player in the Nordic region, with sales of around SEK 90 billion, of which around SEK 30 billion comprises wholesale sales to the Swedish, Danish and Norwegian shops run by the consumer co-operative societies.

By continuously developing the business, Coop Norden has strengthened its competitive position in the Nordic market and continued to enjoy successes in both Denmark and Norway. The Swedish business is experiencing continued difficulties as a result of tough competition combined with a rate of investment that is far too low. In order to reverse the trend in Sweden and to continue to strengthen the competitive position, KF and the other owners have clearly defined the owners' requirements ahead of the launch of the turn around project "Coop Norden 2007".

## Nordic collaboration

Coop Norden was formed in 2002 by KF together with FDB in Denmark and Coop NKL in Norway in order to strengthen the co-operative FMCG operations and to counteract the increasingly tough competition in the Nordic region. The company is the biggest buyer of FMCG goods in the Nordic region. Joint purchases have led to better supplier agreements and permanently lower prices in large parts of the in-store

product range. Collaboration on a Nordic level takes place within several areas, for example concept development. The FMCG operations in the various countries have been run since 2005 via national subsidiaries in order to guarantee effective co-ordination in each country and to focus attention on the local chains.

## Coop Sverige

The Swedish FMCG market is characterised by the toughest price competition in the Nordic region as a consequence of the low-price players' progress and a high level of new shop openings among all players in recent years. In 2005 prices fell by 0.5 per cent. Competition on price and the development of clearly defined in-store concepts to better meet consumers' differing patterns of shopping behaviour are both clear trends.

In Sweden Coop Sverige runs its own shops and is responsible for logistics for the Swedish retail societies. It is the Swedish business in particular that has performed weakly. During the year initiatives have focused on giving a boost both to the hypermarkets and to work on logistics. Coop Sverige has further developed its in-store concept to create a clearer profile. There have been several price reductions in large parts of the in-store product range to produce more competitive prices.

### Key facts: Coop Norden

The Board included the following people from KF during 2005:  
Nina Jarlbäck, Jan Andersson,  
Leif Olsson, Lars Idermark

Chairperson:  
Nina Jarlbäck

CEO:  
Svein Skorstad

Revenue: SEK 89.5 billion

Operating profit: SEK 1 325 million

Total number of employees: 22 714

Number of employees in Sweden: 9 007

Total number of sales outlets: 1 092

Number of sales outlets in Sweden: 361

Geographical presence:  
Sweden, Denmark and Norway

KF's share: 42%

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Coop Sverige's sales fell by 4.2 per cent and the co-operative's market share fell to 16.2 per cent (17.5) in 2005, partly due to the closure of unprofitable shops and significant price reductions. The operating loss increased to SEK 491 million. The hypermarkets have continued to experience problems, while both smaller shops and the new Coop Extra hypermarket chain have recorded positive growth.

## Coop Denmark

The low-price sector is well established in Denmark, where Coop Denmark is one of the leading players. However, competition on price is not as advanced as it is in Sweden.

In Denmark Coop Denmark runs its own shops and is responsible for logistics for the Danish retail societies.

Coop Denmark's profitability improved during 2005, and the operating profit was the best ever. Sales increased by 1.2 per cent, while the co-operative's market share was 36.3 per cent (37.0). This positive trend is due to factors such as improved operations in all chains and more efficient purchasing as a consequence of Nordic purchasing collaboration.

## Coop Norge

Prices are high in Norway from a European perspective, even if competition on price has increased in recent years, a trend to which Coop Norge has contributed. Among other things, Coop Norge has developed its own brands and concepts aimed at keeping down prices.

Coop Norge does not own any shops, only the retail concepts. The Coop shops are owned and run by the consumer co-operative societies. However, Coop Norge supplies goods to the societies' shops.

Coop Norge further reinforced its position in the Norwegian market in 2005. Sales increased by 10.0 per cent, and the co-operative's market share was 24.5 per cent (24.3). These successes can be attributed to such factors as the positive effects of Nordic purchasing collaboration and proactive marketing. As the co-operative societies own the Coop shops, the results from increased sales are reflected in their financial results.

## Financial developments during the year

Coop Norden's income increased by around 3 per cent to SEK 89.5 billion in 2005. The company's operating profit, excluding capital gains and structural provisions, totalled SEK 68 million (209). This means that Coop Norden did not achieve the defined financial targets.

In the autumn Coop Norden completed a property sale in Sweden, corresponding to one third of the Group's total real estate portfolio. Real estate to a value of SEK 4.2 billion was sold to Dutch company ING Real Estate. The infusion of capital will benefit customers and members, as it gives Coop Norden the financial strength to invest in shops and the product range. Coop Norden has set aside SEK 800 million for structural investments in the future with the aim of strengthening its competitive position. If the capital gain from the sale of real estate is included, the operating profit was SEK 1.3 billion.

In future Coop Norden will work more proactively on renovating shops and opening new shops, rationalising and cutting costs, and continuing to develop its concepts in order to achieve a level of profitability and competitive strength that is on a par with comparable businesses.





# KF Fastigheter (Real Estate)

KF Fastigheter (Real Estate) is one of Sweden's biggest development-oriented owners of retail properties, charged with the task of the long-term management of KF's real estate capital. KF Fastigheter (Real Estate) also serves as the consumer co-operative's centre of expertise on real estate matters, and sells consultancy services to Coop Norden and the retail societies. Combining KF Fastigheter's (Real Estate) knowledge of property development and trade with KF's financial strength provides a boost to the Swedish co-operative retail sector.

## The real estate portfolio

2005 was characterised by the ongoing structural change in the retail sector. Trade is increasingly being concentrated on larger towns and cities, and external locations with room for larger shopping centres and a high level of accessibility for customers in cars. In parallel there was a reinforcement of inner city shopping with renovations and new shops being opened by chains and shopping malls.

KF Fastigheter (Real Estate) focuses on shopping centres located outside city centres in regional urban centres. The real estate portfolio consists of 75 properties with a market value of almost SEK 5 billion, including the company's share of part-owned properties. During the year a total of

SEK 471 million was invested, while at the same time the company disposed of properties to a value of SEK 324 million.

## Skills centre

KF Fastigheter's (Real Estate) service activities increased, with more consultancy assignments and the addition of new customers. KF Fastigheter (Real Estate) conducted assignments for the 20 biggest retail societies in the fields of market analysis, property development and consultancy in the fields of technology and energy. In order to meet the high level of demand the workforce was increased, partly in the new business area of Centrumhandel (Shopping Malls).

During the year the Lillänge project was completed with Konsum Jämtland/Konsum Nord. KF Fastigheter (Real Estate) was engaged to prepare the opening of a hypermarket in Östersund. KF Fastigheter (Real Estate) and Konsum Jämtland worked together to create good conditions for a Coop Forum hypermarket that had opened in 2004 by acquiring the project from Skanska, and selling off selected parts of a shopping centre. The Lillänge project is a living example of the value that KF Fastigheter (Real Estate) creates by combining expertise and capital in collaboration with the societies.

### Key facts: KF Fastigheter (Real Estate)

The following people are on the Board:

Hans Eklund, Magnus Håkansson, Ingrid Karlsson, Anders Palmquist, Anders Stake, Harry Swartz

Chairperson: Lars Idermark

President: Bernt-Olof Gustavsson

Revenue: SEK 530 million

Rental income: SEK 455 million (excl. rented)

Net operating profit: SEK 277 million (excl. rented)

Profit from property sales: SEK 105 million

Operating profit:

SEK 304 million (incl. capital gains)

Number of properties: 75

Properties' book value: SEK 3.4 billion

Market value: approx. SEK 4.9 billion

Lettable space: 563 000 sq.m

Direct yield: 6.7%

Total yield: 16.5%

Average number of employees:

79, of whom 23 women and 56 men.



There was also greater collaboration with Coop Norden during the year. Work included above all supporting the company in opening new outlets. One of the effects of this was that KF Fastigheter (Real Estate) acquired and developed an attractive property in Vinsta, Stockholm with a view to opening a Coop Forum. KF Fastigheter (Real Estate) has also created the opportunities to open a number of Coop Extra outlets in locations such as Märsta, Västerås and Nyköping. The autumn saw support being given to Coop Norden in their sale of the Swedish real estate portfolio, which KF Fastigheter (Real Estate) managed on behalf of Coop Sverige Fastigheter. A new management agreement was entered into with the new owner, ING Real Estate.

## Development of new locations

KF Fastigheter (Real Estate) is one of the country's major developers of shopping locations. The development portfolio includes over 40 projects of varying sizes. KF Fastigheter (Real Estate) primarily plans larger shopping locations for a number of shops, which creates a high level of efficiency through the letting of premises and sale of development rights. The year's major events included Biltema's acquisition of a development permit at Värmdö Marknad outside Stockholm, the opening of an ICA Maxi in Östra Birsta, Sundsvall, and successful lettings and new openings at Boländerna, Uppsala, Gustavsberg centrum, Värmdö as well as Backaplan and Sisjön, Gothenburg.

The Tuna Park project outside Eskilstuna was completed during the year. This project was undertaken together with PEAB. Over 60 new shops were added to an area adjoining a Coop Forum. As well as giving the area a boost with two new retail buildings, roundabouts and car parking facilities, KF Fastigheter (Real Estate) extended the hypermarket and created space for additional shops. During the summer Alecta acquired the shopping mall building. At the same time KF Fastigheter (Real Estate) acquired the retail building and now owns around two thirds of the shopping centre.

## Financial developments during the year

KF Fastigheter's (Real Estate) operating profit for 2005 was SEK 304 million. This increase is the result of an improved operating profit from property management and higher capital gains from property sales. The operating profit excluding capital gains was SEK 199 million. An annual capital gain of around SEK 100 million is generated by development projects and the regular sales of completed properties, which is a part of KF Fastigheter's (Real Estate) core business. The direct yield increased from 6.6 per cent in 2004 to 6.7 per cent in 2005. The service business generated revenue of SEK 99.5 million, and the profit for 2005 was SEK 5.5 million.

In its role as owner of KF Fastigheter (Real Estate), KF demands a competitive market return at least on a par with comparable businesses.

### Real estate projects during the year

#### Wholly owned projects

Backaplan	Gothenburg
Brogård	Upplands Bro
Bromma Center	Stockholm
Gustavsbergs centrum	Gustavsberg
Mårtenstorget	Lund
Märsta	Sigtuna
Kvarnholmen	Nacka
Arninge	Täby
Boländerna	Uppsala
Stenungsund	Gothenburg
Vinsta	Stockholm
Värmdö Marknad	Värmdö
Österplan	Örebro
Tibnor	Örebro

#### Part-owned projects

Kungens Kurva	Stockholm
Östra Birsta	Sundsvall
Valbo	Gävle
Lillänge	Östersund
Tuna Park	Eskilstuna

#### Customer assignments

Hökaren	Borlänge
Östercentrum/Rävågen	Visby
Nordby	Strömstad
Sisjön	Gothenburg

# MedMera

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MedMera is responsible for the Coop MedMera reward scheme, the purpose of which is to provide member benefits in the form of discounts, vouchers and special offers. The reward scheme is linked to the consumer co-operative's FMCG activities and to Akademibokhandeln, Bokus, KappAhl and Power. MedMera issues and manages the consumer co-operative's 3.5 million Coop MedMera cards. The Coop MedMera card is the consumer co-operative's main tool in creating member value. It can be used in around 1 000 shops and hypermarkets that are included in the reward scheme. In 2005 members received 6.8 million reward vouchers with a redemption value in discounts of around SEK 410 million.

The company deals with redemptions of all card transactions in the consumer co-operative. MedMera develops new services and special offers for members in collaboration with players within the reward scheme. MedMera also supports the FMCG operations by providing information and advertising services, such as the production of in-store material and the production and distribution of the member magazine "Mersmak".

## Development of services

During the year MedMera improved its offer and developed new services. Coop MedMera Invoice, which was launched in the autumn, allows members to shop first and then pay retrospectively against an invoice. Together with parties including Coop Norden, MedMera developed a direct marketing concept that provides a facility to customise the products and services offered to customers. A permit has been obtained from the Swedish Data Inspection Board to continue this development.

The Internet is being used more and more in MedMera's communication. During the year there were 2.5 million visits to coopmedmera.se. Since it started about one year ago, around 200 000 members have registered so that they can perform such functions as viewing their balances and transactions on the website. The Internet channel is cost-efficient and will continue to be developed. The extensive reward scheme was further developed during the year. The reward vouchers can be used not only in shops included in the scheme, but also for hotel accommodation at a discounted rate. The hotel reward has been a success. A total of 440 000 overnight stays have been taken and 110 000

## The Coop MedMera membership card

The Coop MedMera card is a membership card that serves as proof of membership of the local consumer co-operative society. The card also provides access to the co-operative reward scheme and to other services and special offers from the consumer co-operative societies, KF and Coop Norden, as well as other participating companies. Participants apart from the consumer co-operative FMCG shops include Akademibokhandeln, KappAhl, Power, Bokus and OK-Q8. There are around 3.5 million Coop MedMera cards among the co-operative's three million or so members. There is a special card for organisations and companies, KF Purchase Card.

Members can use the Coop MedMera card to register their purchases and earn points, which are then converted into reward vouchers. One Swedish krona earns one point. 7 500 points earn a voucher worth SEK 50 or a discount of 5 or 10 per cent, depending on the retail chain. Besides reward vouchers, members earn benefits and discounts for items such as hotels, travel and various events.

The magazine Mersmak is currently sent to members who use Coop MedMera Account/Invoice. Other members can pick up the magazine free of charge in stores and hypermarkets. In 2005 Mersmak had around 693 000 readers per issue.

members have taken advantage of this offer, which means that MedMera can be considered to be one of the biggest travel agencies in Sweden.

As of 2006 MedMera is a credit market company under the auspices of the Swedish Financial Supervisory Authority. One initial step in improving services was to increase the deposit limit for Coop MedMera Account from SEK 15 000 to SEK 50 000, with the same favourable interest rate as before.

## Objectives for 2006

In 2006 MedMera aims to continue to extend its range of services to members. The status of credit market company gives MedMera the opportunity to develop new financial services such as various part-payment options. The main aim is to offer more alternatives for the use of the Coop MedMera card as a method of payment. MedMera does not intend to operate traditional banking business. Work on extending the scope of the offers in the reward scheme continues on an ongoing basis. Members who buy for a certain minimum amount or who visit the co-operative's shops regularly will be rewarded with attractive special offers in 2006. More in-store services will be launched during the year, and through the existing infrastructure shops will be able to offer members services such as electronic gift vouchers and mobile top-ups.

## Financial developments during the year

MedMera's operating profit in 2005 was SEK 5 million. This positive result is based above all on the fact that the cost efficiency measures started in 2004, such as the renegotiation of agreements and a more efficient reward system, took full effect during the year. This has made it possible to achieve price reductions for the societies and Coop Sverige, and to develop both member and in-store offers.



### Key facts: MedMera

The following people are on the Board:

Thomas Evertsson, Jeanette Franzén,  
Margareta Hansson, Magnus Håkansson,  
Thomas Johansson, Laszlo Kriss, Leif Linde,  
Anne-Marie Rydergren, Håkan Smith

Chairperson: Lars Idermark

President: Ivar Fransson

Revenue: SEK 214 million

Operating profit: SEK 5 million

Average number of employees:

53, of whom 35 women and 18 men

Number of MedMera cards: 3.5 million

Number of purchases for which points were registered: 145 million

Total purchases for which points were registered: SEK 35 billion

Number of sales outlets: 1 000 shops and hypermarkets  
and 800 OK-Q8 petrol stations

Number of reward vouchers issued: 6.8 million with a  
redemption value corresponding to  
SEK 410 million

Number of users of Coop MedMera Account: approx. 400 000

Interest rate for Coop MedMera account: 1.20%  
(Jan 2006) for amounts up to SEK 50 000

# KF Invest

KF Invest manages the KF Group's financial assets and manages the internal bank on behalf of the KF Group and the societies. By means of active asset management with a high proportion of interest-bearing financial instruments, KF Invest is responsible for guaranteeing a good return with a low level of risk on members' deposits.

In its role as owner of KF Invest, KF demands a competitive market return at least on a par with comparable portfolios for each kind of asset.

## Administration

KF Invest is responsible for all financial investments within the KF Group. An investment policy, adopted by KF's Board, specifies how the capital is to be managed.

KF's portfolio is largely managed in house. The main emphasis is on interest-bearing securities. Investments are made in interest-bearing securities with good creditworthiness and with an average fixed-interest term of approx. 1.5 years. Most of KF's share investments are in publicly listed companies with standard market risk exposure. The rest of KF's financial assets comprise investments in private equity and other alternative investments.

In 2005 the financial capital increased further as a consequence of increased deposits from members, a positive cash flow for the KF Group and a good return on capital already managed. At the end of the year KF Invest managed financial assets to a value of SEK 5.3 billion, compared to SEK 4.6 billion at the end of 2004.

Conditions in the interest rate and share markets were favourable during the year. KF Invest exceeded the comparative index for all kinds of assets. The total yield, including unrealised value increase, was 6.3 per cent in 2005.

## Key facts: KF Invest

The following people are on the Board:

Lars Idermark, Nina Jarlbäck

Magnus Håkansson, Jan Andersson

Chairperson: Lars Idermark

President: Magnus Håkansson

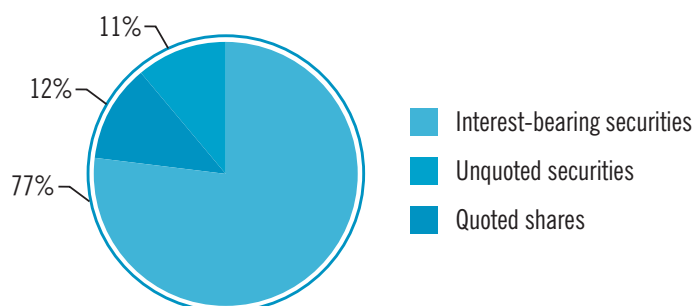
Operating profit: SEK 98 million

Average number of employees: 4

Market value of financial assets managed: SEK 5.3 million

Total yield: 6.3%

Financial assets managed in 2005:



	2005	2004	2003	
Capital managed	5.3	4.6	3.0	billion

# KF Sparkassa (Savings Association)

KF Sparkassa (Savings Association) was established in 1908. It offers members of the consumer co-operative the opportunity to save at competitive interest rate.

