MODERN TIMES GROUP MTG AB ("MTG")

Interim Report 1999

January 1—March 31, 1999

Modern Times Group MTG AB ("MTG") (Nasdaq: MTGNY, Stockholm Stock Exchange: MTG) presents its accounts for the first quarter of 1999 today, Monday, May 17, 1999.

SUMMARY

- Sales advanced 33%, to SEK 1,097 (825) million.
- Operating profit before depreciation rose SEK 111, to SEK 103 (1998 Q1: loss of 8) million.
- Operating profit after depreciation rose SEK 101, to SEK 48 (1998 Q1: loss of 53) million.
- Operating profit after financial revenue and expense rose SEK 64, to SEK 19 (1998 Q1: loss of 45) million.
- The newspaper *Metro* was granted a distribution agreement to publish in Helsinki.
- CDON, which sells recordings over the Internet, was launched successfully.
- Viasat Sport was introduced in March.

FINANCIAL SUMMARY (SEK million)	**1998 Full year**	**1998 Jan 1—Mar 31**	**1999 Jan 1—Mar 31**
Net sales	3,904	825	1,097
Gross income	966	147	288
Operating income/loss before depreciation	410	-8	103
Operating income/loss after depreciation	218	-53	48
Income/loss after financial revenue and expense	222	-45	19
Result of the period	142	-65	-3

OPERATIONS

Group structure

Shares in MTG are traded on the Nasdaq Stock Market (MTGNY) and, since May 3, 1999, have been traded on the Stockholm Stock Exchange (MTG).

The MTG Group consists of six business areas: Viasat Broadcasting, Radio, Publishing, Metro International, Electronic Retailing, and Media Services.

In the operational structure, effective Q1 1999 the operations of *Metro* in Prague and Budapest are reported in the Metro International business area instead of Publishing.

Consolidated Earnings for the First Three Months of 1999

In the first three months of 1999, net sales reached SEK 1,097 million, compared to SEK 825 million for the same period in 1998, a surge of 33%. Sales continued growing robustly primarily in the business areas Viasat Broadcasting, Radio, and Publishing.

Operating income before depreciation reached SEK 103 million in the first quarter, compared to the loss of SEK 8 for Q1 1998, an improvement of SEK 111 million. Operating income after depreciation reached SEK 48 million, SEK 101 million better than the loss of SEK 53 million in Q1 1998.

The share of earnings in associated companies was SEK 0 (16) million, reported by each business area. Consequently, the Group's participation in earnings by TV3 Estonia, TV3 Latvia, and TV4 are included in Viasat Broadcasting, and participation in the earnings of Radio P4 in Radio. The 1998 comparative figures for Electronic Retailing include MTG's participation in the earnings of HSS, totaling SEK 5 million. The shareholding in HSS was divested in the autumn of 1998 and is thus not included in 1999 earnings.

Net financial revenue and expense ended at SEK -29 (8) million. Net financial items included a loss of SEK 12 (Q1 1998: profit of 18) million resulting from foreign exchange gains and losses in the translation of receivables and liabilities denominated in foreign currencies.

Income after financial revenue and expense climbed to SEK 19 (Q1 1998: loss of 45) million, SEK 64 million better than in the same quarter one year previous.

Development of the businessareas

Viasat Broadcasting

The Viasat Broadcasting business area comprises MTG's TV channels and subscriber management system (SMS) operations as well as MTG's participation in earnings from TV1000.

The merger of the previous segments in this business area, Free TV and Pay TV, proceeded according to plan with the aim of further strengthening Viasat as the leading satellite platform in the Nordic and Baltic markets. To further boost efficiency in the production and broadcast of the TV channels, the business area will invest approximately 100 MSEK during 1999. This is the first new investment in TV3 since the start.

Free TV

This segment of MTG Broadcasting consists of the TV3 group, ZTV in Sweden, and 3+ in Denmark. The TV3 group includes channels in Sweden, Norway, Denmark, Estonia, Latvia, and Lithuania. TV3 Estonia and TV3 Latvia are reported as associated companies.

TV3

During Q1 1999, TV3 expanded its total revenues, including other operating revenue, in the Scandinavian countries 30%, to SEK 474 (365) million.

The marketshares in the three Scandinavian countries are estimated to have developed as follows. In Sweden, the market for TV advertising expanded about 18% in Q1 1999, and TV3 expanded its market share to 31% (25%). The Norwegian market grew 3%, and TV3's market share was 18% (15%). The Danish market shrunk 2%, while TV3 expanded market share to 28% (16%).

The TV3 channels in the Baltic States increased their market shares in the first quarter. In Estonia, the market slid 8%, while TV3's market share rose to 55% (48%). The Latvian market dropped 30%, while TV3's market share was 3% (2%). Finally, the Lithuanian market dropped 27%, and TV3's market share was 35% (34%).

