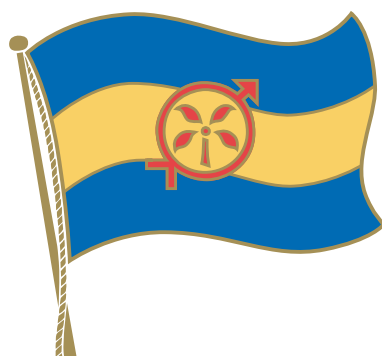


Industrieförvaltnings AB
Kinnevik



Annual Report 1997

Financial information

Interim Report 1998 1st quarter, May 13, 1998

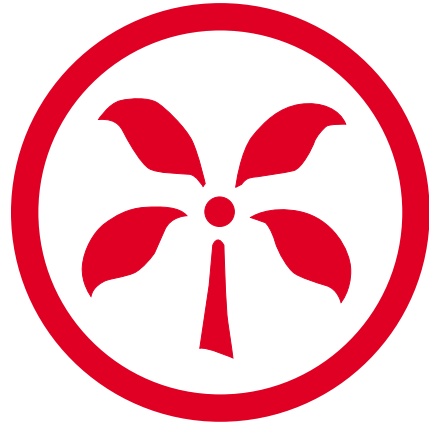
Half-yearly report 1998, August 19, 1998.

Interim report 1998 3rd quarter, November 16, 1998.

The Year-end Report for fiscal 1998, February 1999.

The Annual Report for fiscal 1998, April 1999.

Annual General Meeting, May 1999.



"More than 60 years of entrepreneurship under
the same group of principal owners"

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Board of Directors and Auditors



Members and Secretary of the Board of Directors of Industriförvaltnings AB Kinnevik at the Board Meeting held at the Company's offices in Stockholm on March 18, 1998.

Board of Directors

Honorary Members

Carl-Gustaf Klingspor
Sten Sjöholm
Bo von Horn

Directors

Jan Hugo Stenbeck, Chairman	Dag Tigerschiöld
Odd Engström	Björn Wissén
Edvard von Horn	Lars Åhlin*
Thorbjörn Hallström*	Stig Nordin,
Ulf Spång	President

Deputy Members

Hans Wahlbom* Wilhelm Klingspor
Åke Lamm*

Auditors

Auditors

Lars Träff Hans Karlsson Anders Wiger
Authorized Public Accountants

Deputy Auditors

Carl Lindgren Erik Åström Ingemar Rindstig
Authorized Public Accountants

*) Representatives nominated by union organizations.

Management



Left to right,
front row:

Vigo Carlund, President of Investment AB Kinnevik, Stockholm;
Stig Nordin, President and CEO of Industriförvaltnings AB Kinnevik, Stockholm and President of Korsnäs AB, Gävle; Thomas Jönsson, Executive Vice President of Industriförvaltnings AB Kinnevik, Stockholm.

Second row:

Tobias Wirén, President of Transcom AB, Karlskoga; Magnus Mandersson, President of Tele2 Europe S.A., Luxembourg and of 3C Communications International S.A., Luxembourg; Sture Gustavsson, President of Mellersta Sveriges Lantbruks AB, Vadstena.

Back row:

Christen Ager-Hansen, President of NetSys Technology Group AB, Mölndal; Anders Siberg, President of SMA Maskin AB, Järfälla; Anders Norrman, President of Credit International Services AB, Karlskoga.

Travelling:

Christina Bellander, President of Moderna Tider Förlags AB, Stockholm; Philippe Scheppers, President of Transcom International S.A., Luxembourg; Ingemar Pettersson, President of Svenska JCB AB, Huddinge.

Net Asset Value

The Kinnevik share seems to have been valued during the years on the basis of its net asset value. This has been logical as the focus of the company's operations has been to create net asset value growth. The level of operating income has been disregarded as it often did not follow the development of the company. The perception has been that it is difficult to analyze Kinnevik and therefore the Annual Reports have included the company's prudent estimate of net asset value. At times this has been a difficult decision for certain members of the Board as they have had the opinion that this is a task for financial analysts and that the estimates have been too prudent. The company's net asset value consists mainly of the following assets: the industry operation in Korsnäs and shares in telecommunications companies. These include the holding in Millicom International Cellular S.A. and Kinnevik's shares in telecommunications and related activities outside Scandinavia. These may be merged with MIC's European activities into a jointly owned company, Société Européenne de Communication (SEC). The allotment of ownership depends on an independent valuation and following negotiations. The Board therefore concludes that its estimate of net asset value is no longer needed.

Financial Highlights 1993–1997

Consolidated Statements of Income ¹

(MSEK)	1993	1994	1995	1996	1997
Net sales	5,221.5	6,446.0	6,743.1	7,162.8	6,965.7
Income from corporate development	895.2	667.3	318.5	333.9	128.8
Income from sales of securities	175.8	– 0.3	– 17.9	214.4	264.9
Operating income	1,250.5	1,344.0	1,136.7	899.6	706.3
Participations in affiliated companies	91.6	238.2	109.8	– 25.3	– 274.1
Income after financial revenue and expenses exclusive of interest on convertibles	1,093.2	1,436.1	1,107.3	623.6	164.9

Key ratios

Return on capital employed (%)	14.2	13.3	10.7	9.0	4.4
Return on stockholders' equity (%)	15.2	16.2	5.3	neg	2.2
Interest coverage ratio (times)	4.2	42.5	5.6	2.0	1.4
Profit margin (%)	20.9	22.3	16.4	8.7	2.4
Equity / assets ratio (%)	40.1	53.5	49.5	38.7	37.3
Debt / equity ratio (times)	1.1	0.7	0.9	1.1	1.3
Risk capital ratio (%)	46.1	58.6	51.4	40.6	39.5

Per share data ²

Earnings per share after full tax (SEK)	9.88	15.98	6.29	– 8.53	2.12
Stockholders' equity per share	77	120	122	115	88
Market price at December 31 (SEK)	182	246	207.50	187.50 *	131.50 **
Dividend (SEK)	5.00	5.00	5.00	5.00	5.00 ³
Direct return (%)	3	2	2	3	4 ³

* Excluding NetCom Systems AB.

** Excluding NetCom Systems AB and Modern Times Group MTG AB.

¹ The figures for 1993-1996 refer to the Group on a post forma basis. This means that the Toyota distributionship (consolidated up to and including 1993), NetCom Systems (consolidated up to and including 1995) and MTG (consolidated up to and including 1996) respectively are not included.

² Earnings per share refers to earnings excluding Toyota, NetCom Systems and MTG. Other per share data include the value of Toyota, NetCom Systems and MTG in those years when they were owned by Kinnevik.

³ Proposed cash dividend for 1997.

Definitions etc

Capital employed

Total capital – interest-free liabilities – deferred tax liabilities.

Return on capital employed

Income after financial revenue and expense + interest
expense / average capital employed.

Return on stockholders' equity

Net income + interest on convertible debenture loan reduced by
the tax effect / average equity after full conversion.

Interest coverage ratio

Income after financial revenue and expense + interest
expense / interest expense.

Profit margin

Income after net financial items / operating revenue.

Equity/assets ratio

Equity + minority interests in equity + convertible debenture
loans / total assets.

Debt/equity ratio

Interest-bearing liabilities / equity + minority interests in equity +
convertible debenture loans.

Risk capital ratio

Equity + minority interests in equity + deferred tax liabilities +
convertible debenture loans / total assets.

Earnings per share after full tax

Net income + interest on convertible debenture loans reduced by
28% tax / number of shares after full conversion. Net income for
1993-1996 has been charged with group contributions / stockholders'
contributions to NetCom Systems and MTG respectively.

Deferred tax

A rate of 28% was used to estimate deferred tax attributable to
allocations and untaxed reserves.

Stockholders' equity per share

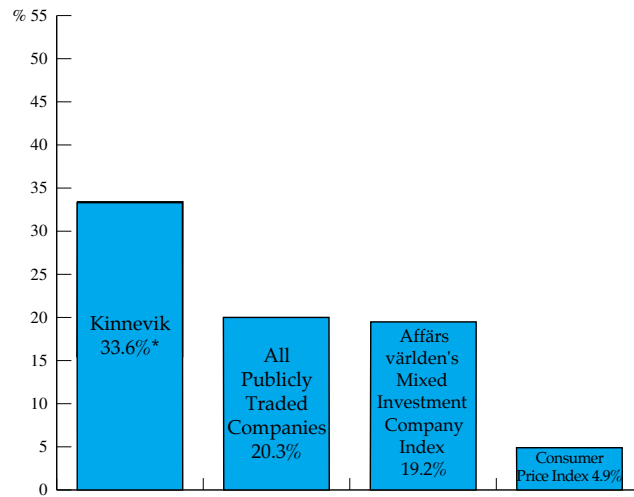
Equity + convertible debenture loans / number of shares after full
conversion.

Direct return

Dividend / market price on December 31.

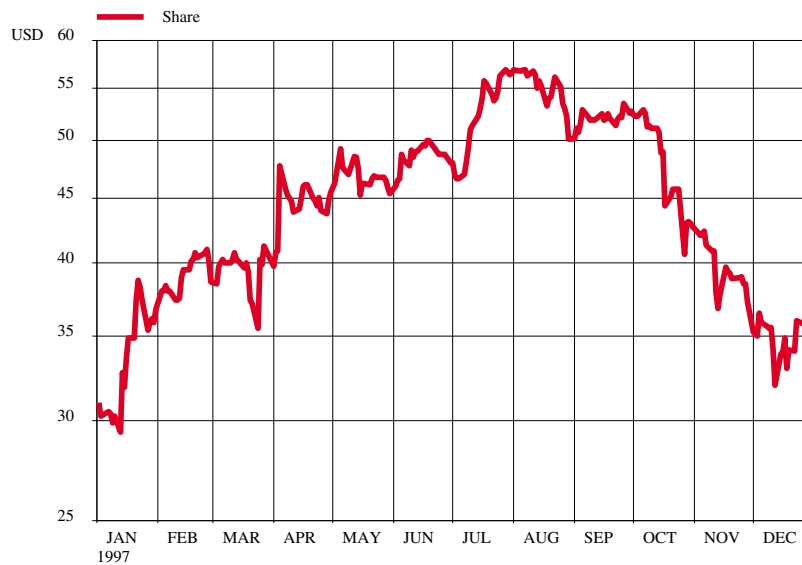
Figures

**Effective Annual Average Rate of Return on
Share Ownership 1983-1997**



* Including the value of dividends of NetCom and MTG and the value of share subscription offers.

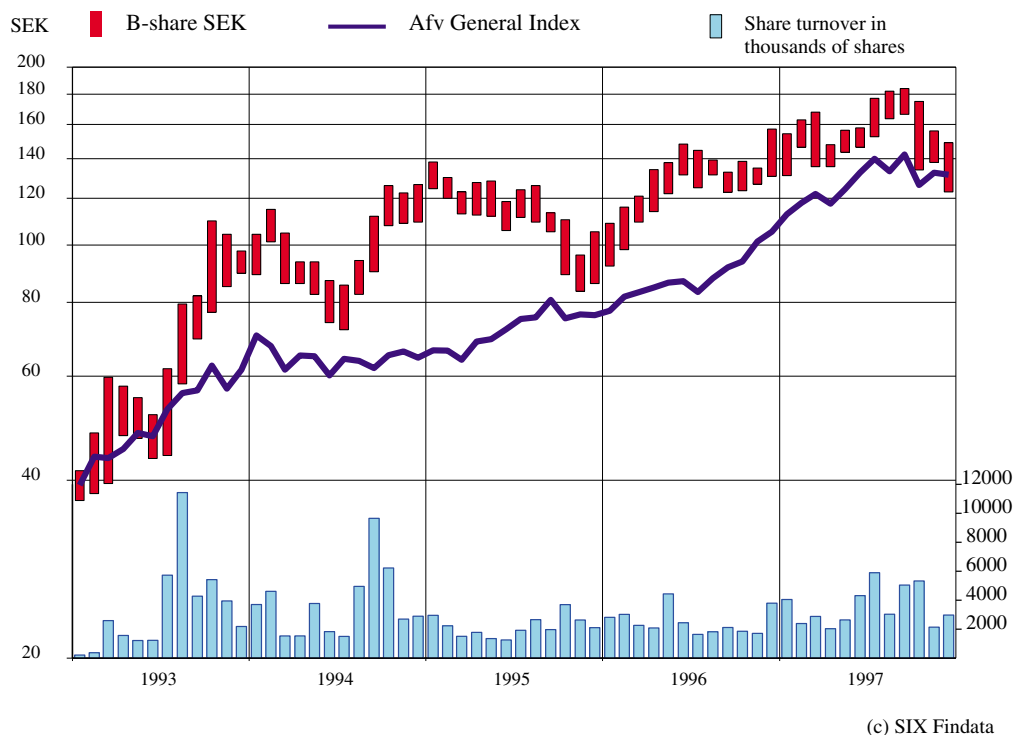
MIC share price during 1997



(c) SIX Findata

Kinnevik's holding in MIC amounts to 34%; the market value on December 31, 1997 was MSEK 4,851.

Shares, Convertible debentures and Options



Kinnevik shares

The above graph shows Kinnevik's share prices during the past five years. The share price movements are historically adjusted for the dividends of NetCom Systems AB and Modern Times Group MTG AB. On May 14, 1996 all shares in NetCom Systems were distributed to the shareholders. On September 15, 1997 all shares in MTG were distributed to the shareholders.

Convertible loan

In 1993 Kinnevik issued a convertible loan for MSEK 2,040. By December 31, 1997, MSEK 356 remained in issue, which corresponds to 3.2 million shares. All convertibles are listed on the Stockholm Stock Exchange. In 1997, the price rose from 157 percent to 224 percent. In September, they reached a peak at 224 percent and they reached their lowest level of 157 percent in January. The daily trading volume in 1997 amounted to just under SEK 2,800, which corresponds to 28 units.

Kinnevik options

Kinnevik options were first listed on OM in October 1993. On average, 290 option contracts (corresponds to 29,000 shares) were traded daily in 1997.

Shareholders

The number of Kinnevik shares owned by the principal shareholders and their percentage interest in the share capital and votes, according to VPC, December 30, 1997.

Shareholder	"A" shares	"B" shares	Per cent of capital	Per cent of votes
Invik & Co. AB	5,330,837	1,605,550	11.6	28.0
Afti AB	2,421,493	0	4.1	12.4
Jan H Stenbeck	1,664,962	0	2.8	8.5
Klingspor family	1,143,322	250,976	2.3	6.0
State Street Bank & Trust	401,950	7,146,880	12.6	5.7
Confidentia Förvaltnings AB	904,500	0	1.5	4.6
Chase Manhattan Bank	495,000	1,486,498	3.3	3.3
Korsnäs foundations	562,283	45,747	1.0	2.9
von Horn family	494,070	58,505	0.9	2.6
Folksam incl. AMF Sjukförsäkringar	0	3,561,939	6.0	1.8
Others	<u>1,705,324</u>	<u>30,417,896</u>	<u>53.9</u>	<u>24.2</u>
	15,123,741	44,573,991	100.0	100.0

Objectives

The purpose of Industriförvaltnings AB Kinnevik is to generate value for its shareholders, primarily by net asset value growth. The business comprises the active management of operating companies to ensure their long-term development. In this work, the awareness that every company has, and should continually strive to strengthen its business franchise is the foundation, and the long-term increase in value-added created in the operations is the lodestar. Major new investments have primarily been made, largely involving the purchase of substantial minority holdings in listed companies with price as an important criterium. Consequently, most investments have been contrarian in character, and made in periods of unclear outlook or in companies with uncertain prospects. Kinnevik has then sought opportunities to play an active role on the boards of these companies in association with other long-term shareholders.