## Member saving

Around 90 000 members currently make use of the opportunity to save in the Savings Association. The majority save in the capital account, through which the Savings Association currently offers one of the highest interest rates in the market (1.70 per cent at the end of December 2005). Withdrawals from the capital account are unrestricted and free of charge. There is also a facility for longer-term savings through the five-year loan. The interest rate is flexible and is adapted to the general interest rate situation. The interest rate at the end of December 2005 was 2.10 per cent.

Savings Association transactions can be processed at around 350 Savings Association offices in consumer co-operative shops and hypermarkets all over Sweden.

Savings Association transactions can also be performed remotely via autogiro, and Post Office giro and the KF Sparkassa's (Savings Association) customer service.

## Borrowing volume

At the end of the year the amount borrowed totalled approx. SEK 4 billion. Deposits in the Savings Association are not covered by the State deposit guarantee, which provides a certain level of protection for deposited funds. The deposits are guaranteed instead by the generally strong financial status of KF. The net debt in KF totalled SEK 190 million. This means that KF's liquid interest-bearing assets correspond to external borrowing including borrowing from members.

### Key facts: KF Sparkassa (Savings Association)

Borrowing: SEK 3 964 million

Capital account: SEK 3 547 million

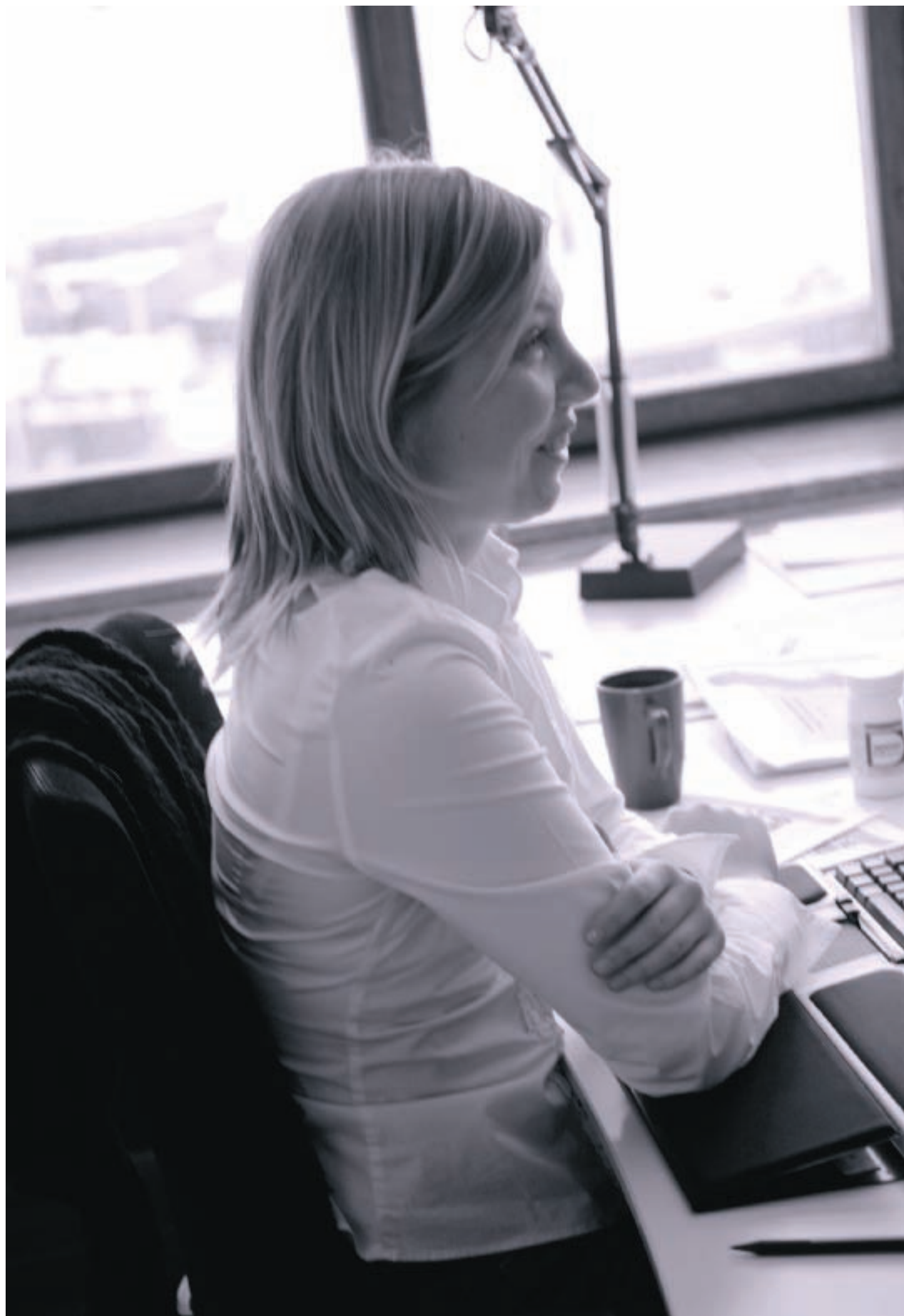
Interest rate: 1.70% (2.20 from March 2006)

5-year loan: SEK 417 million

Interest rate: 2.10% (2.60 from March 2006)











# KF Media

KF Media is one of the biggest media groups in Sweden, with a leading position in the book industry in the Nordic region. The business consists mainly of bookshops and book publishing, and there are also interactive media and magazines.

## Market trends

KF Media has a strong position in the Swedish bookshop market. Through Akademibokhandeln and Bokus, KF Media plays a leading role in both the traditional and the Internet-based book sector.

The general trend in the book market is characterised by tough competition on price. A structural change is under way, with the traditional bookshop losing out in particular to Internet-based shopping. This is especially true of library sales and student literature. Sales of books via the Internet have increased by around 25 per cent per annum in recent years.

## The bookshop business

Akademibokhandeln accounts for around 30 per cent of Swedish retail sales of books. In 2005 Fokus concentrated on improving its competitive strength, opening new shops in attractive locations and rationalising retail operations.

The bookshop chain has 56 shops all over the country, primarily in large or medium-sized towns and cities, and in particular where institu-

tes of higher education are located. The strategy of new shop openings has been extended to include smaller locations where the development potential is considered to be good. In 2005 new shops were opened in Sickla in Nacka, Örn-sköldsvik, Tuna Park in Eskilstuna and on Lidingö.

Another step to reinforce the Internet operation was taken when Akademibokhandeln and Bokus started a collaboration. Internet-based sales to major customers have also been integrated in order to increase co-ordination and rationalise the businesses.

## The publishing group

Norstedts Förlagsgrupp (formerly P.A. Norstedt & Söner AB) contains most of the best-known Swedish book publishers, such as Norstedts, Rabén & Sjögren, Prisma, Tiden and Norstedts Akademiska Förlag. The publishing group also includes a number of book clubs. The publishers work independently as far as publishing is concerned, but they co-ordinate their sales and administration. The book publishers issue around 400 books every year.

During the year the publishing business was reorganised into three main areas, fiction/non-fiction books, children's media and academic publication, with the aim of strengthening finances and the

### Key facts: KF Media

The following people are on the Board:

Magnus Håkansson, Göran Lindblå,  
Mats Lundquist, Birgitta Mauritz,  
Hans Uddling

Chairperson: Lars Idermark

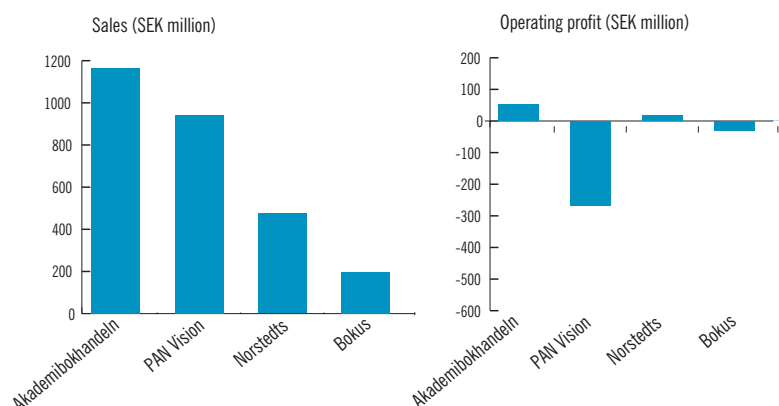
President: Börje Fors

Revenue: SEK 2 678 million

Operating loss: SEK 224 million

Average number of employees:

935, of whom 594 women and 341 men





competitive position. This means that Norstedts and Prisma have been brought together in one business unit together with paperbacks, audio books and the newly-acquired Nautiska Förlaget, while dictionaries have been moved to the Academic Publishing business unit. In the same way, Rabén & Sjögren, Tiden and Gammafon, which was acquired during the year, have been moved to the Children's Media business area.

### Magazine publishing

The "Vi" magazine has been the consumer co-operative's own magazine since the very start in 1913. "Vi" is the country's only reporting magazine that reviews and comments on culture and society every month. The value base is the same as that of the co-operative. The magazine was overhauled in 2005 and during the year attracted more advertisers and more readers. At present "Vi" has around 37 000 subscribers and almost 200 000 readers.

### Interactive media

In recent years PAN Vision has built up a leading position in the field of interactive media in the Nordic region. The company includes publishing

of films and interactive games, as well as third-party sales of leading international publishers' interactive media products. Following the acquisitions of recent years, the subsequent task of merging and restructuring in the field of third-party sales has not been successful and profits have fallen. Furthermore, in connection with the year-end accounts there was a write-down of significant inventories and intellectual rights, which was the main reason for the operating loss of SEK 279 million. A wide-ranging recovery programme has been initiated.

### Financial developments during the year

KF Media's sales remained unchanged in 2005 at SEK 2.7 billion. The operating loss was SEK 224 million (68). Virtually the entire negative change compared to the previous year can be attributed to PAN Vision. The book publishing business and the bookshops continue to be stable. The co-ordination of the Internet bookshop resulted in one-off expenses being charged to the profit figure.

# Other operations

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## Vår Gård Saltsjöbaden

Vår Gård Saltsjöbaden has been run by the Swedish Co-operative Union since 1924. It is a conference centre with a business concept of being the professional meeting place for companies, authorities and organisations in a setting in the archipelago close to Stockholm. It is a frequently used meeting place for companies and societies in the consumer co-operative movement.

The occupancy rate during the year was on a par with previous years. Pressure on price and over-capacity are on the increase in the conference sector. Despite holding its prices, the company has implemented a number of measures to increase customer satisfaction, including renovating the hotel section. The hotel has four stars under the Swedish Hotel and Restaurant (SHR) classification system. Revenue was SEK 34 million, with an operating loss of SEK 4.5 million.

**President:** Monica Rasmussen

(Until 28 February 2006, after which Katarina Romell took over.)

## KF Föreningsrevision (Society Audit)

KF and the consumer co-operative societies as a federal organisation have extensive internal financial relations. KF Föreningsrevision (Society Audit) aims to help ensure that the societies' operations are conducted securely and efficiently. The company's auditors check the societies' annual accounts and bookkeeping, as well as the management of the Board and the President, and report to each consumer co-operative society's general meeting.

KF Föreningsrevision (Society Audit) works on behalf of KF to compile the consumer co-operative societies' financial results and status. Mergers between consumer co-operative societies have led to a drop in demand for KF Föreningsrevision's (Society Audit) services. This has to some extent been compensated by new services, such as market and profitability analyses for retail societies. Revenue was SEK 6.3 million, with an operating profit of SEK 0.2 million.

**President:** Eric Ambrén

## KF Shared Services

KF Shared Services was formed on 1 September 2005 to bring together and co-ordinate the administration of companies in the Group. The company comprises the administrative function from KF Media, which has been merged with IT and HR from KF Fastigheter (Real Estate), as well as financial service from KF Parent Society. Transbodarna, which used to be an independent company, is now being run as a subsidiary of the business and primarily offers services in the field of accounting, HR and member administration to Coop Norden, Konsum entrepreneurs, the retail societies and the member interest societies. KF Shared Services was formed primarily with the aim of improving efficiency and profitability within KF. Revenue was SEK 42 million, with an operating profit of SEK 1.9 million.

**President:** Åse Lagerqvist







# Employees

The KF Group operates mainly in Sweden. In 2005 there were 1 220 employees, 38 of whom were employed in the parent company, KF Parent Society. Most employees are in Stockholm. KF Parent Society, KF Fastigheter (Real Estate), MedMera and KF Media have their head office at Stadsgården 10, where around 400 of the Group's employees work.

The Compass, the consumer co-operative's shared values and commitments, must serve as a guide for all employees. One of KF's key values is that the influence of both members and employees must permeate the whole business in its structure and development. The commitment and skills of employees are crucial for the consumer co-operative to achieve its objective: to create added value for members and to enable them through their consumption to contribute towards a society characterised by economic development, ecological sustainability, social trust and collaboration. The co-operative values are one of the main guidelines in KF's vision for its employees and managers.

## Skills

Skills development is a fundamental element of KF's HR work. It is KF's aim that all managers shall conduct regular planning and development meetings with their employees, in which topics such as results at work, collaboration, development and objectives are discussed. An individual skills development plan must also be drawn up at the meeting.

Employees' perceptions of KF as an employer and motivation to do their work are followed up in employee surveys.

The results of the survey then form the basis of continuing work to develop work methods, the working environment and skills. A compulsory management programme for all new managers will be implemented as from April 2006.

### Key facts: The Compass

The whole of the Compass and KF's statutes may be found at [www.kf.se](http://www.kf.se)

#### Core values

##### FAITH IN OUR DISTINCTIVE CHARACTER

In KF and the cooperative societies we have faith in our distinctive character as a member-owned business which, by means of its financially efficient and professional management, aims to maximise benefits for members and consumers.

#### Key values

##### INFLUENCE

In KF and the cooperative societies the influence of the members, the views of the employees and an active dialogue with the world at large shall help to shape the business.

##### CONCERN

In KF and the consumer co-operative societies we show concern for people, animals and the environment and work to bring about sustainable social development.

##### HONESTY

In KF and the cooperative societies we keep to what we promise. Consumers should feel secure when they buy things from us and should be confident that they are given the information about the goods and the business that is relevant to the choice they make.

##### NEW THINKING

In KF and the cooperative societies we shall derive benefit from new knowledge and technology and stimulate developments in accordance with the interests of consumers.

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## Working environment and keep-fit

A good working environment with motivated employees who accept responsibility is of strategic importance for KF. One prioritised area is therefore keep-fit and preventive healthcare. The aim is to have healthy employees as a consequence of preventive measures. All of the companies in the KF Group are members of external occupational healthcare schemes, and all employees have access to keep-fit subsidies. The newly-created sports association plays a central role in preventive work. This gives a large proportion of the Group's employees access to free exercise at a location close to the workplace. In 2005 sick leave in KF Parent Society was 4.0 per cent (4.8).

## Equality and diversity

KF's overall objective is that work on equality and diversity shall be a natural, integral part of all activities at KF's workplaces. Work on equality shall be run in a planned, systematic way with measurable objectives and concrete action.

KF strives to achieve an even distribution between men and women at the workplace by actively working towards this end within all workgroups. At the end of 2005 62 per cent of all employees were women. 38 per cent of people in managerial positions were women. The average age among employees in the Group was 44.









# Directors' Report

The board and the President hereby submit the following annual report on the activities of the Swedish Co-operative Union (KF) Parent Society.

## The KF Group

KF is the union of Sweden's consumer societies. The union's main task is to work together with the 58 societies to guarantee that members can buy good products at competitive prices in attractive shops. KF performs this task primarily by being the biggest owner (42 per cent) in the Nordic FMCG group Coop Norden and by supporting the consumer co-operative FMCG operations with property investments, analyses of new shops, financing solutions and consultancy services.

In Sweden Coop Norden operates shops and hypermarkets through its subsidiary Coop Sverige. Coop Sverige's business region covers approx. 60 per cent of members, while other members are in regions where the consumer societies own and run retail operations. All of Coop Norden's shops and most of those in the retail societies are run under the brand names: Coop Forum, Coop Konsum, Coop Extra and Coop Nära.

The union and the societies have a shared responsibility for skills development, lobbying and the democratic membership process. KF represents the consumer co-operative's joint interests when dealing with various public institutions, and also conducts ongoing development work to create added value for members and to increase the attractiveness of membership.

KF Parent Society is the parent company of the KF Group, which includes KF Media, KF Fastigheter (Real Estate), KF Invest and MedMera, as well as the smaller businesses Vår Gård Saltsjöbaden, KF Shared Services, KF Försäkring (Insurance) and KF Föreningsrevision (Society Audit). The parent company includes KF Sparkassan (Savings Association).

## Membership of the consumer co-operative

In 2005 the number of members in the consumer co-operative exceeded three million for the first time, with a net increase of around 60,000 new members during the year. In total the Swedish consumer co-operative now has 3,000,407 members throughout the country.

During the year members made 145 million purchases registered for reward entitlement, and for these they receive reward points for items that generated 6.8 million reward vouchers. In total members redeemed vouchers during the year to a value of SEK 410 million. The card can be used in Coop's shops in Sweden, in most of the retail societies' shops and in Akademibokhandeln, Bokus, OKQ8, Power and KappAhl.