Sales for the Lithuanian channel, which is consolidated in the operations of the TV3 group, totaled SEK 11 (16) million.

TV3 Broadcasting reported sales, including other operating revenues, of SEK 486 (383) million for the first quarter, with operating income of SEK 59 (Q1 1998: loss of 5) million before depreciation and SEK 53 (Q1 1998: loss of 11) million after depreciation. Sales in TV3's Scandinavian markets were extremely strong across the board, as the channels won market share. In the Baltic markets conditions deteriorated, though, mainly because of the impact of the Russian crisis on the Lithuanian economy.

Other channels

After several weak years for ZTV and 3+, sales in the first quarter were satisfactory for these channels. This led to a decrease in losses compared to the preceding year. The referendum in the Danish cable networks that will determine whether or not 3+ will be able to charge subscription fees will be held in the autumn of 1999, later than anticipated in previous schedules.

ZTV and 3+ reported sales of SEK 29 (20) million for the first quarter, and an operating loss of SEK 13 (29) million before depreciation and SEK 13 (29) million after depreciation.

Associated companies

Earnings for the business area include MTG's participation in the associated companies TV4 and TV3 in Estonia and Latvia. These participations totaled SEK -1 (Q1 1998: profit of 4) million in the first quarter.

Pay TV

Pay TV comprises the SMS company Viasat, which distributes MTG's own channels, TV1000, and a number of third-party channels.

Viasat

At March 31, 1999, Viasat had 244,000 (160,000) subscribers to its premium product Viasat Gold. The number of Viasat smartcards on issue at March 31 totaled 1,034,000 (928,000). The substantial increase was chiefly owing to the ongoing campaign which offers customers the opportunity to buy a satellite dish and decoder for SEK 1.00 when simultaneously signing up for a Viasat Gold subscription.

In March, Viasat Sport was introduced as part of Viasat's range. The channel is included in all of Viasat's pay-TV packages and also sold to cable networks. The channel is produced at extremely low cost because the schedule mainly consists of sports to which MTG already holds rights.

Viasat reported sales of SEK 259 (154) million. For the first three months of 1999, operating income equaled SEK 45 (24) million before depreciation and SEK 36 (18) million after depreciation.

TV6

The channel, included in all Viasat pay-TV packages, increases revenues as the number of subscribers to the packages grows. Costs were kept an extremely low level.

Sales for the first three months of 1999 were SEK 7 (3) million, and the operating loss was SEK 6 (10) million before depreciation and SEK 8 (12) million after depreciation.

TV1000

According to a separate agreement between Kinnevik and MTG, MTG distributes the premium channel TV1000 as part of the Viasat Gold package and to cable-TV networks. In 1999, Kinnevik will cover SEK 30 million of all losses made by TV1000. TV1000 continued to benefit from healthy sales of Viasat Gold in the direct-to-home (DTH) market, while the number of subscribers through cable TV was relatively unchanged.

At the end of the first quarter, TV1000 had 342,000 (251,000) subscribers.

The business area's share of losses in TV1000 for Q1 1999 was SEK -27 (-35) million.

Sales for the entire Broadcasting business area equaled SEK 672 (450) million for the first three months of 1999, resulting in operating income of SEK 65 (Q1 1998: loss of 53) million before depreciation and SEK 36 (Q1 1998: loss of 77) million after depreciation.

MTG Radio

The radio market is calculated to continue expanding briskly during the first quarter, at a rate of 17% (13%), and MTG Radio boosted sales 70%, thus winning market shares. In listener surveys published by RUAB after the end of the reporting period, Rix FM further bolstered its position as Sweden's biggest commercial radio network, and for the first time Power Hit Radio was the biggest station in Stockholm and Gothenburg.

The radio networks in Estonia and Latvia that MTG acquired towards the end of 1998 have now changed their format and brand to Easy FM. Sales and profit met budget.

MTG's share of earnings in the associated company P4 Radio Hele Norge totaled SEK 5 (7) million for the first three months.

Sales for the entire Radio business area totaled SEK 27 (16) million for the period, resulting in operating income of SEK 5 (1) million before depreciation and SEK 4 (Q1 1999: loss of 1) after depreciation.

MTG Publishing

This business area includes the newspaper *Metro* in Stockholm and Gothenburg and the business paper *FinansTidningen*.

During the period, a distribution agreement was granted allowing the distribution of *Metro* in Helsinki. Publication is slated to begin in October 1999. After the end of the quarter, an agreement was granted allowing the distribution of *Metro* in Malmö and the rest of southernmost Sweden.

The international expansion of *Metro* is reported in the Metro International business area.