Historical background

The predecessor of Industriförvaltnings AB Kinnevik was founded on December 18, 1936 by a group of friends and the business has been carried on by their sons. Thus the Company embodies more than sixty years of entrepreneurship under the same group of principle owners.

Ever since it was founded, the Group has owned large agricultural properties. Investments were originally made principally in heavy manufacturing, in the forest products, in the iron and steel industries and in fabrication often associated with these industries. Kinnevik's major portfolio investments have been in Korsnäs AB and Sandvik AB. In 1936 6,035 Series A shares were acquired in Korsnäs Sågverks AB. The first shares in Sandvik AB were acquired in a share subscription in 1958.

In 1978, shares of Fagersta AB were acquired for the purpose of seeking to coordinate the steel operations of Fagersta and Sandvik. When Skanska AB, in concert with Investment AB Beijer, acquired major holdings of shares in Sandvik AB, Kinnevik sold its Sandvik shares in the fall of 1983. In 1984, finally, agreements were reached to restructure the Swedish specialty steel industry. The assets of Fagersta AB for production of stainless steel were sold to other manufacturers. Fagersta AB was then merged into a single entity with its major stockholder, Investment AB Kinnevik. In 1985 the Parent Company of the Group changed its name to Industriförvaltnings AB Kinnevik.

Kloster Speedsteel AB, Kinnevik's last major investment in specialty steel manufacturing, was sold in 1991.

During the past 18 years, as the prices of established companies appeared to be high, Kinnevik, instead of investing in these, has set up companies based on new products or services, largely in information distribution in the broadest sense, from telecommunications to television. These companies are active in operating cellular mobile telephone systems since 1981, in establishing DBS satellite operations since 1985, in operating credit card telephone and credit card transaction systems since 1986, in providing SMA-TV services since 1987, in publishing since 1987, in satellite TV broadcasting since 1987, in independent TV production since 1988, in distribution of pay-TV since 1989, in television homeshopping since 1989, in radio broadcasting since 1991, in digital mobile telecommunications since 1992, in

text TV since 1993, in international telecommunications since 1993 and in national telecommunications since 1994. Metro, a daily newspaper, was started in 1995. Internet companies and companies related in other ways to IT as well as customer service operations were started in 1996. Even though errors surely have been committed, these ventures now appear to be successful overall.

In 1992 Kinnevik made a tender offer to acquire the minority shares outstanding in Korsnäs AB, a company in which Kinnevik has been a shareholder since 1936 and which has developed, in terms of value, into the largest asset in Kinnevik. This bid was successful.

Following its heavy capital investments at the end of the eighties, Korsnäs was about to enter a period when the profit expected would exceed its day-to-day investment requirements. A merger between Korsnäs and Kinnevik created an opportunity to invest Korsnäs' operating surplus in two fast growing areas of business enjoying excellent future potential in which Kinnevik possesses competence, namely TV & Media and Telecommunications.

During the past 18 years, sales of assets, largely in the special steel industry and in hydro-electric and nuclear power production, have generated proceeds of some MSEK 10,500, while investments in newly started companies have amounted to approximately MSEK 12,100.

Structure

In December 1994, Kinnevik's management announced that the company was planning to review its future structure. This moved into the next phase in 1995, when the four major business areas were reorganized as sub-groups, each with its own parent company.

On February 8, 1996, Kinnevik's Board announced its intention of successively distributing these sub-groups to Kinnevik's own shareholders. The shares in NetCom Systems were distributed at the Annual General Meeting in 1996, and then listed on the "O" list of the Stockholm Stock Exchange. These shares have also been, listed on the Nasdaq list in the USA since January 1997.

The Annual General Meeting in 1997 decided to distribute the shares in Modern Times Group MTG AB to Kinnevik's shareholders. This split was carried out on September 15 and the shares were listed on Stockholm Börsinformation, SBI and the Nasdaq Exchange shortly thereafter.

Following these two fissions, Industriförvaltnings AB Kinnevik's most important assets are the following: over 90 per cent of the shares in Korsnäs AB. (The remaining almost 10 per cent have been subject to compulsory acquisition proceedings for an unnecessarily drawn out period of almost five years.) Millicom International Cellular S.A. (MIC) (34%), one of the world's leading operators of mobile telecommunications systems; Tele2 Europe (100%), a rapidly growing telecom operator on the continent. Kinnevik also owns a number of smaller companies which either belong to the Group for historical reasons or which were started in connection with the TV & Media and telecommunication ventures and which for various reasons were not included in the two above-mentioned demergers.

The company's shares in telecommunications and related activities outside Scandinavia may be merged with MIC's European activities in a jointly owned company, Société

Directors and the President

Européenne de Communication (SEC). The relative interests in this company will depend on the outcome of an independent valuation and subsequent negotiations.

Kinnevik's Board, which has already expressed its own concern and noted that of others over the Group's major investments in corporate development were causing strain and risky, is not aware, at the time of writing, of any type of business in which new ventures of a corresponding type or size would be desirable. It is not without a certain irony that the Board can detect some sense of dissatisfaction among players on the stock market that the Group's business appears to be too predictable and traditional.

Operations in 1997

Harvests varied widely in 1997. The particularly unsettled weather, with almost near drought or heavy rain, with sunshine or cold, caused wide variations in quantities and qualities harvested, depending on geographical location. Generally, throughout the country, the quality of this year's harvest was poorer than in 1996. This is also reflected in the overall supply on the market. The proportion of grain for animal feed increased as some quantities failed to reach the quality standards required for food for human consumption. The prices of these volumes, therefore, came under intense pressure. Nonetheless, MSLA was able to repeat its satisfactory result.

In December 1997, MIC announced the formation of five strategic business areas: Société Européenne de Communications S.A. (SEC), which will mainly develop and run the long distance and international telecom activities in Europe; FORA Telecom, which is active in mobile telecommunications in Russia and the Baltic States; Sanboa Telecom in Asia, within which the Asian subsidiaries are grouped; the equivalent process has already been completed in Latin America, where MIC Latin America has been formed; and GSM Clearing (MIC Systems), which includes MIC's wholly-owned subsidiary Multinational Automated Clearing House S.A. (MACH), the leading GSM clearing company in the world.

In 1997, MIC's subscriber base grew by 96 per cent to 989,128 subscribers. MIC has interests in 31 companies in 20 countries which together represent a market with 440 million inhabitants.

Tele2 Europe, whose activities comprise the provision of telecommunication services, commenced operations in Holland at the end of October, and in Germany during the first quarter of 1998. In February 1998, the company obtained a "prefix" licence in France and is currently engaged in final discussions with the French licensing authority concerning equality of treatment with France Télécom in both international and national telecommunications in France. The company also intends to apply for licences in Italy, Switzerland and Austria.

The new Internet service that was introduced within 3C Communications in 1996, expanded further in 1997 and by the end of the year had 1,200 terminals installed in ten countries. This service enables users to send and receive e-mail and to use other services on the Internet.

In the autumn of 1997 those of Kinnevik's ventures in the IT field which are mainly concerned with the development of websites were phased out.

A brief look back and future prospects

In 1997 the American economy enjoyed another brilliant year. Price increases were slightly slower than in 1996. By December, the consumer price index had risen by a moderate 1.7 per cent, while producer prices had actually fallen by about 1.2 per cent, despite the increasingly overheated labor market. Unemployment was 4.7 per cent in December. Expectations for the current year are still high.

All this is in striking contrast with the world's second largest economy, Japan. The tight fiscal policy, especially the rise in turnover tax on April 1, had a strongly moderating effect, which was accentuated during the year. GDP growth amounted to only one per cent, according to preliminary estimates.

Admittedly, the heavily undervalued Yen will help exports, but as these currently account for little more than 11 per cent of GDP, it is domestic demand that will have a decisive effect on the total level of economic activity. At this stage, all the signs indicate a real recession, i.e., falling total output, in 1998.

1997 was another outstanding year in Great Britain, which is increasingly beginning to emerge as the USA of Europe, in terms of economic growth, dynamism and flexibility. According to preliminary estimates, total production rose by 3.4 per cent, the sixth year of strong growth since the recovery began in 1992. Unemployment has fallen gradually to 5 per cent, an unusually low level by European standards.

As for the big two on the Continent of Europe - Germany and France - last year was another year of disappointment in terms of growth. Admittedly, GDP grew by 2.4 per cent in real terms, but this growth was essentially export driven, and their domestic markets remained slack. Unemployment in both countries rose to record post-war levels, which did nothing at all to boost consumer confidence.

In the Nordic region, Finland's GDP rose by no less than 5 per cent in real terms, followed by Norway with 4 per cent, and Denmark with 3.5 per cent. Sweden's real GDP, on the other hand, only grew by a mediocre 1.7 per cent. The weakness of local government finances, and the low level of activity in the building industry, resulted in declining public consumption and a low rate of gross capital formation.

The re-orientation of economic policy that will be needed to pull Sweden back onto the growth track has not materialized. The necessary re-orientation of tax and labor market policy is failing to emerge, nor has the government developed a strategy in relation to the EU. As long as the politicians lack the courage to take the measures that sound economic theory and demonstrated experience in other countries prescribe, it is fairly safe to forecast that a state of relative decline and economic stagnation will persist in Sweden.

The outlook is very bright for the major economies in 1998, except in Japan. Generally low inflation rates and relatively low interest rates will provide a foundation for an accelerating or maintained steady rate of economic growth.

The only two visible threats appear to be a psychological reversal due to the high expectations on financial markets or, possibly, trade restrictions on Asian export economies with their recently devalued currencies.

Directors' Annual Report

Return and asset value

Over the past 15 years, Kinnevik's shares have generated an average effective yield of 34 per cent per year as a result of rising prices and dividends, including the value of rights offers and subscription offers. The effective yield in 1997 was 11 per cent.

During the year, all the shares in Modern Times Group MTG AB were distributed to shareholders. These shares were listed on SBI at SEK 61 at the time of distribution. At the year-end, the price of the Kinnevik's shares (ex-MTG) was SEK 131.50.

Consolidated result

Net sales for 1997 amounted to MSEK 6,966, compared with MSEK 7,163 for the previous year for comparable units. Other operating revenue amounted to MSEK 201 (236).

Income from corporate development and the result of sales of securities amounted to MSEK 394. This relates largely to the sale of NetCom convertibles MSEK 167, SMA Equipment and SMA Stith MSEK 95, the premium of MSEK 96 on TV1000's option, a share issue by MTV Production MSEK 26 and the divestment of the operations of Imedia AB amounting to MSEK 12.

Operating income amounted to MSEK 706 (900).

The interest in losses incurred by associate companies amounted to MSEK 274 (loss 25), of which Millicom International Cellular S.A. (MIC) corresponded to a loss of MSEK 253.

Financial revenue and expense, excluding interest on convertible loan stock, amounted to a net expense of MSEK 267 (expense 251).

Income after financial income and expense, excluding interest on convertible loan stock, amounted to MSEK 165 (624).

Net income amounted to MSEK 130 (loss 474).

The comparative figures for 1996 relate to the Kinnevik Group on a post forma basis, i.e., excluding Modern Times Group MTG AB.

Organization

During the past 18 years, total investments in new businesses have amounted to some MSEK 12,100.

During the build-up period it has been an advantage for the new businesses to be included within Kinnevik, whose organization is very similar to that of a conglomerate, which enabled them to benefit from the Group's total financial and management resources.

When the companies reached a certain degree of maturity it became desirable to expose the economic values and give them a higher degree of autonomy. This has been done by restructuring the Kinnevik Group into clearly demarcated sub-groups for each business area.

The Kinnevik Group was reorganized as of December 31, 1994 into four sub-groups, each having its own parent company:

- Korsnäs Holding AB for the businesses in packaging and packaging materials.
- Modern Times Group MTG AB for TV & Media and other related activities in Scandinavia and nearby countries. On May 23, 1997 Kinnevik's General Meeting resolved in favor of distributing the shares in Modern Times Group

MTG AB to shareholders. The shares in Modern Times Group MTG AB have been listed since September 18 on Nasdaq and on Stockholm Börsinformation, SBI.

- NetCom Systems AB is engaged in telecommunications in Scandinavia and nearby countries. On May 3, 1996, Kinnevik's Annual General Meeting resolved in favor of distributing shares in NetCom System AB to Kinnevik's shareholders. NetCom Systems AB was listed in the "O" list of the Stockholm Stock Exchange on May 14, and on Nasdaq in January 1997.

- Investment AB Kinnevik, which is responsible for other operations.

Investment AB Kinnevik will continue Kinnevik's tradition of developing new business. The company will own the Group's assets which do not fall within any of the above sub-groups. Moreover, assets which were part of the three main business areas but which will acquire greater transparency within an investment company and probably therefore have a greater impact on the valuation of the shares, such as large minority holdings or development projects, will be owned by the investment company. Holdings of large minority interests, such as that in MIC, will also give the investment company the financial strength that is a prerequisite for corporate development, in as far as this will continue, or for a return to the policy of buying holdings in other listed companies which are temporarily out of favor.

Prior to the distribution of the shares in Modern Times Group MTG AB, a new MTG was set up at the beginning of 1997. In connection with the formation of the new MTG Group, MTG took over some businesses from Kinnevik while others remained in Kinnevik. In the case of TV1000 and AirTime Sweden, these are still owned by Industriförvaltnings AB Kinnevik, although they are managed operatively by MTG.

Important events during the year

In March Kinnevik sold some of its holding of convertibles in NetCom Systems AB. The sale included the equivalent of six million "B" shares in NetCom Systems AB and the proceeds amounted to MSEK 660.

MTV Production AB has been listed on the "O" list of the Stockholm Stock Exchange since April 14. Kinnevik's equity interest now amounts to 44 per cent.

On May 23, Kinnevik's General Meeting resolved in favor of distributing all the shares in the subsidiary Modern Times Group MTG AB.

Prior to this distribution, the Board recommended holders of Kinnevik's 1993/97 convertible loan to convert it into shares and participate in the distribution. In order to compensate the holders of the convertible loan for the difference between the interest shortfall and the dividend, the terms of the convertible loan were adjusted during the period from June 1 and until 15 days ahead of the record date for entitlement to dividend in the form of shares in Modern Times Group MTG AB, whereby the conversion price was reduced from SEK 110 to SEK 106.60. Consequently, 1,032 shares were received for each convertible. Otherwise, the conversion terms were adjusted so that the holders who called for conversion up until 15 days

before the record date for the distribution of shares in Modern Times Group MTG AB would become entitled to receive such dividend. At the same time, the term of the convertible loan stock was extended until March 31, 1998, while the latest date for conversion was fixed at February 28, 1998.

In connection with the distribution of MTG, an option agreement was reached between Kinnevik and MTG whereby MTG became entitled to acquire Kinnevik's interest in TV1000 at its market value. According to the agreement, MTG will also become liable for covering TV1000's losses in excess of MSEK 100, MSEK 60 and MSEK 30 for 1997, 1998 and 1999 respectively. Kinnevik has transferred management responsibility for TV1000 to Modern Times Group MTG AB.

As of May 30, Kinnevik's American subsidiary SMA Group Holding Inc. divested SMA Equipment Co. Inc., in California, and SMA Stith Equipment Co., in Georgia, to American Equipment Co. Inc. The sales proceeds amounted to MUSD 38 and the sale generated a capital gain of MSEK 95.

