

Choices

Modern Times Group MTG AB Annual Report & Accounts for 2004

Volume 8





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Show reels



Contents

2	Sales, Showmanship & Cost Control	28	MTG Radio	50	Parent company income statement
3	Group overview	30	Modern Studios	51	Parent company balance sheet
4	Five years with MTG	32	Home Shopping	52	Parent company changes in shareholders' equity
5	Group history	33	SDI Media	53	Parent company statements of cash flows
6	Behind the scenes The Home of Sports Entertainment	34	Corporate social responsibility	54	Notes
8	Behind the scenes The Viasat Channel Factory	36	Financial review	89	Auditors' report
10	Chief Executive's review	38	The MTG share	90	AGM & financial calendar
12	Executive management	39	Board of Directors	91	Definitions & key ratios
14	Viasat Broadcasting	40	Directors' report	91	Glossary
		45	Consolidated income statement	92	Addresses
		46	Consolidated balance sheet		
		48	Consolidated changes in shareholders' equity		
		49	Consolidated statements of cash flows		





Sales, Showmanship & Cost Control

Modern Times Group is an international entertainment broadcasting company with operations in more than 30 countries around the world.

The Group generates the majority of its revenues from advertising and subscription sales and operates Europe's most efficient TV channel distribution business. MTG is the largest free-to-air and pay-TV operator in Scandinavia and the Baltics and also owns market-leading radio and

content businesses. Over 30 Viasat television channels are broadcast in up to 15 countries around the world each day and reach more than 60 million viewers. MTG is also the largest shareholder in Russia's number one private commercial TV network.

The Group is focused on generating enhanced shareholder value by challenging monopolies to create market opportunities and develop dynamic high-growth businesses in

multiple territories; providing a wide range of entertainment programming to increase consumer choice; establishing and maintaining low-cost operating structures that are best in class in terms of efficiency and flexibility; and capitalising on the economies of scale that arise from the implementation of this strategy.



Group overview

Viasat Broadcasting



Viasat Broadcasting is the largest free-to-air and pay-TV broadcaster in Scandinavia and the Baltics. The Viasat DTH satellite TV platform offers multi-channel digital TV packages of more than 50 own-produced and third-party entertainment channels to viewers in 15 countries across Europe. Viasat's TV channels, including flagship entertainment channels 'TV3' and 'TV1000' now reach over 60 million people. The Group is also the largest shareholder in Russia's fourth largest television network, CTC Media, as well as the owner of the DTV and Viasat3 free-to-air channels in Russia and Hungary respectively.

Free-to-air TV

TV3
ZTV
TV3+
3+
TV8
Viasat3
Tango TV
DTV

Associated Companies

CTC Media (39.8%)
BET24 (19.9%)

Pay-TV

Viasat Sport 1
Viasat Sport 2
Viasat Sport 3
TV1000
TV1000 Plus One
TV1000 Classic
TV1000 Family
TV1000 Action
TV1000 Nordic
Viasat Nature
Viasat Explorer
Viasat History
Viasat Action
Viasat Music
Viasat Guide
Viasat Games
Viasat Ticket

71.7%

share of Group revenues

MTG Radio



MTG Radio is the largest commercial radio operator in the Nordic and Baltic regions. MTG Radio owns, or has equity stakes in, the largest commercial radio broadcasting networks in Sweden, Norway and Finland, as well as rapidly growing stations and networks in the Baltic countries. MTG Radio's stations reach over three million listeners every day.

RIX FM
Lugna Favoriter
Bandit
Svenska Favoriter
NRJ
XL Format
Star FM
Power Hit Radio

Associated Companies

P4 Radio Hele Norge (39.7%)
Radio Nova (15%)

3.0%

share of Group revenues

Modern Studios



Modern Studios produces entertainment programming for Viasat and third-party broadcasters. Strix has sold its reality TV formats to more than 60 countries around the world. Modern Studios also produces, markets and distributes feature films, book titles and customer magazines.

Strix Television
Sonet film
Modern TV
Brombergs Bokförlag
Redaktörerna
Modern Entertainment

11.4%

share of Group revenues

Home Shopping



CDON.COM is the Nordic region's most visited on-line retailing site and sells CDs, DVDs, electronic games, music downloads and books.

TV-Shop is one of the largest direct response home shopping channels in Europe, reaching 100 million homes in 52 countries via analogue and digital broadcast networks.

CDON
TV-Shop
PIN24

11.4%

share of Group revenues

SDI Media



SDI Media Group was sold in July. SDI Media Group is one of the world's leading voice localisation companies, providing multi-lingual subtitling, dubbing and translation services to the entertainment industry in the US, Europe, Asia and the Middle East.

SDI Media

2.5%

share of group revenues

Five years with MTG

SEK million	2004	2003	2002	2001	2000
Net sales	6,836	6,311	6,023	6,402	5,431
Gross income	2,355	2,369	2,084	2,298	1,954
Income from corporate development	381	-	-	-	8
Income from sales of securities	-	-	163	-	106
Metro Sweden sales company	-	-	-	-	32
Viasat Digital project	-	-	-	-15	-555
Close-down costs and non-recurring costs	-86	-	-126	-	-
Operating income/loss	954	542	267	360	-227
Income/loss after financial items, excluding interest on convertible debenture loan	971	423	60	317	-271
Net income/loss	654	289	-67	121	-296
Balance sheet					
Fixed assets	3,045	2,879	3,070	3,109	2,905
Current assets	3,291	2,837	3,114	3,832	3,135
Total assets	6,336	5,716	6,184	6,941	6,040
Shareholders' equity	2,714	2,145	1,885	1,948	1,790
Minority interests	1	2	16	5	7
Provisions	87	234	173	132	124
Long-term liabilities	1,093	1,108	1,565	1,518	1,321
Short-term liabilities	2,441	2,228	2,545	3,338	2,798
Total shareholders' equity and liabilities	6,336	5,716	6,184	6,941	6,040
Personnel					
Average number of employees	1,554	1,481	1,451	1,451	1,445
Key figures					
Return on total assets %	10	5	neg	2	neg
Return on equity %	24	13	neg	6	neg
Operating margin %	14	9	4	6	neg
Net profit margin %	10	5	neg	2	neg
Return on capital employed %	18	15	6	10	neg
Equity to assets %	43	38	30	28	30
Net debt to equity	17	41	43	46	29
Interest coverage %	5.72	3.25	1.25	3.67	neg
Net sales per employee, SEK thousand	4,399	4,261	4,151	4,412	3,758
Operating income per employee, SEK thousand	614	366	184	248	neg
Capital expenditure					
Investments in fixed assets	107	135	98	106	233
Investments in shares	496	562	481	161	164
Per share data					
Number of shares outstanding at year end, incl convertible*	66,375,156	66,375,156	66,375,156	66,375,156	66,375,156
Number of shares outstanding at year end, excl convertible*	66,375,156	66,375,156	66,375,156	66,375,156	66,375,156
Denominator for diluted earnings per share*	66,407,538	66,382,520	66,375,156	66,375,156	66,375,156
Denominator for basic earnings per share	66,375,156	66,375,156	66,375,156	66,375,156	66,375,156
Market closing price on the last trading day of the year	181.00	151.50	70.50	231.00	250.00
Diluted earnings per share*	9.85	4.36	-1.00	1.82	-4.62
Basic earnings per share	9.85	4.36	-1.00	1.82	-4.62
Diluted shareholders' equity per share	40.87	32.31	28.40	29.35	26.97
Basic shareholders' equity per share	40.89	32.32	28.40	29.35	26.97
P/E ratio	18	35	-	127	-
Cash dividend/proposed cash dividend	-	-	-	-	-

* The Group has issued convertible debenture loan notes that may be converted into 2,790,994 new class B shares and a share option programme over 2,052,840 new class B shares. Only a small part of these programmes are included, as the conversion prices of the loan notes and the majority of the options were significantly higher than the market price on the last trading day of the year 2004.

Group history

2004

MTG reports highest ever operating result. Viasat launches two new dedicated sports channels, four new thematic movie channels and a new documentary channel. Viasat successfully completes implementation of new conditional access system. Highest net subscriber intake since digitalisation of platform in 2000. Viasat's four channels reach 6.4 million homes in Central and Eastern Europe. MTG acquires remaining minority interests in DTV and further increases its shareholdings in CTC Media and P4 Radio Hele Norge following sale of SDI Media for US\$ 60 million. MTG acquires 19.9% of betting company BET24. MTG also signs agreement with NRJ Group to assume management of 20 radio stations in Sweden, thereby increasing penetration for MTG's national network to 83%.

1987

TV3 launched in Sweden on New Year's Eve as Scandinavia's first commercial TV channel.

1988

Number of TV3 viewers increases from 1.2 million at launch to 3.4 million at end of 1988. TV3 broadcasts to Denmark and Norway. Strix launches independent TV production.

1989

TV1000 pay-TV channel launched and TV-Shop sells products and services on TV3.

1990

TV3 achieves 45% penetration in Sweden and takes 90% share of the TV advertising market. Acquisition of majority shareholding in Svensk Text (SDI Media).

1991

TV3 reports annual profit. TV4 granted license as Sweden's third terrestrial TV station. Kinnevik acquires 30% shareholding in TV4. Launch of Viasat DTH satellite pay-TV platform.

1992

ZTV's first year as independent channel. Kinnevik's media companies report first annual profit.

1993

P4 Radio Hele Norge receives national commercial radio broadcasting license in Norway. First commercial radio licenses obtained in Sweden. TV3 commences Teletext broadcasting. TV3 launched via terrestrial network in Estonia and Lithuania.

1994

TV4 becomes largest channel in Sweden. TV6 launched.

1995

MTG incorporated as Kinnevik subsidiary.

1996

Satellite TV distribution platform switched from Astra to NSAB. RIX FM radio network formed through mergers. ZTV and TV6 merged to form 3+ in Denmark.

1997

Shares in MTG distributed to Kinnevik shareholders and listed on Stockholmsbörsens 'SBI' list and Nasdaq National Market in New York. Strix becomes first company in the world to produce the 'Survivor' reality-TV format.

1998

MTG acquires TV channel in Latvia and launches TV3. Commercial radio operations launched in Estonia and Latvia.

1999

Swedish business channel TV8 acquired. MTG shares listed on Stockholmsbörsen O-list.

2000

Annual General Meeting approves distribution of Metro International S.A. shares to MTG shareholders. Viasat3 begins broadcasting in Hungary. PIN24 launches on Sky TV platform in UK.

2001

Viasat switches off analogue transmission of premium pay-TV channels following successful transition to digital TV. MTG acquires 75% of Russian national commercial TV channel 'DTV'. Options to Strix reality-TV formats sold in over 30 countries. Viasat launches four new digital pay-TV channels in Nordic region. EUR 120 million of convertible subordinated loan notes issued in order to fund further expansion.

2002

Acquisition of 37% of StoryFirst Communications Inc., owner of CTC, now the largest privately owned commercial TV network in Russia. MTG acquired Swedish radio broadcasting network Lugna Favoriter and launched Metro FM radio station in Sweden. Shopping channel PIN24 launched in Germany, Austria and Switzerland. Tango TV launched in Lithuania. The number of Viasat digital subscribers exceeds 600,000.

2003

Eastern European operations profitable on a combined basis. Viasat signs agreement with NDS VideoGuard to eliminate piracy on satellite platform. TV1000 and Viasat Explorer pay-TV channels launched in Central and Eastern Europe.

Behind the scenes

Live coverage of matches from the UEFA Champions League has been broadcast by Viasat since the launch of the competition in the 1992/1993 season. For the first season, TV3 aired one live game on each match night of the Championship and the season kicked off with Italian champions AC Milan against local favourites IFK Göteborg. Dutch international Marco van Basten made his mark with all four goals in a crushing 4-0 victory for the home team.

We took the event to a new level in 2004 and broadcast all 125 matches from the Champions League live and also extended the coverage outside Scandinavia to the Baltic States and Hungary. Viasat was the only European broadcaster to broadcast coverage on both free-to-

air (TV3, TV3+ and ZTV) and pay-TV (Viasat Sport) channels.

Viasat's Gold package subscribers received the ultimate home viewing experience, as was seen on the evenings of September 14 and 15 at the beginning of the 2004/2005 season. Swedish match commentators Glenn Hysén (former Fiorentina and Liverpool player) and Henrik Strömblad had left for a cold and damp night in Scotland's Glasgow. Swede Henrik Larsson was returning for the first time to his former club, having recently transferred to Barcelona. Showing little respect for the warm welcome, Larsson set up Barcelona's third goal and the Spanish champions left the pitch

winners on the night by three goals to one.

The match was broadcast on Viasat's ZTV for the first time and the channel achieved new record ratings with 214,000 viewers tuning in for the game. On the same night, the match between Arsenal and Dutch champions PSV Eindhoven was aired on Viasat Sport 1 in Sweden and Norway, whilst the Paris Saint Germain vs. Chelsea clash was broadcast on Viasat Sport 2, and the Porto vs. CSKA Moscow game was available on Viasat Sport 3. But not even this was enough for Viasat's soccer-mad fans – Panathinaikos vs. Rosenborg was on TV3 Norway, and the games between Shakhtar Donetsk and AC Milan and between Inter Milan and Werder Bremen were followed on two other Viasat Extra channels. Finally,

The Home of Sports Entertainment



viewers watched Valencia vs. Anderlecht on Viasat Sport 1 in Denmark.

After a few hours of sleep, the commentary team took a flight to the warmer climate of Amsterdam for one of that night's eight matches – the eagerly anticipated Ajax vs. Juventus fixture. Swedes were again in the limelight as home-grown hero Zlatan Ibrahimovic, a former star signing for Ajax, made his debut for the visitors. The away team won 1–0 but Viasat was the real winner, scooping the first interview with Zlatan since his controversial move to Juventus. ZTV's ratings soared, with the game watched by a new record audience that peaked at 400,000 viewers.

Despite the fact that no Swedish team had qualified for the group

stage, Viasat attracted record audiences with its high quality and colourful coverage of games featuring Europe's leading clubs. Norway has fared somewhat better with Rosenborg having qualified more times than Real Madrid (9 times out of 12) and coverage of their games has been an enormous ratings booster for TV3 Norway.

And still...the interest is growing, as the Champions' League establishes

itself as one of the world's most competitive club championships, that attracts the world's leading players. The combination of UEFA's organisation and Viasat's multi-channel viewing possibilities is a winning team! Viasat's flexible and cost-efficient platform enable less than 70 people to broadcast eight live matches to eight countries on match nights.



Behind the scenes

"Viasat History provides high quality original programming and the content appeals to a broad audience and age group. The response from subscribers and viewers has been fantastic and reflects the great experience that we have had with Viasat's other channels over the past few years"
– Igor Berbenev, United Cable Network.

They said 'It's impossible – you can't put channels and local sales forces together just like that'. That

was the reaction only three years ago when Viasat began considering the possibility of selling its own-produced and new channel ideas to third-party broadcasters outside Scandinavia. But...only two years after launch, four of Viasat's movie, sports and documentary channels already have nearly six and a half million subscribers in 11 countries. MTG's nomadic and contrarian approach to business, which has successfully challenged monopolies around the world, refused to bow to

convention and a new business was born out of this entrepreneurial spirit!

This story is about the birth of Viasat History, Viasat's latest entertainment channel, which was launched onto cable networks across Central and Eastern Europe and subsequently onto the Viasat DTH satellite platform during 2004.

A team of four people at Viasat's broadcasting centre in London – the so-called 'channel factory' from which Viasat's channels are broadcast to up to 15 countries every day – were tasked with delivering the channel in time for its launch. The team immediately entered discussions with documentary content providers across



Europe including the UK's BBC, Channel 4 and Channel 5 through Viasat's centralised content acquisition group. The team also began to brief Viasat's wholesale channel sales force in the Nordic and Baltic countries, Russia, the Ukraine, Moldova, Belarus, Hungary, Romania, Bulgaria and Poland and to recruit additional sales people to sell in the new channel. Preparation for the voice-over, subtitling and dubbing of the channel by MTG sister company SDI was initiated. Channel packaging and promotional campaigns were developed by Viasat's centralised marketing group in London. Less than a month later, the content had been secured and Viasat was ready

to go out on the road selling. Less than eight weeks after launch, more than 100 contracts had been signed with cable networks across the region. By the end of the year, the sales force had signed more than 350 agreements and Viasat History was available in 1.5 million homes.

What emerged was a ground-breaking documentary channel, featuring a wide range of historical, cultural, political and social programmes, which explore the rise and fall of ancient and modern civilisations,

witnessing great discoveries and feats of human endurance, and giving viewers a unique chance to experience the key events that have changed our world. The channel line-up includes high quality programmes focusing on the history of science, music, sport, military conflict and business, as well as biographical portraits of iconic heroes and villains, entertainers and geniuses.

A total of five peoples' time is dedicated to running Viasat History but the channel also leverages the local contacts of Viasat's 20 salespeople working across the region, demonstrating the clear synergies that exist between Viasat's channel operations.



Let us entertain you

"Content may be King...but distribution is the throne that it sits on! Viasat's channels are distributed in markets with a combined population of over 300 million and reach over 60 million people in 15 countries."

This year's annual report is focused on MTG's commitment to increasing 'choice' for all media consumers – viewers, listeners, browsers, readers – a commitment that is central to our culture and approach to business. MTG pioneered the introduction of commercial television and radio into Scandinavia by challenging incumbent monopolies and offering the public a new brand of pure entertainment programming...and this pattern continues.

During 2004, Viasat developed and launched seven new high quality

"Content may be king...but distribution is the throne that it sits on!"

channels in order to further enhance the range of content available on the Viasat DTH satellite platform. We also signed up new content deals with the Hollywood studios and acquired or extended our broadcast rights to major local and international sports events. Today, more than ever, Viasat truly is 'your No. 1 in entertainment'.

Not only do we make this powerful mix of TV content available on our own satellite platform but we also wholesale our channels into third-party broadcasting networks in Scandinavia and across Central and Eastern Europe. Over nine million households now subscribe to watch our Viasat channels in 15 countries around the world and this number continues to grow day by day!

We continue to embrace new technologies that make our channels more broadly available to the viewing public. Not only did we make three of our advertising supported channels available in Sweden's digital terrestrial network during the year, but we also became one of the first broadcasters to launch TV over broadband. This latter development is still in its infancy but, like all paradigm shifts, it is critical to be in the driving seat.

The most exciting development in television since digitalisation is the personal video recorder (PVR) – a satellite set-top box with a hard drive. Already enormously successful in the US and the UK, we plan to launch the Viasat+ PVR product later this year. Finally, trials of live streaming of content to mobile phones are well underway in order to prepare for the development of video via 3G mobile devices that will provide the next leap forward.

Multi-channel television is all about choice but it is also about listening to what you, our customers, want and providing it to you as cost-effectively as possible. It sounds simple but is only possible by owning and integrating the entire value chain – from content acquisition to channel development, to packaging, to marketing, to sales, to distribution. Viasat is unique in Scandinavia in this respect and continues to provide the broadest range of premium content in each of our markets at the best prices.

2004 has also been a year in which we have secured our distribution platform against the toughest competitor to date – piracy. We implemented a new conditional access system on the Viasat digital platform and successfully migrated our premium subscriber base to the new system within 18 months, in what was the first transition of its kind in the industry. As a result of this change and the investments in content and new channels mentioned above, we were in the fourth quarter able to report the highest quarterly net intake since the digitalisation of the Viasat platform in 2000!

Financially, 2004 was a year of investment. In addition to the above, we also invested in programming for our free-to-air channels in order to take advantage of renewed market growth and this resulted in advertising market share gains in all territories. Despite this heavy investment, MTG delivered the highest profit in the Group's history!

Attention has often been drawn in the past to the perceived complexity of the Group and the wide range of businesses that we have operated and invested in. Commentators

focused all too easily on short-term localised news flow, without taking into account the longer-term beneficial structural shifts in the industry and the increasing geographical diversification of our businesses. We have a clearly defined strategy and set of goals, which form the basis of the way in which we operate, and also provide the road map against which we measure performance. We have made significant progress in all areas during 2004, as described in the other sections of this report.

We also continued to focus the Group on its core broadcasting assets. We sold SDI Media, which we had developed into the world's leading voice localisation company, and increased our shareholdings in Russia's CTC TV network and Norway's P4 Radio Hele Norge. Our return on capital employed increased to 18% in 2004 and our net debt to equity ratio was reduced to 17%, both of which reflect the strong capital discipline within the company. Finally, after the end of the year, we sold our stake in TV4 and realised a substantial net gain.

So, what you see and own today is a more focused and cash-generative international entertainment broadcasting company, that is well positioned in both its core Scandinavian markets and the rapidly developing Central and East European markets.

Thank you for your continued support and involvement in our business. Exciting times lie ahead and we look forward to sharing them with you.



Hans-Holger Albrecht
President and Chief Executive Officer



TEN IS THE NEW ELEVEN

Mia Brunell (born 1965)

Chief Financial Officer.

Mia has worked for MTG since 1992, firstly as Financial Manager for TV1000, before becoming Financial Controller for the pay-TV operations in total and then Financial Controller for the entire Viasat Broadcasting business area. She was appointed as Group Financial Controller for MTG at the end of 2000 and as Chief Financial Officer in March 2001. Beneficial shareholding in MTG: 0
Granted options: 54,405

Andrew Barron (born 1965)

Chief Operating Officer.

Andrew joined MTG in 2002 from United Pan-Europe Communications, where he was CEO of Chello broadband. He previously served as Executive Vice President of New Media and Business Development for Walt Disney Europe. Beneficial shareholding in MTG: 0
Granted options: 54,405

Yggers Mortensen (born 1971)

**Free-to-air TV, Pay-TV & Radio
– Eastern Europe.**

Yggers has held various positions in MTG's radio and Viasat television operations since 1995, when he joined the Group's management trainee programme. Prior to becoming Managing Director of the Central and East European operations, he managed the London broadcasting centre and play-out facility. Beneficial shareholding in MTG: 700 MTG B
Granted options: 54,405

Hasse Breitholtz (born 1949)

**Executive Vice President of MTG
and Managing Director of the
Modern Studios business area.**

Hasse joined MTG in 2004 from BMG, where he had served as President of BMG's Nordic operations and Chairman of BMG's operations in the UK and Ireland. Hasse has also served as Marketing Director for EMI in Sweden and for the Swedish

'Sonet Grammofon' music label.

He is also a member of the Board of Directors of Djurgården Ice Hockey Club.

Beneficial shareholding in MTG: 0
Granted options: 0

Hans-Holger Albrecht (born 1963)
**President and Chief Executive Officer
and Head of the Broadcasting
business area.**

Hans-Holger joined the Group in 1997 and has served as Head of the pay-TV operations and as President of the Viasat Broadcasting business area. He became Chief Operating Officer of MTG in May 2000 and was appointed as President and CEO in August 2000. He previously worked for Daimler-Benz and for the CLT media group in Luxembourg. Hans-Holger graduated with a Doctorate in law from the University of Bochum in Germany. He is co-chairman of CTC Media Inc. and Chairman of Nordic Betting Ltd. Hans-Holger is a member of the



Board of the International Emmy Association in New York and of the Glocal Forum, and served as a non-executive Director of Metro International S.A. during 2004. Hans-Holger owns shares in Metro International S.A. and Tele2 AB. Beneficial shareholding in MTG: 0
Granted options: 108,810

Hein Espen Hattestad (born 1963)
Free-to-air TV & Pay-TV – Norway.