## Important events during the year

- KF's positive trend continued during the year, and the financial status continues to be strong. The net debt dropped from SEK 4,814 million in 2001 to SEK 190 million in 2005, and KF now has the financial strength required to contribute towards the recovery of Coop Norden.
- In November Lars Idermark succeeded Börje Fors as President and CEO. Lars was most recently President of the Second AP Fund.
- The FMCG operations have continued to perform poorly in Sweden, with tough competition and falling prices. Coop Norden has launched a wide-ranging plan to turn around the business by 2007, and many of the societies are also in the process of adapting to the new competitive situation. KF is actively involved in the restructuring of consumer societies with problems.
- Coop Norden has sold most of its real estate portfolio in Sweden in order to release capital for the ongoing restructuring process.
- During the year PAN Vision, which is a part of KF Media, posted very poor financial results as a consequence of outdated inventories and insufficient control over its business processes. The management team was replaced at the end of the year and an extensive action plan has been initiated.
- During the year KF Sparkassan (Savings Association) had around SEK 4 billion in borrowing from members.

## The Group's profit figures and sales

KF's profit before taxation was SEK 715 million, compared with SEK 1,084 million in 2004. The operating profit was SEK 640 million (994). The profit was charged with significant write-downs in the subsidiary PAN Vision, which posted an operating profit of SEK 279 million. Other items of a one-off nature that were charged to the profit were SEK 911 million from KF's share (42 per cent) of the capital gain in Coop Norden from the sale of property. There was also a negative effect on the profit of around SEK 350 million as a consequence of restructuring expenses in Coop Norden. There was also a positive effect of SEK 184 million relating to the sale of KappAhl and a provision of SEK 25 million relating to a disputed receivable.

Sales during the year totalled SEK 25,176 million, compared to SEK 28,991 million in the previous year. SEK 3,305 million of this reduction is attributable to the disposal of KappAhl. Of the Group's sales in 2005, SEK 21,741 million comprises KF's trade with members of the consumer co-operatives. SEK 3,435 million comprises sales from KF's subsidiaries.



## KF Parent Society

KF Parent Society is the Group's parent company, with an organisation comprising the following functions: President, Union Secretariat, Co-operative Matters, KF Konsument (Consumer) Affairs, Economy, Finance & IT and KF Sparkassan (Savings Association).

## KF Finans (Finance)

KF Finans (Finance) acts as an internal bank and works with both societies and subsidiaries. KF Finans (Finance) is responsible for overall liquidity planning and for ensuring that the Group's financial assets are being managed professionally. KF Finans (Finance) acts as an advisor for subsidiaries and societies on financial matters. KF Finans (Finance) is responsible for handling accounts and transactions, banking relations, currency management and financial risk control.

## KF Invest

KF Invest's task is to manage KF's liquidity. The company manages both quoted shares and investments in funds and unquoted shares. KF Invest's task is to manage and dispose of assets, which means that capital gains are a natural part of the financial results.

At the end of the year KF Invest was managing a portfolio with a market value of SEK 5.3 billion. 77.2 per cent of the capital was invested in interest-bearing assets with a short (1.5 years) fixed-interest term in order to safeguard members' deposits. 10.7 per cent was invested in shares, 10.0 per cent in hedge funds and 2.1 per cent in private equity.

## KF Sparkassan (Savings Association)

KF Sparkassan (Savings Association) manages deposits from members at competitive interest rates in capital accounts and five-year loans. Deposits have increased, and at the end of the year totalled around SEK 4.0 billion (3.8). Most of the deposits are made via the KF Sparkassans (Savings Association) capital account, which without fixed interest offers one of the best rates in the market (1.70 per cent at the year-end), and a small element, SEK 417 million, via five-year deposits.

## KF Fastigheter (Real Estate)

KF Fastigheters (Real Estate) task is to process, manage and sell properties, with a focus on the consumer co-operative retail sector. KF Fastigheter (Real Estate) focuses on shopping centres located outside city centres in regional urban centres. The real estate portfolio consists of 75 properties with an estima-

ted market value of SEK 4.9 billion (4.2), including the company's share of part-owned properties.

During the year KF Fastigheters (Real Estate) operating profit increased to SEK 304 million (272) as a consequence of a higher working profit of SEK 199 million (172) and a slight increase in capital gains of SEK 105 million (100). The direct yield increased to 6.7 per cent (6.6).

During the year the Lillänge project in Östersund was completed, in which KF Fastigheter (Real Estate) and Konsum Jämtland together opened a shopping centre covering 19,000 sq.m. adjacent to a newly opened Coop Forum. KF Fastigheter (Real Estate) has also acquired an attractive property in Vinsta with a view to opening a new Coop Forum for Coop Norden. KF Fastigheter (Real Estate) has also created the opportunities to open a number of Coop Extra outlets in locations such as Märsta, Västerås and Nyköping.

## MedMera

MedMera is responsible for KF's and the co-operative's card operations. Partly towards members with the issuing of the MedMera card and the development of new benefits, and partly towards the consumer co-operative's other businesses in the form of the redemption of card transactions and the development of new ways of increasing member value. KF Kort (Card) also uses the MedMera concept to a certain extent to co-ordinate the consumer co-operative's joint marketing.

During the year MedMera improved its offer and developed new services. Coop MedMera Invoice, which was launched in the autumn, allows members to shop first and then pay retrospectively against an invoice. As of 2006 MedMera is also a credit market company under the auspices of the Swedish Financial Supervisory Authority. The purpose of being a credit market company is to offer more alternatives in the use of the Coop MedMera card as a method of payment, and not to operate a traditional banking business.

During the year MedMera had revenue of SEK 214 million (244). The objective is to cover costs and achieve a profit margin that allows for ongoing business development.

## KF Media

KF Media had an operating loss in 2005 of SEK -224 million (-4), resulting from losses of SEK -279 million in PAN Vision. The Group comprises, besides PAN Vision: Akademibokhandeln, the publishing group P.A. Norstedt & Söner, the Internet bookshop Bokus and the magazine "Vi".

Akademibokhandeln accounts for 30 per cent of

the Swedish book market, with 56 shops throughout the country, mainly in larger towns and cities with institutes of higher education, but also in smaller places where the development potential so considered to be good. In 2005 new shops were opened in, for example, Örnsköldsvik, Tuna Park in Eskilstuna and on Lidingö. Akademibokhandeln's operating profit fell to SEK 51 million (68), largely due to the transition to Internet sales. Sales fell from SEK 1,133 million to SEK 1,101 million, despite new shop openings. By developing systems for ordering and stock management, the aim is to improve the efficiency of retail operations and product range management.

The Internet bookshop Bokus' revenue increased by around 20 per cent to SEK 195 million (161), while the operating profit was negative, SEK –15 million (–1). Growth was also lower than it was in the market, and for this reason Bokus and Akademibokhandeln started a collaboration during the year in order to increase the volume and reduce the cost of the Internet service. Between them, these two account for one third of the online market for books in Sweden.

During the year the publishing business was reorganised into three main areas: fiction/non-fiction books (Prisma and Norstedts), dictionaries (Norstedts Akademiska) and children's media (Rabén & Sjögren, Tiden and Gammafon). The aim of this was to make it easier to implement the measures required to improve efficiency and profitability. P.A. Norstedts & Söner posted an operating profit of SEK 33 million (37) and sales of SEK 474 million (435).

PAN Vision posted a significant operating loss of SEK –279 million (–70). However, most of these costs were of a one-off nature, which means that work under way to restructure and to cut costs should lead to a recovery during the year, with a profit in 2007. The main reasons for the losses were out of date inventories and the merger and integration of Toptronic in Finland, which had been acquired in 2004 and led to many organisational and commercial problems. Revenue increased from SEK 532 million to SEK 943 million.

## Coop Norden

Coop Norden, which is 42 per cent owned by KF, had very low profitability and performed poorly in the market during the year. Excluding capital gains and structural provisions, Coop Sverige posted an operating loss of SEK –491 million. However, this was counterbalanced by profits in Norway and Denmark, with the result that the total operating profit for Coop Norden, excluding capital gains

and structural provisions, was SEK 68 million. Including the sale of the Swedish retail properties, the profit after net financial items was SEK 1,276 million. Sales for the whole of Coop Norden, excluding the discontinued business, increased by 3 per cent to SEK 89.5 billion.

The Swedish market is suffering from strong competition from both established players and low-price players. The market is also characterised by falling prices, which has had a negative effect on the financial result in Sweden. This trend has not yet started in Denmark and Norway, which still have prices above the European level.

## Other operations

Vår Gård offers conference solutions for companies, authorities and organisations. What distinguishes Vår Gård is its easily accessible location, the art collection and the setting close to the archipelago. Investments made during the year have improved the standard of the venue and the hotel section.

KF Föreningsrevision (Society Audit) task is to check the consumer societies' annual accounts and bookkeeping, as well as the board's and the President's administration. This task also includes checking the societies' management and reporting to the society's management body.

KF Shared Services is KF's internal service centre, which was formed on 1 September 2005 to bring together and co-ordinate the administration of companies in the Group. Tranbodarna AB is a subsidiary of the business and primarily offers services in the field of accounting, HR and member administration to Coop Norden, Konsum entrepreneurs, the retail societies and the member interest societies.

## Proposed disposition of unrestricted reserves

Unrestricted equity in the Group at the year-end was SEK 2,108 million. According to the parent association's balance sheet, the following is at the disposal of the Union's General Meeting:

Retained earnings	1,859,455,758.18
Profit for the year	– 256,521,598.32
	<hr/> 1,602,934,159.86

The board and the President propose that these funds be disposed of as follows:

Interest on capital invested	86,227,325.27
Interest on debenture investments	69,386,412.20
Carried forward to the new accounts	1,447,320,422.39
	<hr/> 1,602,934,159.86

## Income Statement for the KF Group

SEK million	Note	2005	2004
Net revenue	1	25 176	28 991
Cost of goods sold		- 23 811	- 25 901
<b>GROSS PROFIT</b>		<b>1 365</b>	<b>3 090</b>
Selling expenses		- 909	- 2 447
Administrative expenses		- 575	- 597
Other operating income	3	319	1 085
Other operating expenses		- 115	- 54
Participation in the earnings of associated companies	4	22	15
Participation in the earnings of joint ventures	5	533	- 98
<b>OPERATING PROFIT</b>	<b>2, 6, 26, 28</b>	<b>640</b>	<b>994</b>
Financial income and expenses	7	75	90
<b>PROFIT AFTER FINANCIAL ITEMS</b>		<b>715</b>	<b>1 084</b>
Tax	8	- 158	- 169
Minus minority's share		- 3	8
<b>PROFIT FOR THE YEAR</b>	<b>9</b>	<b>554</b>	<b>923</b>

## Balance Sheet for the KF Group

SEK million	Note	31-12-2005	31-12-2004
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Capitalised development expenditure		56	66
Patents, licenses, trademarks and similar rights		34	24
Tenancy rights and similar rights		1	0
Goodwill		68	79
Other intangible non-current assets		3	3
<b>INTANGIBLE NON-CURRENT ASSETS</b>	<b>10</b>	<b>162</b>	<b>172</b>
Buildings and land		3 183	2 908
Plant and machinery		0	0
Equipment, tools, fixtures and fittings		220	225
Construction in progress		143	141
Other tangible non-current assets		0	0
<b>TANGIBLE NON-CURRENT ASSETS</b>	<b>11</b>	<b>3 546</b>	<b>3 274</b>
Participations in affiliated companies	29	20	40
Receivables from associated companies, interest-bearing		9	9
Participations in joint ventures	29	2 346	1 768
Receivables from joint ventures, interest-bearing		47	47
Receivables from joint ventures, non interest-bearing		23	19
Other long-term securities	29	105	118
Deferred tax assets	8	56	109
Other long-term receivables, interest-bearing	19	145	169
Other long-term receivables, non interest-bearing		28	28
<b>FINANCIAL NON-CURRENT ASSETS</b>	<b>12</b>	<b>2 779</b>	<b>2 307</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>6 487</b>	<b>5 753</b>
<b>CURRENT ASSETS</b>			
Raw materials and consumables		8	2
Work in progress		13	10
Finished goods and goods for resale		404	424
Advance payments to suppliers		4	4
<b>INVENTORIES</b>		<b>429</b>	<b>440</b>
Trade and other receivables		726	418
Receivables from associated companies, interest-bearing		2	11
Receivables from associated companies, non interest-bearing		1	2
Receivables from joint ventures, non interest-bearing		129	159
Other current receivables, interest-bearing		222	507
Other current receivables, non interest-bearing		277	392
Prepayments and accrued income		266	283
<b>CURRENT RECEIVABLES</b>	<b>13, 14</b>	<b>1 623</b>	<b>1 772</b>
<b>SHORT-TERM INVESTMENTS</b>	<b>15</b>	<b>5 100</b>	<b>5 139</b>
<b>CASH AND BANK BALANCES</b>		<b>417</b>	<b>280</b>
<b>TOTAL CURRENT ASSETS</b>		<b>7 569</b>	<b>7 631</b>
<b>TOTAL ASSETS</b>	<b>24</b>	<b>14 056</b>	<b>13 384</b>

## Balance Sheet for the KF Group

SEK million	Note	31-12-2005	31-12-2004
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>EQUITY</b>			
Capital invested		1 725	1 669
Debenture investments		1 051	1 072
Restricted reserves		1 037	778
<b>RESTRICTED EQUITY</b>		<b>3 813</b>	<b>3 519</b>
Unrestricted reserves		1 554	921
Profit for the year		554	923
<b>UNRESTRICTED EQUITY</b>		<b>2 108</b>	<b>1 844</b>
<b>TOTAL EQUITY</b>	<b>16</b>	<b>5 921</b>	<b>5 363</b>
<b>MINORITY INTEREST</b>		<b>0</b>	<b>0</b>
<b>GUARANTEE CAPITAL</b>	<b>18</b>	<b>20</b>	<b>20</b>
Provisions for pensions and similar commitments, interest-bearing	19	1	1
Other provisions, non interest-bearing		30	41
<b>PROVISIONS</b>	<b>20</b>	<b>31</b>	<b>42</b>
Long-term liabilities, interest-bearing		208	211
<b>LONG-TERM LIABILITIES</b>	<b>22</b>	<b>208</b>	<b>211</b>
Liabilities to credit institutions		5	37
Advance payments from customers		32	41
Trade and other payables		545	443
Liabilities to associated companies, non interest-bearing		0	0
Liabilities to joint ventures, interest-bearing		4	102
Liabilities to joint ventures, non interest-bearing		307	136
Tax liabilities		0	2
Other current liabilities, interest-bearing		5 894	5 860
Other current liabilities, non interest-bearing		443	550
Accruals and prepaid income		646	577
<b>CURRENT LIABILITIES</b>	<b>14, 23</b>	<b>7 876</b>	<b>7 748</b>
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>24</b>	<b>14 056</b>	<b>13 384</b>
<b>MEMORANDUM ITEMS</b>			
<b>ASSETS PLEDGED AND CONTINGENT LIABILITIES</b>			
Assets pledged	21	256	643
Contingent liabilities	25	162	206



## Changes in equity for the KF Group

SEK million	Capital invested	Debenture investments	Restricted reserves	Unrestricted reserves	Total
<b>CLOSING BALANCE 31-12-2003</b>	1 616	1 147	863	892	4 518
Effect of change in accounting principle				58	58
<b>ADJUSTED OPENING BALANCE FOR 2004</b>	1 616	1 147	863	950	4 576
Exchange rate difference <sup>1)</sup>			0	12	12
<i>Total change not posted to the income statement</i>	0	0	0	12	12
Interest on member contrib. and debenture investments				- 106	- 106
Transfer to reserves of capital invested	54			- 54	0
Other allocation of previous year's profit			14	- 14	0
Reduction in member contributions	- 1			0	- 1
Reduction in debenture investments		- 75		0	- 75
Deferred tax on dividend				34	34
Profit for the year				923	923
Transfer between unrestricted and restricted reserves			- 99	99	0
<b>CLOSING BALANCE 31-12-2004</b>	<b>1 669</b>	<b>1 072</b>	<b>778</b>	<b>1 843</b>	<b>5 363</b>
Effect of change in accounting principle				25	25
<b>ADJUSTED OPENING BALANCE FOR 2005</b>	1 669	1 072	778	1 869	5 388
Exchange rate difference			3	70	73
<i>Total change not posted to the income statement</i>	0	0	3	70	73
Interest on member contrib. and debenture investments				- 104	- 104
Transfer to reserves of capital invested	56			- 56	0
Other allocation of previous year's profit			186	- 186	0
Reduction in debenture investments		- 21		0	- 21
Deferred tax on dividend				31	31
Profit for the year				554	554
Transfer between unrestricted and restricted reserves			70	- 70	0
<b>CLOSING BALANCE 31-12-2005</b>	<b>1 725</b>	<b>1 051</b>	<b>1 037</b>	<b>2 108</b>	<b>5 921</b>

<sup>1)</sup> The opening accumulated exchange rate difference as of 1 January 2004, which was reported directly to equity, totalled SEK 1 million.