Kinnevik's Board decided at its meeting on August 7 to capitalize MTG prior to distribution of the shares. MSEK 750 of Kinnevik's net claim on MTG were converted into equity of MSEK 326 and a MSEK 424 convertible loan. The convertible loan has a nominal value of MSEK 424 and a conversion price of SEK 85 per share. Kinnevik also granted an option to MTG to acquire 1,550,000 shares in MIC for an exercise price of MSEK 100.

Modern Times Group MTG AB was listed on Nasdaq and on Stockholm Börsinformation, SBI, on September 18.

On September 29 an agreement was reached between Kinnevik and Scribona AB to sell the business conducted by Imedia AB. The capital gain amounted to MSEK 12.

On November 3, Kinnevik acquired 3,290,000 "B" shares in NetCom Systems AB from Invik & Co. AB. The price was SEK 126 per share, in total MSEK 415.

During the autumn some of Kinnevik's ventures in the IT field, which were largely concerned with the development of websites, were discontinued.

The compulsory acquisition proceedings instituted by Korsnäs Holding AB on January 4, 1994 relating to the minority shareholdings in Korsnäs AB is still in progress.

In 1996, Kinnevik called for compulsory acquisition of the shares in TV1000 owned by minority shareholders. This case is still in progress.

Events since the end of the financial year

On February 17, 1998, Kinnevik sold its entire holding of 1993/97/98 convertible loan stock, corresponding to 3,228,586 "B" shares, partly to the market and partly to Invik & Co. AB. The sales proceeds amounted to the equivalent of MSEK 426.

Financial position

The Group's liquid funds, including undrawn credit facilities and holdings of the company's own convertibles, amounted to MSEK 3,103 (2,070) at December 31, 1997.

The Group's interest-bearing debt amounted to MSEK 4,522 (3,948) at the year end, excluding convertible loan stock.

The average interest cost for the year was some 6.3 per cent (7.2%) (defined as interest expense in relation to

average interest-bearing liabilities excluding pension liabilities and convertibles).

The Group's borrowing is largely arranged in Swedish kronor. Foreign subsidiary companies, however, arrange their financing in local currencies.

On an annual basis, the Group's in-flows and out-flows in foreign currencies amounted to a net in-flow equivalent to some MSEK 1,200.

Future developments

See Review by the Board of Directors and President and section presentation of the Group's operative companies.

Research and development

The Group's research and development expense amounted to MSEK 115 (59), the bulk of which is attributable to Korsnäs AB.

Parent company

The parent company reports net income from corporate development and income from sales of securities amounting to MSEK 266 (214).

Dividend revenue during the year of MSEK 3 (922) consisted of dividend from AirTime (AT) AB (previous year dividend income of MSEK 22 was received from TV4 and of MSEK 900 from Investment AB Kinnevik).

Other financial revenue and expense, excluding interest on convertibles, resulted in a net expense of MSEK 68 (revenue 29).

Conversions of 1993/97/98 convertible loan stock during the year resulted in the share capital increasing by MSEK 1 and equity by MSEK 34 respectively.

The parent company's income before allocations and tax amounted to MSEK 156 (1,170).

Proposed treatment of unappropriated earnings

At the disposal of the parent company's Annual General Meeting are (SEK thousand)	
Retained earnings	157,850
Net income for the year	578,509
Total	<u>736,359</u>

The Board and the President propose that the unappropriated earnings at the disposal of the Annual General Meeting be dealt with as follows:

to be paid out by way of a dividend of SEK 5 per share	314,693
to be carried forward	421,666
Total	<u>736,359</u>

The Group's non-restricted equity amounts to MSEK 1,101.2 (2,490.4) after deduction of the proposed transfer to restricted reserve.

Consolidated Statement of Income

for the period January 1 – December 31 (MSEK)

	1996	1996 * post forma	1997
Net sales, Note 2.....	9,744.4	7,162.8	6,965.7
Cost of sales.....	<u>– 7,848.0</u>	<u>– 5,651.1</u>	<u>– 5,493.9</u>
Gross result.....	<u>1,896.4</u>	<u>1,511.7</u>	<u>1,471.8</u>
Selling expenses.....	– 582.2	– 376.8	– 414.1
Administration expenses.....	– 1,114.4	– 720.3	– 653.1
Research and development expenses.....	– 63.5	– 58.5	– 115.1
Income from corporate development, Note 3.....	365.3	333.9	128.8
Income from sales of securities, Note 3.....	214.4	214.4	264.9
Other operating income.....	294.6	236.5	200.8
Transfer to Korsnäs' employees' profit-sharing foundation.....	– 8.2	– 8.2	– 35.1
Other operating expenses.....	<u>– 407.9</u>	<u>– 233.1</u>	<u>– 142.6</u>
Operating income, Note 2.....	594.5	899.6	706.3
Result from participation in affiliated companies, Note 6.....	– 17.9	– 25.3	– 274.1
Interest income and similar, Note 7.....	148.5	374.6	180.8
Interest expense and similar, Note 8.....	<u>– 565.7</u>	<u>– 625.3</u>	<u>– 448.1</u>
Income after financial items, excluding interest on convertibles, Note 2.....	159.4	623.6	164.9
Interest on convertibles.....	<u>87.4</u>	<u>87.4</u>	<u>– 5.2</u>
Income before tax.....	246.8	711.0	159.7
Group contributions/stockholder contributions to MTG.....	–	– 1,206.4	–
Current taxes.....	– 125.9	– 94.3	– 69.9
Deferred taxes, Note 16.....	276.1	128.7	14.4
Minority share in earnings.....	<u>– 23.4</u>	<u>– 12.7</u>	<u>25.6</u>
Net result for the year.....	<u>373.6</u>	<u>– 473.7</u>	<u>129.8</u>

*) Excluding Modern Times Group MTG AB, i.e. the Kinnevik Group presented as if MTG were an external shareholding which was not consolidated.

Consolidated Statement of Changes in Financial Position

for the period January 1 – December 31 (MSEK)

	1996	1997 *
Sources of funds		
Income after financial items	– 173.8	164.9
Translation differences	3.0	91.9
Depreciation	625.3	470.7
Income from corporate development and sales of securities	– 246.5	– 393.7
Participations in affiliated companies	17.9	274.1
Taxes	150.2	– 55.5
Interest on convertibles	87.4	– 5.2
Minority share in earnings	– 23.4	25.6
Funds generated from the year's operations	440.1	572.8
Change in minority interests	– 13.9	– 32.0
Sales of securities	851.9	1,211.2
Increase in long-term liabilities	–	1,843.8
New stock issue	1,600.3	33.4
Total sources of funds	<u>2,878.4</u>	<u>3,629.2</u>
Application of funds		
Investments in fixed assets	641.9	937.8
Increase in long-term receivables	179.0	63.5
Decrease in long-term liabilities	1,699.1	–
Dividends	1,044.8	1,610.6
Total application of funds	<u>3,564.8</u>	<u>2,611.9</u>
Change in working capital	<u>– 686.4</u>	<u>1,017.3</u>
Specification of change in working capital		
Change in liquid funds and short-term investments	743.2	244.9
Change in current receivables	– 1,937.9	– 2,515.3
Change in inventories	401.0	– 175.6
Change in current liabilities	107.3	3,463.3
Total change	<u>– 686.4</u>	<u>1,017.3</u>

* Analysis of the change in working capital between the post forma balance sheet 1996 excluding Modern Times Group MTG AB and actual 1997.

Consolidated Balance Sheet

December 31 (MSEK)

ASSETS	1996	1996 * post forma	1997
Fixed assets			
Intangible assets, Note 10			
Capitalized development costs	294.8	69.4	145.5
Beneficial rights	82.1	11.8	7.4
Goodwill	523.3	207.6	347.4
	<u>900.2</u>	<u>288.8</u>	<u>500.3</u>
Property, plant and equipment, Note 11			
Land and buildings	969.7	969.0	980.4
Forest and agricultural property	3,049.8	3,049.8	3,029.0
Machinery	3,151.9	3,034.6	3,012.7
Equipment, tools and fittings	233.9	136.6	349.3
Leasing objects	55.8	55.8	29.3
Construction in progress and advances relating to property, plant and equipment	249.9	235.6	336.6
	<u>7,711.0</u>	<u>7,481.4</u>	<u>7,737.3</u>
Financial assets, Note 12			
Stocks in Modern Times Group MTG AB	–	932.6	–
Participations in affiliated companies	1,079.8	792.6	630.9
Receivables from affiliated companies	28.7	20.7	300.7
Stocks and participations in other companies	147.0	142.2	145.0
Other long-term receivables	763.9	769.2	552.7
	<u>2,019.4</u>	<u>2,657.3</u>	<u>1,629.3</u>
Total fixed assets	<u>10,630.6</u>	<u>10,427.5</u>	<u>9,866.9</u>
Current assets			
Inventories etc			
Raw materials and consumables	273.7	273.7	349.5
Felling rights	76.5	70.0	55.5
Work in progress	56.1	50.0	62.8
Finished products and goods for resale	2,478.8	1,002.8	733.5
Work on contract	–	–	3.0
Advance payment to suppliers	141.7	141.7	158.3
	<u>3,026.8</u>	<u>1,538.2</u>	<u>1,362.6</u>
Current receivables			
Accounts receivable	1,518.8	1,222.0	1,158.3
Other receivables	1,141.9	2,706.6	292.5
Prepaid expenses and accrued income, Note 13 ..	460.0	256.0	218.5
	<u>3,120.7</u>	<u>4,184.6</u>	<u>1,669.3</u>
Short-term investments	<u>1,154.6</u>	<u>1,149.9</u>	<u>1,549.4</u>
Liquid funds	<u>814.8</u>	<u>645.6</u>	<u>491.0</u>
Total current assets	<u>8,116.9</u>	<u>7,518.3</u>	<u>5,072.3</u>
TOTAL ASSETS	<u>18,747.5</u>	<u>17,945.8</u>	<u>14,939.2</u>

*) Excluding Modern Times Group MTG AB, i e the Kinnevik Group presented as if MTG were an external shareholding which was not consolidated.

STOCKHOLDERS' EQUITY AND LIABILITIES	1996	1996	1997
Stockholders' equity, Note 14		post forma *	
Restricted equity			
Stock capital	596.1	596.1	597.0
Restricted reserves.....	3,394.7	3,377.4	3,467.1
	3,990.8	3,973.5	4,064.1
Unrestricted equity			
Unrestricted reserves	2,156.1	3,020.7	971.5
Net result	373.6	– 473.7	129.8
	2,529.7	2,547.0	1,101.3
Total stockholders' equity	6,520.5	6,520.5	5,165.4
Minority interest in equity	83.6	77.4	45.4
Provisions			
Provisions for pensions	620.2	619.8	660.9
Deferred tax liabilities, Note 16	329.3	367.7	325.4
Other provisions, Note 17	713.0	713.0	753.9
Total provisions.....	1,662.5	1,700.5	1,740.2
Long-term liabilities, Note 18			
Interest-bearing			
Checking account credit facilities, Note 19	165.1	30.5	35.9
Other liabilities to credit institutions	4,200.9	3,896.4	5,737.2
Liabilities to affiliated companies.....	0.4	–	–
Other liabilities.....	1.6	4.9	9.8
	4,368.0	3,931.8	5,782.9
Non-interest-bearing.....	634.8	64.2	17.2
Total long-term liabilities	5,002.8	3,996.0	5,800.1
Short-term liabilities			
Interest-bearing			
Liabilities to credit institutions	1,904.1	1,789.8	192.8
Convertible debenture loan, Note 20.....	388.8	388.8	358.4
Liabilities to affiliated companies.....	16.6	13.2	16.1
Notes payable.....	290.8	290.8	28.7
Other liabilities.....	–	271.4	–
	2,600.3	2,754.0	596.0
Non-interest-bearing			
Advance payments from customers	51.9	6.6	9.2
Accounts payable.....	838.0	668.4	610.6
Liabilities to affiliated companies.....	79.0	16.2	25.6
Income tax liabilities.....	70.9	62.2	35.7
Other liabilities.....	885.8	1,607.9	389.0
Accrued expenses and prepaid income, Note 21 .	952.2	536.1	522.0
	2,877.8	2,897.4	1,592.1
Total short-term liabilities.....	5,478.1	5,651.4	2,188.1
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES.....	18,747.5	17,945.8	14,939.2
Pledged assets, Note 23.....	8,025.6	8,025.6	7,587.6
Contingent liabilities, Note 24.....	660.0	660.0	910.5

Parent Company Statement of Income

for the period January 1 – December 31 (MSEK)

	1996	1997
Administration expenses	– 84.7	– 58.8
Income from sales of securities, Note 3	214.4	266.2
Other operating income	<u>0.9</u>	<u>18.8</u>
Operating income.	130.6	226.2
Result from participation in Group companies, Note 5	900.0	3.0
Result from participation in affiliated companies, Note 6	22.4	–
Interest income and similar, Note 7	704.1	419.0
Interest expense and similar, Note 8	<u>– 674.7</u>	<u>– 486.6</u>
Income after financial items, excluding interest on convertibles	1,082.4	161.6
Interest on convertibles	<u>87.4</u>	<u>– 5.2</u>
Income before tax.	1,169.8	156.4
Group contributions/stockholders' contributions, Note 9	– 1,472.7	422.1
Current taxes	<u>–</u>	<u>–</u>
Net result for the year.	<u><u>– 302.9</u></u>	<u><u>578.5</u></u>

Parent Company Statement of Changes in Financial Position

for the period January 1 – December 31 (MSEK)

	1996	1997
Sources of funds		
Income after financial items	1,082.4	161.6
Depreciation	1.4	1.4
Income from sales of securities	– 214.4	– 266.2
Net group contributions/stockholders' contributions	– 1,472.7	422.1
Interest on convertibles	<u>87.4</u>	<u>– 5.2</u>
Funds generated from the year's operations.	– 515.9	313.7
Sales of stock and other securities	2,892.2	266.2
Devaluation of fixed assets	– 124.7	–
Decrease in long-term receivables	–	389.4
New stock issue	1,600.3	33.4
Increase in long-term liabilities	<u>–</u>	<u>931.6</u>
Total sources of funds	<u>3,851.9</u>	<u>1,934.3</u>
Application of funds		
Investments in stocks and other securities	1,798.9	1,119.5
Investments in fixed assets.	– 9.1	0.6
Increase in long-term receivables.	1,715.8	–
Decrease in long-term liabilities.	2,352.4	–
Dividends	<u>1,873.9</u>	<u>678.0</u>
Total application of funds	<u>7,731.9</u>	<u>1,798.1</u>
Change in working capital.	<u>– 3,880.0</u>	<u>136.2</u>
Specification of change in working capital		
Change in liquid funds.	27.0	21.1
Change in current receivables	– 2,801.6	– 2,341.6
Change in current liabilities.	<u>– 1,105.4</u>	<u>2,456.7</u>
	<u>– 3,880.0</u>	<u>136.2</u>

Parent Company Balance Sheet

December 31 (MSEK)