Hein Espen was appointed CEO of P4 Radio Hele Norge in 1999 and worked there until he joined MTG Norway as Chief Operating Officer in 2001. Prior to 1999, he was Vice President of The Bates Group Norway, part of the Cordiant advertising and marketing services group. Beneficial shareholding in MTG: 0
Granted options: 54,405

Eivind Schackt (born 1964)
Managing Director of the Home Shopping business area.

Eivind joined the Group in 1993 and has held several positions including Managing Director of TV3 Norway and the Head of TV-Shop's Scandinavian operations. Eivind was appointed as Managing Director of the Home Shopping business area in 2001. Beneficial shareholding in MTG: 0
Granted options: 32,643

Jørgen Madsen (born 1966)
Free-to-air TV & Pay-TV – Denmark.

Jørgen has worked in the Group since 1994, serving as the Head of Sponsorship for TV3, Head of Viasat Sport in Denmark and, subsequently, as Head of Viasat Sport for the whole Scandinavian region. He was also President of the New Media business area between 2000 and 2001. Beneficial shareholding in MTG: 969 MTG B
Granted options: 108,810

Anna Carrfors Bråkenhielm (born 1966)
Managing Director of Strix Television.

Anna joined Strix Television in 1990 and was appointed Head of Development and Formats in 1994. She was appointed Managing Director of Strix Television in 1996. Beneficial shareholding in MTG: 200 MTG B
Granted options: 32,643

Anders Nilsson (born 1967)
Free-to-air TV, Pay-TV & Radio – Sweden.

Anders worked for MTG Radio from 1992 before becoming President of MTG's radio operations in 1997. He was appointed President of the Publishing business area in 2000 and then served as Chief Operating Officer of MTG for two years. Beneficial shareholding in MTG: 0
Granted options: 54,405



Champions League
Sæsonstart d. 22. februar

3+
VIASAT

Sweden
Denmark
Norway
Finland
Belarus
Bulgaria
Estonia
Hungary
Latvia
Lithuania
Moldova
Poland
Romania
Russia
Ukraine



Fab 5 Outdoor advertising campaign.



Top Model Outdoor advertising campaign.

Wife-swap Outdoor advertising campaign.



Viasat Broadcasting

Viasat Broadcasting is a direct-to-home satellite TV broadcaster and home to all of MTG's TV broadcasting assets. Viasat employs less than 800 people to operate and broadcast more than 30 own-produced channels via satellite to 15 countries in Europe. Viasat's channel factory in London now employs 150 people to centralise the acquisition of content, scheduling, localisation, packaging, marketing, on and off-air promotion, and the play-out or play-through of a wide range of own-produced and third-party channel brands.

Viasat has the advantage of being an integrated free-to-air and pay-TV operator, broadcasting advertising-supported entertainment channels as well as packages of premium own-produced movie, sport, documentary and current affairs pay-TV channels. As a result, Viasat benefits from unparalleled levels of efficiency and flexibility.

In addition to distributing channels to satellite subscribers in Scandinavia, satellite and terrestrial viewers in the Baltics, and cable and satellite homes in Hungary, Viasat also wholesales its channels to third-party cable and terrestrial network operators in Scandinavia and 11 Central and East European countries. MTG also owns the DTV national terrestrial licence holder in Russia and 39.8% of associated company CTC Media, Inc., which is Russia's fourth largest television channel by share of viewing. Finally, MTG owns 19.9% of fast growing internet betting company BET24.com, which is also reported as an associated company.

In total, Viasat's channels reach 63 million viewers and the channels have a technical penetration of over 95 million people in countries with a combined population of 318 million.

Viasat's free-to-air brands are TV3, ZTV, 3+, TV3+, TV8, Tango TV and DTV, whilst its premium pay-TV channels include TV1000, Viasat Sport, Viasat Explorer and Viasat History. Viasat has contracts with major Hollywood studios and local production and distribution houses in order to ensure that these channels feature the best in blockbuster movies and established hit TV formats, as well as having access to successful new series.

Viasat's sales grew by 12% in 2004 to SEK 5,212 million and the business reported stable operating income of SEK 651 (653) million following investments made during the year in new channels, additional programming content, geographical expansion and the successful migration of the digital platform to a secure conditional access technology.



Viasat's powerful contemporary channel brands showed strong momentum throughout the year, taking increased market shares and effectively managing sales efficiency levels. The new schedules performed well with high rating own-productions, sports and acquired programming.

Wife swap Two families welcome a new member and face up to the trials and tribulations of daily life together.



ER One of the most popular TV-series in the world is broadcast on TV3.



Sweden
Denmark
Norway

Scandinavia

Free-to-air TV



Viasat Broadcasting's free-to-air or advertising supported channels in Scandinavia are distributed on Viasat's own DTH satellite platform, as well as via third-party cable networks, the digital terrestrial network in Sweden and now also via the market leading broadband fibre network in Sweden. TV3 is Viasat's flagship mass-market entertainment channel and Viasat also operates a second channel in each market (ZTV in Sweden and Norway and TV3+ in Denmark), which is targeted at a younger audience and therefore has an edgier channel identity featuring more sports, music, chat shows and lifestyle programming.

TV3 is the challenger to the commercial terrestrial licence holder in each country, which enjoys a considerable commercial advantage due to its almost 100% national penetration level. However, each

country is facing the reality of having to switch off analogue transmission in the coming years as digital technology and multi-channel television take over. This change in landscape works to TV3's advantage as the switch-off will reduce the commercial terrestrial broadcaster's advantage and create a more level playing field.

Sweden has been the first country to commit to a gradual analogue switch-off between Q3 2005 and Q1 2008, and consequently launched digital terrestrial television in order to provide for carriage beyond that date. The advent of the DTT (digital terrestrial television) has offered other channels a way of capitalising on terrestrial distribution to increase the penetration or availability of their channels and narrow the gap to the incumbent commercial channel. TV3, ZTV and TV8 were therefore included

in the Swedish digital terrestrial broadcasting network in the first half of the year. TV3's penetration increased to 66% and ZTV similarly increased its penetration to 60% by the end of the year.

Not only does this change provide for wider availability but also enables channel wholesalers to derive 'mini-pay' revenues from third-party network operators. Viasat has been successfully selling its channels into third party networks in Denmark for several years.

A three-year agreement was therefore signed with Swedish digital terrestrial pay-TV operator Boxer after the end of the year whereby the Viasat channels are paid a fee per subscriber per month for the continued inclusion of TV3, ZTV and TV8 in Boxer's digital terrestrial pay-TV package in Sweden. A similar



Kone Bytte Norwegian Wife Swapping!



structural market shift is also anticipated as digital terrestrial TV is introduced in Norway and Denmark over the coming years.

Viasat had begun to invest back into programming during 2003 as the advertising market began to show early signs of stabilisation and then recovery after two years of recession. The real investment however came 2004 with TV3 Scandinavia's operating costs increasing by 10% as a result of investments in own-productions and sports programming including weekly highlights of Swedish premiere league football matches and coverage of national team games. TV3 ran a total of 46 own-productions in 2004, and Viasat signed new content acquisition agreements with the Fox, Sony and Warner Hollywood studios during 2004 to provide for future programming requirements and access to hit new shows from the US network TV broadcast seasons.

Robinson Strix version of hit 'Survivor' format aired on TV3 Sweden for first time.



The investments paid off as TV3's operations in Sweden, Norway and Denmark reported 14% sales growth to SEK 2,293 million and the three niche channels' sales were up 8% to SEK 402 million. The new programme schedules enabled the channels to increase their advertising market shares in each territory. Ratings were up in Sweden and Norway and marginally down compared to 2003 in Denmark. The schedules comprised a mix of blockbuster movies, sports coverage of hugely popular events like the Ice Hockey World Championships and World Cup, as well as new seasons of popular local own-productions and international reality TV formats including 'Queer Eye for the Straight Guy' and 'Wife Swap'.

TV3 Sweden's first airing of Strix's well established 'Expedition Robinson' in the fall was an enormous success. Expedition Robinson, which is based on the

Hjemmefronten on TV3 Denmark: Two advisors take command and show families how it should be done!



massively successful 'Survivor' format, attracted nearly 2.3 million unique viewers each week and a total of over 4.6 million unique viewers for the entire series.

Investigative programme 'Efterlyst' ran for its 29th season and still continued to achieve record ratings in its 15th year. Nine out of the ten most watched editions of the hugely successful format were from the Fall 2004 season and the top rating show was watched by nearly 790,000 viewers in December.

The move of the UEFA Champions League coverage to ZTV was an instant ratings winner which led to a ZTV annual average commercial share of viewing increase from 5.8% to 6.8% in the 15-34 target group within the national universe.

TV3 Norway was the clear number two commercial network in Norway

Insider Investigative journalism at it's best on TV3 Sweden.



Onside The popular soccer show analyses every angle of the game.



ER The Emmy award-winning drama series follows the ups and downs of life at Chicago's County General Hospital.



during 2004 amongst the key 15–49 year old audience in the competitive universe where the three largest commercial channels are all present. TV3 Norway significantly out-performed the market and took considerable market share over the year. Established hit shows like 'Casino', and 'Robinson' as well as TV3's coverage of local team Rosenborg's progress in the UEFA Champions League all contributed to the channel's powerful performance.

TV3 Denmark achieved its highest ever annual advertising sales result in 2004. MTG Denmark also reported the highest ever number of subscribers to TV3 and TV3+ through third-party cable and SMATV networks – over 1.6 million households now subscribe to receive TV3 and TV3+. Viasat raised the prices that it charges other broadcasters to carry its channels in Denmark towards the end of 2003, which

had a positive impact on revenue comparisons.

The Danish channels took advertising market share throughout the year due to increased spending on own productions, as well as high rating sports coverage of national football League matches and the Danish national team's fixtures.

The strong sales performance of TV3, growing by double digits in each quarter, enabled TV3 Scandinavia to almost double its operating profits to SEK 173 (87) million. The three niche channels turned a SEK 13 million loss into a SEK 6 million profit.

ER Noah Wyle as Dr John Carter in ER.





Estonia
Hungary
Latvia
Lithuania
Russia

Central and Eastern Europe Free-to-air TV

MTG was the first Western broadcaster to enter the East European markets over ten years ago. The investments have yielded high returns in terms of the value of the assets today, as well as positioning Viasat to take advantage of the subsequent development and further opportunities in the markets. Viasat pursued a double strategy of either organically launching its own successful channel formats into new territories or seeking out under-performing assets in order to turn them around and create high-growth businesses.

Viasat began the expansion of its successful Scandinavian channel brands into the Baltic states by securing terrestrial broadcasting licences for TV3 and then following the proven model of launching secondary channels to focus on specific audience groups. Viasat then acquired Alfa TV in Hungary in

2000 for less than US\$ 1 million, which held a terrestrial broadcasting licence and had a relatively high national technical penetration but limited share of viewing. This was followed by the acquisition of 75% of Daria TV for under US\$ 10 million in 2001, which held a national broadcasting licence, but attracted a less than 1% daily share of viewing. DTV's broadcasting licence was renewed in 2003 after a tender process and by MTG bought out the remaining 25% minority shareholders during 2004.

Finally, MTG bought a 37% equity stake in StoryFirst Communications, Inc. (the name of StoryFirst Communications, Inc. was changed to CTC Media Inc. during the year), in 2002 for US\$ 20 million, which was subsequently reduced to 29% following a new share issue. CTC is Russia's largest private commercial television network. MTG increased its share-

holding in the network to 39.8% in 2004 by acquiring additional shares for US\$ 63 million.

Today, Viasat operates free-to-air television businesses in each of the Baltic states – Estonia (TV3 and 3+), Latvia (TV3 and 3+) and Lithuania (TV3 and Tango TV) – as well as in Hungary (Viasat3) and Russia (DTV).

The Viasat operated channels in the Baltics reported a combined 19% growth in net sales to SEK 302 million, which reflected both market growth and advertising market share gains. With over 90% penetration in each country market, Viasat's pan-Baltic commercial share of viewing amongst 15–49 year olds grew to 38.7% (35.4%) on the back of a particularly strong ratings performance in Latvia. TV3 was the largest channel in both Estonia and Lithuania and established itself for the first time as the number one



No Taboo TV3 infotainment programme featuring what's hot and what's not in Lithuania.



Jungle Star Estonia's Celebrity Survivor format in the Jungle.



Lyrics Board Two teams compete in sing-along music and entertainment show on TV3 Latvia.



channel in Latvia for each of the last four months of the year.

The operating margin for the Baltic operations increased from 19% to 26% as operating profits grew by 63% to SEK 79 million.

The 3+ channel was launched in Estonia after the end of the year, following the channel's success in Latvia where it had already attracted a 5% share of viewing only one year after launch. As in Latvia, 3+ is an advertising supported channel, which is distributed on Viasat's satellite DTH platform and third-party cable networks and targets Estonia's large Russian speaking audience.

Viasat3 is available in 1.7 million households in Hungary and is today the third largest and fastest growing commercial television channel in Hungary. The channel's commercial share of viewing amongst the key

audience of 18–49 year olds increased from 3.1% to 4.5% following high-rating programmes such as 'CSI', the UEFA Champions League, 'Sex in the City' and a strong movie line-up. 89 out of the top 100 TV advertisers bought air time on Viasat3 in 2004 and this was reflected in a 42% increase in net sales to SEK 47 million. Operating costs increased due to the programming investments made during the year and the channel reported an operating loss of SEK –44 (–40) million.

DTV is now established as one of the top ten TV networks in Russia. The channel invested in a fully digitised play-out and now broadcasts three different time zone signals across Russia. Sales were up 79% to SEK 61 million and operating losses were reduced to SEK –20 (–24) million.

CTC Media, Inc. changed its name from StoryFirst Communications, Inc.

in order to align the company more clearly with its powerful TV brand. The CTC network of 21 owned and operated stations and over 300 independent affiliates reported an increased share of viewing amongst the key 6–54 year old audience group – up from 13.4% to 14.3%. CTC is the third most watched TV-channel amongst 6–54 year olds in Russia.

CTC Media acquired four regional television stations in the second half of the year, which will form the basis of a second network to be launched during 2005. CTC Media's sales grew by 62% to US\$ 154 million and the company's operating margin was stable at 40%. MTG's share in the earnings of associated TV broadcasting companies, which principally comprised CTC Media, increased by 55% to SEK 136 million.

Viasat Broadcasting



With 22 own-produced sports, movie and documentary channels and 17 leading international channels delivered direct to your home via high-quality satellite digital TV, Viasat truly is the home of entertainment. Viasat's customer commitment to deliver the best in entertainment at the best price is stronger than ever.

Sweden
Denmark
Norway
Finland

Nordic Pay-TV

The Viasat platform had been afflicted by piracy over the past few years, due to the hacking of the platform's encryption system. The broad availability of cheap pirate cards not only led to existing subscribers churning off the platform but also adversely impacted new sales. Viasat therefore chose to switch conditional access technology in order to secure the platform and opted to work with NDS, whose VideoGuard technology protects pay-TV platforms with 52 million subscribers around the world.

Less than 18 months after initiating the project to migrate Viasat's premium subscribers to the new secure technology, Viasat was able to switch off the legacy encryption system and render the pirate cards useless. The project was delivered on schedule and was the first of its



Harry Potter and the philosophers stone
J K Rowling's best-selling novels about junior wizard Harry Potter have broken all records and also successfully made it on the big screen.



Ondskan *Jan Guillou's famous story about a boy and his fight for survival in the harsh environment of a boarding school.*

Terminator 3 *The latest movie in the blockbuster trilogy movie series about futuristic robots returning to set the past straight.*



kind in the industry because it was not primarily based on giving away new set-top boxes. Instead, Viasat had worked successfully with a number of different decoder manufacturers to trial the downloading of new encryption software via satellite to set-top boxes in the home. All that was then needed was a new smart card that could be posted out to subscribers. This enabled the majority of subscribers to execute a simple and easy to follow change over to the new system, using their remote control. This huge logistical effort was therefore achieved with minimal disruption and expense.

The transition cost money in terms of the writing-off of redundant cards, required technical upgrades and consumer marketing, but this went hand in hand with a broader investment in the business. Viasat

simultaneously invested in enhancing the portfolio of content on the platform, as well as the services offered to subscribers, in order to ensure that the fixing of the piracy would coincide with an even more powerful consumer offering. Two new sports dedicated channels (Viasat Sport 2 and Viasat Sport 3), four new branded thematic movie channels (TV1000 Family, TV1000 Action, TV1000 Nordic, TV1000 Classic) and a new own-produced documentary channel (Viasat History) were launched during the year. High-impact marketing campaigns were run across Scandinavia to promote Viasat's home entertainment packages and a new free installation service was launched in Sweden.

In the fourth quarter, these investments paid off in the largest quarterly net subscriber intake since the digitalisation of the Viasat platform

Viasat Broadcasting



UEFA Champions League *The best of the best battle it out on the pitch for European club football domination.*



Avspark *Claes Runheim hosts weekly highlights from Sweden's premier football league on TV3.*



in 2000. Viasat's premium ('Gold' and 'Silver' package) base in Scandinavia and the Baltics increased by 12% to 490,000 subscribers.

The number of 'basic' entry-level subscribers was stable at 190,000 at the end of the year due both to subscribers switching up to Viasat premium packages, as well as strong sales of DTT entry-level pay-TV packages. There are 1.3 million households in Scandinavia that currently only watch analogue terrestrial TV, and digital terrestrial television is designed to introduce people to the possibilities of digital TV. Viasat's strategic focus is therefore on the higher value end of the market because, ultimately, we believe the owners and distributors of premium content will be the winners and Viasat is unique in the region in owning both content and the means of delivering it.

Viasat Broadcasting's DTH pay-TV

platform and pay-TV channels in Scandinavia and Central and Eastern Europe reported a 6% increase in revenues to SEK 2,346 million following the strong net subscriber intake at the end of the year. Average revenue per user (ARPU), calculated for premium subscribers on an fourth quarter annualised basis, increased to SEK 3,100 (3,012). The operating margin for the pay-TV business declined from 23% in 2003 to 13% and the business reported operating income of SEK 306 (505) million, reflecting the higher subscriber marketing, subsidy, programming and encryption costs. TV1000's sales were stable at SEK 700 million and the channel's operating income fell to SEK 159 (212) million. Revenues for Viasat's seven other Scandinavian pay-TV channels increased by 14% to SEK 152 million, following the launch of the two new Viasat Sport channels and Viasat History. The channels reported a loss of SEK -26 million,

compared to a profit of SEK 12 million in 2003, due to the additional costs for the new channels.

Viasat Broadcasting also became one of the first broadcasters in Europe to launch broadband TV. A premium Viasat package of 29 channels is now available to Swedish broadband network operator Bredbandsbolaget's (B2) 300,000 households with fibre connections. The price for the package is the same as for a Viasat 'Gold' subscription and the service will be extended to B2's DSL customers during 2005, as well as to broadband City Networks across Sweden. With one in three Scandinavians having access to broadband connections, this new development again increases choice for viewers and strengthens Viasat's position as a multi-platform pay-TV operator and channel provider.



Oceans 11 Steven Soderbergh directs Hollywood's finest in remake of Rat Pack's Las Vegas heist extravaganza

Viasat Broadcasting



Kings of the Road on Viasat Explorer.



Gangs of New York Martin Scorsese's epic about rival gangs in 19th century New York.



Belarus
Bulgaria
Estonia
Hungary
Latvia
Lithuania
Moldova
Poland
Romania
Russia
Ukraine

Central and Eastern Europe Pay-TV



Viasat's Central and East European pay-TV business today comprises the DTH satellite platform in the Baltics, as well as the 'TV1000 East', 'Viasat Explorer', 'Viasat History' and 'Viasat Sport' channels, which are included in Viasat's premium pay-TV packages in the Baltics and in approximately 1,200 third-party cable network operator pay-TV packages across the region. The business is run from Viasat's 'channel factory' broadcasting centre in London with a team of local salespeople in Russia, the Baltics, Romania and Hungary. New sales offices were established in Poland and Bulgaria during the year and Viasat now employs a total of 20 salespeople across the region.

The number of subscribers to Viasat's DTH satellite pay-TV business in the Baltics increased to 15,000 by the end of the year. This followed the

successful migration of the subscriber to the new NDS VideoGuard conditional access technology. A large number of viewers in the Baltics were already watching Viasat channels due to the hacking of the encryption of Viasat's broadcast signals and the resulting wide availability of pirate cards. Coinciding with the subsequent switch-off of the legacy encryption system in the second half of the year, Viasat introduced aggressive new subscriber acquisition marketing campaigns, which resulted in the high net intake in the fourth quarter. Viasat primarily offers the premium 'Gold' satellite pay-TV package in the Baltics, which comprises 10 Viasat own-produced channels and 20 leading third-party channels.

The development of the mini-pay business in Central and Eastern Europe, which is the most recent addition to Viasat's multi-territory

play-out, has been fast and furious. The business model is based on rapid penetration growth through the wholesaling of Viasat's channels to national and local cable networks in return for a fee per subscriber per month. Whilst the pay-TV market is in its early stages of development, Viasat is establishing market positions that will generate higher margins as consumer spending on home entertainment increases. The business was launched in 2003 and already has 6.4 million subscribers in 11 countries!

TV1000 East includes the best in Hollywood and local language feature films, whilst the Viasat Sport channels air coverage of leading international sports events and competitions including basketball's EuroLeague and NASCAR motor racing from the US. Viasat Explorer is a documentary channel featuring

The Awful Truth on Viasat Explorer.



a combination of travel and exploration, wildlife and natural history, extreme sports and investigative crime series. The Viasat History channel is described on pages 8 and 9 of this report. The channels are broadcast for between 18 and 24 hours a day with local language voice-over, subtitling or dubbing as required by each market.

TV1000 East was launched in 2003 and is now present in Russia, the Baltics, Ukraine and the Western CIS states of Moldova and Belarus. Viasat Explorer followed TV1000 into these markets and was also launched into Hungary, Poland, Romania and Bulgaria, whilst Viasat History was introduced into the same territories during 2004. All three channels entered Eastern Russia in the second half of 2004, which has a total potential audience of a further 1.5 million cable subscribers,

whilst Viasat Sport 2 and Viasat Sport 3 were launched into the Baltic countries with Russian language voice-over during 2004.

The play-out to third party cable distributors was also successfully migrated to the new VideoGuard secure encryption technology, which involved the upgrading of over 2,000 cable head ends. Viasat continued to exploit the significant potential operating synergies in the business by merging the Scandinavian and East European channel feeds for both Viasat Explorer and Viasat History in order to increase efficiency levels even further.

The channels are now included in the majority of channel listings or TV guides in the various countries. Local language websites have been launched in all the countries to promote the wide range of

entertainment programming available to viewers.

Viasat signed its biggest distribution agreement to date at the end of the year. The agreement with Multimedia Polska, Poland's second largest cable operator, made the Viasat History and Viasat Explorer documentary channels available to 1.2 million viewers in 75 cities.

Net sales for the Central and East European pay-TV business reflect the lower ARPU than in Scandinavia, and grew by more than four times to SEK 43 million. The rapid rollout was reflected in an increasing cost base and the business therefore reported an operating loss of SEK -23 (-7) million.

MTG Radio



Kylie MTG Radio stations broadcast the hottest charts hits from the Aussie Queen of Pop.



NRJ MTG took over the day-to-day operation of NRJ's 20 radio stations in Sweden



Rix Festivalen RIX FM tours Sweden for the fifth consecutive year attracting massive local crowds.