## Cash Flow Statement for the KF Group

SEK million	Note	2005	2004
<b>OPERATING ACTIVITIES</b>			
Profit after financial items	27	715	1 084
Adjustments for items not included in cash flow	27	- 549	- 646
		166	438
Tax paid		- 3	- 4
<b>CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL</b>		163	434
<b>CASH FLOW FROM CHANGES IN WORKING CAPITAL</b>			
Increase (-)/Decrease (+) in inventories		23	- 43
Increase(-)/Decrease(+) in operating assets		- 174	- 81
Increase(-)/Decrease(+) in operating liabilities		302	39
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		314	349
<b>INVESTMENT ACTIVITIES</b>			
Acquisition of subsidiaries	27	- 35	- 35
Sale of subsidiaries	27	3	1 802
Acquisition of operational area	27		- 10
Acquisition of intangible non-current assets		- 76	- 67
Acquisition of tangible non-current assets		- 461	- 400
Sale of tangible non-current assets		141	250
Investments in financial assets			- 624
Divestment/reduction of financial assets		258	624
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		- 170	1 540
<b>FINANCING ACTIVITIES</b>			
Reduction in member contributions			- 1
Reduction in debenture investments		- 21	- 75
Change in deposits in KF Sparkassan (Savings Association)/MedMera	14	100	377
Other change in loans		- 205	- 248
Interest on member contrib. and debenture investments		- 104	- 105
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		- 230	- 52
<b>CASH FLOW FOR THE YEAR</b>		- 87	1 837
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		4 601	2 764
<b>EXCHANGE RATE DIFFERENCE IN CASH AND CASH EQUIVALENTS</b>		2	0
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	27	<b>4 516</b>	<b>4 601</b>

## Income Statement for KF Parent Society

SEK million	Note	2005	2004
Net revenue	1	21 819	22 891
Cost of goods sold		- 21 783	- 22 728
<b>GROSS PROFIT</b>		<b>36</b>	<b>163</b>
Selling expenses		0	- 123
Administrative expenses		- 155	- 163
Other operating income	3	46	10
Other operating expenses		- 84	- 56
<b>OPERATING PROFIT</b>	<b>2, 26, 28</b>	<b>- 157</b>	<b>- 169</b>
Financial income and expenses	7	- 121	1 401
<b>PROFIT AFTER FINANCIAL ITEMS</b>		<b>- 278</b>	<b>1 232</b>
Appropriations	17	2	0
Tax	8	19	11
<b>PROFIT FOR THE YEAR</b>		<b>- 257</b>	<b>1 243</b>

## Balance Sheet for KF Parent Society

SEK million	Note	31-12-2005	31-12-2004
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Capitalised development expenditure		3	4
Patents, licenses, trademarks and similar rights		1	1
<b>INTANGIBLE NON-CURRENT ASSETS</b>	<b>10</b>	<b>4</b>	<b>5</b>
Buildings and land		187	233
Equipment, tools, fixtures and fittings		27	24
Construction in progress		2	4
<b>TANGIBLE NON-CURRENT ASSETS</b>	<b>11</b>	<b>216</b>	<b>261</b>
Participations in Group companies	29	2 798	2 565
Receivables from Group companies, interest-bearing		0	2 438
Participations in affiliated companies	29	3	18
Receivables from associated companies, interest-bearing		9	9
Participations in joint ventures	29	2 279	2 279
Other long-term securities	29	17	17
Deferred tax assets	8	158	200
Other long-term receivables, interest-bearing		42	35
<b>FINANCIAL NON-CURRENT ASSETS</b>	<b>12</b>	<b>5 306</b>	<b>7 561</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5 526</b>	<b>7 827</b>
<b>CURRENT ASSETS</b>			
Advance payments to suppliers		4	4
<b>INVENTORIES</b>		<b>4</b>	<b>4</b>
Trade and other receivables		254	73
Receivables from Group companies, interest-bearing		6 273	2 793
Receivables from Group companies, non interest-bearing		27	440
Receivables from associated companies, interest-bearing		2	11
Receivables from associated companies, non interest-bearing		0	0
Receivables from joint ventures, non interest-bearing		2	31
Other current receivables, interest-bearing		79	388
Other current receivables, non interest-bearing		12	19
Prepayments and accrued income		22	9
<b>CURRENT RECEIVABLES</b>	<b>13, 14</b>	<b>6 671</b>	<b>3 764</b>
<b>SHORT-TERM INVESTMENTS</b>	<b>15</b>	<b>0</b>	<b>664</b>
<b>CASH AND BANK BALANCES</b>		<b>282</b>	<b>226</b>
<b>TOTAL CURRENT ASSETS</b>		<b>6 957</b>	<b>4 658</b>
<b>TOTAL ASSETS</b>	<b>24</b>	<b>12 483</b>	<b>12 485</b>

## Balance Sheet for KF Parent Society

SEK million	Note	31-12-2005	31-12-2004
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>EQUITY</b>			
Capital invested		1 725	1 669
Debenture investments		1 051	1 072
Statutory reserve		947	761
<b>RESTRICTED EQUITY</b>		<b>3 723</b>	<b>3 502</b>
Retained earnings		1 859	694
Profit for the year		– 257	1 243
<b>UNRESTRICTED EQUITY</b>		<b>1 602</b>	<b>1 937</b>
<b>TOTAL EQUITY</b>	<b>16</b>	<b>5 325</b>	<b>5 439</b>
<b>UNTAXED RESERVES</b>	<b>17</b>	<b>8</b>	<b>10</b>
<b>GUARANTEE CAPITAL</b>	<b>18</b>	<b>20</b>	<b>20</b>
Provisions for deferred tax liabilities		0	0
Other provisions, non interest-bearing		12	18
<b>PROVISIONS</b>	<b>20</b>	<b>12</b>	<b>18</b>
Long-term liabilities, interest-bearing		196	196
<b>LONG-TERM LIABILITIES</b>	<b>22</b>	<b>196</b>	<b>196</b>
Liabilities to credit institutions		0	0
Advance payments from customers		1	11
Trade and other payables		145	96
Liabilities to group companies, interest-bearing		1 787	1 500
Liabilities to Group companies, non interest-bearing		37	54
Liabilities to joint ventures, interest-bearing		4	102
Liabilities to joint ventures, non interest-bearing		172	17
Other current liabilities, interest-bearing		4 567	4 477
Other current liabilities, non interest-bearing		180	403
Accruals and prepaid income		29	142
<b>CURRENT LIABILITIES</b>	<b>14, 23</b>	<b>6 922</b>	<b>6 802</b>
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>24</b>	<b>12 483</b>	<b>12 485</b>
<b>MEMORANDUM ITEMS</b>			
<b>ASSETS PLEDGED AND CONTINGENT LIABILITIES</b>			
Assets pledged	21	105	153
Contingent liabilities	25	96	164

## Changes in equity for KF Parent Society

SEK million	Capital invested	Debenture investments	Statutory reserve	Retained earnings	Profit for the year	Total
<b>CLOSING BALANCE 31-12-2003</b>	1 616	1 147	747	520	93	4 123
Interest on member contrib. and debenture investments				- 106		- 106
Transfer to reserves of capital invested	54			- 54		0
Other allocation of previous year's profit			14	79	- 93	0
Reduction in member contributions	- 1					- 1
Reduction in debenture investments		- 75				- 75
Group contribution				307		307
Tax effect on Group contribution				- 86		- 86
Deferred tax on dividend				34		34
Profit for the year					1 243	1 243
<b>CLOSING BALANCE 31-12-2004</b>	<b>1 669</b>	<b>1 072</b>	<b>761</b>	<b>694</b>	<b>1 243</b>	<b>5 439</b>
Interest on member contrib. and debenture investments				- 104		- 104
Transfer to reserves of capital invested	56			- 56		0
Other allocation of previous year's profit			186	1 057	- 1 243	0
Reduction in debenture investments		- 21				- 21
Group contribution				328		328
Tax effect on Group contribution				- 91		- 91
Deferred tax on dividend				31		31
Profit for the year					- 257	- 257
<b>CLOSING BALANCE 31-12-2005</b>	<b>1 725</b>	<b>1 051</b>	<b>947</b>	<b>1 859</b>	<b>- 257</b>	<b>5 325</b>

## Cash Flow Statement for KF Parent Society

SEK million	Note	2005	2004
<b>OPERATING ACTIVITIES</b>			
Profit after financial items	27	- 278	1 232
Adjustments for items not included in cash flow	27	122	- 1 323
<b>CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL</b>		- 156	- 91
<b>CASH FLOW FROM CHANGES IN WORKING CAPITAL</b>			
Increase (-)/Decrease (+) in inventories			1
Increase(-)/Decrease(+) in operating assets		255	- 313
Increase(-)/Decrease(+) in operating liabilities		26	65
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		125	- 338
<b>INVESTMENT ACTIVITIES</b>			
Shareholder contributions paid		- 250	- 51
Sale of subsidiaries	27		1 844
Sale of operational area	27		- 1 260
Acquisition of intangible non-current assets		0	- 6
Acquisition of tangible non-current assets		- 10	- 18
Sale of tangible non-current assets		87	22
Investments in financial assets		- 711	- 3 192
Divestment/reduction of financial assets		48	505
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		- 836	- 2 156
<b>FINANCING ACTIVITIES</b>			
Reduction in member contributions			- 1
Reduction in debenture investments		- 21	- 75
Change in deposits in KF Sparkassan (Savings Association)/MedMera	14	100	377
Other change in loans		- 178	98
Interest on member contrib. and debenture investments		- 104	- 105
Group contributions received		307	414
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		104	708
<b>CASH FLOW FOR THE YEAR</b>		- 608	- 1 786
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		890	2 676
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	27	<b>282</b>	<b>890</b>



# Accounting principles

The annual report of the KF Parent Society and the KF Group was prepared in accordance with the Swedish Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council's recommendations RR 1–RR 29 including the associated statements from the emerging issues task force.

As of 1 January 2005 Coop Norden AB (joint venture) is preparing its financial statements in accordance with the International Financial Reporting Standards (IFRS). As it was not possible to obtain the necessary information, no adjustment has been made to eliminate the effect of the introduction of IFRS on the share from Coop Norden AB. The recommendations that had the greatest effect on Coop Norden's profit and financial status are IAS 16 *Property, Plant and Equipment* and IAS 39 *Financial Instruments*.

## Consolidated accounting

The Group's year-end accounts include the parent company and all subsidiaries in which the parent company holds more than 50 per cent of the voting rights or otherwise exerts a controlling influence.

The consolidated accounts are produced according to the acquisition method, meaning that the equity – including the calculated proportion of equity in untaxed reserves – that was in the subsidiary on the acquisition date is eliminated in full. Equity in acquired companies is determined on the basis of a market valuation of assets and liabilities on the acquisition date. If the market valuation of assets and liabilities produces values that are not the same as the acquired company's book value, these market values constitute the Group's acquisition value. If the acquisition value of shares in a subsidiary exceeds the calculated value of the net assets upon acquisition, the difference is posted to the balance sheet as Group goodwill. If the acquisition value is less than the value of the net assets, the difference is posted as negative Group goodwill.

Only the profit generated after the acquisition date is included in the Group's equity.

The consolidated income statement includes companies acquired during the year at values relating to the time after the acquisition. Profits for companies divested during the year are included for the period during which they were owned.

Internal Group transactions involving income, expenses, claims and liabilities, as well as unrealised profits, are eliminated.

## Associated companies and joint ventures

Companies in which KF has a significant influence are classified as associated companies. Companies in which collaboration is governed by agreements giving the co-owners a joint controlling influence are classified as joint ventures. Associated companies and joint ventures are reported in the consolidated accounts according to the equity method. In the consolidated income statement the share of profits in associated companies and joint ventures constitutes a proportion of the profit before tax adjusted for minority interest, if necessary adjusted for any depreciation of surplus or deficit value. The share of the companies' tax is reported under the Group's tax expense.

## Translation of foreign subsidiaries and associated companies

The income statements and balance sheets of foreign subsidiaries and associated companies are translated using the current method. According to this method, all items in the balance sheet must be translated at the closing rate, while all items in the income statement must be translated using the average exchange rate for the period. Any differences arising are not reported via the income statement, but have a direct effect on the Group's restricted and unrestricted reserves respectively. In the sale of subsidiaries, exchange rate differences previously reported directly to equity are reported via the income statement.

## Classifications

Non-current assets, long-term liabilities and provisions essentially consist of amounts that are expected to be recovered or paid after more than twelve months from the year-end. Current assets and short-term liabilities essentially consist solely of amounts that are expected to be recovered or paid within twelve months of the year-end.

## General valuation principles

Assets, liabilities, provisions and derivatives are reported at the acquisition value unless stated otherwise below.

## Receivables and liabilities in foreign currency

In the year-end accounts receivables and liabilities in foreign currency are valued using the closing rate or the rate used for hedging. Exchange rate

gains and losses on operating assets and liabilities are reported net under the operating profit, while the corresponding exchange rate gains/losses are reported under financial items. The corresponding net figure for financial receivables and liabilities is reported under other financial items.

## Derivatives

The Group's currency flows are primarily an effect of goods purchases in foreign currencies. Forward contracts, currency swaps and options are used to hedge these flows. Interest rate derivatives, FRAs and futures are used to change the interest rate structure of the underlying financial net debt.

Unrealised changes in the value of derivative instruments used for hedging commercial flows and for hedging interest rate risk are not revalued at the year-end but are reported at their acquisition value. Interest income and interest expenses resulting from these derivatives are reported on an ongoing basis under net interest income/expense.

## Intangible and tangible non-current assets

Intangible and tangible non-current assets are valued at the acquisition cost minus depreciation according to plan and any write-downs. Depreciation according to plan is based on the assets' acquisition values and the estimated economic useful life. If there are any indications of a decrease in value, an assessment is made of the recovery value. If the recovery value is less than the book value, the item is written down to this amount.

The following depreciation rates are applied for intangible and tangible non-current assets:

Buildings and land	1–5 %
Property equipment, fixtures and fittings	10 %
Machinery and equipment	10–33 %
Patents and other intellectual rights	5–33 %
Goodwill	10–20 %

For acquisitions of a strategic nature, e.g. to gain access to new markets, goodwill is amortised over a period of up to ten years.

## Financial non-current assets

Shares and participations that are non-current assets are valued individually. If there are any indications of a decrease in value, an assessment is made

of the recovery value. If the recovery value is less than the book value, the item is written down to this amount.

## Inventories

Inventories are valued at the lower of the acquisition value and the net sales value and in accordance with the "FIFO" method (first in, first out). Risks of obsolete inventories are taken into account.

## Trade and other receivables

Trade and other receivables are reported at the amounts expected to be paid after careful consideration.

## Current investments

Current interest-bearing investments and quoted shares including shares in funds are valued collectively, according to the so-called portfolio method, at the lower of the acquisition value and the fair value.

## Pensions

Pension liabilities are calculated in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 29 "*Employee benefits*". In accordance with this, actuarial calculations are produced for benefit-based plans using the projected unit credit method, which means that the pension cost is allocated during the employee's working life. The current value of commitments relating to vested benefits for current and former employees is calculated every year on the basis of actuarial assumptions that are defined in connection with the year-end. For invested plans, the consolidated balance sheet reports the net pension commitment after deductions for the plan's managed assets valued at market value. Invested plans with net assets, i.e. with assets in excess of commitments, are reported as a financial asset, otherwise as a provision. Actuarial profits and losses are distributed over the employees' remaining calculated period of employment, if they are outside the so-called ten per cent corridor for the plan in question.

## Income

Income is posted when the income can be calculated in a reliable way and when significant risks and benefits associated with the product/service have been transferred to the counterparty. Income is posted at the fair value received or due to be received with deductions for any discounts given.

## Tax

The Group's tax comprises the sum of current tax and deferred tax. Current tax comprises payable or receivable tax relating to the current year and adjustments of current tax for previous years. Deferred tax is calculated on the basis of temporary differences between reported and tax values of assets and liabilities according to the balance sheet method. Deferred tax assets are reported to the extent that they are likely to be utilised in the foreseeable future. Tax is reported in the income statement, except in cases where the underlying transaction is reported in equity.

## Leasing

Leasing agreements in which the financial risks and benefits associated with ownership are essentially transferred to the leaseholder are defined as financial leasing agreements. There are no significant financial leasing agreements in the KF Group. All leasing agreements are reported as operational leasing agreements.

## Interest-bearing and non interest-bearing

Assets and liabilities are divided into those that are interest-bearing and those that are non interest-bearing. Interest is not equivalent to a dividend, and for this reason unquoted shares are posted as being non interest-bearing. Quoted shares are reported as interest-bearing, as the intention of the shareholding is short term and the investment is made

to generate a return that can be compared to interest. Receivables and liabilities in respect of Group contributions and dividends are reported as interest-bearing.

## Current account receivables and liabilities

The KF Group and the co-operatives have a joint settlement system: the statement of account system. This system is used for settlement of goods deliveries and other invoicing.

## Cash flow statement

The indirect method has been applied for reporting cash flow from operating activities. Cash and cash equivalents are calculated as the sum of cash and bank balances and current investments. Current investments are classified as cash and cash equivalents on the basis that they have an insignificant risk of value fluctuations and that they can easily be converted into cash funds.

## Operating profit

Operating profit is defined as the legal operating profit adjusted to take into account items distorting comparison such as capital gains of a one-off nature and write-downs.

## Comparability with previous years

In order to maintain comparability between the years, certain reallocations have been made of amounts relating to 2004.

## Adoption of the income statement and the balance sheet

The income statement and the balance sheet will be adopted by KF's General Meeting.

# Changes to the Group structure during 2005

- ☐ KF Parent Society has transferred the shares in Coop Elektro AB. This was arranged by transferring the business to Power Hemelektronik

AB in 2003. KF's holding of 24% of the shares in Power Hemelektronik AB was then transferred to Expert ASA in Norway in 2004.

## Note 1

### Net revenue

SEK million	Group	
	2005	2004
KF Parent Society	21 741	22 835
KF Fastigheter (Real Estate) <sup>1)</sup>	530	502
KappAhl		3 305
KF Media	2 678	2 229
Other subsidiaries	291	167
Eliminations	- 64	- 47
<b>Total net revenue, KF Group</b>	<b>25 176</b>	<b>28 991</b>

<sup>1)</sup> Relates mainly to rent. The amount includes SEK 79 million (56) that is posted as sales in KF Parent Society's income statement and relates to rent from the so-called agreement properties within KF Parent Society.

Sales to foreign buyers are included to a value of SEK 348 million (2,100).

## Note 2

### Depreciation and write-downs

Depreciation and write-downs of intangible and tangible non-current assets are included at the following values:

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Cost of goods sold	- 93	- 148	- 5	9
Selling expenses	- 52	- 151	-	- 6
Administrative expenses	- 47	- 35	- 4	- 2
Other operating expenses	- 9	0	-	-
<b>Total</b>	<b>- 201</b>	<b>- 334</b>	<b>- 9</b>	<b>1</b>

## Leasing

The rental cost of assets financed through leasing for 2005 and the following four years amounts to:

SEK million	2005	2006	2007	2008	2009
The KF Group	7	9	9	7	5

The Group's cost of rented premises totalled SEK 107 million (540) in 2005. The corresponding cost in KF Parent Society is SEK 8 million (11). Most of the rental contracts in the retail sector are revenue-related with varying terms and periods of notice. Rental contracts are renegotiated on an ongoing basis. As rents for premises can therefore not be forecast with sufficient accuracy, these are not included in leasing costs.