ASSETS	1996	1997
Fixed assets		
Property, plant and equipment, Note 11		
Equipment.	3.9	3.1
Financial assets, Note 12		
Stocks in Group companies	5,709.0	6,679.4
Receivables from Group companies.	1,733.6	1,700.0
Participations in affiliated companies	21.4	35.9
Receivables from affiliated companies.	–	200.8
Stocks and participations in other companies ...	9.6	144.3
Other long-term receivables.	560.6	4.0
	8,034.2	8,764.4
Total fixed assets	<u>8,038.1</u>	<u>8,767.5</u>
Current assets		
Current receivables		
Receivables from Group companies.	4,022.5	2,002.7
Other receivables	805.3	121.2
Prepaid expenses and accrued income, Note 13 ..	57.5	30.6
	4,885.3	2,154.5
Short-term investments	979.8	1,369.1
Liquid funds	40.1	61.2
Total current assets	<u>5,905.2</u>	<u>3,584.8</u>
TOTAL ASSETS	<u>13,943.3</u>	<u>12,352.3</u>

STOCKHOLDERS' EQUITY AND LIABILITIES	1996	1997
Stockholders' equity, Note 14		
Restricted equity		
Stock capital	596.1	597.0
Revaluation reserve	190.4	190.4
Legal reserve	2,986.7	3,019.3
	<u>3,773.2</u>	<u>3,806.7</u>
Unrestricted equity		
Retained earnings	1,138.7	157.9
Net result	- 302.9	578.5
	<u>835.8</u>	<u>736.4</u>
Total stockholders' equity	<u>4,609.0</u>	<u>4,543.1</u>
Provisions		
Provisions for pensions	36.1	35.9
Long-term liabilities, Note 18		
Interest-bearing		
Liabilities to credit institutions	1,959.1	2,267.2
Liabilities to Group companies	20.0	699.3
	<u>1,979.1</u>	<u>2,966.5</u>
Non-interest-bearing		
Liabilities to Group companies	55.6	-
Other liabilities	8.6	8.6
	<u>64.2</u>	<u>8.6</u>
Total long-term liabilities	<u>2,043.3</u>	<u>2,975.1</u>
Short-term liabilities		
Interest-bearing		
Convertible debenture loan, Note 20	388.8	358.4
Liabilities to Group companies	4,978.0	4,259.7
Other liabilities	664.2	28.7
	<u>6,031.0</u>	<u>4,646.8</u>
Non-interest-bearing		
Accounts payable	7.6	8.3
Liabilities to Group companies	1,145.1	81.8
Other liabilities	21.5	17.9
Accrued expenses and prepaid income, Note 21.	49.7	43.4
	<u>1,223.9</u>	<u>151.4</u>
Total short-term liabilities	<u>7,254.9</u>	<u>4,798.2</u>
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	<u>13,943.3</u>	<u>12,352.3</u>
Pledged assets, Note 23	<u>6,635.0</u>	<u>7,372.0</u>
Contingent liabilities, Note 24	<u>2,088.2</u>	<u>1,864.3</u>

Note 1

Accounting and valuation principles

The new Annual Accounts Act is applied with effect from 1997. This has resulted in certain new headings and the reclassification of certain items, as well as changes in the layout of income statements and balance sheets. Previous year income statements and balance sheets have been adjusted into line with the new rules for purposes of comparability.

Principles of consolidation

The consolidated financial statements relate to the parent company and all subsidiary and associate companies.

The consolidated financial statements are made up in accordance with the purchase method in compliance with the Annual Accounts Act, and the Swedish Financial Accounting Standards Council's recommendations, whereby the value in the parent company's books of shares in subsidiary companies is netted off against the acquisition value of the subsidiary companies, in other words, the equity (including the capital interest in untaxed reserves) of each subsidiary after a market valuation at the time of acquisition. As a consequence, the consolidated equity only includes that proportion of each subsidiary company's equity that was generated after the time of acquisition. The difference between the acquisition value of shares in subsidiary companies and their stated equity at the time of acquisition that is not due to differences between the market value and the book value of fixed assets is stated as goodwill. Goodwill arising on consolidation is depreciated with effect from 1997 inclusive at 20 % per year, while goodwill arising on acquisitions before 1997 is depreciated at 10 % per year. However, goodwill arising on the acquisition of Bates Korsnäs A/S is depreciated by 5% per year as the acquisition is in line with Korsnäs long-term integration policy and Bates has a strong, well-established brand name and a dominating position on its markets.

In addition to the tax charged on the year's taxable income (paid tax), estimated tax on the year's appropriations is also charged against the year's income ("transfer to deferred tax liability") in the accounts of the Group company in question. The tax liabilities included in untaxed reserves are stated as deferred tax liability, while the remaining proportion of the untaxed reserves is stated among Restricted reserves within Equity. In the calculation of deferred tax liability, account is taken of loss allowances available to the Group to the extent that they are expected to be utilized

in the near future.

Closing date exchange rates are used for translating foreign subsidiary companies' balance sheet items, while average exchange rates are used for translating income statement items. Translation differences thus arising are taken direct to equity in the balance sheet.

Minority interests in net income and equity are stated under Minority interests. In the event of negative equity, the claim on the minority is stated in so far as the minority is expected to contribute its share of the deficit.

Accounting treatment of affiliated companies

Affiliated companies are included in the accounts using the equity method. The Group's interest in the earnings of affiliated companies after financial net is stated under Interest in earnings of affiliated companies in the income statement. The interest in the tax expense of affiliated companies is stated among consolidated tax expense.

Goodwill arising in respect of foreign affiliated companies is stated among assets in foreign currencies. These figures are translated using the same principles as apply to the income statements and balance sheets of the affiliated companies.

By affiliated company is meant a company in which the Group's equity interest amounts to a minimum of 20% and a maximum of 50%, and where the interest at this level is expected to be long term. This is the case with Millicom International Cellular S.A. (34%), MTV Produktion AB (44%), and Karskär Energi AB (41%).

The excess value is allotted to the fixed assets of the respective affiliated company or goodwill. Goodwill is depreciated over five or ten years, and other fixed assets are depreciated in accordance with the depreciation plan for the respective class of asset.

The reported accounts of affiliated companies are adjusted in accordance with Kinnevik's accounting and valuation principles before the calculation of the Group's interest in earnings.

Adjustments for major internal profits arising out of transactions with affiliated companies are made when the interest in the result and the capital interest are calculated. Such internal profits are reversed in pace with realization in the form of external sales and/or a reduction in the Kinnevik Group's equity interest in the affiliated company.

In connection with increases or reductions respectively in the Group's capital interest in these affiliates as a result of a share issue, the income or loss respectively is stated in the consolidated statement of

income under Participation in earnings of affiliated companies, by analogy with the principles recommended by the Swedish Financial Accounting Standards Council for the accounting treatment of share issues by subsidiary companies.

Receivables and liabilities in foreign currencies of Swedish and foreign Group companies

Receivables and liabilities of Group companies denominated in foreign currencies are translated into local currency at closing date rates. In the event of forward hedging, hedging rates are used.

Long-term monetary balances between the parent company and subsidiary companies may be deemed to represent an extension or a contraction of the parent company's net investment in the subsidiary. Foreign currency differences arising on such balances are therefore taken direct to equity as a translation difference.

Inventories

Inventories are valued at the lower of acquisition cost and actual value. The value of the inventories of each sub-group is as follows (MSEK):

Korsnäs Holding AB	968
Investment AB Kinnevik	202
Other subsidiaries	193

The amount stated as inventory in the consolidated accounts includes the TV1000's library of program rights. TV1000 previously stated program rights as inventory when the contract was reached with the film distributor. As of 1997, however, program rights are only stated as inventory when the license period begins, i.e. when the programs are available for broadcasting, the cost of each program becomes known, and the program material has been approved by TV1000. TV1000's inventory of program rights corresponds at any time roughly to the program cost for the following two months. See also Note 15.

Fixed assets

Fixed assets are stated after deducting accumulated depreciation according to plan. Depreciation according to plan is based on the acquisition value of the assets and their estimated economic lives.

For purposes of calculating depreciation, fixed assets are classified on the basis of their estimated economic lives in to the following groups:

Parent company	Group
Beneficial rights	10-25 years
Goodwill	5-20 years
Machinery and equipment 5 years	3-23 years
Leasing objects	3-5 years
Industrial buildings	20-67 years
Office buildings	20-67 years
Residential buildings	20-67 years
Land improvements	25-30 years
Capitalized development costs .	3-5 years

Development and start-up costs are capitalized during the build-up phase of a development project. Depreciation of capitalized development costs begins on the basis of the project plan for each project.

The breakdown of capitalized development costs by business area is as follows (MSEK):

Korsnäs Holding AB	18
Investment AB Kinnevik	120
Other subsidiaries	8

Capitalized development costs relate to the costs of newly-started businesses. Start-up costs until the commercial introduction of the project, and some of the costs during the first year of operation are capitalized and depreciated over a maximum period of five years.

Distribution of shares in Modern Times Group MTG AB

According to a decision made by the 1997 Annual General Meeting, all the shares in the wholly-owned subsidiary Modern Times Group MTG AB have been distributed to shareholders. Prior to the distribution of the shares in MTG, the financing of MTG was altered in such a way that Kinnevik's intra-Group claim on MTG was used to subscribe to a share issue and convertible loan issued by MTG.

The book value of the shares in MTG is stated in the parent company accounts as dividend. The value arising upon consolidation of the value of the net assets in MTG is stated as dividend in the consolidated financial statements.

Note 2**Review of the Group**

	1996	1997
Net sales by business area	Post forma	
Korsnäs Holding AB	4,748.1	4,979.4
Investment AB Kinnevik	1,973.1	1,549.7
Other subsidiaries	477.7	478.1
Industriförvaltnings AB Kinnevik and eliminations	– 36.1	– 41.5
Total	<u>7,162.8</u>	<u>6,965.7</u>
Operating income by business area		
Korsnäs Holding AB	702.7	743.4
Investment AB Kinnevik	– 32.5	38.9
Other subsidiaries	– 200.4	– 151.2
Industriförvaltnings AB Kinnevik and eliminations	438.0	110.3
Total	<u>907.8</u>	<u>741.4</u>
Less: Transfer to Korsnäs' employees' profit-sharing foundation	– 8.2	– 35.1
Net	<u>899.6</u>	<u>706.3</u>
Income after financial items by business area		
Korsnäs Holding AB	575.0	653.8
Investment AB Kinnevik	– 212.3	– 330.4
Other subsidiaries	– 180.8	– 179.7
Industriförvaltnings AB Kinnevik and eliminations	449.9	56.3
Total	<u>631.8</u>	<u>200.0</u>
Less: Transfer to Korsnäs' employees' profit-sharing foundation	– 8.2	– 35.1
Net	<u>623.6</u>	<u>164.9</u>
Distribution of net sales by geographic market:		
Sweden	2,170.5	2,472.6
Other Nordic countries	495.2	368.2
Rest of Europe	3,110.3	3,100.5
North- and South America	804.7	372.3
Asia	327.6	390.0
Oceania	195.4	213.6
Africa	59.1	48.5
	<u>7,162.8</u>	<u>6,965.7</u>

Note 3			Group
Income from corporate development		1996	1997
Electric Farm A/S		–	– 0.3
Home Shopping Service SA		9.6	–
Imedia A/S		–	0.3
Imedia AB		–	12.0
Infral Interactive System AB		–	– 2.9
MTV Produktion AB		–	25.6
NetCom Systems AB, effect of dividend		333.2	–
Norsk Lokal-TV A/S		– 10.0	–
Oy eWORKS Finland AB		–	– 0.9
P4 Radio Hele Norge asa.....		31.8	–
Popular Net Games PNG AB.....		–	– 0.4
SMA Group Holding Inc.....		–	94.8
Webtime Nordic AB		–	0.6
Other		0.7	–
		<u>365.3</u>	<u>128.8</u>

Income from sales of securities		Parent Company		Group
	1996	1997	1996	1997
Option premium TV1000 Sverige AB	–	96.5	–	96.5
Option premium Millicom International Cellular S.A.	–	0.1	–	0.1
NetCom Systems AB, convertibles.....	214.4	167.4	214.4	167.4
Other	–	2.2	–	0.9
	<u>214.4</u>	<u>266.2</u>	<u>214.4</u>	<u>264.9</u>

Note 4		Parent Company		Group
Depreciation according to plan		1996	1997	1996
Capitalized development costs	–	–	– 83.0	– 28.9
Beneficial rights	–	–	– 13.1	– 1.5
Goodwill	–	–	– 74.0	– 34.3
Land and buildings.....	–	–	– 47.2	– 48.5
Agricultural property.....	–	–	– 0.2	– 0.2
Machinery	–	–	– 315.4	– 277.3
Equipment, tools and fittings.....	– 1.4	– 1.4	– 79.6	– 73.4
Leasing objects	–	–	– 12.8	– 6.6
	<u>– 1.4</u>	<u>– 1.4</u>	<u>– 625.3</u>	<u>– 470.7</u>

Note 5		Parent Company	
Result from participation in Group companies		1996	1997
Dividend from			
AirTime (AT) AB	–	3.0	
Investment AB Kinnevik.....	900.0	–	
	<u>900.0</u>	<u>3.0</u>	

Note 6	Parent Company		Group	
Result from participation in affiliated companies				
(ownership % at December 31, 1997)	1996	1997	1996	1997
Home Shopping Service SA (-)	-	-	4.8	-
Imedia A/S Norge (-)	-	-	0.3	- 9.3
Karskär Energi AB (41 %)	-	-	0.0	10.2
Kaunas Plius TV (-)	-	-	- 1.4	-
Latsin SIA (50 %)	-	-	-	- 5.1
Mediamätning i Skandinavien MMS AB (-)	-	-	0.5	0.3
Millicom International Cellular SA (34 %)	-	-	- 26.0	- 252.5
MTV Produktion AB (44 %)	-	-	-	- 9.6
Nordic Satellite Distribution A/S (-)	-	-	4.6	-
P4 Radio Hele Norge asa (-)	-	-	10.0	-
ScanSat A/S (-)	-	-	0.3	-
SCD Invest AB (50 %)	-	-	0.0	- 13.8
Tordera SpA (50 %)	-	-	-	3.7
TV3 Broadcasting SIA (-)	-	-	- 0.3	-
TV4 AB (-)	22.4	-	- 10.7	-
Valvosacco SpA (20 %)	-	-	-	2.0
	<u>22.4</u>	<u>-</u>	<u>- 17.9</u>	<u>- 274.1</u>

Note 7	Parent Company		Group	
Interest income and similar	1996	1997	1996	1997
Dividends	-	-	1.1	0.5
Interest income from third-parties	67.5	157.8	142.3	197.5
Interest income from subsidiaries	621.5	296.3	-	-
Exchange rate differences	15.1	- 35.1	5.1	- 17.2
	<u>704.1</u>	<u>419.0</u>	<u>148.5</u>	<u>180.8</u>

Note 8	Parent Company		Group	
Interest expense and similar	1996	1997	1996	1997
Interest expense to third-parties	- 170.3	- 166.1	- 517.5	- 418.2
Interest expense PRI	-	-	- 28.9	- 18.0
Interest expense to subsidiaries	- 498.5	- 317.9	-	-
Other financial items	- 5.9	- 2.6	- 19.3	- 11.9
	<u>- 674.7</u>	<u>- 486.6</u>	<u>- 565.7</u>	<u>- 448.1</u>