MTG Radio



2004 was a year of dramatic change for MTG Radio – with RIX FM becoming the first Swedish commercial radio network to have over 75% national penetration and MTG further increasing its stake in P4 Radio Hele Norge in Norway. At the beginning of 2004, MTG Radio comprised Sweden's number one national commercial network – RIX FM; local stations 'Power Hit Radio', 'Lugna Favoriter' and 'Metro FM'; the 'Star FM' national commercial networks in Estonia and Latvia and local FM stations in Tallinn and Vilnius. In addition, MTG owned equity stakes in Norway and Finland's national commercial radio networks.

The Swedish commercial radio market has long failed to take its share of the overall advertising market that the radio segment does in other European countries. This is

because it has been so fragmented – 86 local commercial stations and no national commercial network with the 75% national penetration level required for advertisers to consider radio a national medium.

This landscape had changed by the end of the year following the signing of a co-operation agreement with French Radio group 'NRJ Group S.A.'. MTG Radio Sweden assumed the day-to-day management and operation of NRJ's 20 radio stations in Sweden in return for paying a fixed percentage of MTG Radio Sweden's sales to NRJ. Ten of the NRJ stations were rebranded as 'RIX FM' stations and seven as 'Lugna Favoriter' stations, with the other three stations retaining their NRJ branding.

As a result of the co-operation, which took effect from September 1, MTG now operates 50 out of the

86 radio stations in Sweden and RIX FM's technical penetration has increased from 69% to an unrivalled level of 83%. Only one commercial TV channel can now deliver a higher daily penetration for advertisers in Sweden than MTG Radio's package. The picture was completed by a change of identity for the 'Power Hit' format in Stockholm to the well-known 'Bandit' and for 'Metro FM' to 'Svenska Favoriter'.

By the end of the year, MTG Radio Sweden's 50 stations were attracting close to 1.7 million daily listeners age 9–79, up 38% from the year before. The stations had increased their combined national daily reach to over 22% and their combined commercial share of listeners had grown from 41% to 59%.

RIX FM passed the one million daily listeners milestone earlier in the

Online radio Listen to the MTG's market leading digital radio stations over the Internet.



year and ended the year with nearly 1.2 million listeners, becoming the number one choice for listeners under the age of 50 and more popular than state-owned Swedish Radio network P4 amongst this age group. RIX FM's outrageous 'MorrnZoo' breakfast show increased its number of daily listeners by 24% to over 720,000 and remains Sweden's most popular drive time morning show.

MTG Radio continues to operate the three most listened to radio stations in Stockholm – Lugna Favoriter, RIX FM and NRJ, whilst Svenska Favoriter was the fastest growing station in Sweden in 2004.

MTG Radio's sales grew by 24% to SEK 216 million but the cost base for the last four months of the year reflected the consolidation of the twenty NRJ stations. MTG Radio's

consolidated businesses reported a loss of SEK –14 million, compared to a loss of SEK –16 million in 2003.

MTG increased its ownership in Radio P4 Hele Norge in Norway to 39.7% by acquiring a further 6.6% share holding in P4 Radio Hele Norge ASA. P4 was stripped of its national frequency with effect from the beginning of the year after holding the licence for ten years, despite the fact that it had abided by all the terms of the licence and that a renewal was widely anticipated. However, P4 secured the more expensive new P5 broadcasting national broadcasting licence during 2003. The network therefore started the year with a significantly reduced penetration of 65% and a new competitor operating its old licence with a penetration of over 90%. New management was put in place during the year and P4 not only increased

its penetration to 80% by the end of the year but also managed to minimise the inevitable loss of listening share on the new frequency – P4's daily listener figures only fell from 25% to 22% during the year. P4 reported a 10% growth in sales to NOK 237 million and a substantial increase in pre-tax profit from NOK 9 million in 2003 to NOK 46 million.

MTG reports its participation in the earnings of P4 as an associated company with a delay of one quarter. MTG's share in the earnings of associated companies, which principally comprised P4, increased to SEK 12 million, compared with a loss of SEK –12 million in 2003. The MTG Radio business area therefore reported an operating loss of SEK –2 million, compared to a loss of SEK –28 million in 2003.



Day and Night Starring Mikael Persbrandt
and Maria Bonnevie.

Modern Studios

Modern Studios is home to MTG's content production, sales and distribution businesses. Strix Television was set up in 1988 and is today one of the world's leading producers of reality TV formats. Strix's 23 formats have been licensed or optioned to broadcasters and production companies in 67 different countries around the world. Sonet Film is Sweden's leading movie distribution house, which produced and distributed an Oscar nominated smash hit during the year. Swedish book publisher Brombergs Bokförlag has now published four Nobel Prize winners and is one of Sweden's best known fiction publishers. Finally, Los Angeles-based Modern Entertainment owns the rights to a library of over 500 feature films in the US, which it sells on to TV broadcasters.

The Modern Studios businesses generated a combined 12% year-on-

year growth in sales to SEK 829 million and an operating profit of SEK 20 million. Profits were down year on year due to non-cash write downs of beneficial rights of SEK 66 million and SEK 12 million in Modern Entertainment and Sonet respectively. Excluding these items, the Modern Studios businesses reported a more than 70% increase in operating profits and a 12% operating margin, up from 8% in 2003.

The strong performance in the year was primarily due to the success of Strix, which sold 28 licences and 19 options to eight of its formats during the year to broadcasters in 26 countries around the world, creating a strong flow of high margin income. Strix was involved as co-producer or adviser to a further four productions in six countries, reflecting the extensive knowledge and expertise built up by Strix over the years.



As it is in heaven Oscar-nominated SONET production is one of Sweden's most successful ever films.



Rancid SONET-produced Rancid is the hit movie distributor's first English language film.



Robinson 44 series of STRIX's version of the 'Survivor' format have now been aired in 14 countries.

STRIX
TELEVISION AB



Strix was the first production company in the world to produce the now world famous and original reality-TV format – 'Survivor'. During 2004 Strix produced or co-produced nine series of 'Expedition Robinson' on location in Malaysia. Strix subsequently pioneered successful in-house formats including the world's first fully interactive reality TV programme – 'The Bar' – and 'The Farm', which has been sold to broadcasters and production companies in 50 countries around the world.

Internationally acclaimed for its originality and production quality, The Farm has been aired in 18 countries since its debut in 2001 and broadcasters in 22 additional countries have licensed the successful format during 2004. A TV phenomenon in both Sweden and Norway when it was first aired, the format is still

breaking new records. The finale of the second season was the most watched entertainment programme ever on TV2 Norway and the opening episode in France attracted a peak audience of over 10 million – the most successful debut of a reality TV format in French TV history. The Farm has been selected for the Golden Rose Festival in Montreux for the second year in succession and the expansion continued with the first South American production and an agreement with Lebanon-based LBC.

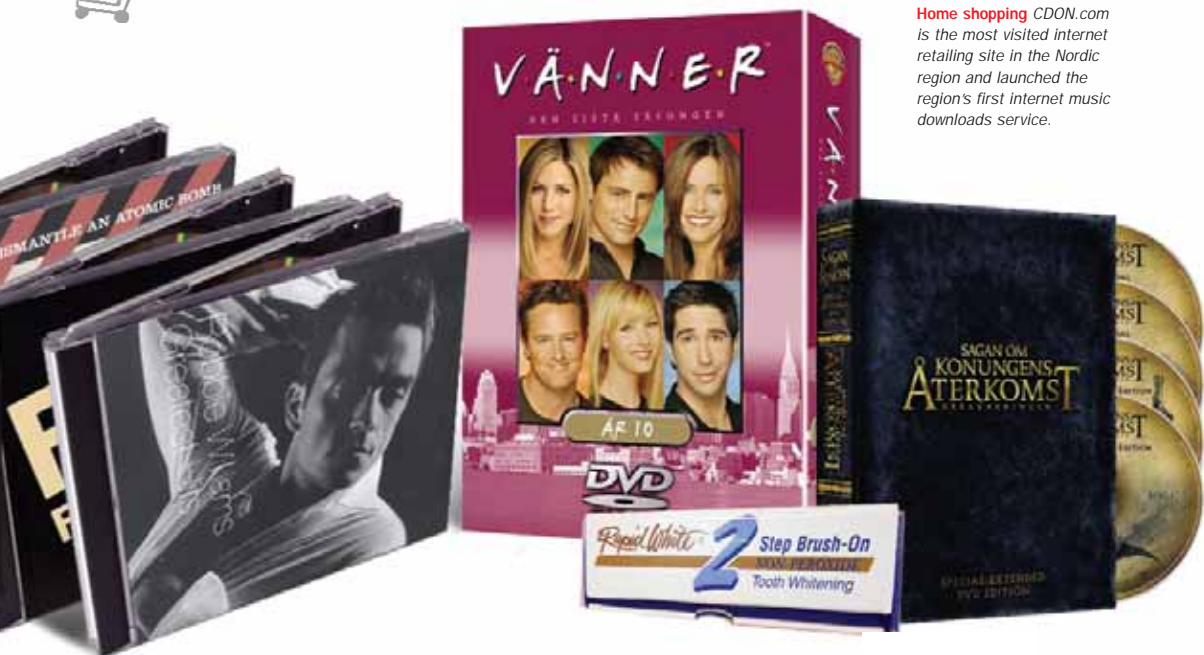
Strix's sales grew by 33%, reaching a new all-time high, and the company delivered a record new operating margin of 22% after doubling its profits year on year. Five new series of Strix formats have already been recommissioned for production by Strix in 2005.

Brombergs published bestseller 'In the Shadow of a Crime' by new

author Helena Henschen, which was the fifth highest selling title of the year in Sweden, as well as Umberto Eco's autobiographical novel 'Queen Loana's Mysterious Fire'. Brombergs also continued its successful collaboration with Nobel Prize winner J.M. Coetzee, publishing – 'In the Heart of the Country'.

Sonet Film distributed nine movies during 2004, which sold a combined total of 1,823,000 tickets in movie theatres across Sweden. These included a number of box office hits including the Oscar-nominated blockbuster 'As it is in Heaven', which was produced by Sonet and was nominated in the 'Best Foreign Language Film' category for the 77th Academy Awards (The Oscars). The movie is one of Sweden's most successful films ever, having sold over 1.3 million tickets since its premiere in September.

Home Shopping



Home shopping CDON.com is the most visited internet retailing site in the Nordic region and launched the region's first internet music downloads service.

Home Shopping



MTG's home shopping businesses principally comprise CDON.COM and TV-Shop. CDON.COM is the largest online retailer in the Nordic region. For the first year since its launch in 1999, the fast growing CDON.COM reported higher sales than TV-Shop. TV-shop is a direct response television sales channel that is broadcast to 100 million homes around Europe.

Sales for the business area were up 12% year on year to SEK 829 million despite the sale of ECL in the second half of 2003. The combined businesses reported an increase in operating profits to SEK 15 million.

CDON.COM, the most visited electronic retailing website in the Nordic region, continued its fantastic growth story in 2004, attracting

approximately 1.5 million monthly unique users and completing sales of over four million CDs, DVDs, books and games during the year.

CDON.COM's revenues grew by 47% and profits were up 41% year on year.

Reflecting the high level of internet penetration in Scandinavia, CDON.COM became the first internet site to offer a music download service in Sweden in the middle of the year and now offers around 500,000 downloadable music tracks. CDON.COM now has the advantage of using its large customer database to cross-sell both physical and electronic products and extended the downloads service to Norway, Denmark and Finland during the year.

Sales of all product categories continued to grow faster than the market and CDON.COM's market shares consequently increased in all segments. CDON.COM expanded up the supply chain to launch a B2B wholesale operation, and also established a new sales office in Norway.

TV-Shop television home shopping sales channels are broadcast on TV networks in 52 countries and the PIN24 digital channel is broadcast 24 hours a day on digital TV networks in the United Kingdom and Germany. The restructuring of the TV-Shop business continued in 2004 with further concentration on higher gross margin product lines and the clearing out of lower margin inventory lines. Legacy unprofitable airborne contracts with European broadcasters were renegotiated or discontinued.



SDI Media

The SDI Media operating division was sold in July to a financial investor for US\$ 60 million in cash. The disposal was in line with the Group's focus on its core broadcasting assets and gave rise to a net gain of SEK 381 million. SDI Media was deconsolidated from the Group with effect from 1 July.

SDI has grown rapidly since its establishment in 1990 into the world's leading voice localisation company, providing multi-lingual subtitling, dubbing and translation services to the entertainment industry in the US, Europe, Asia and the Middle East. SDI has pioneered these services for theatrical, DVD, broadcast and interactive game clients including major Hollywood studios, international and regional broadcasters, and video game publishers.

SDI now has a 60% share of the global market for the subtitling of

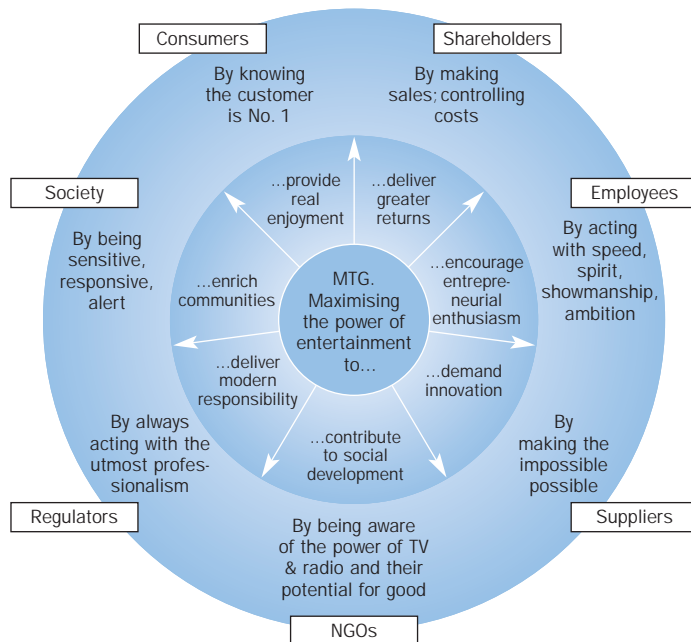
Hollywood studio DVD feature releases and the company produces and delivers language versions of movies and television shows in more than 50 languages. SDI has successfully exploited the opportunities created by the widespread digitalisation of content in recent years, by developing its own proprietary software and building a worldwide network of over 1,000 translators and editors.

SDI was initially acquired in order to meet Viasat Broadcasting's requirement to subtitle its first commercial TV venture, the TV3 channel, when it was launched across Scandinavia. By 2004, only 18% of SDI's revenues were derived from MTG companies and SDI had offices in 15 countries around the world. SDI is contracted to continue to provide subtitling and dubbing services to Viasat channels around Europe.

SDI reported an 11% year-on-year increase in revenues to SEK 189 million for the first six months of 2004. Operating profits of SEK 22 million for the first half of 2004 compared with SEK 25 million for the same period of 2003 and reflected the investments made to build capacity in order to meet growing client demand.

SDI has contracts with all but one of the major Hollywood studios, as well as with international TV channels including The Discovery Channel and The Disney Channel. During 2004, SDI subtitled the DVD releases of Hollywood blockbusters including 'Mystic River', 'The Last Samurai', 'Matrix Revolutions', 'Harry Potter and the Prisoner of Azkaban', as well as the tenth and final season of 'Friends'. SDI was also hired to produce the voice-over and subtitling for E! Entertainment's launches in Italy, France and Holland.

Corporate social responsibility



Corporate social responsibility

The Board of Directors instructed senior management to develop a Corporate Social Responsibility (CSR) strategy for MTG during 2004, in order to position the Group for further growth.

MTG therefore commissioned an independent report during the year, in order to benchmark CSR practices in the media industry and to enable the Group to develop a CSR strategy. The strategy will be implemented across the Group and enable MTG to maximize its potential and deliver consistent long-term returns.

MTG's 'Modern Responsibility' sits within the group's wider responsibility to its stakeholders – consumers, customers, employees, non-government organizations, owners, regulators, suppliers and societies. The starting point was to define MTG's

mission statement and values, which reflect what MTG does and how it acts in relation to all of its stakeholders. As an entertainment broadcaster with audiences of tens of millions of people around the world and committed to driving change, the Group's mission statement is 'maximising the power of entertainment'. MTG is committed to providing the best in entertainment to viewers, listeners, browsers and readers through multiple distribution channels.

Entertainment is powerful in its popularity and its ability to attract audiences and increase choice. Programming does have a significant impact on audiences, and can exert a powerful influence on attitudes and behaviour. A critical part of MTG's CSR is to manage this impact in so far as possible, by adopting policies on the range, impartiality, and avail-

ability of content. In particular, the group does not seek to broadcast its own views or interpretation of news.

The underlying purpose of CSR is to generate, protect and enhance value, by ensuring that the company operates in line with its stakeholders' evolving expectations and performance criteria. 'Modern Responsibility' seeks to engage all of the Group's stakeholders through a structured framework, as well as regular dialogue and feedback.

The Group's core values are:

- We make sales and control costs
- We know the customer is No.1
- We are sensitive, responsive and alert
- We always act with the utmost professionalism
- We are aware of the power of the media and its potential for good

Helping to improve the future lives of children affected by the Tsunami tragedy MTG outdoor advertising company XLformat's giant billboard in the city centre of Stockholm.



- We act with speed, spirit, showmanship and ambition
- We make the impossible possible

MTG is a growth company with a sales-focused organization. MTG employs 1,446 people in countries all around the world, who are drawn from diverse backgrounds but share a pragmatic commitment and entrepreneurial flair. 45% of employees are women. MTG, as an employer, has a consistent approach that recognises and respects the abilities of individuals and their vital role in delivering Modern Responsibility. MTG's employee handbook and group code of conduct are being developed, in order to ensure the highest standards across the Group. The handbook sets out the Group's history and structure, an overview of operations and the organization, as well as the Group's general policies, procedures and other practical information.

MTG is also addressing Sweden's Corporate Governance Code and wider best practice, in order to ensure that the Group's policies, procedures and disclosure are in line with expectations and as transparent as possible.

MTG has conducted an audit of the Group's wide range of charitable and community programmes, as well as the Group's existing and potential

future partnerships, in order to establish the objectives and results of each project and its alignment with MTG's 'Modern Responsibility' strategy. The strategy will define, organize, integrate and coordinate MTG's activities in order to maximize their impact.

MTG has always carried out a wide range of charitable and community initiatives with both local and global reference, and 2004 was no exception. TV3 Sweden therefore worked with the Cancer Fund during the year to promote awareness of breast cancer suffering, its prevention and treatment. This work culminated in the 'Pink Ribbon Gala' in October, which was broadcast live on TV3. Over 600,000 viewers watched the two-hour programme and the overall campaign raised SEK 15 million.

MTG continued to support the work of The Global Forum, which focuses on the sustainable development of the world's growing urban communities at a grass-roots level, through city-to-city relations and youth empowerment.

The tragic events at the end of the year as the Tsunami swept across the Indian Ocean, taking lives and destroying homes and livelihoods, elicited an unprecedented global response.

Viasat's TV8 current affairs channel raised awareness in a series of programmes on the devastation wrought by the natural disaster. Investigative programme 'Efterlyst' appealed for information to help in the search for survivors and their relatives. Modern TV produced public information broadcasts in cooperation with the Red Cross, which were localized and broadcast on Viasat's channels in Sweden, Norway, Denmark, Hungary, Russia, Estonia, Latvia and Lithuania in the weeks that followed the tragedy. Spots were aired on MTG Radio stations; banners were carried on operating company websites; and outdoor advertising company XLformat's giant billboards ensured that the impact of the disaster and its implications hit home. TV3 Sweden also worked together with rival channels on a dedicated evening of television to support the fund-raising efforts and MTG contributed SEK 1 million to the appeal.

MTG employees all over the world responded immediately to the disaster. The Group launched an internal fund raising appeal of its own, with MTG committing to match employees' contributions like for like. The appeal has so far raised over SEK 400,000.

Financial review

Sales growth in all business areas and record high operating result

The Group's sales grew by 8% year on year to SEK 6,836 (6,311) million. Excluding businesses that have been discontinued or sold during the year, Group sales growth was 12%. The Group's sales growth particularly reflected TV3 Scandinavia's strong performance during 2004, with sales up 14%. The continuing impact of investments in content and programming for Viasat's free-to-air and pay-TV channels, as well as higher subscriber acquisition costs, aggressive marketing campaigns and the implementation of the new conditional access system resulted in a 7% increase in operating costs (excluding a non-cash write down in Modern Entertainment relating to the excess value attributed to the beneficial rights arising from the

original acquisition of the minorities in Modern Entertainment in 2000 and the net gain from the sale of SDI Media). Group earnings before interest, tax, depreciation and amortisation increased by 56% to SEK 1,264 (811) million. Group depreciation and amortisation totalled SEK 310 (269) million.

The Group reported its highest ever operating income in 2004 – up 76% to SEK 954 (542) million. The full-year result included the SEK 381 million net gain on the sale of SDI Media in the third quarter. Even excluding the gain, Group operating income increased year on year to SEK 573 (542) million, which was the highest operating result in the Group's history.

The fourth quarter result included non-recurring items relating to programme costs and beneficial rights. Changes were made in the fourth quarter to

the programme inventory accounting and amortisation policies in the Group's Scandinavian free-to-air and pay-TV broadcasting business, which gave rise to a non-cash write down of programme rights, as well as a positive currency translation effect, of net SEK –75 million. The amortisation changes require that a higher proportion of programming costs now be expensed at the time of the first run, which reflects the expected shorter lifetime of such content. As a result of the agreement with The Swedish Performing Rights Society (STIM), SEK 55 million of provisions were released in the fourth quarter. A total of SEK 66 million in non-cash write downs of beneficial rights were also made in the fourth quarter in Modern Entertainment.

Excluding the net gain from the sale of SDI Media, the deconsolidation of the operating results of SDI Media sold on July 1, 2004 and the write

8%

The Group's sales grew 8% year on year to SEK 6,836 (6,311) million.

down of beneficial rights in Modern Entertainment, the Group's operating income increased to SEK 618 (509) million.

Net interest and other financial items totalled SEK -33 (-167) million. Net interest costs amounted to SEK -62 (-70) million, which principally comprised the interest payable on the EUR 120 million convertible debenture loan. Other financial items of SEK 28 (-97) million included an unrealised exchange rate gain of SEK 10 million, which arose from the translation of the Euro denominated convertible debentures into Swedish Krona; a SEK 15 million capital gain arising from the sale of Metro International S.A. A shares and a SEK 15 million dividend payment received from TV4 AB.

The Group reported a pre-tax profit of SEK 920 (375) million.

The Group's tax charges for the year totalled SEK -266 (-92) million. The tax charge was negatively affected by losses with unrecognized tax benefits. Paid taxes during the year amounted to SEK -57 (-88) million. The low tax charge in 2003 was due to the revaluation of confirmed tax loss carry forwards. The disposals of SDI Media and of the Metro shares in 2004 were not subject to any tax charges.

Group profit after tax and minority interests more than doubled to SEK 654 (289) million and Group earnings per share increased to SEK 9.85 (4.36).

14%

The Group's sales growth particularly reflected TV3 Scandinavia's strong performance during 2004, with sales up 14%.

Stable cash flow generation after investments and repayment of loans

The Group generated SEK 557 (586) million of cash flow from operations. Net cash flow from operations totalled SEK 578 (624) million, following a SEK 123 (38) million positive change in working capital, and including a payment of SEK 103 million to STIM for years prior to 2004. Capital expenditure of SEK 107 (135) million was equivalent to 2% of Group sales. The Group sold its SDI Media business during the year for US\$ 60 million and acquired shares in CTC Media for US\$ 63 million, as well as selling shares in Metro International S.A. and purchasing shares in P4 Radio Hele Norge ASA. The Group also amortised the remaining SEK 250 million of its previous bank credit facility. MTG announced in November that the Group now hedges its US Dollar and Swiss Franc denominated contracted outflow on a rolling 12-month basis, which relates to programming content acquired in foreign currencies. The hedging programme reduces short-term currency translation effects on the Group's cost base.