## Note 3

### Other operating income

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Capital gain from sale of Group companies <sup>1)</sup>	184	964		
Capital gain from sale of properties	119	110	38	3
Other	16	11	8	7
<b>Total other operating income</b>	<b>319</b>	<b>1 085</b>	<b>46</b>	<b>10</b>

<sup>1)</sup> Of this amount, SEK 184 million relates to the divestment of the holding in KappAhl AB in 2004.

## Note 4

### Participations in the earnings of associated companies

SEK million	Profit before taxation	
	2005	2004
Barnens Bokklubb AB	3	6
Coop Elektro AB	6	1
Månadens Bok HB	12	5
Other associated companies	1	3
<b>Total participations in the earnings of associated companies</b>	<b>22</b>	<b>15</b>

## Note 5

### Participations in the earnings of joint ventures

SEK million	Profit before taxation	
	2005	2004
Coop Norden AB	531	- 98
Other joint ventures	2	
<b>Total participations in the earnings of joint ventures</b>	<b>533</b>	<b>- 98</b>

## Note 6

### Operating profit

The operating profit in the Group is distributed as follows:

SEK million	2005	2004
KF Fastigheter (Real Estate) incl. agreement properties	304	272
KappAhl		73
KF Media	- 224	- 4
Participations in the earnings of associated companies <sup>1)</sup>	6	2
Participations in the earnings of joint ventures <sup>1)</sup>	531	- 98
Capital gain from sale of Group companies	184	964
Other incl. eliminations	- 161	- 215
<b>Total operating profit</b>	<b>640</b>	<b>994</b>

<sup>1)</sup> Does not include participations in associated companies and joint ventures that are included in the operating profit for KF Media and KF Fastigheter (Real Estate).

## Note 7

### Financial income and expenses

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<b>PROFIT FROM SHARES IN GROUP COMPANIES:</b>				
Capital gains			186	1 343
Write-downs			- 350	- 28
<b>Total</b>			<b>- 164</b>	<b>1 315</b>
<b>PROFIT FROM SHARES IN ASSOCIATED COMPANIES:</b>				
Dividends			-	6
Capital gains			7	1
Write-downs			- 1	0
<b>Total</b>			<b>6</b>	<b>7</b>
<b>PROFIT FROM OTHER FINANCIAL NON-CURRENT ASSETS:</b>				
Dividends	2	20	2	14
Interest	2	38	2	37
Write-downs	- 16	- 51	-	- 22
Reversal of write-downs relating to fin. non-current assets	-	26	-	0
<b>Total</b>	<b>- 12</b>	<b>33</b>	<b>4</b>	<b>29</b>
<b>OTHER INTEREST INCOME AND SIMILAR PROFIT ITEMS:</b>				
Dividends	53	22	-	-
Interest	106	161	249	214
Capital gains from sale of financial current assets	48	11	-	-
Write-down of financial current assets	- 25	-	- 25	-
<b>Total</b>	<b>182</b>	<b>194</b>	<b>224</b>	<b>214</b>
<b>INTEREST EXPENSES AND SIMILAR PROFIT ITEMS:</b>				
Group companies			- 90	- 48
Other companies	- 95	- 137	- 101	- 116
<b>Total</b>	<b>- 95</b>	<b>- 137</b>	<b>- 191</b>	<b>- 164</b>
<b>Total financial income and expenses</b>	<b>75</b>	<b>90</b>	<b>- 121</b>	<b>1 401</b>
<b>OF WHICH PROFIT FROM GROUP COMPANIES IS INCLUDED AS FOLLOWS:</b>				
Other interest income and similar PROFIT items:			235	82
<b>Total</b>			<b>235</b>	<b>82</b>

## Note 8

### Tax

#### TAX ON PROFIT FOR THE YEAR

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Current tax	- 5	- 2		
Deferred tax	- 86	- 87	19	11
Tax on participations in associated companies/joint ventures	- 67	- 80		
<b>Total</b>	<b>- 158</b>	<b>- 169</b>	<b>19</b>	<b>11</b>

#### CORRELATION BETWEEN TAX FOR THE PERIOD AND REPORTED PROFIT

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Reported profit before tax	715	1 084	- 278	1 232
Tax according to current tax rate, 28% <sup>1)</sup>	- 200	- 304	78	- 345

#### Tax effect of non-deductible expenses:

Amortisation/write-down of Group goodwill	- 10	- 17		
Write-down of shares and properties	- 8	- 38	- 98	- 14
Allocation/provision, non-deductible	- 40	- 14	- 3	- 11
Other non-deductible expenses	- 18	- 28	- 10	- 3

#### Tax effect of non-taxable income:

Utilisation of allocation/provision, non-deductible	5	21	3	11
Dividend on shares and participations		5		5
Other non-taxable income	19	15	1	1

#### Sales of shares, property and tenant-owned apartments:

Tax effect of sale of shares	53	266	54	368
Tax effect of sale of property and tenant-owned apartments	- 4	3		

#### Tax loss carryforwards utilised:

Utilisation of tax loss carryforwards not previously capitalised	3	52		
Deficit for which tax loss carryforwards have been revalued/not reported	- 35	- 24		
Adjustment of deferred tax for previous periods	- 6		- 6	
Adjustment for tax in associated companies and joint ventures	83	- 106		
Other, net		0		- 1
<b>Total tax reported</b>	<b>- 158</b>	<b>- 169</b>	<b>19</b>	<b>11</b>

<sup>1)</sup> The current tax rate has been calculated on the basis of the applicable tax rate for the parent company.



## Note 8 contd.

### DEDUCTIBLE TEMPORARY DIFFERENCE/LOSS CARRYFORWARDS THAT HAVE NOT LED TO REPORTING OF DEFERRED TAX ASSETS

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Tax loss carryforwards	504	254		0
Other deductible temporary difference	0	0		
Total	504	254		0

### DEFERRED TAX ASSETS AND TAX LIABILITIES CLASSIFIED PER BALANCE SHEET CATEGORY

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>Deferred tax liability</i> <sup>1)</sup>				
Financial non-current assets	35	37		–
Other non-current assets (incl. any untaxed reserves)	70	60		3
Total	105	97		3
<i>Deferred tax assets</i>				
Other non-current assets	3	3	–	–
Provisions and long-term liabilities		2	–	–
Tax loss carryforwards	158	201	158	200
Total	161	206	158	200
Deferred tax assets, net	56	109	158	197

<sup>1)</sup> In the balance sheet, deferred tax liabilities have been offset against deferred tax assets. Deferred tax liabilities in the parent company are included under untaxed reserves.

## Note 9

### Transactions with associated parties

#### NET SALES TO ASSOCIATED COMPANIES AND JOINT VENTURES

SEK million	Group	
	2005	2004
Associated companies	0	2
Joint ventures	337	324
Total net sales to associated companies and joint ventures	337	326

The KF Group provides property management services to joint ventures and associated companies. These services comprise, for example, accounting, technical and financial management, office services, heating agreements, tenant representation and support in setting up. Services are also provided in connection with major construction projects. In 2005 the provision of such services to joint ventures totalled SEK million 34 (37). Rent invoiced to joint ventures totalled SEK 206 million (191).

In 2005 KF Media sold books and games to joint ventures to a value of SEK 19 million (16).

MedMera AB provides services comprising administration and marketing in respect of the MedMera card (reward points) and transactions relating to bank cards and debit/credit cards. In 2005 the provision of such services to joint ventures and associated companies totalled SEK 88 million (93) and SEK 0 million (2) respectively.

## Note 10

### Intangible non-current assets

GROUP SEK million	Retained expenses for development work	Patents, licenses, trademarks and similar rights	Tenancy rights and similar rights	Goodwill	Other intangible non- current assets	Total intangible non- current assets
<b>ACCUMULATED ACQUISITION VALUES:</b>						
At beginning of year	175	35	–	298	3	511
New acquisitions	31	22	–	–	0	53
Divestments, scrapping, closures	– 8	– 1	–	–	– 1	– 10
Reclassifications/acquired companies	35	4	1	29	1	70
Exchange rate differences	0	–	–	3	–	3
Total acquisition value	233	60	1	330	3	627
<b>ACCUMULATED DEPRECIATION ACCORDING TO PLAN:</b>						
At beginning of year	– 62	– 11	0	– 66	0	– 139
Divestments, scrapping, closures	8	0	0	0	0	8
Reclassifications/acquired companies	– 12	0	0	0	0	– 12
Depreciation for the year according to plan	– 54	– 15	0	– 14	0	– 83
Exchange rate differences	0	0	0	0	0	0
Total depreciation according to plan	– 120	– 26	0	– 80	0	– 226
<b>ACCUMULATED WRITE-DOWNS:</b>						
At beginning of year	– 47	0	0	– 153	0	– 200
Reclassifications/acquired companies	0	0	0	– 1	0	– 1
Write-downs for the year <sup>1)</sup>	– 10	0	0	– 28	0	– 38
Total write-downs	– 57	0	0	– 182	0	– 239
Reported value at end of year	56	34	1	68	3	162
Reported value at beginning of year	66	24	0	79	3	172

<sup>1)</sup> Of write-downs for the year, a reversed write-down of SEK 5 (– 46) million is reported under cost of goods sold.

PARENT COMPANY SEK million	Retained expenses for development work	Patents, licenses, trademarks and similar rights	Tenancy rights and similar rights	Goodwill	Other intangible non- current assets	Total intangible non- current assets
<b>ACCUMULATED ACQUISITION VALUES:</b>						
At beginning of year	5	1	0	0	0	6
New acquisitions	1	0	0	0	0	1
Total acquisition value	6	1	0	0	0	7
<b>ACCUMULATED DEPRECIATION ACCORDING TO PLAN:</b>						
At beginning of year	– 1	0	0	0	0	– 1
Depreciation for the year according to plan	– 2	0	0	0	0	– 2
Total depreciation according to plan	– 3	0	0	0	0	– 3
Reported value at end of year	3	1	0	0	0	4
Reported value at beginning of year	4	1	0	0	0	5

## Note 11

### Tangible non-current assets

GROUP SEK million	Investment properties, buildings <sup>1)</sup>	Investment properties, land and land improvements <sup>1)</sup>	Machinery and other technical non-current assets	Equipment, tools, fixtures and fittings	New construction in progress	Other tangible non-current assets	Total tangible non-current assets
<b>ACCUMULATED ACQUISITION VALUES:</b>							
At beginning of year	2 869	501	0	490	141	0	4 001
New acquisitions, capitalised expenditure	5	33	0	35	408	0	481
Divestments, scrapping	- 139	- 29	0	- 31	0	0	- 199
Reclassifications/acquired companies	360	23	0	7	- 406	0	- 16
Exchange rate differences	0	0	0	0	0	0	0
Total acquisition value	3 095	528	0	501	143	0	4 267
<b>ACCUMULATED DEPRECIATION ACCORDING TO PLAN:</b>							
At beginning of year	- 369	- 23	0	- 265	0	0	- 657
Divestments and retirements	38	0	0	28	0	0	66
Reclassifications/acquired companies	0	0	0	2	0	0	2
Depreciation for the year according to plan	- 33	- 6	0	- 45	0	0	- 84
Exchange rate differences	0	0	0	0	0	0	0
Total depreciation according to plan	- 364	- 29	0	- 280	0	0	- 673
<b>ACCUMULATED WRITE-UPS:</b>							
Write-down for the year of amount written up	0	0	0	- 1	0	0	- 1
Total write-ups	0	0	0	- 1	0	0	- 1
<b>ACCUMULATED WRITE-DOWNS:</b>							
At beginning of year	- 67	- 3	0	0	0	0	- 70
Divestments and retirements	18	0	0	0	0	0	18
Reversal of write-downs during the year	17	0	0	0	0	0	17
Write-downs for the year	- 12	0	0	0	0	0	- 12
Total write-downs	- 44	- 3	0	0	0	0	- 47
Reported value at end of year	2 687	496	0	220	143	0	3 546
Reported value at beginning of year	2 433	475	0	225	141	0	3 274

PARENT COMPANY SEK million	Investment properties, buildings <sup>1)</sup>	Investment properties, land and land improvements <sup>1)</sup>	Equipment, tools, fixtures and fittings	New construction in progress	Total tangible non-current assets
<b>ACCUMULATED ACQUISITION VALUES:</b>					
At beginning of year	321	44	72	4	441
New acquisitions, capitalised expenditure	0	0	3	7	10
Divestments, scrapping	- 74	- 4	- 14	0	- 92
Reclassifications/acquired companies	3	0	7	- 9	1
Exchange rate differences	0	0	0	0	0
Total acquisition value	250	40	68	2	360
<b>ACCUMULATED DEPRECIATION ACCORDING TO PLAN:</b>					
At beginning of year	- 124	- 8	- 48	0	- 180
Divestments and retirements	31	1	11	0	43
Reclassifications/acquired companies	0	0	0	0	0
Depreciation for the year according to plan	- 3	0	- 4	0	- 7
Exchange rate differences	0	0	0	0	0
Total depreciation according to plan	- 96	- 7	- 41	0	- 144
Reported value at end of year	154	33	27	2	216
Reported value at beginning of year	197	36	24	4	261

TAX VALUES SEK million	Group		Parent Company	
	2005	2004	2005	2004
Investment properties, buildings	1 405	1 480	114	139
Investment properties, land and land improvements	471	481	48	57
Total	1 876	1 961	162	196

<sup>1)</sup> The entire holding of buildings, land and land improvements within the KF Group is classified as investment property.

## Note 11 contd.

### Tangible non-current assets

#### INVESTMENT PROPERTY

##### – FAIR VALUE AND CHANGE IN FAIR VALUE

SEK million	Group 2005	2004	Parent Company 2005	2004
At beginning of year	4 207	3 776	524	509
New acquisitions	83	124		3
Investments in property	349	258	8	8
Divestments	– 138	– 198	– 82	– 20
At end of year	4 897	4 207	454	524
Change in value	396	247	4	24

Fair value was determined on the basis of internal assessments. Assessments were also checked against property sales executed during the year.

*The following valuation methods were used to determine the fair value:*

- Yield valuation through cash flow calculations, in which the property's future net operating profit and estimated residual values assessed at current value.
- In certain cases the yield has been valued using the net capitalisation method, where a normalised net operating profit is divided by a market-adjusted direct yield requirement.
- In some cases the location price method was used, where sales of equivalent properties on the market are used as a basis for the value assessment.

#### EFFECT ON INVESTMENT PROPERTIES ON PROFIT FOR THE PERIOD

GROUP SEK million	Rental income		Net operating profit		Direct yield	
	2005	2004	2005	2004	2005	2004
Malls	320	279	209	170	7.3%	7.2%
Supermarkets	11	18	9	8	9.0%	6.6%
Storage and distribution	50	57	39	42	13.5%	12.5%
Development/retail	12	11	7	7	3.9%	3.8%
Development/non-retail	31	24	7	4	1.5%	0.9%
Other	19	22	3	7	2.1%	3.2%
Total	443	411	274	238	6.7%	6.6%

PARENT COMPANY SEK million	Rental income		Net operating profit		Direct yield	
	2005	2004	2005	2004	2005	2004
Storage and distribution	36	40	31	32	14.8%	12.7%
Development/retail	7	7	5	4	4.5%	3.4%
Other	9	9	6	5	5.3%	4.1%
Total	52	56	42	41	9.6%	8.4%

Directs costs of unlet floor space in the Group amount to SEK 13.5 million (13.3), most of which relates to vacant floor space in development/non-retail properties. Direct costs for unlet floor space in KF Parent Society total SEK 0.6 million (2.6). This cost relates mainly to development/non-retail properties.

## Note 12

### Financial non-current assets

GROUP SEK million	Participations in affiliated companies	Receivables from associated companies	Participations in joint ventures	Receivables from joint ventures	Other long-term securities	Deferred tax assets	Other long-term receivables	Total financial non-current assets	
ACCUMULATED ACQUISITION VALUES:									
At beginning of year	43	9	1 768	66	220	109	199	2 414	
Additional assets/receivables during the year	13	0	478	4	15	3	9	522	
Deductible assets/settled liabilities	- 29	0	0	0	- 19	- 56	- 34	137	
Reclassifications/acquired companies	0	0	1	0	0	0	1	2	
Effect of change in accounting principle			26			0		26	
Exchange rate differences	0	0	73	0	0	0	0	73	
Total acquisition value	27	9	2 346	70	216	56	175	2 899	
ACCUMULATED WRITE-DOWNS:									
At beginning of year	- 3	0	0	0	- 102	0	- 2	- 107	
Deductible assets/settled liabilities	3	0	0	0	0	0	0	3	
Write-downs for the year	- 7	0	0	0	- 9	0	0	- 16	
Total write-downs	- 7	0	0	0	- 111	0	- 2	- 120	
Reported value at end of year	20	9	2 346	70	105	56	172	2 779	
Reported value at beginning of year	40	9	1 768	66	118	109	197	2 307	
PARENT COMPANY SEK million	Participations in Group companies	Receivables from Group companies	Participations in affiliated companies	Receivables from associated companies	Participations in joint ventures	Other long-term securities	Deferred tax assets	Other long-term receivables	Total financial non-current assets
ACCUMULATED ACQUISITION VALUES:									
At beginning of year	2 873	2 438	201	9	2 615	17	200	35	8 388
Additional assets/receivables during the year	607	0	0	0	0	0	0	7	614
Deductible assets/settled liabilities	- 24	- 2 438	- 195	0	0	0	- 42	0	- 2 699
Total acquisition value	3 456	0	6	9	2 615	17	158	42	6 303
ACCUMULATED WRITE-DOWNS:									
At beginning of year	- 308	0	- 183	0	- 336	0	0	0	- 827
Deductible assets/settled liabilities	0	0	181	0	0	0	0	0	181
Write-downs for the year	- 350	0	- 1	0	0	0	0	0	- 351
Total write-downs	- 658	0	- 3	0	- 336	0	0	0	- 997
Reported value at end of year	2 798	0	3	9	2 279	17	158	42	5 306
Reported value at beginning of year	2 565	2 438	18	9	2 279	17	200	35	7 561

#### Summary of participation (42%) in the income statement and balance sheet of Coop Norden <sup>1)</sup>

SEK million	2005	2004
<b>INCOME STATEMENT:</b>		
Operating income	38 497	36 341
Operating profit	557	75
Net financial items	- 22	- 169
Tax	- 67	- 80
Minority share	1	0
Profit for the year	469	- 174
<b>BALANCE SHEET:</b>		
Non-current assets	3 562	4 583
Current assets	5 021	4 289
Total assets	8 583	8 872
Equity	2 337	1 770
Minority share	11	5
Provisions		224
Long-term liabilities	1 086	1 150
Current liabilities	5 149	5 723
Total equity and liabilities	8 583	8 872

<sup>1)</sup> The income statement and balance sheet for 2005 were drawn up in accordance with IFRS. An adjustment has been made in respect of the minority share.