Note 9**Group contributions/Stockholders' contributions**

	1996	1997
Korsnäs Holding AB	570.0	586.0
MTG Holding AB	– 600.0	–
Modern Times Group MTG AB	– 624.8	–
Investment AB Kinnevik	– 682.0	– 92.0
Mellersta Sveriges Lantbruks AB	4.5	4.3
Stenblocket i Trelleborg AB	– 140.4	– 3.2
Förvaltnings AB Eris & Co.	–	– 0.5
Invik Intressenter AB	–	– 0.7
Webtime Nordic AB	–	0.2
Kinnevik International AB	–	3.2
Datamatrix Nordic AB	–	– 0.3
Transcom AB	–	– 8.9
Credit International Services AB	–	1.3
Svenska Motor AB SMA	–	8.0
Svenska JCB AB	–	– 3.0
Moderna Tider Förlags AB	–	– 3.1
Imedia Holding AB to be Andersvik AB	–	– 18.8
ZTV A/S Danmark	–	– 50.4
	<u>– 1,472.7</u>	<u>422.1</u>

Note 10**Intangible fixed assets**

Group	Capitalized development costs	Beneficial rights	Goodwill
Opening acquisition values	583.3	98.6	651.2
Dividend Modern Times Group MTG AB	– 276.1	– 86.6	– 402.8
Capital expenditure	106.2	3.3	155.2
Sale/scrapping	– 2.6	– 4.2	–
Acquisitions of subsidiaries, translation differences	– 69.7	– 0.8	– 0.1
Closing acquisition values	<u>341.1</u>	<u>10.3</u>	<u>403.5</u>
Opening accumulated depreciation	– 288.5	– 16.5	– 127.9
Dividend Modern Times Group MTG AB	50.7	16.2	87.2
Sale/scrapping	2.6	0.2	–
Depreciation	– 28.9	– 1.5	– 34.3
Acquisitions of subsidiaries, translation differences	68.5	– 1.3	18.9
Closing accumulated depreciation	<u>– 195.6</u>	<u>– 2.9</u>	<u>– 56.1</u>
Closing net book value	<u>145.5</u>	<u>7.4</u>	<u>347.4</u>

Note 11**Property plant and equipment**

Group	Land and buildings	Forest and agricultural properties	Machinery	Equipment, tools and fittings	Leasing objects	Construction in progress
Opening acquisition values	1,547.1	3,054.3 *	5,923.4	608.3	88.4	249.9
Dividend Modern Times Group						
MTG AB	- 0.7	-	- 269.2	- 199.5	-	- 14.3
Capital expenditure	41.6	78.4	31.0	220.3	22.7	418.3
Sale / scrapping	-	- 31.5	- 89.1	- 103.0	- 68.8	- 0.2
Revaluation against revaluation reserve	0.4	-	-	-	-	-
Reclassification	12.5	-	26.3	277.1	-	- 315.9
Acquisitions of subsidiaries, translation differences	10.2	- 72.2	166.8	- 34.8	1.2	- 1.2
Closing acquisition values	<u>1,611.1</u>	<u>3,029.0 *</u>	<u>5,789.2</u>	<u>768.4</u>	<u>43.5</u>	<u>336.6</u>
Opening accumulated depreciation ...	- 577.4	- 4.5	- 2,771.5	- 374.4	- 32.6	-
Dividend Modern Times Group						
MTG AB	-	-	151.9	102.2	-	-
Sale / scrapping	-	4.7	75.8	87.8	22.7	-
Reclassification	-	-	151.1	- 151.1	-	-
Depreciation	- 48.5	- 0.2	- 277.3	- 73.4	- 6.6	-
Acquisitions of subsidiaries, translation differences	- 4.8	-	- 106.5	- 10.2	2.3	-
Closing accumulated depreciation	- 630.7	0.0	- 2,776.5	- 419.1	- 14.2	-
Closing net book value	<u>980.4</u>	<u>3,029.0</u>	<u>3,012.7</u>	<u>349.3</u>	<u>29.3</u>	<u>336.6</u>
Tax assessment values	2,946.5	5,137.1				
Parent Company	Equipment					
Opening acquisition values	9.3					
Capital expenditure	1.5					
Sale / scrapping	- 1.2					
Closing acquisition values	<u>9.6</u>					
Opening accumulated depreciation ...	- 5.4					
Sale / scrapping	0.3					
Depreciation	- 1.4					
Closing accumulated depreciation	- 6.5					
Closing net book value	<u>3.1</u>					

* Opening and closing acquisition values for forest and agricultural property include MSEK 2,000.0 revaluation made in 1994 by Korsnäs AB.

Note 12

Financial assets (TSEK)

	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value
Stocks in subsidiaries					
AirTime (AT) AB	556281-6040	Stockholm	275	55	23,956
Zales (TRT) AB	556211-0444	Stockholm	–	100	–
AirTime Sport & Entertainment AB ...	556298-4426	Stockholm	–	100	–
AirTime Intressenter AB	556461-1670	Stockholm	500	100	484
Baltic Oil AB	556098-5771	Stockholm	500	100	25
CIS Credit International Services AB....	556353-2778	Karlskoga	3,000	100	300
CIS Norge A/S		Norway	–	100	–
Datamatrix Nordic AB	556237-4594	Sollentuna	7,500	100	13,374
Eldrimner AB	556024-4955	Stockholm	520	52	3
Transvik System AB	556298-4418	Stockholm	–	100	–
Transvik Holding Ltd		Great Britain	–	100	–
Förvaltnings AB Eris & Co	556035-7179	Stockholm	1,020,000	100	158,000
Imedia Holding AB to be Andersvik AB	556359-1105	Stockholm	500	100	100
Imedia AB to be Carlvik AB	556253-9394	Stockholm	–	97	–
Allodium Technologies AB	556488-7007	Stockholm	–	100	–
e-Village Nordic AB	556050-1644	Stockholm	–	100	–
Intact Media & Communication					
Gamla Stan AB	556304-7066	Stockholm	–	100	–
Imedia Online AB to be World Desk AB	556359-1113	Stockholm	500	50	50
Investment AB Kinnevik	556033-4640	Stockholm	40,000	100	33,725
Fagersta Ltd		Great Britain	–	100	–
Fagersta Steels Ltd		Great Britain	–	100	–
Kinnevik bv		The Netherlands	–	100	–
Fagersta AB	556238-4171	Fagersta	–	100	–
Johan Englund Förvaltning AB to be					
3C Holding AB	556491-9503	Stockholm	–	100	–
3C Communications International SA ..		Luxembourg	–	100	–
3C Datacom SA		Luxembourg	–	100	–
3C Com Equipment SA		Luxembourg	–	100	–
3C Transac SA		Luxembourg	–	100	–
3C Com Finance Holding SA		Luxembourg	–	100	–
3C Communications Luxembourg SA .		Luxembourg	–	100	–
Comvik Holding bv		The Netherlands	–	100	–
3C Communications AB	556332-6346	Stockholm	–	100	–
3C Communications A/S		Norway	–	100	–
3C Communications A/S		Denmark	–	100	–
3C Communications Ltd		Great Britain	–	100	–
3C Communications Ltd		Ireland	–	100	–
3C Communications Spri		Belgium	–	100	–
3C Communications GmbH		Germany	–	100	–
3C Communications GmbH		Austria	–	100	–
3C Communications AG		Switzerland	–	100	–
3C Communications SA		France	–	100	–
3C Communications Turkey		Turkey	–	100	–
3C Communications Hungary		Hungary	–	100	–
3C Communications Ltda		Portugal	–	100	–
3C Communications Ltda		Chile	–	100	–
3C Communications SA		Spain	–	100	–
3C Communications Mexico SA		Mexico	–	100	–
3C Communications Sarl		Italy	–	100	–
3C Communications Philippines		The Philippines	–	100	–
3C Communications Oy		Finland	–	100	–
Nordic Artist Produktioner AB to be					
Transcom Holding AB	556468-0857	Stockholm	–	100	–
IK Transcom International SA		Luxembourg	–	100	–
3C Transac AB	556301-1872	Stockholm	–	100	–
3C Transac A/S		Norway	–	100	–
3C Transac Ltd		Great Britain	–	100	–

3C Transac GmbH.....		Germany	–	100	–
Fagersta Australia Pty Ltd.....		Australia	–	72	–
Fagersta Steels Pty Ltd.....		Australia	–	100	–
Kinnevik Telecommunications International SA.....		Luxembourg	–	100	–
Tele2 Europe SA.....		Luxembourg	–	100	–
Tele2 Telecom Services GmbH.....		Germany	–	100	–
Kinnevik Telecommunications bv.....		The Netherlands	–	100	–
Tele2 Belgium Spri.....		Belgium	–	100	–
Tele2 France SA.....		France	–	100	–
Latellana AG.....		Switzerland	–	100	–
Invik Intressenter AB.....	556301-1872	Stockholm	500	100	16,215
Kanam AB.....	556061-4124	Fagersta	7,000	100	4,890
Kinnevik International AB.....	556094-7623	Stockholm	1,000	100	22,870
Biovik AB.....	556281-6149	Stockholm	–	100	–
Biovik AB & Co KB.....			–	100	–
KB Baltic Oil AB.....	916504-1709	Stockholm	–	100	–
Kinnevik Media International SA.....		Luxembourg	100	100	–
Korsnäs Holding AB.....	556170-7703	Fagersta	500	100	5,435,186
GSI Gamla Stans Informations AB.....	556535-1714	Stockholm	–	100	–
Korsnäs AB.....	556023-8338	Gävle	–	90/93	–
Bates Korsnäs A/S.....		Denmark	–	100	–
Byggnadsmark AB.....	556051-3789	Gävle	–	100	–
Korsnäs GmbH.....		Germany	–	100	–
Korsnäs Ltd.....		Yugoslavia	–	71	–
Korsnäs France SA.....		France	–	100	–
Korsnäs Italia Srl.....		Italy	–	100	–
Korsnäs Latvia SIA.....		Latvia	–	100	–
Korsnäs Packaging AB.....	556286-4099	Gävle	–	100	–
Crown Sacks & Systems Holdings Ltd.....		Great Britain	–	100	–
Korsnäs Paper Sacks Ltd.....		Great Britain	–	100	–
Korsnäs Strömsnäs AB.....	556094-7631	Gävle	–	100	–
Korsnäs Wilhelmstal GmbH Papiersackfabriken.....		Germany	–	100	–
Icoma FBS Packtechnik GmbH.....		Germany	–	100	–
Korsnäs Re SA.....		Luxembourg	–	100	–
Korsnäs Sales Ltd.....		Great Britain	–	100	–
Korsnäs Sägverks AB.....	556024-8477	Gävle	–	100	–
AB Stjernerunds Bruk.....	556028-6881	Gävle	–	100	–
Trävaru AB Dalarne.....	556044-3920	Gävle	–	100	–
Ludvika Personalservice KB.....	916582-0268	Ludvika	–	100	100
Martin Englund Förvaltning AB to be SMA Holding AB.....	556491-9487	Sollentuna	500	100	92
Svenska Motor AB SMA.....	556207-5506	Stockholm	–	100	–
SMA Maskin AB.....	556100-9373	Stockholm	–	100	–
SMA Servicegruppen AB.....	556253-8602	Järfälla	–	100	–
Svenska Traktor AB.....	556051-6352	Järfälla	–	100	–
AB Sveatrade.....	556045-6666	Järfälla	–	100	–
Intertruck Maskin AB.....	556052-9942	Järfälla	–	100	–
Intertruck Maskin A/S.....		Denmark	–	100	–
Stenblocket AB.....	556031-4498	Stockholm	–	100	–
Stenblocket i Järfälla AB.....	556034-7832	Stockholm	–	100	–
SMA Group Holding Inc.....		USA	–	100	–
Mellersta Sveriges Lantbruks AB.....	556031-9013	Ängelholm	5,000	100	29,660
AB Velento to be Svedberga Lantbruks AB.....	556042-5398	Alingsås	–	100	–
Comvik Card Call AB to be Ullevi Egendom i Vadstena AB.....	556278-5880	Stockholm	–	100	–
Transvik AB to be Russelbacka Egendom AB.....	556266-5793	Stockholm	–	100	–
Modern Cartoons Holding AB.....	556463-2296	Stockholm	1,000	100	4,179
Modern Cartoons Europe AB.....	556513-5513	Stockholm	–	100	–
Modern Cartoons Ltd.....		USA	2,544,000	67	19,402

Moderna Tider Holding AB	556426-8745	Stockholm	1,000	100	500
Moderna Tider Förlags AB.....	556401-4941	Stockholm	–	100	–
Brombergs Bokförlag AB	556204-4627	Stockholm	–	98	–
Nordic Artist Turnéer AB	556480-8730	Stockholm	500	100	100
NetSys Technology Group AB.....	556308-5066	Möln dal	1,000	100	10,155
NetSys Technology Norge A/S		Norway	–	100	–
Westnet AB	556090-5407	Möln dal	–	60	–
Webware TG AB	556546-5621	Möln dal	–	100	–
Polarsearch AB.....	556542-6284	Möln dal	–	100	–
Play TV Holding SA.....		Luxembourg	1.200	100	300
Play TV Sweden AB	556527-2431	Stockholm	–	100	–
Play TV Russia		Russia	–	100	–
Play TV Estonia Oy.....		Estonia	–	100	–
Play TV Poland Sp Zoo		Poland	–	100	–
Play TV Netherlands bv		The Netherlands	–	100	–
PremieOnline AB	556072-2190	Stockholm	800	100	6,568
Stenblocket i Fagersta AB.....	556004-6723	Stockholm	125	100	4,000
Stenblocket i Kungens Kurva AB					
to be Indokinesiska Kompaniet AB	556081-0037	Stockholm	3,000	100	300
Stenblocket i Trelleborg AB.....	556098-5888	Stockholm	500	100	110
Svenska JCB AB.....	556306-0960	Järfälla	4,700	94	459
Transcom AB	556201-3234	Karlskoga	1,000	100	115,050
Blue Box A/S		Norway	–	100	–
TV1000 Sverige AB.....	556364-5372	Stockholm	113,258	93	778,988
TV1000 Norge A/S.....		Norway	–	100	–
TV1000 Danmark A/S.....		Denmark	–	100	–
TV1000 London Ltd		Great Britain	–	100	–
TV1000 Finland Oy.....		Finland	–	100	–
TV6 A/S Norge		Norway	50	100	53
Ungdomskanalen Z TV A/S Norge		Norway	1,000	100	52
Webtime Nordic AB to be Strix Vakt AB	556476-4958	Stockholm	500	100	100
Z TV A/S Danmark		Denmark	1	100	51
					<u>6,679,397</u>

Participation in affiliated companies (in the Group)	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value	Market value
Altlorenscheuerhof SA		Luxembourg	625	50	133	
Biovik AB & Co KB	916611-9207	Stockholm	–	90	900	
Combi Shipping AB.....	556153-9932	Gävle	250	50	50	
Diacell AB	556155-2786	Gävle	20,000	50	2,400	
Förvaltnings AB Gävle						
Stuveriintressenter	556178-9040	Gävle	128	26	33	
Gävle Sjöfarts AB	556010-6774	Gävle	2,597	24	868	
Industriskog AB	556193-9470	Falun	25,000	33	2,500	
Karskär Energi AB	556018-9481	Gävle	12,331	41	172,839	
Korsnäs Croatia dd.....		Croatia	–	44	4,834	
Latsin SIA		Latvia	–	50	0	
Millicom International Cellular SA.....		Luxembourg	16,383,224	34	335,448	4,851,216 *
MTV Produktion AB	556333-4662	Göteborg	2,110,900	44 / 46	39,009	65,438
Repasack GmbH		Germany	–	21	3,754	
San Sac AB.....	556082-9359	Linköping	375	37	21	
SCD Invest AB.....	556353-6753	Stockholm	5,927,182	50	22,109	
Söderhamn Invest AB	556295-1755	Söderhamn	500	33	0	
Tordera SpA		Italy	100,000	50	28,570	
Transcom Europe SA.....		Luxembourg	–	50	266	
Trätåg AB.....	556116-2719	Falun	250	50	3	
Valvosacco SpA.....		Italy	33,800	20	17,140	
					<u>630,877</u>	

Reconciliation of book value of participations
in affiliated companies (in the group)

Opening balance January 1, 1997.....	1,079.8
Affiliated companies in MTG.....	– 287.2
Investments in new affiliated companies ..	6.5
Equity share in former subsidiaries	54.6
Issue of new shares and stockholders' contribution	15.0
Participations according to Note 5	– 274.1
Share in tax costs in affiliated companies	– 41.2
Disposals of affiliated companies	2.7
Dividends received	– 6.0
Translation differences	80.8
Closing balance December 31, 1997	<u>630.9</u>

Stocks and participations in other companies (in the Group)	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value	Market value
Innova International Corporation.....		USA	695,054	18	123,751	
Invik & Co. AB.....	556047-9742	Stockholm	348,686	–	12,240	123,784
Modern Times Group						
Intressenter AB	556519-8529	Stockholm	11,225	45	2,245	
Net Entertainment NE AB.....	556532-6443	Stockholm	100	10	11	
Svensk Kartongåtervinning AB	556483-8828	Stockholm	45	6	45	
Svenska Dagbladet Holding AB	556415-4143	Stockholm	2,700	–	599	
Apartments					6,077	
Others					50	
					<u>145,018</u>	

* The market value of shares in MIC is stated without deducting the value of the option given to Modern Times Group MTG AB, amounting at year end to MSEK 359.

