



Modern Times Group's Interim Report for the first nine months of 1997

OPERATIONS

Group structure

On May 23, 1997, the annual general meeting of Industriförvaltnings AB Kinnevik voted to distribute the shares in the Modern Times Group MTG AB to Kinnevik's shareholders. The shares were distributed on September 15, 1997. Since September 18, 1997, shares in MTG have been quoted on the Nasdaq Stock Market, under the trading symbol MTGNY, and on the Stockholm Börsinformation (SBI) list.

The MTG Group's operations consist of five business areas: Broadcasting, Radio, Publishing, Electronic Retailing, and Media Services.

Group earnings

Net sales for the first nine months of 1997 totaled MSEK 2,074, compared to MSEK 1,883 for the same period in 1996 for comparable units, representing an increase of 10%. The biggest advances were attributable to the business areas Broadcasting and Publishing. Sales in the Electronic Retailing business area declined 7%, to MSEK 333 (359).

The third quarter is seasonally a weak period in sales for several of MTG's business operations, mainly as a result of weak advertising sales during the summer. For January-September, the Group made an operating loss of MSEK 296, compared to a loss of MSEK 123 during the corresponding period one year previous.

The figures for the first nine months of 1996 include non-recurring income of MSEK 145, net, resulting from the changeover to a new satellite platform. In addition, the comparative figures do not include results from TV1000, while 1997 figures were charged with MTG's share of TV1000's losses, corresponding to MSEK -58 for the first nine months. Scandinavian currencies weakened against currencies in which MTG has a large proportion of its expenses, which had a substantial impact on MTG's results for the period, chiefly in the form of higher costs for program procurement for the TV channels.

Cost-cutting programs initiated in 1996 have produced the desired effects so far in 1997. Expenses for satellite distribution and personnel were less than those one year previous. The number of permanent employees in the Group now equals 851 (907). By winding down and restructuring certain business operations, the Group incurred non-recurring expenses of MSEK 27 during the period.

The Group's share of earnings in associated companies totaled MSEK 37 (6).

Financial revenues and expenses ended at MSEK -92 (-139). The MTG Group was capitalized at August 31, 1997, when interest bearing liabilities equaling MSEK 750 were converted to MSEK 326 in equity and MSEK 424 in a convertible debenture loan. This restructuring reduced financial expenses for the remainder of the year.

The loss after financial items totaled MSEK 351 (256).

MTG Broadcasting

The Broadcasting business area comprises MTG's TV channels and SMS operations (distribution) as well as MTG's share in earnings from the premium channel TV1000. The 1996 figures for comparison contain net income of MSEK 145 arising from the changeover to a new satellite platform; the net amount comprises MSEK 275 in capital gains and MSEK 130 in marketing expenses resulting from the change of satellite platform. The impact of weaker Scandinavian currencies, mentioned above, was mainly attributable to this business area.

In the following, operations are divided up depending on the essential part of revenues accruing from advertising sales (Free TV) or subscriber revenues (Pay TV).

Free TV

Free TV consists of TV3 in Sweden, Norway, Denmark, Estonia, and Lithuania, ZTV and TV6 in Sweden, and 3+ in Denmark.

TV3

During the first nine months of 1997, TV3 expanded its sales 12% from the same period in 1996. However, profitability was unsatisfactory, partly because of the stronger U.S. dollar boosting the costs of programs.

TV3's channels in the three Scandinavian countries have developed at different rates. In Sweden, where the market for advertising grew 11% during the first six months, market share equaled 25% (26). In the Norwegian market, where the market for advertising grew 18% during the first six months, the market share was 17% (14). In Denmark, market growth was 5%, and TV3 expanded its market share to 23% (19). In June, MTG augmented its operations in the Baltic states when the Lithuanian TV station Tele-3, in which MTG has an 84% stake, began to operate as a TV3 channel. TV3 Broadcasting reported net sales of MSEK 985 (876) for the first nine months. The operating loss equaled MSEK 15 (18).