## Note 13

### Current receivables

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Trade and other receivables	726	418	254	73
Lending, MedMera	111	119		
Other receivables	372	741	76	368
Prepayments and accrued income	266	283	22	9
Current account receivables, external	15	39	15	39
Receivables from associated companies	4	13	2	11
Receivables from joint ventures	129	159	2	31
Receivables from Group companies			3 453	671
Current account receivables, Group companies			2 847	2 562
<b>Total current receivables</b>	<b>1 623</b>	<b>1 772</b>	<b>6 671</b>	<b>3 764</b>
<i>Prepayments and accrued income comprise:</i>				
Prepaid rents	34	24	9	–
Other	232	259	13	9
<b>Total</b>	<b>266</b>	<b>283</b>	<b>22</b>	<b>9</b>

## Note 14

### Deposits from and lending to MedMera card holders

MedMera card holders are able to deposit money into their account. Account holders can also be granted credit, subject to a credit check.

## Note 15

### Current investments

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Bank investments	400	664		664
Bonds and certificates	3 700	3 657		
Shares and participations	1 000	818		
<b>Total current investments</b>	<b>5 100</b>	<b>5 139</b>		<b>664</b>

## Note 16

### Equity

KF's statutes state that each member must pay a minimum contribution of SEK 10,000. When a surplus is reported, 2/3 of this is transferred to the member's account in the form of a return. Members who resign or are excluded from KF may have their funds reimbursed, subject to the board's approval. Members can also apply to KF's board to transfer their contribution, either wholly or partly, to another member.

In addition to members' contributions, capital has been provided in the form of debenture investments. The purpose of debenture investments is to provide KF with risk-bearing equity that, in the event of the dissolution of the union, carries the right to payment out of the assets of the union after payment to the union's creditors but before reimbursement of members' contributions. The debenture investment may be redeemed at the earliest five years after the contribution is made. For the holder, a minimum period of notice of at least two years applies. Interest is paid on debenture investments in accordance with the certificate issued.

The purpose of the statutory reserve is to save a portion of the net profit that is not used to cover the loss carried forward. Retained earnings comprise the unrestricted equity from the previous year after possible transfers to the statutory reserve and after possible payment of dividends.

## Note 17

### Untaxed reserves

PARENT COMPANY SEK million	At beginning of year	Appropriations	At end of year
Accumulated additional depreciation, properties	10	– 2	8

## Note 18

### Guarantee capital

In conjunction with KF's take-over, on 1 February 1987, of the majority of the OK societies' and other parties' investments in the OK Union, agreement was reached that the released funds would be transferred to the KF Parent Society as guarantee capital. The terms of the SEK 20 million loan are fixed until 1 January 2013, and the loan is unsecured.

## Note 19

### Provisions for benefit-based pensions and similar obligations

As of the year-end KF has benefit-based pension plans, which are secured through the KP Pension & Insurance foundation. These plans provide benefits based on the remuneration and the period of service that employees have upon or close to retirement.

Below are details of the most important benefit-based pension plans.

The cost of pensions is included in full in the operating profit.

#### AMOUNTS REPORTED IN THE INCOME STATEMENT

GROUP		
SEK million	2005	2004
Expenses relating to service during current period	- 23	- 39
Interest expense	- 28	- 37
Expected return on managed assets	33	39
Actuarial profits/losses, net		0
Reductions and regulations		0
Total	- 18	- 37

Actual return on managed assets during the year was 10% (8).

#### PROVISION FOR PENSIONS

GROUP		
SEK million	2005	2004
Invested pension plans are reported as a long-term receivable	100	107
Total	100	107

#### RECONCILIATION OF BALANCE SHEET

GROUP		
SEK million	2005	2004
Net liability at beginning of year	107	- 49
Effect of changed accounting principle		109
Net expense posted in the income statement	- 18	- 37
Fees paid in	11	25
Divestments/reclassifications		59
Net receivables at end of year <sup>1)</sup>	100	107

<sup>1)</sup> A special payroll tax has also been booked to net receivables at the end of the year.

#### COMMITMENTS

GROUP		
SEK million	2005	2004
Current value of wholly or partly invested obligations	- 804	- 704
Fair value of managed assets	802	778
<i>Net value</i>	- 2	74
Unreported actuarial profits and obligations	102	33
Net liability at end of year	100	107

#### MOST SIGNIFICANT ACTUARIAL ASSUMPTIONS

GROUP				
%	Sweden 2005	Sweden 2004	Norway 2005	Norway 2004
Discount rate	3.4%	4.3%		7.0%
Expected return on managed assets <sup>1)</sup>	4.0%	4.3%		
Expected wage increase	3.0%	3.0%		3.3%
Expected inflation	2.0%	2.0%		2.5%

<sup>1)</sup> Reflects long-term estimated return on managed assets weighted according to the foundation's investment policy.  
Has been calculated after deductions for administrative expenses and applicable taxes.

## Note 20

### Provisions

GROUP				
SEK million	Pensions <sup>1)</sup>	MedMera-reward <sup>2)</sup>	Other provisions	Total provisions
At beginning of year	1	2	39	42
Provisions for the year	0	0	1	1
Provisions utilised	0	0	- 12	- 12
Exchange rate differences	0	0	0	0
At end of year	1	2	28	31

PARENT COMPANY				
SEK million				Total provisions
At beginning of year				18
Provisions for the year				0
Provisions utilised				- 6
At end of year				12

<sup>1)</sup> See also note 19 regarding benefit-based pension plans.

<sup>2)</sup> Purchases made via the Coop MedMera membership card generate points for the card holder. A provision has been made based on points generated but not redeemed at the year-end and taking into account redemption frequency and period of validity.

## Note 21

### Assets pledged

SEK million	2005	Group 2004	Parent Company 2005	Parent Company 2004
<b>FOR OWN BENEFIT:</b>				
<i>Assets pledged for liabilities to credit institutions:</i>				
Property mortgages	0	23		
Corporate mortgages	15	6		
<i>Total assets pledged for liabilities to credit institutions</i>	15	29		
<i>Assets pledged for unutilised bank overdraft facilities:</i>				
Property mortgages	23	389		51
<i>Assets pledged for purposes other than debt:</i>				
Corporate mortgages	114	123		
Other assets pledged	104	102	105	102
<i>Total assets pledged for purposes other than debt</i>	219	225	105	102
<b>Total assets pledged</b>	<b>256</b>	<b>643</b>	<b>105</b>	<b>153</b>

KF Invest Förvaltning AB has lodged a securities account, containing interest-bearing instruments to a value of SEK 1,751 million, as security for a guarantee of SEK 1,700 million that was issued by Förenings sparbanken in favour of MedMera AB.

## Note 22

### Long-term liabilities

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>Deposits from members:</i>				
5-year loan <sup>1)</sup>	196	196	196	196
Total deposits from members	196	196	196	196
<i>Other long-term liabilities: <sup>2)</sup></i>				
Bank overdraft facility	-	-	-	-
Liabilities to credit institutions	12	15	0	0
Liabilities to associated companies	-	-	-	-
Other liabilities	-	-	-	-
<b>Total long-term liabilities</b>	<b>208</b>	<b>211</b>	<b>196</b>	<b>196</b>

<sup>1)</sup> The part of KF's five-year loan that falls due after more than one year. See also note 23 for information regarding members' deposits.

<sup>2)</sup> All other long-term liabilities fall due between one and five years from the balance sheet date.

## Note 23

### Current liabilities

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>Deposits from members:</i> <sup>1)</sup>				
Sparkassan (Savings Association)	3 548	3 389	3 548	3 389
5-year loan	221	232	221	232
Total deposits from members	3 769	3 621	3 769	3 621
<i>Other current liabilities:</i>				
Deposits, MedMera	1 327	1 383	0	0
Liabilities to credit institutions	5	37	0	0
Advance payments from customers	32	41	1	11
Trade and other payables	545	443	145	96
Liabilities to Group companies			472	142
Liabilities to associated companies	0	0	0	0
Liabilities to joint ventures	311	238	176	119
Current account liabilities, external	798	856	798	856
Tax liabilities	0	2	0	0
Other liabilities	443	550	180	403
Accruals and prepaid income	646	577	29	142
Current account liabilities, Group companies			1 352	1 412
Total other current liabilities	4 107	4 127	3 153	3 181
Total current liabilities	7 876	7 748	6 922	6 802
<i>Accruals and prepaid income comprise:</i>				
Personnel-related costs	89	96	6	6
Premium reserve, insurance	144	135		
Goods delivered but not yet invoiced	2	1	0	0
Other	411	345	23	136
Total	646	577	29	142

<sup>1)</sup> Deposits from members mainly comprise savings deposited by members of the consumer societies, and also investments from certain affiliated member organisations. Savings in Sparkassan (Savings Association) are distributed over a number of different accounts. Lenders depositing funds in KF's five-year loan are entitled to allow the funds to remain in the account after the end of the five-year period at a somewhat reduced rate of interest with a one-year period of notice. Lenders can also choose to leave the funds in place for a new five-year period on the same terms. The element of KF's five-year loan that falls due after more than one year is reported as a long-term liability.

## Note 24

### Financial instruments and financial risk management

#### FINANCIAL INSTRUMENTS

Within the framework of KF's asset management activities, KF has a portfolio of financial instruments. The portfolio mainly contains interest-bearing instruments, such as commercial papers and bonds with a short term. KF also has quoted and unquoted shares, as well as participations in venture capital companies and funds with absolute yield targets. The total market value of the managed portfolio at the year-end totalled SEK 5,320 million (5,271).

KF uses financial instruments such as interest rate futures, currency swaps and currency futures to limit the effects of fluctuations in interest rates and exchange rates.

The following table shows reported and fair values for each type of interest-bearing financial instrument. Portfolio valuation is applied for the asset management portfolio, excluding holdings in venture capital companies and unquoted shares. The fair value

## Note 24 contd.

is therefore quoted only for the whole portfolio.

With the exception of holdings in venture capital companies and unquoted shares, as well as receivables in venture capital companies, the table does not include non interest-bearing instruments for which the reported value corresponds with the fair value, e.g. trade and other receivables and trade and other payables.

#### FINANCIAL INSTRUMENTS REPORTED IN THE BALANCE SHEET:

SEK million	Reported value <sup>1)</sup>		Fair value <sup>2)</sup>	
	2005	2004	2005	2004
<i>Assets:</i>				
Unquoted shares	19	19	19	19
Holding in venture capital companies	86	99	86	99
Receivables in venture capital companies	3	2	3	2
Shares and share funds	468	468		
Bonds	3 398	2 900		
Financial assets with absolute yield targets	532	350		
Interest funds	104			
Certificates	198	757		
Investments in banks and other short-term, interest-bearing instruments	400	676		
Total	5 100	5 151	5 231	5 171
Lending, MedMera	111	119	111	119
Cash and bank balances	416	280	416	280
Other interest-bearing assets	210	502	210	502
Total assets	5 945	6 172	6 076	6 192
<i>Liabilities:</i>				
Sparkassan (Savings Association)	3 965	3 817	3 965	3 817
Deposits, MedMera	1 327	1 382	1 327	1 382
Other interest-bearing liabilities	839	1 031	839	1 031
Total liabilities	6 131	6 230	6 131	6 230

<sup>1)</sup> Reported values includes accrued interest.

<sup>2)</sup> Interest-bearing financial instruments are valued by discounting future cash flows. Quoted assets are valued at the quoted price. Unquoted holdings have been valued in accordance with the EVCA's valuation principles.

#### OFF-BALANCE SHEET FINANCIAL INSTRUMENTS:

SEK million	Fair value	
	2005	2004
FX futures		- 28
Total		- 28

#### FINANCING AND FINANCIAL RISK MANAGEMENT PRINCIPLES

KF is exposed to various types of financial risks in its business. KF has a centralised financial business with an internal bank. The financing business is conducted by KF Invest on behalf of KF's finance department (KF Finans [Finance]). KF Finans (Finance) is responsible for the Group's dealings with the financial markets, managing financial risks within the Group and all interest-bearing items in the balance sheet. The internal bank works not only for the Group, but also for the consumer societies. The centralised financial services function enables professional management of risks, payment flows and bank relations.

KF Invest's deviation mandate is determined by KF's board and is clearly limited.

#### CURRENCY RISK

Currency risk is the risk of exchange rate changes having a negative impact on the consolidated income statement and balance sheet. Total currency exposure in the portfolio may be a maximum of 10% of the value of the asset portfolio, i.e. SEK 532 million (527). At the year-end KF Finans (Finance) had no outstanding positions.

## Note 24 contd.

Currency risk is normally divided into transaction exposure and conversion exposure. Transaction exposure derives from the Group's operational and financial currency flows. Conversion exposure depends on assets, liabilities and equity abroad, such as those arising from foreign companies. The subsidiaries' hedging is done via KF Finans (Finance) by means of internal Group transactions, which KF Finans (Finance) in turn hedges against external counterparties.

### Transaction exposure

KF aims to hedge operational transaction exposure when the underlying product is initially priced. However, financial flows are hedged for their entire duration. The table below shows currency positions in nominal amounts converted into SEK.

#### OUTSTANDING CURRENCY POSITIONS AS AT 31 DECEMBER 2005:

SEK million		2006	2007	Subsequent years
Sell	EUR	69		
Sell	NOK	41		
Sell	USD	452		
Sell total		562		
Buy	EUR	20		
Buy	NOK	10		
Buy	USD	1		
Buy total		31		
Net		531		

### Conversion exposure

KF's conversion exposure derives mainly from KF's shares in Coop Norden and from foreign assets in the wholly owned subsidiary PAN Vision Holding AB. Exposure is mainly in DKK, NOK and EUR. KF does not hedge its conversion exposure.

#### INTEREST RATE RISK

Interest rate risk is defined as the risk of changes in the general interest rates having a negative impact on KF's earnings. The KF Group's primary sources of financing are member contributions, debenture investments, deposits via the Sparkassan (Savings Association) and MedMera, as well as other equity. KF's debt portfolio is subject to a relatively short fixed-interest term (duration).

The fixed-interest term in KF's asset portfolio is dimensioned to meet the short duration in the debt portfolio. According to the Group's Finance Policy the duration must be 0–3 years, with a benchmark of 1.5 years. At the year-end the duration was 1.24 years (1.52), which corresponds to an interest rate risk compared to the benchmark of SEK 11.3 million (0.75) (calculated as a 1% shift in the interest rate curve).

#### OTHER MARKET RISK

Market risk is defined as the risk that the value of financial instruments varies due to changed market prices.

Within the framework of KF's asset management activities, at the year-end KF had quoted shares and shares in funds with absolute yield targets of a market value of SEK 1,146 million (843). The shares are managed partly by external managers, partly by KF Finans (Finance). KF also had SEK 105 million (118) in venture capital companies and unquoted shares, of which SEK 86 million (99) is attributable to asset management activities.

Other market risk in asset management activities is limited by rules governing the maximum allocation to asset types that are exposed to risk and by limitations in respect of the risk level in alternative investments. KF limits any other market price risk by means of a detailed set of rules relating to diversification and loss limitation (so-called stop-loss limits) in KF's operational investment regulations.

#### LIQUIDITY RISK

KF's liquidity is good. As at 31 December 2005 the Group's cash and cash equivalents totalled SEK 4,516 million (4,601). Liquidity is managed within the framework of asset management.

A liquidity shortage may arise within KF due to unforeseen withdrawals from the Sparkassan (Savings Association), MedMera or the Current Account, and through incorrect liquidity reporting from wholly owned subsidiaries. To avoid a liquidity shortage, liquidity is followed up on a daily basis. KF's investments in certificates, bonds and quoted shares must be made primarily in securities that can be paid within three working days with no risk of increased expenses. KF Finans (Finance) must also guarantee that SEK 200 million is available as a liquidity reserve. The liquidity reserve comprises bank balances and loan facilities that can be used without advance notice. At the year-end KF had bank credits of SEK 100 million (380), which was only used to a limited extent during the year.

#### COUNTERPARTY AND CREDIT RISK

KF has counterparty risk mainly through financial instruments in the currency, interest rate, share and electricity markets. Counterparts in these transactions are banks, stockbrokers, electricity trading companies and retail societies.

KF's counterparty risk is limited by means of financial transactions only being conducted with approved counterparties. KF strives to spread financial transactions across several counterparties. The Group also mainly uses standardised contracts. KF also strives to sign ISDA agreements with all financial counterparties, in order to enable the settlement of liabilities and receivables in the case of the counterparty becoming insolvent.

The biggest single counterparty exposure as at 31 December 2005 was with Stadshypotek AB and totalled SEK 1,128 million.

KF has a very limited credit risk in its trade and other receivables, which is a natural consequence of the nature of the business.