Note 13

Prepaid expenses and accrued income

	Parent Company 1997	Group 1997
Accrued sales revenue.....	–	45.3
Accrued interest income	–	29.0
Accrued exchange rate gains.....	28.0	35.1
Prepaid insurance premiums	2.5	24.0
Accrued rebate on energy tax	–	16.3
Other	<u>0.1</u>	<u>68.8</u>
	<u>30.6</u>	<u>218.5</u>

Note 14**Stockholders' equity**

Industriförvaltnings AB Kinnevik's stock capital at December 31, 1997 consisted of 59.7 million shares each having a nominal value of SEK 10. The breakdown by class of share at December 31, 1997 was as follows:

	Number of shares	Total nominal amount
A shares	15,123,741	151.2
B shares	<u>44,573,991</u>	<u>445.7</u>
	<u>59,697,732</u>	<u>597.0</u>

A shares carry ten (10) votes and B shares one (1) vote.

	Stock capital	Legal reserve	Revaluation reserve	Unrestricted equity	Total
Parent Company					
Opening balance, December 31, 1996	596.1	2,986.7	190.4	835.9	4,609.1
Increase due to conversion of 1993/97 convertible debenture loan	0.9	32.6	–	–	33.5
Net result for the year	–	–	–	578.5	578.5
Dividend	–	–	–	– 678.0	– 678.0
Closing balance, December 31, 1997	<u>597.0</u>	<u>3,019.3</u>	<u>190.4</u>	<u>736.4</u>	<u>4,543.1</u>
Group					
Opening balance, December 31, 1996	596.1	3,394.7	2,490.9	6,481.7	
Change in accounting principles, Note 15	–	–	38.8	38.8	
Opening balance with new accounting principles	596.1	3,394.7	2,529.7	6,520.5	
Increase due to conversion of 1993/97 convertible debenture loan	0.9	32.6	–	33.5	
Revaluation against restricted reserves in a subsidiary	–	0.4	–	0.4	
Translation differences	–	–	91.8	91.8	
Net result for the year	–	–	129.8	129.8	
Dividend	–	–	– 1,610.6	– 1,610.6	
Transfer between restricted and unrestricted reserves	–	39.4	– 39.4	–	
Closing balance, December 31, 1997	<u>597.0</u>	<u>3,467.1</u>	<u>1,101.3</u>	<u>5,165.4</u>	

The consolidated restricted reserves include a capital interest reserve of MSEK 50.2, i.e. the difference between the value in the consolidated accounts and the book value in the respective subsidiary of shares in affiliated companies.

The Annual General Meeting held on May 23, 1997 resolved in favor of paying a cash dividend of SEK 5.00 per share, a total of MSEK 298.2, and of distributing all the shares in Modern Times Group MTG AB to Kinnevik's shareholders.

The book value in the parent company's books of the shares in MTG at the time of distribution was MSEK 379.8. This was stated as dividend. The value upon consolidation of the net assets is stated as dividend in the consolidated financial statements.

Real estate owned by a subsidiary, Fagersta Australia Pty Ltd, was written up by MSEK 0.4 against revaluation reserve.

The large positive translation difference is largely attributable to the holding of shares in Millicom International Cellular SA, an affiliated company, which is stated in the accounts as an asset denominated in US dollars.

Note 15**Change in accounting principles**

In accordance with American practice, TV1000 has altered its principles for its accounting treatment of acquisitions of program rights, with effect from 1997. Previously program rights were stated as assets at the time the contract was signed, even though the usage time of the rights could last for several years. Liabilities corresponding to this were stated at the same time. As from 1997 TV1000 states as an asset only the proportion of the program rights which is available for broadcasting and which has been scheduled. The corresponding liability is stated in accordance with the same principle.

The change of accounting principle involves a substantial reduction in both inventories and liabilities to program distributors. As the liabilities, in so far as they are denominated in foreign currencies, are translated in the balance sheet at December 31, 1996 at closing date rates, a difference arose in connection with the change of principle between the amount which reduced the assets side of the balance sheet and the amount by which liabilities were reduced. This difference, which amounted to MSEK 38.8, was taken direct to equity in accordance with the Swedish Financial Accounting Standards Council's recommendation concerning changes in accounting principles. See also Note 14.

The figures for the previous year have been adjusted in this year's annual report into line with the new accounting principles for purposes of comparability.

Note 16		Group
Deferred taxes	1996	1997
Change of deferred tax liability		
Change in untaxed reserves	149.0	7.2
Change in value of unutilized tax loss carryforwards	127.1	7.2
	<u>276.1</u>	<u>14.4</u>
Deferred tax liability		
Deferred tax liability for untaxed reserves, 28%	836.1	824.8
Deferred tax receivable for the value of unutilized tax loss carryforwards	- 506.8	- 499.4
	<u>329.3</u>	<u>325.4</u>

The revaluation of Korsnäs' forest assets is stated without taking deferred taxes into account.

Note 17		Group
Other provisions	1996	1997
Compulsory acquisition proceedings	609.6	652.8
Forest restoration	101.8	99.6
Other	1.6	1.5
	<u>713.0</u>	<u>753.9</u>

Note 18	Parent Company	Group
Long term debt	1997	1997
Maturities 1999-2002	2,975.1	2,871.2
Maturities 2003 or later	-	2,928.9
	<u>2,975.1</u>	<u>5,800.1</u>

Note 19
Checking account credit facilities

Credit limits on checking account credit facilities in the Group amounted as per December 31, 1997 to MSEK 300.0 (MSEK 473.0), whereof unutilized limits amounted to MSEK 264.1 (MSEK 307.9).

Note 20		Book value
Convertible debenture loan	1996	1997
Convertible debenture loan	<u>388.8</u>	<u>358.4</u>

According to the original conditions, the convertible loan issued in connection with the Industriförvaltnings AB Kinnevik's offer for Korsnäs AB could be converted into Series "B" shares between March 18, 1993 and June 30, 1997 at an exercise price of SEK 110. The loan carried 10.5% interest between January 1, 1993 and July 21, 1997 to the extent it was not converted in the interim. The loan was originally stated at a price of SEK 105, of which SEK 5 was transferred to legal reserve. The value of the convertible was adjusted during this period to bring the value of each unit of convertible up to a nominal value of SEK 110 upon maturity in 1997. Prior to the distribution of Modern Times Group MTG AB the Board recommended holders of Kinnevik's 1993/97 convertible loan to convert their holdings into shares and participate in the distribution. With the object of compensating convertible owners for the difference between loss of interest income and the dividend in MTG shares the conversion terms were altered between June 1 and 15 days prior to the record date for distribution of shares in MTG, whereby the exercise price was reduced from SEK 110 to SEK 106.60, entitling owners to 1,032 shares for each unit of convertible. Otherwise, the conversion terms were altered so that those holders who exercised their conversion rights by no later than 15 days prior to the record date for entitlement to distribution of shares in MTG became entitled to receive such shares. At the same time, the redemption date of the convertible was postponed until March 31, 1998 inclusive, while the final date for conversion was fixed at February 28, 1998.

In the event of full conversion of convertible outstanding at the year-end, the share capital will be raised by MSEK 32.

Note 21			
Accrued expenses and prepaid income			
	Parent Company		Group
	1997		1997
Accrued expense for purchase of goods.....	–		32.0
Accrued personnel expenses.....	2.9		163.6
Accrued interest expenses.....	39.0		68.1
Accrued discounts.....	–		22.7
Accrued audit fees.....	0.2		5.1
Accrued cost for affiliated companies.....	–		18.6
Prepaid income.....	–		61.4
Other.....	1.3		150.5
	<u>43.4</u>		<u>522.0</u>

Note 22
Leasing agreements

Some companies in the Group have entered into agreements to rent premises and other assets. In 1997, MSEK 177.3 were paid under the terms of operational leasing agreements. This amount includes MSEK 82.0 on account of TV1000's rental of transporter capacity for broadcasting TV programs via satellite, and MSEK 51.7 for Korsnäs's charter of RoRo vessels.

The cost of rented/leased assets is expected to continue at the same annual level during the coming years.

Note 23				
Pledged assets				
	1996	Parent Company 1997	1996	Group 1997
Liquid funds.....	6.8	6.8	87.8	28.2
Receivables.....	2,950.0	3,141.0	35.4	–
Shares.....	3,678.2	4,224.2	305.2	106.0
Inventories.....	–	–	128.8	–
Real estate mortgages.....	–	–	3,135.1	3,059.5
Other assets				
corresponding value in books of Parent Company or subsidiary in respect of shares in subsidiary.....	–	–	3,757.1	3,389.9
Chattel mortgages.....	–	–	549.4	1,004.0
Other.....	–	–	26.8	–
	<u>6,635.0</u>	<u>7,372.0</u>	<u>8,025.6</u>	<u>7,587.6</u>

All pledged assets of the Parent Company and the Group refer to pledges for the Group's own long-term liabilities to credit institutions.

Note 24 Contingent liabilities	Parent Company		Group	
	1996	1997	1996	1997
Sureties and guarantees*	525.0	834.1	584.4	836.5
Sureties and guarantees for subsidiaries	1,562.8	1,029.8	–	–
Pension commitments	0.4	0.4	68.0	68.4
Purchase guarantees	–	–	4.6	1.9
Other contingent liabilities	–	–	3.0	3.7
	<u>2,088.2</u>	<u>1,864.3</u>	<u>660.0</u>	<u>910.5</u>
* Thereof guarantees for the benefit of former subsidiaries as follows:				
Multinational Automated Clearing House S.A.....	1.0	1.0	1.0	1.0
NetCom Systems AB	497.5	256.1	497.5	256.1
Modern Times Group MTG AB	654.5	551.0	654.5	551.0
	<u>1,153.0</u>	<u>808.1</u>	<u>1,153.0</u>	<u>808.1</u>

The guarantees for the benefit of MACH, NetCom Systems and MTG will be phased out gradually.

Note 25

Average number of employees

	1996		1997	
	men	women	men	women
Parent Company				
Stockholm	10	2	8	1
Group				
Sweden	2,958	1,195	2,475	868
Germany	365	145	344	168
Denmark	129	134	192	146
Great Britain	292	163	193	90
USA	250	38	102	14
Luxembourg	63	30	66	44
Yugoslavia	–	–	32	26
Australia	33	9	34	11
Russia	9	31	25	15
Poland	1	2	7	15
France	5	2	9	11
Norway	90	83	4	9
The Netherlands	7	9	2	6
Belgium	3	–	2	4
Italy	–	4	1	4
Spain	20	12	4	1
Finland	16	9	1	1
The Philippines	–	–	1	–
Latvia	11	6	–	1
Austria	1	–	1	–
Estonia	3	3	–	–
Portugal	6	–	–	–
The Czech Republic	3	7	–	–
Hungary	9	20	–	–
	<u>4,274</u>	<u>1,902</u>	<u>3,495</u>	<u>1,434</u>
Total number of employees		<u>6,176</u>		<u>4,929</u>

Note 26**Wages, salaries and other remuneration**

	Board of Directors and senior management	1996 Other employees	Board of Directors and senior management	1997 Other employees
Parent Company				
Salaries and other remuneration	10.4	6.8	8.7	5.5
Social expenses*	3.6	2.2	2.4	1.8
Pension expenses*	4.3	1.1	3.9	0.5
Pension commitments*	13.3	—	13.3	—
Group				
Companies in Sweden	52.8	1,124.4	25.7	944.4
Companies abroad	31.0	511.9	18.4	402.8
Salaries and other remuneration	83.8	1,636.3	44.1	1,347.2
Social expenses	29.0	409.1	15.4	336.8
Pension expenses*	22.7	147.3	17.3	121.2
Pension commitments*	64.3	—	70.0	—

No bonuses have been paid to the Board or President of the parent company. Other companies in the Group have paid bonuses of MSEK 0.4 (3.8). In compliance with the Annual General Meeting's decision concerning the payment of fees to Board members a sum of SEK 1,489,000 was paid in 1997, of which SEK 270,000 were paid to the Chairman in accordance with a decision made by the Board. The Chairman of the Board and companies owned by him received consultancy fees of MUSD 1 during the year, in accordance with Board decisions. Over and above this, board fees of SEK 302,000 were paid by subsidiary companies to the Chairman of the Board as a member of their boards. Other members of the Board received total fees of SEK 399,000 in respect of their membership of subsidiary company boards.

The President is not paid a Board member's fee by Industriförvaltnings AB Kinnevik. Total fees of SEK 251,000 were paid on account of memberships of subsidiary company boards. Total salaries and benefits of SEK 4,787,000 were paid to the President. Normal pension commitments within the framework of the general pension plan and supplementary pension are provided, over and above which there are no pension commitments.

One member of the Board - Odd Engström - was employed by the parent company until September 30, 1997.

Normal pension commitments within the framework of the general pension plan are provided for other members of the company's management. In the event of the company terminating the contract of the President and certain other members of the company's management group, they are entitled to salary during a period of notice of at least six months, and thirty months at a maximum.

A sum of MSEK 6 has been set aside to a bonus plan for 16 senior executives within the Kinnevik Group.

There is an options programme, which was approved by the Annual General Meeting of Industriförvaltnings AB Kinnevik held on May 3, 1996, for senior executives of Modern Times Group MTG AB, whereby they have acquired options on shares in MTG via a separate company.

* Relates to present and former Board members and presidents and vice presidents.

Note 27**Agreements on severance pay**

In the event of their contracts being terminated by the company, the president and other members of the management group are entitled to salary during periods of notice between six months and thirty months.