Other channels

Other channels include ZTV and TV6 in Sweden and 3+ in Denmark.

These channels continued to make a loss, although results improved considerably compared to 1996 thanks to savings on programs and administration. ZTV and TV6 maintained market shares at about the same level as in the first nine months of 1996. All channels have increased their viewer share in 1997. ZTV boosted the total number of viewers 25% from one year previous.

These channels had net sales during the period equaling MSEK 59 (40), and reported an operating loss of MSEK 141 (192).

Pay TV

Pay TV consists of the SMS company ViaSat, which distributes MTG's own channels, TV1000, and a number of other channels.

ViaSat

The number of subscribers totaled 877,000 (775,000). During the third quarter, ViaSat launched a new product concept consisting of ViaSat+, ViaSat Silver, and ViaSat Gold. This concept provides customers with a broader range of channels at a

reasonable extra charge. It is still too early to determine the effects of this initiative. The various ViaSat packages, launched in their original form early in the year, had a total of 164,000 subscribers at September 30. ViaSat also continues to distribute the CTV package, which had 109,000 subscribers at September 30.

Net sales reached MSEK 180 (109), operating income MSEK 26 (21).

TV1000

MTG distributes the premium channels TV1000 and TV1000 Cinema based on a special agreement between Kinnevik and MTG. Profits from TV1000 in the future will be equally divided between Kinnevik and MTG. Kinnevik will cover losses made by TV1000 up to MSEK 100 in 1997, while MTG will be responsible for all losses exceeding MSEK 100.

MTG's share of losses by TV1000 totaled MSEK 58 during the first nine months. The corresponding share of losses is not included in the 1996 figures for comparison.

At September 30, TV1000 had 217,000 (225,000) subscribers.

Net sales for the entire Broadcasting business area were MSEK 1,278 (1,114) for the period, while the operating loss totaled MSEK 223 (1996: MSEK 29 profit).

MTG Radio

Radio Rix is now Sweden's largest commercial network, in terms of penetration, that is the number of households reached by the network, and in terms of share of listeners. Hence, advertising sales continued to advance at the same time as the network's expenses for all intents and purposes are fixed, with the exception of sales costs.

The Power format, previously established in Stockholm, was introduced in Gothenburg and Oslo during the third quarter.

Net sales for radio operations in Sweden totaled MSEK 40 (20) for the first nine months. The business reported an operating loss of MSEK 32 (44).

P4, a Norwegian radio station with nationwide coverage, continues to achieve robust growth. Since the half-year report, the station has established operations in Cape Town, South Africa. Income after net financial items advanced to MNOK 50 (31).

MTG is the largest shareholder in P4, with a stake of 33%.

MTG Publishing

This business area comprises the newspaper Metro in Stockholm and in Prague, Topp 40, and Metro International, which aims at establishing other Metro businesses outside Sweden.

Metro Stockholm now reaches 580,000 (499,000) readers and enjoys healthy growth in advertising sales.

Metro Praha was launched on July 7 and reaches 420,000 readers, making it Prague's largest newspaper. Advertising sales are progressing according to plan, and the number of copies distributed is somewhat greater than planned, thanks to the popularity of the paper.

In October, MTG signed a contract with the Traffic Committee in Gothenburg to distribute a newspaper wholly financed through advertising. The tentative date of the first issue of Metro Göteborg is spring 1998.

Net sales for the business area totaled MSEK 135 (84) during the first nine months.

Operating income was MSEK 9 (MSEK 10 loss). Operating income for 1997 includes MSEK 2 as the cost of winding down Metro Weekend.

MTG Electronic Retailing

The Electronic Retailing business area comprises MTG's home shopping business, conducted in more than 20 countries through some 70 TV channels, radio stations, retailers and via Internet.

Weak development during the first half of 1997 continued during the third quarter, although TV Shop has regained some television time lost earlier in the year mainly to U.S. interests. This television time has become more expensive, though, so that expenses were not completely offset by increased sales. The business area's focus on its own product concept has partly compensated for the lack of licensed products that characterizes the market.