Strong and flexible financial position

Group total assets at the year end amounted to SEK 6,336 (5,716) million.

The Group's equity to assets ratio was 43% (38%) at the end of the year. The ratio is defined as the sum of the consolidated equity and minority interests as a percentage of total assets. The Group also held minority

76%

The Group reported its highest ever operating income in 2004 - up 76% to SEK 954 (542) million.

shareholdings in a number of listed companies as at December 31, 2004 - TV4 AB, P4 Radio Hele Norge ASA and Metro International S.A. The aggregate market value of these securities on the last day of trading in 2004 was SEK 2,886 million, which gave rise to a surplus to book value of SEK 2,008 million or SEK 31 per share. When adjusted for this surplus value, the equity to assets ratio was 57%.

The Group's net debt amounted to SEK 458 (886) million at the end of the year and is defined as interest-bearing liabilities, including the convertible debentures, less interest-bearing assets. The Group's net debt to equity ratio was 17% (41%) at December 31, 2004 and is defined as the Group's net debt as a percentage of consolidated equity and minority interests.

The Group's available liquid funds, including the unutilised SEK 800 million credit facility, amounted to SEK 1,349 (1,477) million at the end of the year. Cash and cash equivalents totalled SEK 574 (402) million. The Group's return on capital employed increased to 18% (15%) in 2004.

The MTG share

On New Year's Eve 1987, Industriförvaltnings AB Kinnevik launched TV3, which was the first commercial television channel in Scandinavia. This was the origin of today's international media group, Modern Times Group MTG AB.

At Kinnevik's Annual General Meeting on May 23, 1997, it was decided that MTG would be demerged by means of the distribution of MTG shares as a dividend to Kinnevik shareholders. MTG's shares were subsequently listed on the Stockholmsbörsen's "SBI" list and in the form of American Depositary Receipts on the Nasdaq National Market

in New York on September 18, 1997. MTG's shares have been quoted on the Stockholmsbörsen O-list since May 3, 1999.

The chart below shows the changes in share price and trading volume for the MTG series B share since it was listed and began trading on the Stockholm Börsinformation (SBI) list. The series A and B shares are traded under the symbols "MTGA" and "MTGB" on the Stockholmsbörsen O-list. The ADRs were voluntarily deregistered from the Nasdaq National Market on December 31, 2003. The chart has been adjusted for the distribution of Metro International S.A. shares to MTG

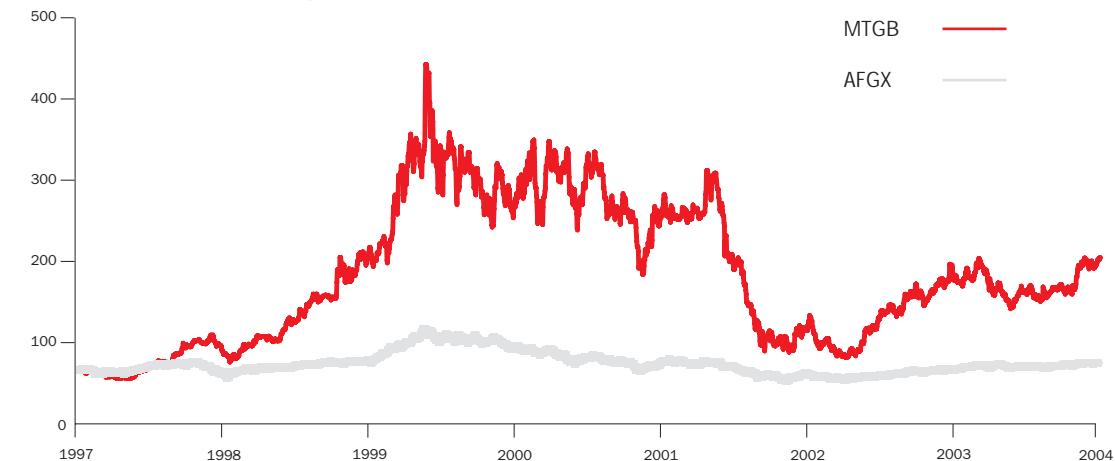
shareholders on August 15, 2000. MTG's market capitalisation, based on the closing price of its shares on the Stockholmsbörsen on December 30, 2004 was SEK 12.0 billion.

* If all of the options granted to senior executives and key employees were exercised, the issued share capital of the Company would increase by 2,052,840 series B shares. 816,075 options have a strike price of SEK 294.50 and were exercisable at the earliest on May 4, 2004. 54,405 options have a strike-price of SEK 100 and are exercisable from August 5, 2005. If the EUR 120 million convertible loan was fully converted into equity, the issued share capital of the company would increase by 2,790,994 series B shares. The conversion price is SEK 385.97 and the convertible loan notes fall due in June 2006.

	Total	A shares	B shares	Votes	Capital
Investment AB Kinnevik	9,935,012	9,710,887	224,125	47.2%	15.0%
Emesco AB	3,328,845	3,328,845	0	16.1%	5.0%
Stenbeck, Jan Hugo (estate)	1,526,000	1,526,000	0	7.4%	2.3%
Fidelity	5,303,273	0	5,303,273	2.6%	8.0%
SEB	4,218,355	0	4,218,355	2.0%	6.4%
4th AP-fund	3,372,000	0	3,372,000	1.6%	5.1%
Robur	2,935,299	0	2,935,299	1.4%	4.4%
AMF Pension	2,230,000	0	2,230,000	1.1%	3.4%
Stenbecks Stiftelse, Hugo	199,530	199,530	0	1.0%	0.3%
3rd AP-fund	1,909,828	0	1,909,828	0.9%	2.9%
Länsförsäkringar	684,867	133,496	551,371	0.9%	1.0%
Skandia	1,660,344	0	1,660,344	0.8%	2.5%
State Street Bank and Trust Co	1,629,741	0	1,629,741	0.8%	2.5%
Handelsbanken	1,587,675	15	1,587,660	0.8%	2.4%
Chase Manhattan Bank	1,552,144	4,950	1,547,194	0.8%	2.3%
Goldman Sachs	375,425	110,453	264,972	0.7%	0.6%
Nordea	778,285	58,500	719,785	0.6%	1.2%
Von Horn Family	290,694	90,000	200,694	0.5%	0.4%
2nd AP-fund	802,409	0	802,409	0.4%	1.2%
Investors Bank and Trust Company	763,674	0	763,674	0.4%	1.2%
Other	21,291,756	382,945	20,908,811	12.0%	32.1%
Total	66,375,156	15,545,621	50,829,535	100.0%	100.0%

Source: VPC

MTG B share on Stockholmsborsen (closing price SEK)



Source: Bloomberg

Board of Directors



Asger Aamund



David Chance



Nick Humby



Lars-Johan Jarnheimer



David Marcus



Cristina Stenbeck



Pelle Törnberg

Asger Aamund (born 1940)

Independent Member of the Board of MTG since 2000.

Asger is the majority shareholder in Bavarian Nordic Research Institute and NeuroSearch, both of which are listed on the Copenhagen Stock Exchange, and has many years' experience in senior management positions and as a member of the Board of Directors for a number of international companies.

Beneficial shareholding in MTG: 0

David Chance (born 1957)

BA Economics, BSc Psychology and MBA. Independent Member of the Board of MTG since 1998 and Chairman of the Board since 2003.

David previously served as deputy Chief Executive of BSkyB Group Plc from 1993 to 1998. David is also a member of the Board of Directors of ITV plc, O₂ plc, and Top Up TV.

Beneficial shareholding in MTG: 0

Nick Humby (born 1957)

Independent Member of the Board of MTG since May 2004.

Nick has a long and successful career in senior financial management positions in the media and sports industries. He has served as Group Finance Director of Manchester United, one of the world's most

successful sports clubs, since 2002. Prior to that, he was Finance Director and Chief Operating Officer of Pearson Television.

Nick is also a non-executive director of The Ambassador Theatre Group.

Beneficial shareholding in MTG: 0

Lars-Johan Jarnheimer (born 1960)

MSc Business and Economics. Member of the Board of MTG since 1997.

Lars-Johan has held various positions with IKEA, Hennes & Mauritz, SARA Hotels and Saab Opel Sverige. He was President of MTG company ZTV before joining Comviq as Vice President. Lars-Johan was President of Comviq from 1993 to 1997. On January 1, 1999, he was appointed Vice President of Industriförvaltnings AB Kinnevik and President of Investment AB Kinnevik. Since 1999, Lars-Johan has been the President of Tele2 (formerly NetCom). He is also a non-executive director of Millicom International Cellular S.A. and Arvid Nordquist Handelsaktiebolag. Beneficial shareholding in MTG: 2,000 MTG B

David Marcus (born 1965)

Member of the Board of MTG since May 2004.

Founder and Managing Partner of investment advisor M2 Capital. Formerly Founder and Managing Partner of

Marcstone Capital Management and Portfolio Manager and Senior Vice President at Franklin Mutual Advisers. Beneficial shareholding in MTG: 100 MTG B.

Cristina Stenbeck (born 1977)

Member of the Board of MTG since 2003.

Vice Chairman of the Board of Investment AB Kinnevik and Chairman of the Board of Emesco AB. Board assignments: Metro International S.A., Millicom International Cellular S.A., Tele2 AB and Transcom Worldwide S.A.

Beneficial shareholding in MTG: 0

Pelle Törnberg (born 1956)

Member of the Board of MTG since 2000.

Pelle started Strix, Kinnevik's first TV production company, in 1987 and subsequently established and launched a wide range of companies before assuming responsibility for all of Kinnevik's media operations in 1993. When shares in Metro International were distributed to MTG's shareholders in August 2000, Pelle chose to relinquish his role as President and CEO of MTG in order to take up the same role at Metro.

Beneficial shareholding in MTG: 12,200 MTG B

Directors' report

Modern Times Group MTG AB (MTG) is a publicly listed company. The Group's series A and series B shares are listed on the Stockholmsbörsen O-list. The company's registered office is at Skeppsbron 18, Box 2094, SE-103 13 Stockholm, Sweden. Registration no. 556309-9158.

The Board of Directors

Members The Board of Directors of Modern Times Group MTG AB comprises seven non-executive directors. The members of the Board of Directors are David Chance, Asger Aamund, Nick Humby, Lars-Johan Jarnheimer, David Marcus, Cristina Stenbeck and Pelle Törnberg. The directors were all elected or re-elected at the company's Annual General Meeting of Shareholders (AGM) on 12 May 2004. At a statutory Board meeting following the AGM, David Chance was elected as Chairman of the Board of Directors. Three of the Board Members are independent in

the manner stipulated in the Exchange Rules issued by the Stockholm Stock Exchange: David Chance, Nick Humby and Asger Aamund. Biographical information on each Board member is provided on page 39 of this report.

Procedures The Board of Directors is constituted to provide effective support and control of the activities of the executive management of the company. The Board has adopted procedures for the execution of its own tasks and for the provision of instructions and mandates to the Chief Executive Officer. These procedures require that investments in fixed assets of more than SEK 100,000 have to be approved by the Board. The Board also approves large-scale programming investments, acquisitions and closures or disposals of businesses.

The Board of Directors held five meetings during 2004 and background

documentation and reports were distributed to the directors one week in advance of each meeting. In addition, the Board also met once during 2004 for a strategy review and development meeting.

The compensation paid to the members of the Board of Directors is set out in Note 24 to the accounts on pages 80–81 of this report. Each member's beneficial ownership of shares and other financial instruments in the company are set out on page 39 of this report.

Remuneration Committee At a statutory Board meeting following the AGM, Asger Aamund was appointed as Chairman of the Remuneration Committee and David Chance and Cristina Stenbeck were appointed as members of the Committee. The Board of Directors commissions the work of the Remuneration Committee. The responsibilities of the Remuneration Committee include

questions concerning salaries, pension plans, bonus programmes and other employment terms for the Chief Executive Officer and executive management within the MTG Group.

The remuneration paid to the Group's senior management, as well as information about the Company's existing share option programmes and executives' beneficial ownership of shares and other financial instruments in the company, is set out in Note 24 to the accounts on pages 80–81 of this report.

Audit Committee At a statutory Board meeting following the AGM, Nick Humby was appointed as Chairman of the Audit Committee and David Marcus was appointed as a member of the Committee. The Board of Directors commissions the work of the Audit Committee. The Audit Committee's responsibility is to maintain and improve the contact with the auditors of the company as well as to review accounting and financial reporting procedures. The Audit Committee focuses on ensuring quality and accuracy in the company's financial reporting, the internal controls within the company, the qualification and independence of the auditors, the company's adherence to prevailing rules and regulations and, where applicable, transactions between the company and related parties. The Audit Committee met three times during 2004.

Nomination Group Following the resolutions of the Annual General Meeting of Modern Times Group MTG AB in May 2004, a Nomination Group consisting of major shareholders in Modern Times Group MTG AB was created and Cristina Stenbeck is Chairman of the Group. The Nomination Group consists of Cristina Stenbeck; Thomas Halvorsen of the

Fourth Swedish National Pension Fund; and Björn Lind of SEB Asset Management and SEB Trygg Liv. The Nomination Group will submit a proposal for the composition of the Board of Directors that will be presented to the 2005 Annual General Meeting for approval.

Significant events in 2004

In line with the Group's focus on its core broadcasting assets, MTG made a number of changes to its structure during 2004.

MTG entered the rapidly expanding internet betting market in January with the acquisition of 19.9% of Bet24, together with an option to increase the shareholding in the future.

MTG sold the Financial Hearings business in April; closed down the Modern Sports & Events business in June; and sold the SDI Media subtitling and dubbing business in July for US\$ 60 million. SDI Media's operating results were deconsolidated with effect from 1 July 2004.

MTG acquired a further 9.1% of the shares in StoryFirst Communications Inc. for US\$ 53.4 million in July and a further 1.9% for US\$ 9.6 million in August. MTG now own 39.8% of the company, which has changed its name to CTC Media, Inc. CTC Media is a US registered company, which owns and operates the CTC Television network, 21 network affiliate stations and four other local stations in Russia. MTG also acquired the remaining 25% of Russian TV channel DTV in August.

MTG Radio announced a co-operation with NRJ Group S.A. in July 2004 whereby MTG Radio Sweden would assume the day-to-day operation and management of NRJ's 20 radio stations in Sweden. MTG Radio Sweden's results included the sales and costs of the 20 stations with effect from

September 1 and a percentage of MTG Radio Sweden's revenues is paid to NRJ. MTG now operates 50 out of the 86 commercial radio stations in Sweden.

MTG increased its shareholding in the Norwegian national commercial radio network P4 Radio Hele Norge ASA in July 2004 by acquiring 6.6% of the company, or 2,124,820 shares, from Investment AB Kinnevik. MTG also sold 2,220,629 Metro International S.A. series A shares. MTG now owns 39.7% of the capital and votes in P4 Radio Hele Norge ASA; and 28.0% of the equity and 19.0% of the votes in Metro International S.A.

Business overview

The Group's objective is to build market-leading positions and generate earnings and cash flow growth in order to deliver enhanced shareholder value. The Board has instructed the Group's executive with specific goals:

- To double the size of Viasat Broadcasting in five years (in revenue terms).
- For TV3 to become the largest commercial free-to-air channel in Sweden within five years and for TV3 to become the second largest commercial free-to-air channel in Norway within five years.
- To export the integrated operating model into high-growth new territories with the intention that the Central and East European businesses should generate the same level of revenues and profits as the Scandinavian operations within five years.
- To achieve more than 15% operating margins in MTG's two core businesses – free-to-air TV, and pay-TV.
- To consolidate the Swedish radio market and establish clear market leadership.

The Group made significant progress in all of these areas during the year. 2004 was a year of investment for MTG, in which the Group invested to increase its market shares in its core markets and also invested in the development of its businesses in new high-growth territories and markets. Viasat's investments in programming, together with increased penetration, enabled the Group's free-to-air operations to take market shares in growing markets in each territory. The free-to-air operations in Scandinavia more than doubled their combined operating margin to 7%, whilst TV3 was established as the largest channel, in the target group 15–49, in each of the Baltic states by the end of the year and the combined operating margin for the free-to-air operations in the three countries increased to 26% (19%). Viasat continued to invest in the programming schedules of both Viasat3 in Hungary and DTV, which resulted in increased commercial share of viewing and, due to higher programme costs continued operating losses in both territories. Associated company CTC Media, Inc. in Russia reported a 62% increase in sales and maintained its operating margin at approximately 40%, which enabled MTG to report a 55% increase in associated company income within Viasat Broadcasting to SEK 136 million.

On the pay-TV side, Viasat successfully completed the migration of its premium subscriber base to a new secure conditional access system and switched off the legacy encryption system for its premium channels. Viasat launched seven new pay channels during the year and reported its highest quarterly net subscriber intake in the fourth quarter since the digitalisation of the platform in 2000. The rollout of the mini-pay business in Central and Eastern Europe continued and Viasat's four channels ended the

year with 6.4 million wholesale subscribers. The pay-TV business' operating margin was negatively impacted by increased subscriber marketing, subscriber acquisition costs, programming and encryption costs and the investment in the implementation of the new conditional access system.

MTG's radio channels took further market shares during the year and MTG's cooperation with NRJ Radio boosted MTG's Swedish national commercial radio network's penetration from 69% to 83%. This resulted in increased sales but also in an increased cost base as MTG assumed the day-to-day operation and management of the NRJ stations. MTG reported a SEK 24 million swing in associated company income in the radio division, which principally comprised the Group's interest in P4 Radio Hele Norge. The performance of MTG's other businesses (Modern Studios, Home Shopping and SDI) reflected particularly strong sales growth at Strix and CDON but was offset by the non-cash write down of SEK 66 million of beneficial rights in Modern Studios companies and the deconsolidation of SDI from July 1.

40% of Group revenues were generated from advertising sales, 38% from subscription payments and 22% from other business-to-business and business-to-consumer sales. This compared with 37%, 37% and 26% respectively in 2003.

The Group employed 1,446 full-time employees at the end of the year, compared to 1,520 employees at the beginning of 2004. Details of the average number of employees during the year and the aggregated remuneration paid during the year are presented in Notes 23 and 24 to the accounts on pages 79–81 of this report.

Consolidated financial results

The Group generated sales growth in all business areas during 2004 and Group net sales were up 8% year on year to SEK 6,836 million. Excluding businesses that have been discontinued or sold during the year, Group sales growth was 12%. The Group's sales growth particularly reflected TV3 Scandinavia's strong performance during 2004, with sales up 14% year on year.

The continuing impact of investments in content and programming for Viasat's free-to-air and pay-TV channels, as well as higher subscriber acquisition costs arising from aggressive marketing campaigns and the implementation of the new conditional access system, resulted in a 7% year-on-year increase in Group operating costs (excluding a SEK 66 million write-down in Modern Entertainment).

Group earnings before interest, tax, depreciation and amortisation increased by 56% year on year to SEK 1,264 million. Group depreciation and amortisation totalled SEK 310 (269) million.

MTG reported the highest operating profit in its history, with operating income up 76% year on year to SEK 954 million. Even excluding the net gain on the sale of SDI Media, Group operating income reached a record new level of SEK 573 (542) million.

The operating result included SEK 86 million of non-recurring costs. TV3 Sweden reached an agreement with The Swedish Performing Rights Society (STIM) in December with regard to outstanding royalty payments for music rights, which was lower than the provisions already booked by TV3 and therefore gave rise to a positive impact of SEK 55 million. Changes were made to the programme inventory accounting and amortisation policies in the Group's

Scandinavian free-to-air and pay-TV broadcasting business, which gave rise to a non-cash write down of programme rights as well as a positive currency translation effect, with a net negative impact of approximately SEK -75 million. The valuation policy changes require that a higher proportion of programming costs now be expensed at the time of the first run, which reflects the expected shorter lifetime of such content. A total of SEK 66 million in non-cash write-downs of beneficial rights were also made in Modern Entertainment. The operating result for 2003 also included non-recurring items. A provision of SEK 38 million was made for disputed music rights payments and a SEK 29 million write-off was booked relating to legacy conditional access smart cards. Income from associated companies in which MTG holds minority equity interests amounted to SEK 154 (69) million in 2004. MTG's participations principally comprise CTC Media, Inc. and P4 Radio Hele Norge ASA.

Net interest and other financial items totalled SEK -33 (-167) million. Net interest costs amounted to SEK -62 (-70) million, which principally comprised the interest payable on the EUR 120 million convertible debenture loan. Other financial items of SEK 28 (-97) million included an unrealised exchange rate gain of SEK 10 million, which arose from the translation of the Euro denominated convertible debentures into Swedish Krona; a SEK 15 million capital gain arising from the sale of Metro International S.A. shares; a SEK 15 million dividend payment received from TV4 AB.

The Group consequently reported a pre-tax profit of SEK 920 (375) million. The Group's tax charges totalled SEK -266 (-92) million and the increase was negatively impacted by the effect of losses with unrecognised tax

benefits. Paid taxes amounted to SEK -57 (-88) million. The disposals of SDI Media and of the Metro shares were not subject to any tax charges. Group profit after tax and minority interests more than doubled to SEK 654 million and the Group reported earnings per share of SEK 9.85 (4.36).

The Group generated SEK 557 (586) million of cash flow from operations. Net cash flow from operations totalled SEK 578 (624) million, which reflected a SEK 123 (38) million change in working capital and including the payment of SEK 103 million for the above mentioned settlement of the dispute with STIM. Capital expenditure of SEK 107 (135) million is equivalent to less than 2% of Group sales. The Group's return on capital employed, excluding non-recurring items, increased to 18% (15%) in 2004.

MTG announced in November that the Group now hedges its US Dollar and Swiss Franc denominated contracted outflow on a rolling 12-month basis, which relates to programming content acquired in foreign currencies. The hedging programme reduces short-term currency translation effects on the Group's cost base.

The Group's consolidated accounts have been prepared according to the same accounting principles that were applied in the preparation of the 2003 accounts, and are compiled according to the Swedish Annual Report and Accounts Act and the recommendations issued by the Swedish Financial Accounting Standards Council. A new recommendation has been applied in 2004, RR29 Employee Benefits. This recommendation has no impact on the Group's accounting principles.

With effect from January 1, 2005, Modern Times Group MTG AB will

report in accordance with International Financial Reporting Standards (IFRS). The annual report for 2004 will therefore be the last report prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council. The Group has reviewed its reporting routines in order to collect the data required for reporting in accordance with IFRS and also has gathered the information to be used for comparative figures in its interim reports and the annual report for 2005. This work has been reported to the Board of Directors' Audit Committee on a regular basis. The preliminary effects of the adoption of IFRS are set out in note 29 to the accounts on page 87 of this report.

Financial position

The Group's available liquid funds, including the SEK 800 million unutilised credit facility, amounted to SEK 1,349 (1,477) million at 31 December and cash and cash equivalents totalled SEK 574 (402) million.

Group net debt of SEK 458 (886) million at the end of the year comprised interest-bearing liabilities, including subordinated convertible debentures, less interest-bearing assets. MTG amortised the final SEK 250 million of the former bank credit facility during the year. The Group's net debt to equity ratio was 17% (41%) at 31 December and is defined as the Group's net debt as a percentage of consolidated equity and minority interests.