## Note 25

### Contingent liabilities

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>For own benefit:</i>				
Guarantees	0	32	0	32
Others	90	67	96	97
<i>For the benefit joint ventures:</i>				
Guarantees	72	107	0	35
Total	162	206	96	164

In some cases KF has provided guarantees for delivery and rental commitments in subsidiaries. To guarantee a small number of pension commitments, endowment policies have been taken out and pledged to the benefit of pension holders.

## Note 26

### Fees and remuneration to auditors

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Audit assignments, KPMG	3	5	1	1
Other assignments, KPMG	2	2	1	1
Total	5	7	2	2



## Note 27

### Cash flow information

#### INTEREST PAID AND DIVIDENDS RECEIVED

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Dividend received	62	58	2	14
Interest received	108	199	252	252
Interest paid	-126	-140	-195	-171
Net	44	117	59	95

#### ADJUSTMENTS FOR ITEMS NOT INCLUDED IN CASH FLOW

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Minus participation in earnings in associated companies/joint ventures <sup>1)</sup>	-549	83		
Dividend received from associated companies/joint ventures	7	17		
Depreciation and write-downs of assets	217	358	359	50
Unrealised exchange rate differences	-5	-1		
Capital losses on sale of non-current assets	-124	-105	-47	-4
Capital losses on sale of operations/subsidiaries	-1	-964		-1 343
Pension provisions	0	-1		
Other provisions	-10	-2	-7	-26
Other profit items not affecting liquidity	-84	-31	-183	
Total	-549	-646	122	-1 323

<sup>1)</sup> Excluding capital gain/loss from divestment of associated companies/joint ventures.

#### ACQUISITION OF SUBSIDIARIES AND OTHER BUSINESS UNITS <sup>1)</sup>

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>Acquired assets and liabilities:</i>				
Intangible non-current assets	33	53		
Tangible non-current assets	1	121		
Financial assets	0	1		
Inventories	9	57		
Operating assets	15	109		
Cash and cash equivalents	3	5		
Total assets	61	346		
Provisions	1	5		
Loans	5	130		
Operating liabilities	17	142		
Total minority, liabilities and provisions	23	277		
Purchase price	38	69		
Minus: share issue in kind		-19		
Purchase price paid	38	50	0	0
Minus: cash and cash equivalents in the acquired operation	-3	-5	0	
Effect on cash and cash equivalents	35	45	0	0

<sup>1)</sup> During the year P.A. Norstedt & Söner acquired the Gammafon and Nautiska publishers and the Nautiska book club. Akademibokhandelsgruppen acquired one bookshop.

#### DIVESTMENT OF SUBSIDIARIES AND OTHER BUSINESS UNITS <sup>1)</sup>

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>Divested assets and liabilities:</i>				
Intangible non-current assets		219		7
Tangible non-current assets	20	374		26
Financial assets		0		120
Inventories		461		2
Operating assets	0	173		104
Cash and cash equivalents		42		1 260
Total assets	20	1 269		1 519
Provisions	1	123		
Loans		79		1 421
Operating liabilities	18	193		98
Total liabilities and provisions	19	395		1 519
Sales price	3	1 844		0
Purchase price received	3	1 844		0
Minus: cash and cash equivalents in the discontinued operation	0	-42	0	-1 260
Effect on cash and cash equivalents	3	1 802	0	-1 260

<sup>1)</sup> During the year KF Fastigheter sold properties that were included in three limited partnerships.

#### CASH AND CASH EQUIVALENTS

SEK million	Group		Parent Company	
	2005	2004	2005	2004
<i>The following components are included in cash and cash equivalents:</i>				
Cash and bank balances	416	280	282	226
Current investments, comparable with cash and cash equivalents <sup>1)</sup>	4 100	4 321		664
Total	4 516	4 601	282	890

<sup>1)</sup> Excluding shares and participations, which are included under current investments reported in the consolidated balance sheet.

#### TRANSACTIONS THAT DO NOT GENERATE PAYMENTS

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Acquisition of operation through share issue in kind		19		
Conversion of debenture loan into shares in Coop Norden AB		378		378

#### CHANGE IN NET DEBT

SEK million	Group		Parent Company	
	2005	2004	2005	2004
Net liability at beginning of year	68	1 812	-270	1 027
New interest-bearing debts incurred		129		475
Amortisation of interest-bearing liabilities	-105		-78	
Other changes in interest-bearing liabilities	7	52	357	-1 308
Changes in pension provisions	0	-52		
Investments in new interest-bearing assets		-624	-710	-3 192
Divestment/reduction of interest-bearing assets	155	222		-1 623
Other changes in interest-bearing assets	-19	366	-21	2 565
Change in cash and cash equivalents	84	-1 837	607	1 786
Net liability at end of year	190	68	-115	-270

## Note 28

### Employees and salaries

Average number of employees	Group		Parent Company	
	2005	2004	2005	2004
Women	<b>753</b>	818	<b>19</b>	38
Men	<b>467</b>	503	<b>19</b>	26
Total	<b>1 220</b>	1 321	<b>38</b>	64

*Of which active abroad:*

*Europe:*

Women	<b>28</b>	28
Men	<b>41</b>	60
Total Europe	<b>69</b>	88

*Total abroad:*

Women	<b>28</b>	28
Men	<b>41</b>	60
Total abroad	<b>69</b>	88

Salaries and remuneration SEK million	Group		Parent Company	
	2005	2004	2005	2004
Group, Board and President <sup>1)</sup>	<b>31</b>	29	<b>3</b>	1
Others	<b>585</b>	1 194	<b>23</b>	34
Total	<b>616</b>	1 223	<b>26</b>	35

*Of which active abroad:*

*Europe:*

Group, Board and President	<b>9</b>	4
Others	<b>242</b>	239
Total Europe	<b>251</b>	243

*Asia:*

Group, Board and President	<b>1</b>	1
Others	<b>8</b>	8
Total Asia	<b>9</b>	9

*Total abroad:*

Group, Board and President	<b>10</b>	5
Others	<b>250</b>	246
Total abroad	<b>260</b>	251

Social costs SEK million	Group		Parent Company	
	2005	2004	2005	2004
Social costs	<b>177</b>	360	<b>21</b>	24

*Of which pension costs for:*

Group, Board and President	<b>10</b>	10	<b>0</b>	1
Others	<b>51</b>	195	<b>10</b>	7

Gender distribution in executive management %	Group		Parent Company	
	2005	2004	2005	2004

*Proportion of women:*

Board	<b>32%</b>	20%	<b>30%</b>	30%
Other senior executives	<b>38%</b>	30%	<b>0%</b>	0%

Absence due to illness, parent company %	2005		2004	
Absence due to illness as a proportion of normal hours worked	<b>4.0%</b>		4.8%	
Absence due to illness, 60 days or more	<b>2.7%</b>		3.0%	
<i>Absence due to illness, by gender:</i>				
Men	<b>0.6%</b>		0.6%	
Women	<b>6.8%</b>		7.0%	
<i>Absence due to illness, by age category:</i>				
Aged 29 or under	<b>0.0%</b>		1.8%	
Aged 30-49	<b>2.4%</b>		4.2%	
Aged 50 or over	<b>5.5%</b>		5.4%	

<sup>1)</sup> The President's salary is only included in the Group total.

The Board was paid a total fee, in accordance with the General Meeting's decision, of SEK 1,103,000 (1,100,000), of which the Chairman, in accordance with the Board's decision, received SEK 331,000 (330,000). In addition to this, in accordance with a special decision, the Chairman received fixed remuneration of SEK 367,000 (367,000). An annual pension provision is made for the Chairman of 35% of total remuneration.

On 1 November 2005 Lars Idermark took over as President, replacing Börje Fors. The President, Lars Idermark, was paid a salary of SEK 682,000. The former President, Börje Fors, was paid a salary of SEK 3,952,000 (4,022,000) and a bonus of SEK 310,000 (295,000).

The retirement age is 62. An annual pension provision is made of 35% based on salary. The period of notice from the company is 6 months, and pension contributions are paid in full. There is also a severance payment of 12 months.

## Note 29

### Shares and participations<sup>1)</sup>

Company SEK ,000	Corporate registration number	Registered office	Holding, %	Number of shares/ participations	Book value
<b>SHARES AND PARTICIPATIONS IN SUBSIDIARIES/ SUB-SUBSIDIARIES</b>					
KF PARENT SOCIETY					
KF Fastigheter AB	556033-2446	Stockholm	100	10 000	1 112 219
Bopec Progress AB	556189-4592	Stockholm	100		
Fastighets AB Kvarnholmen	556001-2477	Stockholm	100		
Fastighets AB Partille	556518-4354	Stockholm	100		
KF Centrumfastigheter AB	556405-6405	Stockholm	100		
KF Stormarknadsfastigheter AB	556409-2533	Stockholm	100		
KF Supermarkettfastigheter AB	556090-0366	Uppsala	100		
Kvarn AB Juvel	556024-4815	Göteborg	100		
Stockholms Dykeri AB	556001-9092	Stockholm	100		
KF Invest AB	556027-5488	Stockholm	100	800 000	1 194 372
KF Invest Förvaltning AB	556174-7717	Stockholm	100		
KF Media AB	556398-2387	Stockholm	100	25 000	126 909
Akademibokhandelsgruppen AB	556046-8448	Stockholm	100		
P.A. Norstedt & Söner AB	556045-7748	Stockholm	100		
PAN Vision Holding AB	556531-8879	Stockholm	100		
Tidningen Vi AB	556041-3790	Stockholm	100		
Bokus AB	556538-6389	Lund	100		
MedMera AB	556091-5018	Stockholm	100	3 000 000	312 240
KF Shared Services AB	556118-5371	Stockholm	100	10 000	28 089
KF Föreningsrevision AB	556198-2330	Stockholm	100	1 000	100
KF Försäkrings AB	516401-8417	Stockholm	100	10 000	20 000
Vår Gärd Saltsjöbaden AB	556035-2592	Saltsjöbaden	100	35 000	4 200
Other and dormant companies					0
Total subsidiaries, KF Parent Society					<b>2 798 129</b>

Company SEK ,000	Corporate registration number	Registered office	Holding, %	Number of shares/ participations	Book value, Parent Company	Equity share in Group
<b>ASSOCIATED COMPANIES, KF PARENT SOCIETY</b>						
<i>Direct ownership</i>						
Kooperativa Institutet, Ek förening	716421-4186	Stockholm	49	21	450	450
Nord Coop Invest Ltd		Slovakia	50		108	108
Strykjärnet i Norrköping, HB	916694-5544	Norrköping	25	5	1 996	1 996
Total associated companies, KF Parent Society					<b>2 554</b>	<b>2 554</b>
<i>Indirect ownership</i>						
Barnens Bokklubb AB	556103-0445	Stockholm	50	1 525		5 363
Böckernas klubb med journalen AB	556317-0629	Stockholm	43	7 658		4 304
HB Månadens bok	902003-8106	Stockholm	30			5 500
Other associated companies						3 106
Total indirect ownership						<b>18 273</b>
Total associated companies, KF Group						<b>20 827</b>

<sup>1)</sup> A complete list of companies is enclosed with the annual accounts for the Swedish Companies Registration Office.

## Note 29 contd.

Company SEK ,000	Corporate registration number	Registered office	Holding, %	Number of shares/ participations	Book value Parent Company	Equity share in Group
<b>JOINT VENTURES</b>						
<i>Direct ownership</i>						
Coop Norden AB	556585-8585	Stockholm	42	257 250	2 279 312	2 343 499
Total joint ventures, KF Parent Society					<b>2 279 312</b>	<b>2 343 499</b>
<i>Indirect ownership</i>						
Kilen Syd AB <sup>1)</sup>	556621-6361	Strängnäs	50	750		- 10 604
Other joint ventures						1 170
Total indirect ownership						<b>- 9 434</b>
Total joint ventures, KF Group						<b>2 334 065</b>

<sup>1)</sup> The negative equity share is attributable to the elimination of an internal profit of SEK 12 million being reported under other provisions in the balance sheet.

Company SEK ,000	Corporate registration number	Registered office	Holding, % -	Number of shares/ participations	Book value
<b>OTHER COMPANIES</b>					
<i>Holding in KF Parent Society</i>					
Riksbyggen Svenska, för upa	702001-7781	Stockholm	3	30 140	15 070
Bilda Förlag Ek för	702000-2601	Stockholm	11	5 250	1 028
Other holdings					1 236
Total other companies in KF Parent Society					<b>17 334</b>
<i>Holdings by subsidiaries</i>					
Accent Equity 2003 KB <sup>1)</sup>	969694-7739	Stockholm	7		11 942
Baltic Rim Fund		Jersey	16		21 772
IDI KB	969640-9631	Stockholm	10		302
Litorina kapital 1998 KB <sup>1)</sup>	969653-7555	Stockholm	22		29 089
Nordico II KB	969660-1500	Stockholm	12		14 803
CapMan <sup>1)</sup>		Finland, Guernsey	3		454
Stark BV		Amsterdam	11	60 097	1 232
Priveq Investment Fund III AB <sup>1)</sup>	556678-9714		8	23 530	5 987
Other holdings					1 898
Holdings by subsidiaries					<b>87 479</b>
Total other companies in KF Group					<b>104 813</b>

<sup>1)</sup> Additional investment commitments in venture capital funds total SEK 240 million. In addition to existing holdings, there is a commitment in FSN Capital Limited Partnership II.

Stockholm, March 9 2006

Nina Jarlbäck  
*Chairman*

Jan Andersson

Eva Calderon

Hans Eklund

Lena Ingren

Curt Johansson

Ingrid Karlsson

Göran Lindblå

Mats Lundquist

Anders Stake

Staffan Westerholm

Lars Idermark  
*President*

# Auditor's Report

To the Annual Meeting of the Swedish  
Co-operative Union (KF)  
Corporate reg. no. 702001-1693

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board and the President of the Swedish Co-operative Union for the year 2005. The Board and the President are responsible for the accounting documents and administration, and for ensuring that the Swedish Annual Accounts Act is applied in drawing up the annual accounts and the consolidated accounts. It is our responsibility to express an opinion on the annual accounts, the consolidated accounts and the administration on the basis of our audit.

The audit was conducted in accordance with accepted auditing practice in Sweden. This means that we planned and conducted the audit with the aim of assuring ourselves to a high but not absolute level of certainty that the annual accounts and the consolidated accounts do not contain any significant errors. An audit involves inspecting a selection of sources of base information relating to amounts and other information in the accounting documents. An audit also involves checking the accounting principles used and their application by the Board of Directors and the President, as well as assessing the significant estimates made by the Board of Directors and the President when

drawing up the annual accounts and the consolidated accounts, and evaluating all of the information in the annual accounts and the consolidated accounts. As a basis for our statement on discharge from liability we have reviewed significant decisions, measures and relationships in the society so that we could determine whether any member of the Board or the President is liable for compensation to the society. We have also checked whether any member of the Board or the President has in any other way acted in breach of the Swedish Associations Act, the Swedish Annual Accounts Act or the society's statutes. We believe that our audit has provided a reasonable basis to make our statements as expressed below.

The annual accounts and the consolidated accounts have been produced pursuant to Swedish Annual Accounts Act, and provide a fair view of the Union's and the Group's financial results and status in accordance with accepted accounting principles in Sweden. The Directors' Report is consistent with the other sections of the annual accounts and the consolidated accounts.

We recommend that the General Meeting adopt the income statement and the balance sheet for the Union and for the Group, deal with the profit as proposed in the Directors' Report, and approve the Board's and the President's discharge from liability for the financial year.

Stockholm, March 9 2006

Bertil Hammarstedt

Bo Wibäck

KPMG Bohlins AB

Per Bergman  
*Authorised Public Accountant*

This auditors' report relates to the annual accounts as shown on pages 38–67.



## Key ratios

*The following key ratios are calculated for the Group:*

- ☐ EQUITY/ASSETS RATIO
- ☐ DEBT/EQUITY RATIO
- ☐ RETURN ON CAPITAL EMPLOYED
- ☐ INTEREST COVERAGE RATIO
- ☐ RETURN ON EQUITY AFTER TAX

*Definitions:*

☐ THE EQUITY/ASSETS RATIO is calculated as the sum of reported equity, guarantee capital, debenture loans and minority equity as a percentage of total assets.

☐ THE NET DEBT/EQUITY RATIO is calculated as the net debt divided by equity. Net debt is calculated as the sum of interest-bearing liabilities including guarantee capital and debenture loans, minus total interest-bearing assets.

☐ CAPITAL EMPLOYED is calculated as the sum of assets minus non interest-bearing liabilities, including deferred tax liability.

☐ RETURN ON CAPITAL EMPLOYED is calculated as net profit before interest expense and exchange rate differences on financial liabilities as a percentage of average capital employed.

☐ THE INTEREST COVERAGE RATIO is defined as net profit before interest expense and exchange rate differences on financial loans divided by the sum of interest expense and exchange rate differences on financial loans.

☐ RETURN ON EQUITY is calculated as net profit after tax as a percentage of average reported equity.

		2005	2004	2003	2002	2001
Equity/assets ratio	%	<b>42.3</b>	40.2	36.4	39.2	26.5
Debt/equity ratio	multiple	<b>0.03</b>	0.01	0.40	0.53	1.10
Return on capital employed	%	<b>7.3</b>	11.0	4.0	0.4	Neg
Interest coverage ratio	multiple	<b>6.0</b>	8.9	2.4	0.1	Neg
Return on equity after tax	%	<b>9.8</b>	18.6	9.2	Neg	Neg

*Definitions of other key ratios that are calculated for KF Fastigheter (Real Estate):*

☐ DIRECT YIELD is defined as net operating profit in relation to market value at the start of the year. Net operating profit is calculated as rental income minus costs of operation and maintenance.

☐ TOTAL YIELD is defined as the sum of the net operating profit and changes in market value minus investments divided by market value.

# Membership influence

Behind KF are around three million members in the 58 Swedish consumer co-operative societies. Membership is open to all. Membership means that members are indirect owners of KF, which give them various ways of influencing the co-operative business. As well as the consumer co-operative societies, seven OK unions, Folksam Liv, Folksam Sak and Fonus are direct members of KF. KF's statutes define the principles by which KF is managed.