Stockholm, March 18, 1998

Jan Hugo Stenbeck

Odd Engström

Edvard von Horn

Thorbjörn Hallström

Ulf Spång

Dag Tigerschiöld

Björn Wissén

Lars-Erik Åhlin

Stig Nordin
President

Our Audit Report concerning these financial statements was issued on March 19, 1998

Lars Träff
Authorized Public Accountant

Anders Wiger
Authorized Public Accountant

Hans Karlsson
Authorized Public Accountant

Auditors' Report

To the general meeting of the shareholders of Industriförvaltnings AB Kinnevik
(Reg. no 556001-9035)

We have audited the annual report and the consolidated financial statements, the accounts and the administration by the board of directors and the president of Industriförvaltnings AB Kinnevik for 1997. These accounts and the administration of the Company are the responsibility of the board of directors and the president. Our responsibility is to express an opinion on the financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the board of directors and the president, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any board member or the managing director or whether they have in some 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.

In our opinion, the annual report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Annual Report.

In our opinion, the board members and the president have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

that the members of the board of directors and the president be discharged from liability for the financial year.

Stockholm, March 19, 1998

Lars Träff

Authorized Public Accountant

Anders Wiger

Authorized Public Accountant

Hans Karlsson

Authorized Public Accountant

Korsnäs Holding AB

MSEK	1996	1997
Income statement		
Net sales	4,748	4,979
Operating income	703	743
Earnings after financial items	575	654
thereof participations in affiliated companies	0	11
Capital expenditures in property, plant and equipment	347	687
Number of employees	3,151	3,491

Korsnäs Holding AB is the parent company of Korsnäs AB which, together with its subsidiary companies, comprises the Korsnäs Group.

Historical background

Korsnäs AB was set up in 1855 under the name of Korsnäs Sågverks AB. It is now a leading producer of high quality paperboard and paper products for the packaging industry. These products account for 70 per cent of total sales. Korsnäs has 3,500 employees, of whom 2,360 work in Sweden.

The business started with a sawmill in Korsnäs in Dalarna. This was re-located at the end of the 19th century to Gävle, where the production of sawn timber is now – more than 140 years since the start – focused on high quality timber for the joinery and furniture industries. The sawmill's annual capacity is 160,000 m³ of redwood products.

Korsnäs is one of Sweden's largest private forest owners, with a total acreage of 660,000 hectares, of which 517,000 hectares are productive forest land. Annual growth is estimated at 1.8 million m³.

Korsnäs has a high degree of self-sufficiency and half of the wood its mills require is harvested in company forests. Besides wood purchases on the domestic market, a small amount of pulpwood is imported from Russia and the Baltic countries, where Korsnäs is building up its own operations and long-term business relationships.

Korsnäs has its main production base in Gävle, at Korsnäsverken, which is the largest integrated unit in Sweden for the production of sulphate pulp, with an annual capacity of 660,000 MT. The entire output of sulphate pulp is converted within the complex into paperboard, sack paper, kraft paper and fluff pulp, which are Korsnäs's main products.

Since the middle of the seventies, paperboard has expanded to become the largest product area in volume terms, with beverage board being used for packing beverages and whitetop kraft board becoming the outer layer of corrugated board packaging.

In the case of high quality sack and kraft paper, Korsnäs has evolved since the fifties into a leading producer; it also holds a leading position when it comes to quality development. More than half of the output of sack paper is converted at the Group's wholly- or part-owned sack factories into sacks, paper bags and other types of packaging. These production units are located in several countries in Europe. The German packaging business also includes Icoma, a company that develops, manufactures and markets machinery for the packaging industry. Total annual sack and paper bag production capacity amounts to some 700 million units.

Since the middle of the sixties, Korsnäs has steadily increased the degree of processing from a point where highly processed products represented 15 per



Korsnäs plant

cent of total output to the current level of 85 per cent. Korsnäs has become less sensitive to fluctuations in the state of the economy as the product range marketed is well differentiated.

Markets and commercial events in 1997

Generally, the market for paperboard, paper and pulp products remained relatively weak during the first half of the year with prices coming under some pressure, whereas the second half-year was characterized by more stable conditions and firmer demand.

As far as Korsnäs's main products are concerned, the market for beverage board was stable whilst the market for whitetop kraft board, paper and fluff pulp improved gradually during the course of the year.

Total deliveries amounted to 636,000 MT (627,000), of which paperboard amounted to 338,000 MT (344,000), paper to 199,000 MT (178,000) and fluff pulp to 99,000 MT (105,000).

Measures are continuing to further improve product quality, raise production and consolidate the healthy profitability trends. Decisions were made during the year on investments at Korsnäsverken that will result in quality improvements, greater flexibility and higher capacity, at an estimated total investment cost of MSEK 634, of which around half is earmarked for improving the quality of the principal products. The rebuilding and expansion of the PM5 paper machine, which is mainly used to produce beverage board, started during the year, and this project will be completed in the autumn of 1998. This investment of MSEK 460 will lead to further quality improvements within a broader product area and will raise production capacity by around 60,000 MT on an annual basis. The phased development of the PM 4 paper machine continued in the spring with the installation of a new head box. This investment will result in further improvements in product quality as a result of better formation of the paper web.

A major review of working practices and the organization was begun in the spring of 1997 in co-operation with international management consultants, A.D. Little. The purpose of the change process, which is mainly focused on the production activities in Gävle, is to improve cost- and capital-efficiency and to modernize working practices. The operating income of the production units, comprising paperboard, paper and pulp production, amounted to MSEK 530 (578). The main reason for the decline in income was lower average prices.

In the packaging sector, demand remained broadly unchanged in Western Europe in 1997 compared

with 1996. Pricing was aggressively competitive throughout the whole of the financial year. In the case of Korsnäs's packaging operations, the volume increased by 4 per cent for comparable units. Korsnäs's aim is to raise the level of integration in the sack paper field. As one aspect of this strategy, a Danish sack factory, Bates Emballage A/S, was acquired at the end of June 1997. Furthermore, a new factory was built in Yugoslavia during the year. The newly-acquired businesses were among the factors behind a total increase in volume of 20 per cent in the packaging sector. The degree of integration between sack paper production and in-house conversion rose to 50 per cent. The operating income of the packaging operations was MSEK 74 (58), an increase of 28 per cent. The improvement in the result is attributable to higher volume and measures to improve efficiency.

On the sawn timber market, the favourable developments during the first half of 1997 were followed by a period of weaker demand, which was due to the dramatic increase in supply which resulted in stiffer price competition. Delivery and production volumes at Korsnäs's sawmilling unit rose by 10 km³ to 154 km³ and by 15 km³ to 156 km³ respectively. Operating income improved from a loss of MSEK 27 to a profit of MSEK 3 in 1997. Higher volumes and a sounder price structure were factors behind the improvement in the result.

The consumption of pulpwood in Sweden was high in 1997. On average, pulpwood prices were lower than in the previous year, whereas there was a gradual increase in saw timber prices.

The importation of pulpwood from Russia and the Baltic countries is continuing as planned. The main reason for this continued involvement, mainly in Russia and Latvia, is to secure a stable, long-term source of pulpwood through our own operations and to establish stable business relationships with external suppliers.

The number of annual positions in the forestry and timber sector was reduced by a further 60 as a result of the current rationalization programs.

The operating income of the forestry sector improved to MSEK 213 (113), largely due to higher saw timber prices, lower operating costs and a higher volume of harvesting in company forests.

Korsnäs and the environment

Korsnäs's business is based on renewable raw materials. The environmental impact of the production processes is gradually being reduced, and they are resulting in increasingly resource-efficient materials

which can be recycled for secondary use for recovery of energy or materials. This represents more effective, long-term use of natural resources.

Korsnäs satisfies the requirement for producer responsibility for packaging recovery via its interest in Svensk Kartongåtervinning AB and Repasack GmbH.

In May 1997, the paper mill at Korsnäsverken was awarded a hygiene certificate in accordance with the British ADAS, which made it the first integrated paper mill in Sweden to have received such a certificate. What this means is that Korsnäs is now required to undergo regular inspection by external auditors in terms of quality, hygiene and the environment. Korsnäs's production complex was environmentally certificated in accordance with ISO 14001 in 1996, the first company in Sweden to be so approved.

In 1997, Korsnäs Skog also obtained environmental certification in accordance with the ISO 14001 environmental management system, which makes Korsnäs the first forestry company in the world to have an environmental management system from seedling to finished product. In addition, Korsnäs Forestry has been audited and approved for certification in accordance with the Swedish FSC standard.

Each year a forest ecology report is drawn up. The results are then regularly reported back to improve day-to-day operations in the forests.

Higher competence – profit-sharing

Extensive measures to further raise the level of competence are continuing in all areas of the business. In order to satisfy the demands of external interests and the market, it is also becoming increasingly important to bring about greater involvement and participation among the employees in the company's development.

These activities are mainly carried out within the framework of the SMART project, which includes the Korsnäs School, the trainee programs – also for blue collar workers – and individual development plans for each employee. A new training model – a competence supply model – has been developed under the aegis of the SMART project that will ensure the quality of the training.

Four years ago a profit-sharing plan was introduced, which until 1996 only applied to Korsnäs employees in Sweden. As of 1997 it has been extended also to include personnel employed abroad. The part of the consolidated profit which exceeds a defined return on operative capital is paid to the profit-sharing foundation. The amount set aside from the profit from 1997 is MSEK 35 (8), which corresponds to some SEK 10,900 (3,325) per employee.

Result

Korsnäs's operating income after depreciation, but before profit-sharing, amounted to MSEK 770 (720), an improvement of 7 per cent. Net sales amounted to MSEK 4,979 (4,748) to give a profit margin of 15 per cent (15 per cent).

The improvement in the result is mainly due to higher production and delivery volumes, to which may be added lower raw material costs, cost reductions and measures to improve efficiency. Despite positive currency movements, the average price fell, which had an adverse effect on the result. A sum of MSEK 33 was charged against the result in the form of contractual retirement and severance pay arising out of the personnel reductions caused by the current restructuring process.

Future outlook

In the autumn of 1997 there was a clear tendency for a further improvement in conditions in the forestry industry. Consequently, the prices of most of Korsnäs's products were raised. The consensus view was that this positive trend would continue in 1998, which would therefore be a better year than 1997. However, developments in South East Asia provide grounds for some caution with regard to these assumptions, even though Korsnäs's products are not directly affected.

Implementation of the review carried out during the year in co-operation with A.D. Little, with the object of modernizing working practices and adapting the organisation, will gradually have positive effects on the results during the coming years.

Investment AB Kinnevik

MSEK	1996	1997
Income statement		
Net sales	1,973	1,550
Operating income	- 33	39
Earnings after financial items	- 212	- 330
thereof participations in affiliated companies	- 26	- 272
Capital expenditures in property, plant and equipment	151	311
Number of employees	1,634	1,113

Investment AB Kinnevik is continuing Kinnevik's tradition of developing new business activities. The company owns those assets which acquire greater transparency in an investment company and therefore probably have a stronger effect on the share values, such as substantial minority interests or development projects.

The ownership of substantial minority holdings,

such as that in Millicom International Cellular, also gives the investment company the financial strength it requires, partly for corporate development projects, and partly to resume purchases of holdings in other listed companies that are temporarily out of favor.

MIC, Millicom International Cellular (34%)

MIC is one of the world's leading providers of mobile telecommunication services. MIC acquires licences entitling it to provide mobile telecom services in a particular country at national, regional or local level. It then installs and operates the mobile telecommunication network in the area in question.

MIC conducts most of its business in growth economies, where the supply of land-based telecommunication facilities is inadequate. Economic growth and other reforms in these countries are creating a growing need for rapid expansion of means of communication.

The businesses in Cambodia and Estonia opened for commercial traffic in 1997. In Bolivia and Tanzania, MIC raised its equity interests as well as



Millicom International Cellular S.A.

extending its licence. MIC also acquired a 60.6 per cent interest in St. Petersburg Telecom, a mobile telecommunication operator in St. Petersburg, Russia, and acquired a GSM/DCS 1800 licence in Luxembourg (the second licence for a mobile telecom operator issued in Luxembourg).

In December 1997 MIC announced the formation of five strategic business areas: Société Européenne de Communications S.A. (SEC), which will primarily develop and run operations within long-distance and international telecommunications in Europe; FORA Telecom, which is engaged in mobile telecommunications in Russia and the Baltic states; Sanbao Telecom in Asia, which is a holding company for the Asian subsidiaries; a corresponding company in Latin America, MIC Latin America; and GSM Clearing (MIC Systems), which includes MIC's wholly-owned subsidiary Multinational Automated Clearing House S.A. (MACH), the leading GSM clearing company in the world.

MIC expanded its subscriber base by 96 per cent in 1997, to give it 989,128 subscribers. MIC now has interests in 31 projects in 20 countries, with a total population of almost 440 million.

MIC also has a subsidiary, Multinational Automated Clearing House S.A. (MACH), the world's leading GSM clearing company. MACH's dramatic growth has continued, as GSM systems are expanding globally.

The operating income of these units before depreciation amounted to MUSD 91 (61). The company's result after financial net was a loss of MUSD 94 (loss 5).

Tele2 Europe (100%)

Tele2 Europe, whose business comprises telecommunication services, started a new unit in Holland at the end of October, and one in Germany in the first quarter of 1998. In February 1998 the company received a "prefix" licence in France and is currently engaged in final discussions with the French licensing authority concerning equal status with France Télécom within both international and national telecommunications in France. The intention is to apply the experiences from deregulation, primarily in Sweden, and to benefit from the success of the Swedish Tele2 company (now part of NetCom Systems). By February 1998 the number of subscribers in Holland had reached 50,000, and in Germany 13,000. The year's turnover amounted to MSEK 46 (2), and the operating result was a loss of MSEK 42 (loss 10).

3C Communications International (100%)

3C provides credit card services for consumers of telecom services, mainly in Europe but also in other parts of the world.

The new Internet service, which enables users to send and receive e-mail and to use other services on the Internet, and which was introduced during 1996, expanded further during 1997. By the end of the year, 1,200 terminals had been installed in 10 countries.

3C's credit card telephones are installed in airports, hotels, motorway restaurants, conference centers and gas stations. Several leading airlines use 3C's facilities in their business lounges in Europe. By the end of 1997, 6,500 terminals had been installed.

Turnover in 1997 amounted to MSEK 211 (233) and operating income amounted to MSEK 17 (28).

Transcom (100%)

Transcom is one of Scandinavia's leading suppliers of individually designed, telecommunications-based, customer relations service packages. Since Transcom AB was formed in 1995, the business has expanded its range to include a broad portfolio of services, such as customer service, technical support (help desk), order/complaint handling, telemarketing, customer analyses, voice mail/fax retrieval services, loyalty programs and consultation as well as travel management.

In 1997 the volume of transactions almost doubled from some 2,500,000 calls to around 4,700,000. Besides these, some 1,800,000 debit administrative tasks were handled. During the year, several new loyalty programs were created for companies, which cater for some 1,000,000 members.

By the end of 1997 the business involved some 650 employees in Karlskoga and another 30 or so at a new unit that was opened in Fredrikstad, Norway, in December.

The market for customer service types of activity is still expanding at around 40% per year as growing numbers of consumer-intensive companies focus on raising the value of their products by developing the service they provide, and as the practice of outsourcing becomes more widely accepted.

As a result of substantial growth the loss declined, in comparison with 1996. Turnover for the year amounted to MSEK 160 (103) and the operating result was a loss of MSEK 5 (loss 21).