The Group's total assets amounted to SEK 6,336 million and the equity to assets ratio, which is defined as the sum of the consolidated equity and minority interests as a percentage of total assets, was 43% (38%). When adjusted for the SEK 2,008 (1,716) million surplus value of the Group's minority interests in listed companies - TV4 AB, P4 Radio Hele Norge ASA and Metro International

Directors' report continued

S.A – the Group's equity to assets ratio was 57% (49%).

Significant events after the end of the year

The following significant events have taken place since December 31, 2004 and before the publication of this annual report.

MTG sold its entire holding of 3,020,013 shares in TV4 AB, which was equivalent to a 15.1% interest in the company. The shares were sold for SEK 170 per share, which gave rise to a net gain of SEK 389 million. No tax is payable on the gain.

Viasat launched the 3+ free-to-air TV channel into Estonia via Viasat's satellite DTH platform and third-party cable networks.

Outlook

The Group has a clear set of strategic objectives and a defined execution path in order to generate enhanced shareholder value. The Group's free-to-air assets are well positioned following the investments made in programming and increased penetration; the DTH satellite pay-TV platform has been secured and new channels added to enhance the channel package offering; and the roll-out of Viasat's mini-pay model in Central and Eastern Europe will enable the group to benefit from increased consumer spending on pay-TV services moving forward. Several non-core assets were sold for substantial net gains and the funds were reinvested in core broadcasting assets.

Risks remain, as in any business, but the Group continues to benefit from the synergies and economies of scale that arise from its efficient vertically integrated operating model and broad geographical diversification.

The Group continues to review opportunities for the further expansion

of its core broadcasting operations into new high-growth markets.

Environmental impact

The company does not own or operate any businesses in Sweden that require a licence, or have a reporting duty, that require compliance with rules or laws regarding environmental impact.

Parent company

The parent company reported net sales of SEK 89 (76) million, principally relating to charges to Group companies. Net interest and other financial items amounted to SEK 113 (233) million and the parent company's pre-tax profit amounted to SEK –3 (126) million. MTG's financial policy includes a central cash pool to support operating companies. Parent company capital expenditure totalled SEK 0 (17) million.

Proposed appropriation of earnings

The following funds are at the disposal of Shareholders:

Retained earnings	2,527,248,896
Net loss for the year	–21,244,991
Total	2,506,003,905

The Group's non-restricted equity amounted to SEK 768 (267) million at the end of the year after deducting the proposed charges to restricted equity. The Board of Directors and Chief Executive Officer propose that the retained earnings be carried forward into the accounts for 2005 and that no dividend be paid to shareholders for the 12 months ended 31 December 2004.

Consolidated income statement

SEK million	Note	2004	2003
Net sales	2	6,835.7	6,311.3
Cost of goods and services	3	-4,480.6	-3,942.3
Gross income		2,355.1	2,368.9
Selling expenses		-653.1	-620.3
Administrative expenses		-1,034.4	-1,101.0
Other operating revenues		5.7	9.8
Other operating expenses	3	-188.0	-184.1
Income/loss from business development	4	380.7	-0.4
Write-down beneficial rights Modern Entertainment	3	-66.3	-
Share of earnings in associated companies	6	153.9	69.0
Operating income	2, 5, 21, 22, 23, 24	953.6	542.0
Dividends from shares		15.1	15.1
Gain from sales of securities	7	15.7	20.1
Interest revenue and other financial income	7	11.3	41.4
Interest expense and other financial costs	7	-25.1	-195.2
Income after financial revenue and expense excluding interest on convertible debentures		970.7	423.4
Interest on convertible debentures		-60.9	-60.0
Unrealised exchange difference on convertible debentures		10.4	11.8
Income before tax		920.2	375.2
Current tax	8	-107.0	-103.5
Change in deferred tax	8	-159.3	11.3
Minority interests		0.1	6.3
Net income for the year		654.0	289.3
Denominator for basic earnings per share		66,375,156	66,375,156
Denominator for diluted earnings per share		66,407,538	66,382,520
Basic earnings per share, SEK		9.85	4.36
Diluted earnings per share, SEK		9.85	4.36
Dividends, SEK		-	-

Consolidated balance sheet

SEK million

Note **31 Dec 2004** 31 Dec 2003

Assets

Fixed assets

Intangible assets

	9		
Capitalised development expenses		36.5	33.0
Beneficial rights		187.1	296.1
Goodwill		764.1	845.5
		987.7	1,174.5

Tangible assets

	10		
Machinery and other technical plant		9.6	1.2
Equipment, tools and installations		106.7	136.3
		116.2	137.5

Long-term financial assets

Shares in associated companies	11	890.2	347.3
Receivables from associated companies		45.3	50.6
Shares and participation in other companies	11	763.4	767.8
Deferred tax receivable	8	233.6	390.1
Other long-term receivables		8.5	10.7
		1,941.1	1,566.5

Total fixed assets

3,045.0 2,878.6

Current assets

Inventories etc.

	12		
Products in progress		0.3	5.6
Finished goods and merchandise		108.1	112.7
Programme rights		948.6	205.7
Work in progress		-	6.1
Advances to suppliers		174.0	805.7
		1,231.0	1,135.6

Current receivables

Accounts receivable	13	675.6	721.3
Tax receivables		60.8	-
Other current receivables		119.4	128.7
Prepaid expense and accrued revenue	14	630.2	449.8
		1,486.0	1,299.8

Cash and cash equivalents

Short-term investments	15	0.5	0.6
Cash		573.7	401.4
		574.2	401.9

Total current assets

3,291.1 2,837.4

Total assets

6,336.1 5,715.9

Consolidated balance sheet

SEK million

Note **31 Dec 2004** 31 Dec 2003

Shareholders' equity and liabilities

Shareholders' equity	16		
Restricted equity			
Share capital		331.9	331.9
Restricted reserves		1,613.7	1,546.4
		1,945.6	1,878.3
Non-restricted equity			
Non-restricted reserves		113.9	-22.6
Net income/loss for the year		654.0	289.3
		767.9	266.7
Total shareholders' equity		2,713.5	2,145.0
Minority interests in equity		1.5	2.0
Provisions			
Provisions for pensions		-	0.9
Deferred tax liability	8	2.8	4.0
Other provisions	17	84.5	228.6
Total provisions		87.3	233.4
Long-term liabilities	18, 19		
Interest-bearing			
Convertible debenture loan 2001/2006		1,080.8	1,091.3
Other liabilities		4.8	5.1
		1,085.6	1,096.3
Non-interest-bearing			
Non-interest bearing liabilities		6.9	11.5
Total long-term liabilities		1,092.6	1,107.9
Current liabilities			
Interest-bearing			
Liabilities to financial institutions		-	250.0
Non-interest-bearing			
Advances from customers		35.5	37.7
Accounts payable		559.2	630.1
Tax liability		38.8	40.4
Other liabilities		307.9	324.1
Accrued expense and prepaid revenue	20	1,499.9	945.4
		2,441.3	1,977.7
Total current liabilities		2,441.3	2,227.7
Total liabilities		3,622.6	3,570.9
Total shareholders' equity and liabilities		6,336.1	5,715.9
Pledged assets		None	None
Contingent liabilities	21	5.4	0.3

Consolidated changes in shareholders' equity

SEK million	Share capital	Restricted reserves	Non-restricted reserves	Total
Opening balance as of January 1, 2003	331.9	1,502.4	51.1	1,885.4
Translation differences charged directly to equity		-16.7	-13.0	-29.7
Transfer between restricted and non-restricted equity		60.7	-60.7	-
Net income for the year 2003			289.3	289.3
Balance as of December 31, 2003	331.9	1,546.4	266.7	2,145.0
Translation differences charged directly to equity		-32.8	-52.8	-85.5
Transfer between restricted and non-restricted equity		100.0	-100.0	-
Net income for the year 2004			654.0	654.0
Balance as of December 31, 2004	331.9	1,613.7	767.9	2,713.5

Restricted reserves in the Group include SEK 235,7 million in a capital interest reserve, representing the positive difference between the consolidated value and book value of each company's holding of shares in associated companies.

Accumulated translation differences since January 1, 1996 amounted to SEK -94.7 (-9,2) million at year end.

Consolidated statements of cash flows

SEK million	Note	2004	2003
Cash flow from operations			
Net income for the year		654.0	289.3
Adjustments to reconcile net income to net cash provided by operations	26	-96.4	297.1
Payment to STIM for years prior to current year	26	-102.5	-
		455.2	586.4
Changes in working capital			
Inventories		-107.0	248.0
Other current receivables		-267.1	139.8
Accounts payable		-62.2	-188.1
Other current liabilities		559.1	-162.1
Net cash flow from operations		578.0	624.0
Investment activities			
Other investment in fixed assets		-106.6	-135.3
Acquisitions of shares in subsidiaries and associated companies	26	-495.8	-19.1
Proceeds from sales of shares in subsidiaries, associated companies and other companies	26	449.1	19.9
Dividends from associated companies		3.4	10.4
Cash flow to investing activities		-149.9	-124.1
Financing activities			
Change in receivables from associated companies		5.2	-3.1
Change in other long-term receivables		-2.0	86.2
Net change in loans		-250.0	-400.0
Change in other interest-bearing liabilities		-0.3	-31.1
Change in non-interest-bearing liabilities		-4.4	-18.5
Cash flow from financing activities		-251.5	-366.5
Net increase in cash and cash equivalents		176.6	133.4
Cash and cash equivalents at beginning of year		401.9	300.6
Translation differences in cash and cash equivalents		-4.2	-32.1
Cash and cash equivalents at end of year		574.3	401.9

Parent company income statement

SEK million	Note	2004	2003
Net sales		89.4	76.3
Gross income		89.4	76.3
Administrative expenses		-206.2	-183.8
Operating loss	5, 22, 23, 24, 25	-116.8	-107.5
Gain from financial assets	7	15.4	18.9
Interest revenue and other financial income	7	199.9	313.2
Interest expense and other financial costs	7	-51.4	-50.5
Income after financial revenue and expense excluding interest on convertible debentures		47.1	174.1
Interest on convertible debentures		-60.9	-60.0
Unrealised exchange difference on convertible debentures		10.4	11.8
Income/loss before tax		-3.3	125.9
Taxes	8	-17.8	29.9
Net income/loss for the year		-21.2	155.8

Parent company balance sheet

SEK million

Note **31 Dec 2004** 31 Dec 2003

Assets

Fixed assets

Intangible assets

Capitalised development expenses	9	12.4	22.6
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		12.4	22.6
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Tangible assets

Equipment, tools and installations	10	0.1	0.1
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		0.1	0.1
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Long-term financial assets

Shares and participations in Group companies	11	136.4	136.4
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Receivable from Group companies		1,594.5	2,484.0
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Shares and participations in associated companies		202.7	202.7
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Shares and participations in other companies	11	634.2	643.1
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Deferred tax receivable	8	187.0	255.3
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		2,754.7	3,721.5
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Total fixed assets		2,767.1	3,744.2
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Current assets

Current receivables

Accounts receivable	13	3.4	4.5
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Receivable from Group companies		3,214.0	2,740.5
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Tax receivables		0.8	–
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Other receivables		4.5	6.7
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Prepaid expense and accrued revenue	14	25.5	36.6
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		3,248.3	2,788.4
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Cash and cash equivalents		70.5	32.8
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		70.5	32.8
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Total current assets		3,318.8	2,821.2
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Total assets		6,085.9	6,565.4
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Parent company balance sheets

SEK million

Note **31 Dec 2004** 31 Dec 2003

Shareholders' equity and liabilities

Shareholders' equity

Restricted equity

	16		
Share capital		331.9	331.9
Premium reserve		1,332.5	1,332.5
Legal reserve		7.7	7.7
		1,672.1	1,672.1

Non-restricted equity

Retained earnings		2,527.2	2,136.6
Net income/loss for the year		-21.2	155.8
		2,506.0	2,292.4

Total shareholders' equity		4,178.1	3,964.5
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Long-term liabilities

Interest-bearing

Convertible debenture loan 2001/2006	18	1,080.8	1,091.3
Liabilities to Group companies		136.9	235.2
		1,217.8	1,326.5

Total long-term liabilities		1,217.8	1,326.5
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Current liabilities

Interest-bearing

Other liabilities to financial institutions		-	250.0
Liabilities to Group companies		-	800.7
		-	1,050.7

Non-interest-bearing

Accounts payable		7.4	5.9
Liabilities to Group companies		625.0	169.5
Other liabilities		1.4	2.4
Accrued expense and prepaid revenue	20	56.3	45.9
		690.0	223.7

Total current liabilities		690.0	1,274.4
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Total shareholders' equity and liabilities		6,085.9	6,565.4
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Pledged assets		None	None
Contingent liabilities	21	380.0	372.8

Parent company changes in shareholders' equity

SEK million	Share capital	Premium reserve	Legal reserve	Retained earnings	Total
Balance as of January 1, 2003	331.9	1,332.5	7.7	1,973.1	3,645.2
Net income for the year 2003				155.8	155.8
Group/shareholders' contributions				163.6	163.6
Balance as of December 31, 2003	331.9	1,332.5	7.7	2,292.4	3,964.5
Net income for the year 2004				-21.2	-21.2
Group/shareholders' contributions				234.8	234.8
Balance as of December 31, 2004	331.9	1,332.5	7.7	2,506.0	4,178.1

Parent company statement of cash flows

SEK million	Note	2004	2003
Cash flow from operations			
Net income for the year		-21.2	155.8
Adjustments to reconcile net income/loss to net cash provided by operations			
Income from sales of securities		-15.4	-
Depreciation		10.3	10.4
Change in deferred tax		68.3	30.8
Unrealised exchange difference		-12.6	-119.2
		29.4	77.8
Changes in working capital			
Other short-term receivables		13.6	-216.9
Accounts payable		1.5	-0.3
Other short term liabilities		9.4	-432.6
Net cash flow from operations		53.8	-572.0
Investment activities			
Investment in capital development costs		0.0	-17.3
Investment in shares		-	-554.1
Transactions with Metro International		-	542.6
Proceeds from sales of shares in other companies		24.3	18.9
Cash flow to investing activities		24.3	-9.9
Financing activities			
Receivable from Group companies		209.7	992.2
Receivable from associated companies		-	13.6
Amortisation of debt		-250.0	-400.0
Cash flow from financing activities		-40.3	605.8
Net increase in cash and cash equivalents		37.7	23.8
Cash and cash equivalents at beginning of year		32.8	9.0
Cash and cash equivalents at end of year		70.5	32.8

Notes

Note 1 Accounting and valuation principles

The Company complies with the Swedish Annual Accounts Act and recommendations issued by the Swedish Financial Accounting Standards Council as well as the statements issued by the Emerging Issues Task Force.

The consolidated accounts have been prepared based on the same accounting principles as were applied in the preparation of the 2003 accounts together with the new recommendations from The Swedish Financial Accounting Standards Council – RR29 Employee benefits. This recommendation had no impact on the Group's accounting principles.

CONSOLIDATED ACCOUNTS

The consolidated accounts include the parent company and all subsidiaries and associated companies. All companies in which the Group holds or controls more than 50% of the votes, or in which the Group through agreement solely exercises decisive influence, are consolidated as subsidiaries.

The consolidated accounts for the year were prepared based on the purchase method, as specified in the Annual Accounts Act and recommendations of the Swedish Financial Accounting Standards Council. By this method, the book value of the parent company's shares in each subsidiary is netted against that subsidiary's acquisition value, in other words, the subsidiary's shareholders' equity (including the equity component of untaxed reserves) at the time of acquisition based on a market appraisal of that subsidiary's net assets. The Group's shareholders' equity includes only that part of each subsidiary's equity added after acquisition. The difference between the acquisition value of shares in a subsidiary and the reported shareholders' equity of that subsidiary at the time of acquisition not resulting from differences between market value and book value of assets is reported as goodwill. Goodwill is amortized in accordance with the Swedish Annual Accounts Act and, as a rule, on a straight-line basis over five years. An individual assessment of the economic life of goodwill and surplus values is made for each acquisition, where the Company considers factors such as the foreseeable future for the industry, product life-cycles and the strength of trademarks. This may result in amortization periods longer than five years. According to the assessment made following the acquisition of TV1000 in 2000, the economic life of its goodwill is 20 years.

Profit/loss for the year is charged with tax on taxable earnings for the year ('Current tax') and with tax estimated for the change in temporary differences and tax loss carry-forwards for the year ('Change in deferred tax') in each Group company.

The balance sheets of the Group's foreign subsidiaries are translated into Swedish krona using the exchange rate prevailing on the closing date, while the income statements are translated using an average rate. The resulting translation differences are charged directly to shareholders' equity. Minority interest includes the share of net profit/loss and shareholders' equity. For negative shareholders' equity, a receivable is reported for the minority to the extent that minority owners are expected to contribute their share of the deficit through a binding commitment and have an ability to fulfil this.

ACCOUNTS OF ASSOCIATED COMPANIES

Associated companies are reported based on the equity method. The Group's share of earnings in associated companies' profits or losses after financial items are reported under Profit/loss on shares and participations in associated companies in the income statements. The share of associated companies' tax expense is reported among the Group's tax expenses.

Surplus values on consolidation in foreign associated companies are reported as assets denominated in foreign currencies. These values are translated using the same principles applied to the associated companies' income statements and balance sheets. An associated company is a company in which the Group over the long term exercises considerable influence. Normally, this means companies in which the Group holds voting rights of at least 20% and no more than 50%. This applies to among other CTC Media Inc. (40%) and P4 Radio Hele Norge ASA (40%). Surplus values are attributable to assets in each associated company or to goodwill. Goodwill is amortized over five to twenty years, while other fixed assets are depreciated or amortized based on each asset's estimated economic life. An individual assessment of the economic life of goodwill is made in the same way as for goodwill connected to subsidiaries. This has resulted in amortization periods longer than five years. This is the case with the goodwill of CTC Media Inc., with an economic life of twenty years and for P4 Radio Hele Norge ASA with an economic life of ten years. The final accounts of associated companies are adjusted before the share of earnings is calculated so that the accounts comply with MTG's accounting and valuation principles. When the Group's capital participation in an associated company decreases because of an issue of new shares, the profit or loss is reported in the consolidated income statements under Profit/loss on shares and participations in associated companies. This is analogous to the rules stated in the Swedish Financial Accounting Standards Council's recommendation on reporting issues of new shares in subsidiaries.

Note 1 Accounting and valuation principles continued

REVENUE RECOGNITION

Revenue is recognized at the time the service is performed. Accordingly, the Group reports revenue from:

- TV and radio advertising at the time of broadcast
- Subscription fees for pay TV over the subscription period.
- Cable services as the services are provided to the cable wholesalers, based on the number of subscribers taking the MTG channels, as reported by the cable companies
- Sale of goods and services in accordance with the terms of sales
- Sale of services when the services are provided
- TV productions where recognition is based on the percentage of completion for each project in the same relation as expenses are related to the pre-calculated budget for the entire project
- Film rights when a contract is signed, the product is complete and delivered, and the license term has commenced.
- Distribution rights for films when the films are shown

RECEIVABLES AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's receivables and liabilities that are denominated in foreign currencies are translated into Swedish krona using exchange rates prevailing on the closing date. Realized and unrealized gains/losses on foreign exchange (exchange rate differences) are reported in the income statements. Exchange rate differences attributable to accounts payable or accounts receivable, for example, are reported in operating profit/loss, while differences attributable to loans or investments denominated in foreign currencies are reported under financial items. Exchange rate differences on long term financial loans within the Group are reported directly to equity

CLASSIFICATION

Fixed assets and long term liabilities comprise in all material aspects amounts expected to be recovered or paid after 12 months or more from the closing day. Current assets and short-term liabilities comprise in all material aspects amounts expected to be recovered or paid within 12 months from the closing day.

FIXED ASSETS

Fixed assets are reported net after deductions for accumulated depreciation and amortization according to plan. Depreciation and amortization according to plan are normally calculated on a straight-line schedule based on the acquisition value of the asset and its estimated useful life.

The fixed assets are classified in the following categories:

Goodwill 5–20 years

Capitalized expenditure 3–5 years

Machinery and equipment 3–5 years

Beneficial rights/film rights Estimated revenue period, not always straight-line depreciation

Capitalized expenditure

Capitalized expenditures are depreciated straight-line from the time when the asset started to be used or produced commercially and during the estimated economic life of the asset. Capitalized development expenses refer to software and the like.

Write-downs on fixed assets

The Group continuously appraises the book value of fixed assets. If the present value of the estimated cash flow indicates a decline in the asset's value compared to the book value this warrants a write-down of the difference between the book value and the recoverable value.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

General

Financial assets and liabilities are recorded at the lowest of the acquisition value and the fair value. To the extent that a market value is known, information about this is found in the corresponding note. The stated market values are an indication of the value, not necessarily possible to realize.

Notes

Note 1 Accounting and valuation principles continued

Finance policy

MTG's financing and financial risks are managed under the control and supervision of the Board of Directors. Financial management is centralized to the parent company, which functions as MTG Group's internal bank and is responsible for the management of financing and the financial risk policy. This includes netting and pooling of capital requirements and payment flows in Scandinavia.

Financial risk management

Foreign exchange risk

Foreign exchange risk can be divided into transaction exposure and conversion exposure. In terms of transaction exposure contracted programme acquisition outflows in USD and CHF are hedged on a rolling twelve months basis as of December 2004. Other transaction exposure and conversion exposure is not hedged. The exposure is described in note 28.

Interest rate risk

MTG's sources of funds are primarily shareholders' equity, cash flows from operations and borrowing. The interest-bearing borrowing exposes the Group to interest rate risk.

The maximum interest rate periods for drawings under credit facilities are twelve months.

The bank loan was repaid entirely in June 2004. A new loan facility of SEK 800 million is granted. The convertible debenture loan has a fixed interest rate of 5.5% on the nominal value of EUR 120 million.

Financing risk

MTG AB is rated BB+ stable in credit rating by Standard & Poor's.

The Group has a new available unutilised loan facility of SEK 800 million including guarantees and overdraft facility.

Credit risk

The credit risk with respect to MTG's trade receivables is diversified among a large number of customers, both private individuals and companies. Solvency information is required for all material credit sales to reduce the risk of bad debt expense.

Insurable risks

The insurance cover is governed by corporate guidelines. The business units and other units being responsible for assessing the risks decide the extent of actual cover. In a majority of the Group operations the related Moderna Försäkringar manages most insurances.

Convertible Debenture Loan

The convertible debenture loan is reported as a long-term interest bearing liability in its entirety. The annual interest, 5.5% on the nominal value of EUR 120 million, equals the market rate and there are therefore no difference between the calculated liability and the convertible loan including the option to convert.

The debenture loan expires in June 2006 with a conversion price of SEK 385.97.

ACCOUNTING FOR LEASES

A financial lease is a contract that entails the lessee to a material extent enjoying all economic benefits and bearing all economic risks associated with the asset regardless of whether or not the lessee retains the legal right of ownership of the asset. For financial leases, the leasing asset is reported as a fixed asset and the obligation for future payments as a liability in the lessee's balance sheet. An operating lease is a lease that does not fulfill the conditions for a financial lease. For operating leases, the rental expense is reported in the lessee's accounts distributed equally over the period during which the asset is used, even if the payments are made according to some other schedule. The Group does not have any financial leases.

INVENTORIES

Inventories are valued at the acquisition cost or actual value, whichever is lower.