This business area reported net sales of MSEK 333 (359). The operating loss totaled MSEK 35 (7).

MTG Media Services

The Media Services business area includes companies that produce content and services for other media companies.

During the third quarter, the television production company Strix boosted earnings, having made a loss in the same period one year previous. Strix has produced TV4's major Friday entertainment program PÖ rymmen and Swedish Television's Saturday program Expedition Robinson. In addition, Strix produces a large proportion of TV3's own programming.

Subtitling and Dubbing International (SDI) maintained healthy profitability following its refocus on more cost-effective translations. The company defended its position as Europe's leading translation company serving the television and film industry.

Business activities established for the Arab countries are already operating in the black.

MTG Media Properties, which holds worldwide rights to some 300 movies, increased earnings for the third year in a row. The value of the company is estimated to have increased, owing to the market value of its film rights.

Interactive television, which produces text-TV and TV-Games, reported somewhat weaker performance than planned, mainly in Sweden. Preparations are under way to integrate the text-TV activities in the TV channels with the aim of boosting revenues for the business.

Other companies in this business area, chiefly Oslo Kinoreklame and Nordic Artist, performed more favorably than expected.

The business area reported net sales for the period equaling MSEK 434 (451).

Operating income ended at MSEK 34 (MSEK 1 loss).

FINANCIAL POSITION

Capitalization

In conjunction with the shares in MTG being distributed to Kinnevik's shareholders, a capitalization of MTG was effected. The capitalization converted Kinnevik's net claim of MSEK 750 on MTG to equity equaling MSEK 326 and a convertible debenture loan equaling MSEK 424. The exercise price of the convertible loan equals SEK 85 per share. The loan will mature at December 30, 2000, and carries interest of 3% per annum.

Kinnevik also issued an option to MTG to acquire 1,550,000 shares in Millicom International Cellular SA (MIC) at an exercise price of MSEK 100, roughly equivalent to an unrealized capital gain of MSEK 375 at November 7, 1997.

Solidity

The Group's equity/assets ratio (defined as consolidated equity and minority interests, including the convertible debenture loan, as a percentage of total assets) was 44% at September 30, 1997, compared to 23% at June 30, 1997, prior to capitalization.

This ratio does not take into account the value of the MIC option or the surplus value of the Group's holdings in TV4 and P4, which are publicly traded companies.

Liquidity

Group liquidity, including unutilized credit facilities, totaled MSEK 216 at September 30, 1997, compared to MSEK 151 one year previous.

Net borrowings

Consolidated net borrowings (defined as interest-bearing liabilities, excluding the convertible debenture loan, less interest bearing assets) equaled MSEK 308 at September 30, 1997, compared to MSEK 375 one year previous. Financial expenses reported for the period include interest expenses for Kinnevik's net claim on MTG, equaling MSEK 750. The claim was converted to equity and the convertible debenture loan in conjunction with the distribution of shares in MTG, so it would be irrelevant to calculate the average interest expense for the nine months.

Investment

During the period, the Group invested MSEK 65, including MSEK 36 in machinery and equipment, MSEK 23 in film rights acquired by MTG-Media Properties, and MSEK 6 in smartcards for ViaSat. During the corresponding period in 1996, investment totaled MSEK 130.

Earnings per share

Earnings per share after full tax and dilution, based on full conversion of the outstanding convertible debenture loan, equaled SEK -5.69 for the period.

NEXT REPORT

The preliminary final accounts for January-December 1997 are scheduled to be published on March 16, 1998.

Stockholm

November 17, 1997

Chief Executive Officer

This interim report has not been subjected to a full audit by the Company's auditors.