Credit International Services (100%)

CIS provides collection, scoring and general financial services. An expanding customer base, not only in Sweden but also as a result of new openings in

Norway, Denmark and Luxembourg, resulted in dramatic growth in the business in 1997. In order to offer more efficient and more flexible services and optimize customer-adaptation, several new IT systems were implemented during the year. The favorable trend in turnover and profitability will continue as a result of broader marketing of the services and new establishments in other countries.

The year's turnover amounted to MSEK 19 (6) and operating income amounted to MSEK 2 (0).

NetSys (100%)

A project was started in 1996 with the object of creating a foundation for the provision of large-scale standardized intranet facilities via Internet.

An agreement was reached at the beginning of 1997 covering the rights to the company's WebWare (intranet) and Polarsearch (search-systems) services. During its first year of business the company laid down a sound foundation for the future.

The business idea for NetSys is to bring people and information together while also giving customers value from the applications provided. The NetSys model was decided on in connection with the acquisition of the rights to the WebWare technique and advanced search technology was acquired. WebWare is a web-based intranet facility which gives organizations a tool for communication, co-operation and advanced document-handling. The organization also acquires a tool in the form of WebWare for Knowledge Management, an area in which in most organizations there is considerable room for improvement.

A strategically important acquisition was made in September, when a majority interest was acquired in a Göteborg-based Internet provider, Westnet AB. This company is a leading supplier of Internet and intranet based solutions in the west of Sweden, as well as providing a high-quality hotel booking system known as Netbook.

In 1997, turnover amounted to MSEK 32 and the operating income amounted to MSEK 1.

Svenska Motor (100%)

In 1997, SMA Group Holding Inc sold its subsidiaries SMA Equipment Co and SMA Information Co (both in California), as well as Stith Equipment Co, in Georgia, to American Equipment Co, one of the leading American plant rental companies and a subsidiary of Flour Daniels Co, the largest engineering and construction company in North America. Following these divestments, Svenska Motor AB SMA no longer

has any operating business in the United States.

The Swedish business consists of SMA Maskin AB and Stenblocket AB. SMA Maskin AB imports contractors' plant, mainly from Komatsu and Atlas Weyhausen, as well as materials handling equipment from Hyster. SMA Maskin AB represents Bomag within the field of road maintenance and compacting equipment; it is also the general agent for Cummins diesel engines. In addition, SMA Maskin is the exclusive representative in servicing JCB's contractors' plant, materials handling equipment and agricultural machinery. Stenblocket AB is solely engaged in managing the property used by SMA Maskin AB.

SMA Maskin AB has a well established position in the market, chiefly on account of its service organization and as it has represented many prominent principals, such as Komatsu, Hyster, Atlas Weyhausen and Cummins on the Swedish market for several decades.

The level of activity on the Swedish building market is still very low, and consequently the market for contractors' plant has remained weak. The demand for materials handling equipment is stable, with most of the demand coming from exporters.

Demand for contractors' plant in Sweden is estimated to remain weak in 1998, despite the existence of some pent-up demand for new environmentally-friendly machines. Unit sales of materials handling products are expected to remain at the same level as in 1997. Engine sales are picking up thanks to the more extensive range now being supplied following the introduction of generator units during autumn 1997.

There is still a high level of currency exposure, since most of the products are imported in strong European currencies such as the Deutschemark and sterling.

Svenska Motor AB SMA's turnover amounted to MSEK 669 (1,078). Operating income amounted to MSEK 90 (30). SMA Equipment and SMA Stith were consolidated until May 31, 1997; the year's income includes MSEK 95, which is the effect on income of the divestment of the above companies.

Svenska JCB (94%)

The company holds the general agency for JCB's contractors' plant, industrial machines and agricultural plant and for related spare parts and accessories.

Customer sales are handled by the company's own sales force or local agents. JCB is the leading manufacturer of contractors' plant in Europe.

The total market for contractors' plant in Sweden declined slightly in 1997 in comparison with 1996.

Market shares during the year remained unchanged in relation to the previous year. Svenska JCB has a well-established position on the market and has a strong product program for 1998. All types of equipment have been replaced by new models that are capable of satisfying coming environmental requirements. JCB is also introducing a revolutionary range of fork lifts.

Turnover during 1997 amounted MSEK 56. The operating result was a loss of 1 MSEK.

Fagersta Australia (72.5%)

Fagersta Australia markets stainless steel in Australia through its subsidiary Fagersta Steel (Pty) Ltd.

The business comprises the sale of stainless steel sheet, pipe, wire, bar, sections and tube fittings from distribution centres in Melbourne, Sydney, Brisbane and Adelaide.

The global market for stainless steel was characterized by over-capacity during the year, owing to relatively slack demand in Europe and Asia, at a time when additional, new production capacity came on the market, primarily in Asia. Producer prices therefore fell further for much of the year, finally stabilizing at a very low level. Demand in Australia was rather high, however, and the company therefore succeeded in raising its turnover and improving its gross margins.

Volumes rose by 25 per cent on 1996 and invoiced sales amounted to MSEK 190 (162). Operating income improved to MSEK 11 (6) and pre-tax income was broadly in line with expectations which was a great improvement on the previous year.

MTV Produktion (44%)

MTV Produktion was floated on the "O" list of the Stockholm Stock Exchange on April 14, 1997. MTV is an independent TV production company specializing in entertainment and drama and in the development of in-house production and adaptation of international TV programs to the Scandinavian market. MTV

Produktion is the largest independent TV production company in Scandinavia. The weak result is largely due to the commencement of studio production in Denmark. Extensive cost-reduction projects have begun in both Denmark and Sweden with the objective of reducing exposure to volume fluctuation and to improving production margins. The company's turnover amounted to MSEK 295 (302) in 1997. The operating result was a loss of MSEK 32 (income 14).

Moderna Tider (100%)

Moderna Tider magazine continued its media success in 1997.

The TV production activities focusing on culture, journalism and current affairs are doing well. During the year, several documentaries, hearings and panel discussion programs were produced for SVT, TV3, TV4, and UR.

Turnover amounted to MSEK 15 (15) and the operating result was a loss of MSEK 2 (loss 3).

Brombergs (98%)

Brombergs published 13 new titles last year. The successful authors on Brombergs' list include John Gray, Gunilla Dahlgren, Ilon Wikland, Arto Paasilinna and Stephen Rössner. Brombergs had a successful 1997 with pre-sold titles, and a significant proportion of the year's publications were sold to firm customers.

As a result of the re-structuring of the business during the past year Brombergs reduced its fixed cost base substantially and is now back in profit. Turnover during the year amounted to MSEK 8 (8) and the operating result was MSEK 0 (loss 2).

Results

Investment AB Kinnevik's net sales amounted to MSEK 1,550 (1,973). Operating income amounted to MSEK 39 (loss 33). The company's interest in the earnings of affiliated companies was a deficit of MSEK 272 (deficit 26). The result after financial net was a loss of MSEK 330 (loss 212).

Other subsidiaries

MSEK	1996	1997
Income statement		
Net sales	478	478
Operating income	- 200	- 151
Earnings after financial items	- 181	- 180
Capital expenditures in property, plant and equipment	15	15
Number of employees	181	177

Other subsidiaries comprises the agricultural activities conducted through Mellersta Sveriges Lantbruks AB, MSLA, and companies which, in connection with the re-structuring of MTG, remained within the Kinnevik group, including TV1000, AirTime and Play-TV.

Mellersta Sveriges Lantbruk (100%)

Agriculture was Kinnevik's original business. Mellersta Sveriges Lantbruks AB now owns three

farms: Ullevi, near Vadstena; Russelbacka, south of Lidköping; and Svedberga, north of Helsingborg. The total acreage under cultivation is 1,460 hectares, which makes MSLA one of Sweden's largest owners of farmland. The farms concentrate solely on the growing crops, and cultivation is highly specialized with mechanized methods. All cultivation takes due account of environmental considerations.

As far as harvests are concerned, 1997 was a very varied year. The exceptional diverse weather conditions, either real drought or heavy rain, heat waves and cold spells, resulted in widely fluctuating harvests, in terms of both quantity and quality, depending on geographical location. Generally throughout the country, the quality of the harvest was much poorer than in the previous year. This is also evident in the aggregate supply on the market. The proportion of grain for animal feed rose as some of the production failed to reach quality required for human consumption, which led to intense pressure on prices.



Harvest of malt grain at Ullevi Egendom.

Imports from eastern Europe were unexpectedly high, considerably more than the EU Commission had expected last autumn. This resulted in unnecessarily large stocks, which are now depressing prices within the EU.

No changes were made in 1997 in the EU acreage support system, apart from the reduction of the proportion of uncultivated land from 10 per cent to 5 per cent of the acreage entitled to financial aid. During the year, 5 per cent of MSLA's acreage remained uncultivated.

Turnover amounted to MSEK 15 (14), and operating income to MSEK 3 (3).

TV1000 (93%)

TV1000 and TV1000 Cinema are premium pay-TV channels, where most of the programs broadcast are feature films, although live broadcasts such as sporting events, concerts and galas have also been broadcast.

TV1000 is included in ViaSat's range of pay-TV channels. During autumn 1997, ViaSat launched a new package - ViaSat Guld - which includes TV1000. Demand for premium pay-TV channels in the Nordic countries did not grow noticeably in 1997. On the cable TV side there was no growth at all, while the DTH market (satellite dishes) expanded in terms of number of dishes installed. TV1000's market share of new satellite dish owners rose in the Nordic countries thanks to the ViaSat Guld package. TV1000 has a strategic advantage as it is included on ViaSat's "smart card", which contains TV3 and was launched through the ViaSat Guld package during the autumn of 1997.

TV1000 has long-term program agreements with SF, Warner Bros, 20th Century Fox and Sony Pictures Entertainment, which ensures the quality of the programmes broadcast.

Competition on the pay-TV market remained intense throughout 1997.

In connection with the distribution of MTG, an option agreement was reached between Kinnevik and MTG, giving MTG the right to acquire

Kinnevik's interest in TV1000 at market value. Under the terms of the agreement, MTG will also cover TV1000's losses, over and above MSEK 100, MSEK 60 and MSEK 30 for 1997, 1998 and 1999 respectively. Kinnevik has transferred operative management to Modern Times Group MTG AB.

The company's turnover amounted to MSEK 372 (392), and it reported an operating loss of MSEK 179 (loss 194).

AirTime (55%)

AirTime is mainly engaged in the sale of advertising time on TV and radio.

During 1997 ongoing projects in training, enlarging the sales force and improving efficiency, which began in their current form in 1996, were intensified. During the second half of 1997 these projects generated noticeable results in terms of sales volumes and efficiency, defined in several different ways.

The year's turnover amounted to MSEK 57 (142). The operating result was a loss of MSEK 31 (income 45). The comparative figures for 1996 include damages of MSEK 75 received from TV4.

Play-TV (100%)

Play-TV produces TV lottery shows. During 1997 the company received a national lottery licence in Poland. Negotiations are under way with Poland's leading TV channel concerning these broadcasts. The business is expected to begin in 1998. Play-TV has also been engaged in business in Estonia since 1995. Non-recurring costs incurred on the winding up of the unit in Russia were charged against the year's result. The company's turnover amounted to MSEK 27 (4) and the operating result was a loss of MSEK 25 (loss 54).

Result

The net sales of Other subsidiary companies during the year amounted to MSEK 478 (478). The operating result was a loss of MSEK 151 (loss 200). The result after financial net was a loss of MSEK 180 (loss 181).

Acronym and explanations

fluff pulp	paper product consisting of more or less loose fibre or fibre flock, produced by tearing dried pulp.
Intranet	Internal data communications network within an organization or corporation which uses the same technique as Internet, but which is not accessible from Internet.
scoring	statistical method used to determine the credit status of a potential or existing customer.
SMA-TV	Small Master Antenna TV - local cable TV network.
smartcard	A card with a built-in integrated circuit that is used as an information carrier in connection with card payments and TV subscriptions, for example.
telemarketing	the selling of goods or services to the corporate or consumer markets on the telephone on the basis of a previously prepared prospect list.

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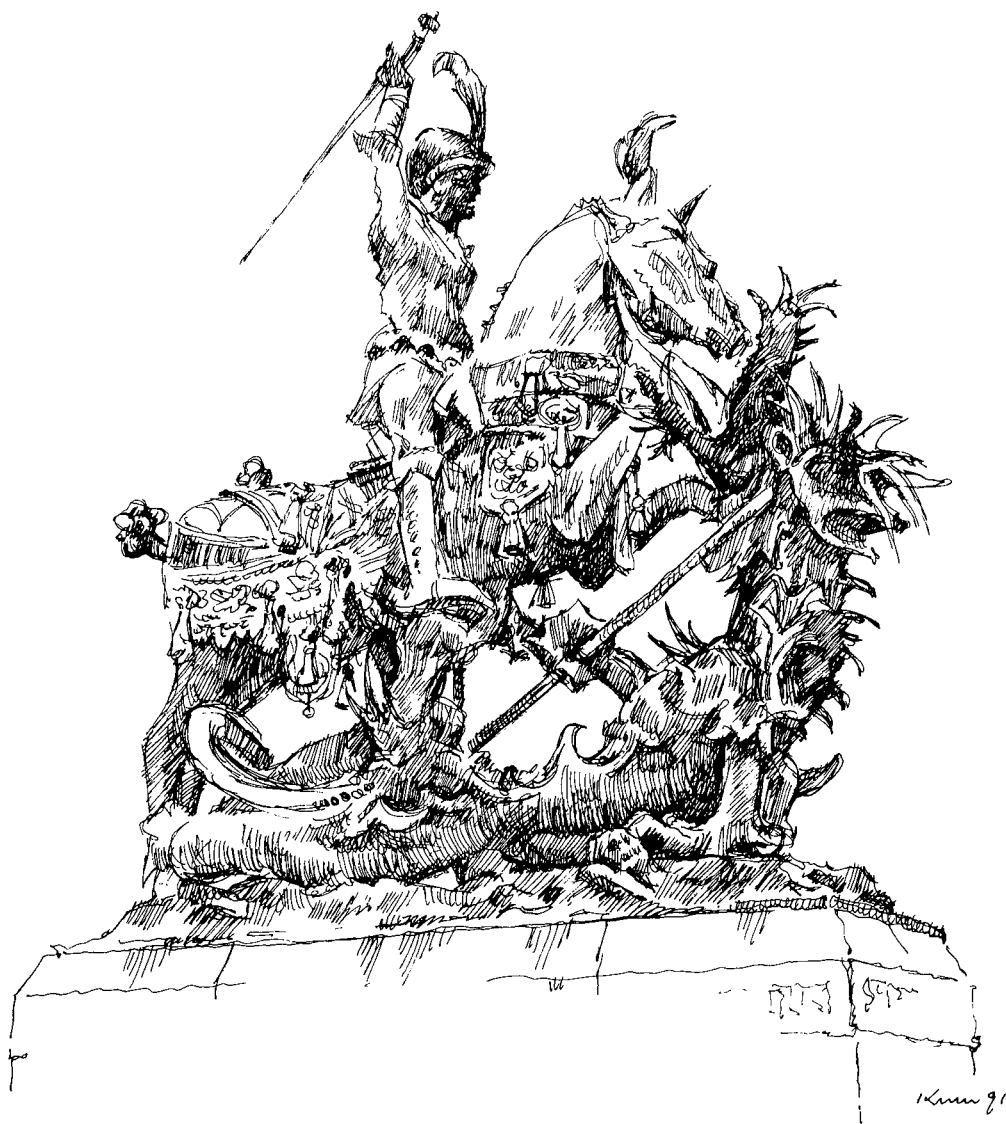
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