In Stockholm, the number of readers was 640,000 (604,000), in Gothenburg 175,000 (125,000). The newspaper thus retained its position as the second biggest newspaper in both cities. Growth in classified advertising was brisk during the period, in particular for employment ads.

Sales by *Metro* in Stockholm and Gothenburg totaled SEK 94 (67) million.

Since the Group took over *FinansTidningen* in May 1998, the number of subscribers as well as advertising revenues have risen. The number of subscribers was 15,200 (11,700), and sales for the first three months of 1999 were SEK 18 (—) million.

Sales for the entire Publishing business area reached SEK 112 (67) million in the first quarter, with operating income of SEK 25 (19) million before depreciation and SEK 17 (17) million after depreciation.

Metro International
Business in this area consists partly of the ventures established for the newspaper *Metro* outside MTG's core geographic market, that is, the Nordic countries and Baltic states. The business area is also responsible for new international ventures for *Metro*.
Work on launching *Metro* in eight Dutch cities progressed according to plan.
Metro is now the biggest newspaper in Prague and Budapest. In Prague, the newspaper has 229,000 readers and in Budapest 480,000 readers. Combined advertising sales reached SEK 9 (6) million. The operating loss was SEK 6 (4) million before depreciation and SEK 8 (5) after depreciation.
MTG Electronic Retailing
The business area reported weak sales in the first three months of 1999 compared to the same period the preceding year. The principal cause was a slowdown in the German market, which accounted for about one-third of sales in full year 1998. The slowdown in turn mainly resulted from a temporary loss of media slots, which have been gradually recovered.
The contract signed with Eurosport for six hours of broadcasting every 24 hours took effect in March and thus had no noticeable impact on sales for the first quarter.
In addition, the business area no longer includes any interest in HSS's earnings, because the shareholding in the company was divested in the autumn of 1998.
Earnings for the first quarter of 1998 included SEK 5 million for the HSS holding.
Sales for the entire Electronic Retailing business area totaled SEK 162 (157) million in the first quarter of 1999, with operating income of SEK 13 (13) million before depreciation and SEK 10 (10) million after depreciation.
MTG Media Services
Sales for this business area were lower than in the same period in 1998.
The underlying causes included seasonal as well as operational factors.
Sales by Nordic Artist were substantially less than one year previous as a result of several events not being held during the first quarter. Rather, the company has focused on the latter part of the year. In Rally TV, a change in management was made which temporarily had a negative impact on sales. Strix Television will also receive a larger proportion of its revenues later in 1999 than it did in 1998.
Operational problems have visited MTG Media Properties, where the management, who are also minority shareholders, left the company, resulting in significantly lower revenues. The company retains rights it has previously held, and new management will revive sales efforts.
Other operations, chiefly in SDI, progressed according to plan.
Sales for the entire Media Services business area ended at SEK 149 (162) million in the first quarter, with operating income of SEK 20 (31) million before depreciation and SEK 10 (21) million after depreciation.
<u>Number of employees</u>
The number of permanent full-time employees in the Group totaled 1,220 (1,047) at March 31. Since March 31, 1998, operations at *Metro* in Gothenburg and Budapest and at *FinansTidningen* have been added. These units employ a total of 143 persons. In other words, the number of full-time employees in units that were part of MTG in 1998 and 1999 has risen by 30 persons only, despite a significant increase in Group sales.

FINANCIAL POSITION
Equity/assets ratio

The Group’s equity/assets ratio (defined as consolidated shareholders’ equity and minority interests including the convertible debenture loan, divided by total assets) was 38% (40%) at March 31, 1999.

This ratio does not include the Group’s holdings in TV4 and P4, which are reported as long-term financial assets. Their total market value at the end of the quarter was SEK 731 million. The underlying value of the shares in Millicom International Cellular SA, corresponding to the option to acquire shares in Millicom, which is reported as a current asset, had a market value of SEK 294 million at the end of the period. The combined book value and exercise price for these holdings were SEK 314 million.

Liquidity

The Group’s liquidity, including unutilized credit facilities and the Millicom option, reached SEK 512 (713) million at the end of the quarter.

Following the end of the quarter, agreement was reached for a new credit facility of SEK 800 million. This facility will be used to refinance existing liabilities totaling SEK 500 million and to finance expansion of the Group.

Net borrowings

The Group’s net borrowings (defined as interest-bearing liabilities, excluding the convertible debenture loan, less interest-bearing assets) totaled SEK 198 (310) million at the end of the period.

Investing activities

During the period, the Group invested a total of SEK 44 (23) million.

Depreciation

Group depreciation equaled SEK 55 (45) million.

Earnings per share

Earnings per share after full tax, and pro-forma full conversion of the outstanding convertible debenture loan, equaled SEK 0.02 (Q1 1998: loss of 0.94).