Note 1 Accounting and valuation principles continued

A significant portion of the amount reported as inventory by the Group refers to the TV channels' catalog of programme rights. Programme rights are reported as inventory when the license period has begun, the programme itself is available for its first broadcast, the cost of the programme is known, and the programme content has been approved by the TV channel. Programme rights invoiced but where the license period has not started are reported as prepaid expenses. Future payments in respect of contractual programme rights that have not yet been reported as inventory are reported as a memorandum item, Note 22. Programme rights are normally acquired for a specific number of runs, which can be played out during a determined license period in certain territories. The programme rights are costed per run according to how revenue is expected to accrue.

During 2004 the accounting has been adjusted from a standardized overall approach to identifying individual programmes. The effect is an adjustment between programme rights, advances to suppliers and accrued programming costs. Further, the amortization policy in the Group's Scandinavian free-air broadcasting business has been changed and a higher proportion of the costs of series and own productions is now expensed at the time of the first run, reflecting the expected shorter lifetime of content.

LOAN EXPENSES

The financial costs relating to loans raised are amortized over the term of the loan.

CORPORATE INCOME TAX

Tax expenses reported includes actual Swedish and foreign corporate income taxes and deferred tax arising from temporary differences between accounts for financial reporting and accounts for tax assessment, calculated using the liability method. Such temporary differences are caused mainly by differences between taxable value and the reported value of assets and liabilities. A deferred tax asset is reported corresponding to the value of loss carry-forwards if it is judged likely that they will be applied to taxable income in the foreseeable future. Deferred tax expenses and revenues resulting from temporary differences arising during the period are reported in the consolidated income statements in the line item Change in deferred tax.

PENSIONS

There are mainly defined-contribution pension plans within the Group. The Group's payments to defined-contribution plans are reported as costs in the period when the employee performed the services to which the fee relates.

Defined-benefit plans exist in Norway and in Sweden for the personnel in one of the subsidiaries. In Norway, independent actuaries calculate the sizes of the obligations each plan has. The estimates are made using the so-called projected unit credit method in a way that distributes the costs over the employee's working life. The obligation is revaluated each year. The obligations are valued at the present value of the expected future payments using a discounting interest rate corresponding to the interest rate on first-class corporate or government bonds. The obligation are reported as accruals and as costs in the period when the employee performed the services to which the fee relates.

The Swedish subsidiary has defined-benefit plans in Alecta, a multi-employer defined-benefit plan. The Group reports these pension costs as defined contribution plans, in accordance with the statement issued by the Emerging Issues Task force of the Swedish Financial Accounting Standards Council.

GROUP CONTRIBUTIONS

The parent company reports Group contributions in accordance with the statement issued by the Emerging Issues Task force of the Swedish Financial Accounting Standards Council. Group contributions are therefore reported according to their economic reality, namely having the purpose of minimizing the Group's tax burden. Since they do not constitute consideration for fulfillment of services, they are taken directly to equity after deducting the tax component.

BARTER TRANSACTIONS

Barter entails the exchange of air time on TV or radio for other goods or services. Barter transactions are reported at the market value of the goods or services involved. The market value is determined by agreements made with other customers for the same type of transactions. Revenues from barter transactions are reported when the commercial is broadcast. Expenses are reported when the goods or service is consumed.

Notes

Note 2 Business segments

The business is primarily divided into four (five) business segments. Viasat Broadcasting is a commercial free-to-air and pay-TV broadcaster in Scandinavia and in Central and Eastern Europe. Viasat Broadcasting also includes teletext operations in Scandinavia and Spain. MTG Radio operates commercial radio stations in Sweden, Estonia, Latvia and Lithuania, and owns equity stakes in Norwegian and Finnish national commercial radio networks. Home Shopping operates in TV home shopping and internet retailing. Modern Studios produces and distributes films, television programmes and produces and manages events mainly in Scandinavia and the United States. The group also publishes books and customer magazines. SDI Media, which was sold during the year, provided language versioning and localisation services to the entertainment industry in North and South America, Europe, the Middle East, Far East and most of Asia.

The stated figures for 2004 and 2003 are based on the same operational structure.

SEK million	2004	2003
Business area		
External sales		
<i>Free-to-air</i>	2,993.5	2,574.0
<i>Pay-TV</i>	2,124.6	1,998.1
<i>Others</i>	83.6	78.9
Viasat Broadcasting	5,201.7	4,651.1
MTG Radio	213.7	171.4
Home Shopping	825.7	733.5
Modern Studios	438.3	440.1
Parent company and other companies	3.3	2.5
SDI Media and discontinued businesses	153.1	312.7
Total	6,835.7	6,311.2
Internal sales		
<i>Free-to-air</i>	9.8	11.7
<i>Pay-TV</i>	0.8	1.0
Viasat Broadcasting	10.6	12.7
MTG Radio	2.6	2.7
Home Shopping	2.9	4.5
Modern Studios	390.4	297.3
Parent company and other companies	112.3	100.1
SDI Media and discontinued businesses	34.1	51.3
Total	553.0	468.6

Internal sales are sales revenues between business areas, primarily sales from the Modern Studios and SDI Media business areas to the Viasat Broadcasting business area. Such sales are made at market prices.

Note 2 Business segments continued

SEK million	2004	2003
Operating income/loss		
<i>Free-to-air</i>	175.0	31.8
<i>Pay-TV</i>	305.8	505.1
<i>Others and associated companies</i>	170.6	115.9
Viasat Broadcasting	651.4	652.9
MTG Radio	-1.8	-28.2
Home Shopping	15.4	9.2
Modern Studios	86.0	57.3
Parent company and other companies	-122.9	-172.7
SDI Media and discontinued businesses	20.6	33.1
Net gain from sale of SDI Media	380.7	-
Write-down beneficial rights Modern Entertainment	-66.3	-
Eliminations	-9.6	-9.6
Total	953.6	542.0
of which, share of earnings in associated companies		
Viasat Broadcasting	140.4	92.8
MTG Radio	11.8	-11.8
Parent company and other companies	1.7	-12.0
Total	153.9	69.0
	31 Dec 2004	31 Dec 2003
Total assets		
<i>Free-to-air</i>	1,758.9	1,475.0
<i>Pay-TV</i>	1,580.0	1,469.8
<i>Others</i>	1,199.5	380.1
Viasat Broadcasting	4,538.4	3,324.9
MTG Radio	103.9	123.1
Home Shopping	268.0	267.0
Modern Studios	265.3	414.6
SDI Media and other discontinued businesses	5.7	141.3
Parent company and other companies	921.2	1,054.8
Total	6,102.5	5,325.7
Deferred tax receivables	233.6	390.1
Total assets reconciled	6,336.1	5,715.9
<i>Of which, total share of equity in associated companies (incl in total assets)</i>		
Viasat Broadcasting	794.1	284.5
MTG Radio	92.1	60.3
Parent company and other companies	4.0	2.5
Total	890.2	347.3
Investments in fixed assets	2004	2003
<i>Free-to-air</i>	31.5	18.3
<i>Pay-TV</i>	24.9	17.5
<i>Others</i>	0.2	-
Viasat Broadcasting	56.6	35.9
MTG Radio	3.4	0.8
Home Shopping	0.1	0.2
Modern Studios	45.1	80.6
SDI Media and discontinued businesses	1.4	1.0
Parent company and other companies	0.0	16.8
Total	106.6	135.3

Notes

Note 2 Business segments continued

SEK million

31 Dec 2004 31 Dec 2003

Depreciation and amortisation by business area is shown in note 5.

Total liabilities

Free-to-air	899.5	603.9
Pay-TV	1,030.2	1,016.3
Others	18.4	17.2

Viasat Broadcasting	1,948.2	1,637.4
MTG Radio	50.2	50.8
Home Shopping	166.1	162.8
Modern Studios	233.3	203.5
SDI Media and other discontinued businesses	0.2	44.7
Parent company and other companies	1,181.7	1,427.3

Total	3,579.5	3,526.6
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Shareholders' equity including minority interest	2,715.0	2,145.0
Deferred tax liabilities	2.8	4.0
Current tax liability	38.8	40.4

Total shareholders' equity and liabilities	6,336.1	5,715.9
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Geographic distribution

External sales

Sweden	2,563.1	2,337.9
Norway	1,190.2	1,093.2
Denmark	1,873.6	1,664.3
Rest of Europe	1,076.1	991.4
North America	112.4	172.5
South America	2.0	2.9
Asia	18.0	48.9
Africa	0.3	0.3

Total	6,835.7	6,311.3
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Total assets

Sweden	3,133.9	2,372.6
Norway	363.3	216.5
Denmark	279.0	220.2
Rest of Europe	3,720.2	3,501.2
North America	75.3	152.4
Asia	-	12.5
Eliminations	-1,469.2	-1,149.6

Total	6,102.5	5,325.7
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Deferred tax receivables	233.6	390.1
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Total assets reconciled	6,336.1	5,715.9
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Investments in fixed assets

Sweden	64.4	108.7
Norway	0.2	0.3
Denmark	7.8	1.3
Rest of Europe	25.5	17.9
North America	8.7	6.8
Asia	0.1	0.4

Total	106.6	135.3
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Note 2 Business segments continued

Net sales by type

	2004	2003
Advertising revenue	2,715.9	2,314.3
Subscription fees	2,587.3	2,331.6
Consumer goods	832.2	711.9
Services, production and other	633.4	888.7
Barter	66.9	64.7
Total	6,835.7	6,311.3

Discontinued businesses

On July 2, 2004, the SDI Media business group was divested. The effects of this on the remaining businesses are the following:

Income statement	Remaining businesses		Discontinued business		Total	
	2004	2003	2004	2003	2004	2003
Net sales	6,682.6	5,998.6	153.1	312.7	6,835.7	6,311.3
Operating expenses	-6,130.3	-5,489.7	-132.5	-279.6	-6,262.7	-5,769.3
Net gain from sale of SDI Media	380.7	-	-	-	380.7	-
Operating income	933.0	508.9	20.6	33.1	953.6	542.0
Interest and other financial income/expenses	-32.5	-172.9	-0.9	6.1	-33.4	-166.8
Net income before tax	900.5	336.0	19.7	39.2	920.2	375.2
Tax	-254.2	-72.2	-12.0	-20.0	-266.3	-92.2
Minority	0.1	6.1	0.0	0.2	0.1	6.3
Net income	646.4	269.9	7.7	19.4	654.0	289.3
Balance sheet						
Fixed assets	3,045.0	2,853.2	-	25.4	3,045.0	2,878.6
Inventory	1,231.0	1,122.2	-	13.4	1,231.0	1,135.6
Current assets	1,486.0	1,237.8	-	62.0	1,486.0	1,299.8
Liquid funds	574.2	361.5	-	40.4	574.2	401.9
Assets	6,336.1	5,574.8	-	141.1	6,336.2	5,715.9
Equity	2,713.5	2,065.5	-	79.5	2,713.5	2,145.0
Minority interest	1.5	1.3	-	0.7	1.5	2.0
Provisions	87.3	232.9	-	0.5	87.3	233.4
Long-term liabilities	1,092.6	1,107.2	-	0.8	1,092.6	1,107.9
Current liabilities	2,441.2	2,168.0	-	59.6	2,441.2	2,227.6
Shareholders' equity and Liabilities	6,336.1	5,574.8	-	141.1	6,336.1	5,715.9

Note 3 Non-recurring costs

Group

The following non-recurring costs are included in cost of goods and services and in other operating expenses:

SEK million	2004	2003
Cost of goods and services		
Costs STIM ruling 1993-1998	55.0	-38.0
Change in programme inventory policies	-75.0	-
Cost of goods and services	-20.0	-38.0
Other operating expenses		
Write-down Viaccess encryption pay-TV cards	-	-29.0
Other operating expenses	0.0	-29.0
Write-down beneficial rights Modern Entertainment	-66.3	-
Total non-recurring costs	-86.3	-67.0

Notes

Note 3 Non-recurring costs continued

The Stockholm City Court ruled in December 2003 that TV3 must pay SEK 74 million to STIM in royalty payments for music broadcast by TV3 between 1993–1998 plus accumulated interest. These payments were in addition to approximately SEK 20 million already paid for this period. TV3 was also imposed the litigation costs incurred by STIM of SEK 6 million. Total payment due according to the ruling exceeded previous provisions made by SEK 38 million, interest expense excluded. The ruling was appealed. In December 2004, an agreement was reached with STIM with regard to the outstanding royalty payments for music broadcast by TV3 between July 1, 1993 and December 31, 2004. An agreement was also reached with STIM on the structure for royalty payments for the future period from January 1, 2005 until the end of 2007. The payments to STIM were SEK 55 million lower than the provisions made and thus have a positive impact on the net income during 2004.

The programme inventory accounting and amortization policies were changed in the Group's Scandinavian free-to-air and pay-TV broadcasting business. The policy requires that a higher proportion of the costs of series and own productions are expensed at the time of the first run, reflecting the expected shorter lifetime of such content. The valuation change had a negative impact of SEK 75 million.

A write-down of redundant Viaccess encryption pay-TV smart cards were made with SEK 29 million in 2003. The cards became obsolete when the NDS VideoGuard encryption system was implemented.

Note 4 Income/loss from business development

SEK million	2004	2003
Group		
Sales of shares in group companies	380.7	–
Sales of shares in other companies	–	–0.4
Total	380.7	–0.4

Income from business development includes capital gains/loss on the sale of shares in subsidiaries and associated companies and similar transactions.

Note 5 Depreciation and amortisation

SEK million	2004	2003
Group		
Depreciation by asset category		
Capitalised development expenses	14.9	14.7
Beneficial rights	137.4	68.2
Goodwill	109.2	100.9
Machinery and other technical plant	3.5	9.8
Equipment, tools and installations	45.5	75.7
Total	310.5	269.3
Depreciation by function		
Cost of goods and services	88.2	79.8
Selling expenses	0.0	0.1
Administrative expenses	32.2	27.2
Other operating expenses	123.9	162.3
Write-down beneficial rights Modern Entertainment	66.3	–
Total	310.5	269.3

Note 5 Depreciation and amortisation continued

SEK million	2004	2003
Depreciation by business area		
Free-to-air	69.4	69.1
Pay-TV	53.9	76.2
Others	1.0	6.0
Viasat Broadcasting	124.3	151.2
MTG Radio	4.3	4.5
Home Shopping	3.1	13.4
Modern Studios	138.7	71.0
SDI Media	18.5	7.7
Parent company and other	21.5	21.4
Total	310.5	269.3
Depreciation by geographical area		
Sweden	123.1	130.2
Norway	0.1	8.6
Denmark	3.6	7.7
Rest of Europe	82.6	88.1
North America	101.0	33.1
Asia	0.2	1.6
Total	310.5	269.3
Parent company		
Depreciation by asset category		
Capitalised development expenses	10.2	10.3
Equipment, tools and installations	0.1	0.2
Total	10.3	10.4
Depreciation by function		
Administrative expenses	10.3	10.4
Total	10.3	10.4

Notes

Note 6 Share of earnings in associated companies

SEK million	%	2004	2003
Group			
Everyday Webguide AB	–	–	–13.5
Mediamätning i Skandinavien MMS AB	43	1.7	1.4
P4 Radio Hele Norge ASA	40	13.0	–7.5
Radio National i Luleå AB	49	0.1	–0.9
Radio National i Skellefteå AB	49	–0.2	–0.8
Radioindustri Xerkses i Borås AB	49	0.0	–1.6
ScanSat A/S	–	–	–0.8
Svensk Programagentur AB	50	5.0	5.2
Finland Radio Investment AS	50	–0.9	–0.9
Gigahertz KB	33	–0.1	–0.1
CTC Media, Inc.	40	135.8	88.4
Nordic Betting Ltd	20	–0.4	–
Total		153.9	69.0

Associated companies are reported based on equity accounting. The share of earnings is equal to the MTG Group's share in the profit/loss after financial items in each associated company after conversion into Swedish Krona and after adjustments to MTG's accounting principles (when necessary), less amortisation of goodwill on consolidation generated when MTG acquired that shareholding. The calculation of share in profit/loss are based on the latest available accounts, which in all cases but for P4 Radio Hele Norge ASA, are prepared on December 31, 2004. The figures for P4 Radio Hele Norge ASA are based on the interim report of September 30, 2004.

Note 7 Financial items

SEK million	2004	2003
Group		
Proceeds from sales of subscription right certificates Metro Intl	–	18.9
Proceeds from sales of shares in Metro Intl	15.4	–
Proceeds from sales of shares in other companies	0.3	0.2
Proceeds from sales of shares in subsidiaries	–	1.0
Total	15.7	20.1
Interest revenue	11.3	41.4
Total interest revenue and other financial income	27.0	61.5
Interest expense	–11.7	–50.4
Interest relating to music rights provision	12.6	–32.6
Exchange rate differences	–0.5	–82.7
Other	–25.5	–29.4
Total	–25.1	–195.2

The Stockholm City Court ruled in December 2003 that TV3 must pay SEK 74 million to STIM in royalty payments for music broadcast by TV3 between 1993–1998 plus accumulated interest of SEK 32.6 million. The ruling was appealed and in December 2004 the company reached an agreement with STIM for the years 1993–2004 and a new agreement valid from January 1, 2005 until 2007.

Note 7 Financial items continued

SEK million	2004	2003
Parent company		
Proceeds from sales of subscription right certificates Metro Intl	–	18.9
Proceeds from sales of shares in Metro Intl	15.4	–
Total	15.4	18.9
Interest revenue from external parties	2.8	15.9
Interest revenue from subsidiaries	197.1	297.3
Total	199.9	313.2
Interest expense to external parties	–5.8	–21.7
Interest expense to subsidiaries	–21.6	–48.3
Exchange rate differences	–6.7	36.5
Other	–17.3	–17.1
Total	–51.4	–50.5

Hedging positions are taken to protect the Group against the effects of transaction exposures in the contracted outflow of US dollars and Swiss Francs on a rolling twelve month basis. This was done for the first time in December 2004. There are no hedging positions in the parent company.

Other financial expenses in the Group and the parent company include depreciation of capitalised borrowing costs for the convertible debenture of EUR 120 million and costs for guarantees, in total these costs amounted to 16,8 MSEK in 2004.

Note 8 Taxes

SEK million	2004	2003
Distribution of profit/loss before tax and minority interest		
Sweden	558.9	286.5
Norway	112.8	125.9
Denmark	37.5	77.4
United Kingdom	65.5	–158.4
Other countries	258.5	184.5
Eliminations	–113.1	–140.8
Total	920.2	375.2
Distribution of tax expense		
Current tax		
Sweden	–19.3	–13.0
Norway	–14.3	–41.4
Denmark	–11.0	–29.1
United Kingdom	18.2	29.9
Other countries	–80.5	–49.8
Total	–107.0	–103.5

Notes

Note 8 Taxes continued

SEK million	2004	2003
Deferred tax		
Sweden	-100.7	-33.0
Norway	-23.4	6.3
Denmark	-2.2	-2.6
United Kingdom	-32.1	37.6
Other countries	-0.8	2.9
Eliminations	-	-
Total	-159.3	11.3
Grand Total	-266.3	-92.2

	31 Dec 2004	31 Dec 2003
Deferred tax receivable		
Sweden	199.9	298.6
Norway	8.5	31.5
Denmark	15.2	17.5
United Kingdom	4.5	38.1
Other countries	5.5	4.5
Total	233.6	390.1
Deferred tax liabilities		
Sweden	-	-
Norway	0.2	-
Denmark	-	-
United Kingdom	-	-
Other countries	2.6	4.0
Total	2.8	4.0

Deferred tax net receivable

The movement in deferred tax net receivable is explained below:

	Opening balance	Deferred tax expense	Translation differences	Closing balance
Tax loss carryforwards	363.7	-157.1	0.2	206.8
Temporary differences in:				
Equipment	-7.8	8.9	2.0	3.0
Inventory	-	0.8	-	0.8
Current short term receivables	23.9	-18.9	0.0	5.0
Current short term liabilities	6.4	7.1	1.7	15.2
	386.1	-159.3	3.9	230.8

The closing balance deferred tax receivable comprises deferred tax receivables of SEK 233.6 million and deferred tax liabilities of SEK 2.8 million.

The Group had loss carry-forwards without expiration date of SEK 742.3 million at December 31, 2004. The accounts for 2004 include deferred tax receivable as a tax value of the loss carry-forwards in all countries where it is judged likely that the Group will be able to apply its loss carry-forwards to a taxable surplus. As a consequence, deferred tax receivable is not reported in some countries.

Note 8 Taxes continued

Unrecognised net operating loss carry-forwards by expiry date

(SEK million)

2005	6.3
2006	0.9
2007	0.4
2008	–
2009 and thereafter	0.3
No expiry date	157.2
Total	165.0

Reconciliation of tax expense

	2004	(%)	2003	(%)
Tax/Tax rate in Sweden	–257.7	–28.0	–105.1	–28.0
Non-deductible expenses	–20.0	–2.2	–39.3	–10.5
Non-taxable income	115.1	12.5	12.7	3.4
Non-deductible amortization of goodwill	–18.1	–2.0	–15.7	–4.2
Non-deductible write-down of beneficial rights	–18.6	–2.0	–	–
Foreign tax rate differential	7.2	0.8	3.2	0.8
Effect of loss carry-forwards	4.5	0.5	60.2	16.0
Losses where no tax benefit was recognized	–20.3	–2.2	–8.2	–2.2
Revalued tax loss carry forwards	–23.5	–2.6	–	–
Other	–35.0	–3.8	–	–
Effective tax/tax rate	–266.2	–28.9	–92.2	–24.6

Parent company

The accounts for 2004 consist of deferred tax receivables of 187.0 MSEK corresponding to 28% of the loss carry forwards without expiration date allocated to the parent company.