CONSOLIDATED INCOME STATEMENT (MSEK)

	1996 Full year pro forma*	1996 Jan. 1- Sept.30 pro forma*	1997 Jan.1- Sept.30***
Net sales	3,035	1,883	2,074
Cost of goods and services	– 2,403	– 1,572	– 1,760
Gross income/loss	632	311	314
Selling, administrative, research and development expenses	– 624	– 430	– 554
Income/loss from corporate development	31	–	6
Other operating revenues	69	75	34
Other operating expenses	– 180	– 79	– 96
Operating income/loss	– 72	– 123	– 296
Share of earnings in associated companies	3	6	37
Financial net income/expenses	– 151	– 139	– 92
Income/loss after financial items	– 220	– 256	– 351
Minority interest in income/loss before tax	– 11	– 3	– 2

REVIEW OF THE GROUP (MSEK)	1996 Jan. 1-Sept. 30 pro forma*	1997 Jan. 1- Sept. 30
Turnover by business area		
MTG Broadcasting	1,114	1,278
MTG Radio	20	40
MTG Publishing	84	135
MTG Electronic Retailing	359	333
MTG Media Services	451	434
Parent company and other companies	8	16
Eliminations	– 153	– 162
Total	1,883	2,074
Operating income/loss by business area		
MTG Broadcasting**	29	– 223
MTG Radio	– 44	– 32
MTG Publishing	– 10	9
MTG Electronic Retailing	– 7	– 35
MTG Media Services	– 1	34
Parent company and other companies	– 90	– 42
Eliminations	–	– 7
Total	– 123	– 296

Income/loss after financial items by business area

MTG Broadcasting**	– 106	– 317
MTG Radio	– 45	– 23
MTG Publishing	– 12	6
MTG Electronic Retailing	– 10	– 40
MTG Media Services	– 9	24
Parent company and other companies	– 74	6
Eliminations	–	– 7
Total	– 256	– 351

* Pro forma accounts for the Modern Times Group MTG AB are based on current Group structure.

** The 1996 figures for comparison include a net amount of MSEK 145 arising in conjunction with the change of satellite platform. The figures for comparison do not include the results of TV1000's operations. However, the figures for 1997 have been charged MSEK 58 for MTG's share of losses in TV1000.

*** Other operating expenses include MSEK 58 in distribution fees for TV1000.

CONSOLIDATED BALANCE SHEET (MSEK)

	December 31, 1996	Sept. 30, 1996	Sept. 30,
	pro forma*	pro forma*	1997
Fixed assets			
Capitalized development expenditure	225	195	159
Intellectual property rights	70	48	86
Goodwill	316	260	285
Machinery, equipment, real estate, etc.	230	207	195
Shares and participations in other companies	292	273	292
Long-term receivables	15	14	25
	1,148	997	1,042
Current assets			
Inventories including advances to suppliers	182	269	244
Short-term receivables	1,376	1,157	1,257
Cash, bank accounts and short-term investments	174	112	210
	1,732	1,538	1,711
Total assets	2,880	2,535	2,753
Shareholders' equity			
Restricted equity	17	17	368
Unrestricted equity	822	249	461
	839	266	829
Minority interests in equity	6	6	11
Provisions	4	2	5
Long-term liabilities			
Convertible debenture loan 1997/2000	—	—	373
Non-interest-bearing liabilities	169	11	13
Interest-bearing liabilities	417	392	464
	586	403	850

Short-term liabilities

Net liability to Kinnevik	308	920	—
Non-interest-bearing liabilities	1,019	843	980
Interest-bearing liabilities	118	95	78
	1,445	1,858	1,058
Total shareholders' equity and liabilities	2,880	2,535	2,753

* Pro forma accounts for the Modern Times Group MTG AB are based on current Group structure and current accounting principles.

In accordance with U.S. accounting practice, effective 1997 the TV channels changed their principles for reporting program rights. Previously, such rights were reported as an asset at the time the contract was signed, although the period of use of the rights could extend over several years. The corresponding liability would be reported at the same time. Starting in 1997, the TV channels report as an asset only that portion of the backlog of program rights that is available and scheduled for broadcast. The corresponding liability is dealt with based on the same principle.