## The consumer co-operative societies

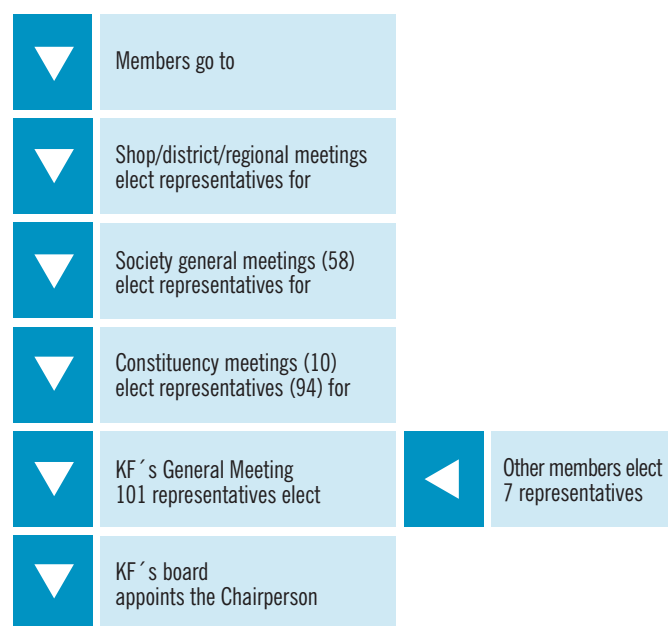
Each society's statutes are based on KF's so-called template statutes, adapted to the society's conditions. The fundamental principle for member control is that every member has one vote. The society's general meeting is the highest decision-making body, corresponding to a limited company's AGM. The meeting elects the board, auditors and an election committee. At the meeting members also take a view on the past year's operations and any motions submitted by members. In smaller societies all members can be invited to a joint society general meeting. Larger societies first have district general meetings, which elect a representative for the society general meeting.

## Constituency meetings

Each consumer co-operative society is a part of a constituency. The division into constituencies is defined annually by KF's general meeting based on a proposal by KF's board. In 2005 there were ten constituencies. Every year the societies in a constituency appoint representatives to a constituency meeting. The principles for appointing the representative are regulated in KF's statutes, and are based on the number of members in the societies. The purpose of the constituency meetings is to elect representatives and deputies for KF's General Meeting and to nominate members for the meeting's election committee. The constituency meetings appoint a total of 94 representatives for KF's General Meeting. The ordinary constituency meetings must be held no later than six weeks prior to KF's Annual General Meeting.

## Information and discussion

To give all societies the opportunity to receive information, to conduct a dialogue on relevant matters and to participate in discussions before KF's General Meeting, every year KF's Board, in accordance with the statutes, holds regional conferences. In 2005 five such conferences were held, including those in Kiruna and Malmö. In 2005 a representatives' seminar was held for all representatives at the meeting on the day before the general meeting. The subject for the year was strategic matters relating to Coop Norden.



## KF's General Meeting

KF's Annual General Meeting is held every year before the end of June. The meeting comprises 101 representatives. Of these, 94 are appointed at the consumer co-operative societies' constituency meetings. The remaining seven representatives are appointed by the other members in accordance with an election procedure drawn up by KF's board.

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In accordance with KF's statutes, the meeting must be informed of KF's activities, finances and future plans, and about the consumer co-operative in general.

In addition to the presentation of the annual report and the auditor's report, among other things the meeting adopts KF's income statement and balance sheet, and passes a resolution on discharge from liability of the members of the Board and the President. The meeting also passes resolutions on fees and other remuneration to KF's board based on a proposal from KF's election committee.

KF's General Meeting also appoints:

- Members of KF's board and deputies for these based on proposals from the election committee
- The election committee's chairperson, deputy chairperson, three members and three deputies on the basis on proposals from the board based on nominations from the societies' constituency meetings
- The audit company and auditors

98 representatives attended KF's General Meeting on 26 April 2005. In addition to the

agenda, which is regulated in KF's statutes, the meeting dealt with and passed two motions: the importance of a balanced composition of elected representatives at meetings and on the board, and the need for an adaptation of the product range so that Swedes with an immigrant background can buy a greater proportion of their consumption in co-operative shops and hypermarkets.

## Auditors

KF's statutes also define principles for the election of auditors. The General Meeting appoints one registered audit company and two elected auditors. The board takes charge of the procurement of audit services. The auditors are appointed for a two-year period, but are assessed annually. Of the elected auditors, half the number are elected every year.

The auditors are responsible for the annual audit review at the meeting about KF's year-end accounts. At the meeting in 2004 KPMG Bohlins AB were elected as registered audit company for two years.

## Coop Norden – control and influence

Coop Norden's AGM comprises one formal representative from each owner, each of whom represents the relevant union as follows: KF 42 per cent, FDB 38 per cent and Coop NKL 20 per cent. Coop Norden's advisory conference is held in conjunction with the Annual General Meeting. In accordance with the shareholder agreement, each of the owners can send a maximum of 59 elected representatives as deputies for the formal owners' representatives.

The AGM appoints the Board of Coop Norden on the basis of proposals from the owner unions. The board consists of 15 members who, by agreement, comprise five members from KF, four from FDB, three from Coop NKL and three members who represent employees.

Every year the boards of KF, FDB, Coop NKL and Coop Norden hold joint Nordic board conferences.

## Local and regional councils

In societies that do not have their own retail operations, influence over the shops is exerted through shop councils, regional councils and retail councils. The member/shop councils consist of 3-5 elected representatives, the shop manager and 1-2 employees.

It is the councils' task to conduct a dialogue with members and to monitor the shop's business operations. The regional councils are the consumer co-operative's consultative body between KF and the various chains within Coop Sverige. The council gives the societies a general influence and provide knowledge of local conditions. The corresponding consultation process at national level takes place between all member interest societies, KF and Coop Sverige at the retail council.

# The Board's activities

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KF's board must consist of at least nine and at the most thirteen members, elected by KF's General Meeting. Every year half of the Board's members are elected for a two-year period. KF's President is also a member of the Board.

The Board consisted of nine members who were elected by the meeting. Lars Idermark joined the Board in November, when he took over as President of KF. The Commercial Employees' Union appointed two employee representatives and one deputy.

## The Board's work routines

KF's statutes define and regulate principles for the Board's tasks and decision-making competence. The Board defines an annual meeting plan.

The Board appoints the President and confirms a set of procedural rules for this post. The work allocation between the President and the Board is specified in KF's statutes. These state that the Board defines KF's budget and policies of a general nature, and makes decisions on matters of a fundamental nature or of major financial significance for the business. The Board is also responsible for supervising the President's management of the business.

The President takes the initiative in the development and rationalisation of the business and makes sure that KF exercises an active owner's role in subsidiaries and associated companies.

## KF's election committee

KF's General Meeting appoints members of an election committee based on proposals from the Board. The Board bases the names it proposed on nominations received from the societies' constituency meetings. At the 2005 meeting Ulla Hultén (chairperson), Jan Bohlin (deputy chairperson), Sune Dahlqvist, Hans Ahnell and Sune Grahn were elected as members of KF's election committee. The Board's fees and other remuneration are decided every year by KF's General Meeting. The President's remuneration is decided

by the Board on the basis of a defined managerial policy. As far as other members of executive management are concerned, the President decides on salary and other terms of employment on the basis of a policy defined by the Board. Every year the President informs the Board of the conditions.

## Work during 2005

In 2005 the Board held thirteen meetings at which minutes were kept. Attendance at these meetings was high. Regular items on the agenda were reporting on the Group's sales, financial results and liquidity. During the year the Board received ongoing reports on developments in Coop Norden, which was also the focus of discussions on the business operation. At meetings during the year the Board also dealt with matters including the creation of KF Konsument (Consumer Affairs), the appointment of the new President and the application for MedMera AB to be a credit market company. The aim is to strengthen the competitive position of the Coop MedMera card.

During the year the Board appointed a statute group to produce proposals of changes to the statutes on the basis of the new Swedish code for company management. An initial proposal will be presented in 2006, with due consideration also given to the co-operative company form.

In their work the members of the Board conducted a dialogue with the consumer co-operative societies and actively participated in the societies' commitment and in the regional conferences. Members of the Board also took part in the special annual seminar held before the general meeting.

In 2005 fees were paid to the Board to the order of SEK 1 103 200 (1 100 400), of which SEK 330 640 (329 800) to the Chairperson of the Board. In addition to these fees, compensation is paid to board members for loss of earnings. The Chairperson of the Board also receives a pension contribution of 35 per cent of total remuneration during the year.

# From the Chairperson

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The consumer co-operative's fundamental concept is to create financial benefit and other added value for its members. It is our responsibility to ensure that members can have faith in us for their consumption and as a source of information and knowledge. It is also our duty to be as efficient as possible.

A comprehensive process of change is currently under way throughout the entire Swedish consumer co-operative. A lot of effort is being put into the tough job of restoring profitability and reversing the trend in the FMCG operations, especially in Coop Norden.

In recent years KF has built up financial strength and an organisation that can more actively exercise its ownership of Coop Norden, and at the same time support the FMCG operations being run by the consumer co-operative societies. We are now making all of our resources available to exercise clearer owner control in order to achieve results in the Swedish business.

In both KF and the three owners of Coop Norden, the Danish, Norwegian and Swedish co-operatives, there is now clear agreement to take action to restore the Swedish consumer co-operative to a strong position.

Another element of the process of change focuses on how the consumer co-operative can be changed in order to correspond to an even greater degree to the needs that people have, both today and tomorrow.

The challenges facing individual consumers and thus for the consumer co-operative as an organisation are now changing very quickly. Many consumers perceive a need to find out information and to be able to influence the conditions in their everyday lives and in their environment. This requires that approaches be adapted to suit the world in which we live.

All over Sweden there are lots of inspired people with a burning interest in consumer matters, wanting to exert an influence and create a better everyday life. It is our task to make sure that more and more of them can feel at home in the Swedish consumer co-operative; there must be many ways to get involved, many ways to express your commitment.

During the year, as an element of this process of change, KF's board appointed a statute committee, which will investigate how the forms of member influence can be changed and will present this to the general meeting in 2007.

There is still much development work to be done, and in this context it is pleasing that the number of members of the Swedish consumer co-operative is now more than three million. It is here – with every third Swede – that the foundations exist of the consumer co-operative and the people whose faith we must manage.

Nina Jarlbäck  
Chairperson of KF's Board



# The Board

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**From the left:** Nina Jarlbäck, Staffan Westerholm, Eva Calderon, Ingrid Karlsson, Curt Johansson, Jan Andersson , Anders Stake, Rose-Marie Johansson , Lena Ingren, Lars Idermark , Hans Eklund, Mats Lundquist, Göran Lindblå

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## Nina Jarlbäck 1946

Chairperson of KF's board since 2002, board member since 1995.  
Chairperson of the Board of the Svea Co-operative. Chairperson of Coop Norden. Former municipal commissioner and member of public boards. Chairperson of the Board of Folksam Liv, board member at Riksborgen.

## Jan Andersson 1944

Deputy Chairperson of KF's board since 2001, board member since 1979. Chairperson of the Board of the Nord Co-operative. Board member of Coop Norden. Qualified in education and economics. Former deputy director. Chairperson of the Board of the Co-operative's Negotiating Body (KFO) and Deputy Chairperson of the Board of Folksam Sak.

## Eva Calderon 1944

Board member since autumn 2005.  
Employee representative, commercial specialist management qualification, qualification in agreements and documentation, qualification in lobbying and media. Sales assistant at Coop Forum Bäckebo. Senior board member of Commercial Employees' Union. Board member of Liseberg AB.

## Hans Eklund 1954

Board member since 1997.  
Deputy Chairperson of the Board of the Svea Co-operative. Doctor of Law. University professor and Director of Studies at the Institute of Law, Uppsala University. Chairperson of the Board of Co-operative Development, Uppsala County, lay auditor at Folksam and KP Pension & Insurance.

## Lars Idermark 1957

President and board member since November 2005. Qualified as agronomist, with university studies in Business Economics, Economics and Law. Former President and CEO of LRF Holding AB, Deputy President of Föreningsbanken, Deputy President and Acting President and CEO of Förenings-Sparbanken, Deputy President of Capio AB and President of Second AP fund. Chairperson of the Board of Handelsbanken Western Region and board member of Southern and the Chalmers University of Technology Foundation.

## Lena Ingren 1939

Board member since 2002.  
Former Chairperson of the Board of the Stockholm Co-operative. Banking official, higher qualification in bookkeeping, business economics and supervision.

## Curt Johansson 1942

Board member since 2001.  
Chairperson of the Board of Konsum Norrbotten. Economist (Advanced Economics, Salaried Employees' Educational Association). Former hospital director.

## Rose-Marie Johansson 1959

Deputy since autumn 2005.  
Employee representative, commercial specialist management qualification, qualification in agreements and documentation. Sales assistant, Coop Konsum Nora.

## Ingrid Karlsson 1959

Board member since 2004.  
Board member at Väst Co-operative. Qualified mental health nurse, economics at Komvux, management training at SU/Sahlgrenska. Cleaning Manager, Sahlgrenska Gothenburg.

## Göran Lindblå 1954

Board member since 1999.  
President and CEO of OK Co-operative Association. Journalist. Chairperson of the Board of KP Pension & Insurance, working Chairperson of the Board of OKQ8 AB, Deputy Chairperson of the Board of KFO, board member at the Co-operative Institute and Folksam Sak.

## Mats Lundquist 1949

Board member since 2001.  
Deputy Chairperson of the Board of the Stockholm Co-operative. Economist. Senior Consultant at Ipsos Sweden AB.

## Anders Stake 1956

Board member since 2004.  
President of Gävleborg Co-operative. Economist. Board member of the Co-operative's Negotiating Body (KFO).

## Staffan Westerholm 1954

Board member since autumn 2005.  
Employee representative, commercial education in the fields of Economics and Managerial Development. Manager of DIY/Garden, Coop Forum Värmdö. Board member of Nya Lundsgården Åre and Sumero AB Konsult.

# The Management

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From the left: Lars Idermark, Magnus Håkansson, Per Agefeldt, Ivar Fransson, Bernt-Olof Gustavsson, Lars Hillbom.

## Lars Idermark 1957

Qualified as agronomist, with university studies in Business Economics, Economics and Law. President and board member since November 2005.

## Per Agefeldt 1948

Commercial college, internal co-operative training at Vår Gård. Manager of KF Society Relations since 2002.

## Ivar Fransson 1957

Degree in business administration and law (Växjö University). President of MedMera AB since 2000.

## Bernt-Olof Gustavsson 1960

M. Sc. (Engineering)  
President of KF Fastigheter since 2000.

## Lars Hillbom 1946

B.Sc.(Econ)  
Manager of KF Union Secretariat since 2002, employed at KF since 1987, including assignments within the International Co-operative Alliance.

## Magnus Håkansson 1963

B.Sc.(Econ), MBA  
CFO since 2002.

# Contact

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## KF (The Swedish Co-operative Union)

Box 152 00  
104 65 Stockholm, Sweden  
Visiting address: Stadsgården 10  
Tel: +46 (0)8-743 25 00  
Fax: +46 (0)8-644 30 26  
[www.kf.se](http://www.kf.se)  
e-mail: [info@kf.se](mailto:info@kf.se)  
Corporate registration number 702001-1693  
Order number 304-005 E  
Order by e-mail: [elisabeth@kapa.se](mailto:elisabeth@kapa.se)  
Order fax: +46 (0)8-643 95 90

## MedMera AB

Box 152 00  
104 65 Stockholm, Sweden  
Tel: +46 (0)8-743 25 00  
Visiting address: Stadsgården 10  
[www.coopmedmera.se](http://www.coopmedmera.se)

## Coop MedMera Customer Service

Hours of business: Monday-Friday, 09:00-17:00  
Tel: +46 (0)771-63 36 00  
e-mail: [kundtjanst@coopmedmera.se](mailto:kundtjanst@coopmedmera.se)

## KF Sparkassa (Savings Association) Customer Service

Hours of business: Monday-Friday, 09:00-16:00  
Tel: +46 (0)8-743 38 00  
e-mail: [sparkassan@kf.se](mailto:sparkassan@kf.se)

## KF Fastigheter AB (Real Estate)

Box 15 200  
104 65 Stockholm, Sweden  
Tel: +46 (0)8-407 25 20  
[www.kff.se](http://www.kff.se)

## KF Invest AB

Box 15 200  
104 65 Stockholm, Sweden  
Tel: +46 (0)8-743 25 00

## KF Media AB

Box 152 00  
104 65 Stockholm, Sweden  
Tel: +46 (0)8-769 80 00  
[www.kfmedia.se](http://www.kfmedia.se)

## KF Föreningsrevision AB (Society Audit)

Box 152 00  
104 65 Stockholm, Sweden  
Tel: +46 (0)8-743 25 00  
[www.kf.se](http://www.kf.se)

## Vår Gård Saltsjöbaden AB

Ringvägen 6  
133 80 Saltsjöbaden, Sweden  
Tel: +46 (0)8-748 77 00  
[www.vargard.se](http://www.vargard.se)

## Coop Norden AB

Box 21  
101 20 Stockholm, Sweden  
Visiting address: Kungsgatan 49, Stockholm  
Tel: +46 (0)8-743 54 00  
[www.coopnorden.com](http://www.coopnorden.com)

## Coop Sverige AB

171 88 Solna, Sweden  
Visiting address: Englundavägen 4, Solna  
Tel: +46 (0)8-743 10 00  
[www.coop.se](http://www.coop.se)

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**The Swedish Co-operative Union (KF)**

Box 15 200

SE-104 65 Stockholm

Tel. +46 (0)8-743 25 00

[www.kf.se](http://www.kf.se)

Corporate registration number 702001-1693

Order number 304-005 E

Order fax +46 (0)8-643 95 90