	2004	2003
Current tax relating to Group contributions	50.5	60.7
Deferred tax	–68.3	–30.8
Total tax	–17.8	29.9

	31 Dec 2004	31 Dec 2003
Deferred tax receivable	187.0	255.3

Notes

Note 9 Intangible assets

SEK million	Group			Parent company
	Capitalised development expenses	Beneficial rights	Goodwill	Capitalised development expenses
Acquisition values brought forward	75.4	492.0	1,504.2	50.0
Change in Group structure, reclassifications etc	0.3	-0.7	-	0.2
Investments during the year	21.5	39.3	27.8	-
Divestment/retirement during the year	-8.2	-0.8	-	-
Translation differences	0.0	-19.1	-	-
Acquisition values carried forward	88.9	510.7	1,532.0	50.1
Accumulated depreciation brought forward	-42.5	-196.0	-658.7	-27.3
Changes in Group structure, reclassifications etc	-0.2	-4.4	-	-0.2
Divestment/retirement during the year	5.2	0.7	-	-
Depreciation during the year	-13.6	-58.8	-108.7	-10.2
Write-down during the year	-1.3	-78.6	-0.5	-
Translation differences	0.0	13.4	-	-
Accumulated depreciation carried forward	-52.4	-323.6	-767.9	-37.7
Residual value carried forward	36.5	187.1	764.1	12.4

Note 10 Tangible assets

SEK million	Group		Parent company
	Machinery, technical plant	Equipment, tools	Equipment, tools
Acquisition values brought forward	54.8	561.2	3.1
Change in Group structure, reclassifications etc	12.8	-30.4	-
Investments during the year	3.3	37.7	0.0
Divestment/retirement during the year	-6.2	-25.7	-
Translation differences	0.2	-0.5	-
Acquisition values carried forward	64.9	542.3	3.1
Accumulated depreciation brought forward	-53.6	-424.9	-3.0
Changes in Group structure, reclassifications etc	-4.3	21.9	-
Divestment/retirement during the year	6.2	12.7	-
Depreciation during the year	-3.5	-44.9	-0.1
Write-down during the year	-	-0.6	-
Translation differences	-0.2	0.3	-
Accumulated depreciation carried forward	-55.3	-435.6	-3.1
Residual value carried forward	9.6	106.7	0.1

Note 11 Long-term financial assets

Shares in subsidiaries (held by parent company)

(SEK million)	Co. Reg. No.	Registered office	Number of shares	Share capital (%)	Voting rights (%)	Book value
MTG Broadcasting SA		Luxembourg	1,000	100	100	0.3
MTG Radio SA		Luxembourg	1,000	100	100	0.3
MTG Publishing SA		Luxembourg	1,000	100	100	0.3
MTG Electronic Retailing SA		Luxembourg	1,000	100	100	0.3
MTG Media Services SA		Luxembourg	1,000	100	100	0.3
Subtitling & Dubb Intl SA		Luxembourg	1,000	100	100	0.3
MTG Holding AB	556057-9558	Stockholm	5,000	100	100	101.9
MTG AS Norge		Norway	82,300	100	100	32.7
						136.4

Shares in subsidiaries (Within the Group)

(SEK million)	Co. Reg.No.	Registered office	Share capital (%)	Voting rights (%)
MTG Broadcasting SA		Luxembourg	100	100
MTG Broadcasting Holding AB	556580-7806	Stockholm	100	100
MTG Broadcasting AB	556353-2687	Stockholm	100	100
TV6 Sverige AB	556098-4709	Stockholm	100	100
ZTV AB	556022-0831	Stockholm	100	100
Viasat AB	556304-7041	Stockholm	100	100
TV1000 AB	556133-5521	Stockholm	100	100
TV1000 Norge AS		Norway	100	100
TV1000 Finland Oy		Finland	100	100
Viasat Satellite Service AB	556278-7910	Stockholm	100	100
MTG Broadcast Centre Stockholm AB	556493-2340	Stockholm	100	100
Strix Nyheter AB	556513-5554	Stockholm	100	100
Viasat AS Estonia		Estonia	100	100
Eesti Vaba Television ETV		Estonia	100	100
Televisionsaktiebolaget TV8	556507-2401	Stockholm	100	100
UAB TV3 Lithuania		Lithuania	100	100
TV3 Estonia AS		Estonia	100	100
Viasat Hungária Rt		Hungary	95	95
Viasat Broadcasting UK Ltd		United Kingdom	100	100
3+ Television Ltd		United Kingdom	100	100
TV3 Broadcasting Group Ltd		United Kingdom	100	100
TV3 AB	556153-9726	Stockholm	100	100
TV3 A/S Danmark		Denmark	100	100
TV3 AS Norge		Norway	100	100
Darial TV ZAO		Russia	100	100
TV3 Latvia SIA		Latvia	100	100
MTG Modern Group Espana SL		Spain	100	100
In TV Espana SL		Spain	100	100
Interactive Partner SL		Spain	100	100
Interactive Media Solutions SL		Spain	100	100
MTG New Media Ltd		United Kingdom	100	100
Modern Sport and Event Ltd		United Kingdom	100	100
Felista ZAO		Russia	100	100
Nomad ZAO		Russia	100	100
Modern Russia ZAO		Russia	100	100
Viasat World Ltd		United Kingdom	100	100
Viasat Holding ZAO		Russia	100	100
Zollen ZAO		Russia	100	100
Premi ZAO		Russia	100	100

Notes

Note 11 Long-term financial assets continued

(SEK million)	Co. Reg.No.	Registered office	Share capital (%)	Voting rights (%)
MTG Radio SA		Luxembourg	100	100
MTG Radio Holding AB	556580-7814	Stockholm	100	100
MTG Radio AB	556365-3335	Stockholm	100	100
KiloHertz AB	556444-7158	Stockholm	100	100
Production of World Entertainment				
Radio in Sweden AB	556307-3476	Stockholm	100	100
MTG XLformat AB	556469-8263	Stockholm	100	100
Star FM SIA		Latvia	100	100
Mediainvest Holding AS		Estonia	100	100
UAB TV3 Radio Lithuania		Lithuania	100	100
MTG Radio Sales AB	556490-7979	Stockholm	100	100
MTG Frekvens AB	556514-3103	Stockholm	100	100
MTG Lugna Favoriter AB	556517-9669	Stockholm	100	100
MTG FM 101,9 i Stockholm AB	556438-4062	Stockholm	100	100
MTG Moneypenny Productions AB	556491-9685	Stockholm	100	100
MTG Publishing SA		Luxembourg	100	100
MTG Publishing Holding AB	556580-7798	Stockholm	100	100
MTG Publishing AB	556457-2229	Stockholm	100	100
FinansVision AB	556301-5014	Stockholm	100	100
Moderna Tider Förlags AB	556401-4941	Stockholm	99	99
OY MTG Publishing Åland AB		Åland	100	100
MTG Publishing Media AB	556426-8745	Stockholm	100	100
Vision Direkt i Stockholm AB	556533-8372	Stockholm	100	100
MTG Publishing bv		The Netherlands	100	100
MTG Electronic Retailing SA		Luxembourg	100	100
MTG Electronic Retailing Holding AB	556580-7749	Stockholm	100	100
MTG Modern Interactive AB	556035-6940	Stockholm	100	100
e-Commerce Logistics i Malmö AB	556465-9950	Stockholm	100	100
Entertainment Distribution Enterab AB	556406-1702	Stockholm	100	100
MTG Internet Retailing bv		The Netherlands	100	100
TV-Shop Europe AB	556497-0019	Malmö	100	100
TV Shop Homeshopping Oy		Finland	100	100
TV Shop Lithuania SA		Lithuania	100	100
Mediashop bv		The Netherlands	100	100
Mediashop SA		Luxembourg	100	100
TV Shop SA		Luxembourg	100	100
TV Shop Nederland bv		The Netherlands	100	100
TV Shop AS Norge		Norway	100	100
TV Shop Polska Sp Zoo		Poland	100	100
TV Shop Europe GmbH		Germany	100	100
Unimedia GmbH		Germany	100	100
No Name 4 Us AB	556558-5147	Malmö	100	100
TV Shop Broadcasting Ltd		United Kingdom	100	100
TV Shop Portugal Ltda		Portugal	100	100
TV Shop Spain SL		Spain	96	96
CDON AB	556308-2105	Stockholm	100	100

Note 11 Long-term financial assets continued

(SEK million)	Co. Reg.No.	Registered office	Share capital (%)	Voting rights (%)
MTG Media Services SA		Luxembourg	100	100
MTG Media Services Holding AB	556580-7848	Stockholm	100	100
Modern Studios AB	556264-3261	Stockholm	100	100
Modern Entertainment, Ltd		United States	100	100
Nordic Artist AB	556422-1447	Stockholm	100	100
Sonet Film AB	556103-7283	Stockholm	100	100
MTG Modern TV AB	556419-9544	Stockholm	100	100
Redaktörerna i Stockholm AB	556472-8425	Stockholm	100	100
Brombergs Bokförlag AB	556204-4627	Stockholm	99	99
Financial Hearing AB	556361-7405	Stockholm	100	100
Strix Television AB	556345-5624	Stockholm	100	100
Strix Televisjon AS		Norway	100	100
MTG Modern Games AB	556146-9700	Stockholm	100	100
MTG Filmproduktion AB	556323-0670	Stockholm	100	100
Sonet Film International Ltd		United Kingdom	100	100
Subtitling & Dubb Intl SA		Luxembourg	100	100
MTG Media Services AB	556580-7509	Stockholm	100	100
MTG Media AB	556170-2217	Stockholm	100	100
MTG Holding AB		Stockholm	100	100
Bäckegrube AB	556170-7752	Stockholm	100	100
Scansat Intressenter AB	556353-2679	Stockholm	100	100
MTG Accounting AB	556298-5597	Stockholm	100	100
Applied Sales Management ASM AB	556513-5547	Stockholm	100	100
Svithjod News AB	556504-7551	Stockholm	100	100
Kinnevik Media International AB	556339-8014	Stockholm	100	100
DVDON AB	556237-4628	Stockholm	100	100
Gamerson AB	556052-4174	Stockholm	100	100
MTG Modern Merchandising AB	556400-1476	Stockholm	100	100
Senaste Nytt på Nätet SNN AB	556448-0076	Stockholm	100	100
Everymobile Skandinavien AB	556529-7917	Stockholm	100	100
Skybus AB	556098-4691	Stockholm	100	100
SatTrans KB	916624-2512	Stockholm	100	100
Staden Staden AB	556205-6449	Stockholm	100	100
Everytext Skandinavien AB	556484-0154	Stockholm	100	100
Everyday TV AB	556353-3065	Stockholm	100	100
MTG A/S Danmark		Denmark	100	100
TV Shop A/S Danmark		Denmark	100	100
Strix Television A/S Danmark		Denmark	100	100
ViaSat A/S Danmark		Denmark	100	100
Viasat Sport A/S		Denmark	100	100
Freeport Film A/S		Denmark	100	100
MTG New Media A/S Danmark		Denmark	100	100
TV1000 Danmark A/S		Denmark	100	100
TV Holding International SA		Luxembourg	100	100
TV Shop i Sverige AB	556374-8176	Stockholm	100	100
MTG New Media AB	556461-1662	Stockholm	100	100
MTG New Media A/S		Norway	100	100
Modern Betting Ltd		Malta	100	100
MTG AS Norge		Norway	100	100
Viasat AS Norge		Norway	100	100
Metro Norge AS		Norway	100	100

Notes

Note 11 Long-term financial assets continued

Shares in associated companies	Co. Reg. No.	Registered office	Number of shares	Share capital (%)	Voting rights (%)	Book value	Market value
(held by parent company)							
CTC Media Inc.		USA	–	29	29	202.7	
Both the parent company and its subsidiary hold shares in CTC Media Inc. of in total 40%							
Shares in associated companies (within the Group)							
Everyday Webguide AB	556182-6016	Stockholm	1,750	0	0	0.0	
Forum och Marknad							
107,7 i Nyköping HB	969651-4125	Nyköping	–	33	33	0.0	
GigaHertz 106,7 i Malmö HB	969651-2970	Malmö	–	33	33	0.0	
GH GigaHertz KB	969616-7551	Göteborg	–	33	33	2.1	
Göteborg Air 105,9 HB	969661-0600	Göteborg	–	33	33	0.0	
Jönköpings Reklamradio 106,0 HB	969651-3739	Jönköping	–	33	33	0.0	
Mediamätning i Skandinavien MMS AB	556353-3032	Stockholm	2,150	43	43	4.0	
P4 Radio Hele Norge asa		Norway	12,798,328	40	40	66.8	254.8
Power i Stockholm HB	969651-2236	Stockholm	–	33	33	0.0	
Radio 2000 107,6 Helsingborg HB	969651-5015	Helsingborg	–	33	33	0.0	
Radio Air							
104,5 i Hällby och Eskilstuna HB	969651-1980	Eskilstuna	–	33	33	0.0	
Radio National i Luleå AB	556475-0411	Stockholm	490	49	49	0.0	
Radio National i Skellefteå AB	556475-0346	Stockholm	490	49	49	–0.2	
Radio Storpannan							
104,8 i Göteborg HB	969651-2228	Göteborg	–	33	33	0.0	
Reklammedia							
104,4 i Kil och Karlstad HB	969651-4109	Karlstad	–	33	33	0.0	
Reklammedia							
107,3 i Kristianstad HB	969651-3697	Kristianstad	–	33	33	0.0	
Rix i Borås AB	556034-4391	Borås	490	49	49	0.0	
Rix i Skandinavien AB	556475-3670	Stockholm	500	50	50	0.0	
Stop AB	556488-3069	Stockholm	500	50	50	0.0	
Svensk Programagentur AB	556453-6281	Göteborg	4,270	50	50	5.0	
Trestad Air 105,0 HB	969651-2715	Vänersborg	–	33	33	0.0	
Växjö Reklamradio 104,3 HB	969651-1972	Växjö	–	33	33	0.0	
Z-Radio 101,9 HB	969651-2269	Stockholm	–	33	33	0.0	
Östersund Air 104,0 HB	969651-2681	Östersund	–	33	33	0.0	
FRI Finland Radio Investment AS		Norway	750	50	50	23.5	
Kimtevill HB	969680-2272	Stockholm	–	33	33	0.0	
Nordic Betting Ltd		Malta	497	20	20	–0.4	
CTC Media Inc.		USA	75,039	40	40	789.6	
						890.2	

Note 11 Long-term financial assets continued

Reconciliation of the book value of shares in associated companies (within the Group)

SEK million	31 Dec 2004	31 Dec 2003
Balance brought forward January 1	347.3	302.7
Investment in associated companies	476.9	9.1
Share of earnings in associated companies as per note 6	153.9	69.0
Share of tax expense in associated companies	-51.8	-14.8
Dividend received	-3.4	-10.5
Reclassified	-0.2	15.0
Liquidation of company	-	-1.2
Translation differences	-32.6	-22.1
Balance carried forward December 31	890.2	347.3

Shares and participations in other companies (within the Group)

SEK million	Co. Reg. No.	Registered office	Number of shares	Share capital (%)	Voting rights (%)	Book value	Market value
Metro International S.A.		Luxembourg	146,968,313	28	19	633.8	2,183.8
TV4 AB		Stockholm	3,020,013	15	15	124.5	447.0
Other						5.1	
						763.4	

Shares and participations in other companies (held by parent company)

Metro International S.A.	Luxembourg	146,968,313	28	19	633.8	2,183.8
Other					0.4	
					634.2	

On August 15, 2000, all shares in Metro International S.A. were distributed to the shareholders of MTG. In 2002 MTG's remaining interest in Metro consisted of a convertible debenture loan totalling US\$ 22.1 million, a commercial loan of US\$ 23.5 million plus a convertible debenture loan of US\$ 20.0 million, which was added in 2002. In 2003 all loans were converted to shares. In July 2004 2,220,629 A shares in Metro were sold to Kinnevik.

Note 12 Inventory

	2004	2003
Finished goods and merchandise	108.1	112.7
Services	0.3	11.6
Programme rights	1,122.6	1,011.3
Total inventory	1,231.0	1,135.6

Inventories are valued at the acquisition cost or actual value, whichever is lower. During 2004 the accounting for programme rights has been adjusted from a standardized overall approach to indentifying individual programmes. The effect is an adjustment between programme rights, advances to suppliers and accrued programming costs. Further, the amortization policy in the Group's Scandinavian free-to-air broadcasting business has been changed and a higher proportion of the costs of series and own productions is now expensed at the time of the first run, reflecting the expected shorter lifetime of content.

Notes

Note 13 Accounts receivable

SEK million

31 Dec 2004 31 Dec 2003

Group		
Accounts receivable		
Gross accounts receivable	768.5	864.7
Less allowances for doubtful accounts	-92.9	-143.4
Total	675,6	721.3
Allowance for doubtful accounts		
Balance at beginning of year	143.4	106.9
Charged to allowance and expenses	33.4	53.8
Write-offs	-83,9	-17,3
Balance at end of year	92.9	143.4
Parent company		
Gross accounts receivable	3.8	5.2
Less allowances for doubtful accounts	-0.4	-0.7
Total	3.4	4.5

Note 14 Prepaid expense and accrued income

SEK million

31 Dec 2004 31 Dec 2003

Group		
Prepaid transponder costs	13.0	13.2
Prepaid financing costs	18.5	31.3
Prepaid media costs	51.6	46.2
Accrued sales revenue	63.8	61.5
Prepaid production costs	13.6	29.9
Prepaid subscriber acquisition costs	309.2	161.2
Prepaid programme acquisition costs	50.8	-
Other	109.7	106.5
Total	630.2	449.8

Prepaid subscriber acquisition costs in Broadcasting consists of subsidies of set top boxes and installation costs, telemarketing costs and retailer commissions. These costs are distributed over the contract period, SEK 241.5 million will be expensed in 2005 and SEK 67.7 million in 2006.

Parent company		
Prepaid financing costs	18.5	31.3
Prepaid insurance premium	4.8	4.5
Other	2.2	0.8
Total	25.5	36.6

Prepaid financing costs refer to a convertible debenture of EUR 120 million issued by MTG AB in June 2001, distributed over 60 months.

Note 15 Short-term investments

SEK million

31 Dec 2004 31 Dec 2003

Group

Deposit	0.5	0.6
Total	0.5	0.6

Note 16 Shareholders' equity

	Number of shares paid	Par value
MTG class A	15,545,621	77.7
MTG class B	50,829,535	254.2
Total number of shares	66,375,156	331.9

The holder of an MTG A share is entitled to 10 votes, the holder of an MTG B share one vote.

	2004	2003
Shares outstanding on December 31	66,375,156	66,375,156
Earnings per share, SEK		
– before dilution	9.85	4.36
– after dilution	9.85	4.36
Net income for the year	654.0	289.3
Basic average number of shares outstanding	66,375,156	66,375,156
Personnel options	32,382	7,364
Average number of shares after dilution	66,407,538	66,382,520

Restricted equity

Restricted reserves cannot be decreased by dividends to the shareholders. The premium reserve arise when shares were issued at a premium, i.e. shares were paid at a higher price than the nominal value. The difference between the nominal value and the price paid is reserved as a part of the restricted reserves.

Restricted reserves in the Group also include SEK 235.7 million in a capital interest reserve, representing the positive difference between the consolidated value and book value of each company's holding of shares in associated companies.

Non-restricted equity

Non-restricted reserves consist of previous years' net income. Together with this year's net income this forms the non-restricted reserves, free to be distributed for dividends.

Translation differences in equity	2004	2003
Accumulated translation differences	-9.2	23.9
This year's translation differences	-100.8	-29.7
Realised accumulated translation differences by sale of shares in Group companies	15.3	-2.9
Other		-0.5
Total accumulated translation differences	-94.7	-9.2

Notes

Note 17 Other provisions

SEK million	Provision for music royalties	Restructuring costs	Total
Group			
Opening balance, January 1, 2004	223.2	5.4	228.6
Provisions during the year	11.8	–	11.8
Utilised during the year	–150.5	–	–150.5
Withdrawals during the year	–5.2	–	–5.2
Translation differences	–0.2	–	–0.2
Closing balance, December 31, 2004	79.1	5.4	84.5

MTG has for a number of years been in dispute with rights societies throughout Scandinavia as well as their British counterpart regarding payment of fees for the use of musical works in various TV channels. During 2004 the company resolved its dispute with STIM (Swedish Performing Rights Society) regarding the royalties payable for TV3 between July 1, 1993 and December 31, 2004 and regarding the future period from January 1, 2005 to the end of 2007. It also reached agreement with PRS in the United Kingdom and TONO in Norway, and was at year end close to resolution of its long running dispute with KODA in Denmark. Ongoing rights negotiations are covered by provisions corresponding to the estimated outcome.

Various MTG companies are parties to non-material litigation. The company does not believe that liabilities related to these proceedings are likely to have a material adverse effect on the financial position of the MTG Group.

Note 18 Long-term liabilities

The Group was refinanced in 2000 through an amendment to the loan agreement with a syndicate of banks led by Deutsche Bank AG. The remaining loan of SEK 250 million was paid on its due date in June 2004. During 2003 a new loan facility of SEK 800 million was granted, of which none were utilised at year end. The new loan facility is available until December 2007.

The loan agreements have covenants in terms of various ratios to be reached. The covenants are based on the ratios debt to total Ebitda, Ebit to total interest charges and debt to Ebitda for the Viasat Broadcasting business area. Guarantors for the loan are selected Group companies.

The loan can be paid out in optional currencies and the interest rate varies with Libor, Euribor or Stibor, depending on the currency utilised. The loan repaid in June 2004 was denominated in SEK.

The Group issued convertible debentures on June 15, 2001 with a nominal value of EUR 120 million and with an annual interest of 5.50%. The loans can be converted into 2,790,994 new MTG class B shares and will expire 2006. The conversion price is SEK 385.97.

SEK million	31 Dec 2004	31 Dec 2003
Group		
Maturity of long-term loans		
2005	11.7	12.0
2006	1,080.8	1,095.3
2007	–	0.5
	1,092.6	1,107.9

SEK million	31 Dec 2004	31 Dec 2003
Parent company		
Maturity of long-term loans		
2005	–	–
2006	1,080.8	1,091.3
	1,080.8	1,091.3

Note 19 Overdraft facilities

The amount granted for bank overdraft facilities at December 31, 2004, equaled SEK 100.0 (100.0) million, of which SEK 100.0 (100.0) million was unutilised. The overdraft facility is guaranteed by the loan syndicate. The guarantee is included in the total loan facility of SEK 800 million.

Note 20 Accrued expense and prepaid income

SEK million	31 Dec 2004	31 Dec 2003
Group		
Accrued personnel costs	107.8	79.3
Accrued interest costs	33.4	35.5
Accrued commission to sales agents	14.0	13.2
Accrued royalties	46.4	54.9
Accrued professional fees	11.8	9.7
Accrued media costs	48.6	32.5
Accrued distribution costs	27.2	20.7
Accrued production costs	55.4	13.9
Accrued programming costs	482.2	43.6
Prepaid revenue	583.0	546.6
Other	90.1	95.5
Total	1,499.9	945.4
Parent Company		
Accrued personnel costs	8.3	10.9
Accrued interest costs	32.9	34.2
Other	15.1	0.8
Total	56.3	45.9

Note 21 Contingent liabilities

SEK million	31 Dec 2004	31 Dec 2003
Group		
Guarantees external parties	5.4	0.3
	5.4	0.3

Various MTG Companies are parties to non-material litigation. The Company has made full provisions and/or accruals at the level of the likely outcome of these proceedings. These litigations are therefore not included in the contingency liabilities.