OTHER INFORMATION

Interim Report for January-June 1999

MTG’s publication of results for the first half of 1999 is tentatively scheduled for August 16, 1999.

Annual Report

MTG’s annual report is available at the Company’s office: MTG, Skeppsbron 18, Box 2094, SE-103 13 Stockholm, Sweden.

Additional financial information, including quarterly breakdowns, is published on the Internet at www.mtg.se.

Stockholm, May 17, 1999

Modern Times Group MTG AB

The Board of Directors

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

For additional information, please contact:

Pelle Törnberg, telephone +46 8 5620 0050
President and CEO, Modern Times Group MTG AB
Johan Lindgren, telephone +46 8 5620 0050
Chief Financial Officer, Modern Times Group MTG AB

CONSOLIDATED INCOME STATEMENT (SEK million)	1998	1998	1999
	Full year	Jan 1—	Jan 1—

		Mar 31	Mar 31
Net sales	3,904	825	1,097
Cost of goods and services	-2,938	-678	-809
Gross income	966	147	288
Selling, administrative, research and development expenses	-703	-130	-195
Income from corporate development	45	-	-
Income from sales of securities	50	-	-
Expensed option premium for TV1000	-91	-35	-27
Other operating revenues	53	0	29
Other operating expenses	-138	-51	-47
Share of earnings in associated companies	36	16	0
Operating income/loss	218	-53	48
Net financial revenue and expense	4	8	-29
Income/loss after financial revenue and expense excluding interest on convertible debentures	222	-45	19
Interest on convertible debentures	-26	-7	-7
Income /loss before tax	196	-52	12
Taxes	-51	-10	-17
Minority interests	-3	-3	2
Net income/loss for the period	142	-65	-3

REVIEW OF THE GROUP (SEK million))	1998 Jan 1—Mar 31	1999 Jan 1—Mar 31
Net sales by business area		
Viasat Broadcasting	450	672
MTG Radio	16	27
MTG Publishing	67	112
Metro International	6	9
MTG Electronic Retailing	158	162
MTG Media Services	162	149
Parent company and other companies	10	8
Eliminations	-44	-42
Total	825	1,097
Operating income/loss by business area		
Viasat Broadcasting	-77	36
MTG Radio	-1	4
MTG Publishing	17	17
Metro International	-5	-8
MTG Electronic Retailing	10	10
MTG Media Services	21	11
Parent company and other companies	-16	-20
Eliminations	-2	-2
Total	-53	48
Income/loss after financial revenue and expense by business area		
Viasat Broadcasting	-95	24
MTG Radio	-3	2
MTG Publishing	17	15
Metro International	-5	-8
MTG Electronic Retailing	5	2
MTG Media Services	18	9
Parent company and other companies	20	-23
Eliminations	-2	-2
Total	-45	19

CONSOLIDATED BALANCE SHEET (SEK million)	981231	980331	990331
Fixed assets			
Capitalized development expenses	230	172	235
Beneficial rights	106	120	116
Goodwill	496	270	483
Machinery, equipment, etc.	178	189	169
Shares and participations	270	330	267
Long-term receivables	23	15	21
	1,303	1,096	1,291
Current assets			
Inventories	532	683	603
Current receivables	1,233	927	1,500
Cash, cash equivalents, and short-term investments	337	202	223
	2,102	1,812	2,326
Total assets	3,405	2,908	3,617
Shareholders' equity			
Restricted equity	327	375	323
Non-restricted equity	644	400	628
	971	775	951
Minority interests in equity	20	11	15
Provisions	87	82	88
Long-term liabilities			
Convertible debenture loan 1997/2000	390	380	393
Other interest-bearing liabilities	377	447	355
Non-interest-bearing liabilities	4	0	4
	771	827	752
Current liabilities			
Interest-bearing liabilities	83	83	80
Non-interest-bearing liabilities	1,473	1,130	1,731
	1,556	1,213	1,811
Total shareholders' equity and liabilities	3,405	2,908	3,617

CONSOLIDATED STATEMENT OF CASH FLOWS (SEK million)	1998 Full year	1998 Jan 1—Mar 31	1999 Jan 1—Mar 31
Net income/loss for the period	142	-65	-3
Adjustments to reconcile net income/loss to net cash provided by operations	105	36	63
Changes in working capital	112	-77	-80
Cash flow from operations	359	-106	-20
Investment in shares	-226	0	-2
Investment in other fixed assets	-180	-23	-44
Other cash flow to investing activities	129	0	0
Cash flow to investing activities	-277	-23	-46
Cash flow to/from financing activities	-71	4	-48
Net increase/decrease in cash and cash equivalents for the period	11	-125	-114