SEK million	31 Dec 2004	31 Dec 2003
Parent company		
Guarantees external parties	5.4	0.3
Guarantees subsidiaries	374.6	372.5
Total	380.0	372.8

Notes

Note 22 Lease and other commitments

Lease and other commitments for future payments at December 31, 2004 SEK million	Future rent on non-cancellable leases	Future payments for programme rights	Transponder commitments	Total commitments
Group				
2005	25.7	1,131.3	153.9	1,310.9
2006	19.5	715.9	57.6	793.0
2007	16.0	597.7	13.6	627.3
2008	8.6	421.7	2.9	433.2
2009	5.5	241.3	–	246.8
2010 and thereafter	19.7	140.3	–	160.0
Total lease and other commitments	95.0	3,248.2	228.0	3,571.2
This year's operational leasing costs	26.3	1,045.9	293.2	1,365.4

Lease and other commitments for future payments at December 31, 2004	Future rent on non-cancellable leases	Future payments for programme rights	Transponder commitments	Total commitments
Parent company				
2005	1.6	–	–	1.6
2006	1.0	–	–	1.0
2007	1.0	–	–	1.0
2008	1.0	–	–	1.0
2009	1.0	–	–	1.0
2010 and thereafter	1.0	–	–	1.0
Total lease and other commitments	6.6	–	–	6.6
This year's operational leasing costs	2.6	–	–	2.6

Note 23 Average number of employees

	2004 men	2004 women	2003 men	2003 women
Group				
Sweden	347	251	337	213
United Kingdom	90	79	71	69
Denmark	125	76	52	58
United States	8	5	8	6
Lithuania	50	22	44	20
Norway	59	52	43	42
Estonia	30	31	29	32
Spain	26	18	29	17
Russia	18	39	26	31
Latvia	19	27	15	23
Finland	6	3	7	2
Hungary	10	10	4	10
Germany	3	5	2	5
Total	791	618	667	528
SDI	74	71	136	150
Total number of employees		1,554		1,481

Note 23 Average number of employees continued

Parent company

	2004	2003
Men	33	27
Women	18	18
	51	45

Distribution of senior executives by sex

	Men %	Women %
Group		
Board of Directors	75	25
CEOs	87	13
Other senior executives	70	30
Total	75	25

Parent company

Board of Directors	86	14
CEO	100	–
Other senior executives	50	50
Total	75	25

	As a percentage of standard working hours	
	2004	2003
Sick leave		
Parent company		
<29 years	0.3%	0.4%
30–49 years	2.4%	1.9%
>50 years	0.2%	2.0%
Men	0.5%	0.4%
Women	3.1%	2.9%
Total	1.5%	1.5%
Sick leave longer than 60 days of total	41.1%	23.0%

Notes

Note 24 Salaries, other remuneration, and social and security expenses

SEK million	2004	2003
Group		
Board of Directors, presidents and vice presidents		
Companies in Sweden	80.7	65.9
Companies outside Sweden	29.0	31.2
Total excl SDI Media ¹⁾	109.7	97.0
SDI Media	4.6	14.8
Total	114.3	111.9
<i>of which, variable salary</i>	46.2	48.9
¹⁾ Includes SEK 2.9 (1.9) million Board fees approved by the Annual General Meeting		
<i>Other employees</i>		
Companies in Sweden	267.3	244.9
Companies outside Sweden	324.2	259.6
Total excl SDI Media	591.5	504.5
SDI Media	31.7	79.0
Total	623.2	583.5
Total salaries and other remuneration SDI Media excluded	701.2	601.6
Total salaries and other remuneration SDI Media included	737.5	695.4
Social security expenses SDI Media excluded	164.9	152.9
<i>of which, pension costs</i>	27.3	27.3
Social security expenses SDI Media included	171.2	167.0
<i>of which, pension costs</i>	28.6	30.3
Parent company		
Board of Directors, presidents and vice presidents	21.1	18.2
<i>of which, variable salary</i>	10.0	8.5
Other employees	49.0	50.9
Total salaries and other remuneration	70.1	69.1
Social security expenses	24.9	20.2
<i>of which, pension costs</i>	5.5	4.8
Salaries by country		
Group		
Sweden	329.6	310.8
United Kingdom	106.0	70.8
Denmark	143.5	107.5
United States	9.7	14.4
Lithuania	8.8	8.9
Norway	59.8	48.7
Estonia	4.7	3.9
Spain	11.2	9.0
Russia	8.5	11.1
Latvia	7.2	5.4
Finland	4.2	4.0
Hungary	4.0	2.8
Germany	3.8	4.3
Romania	0.4	–
Total excl SDI Media	701.2	601.6
SDI Media	36.3	93.8
Total	737.5	695.4

Note 24 Salaries, other remuneration, and social and security expenses continued

Remuneration to senior executives

Principles

A fee is paid to the Board of Directors in accordance with the ruling of the Annual General Meeting.

Remuneration to the CEO and other senior executives comprises a base salary, bonus and other benefits. Other senior executives include vice presidents, business area presidents and the CFO. The senior executives are found on page 39.

The variable remuneration shall be based on the performance in relation to established goals. The general bonus system is based on an earnings period of one year, and is normally between 35–100% of the base salary, and in all cases with a maximum. However, there are two cases where the bonus is based on a percentage of the profit in the subsidiaries where the persons are active.

Remuneration and other benefits during the year

SEK thousand	Base fee	Base salary	Variable remuneration	Other benefits	Pension costs	Other remuneration	Financial instruments	Total
David Chance, Chairman of the Board	800	–	–	–	–	1,028	–	1,828
Hans Holger Albrecht, CEO	–	8,152	9,997	2,247	734	–	–	21,130
Other senior executives (9 persons)	–	19,306	21,394	356	1,887	–	–	42,943
Total	800	27,458	31,391	2,603	2,621	1,028	–	65,901

David Chance has further to the board fee in MTG also received a board fee as a Director of the Board in Viasat Broadcasting UK.

The CEO and the other members of the company's senior executives are entitled to customary pension commitments based on the national pension plan, entailing retirement at the age of 65. Pension commitments are secured through premiums paid to insurance companies.

Other benefits includes company cars and, for the CEO, rent and school fees.

If the company terminates the employment of the CEO or other senior executives, salary will be paid during the period of notice, maximum 12 months. The CEO has a three-year contract from the beginning of 2005.

Decision process

The remuneration to the CEO was decided by the Board of Directors. Remuneration to senior executives is proposed by the CEO and decided by the board of Directors.

Financial instruments

	Stock options 2001/2009 Number
Chairman of the Board	–
CEO	108,810
Other senior executives	761,670
Total	870,480

In 2001, an extraordinary General Meeting decided to issue a maximum of 2,052,840 options to acquire shares in MTG. Senior executives and key employees were offered appr 80% of the options, to be called upon in three years time at the earliest and no later than eight years from the time of issue. The remaining 20% of the options were granted to the fully owned subsidiary MTG Holding AB. It is expected that the MTG subsidiary would then sell the options and use the proceeds to cover the Company's social security expenses and other expenses connected with the option programme. The exercise price of the options granted in 2001 is SEK 294.50 per share. Shares allotted in 2002 are exercised at SEK 100 per share. The proprietor must be employed by the Group when the option is exercised. The maximum number of options correspond to appr 0.6% of the votes and appr 2.4% of the share capital. In 2002, 146,894 options were allotted, of which 119,691 to senior executives. Options have not been granted since August 2002. 690,944 options have been cancelled since the proprietors no longer is employed by the Group.

Notes

Note 25 Audit Fees

SEK million	2004	2003
Group		
KPMG, audit services	7.8	5.6
KPMG, other services	3.2	1.5
Ernst & Young, audit services	0.1	0.1
Ernst & Young, other services	0.6	0.5
Other auditors (audit services)	1.1	0.8
Total	12.8	8.4
Parent company		
KPMG, audit services	0.6	0.5
KPMG, other services	1.6	0.1
Ernst & Young, audit services	0.1	0.1
Ernst & Young, other services	–	–
Total	2.3	0.7

Note 26 Supplemental cash-flow information

SEK million	2004	2003
Adjustments to reconcile net income/loss to net cash provided by operations		
Income/loss from sales of securities	–429.4	–
Depreciation and amortisation	310.5	269.3
Divestment of fixed assets	24.9	53.0
Minority share in earnings	–0.4	–5.4
Share in the earnings of associated companies	–153.9	–68.6
Share in tax expense of associated companies	51.8	14.1
Change in deferred tax	156.5	–13.1
Change in provisions	–43.8	60.8
Unrealised exchange differences	–12.6	–13.0
Total	–96.4	297.1
Payment to STIM for years prior to current year	–102.5	–

During previous years provisions were made for music played on some of the TV channels due to differences of opinion with the Swedish Performing Rights Society STIM. During 2004 the Company has reached an agreement with STIM regarding the royalties between July 1 1993 and December 31 2004 as well as a new agreement for the period from Jan 1, 2005 until the end of 2007. Payments for the years prior to current year are shown separately.

Note 26 Supplemental cash-flow information continued

Operations acquired during 2004

	Purchase price	% of share capital
DTV ZAO, Russia	19.1	25%
CTC Media Inc, Russia	452.3	11%
P4 Radio Hele Norge ASA	24.3	7%
	495.8	

During 2004 the remaining minority shares in DTV ZAO was acquired, the company is now fully owned by the Group. CTC Media Inc and P4 Radio Hele Norge ASA are associated companies.

Operations divested during 2004

Assets	111.4
Liabilities	-35.9
Gain/loss on sale	395.8
Payment received	471.3
Liquid funds in divested companies	-22.2
Effect on Group liquid funds	449.1

In July 2004 the business area SDI Media was sold as well as shares in Metro International S.A..

Other information

Cash paid for interest and corporate tax

	2004	2003
Group		
Interest	68.3	116.8
Corporate income tax	57.0	88.1
Total	125.3	205.0
Parent company		
Interest	65.4	54.9
Corporate income tax	-	-
Total	65.4	54.9

Notes

Note 26 Supplemental cash-flow information continued

	Remaining businesses		Discontinued business		Total	
	2004	2003	2004	2003	2004	2003
Cash flow from operations						
Net income for the year	646.3	269.9	7.7	19.4	654.0	289.3
Adjustments to reconcile net income/loss to net cash provided by operations	-216.9	289.1	18.0	8.0	-198.9	297.1
Changes in working capital	149.1	39.1	-26.3	-1.5	122.8	37.6
Net cash flow from operations	578.5	598.1	-0.5	25.9	578.0	624.0
Other Investments in fixed assets	-106.6	-132.6	0.0	-2.7	-106.6	-135.3
Acquisitions of shares in subsidiaries and associated companies	-495.8	-13.3	0.0	-5.8	-495.8	-19.1
Proceeds from sales of shares in subsidiaries and associated companies	449.1	19.9	0.0	0.0	449.1	19.9
Dividends from associated companies	3.4	10.4	0.0	0.0	3.4	10.4
Cash flow to investing activities	-149.9	-115.6	0.0	-8.5	-149.9	-124.1
Net change in loans from banks	-250.0	-400.0	0.0	0.0	-250.0	-400.0
Other cash flow from/to financing activities	33.3	39.7	-34.8	-6.2	-1.5	33.5
Net change in cash and cash equivalents for the period	211.9	122.2	-35.4	11.2	176.6	133.4
Cash and cash equivalents at the beginning of the year	367.9	274.7	34.0	25.9	401.9	300.6
Translation differences in cash and cash equivalents	-5.6	-29.0	1.4	-3.1	-4.2	-32.1
Cash and cash equivalents at end of the period	574.3	367.9	0.0	34.0	574.3	401.9

Note 27 Related party transactions

Related party	Nature of relationship
Investment AB Kinnevik (Kinnevik)	Kinnevik holds shares in Modern Times Group MTG AB.
Tele2 AB (Tele2)	Related parties to MTG hold a significant amount of shares in Tele2.
Metro International S.A. (Metro)	MTG holds shares in Metro. Related parties to MTG holds shares in Metro.
Millicom International Cellular S.A. (MIC)	Related parties to MTG hold a significant amount of shares in Millicom.
Transcom WorldWide S.A. (Transcom)	Related parties to MTG hold a significant amount of shares in Transcom.
Applied Value Corporation (Applied Value)	Related parties to MTG hold a significant amount of shares in Applied Value.
Shared Value Ltd. (Shared Value)	Related parties to MTG hold a significant amount of shares in Shared Value.
AVI Audit Value International (Audit Value)	Related parties to MTG hold a significant amount of shares in Audit Value.
Search Value Partners Ltd. (Search Value)	Related parties to MTG hold a significant amount of shares in Search Value.
Foreign Value S.A. (Foreign Value)	Related parties to MTG hold a significant amount of shares in Foreign Value.
Shared Services S.A. (Shared Services)	Related parties to MTG hold a significant amount of shares in Shared Services.

During 2004, Invik and Kinnevik was merged by Invik absorbing Kinnevik.

The transactions between the different parties are based on market prices negotiated on arm's-length basis.

Business agreements with related parties

MTG sells advertising to Tele2 and Metro. MTG sold logistic services to Tele2 up to the autumn 2003, when that business was sold to an external party.

The MTG Group buys treasury functions, financial services and insurances from Kinnevik through their subsidiaries Banque Invik and Moderna Försäkringar. MTG also rents office space from Kinnevik.

MTG purchases credit management services, customer service and telemarketing services from Transcom.

MTG purchases tele and data communication services from Tele2 and technical consulting and services through their subsidiary Uni2. Kabelvision, owned by Tele2, offers its customers the MTG TV-channels through their cable network.

MTG purchases advertising from Metro.

MTG purchases consulting services from Millicom, Applied Value, Shared Services, Foreign Value, Shared Value and Search Value.

MTG purchases internal audit services from Audit Value.

Note 27 Related party transactions continued

Other transactions

In 2002 MTG invested in a convertible bond issued by Metro. The principal of the convertible notes was US\$ 20 million and had a five-year maturity in 2007. Further, MTG had since 2000 a convertible debenture loan as well as commercial loan in Metro of US\$ 22.1 million and US\$ 23.5 million respectively.

In 2003, all convertible debenture loans as well as the commercial loan in Metro were converted into 51,064,252 A shares and 93,593,686 B shares.

During 2004, holdings of 2,220,629 Metro A shares were sold to Kinnevik.

	2004	2003
Revenues		
Transcom	1.2	0.2
Kinnevik Group	0.2	1.5
Tele2 Group	54.2	80.2
Metro Group	13.7	25.2
Other related companies	2.4	–
Total revenues	71.7	107.1
Operating costs		
Transcom	226.2	114.3
Kinnevik Group	8.6	23.0
Tele2 Group	33.5	31.3
Metro Group	8.0	22.1
Other related companies	19.1	29.3
Total operating costs	295.4	220.0
	31 Dec 2004	31 Dec 2003
Accounts receivable		
Transcom	0.3	–
Kinnevik Group	0.0	1.3
Tele2 Group	9.5	13.4
Metro Group	4.1	6.8
Other related companies	0.5	–
Total accounts receivable	14.4	21.5
Accounts payable		
Transcom	37.9	30.2
Kinnevik Group	0.9	1.6
Tele2 Group	5.1	8.2
Metro Group	4.1	2.9
Other related companies	0.3	0.1
Total accounts payable	48.3	43.0

Notes

Note 28 Financial risk management – foreign exchange risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the income statement, balance sheet and/or cash flows. The risk can be divided into transaction exposure and conversion exposure. As of December 2004, hedging positions are taken to protect the Group against the effects of transaction exposures in the contracted outflow for programme acquisitions in US dollars and Swiss Francs on a rolling twelve month basis.

Transaction exposure

Transaction exposure is the risk that arises from net inflow or outflow of a foreign currency required by operations and financing.

The Scandinavian and UK entities' net foreign exchange cash flow was distributed among the currencies as follows:

Currency	2004 SEK million	2003 SEK million
DKK	535.5	524.7
NOK	282.6	300.3
EUR	-62.2	-90.9
CHF	-128.3	-142.9
USD	-820.1	-490.5

Hedge contracts amount to USD 78.6 million and CHF 31.4 million at closing day.

Conversion exposure

Conversion exposure is the risk that arises from equity in a foreign subsidiary or associated company that is denominated in a foreign currency.

Net foreign assets are distributed as follows:

Currency	2004 SEK million	%	2003 SEK million	%
NOK	750.3	52.3	647.9	48.1
DKK	308.8	21.5	253.2	18.8
USD	294.8	20.5	375.7	27.9
Other currencies	81.2	5.7	70.9	5.3
Total equivalent SEK value	1,435.2	100.0	1,347.7	100.0

There are no hedge positions taken to protect the conversion exposure.

Note 29 IFRS

With effect from January 1, 2005, the Group will report in accordance with International Financial Reporting Standards (IFRS). The annual report for 2004 will therefore be the last financial statement prepared in accordance with the current recommendations of the Swedish Financial Accounting Standards Council.

The Group has reviewed its reporting routines in order to collect the data required for reporting in accordance with IFRS and has gathered the information to be used for comparative figures in its interim reports and the annual report for 2005. This work has been reported to the Board of Directors' Audit Committee on a regular basis. The IFRS rules may still change, and such changes may lead to differences to the effects described below.

When applying IFRS 1, First time adoption, and where there is a choice, the Group has made the following decisions:

- The Group has elected not to recalculate goodwill on acquisitions before January 1, 2004
- Accumulated differences in the translation of the financial statements of foreign subsidiaries has been set to zero with effect from the transition date.
- The Group has elected not to provide comparable figures in regard to IAS 39, Financial instruments.

The following items have been identified to have material impact on the Group's opening balance sheet for 2004 and income statement for 2004:

- The discontinuation of the amortisation of goodwill (IFRS 3/IAS 36)
Goodwill will be subject to impairment tests and has not been amortised. This treatment has also been adopted for indirect goodwill arising from MTG's acquisitions of shares in associated companies. A smaller part of the acquired goodwill in associated companies has been allocated to other identifiable intangible assets in 2004.
- Financial instruments (IAS 39)
The Group's holdings in TV4 AB and Metro International S.A. will be valued at market price and changes in the market values of each company will impact directly on Equity and not the profit and loss account. This will only apply from January 1, 2005 and the Group has chosen to illustrate the effects of this in the table below.*
- Borrowing costs (IAS 23)
Prepaid borrowing costs for the convertible debenture notes have been re-calculated at the effective interest rate. The prepaid borrowing costs have also been reclassified in the balance sheet and netted off against the convertible loan liability in the balance sheet.
- Impairment of assets/intangible assets (IAS 36/38)
The methodology of valuing certain assets has been changed, and primarily impacts the valuation of the Beneficial film rights. Impairment tests of Sonet's film rights are now made on an individual basis compared to impairment tests of the total library under the previous principle.

Notes

Note 29 IFRS continued

Summary of financial impact

SEK million	Income statement January–December, 2004		
	Swedish GAAP	Transition effect	IFRS
Net sales	6,835.7		6,835.7
Operating income	953.6	104.0	1,057.6
Tax	–266.2	–13.0	–279.2
Net income	654.0	91.0	745.0
Earnings per share (SEK)	9.85	1.36	11.21

	Balance sheet December 31, 2004				* IFRS January 1 2005
	Swedish GAAP	Transition effect	IFRS	* Effect of IAS 39	
Goodwill	764.1	91.0	855.1		855.1
Shares and participations	1,653.7	3.0	1,656.7	1,872.0	3,528.7
Other assets	3,918.3	–40.0	3,878.3		3,878.3
Assets	6,336.1	54.0	6,390.1	1,872.0	8,262.1
Equity	2,713.5	62.0	2,775.5	1,872.0	4,647.5
Liabilities	3,622.6	–8.0	3,614.6		3,614.6
Equity and liabilities	6,336.1	54.0	6,390.1	1,872.0	8,262.1

Stockholm, March, 23, 2005

Pelle Törnberg

Lars-Johan Jarnheimer

Asger Aamund

David Marcus

Cristina Stenbeck

David Chance
Chairman of the Board

Nick Humby

Hans-Holger Albrecht
President and CEO

Our Audit report was submitted on 23, March, 2005

Carl Lindgren
Authorised Public Accountant
KPMG

Lars Träff
Authorised Public Accountant
Ernst & Young

Auditors' report

**To the Annual General Meeting of the shareholders of Modern Times Group MTG AB
(Company registration number 556309-9158)**

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the President of Modern Times Group MTG AB for the full year 2004. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of directors and the President be discharged from liability for the financial year.

Stockholm, March 23, 2005

Carl Lindgren
Authorized Public Accountant
KPMG

Lars Träff
Authorized Public Accountant
Ernst & Young

Annual General Meeting

Where and When

The Annual General Meeting will be held on Wednesday 11 May 2005 at 9.30 a.m. at the 'Skandia' cinema at Drottninggatan 82, Stockholm. The venue will open for registration at 8.30 a.m. and the registration will close at 9.30 a.m.

Who is entitled to participate?

Shareholders who wish to participate in the Annual General Meeting must:

- have been entered in the register of shareholders maintained by VPC AB (the Swedish Securities Register Centre) on 29 April 2005
- notify the company of their intention to participate by no later than 4 May 2005 at 1.00 p.m.

How to be entered in the register of shareholders

Shareholders can have their shares registered in their own names or in the names of nominees. Shareholders whose shares are registered in the names of nominees must temporarily re-register the shares in their own names in order to be entitled to participate in the Meeting. Shareholders must request re-registration a sufficient number of working days before 29 April 2005 in order to be entered in the register of shareholders.

How to register for the AGM

Registration for the AGM can be made:

- via the company's home page at www.mtg.se
- by telephone on +46 433 74 756
- in writing to Modern Times Group MTG AB, P.O. Box 2094, SE-103 13 Stockholm, Sweden. Written notification should be marked "AGM".

Requirements

When giving notice of participation, the shareholder must state:

- Name
- Personal identification number (or company registration number)
- Address and contact telephone number
- Shareholding
- The names of any advisors who will also be attending

Shareholders who wish to be represented by a representative must submit a written power of attorney giving authorisation to a specific person together with the notice of participation. The notice of participation must be received by the company no later than 1.00 p.m. on 4 May 2005.

Financial Calendar

Q1 2005 Interim Report	April 21 2005
Annual General Meeting (Stockholm)	May 11 2005
Q2 2005 Interim Report	July 25 2005
Q3 2005 Interim Report	October 24 2005
Q4 2005 and Full Year Report	Februari 2006

Definitions & key ratios

Ebit

Ebit is read earnings before interest and tax, and also referred to as operating income.

Ebitda

Ebitda is read Earnings before interest, tax, depreciation and amortisation.

Pbt

Profit before tax, also referred to as income before tax.

Net debt

Net debt is the sum of consolidated interest-bearing liabilities, including the convertible debenture loan, less interest-bearing short-term and long-term assets.

Equity/assets ratio

The equity/assets ratio corresponds to shareholders' equity plus minority interest expressed as a percentage of total assets.

Debt/equity ratio

The debt/equity ratio is expressed as net debt in relation to shareholders' equity, including minority interests.

Operating cash flow

Cash flow from current operations comprises operating cash flow before financial items and tax payments and taking into account other financial cash flow.

Liquid funds

Liquid funds is expressed as cash and cash equivalents plus short-term investments including unutilised credit facilities.

Return on total assets %

Return on total assets corresponds to net income as a percentage of total assets.

Return on equity %

Return on equity is expressed as net income as a percentage of shareholders equity.

Operating margin %

Operating profit as a percentage of net sales.

Interest coverage ratio

Interest coverage ratio is calculated as operating profit divided by financial items.

Earnings per share

Earnings per share is expressed as net income divided by the number of shares.

Net assets

Assets less liabilities including provisions.

Capital employed

Capital Employed is calculated as an average of total fixed assets, cash and net working capital reduced by provisions.

Return on Capital Employed %

Capital Employed as a percentage of Ebit.

Glossary

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms.

Analogue

A signalling technology in which signals are conveyed by continuously varying, among other things, the frequency, amplitude or phase of the transmission.

ARPU

Annualised Average Revenue per user, calculated for premium subscribers.

CATV

Cable- or fiber-optic-based distribution of television programmes used with both satellite and terrestrial broadcasting.

Churn rate

Subscription disconnections expressed as a percentage of the midpoint of the number of subscribers at the beginning and end of the period.

Digital

A signalling technology in which a signal is encoded into digits for transmission.

DTH

Direct-to-home transmission of television programmes to customers with parabolic satellite dishes and receivers.

DTT

Digital-terrestrial-transmission of television programs to customers with receivers.

Encrypted

Distribution of transmissions that are scrambled in order to prevent illegitimate access.

Penetration

Share of households with access to the media in question.

Smartcard

A card rendered from Viasat or one of its competitors which is inserted into a set-top box in a DTH customer's home and which receives and implements signals to permit or prevent the

transmission of particular television channels.

SMATV

Small master antenna-based distribution of television programmes; a common parabolic satellite dish is used to link a group of customers via a satellite network.

Terrestrial broadcasting

Transmission of television programming using the VHF frequencies.

Transponder

Satellite-based device that is able to receive signals from uplink facilities and re-transmit them to ground-based receivers.

Downlink facilities

Technical facilities needed to receive satellite transmitted programming.

Uplink facilities

Technical facilities needed to transmit television programmes through satellites.

Addresses

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