MTG
MODERN TIMES GROUP

MODERN TIMES GROUP MTG AB ("MTG")

Interim Report 1998

January 1—March 31

Modern Times Group MTG AB (Nasdaq: MTGNY), a leading Scandinavian media company, presents its accounts for the first quarter of 1998 today, Monday, May 11, 1998.

SUMMARY

- Group sales totaled SEK 825 (659) million for the quarter, up 25% from Q1 1997.
- The operating loss before depreciation and amortization improved, to SEK -8 (-89) million, as did the operating loss after depreciation and amortization, which ended at SEK -53 (-129) million.
- Sales for TV3 were on the same level as last year. Sales in all markets except Denmark developed well, which combined with ongoing cost control produced substantially stronger earnings.
- A decision was made to move ZTV to London and broadcast the channel together with 3+, which will considerably reduce expenses. However, the full impact on earnings will not be apparent until 1999.
- Metro was launched in Gothenburg, Sweden, on February 16, 1998. According to the polling organization SIFO, the newspaper is read by 125,000 persons in Gothenburg, putting Metro in second place among Gothenburg's papers already.
- Metro's distribution contract with the Greater Stockholm Public Transport Company to distribute Metro in the Stockholm subway system was extended five years, to year-end 2005.
- The Electronic Retailing business area successfully regained contracts for media time at the same time as it cut costs dramatically, returning operations to profitability.
- In Media Services, sales in Sonet and MTG Media Properties advanced robustly. Other companies have also started 1998 with strong order books.

FINANCIAL SUMMARY (SEK million)	1997	1997	1998
	Full year	Jan 1—Mar 31	Jan 1—Mar 31
Net sales	2989	659	825
Gross income / loss	506	57	147
Operating income / loss before depreciation	- 77	- 89	- 8
Operating income / loss after depreciation	- 241	- 129	- 53
Income / loss after financial revenue and expense	- 293	- 144	- 45

OPERATIONS

Group structure

Since September 18, 1997, shares in MTG have been quoted on the Nasdaq National Market, under the symbol MTGNY, and on the Stockholm Börsinformation (SBI) list.

During the first quarter, trading in MTG's shares was active, and the share price increased 51% from January 1 to March 31 on both exchanges. About 17% of MTG's share capital are held in ADRs which are traded on Nasdaq.

The MTG Group consists of five business areas: Broadcasting, Radio, Publishing, Electronic Retailing, and Media Services. The Broadcasting business area is divided into Free TV and Pay TV.

Two changes have been made in the operational accounting compared to the same period the preceding year. TV6 changed format from a free-TV channel to a pay-TV channel and is thus reported from 1998 under Pay TV in MTG Broadcasting. In addition, TV3 Lithuania is reported as part of the TV3 group in MTG Broadcasting. TV3 Estonia, in which MTG holds a minority interest, is still reported as an associated company included in TV3's income.

During the quarter, Metro began publishing in Gothenburg, Sweden. Sales and earnings from this business is reported under MTG Publishing.

Group earnings for the first quarter of 1998

In the first quarter of 1998, net sales totaled SEK 825 million, compared to SEK 659 million for the same period in 1997, representing a rise of 25%. All business areas significantly expanded sales.

The operating loss before depreciation was SEK 8 million for the period, compared to the loss of SEK 89 for Q1 1997.

The operating loss after depreciation, including participations in the earnings of associated companies, equaled SEK 53 million, compared to the loss of SEK 129 million one year previous.

The Group remains exposed to fluctuations in rates of foreign currencies in which MTG makes the majority of its purchases. Compared to the same period in 1997, expenses increased SEK 11 million because of the depreciation of Scandinavian currencies, mainly against the U.S. dollar.

Cost-savings programs and the concentration of tasks at fewer central functions in MTG continued. The number of full-time employees was 1,047 (1,006) at the end of the period. The increase in personnel was mainly attributable to sales recruits and the establishment of Metro in Gothenburg.

The net interest in earnings of associated companies was SEK 16 (14) million, reported in the operating income/loss of each business area as per the recommendations of the Swedish Financial Accounting Standards Council. Consequently, the Group's participation in earnings of TV3 Estonia and TV4 are included in MTG Broadcasting, P4 Radio Hele Norge in MTG Radio, and HSS in MTG Electronic Retailing.

Net financial revenues and expenses totaled SEK 8 (Q1 1997: 153 loss) million. Net financial items included income of SEK 18 (Q1 1997: 1 loss) million resulting from gains on foreign exchange in the translation of receivables denominated in foreign currencies.

The loss after financial items was SEK 45 (144) million.

MTG Broadcasting

The Broadcasting business area comprises MTG's TV channels and subscriber management system (SMS) operations as well as MTG's participation in earnings from the TV1000 channel. The business area comprises two segments: Free TV, for which the main source of revenue is sales of advertising, and Pay TV, for which the main source of revenue is subscription fees.

Free TV

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

TV3

During Q1 1998, TV3 expanded its sales in the Scandinavian countries 1%, to SEK 309 (307) million.

TV3's channels in the three Scandinavian countries developed at different rates. In Sweden, the market for advertising grew about 10% in the first quarter, and TV3's market share was 22.5% (20.5%). The Norwegian market remained robust, with growth of 21.6%, and TV3 achieved a market share of 14.9% (16.3%). In Denmark, market growth stopped at 8%, and TV3's market share equaled 16,2% (22,6%). Hence, the trend from Q4 1997 continued, with steady growth in Sweden and Norway and weaker progress in Denmark.

The TV3 channels in the Baltic states continued to advance strongly in the first quarter. The Estonian market grew 30% (38%), and the Lithuania market 40% (70%). TV3 commanded market shares of 48% (27%) in Estonia and 34% (27%) in Lithuania.

Sales for the Lithuanian channel, which is consolidated in the operations of the TV3 group, rose to SEK 16 (6) million. The corresponding figure for TV3 Estonia was SEK 9 (3) million.

TV3 Broadcasting reported sales of SEK 327 (313) million for the first quarter, an operating loss before depreciation of SEK 5 (54) million, and an operating loss after depreciation of SEK 11 (61) million. Earnings were satisfactory taking into account that the first quarter is traditionally weak and sales in Denmark developed unfavorably.

Other channels

At March 1, 1998, TV6 changed its format to a pay-TV channel but was transferred to the Pay TV segment effective January 1, 1998.

A decision was made to move the business and broadcasting operations of ZTV to London and to broadcast the channel to a large extent together with 3+. The move will expand the advertising time available and options for commercial interruptions during programs at the same time as it reduces expenses. However, earnings will not fully reflect the changes until 1999.

In conjunction with the changes in TV6 and ZTV, vigorous action has been taken to reduce MTG's exposure to these channels.

ZTV and 3+ reported sales of SEK 20 (12) million for the first quarter, an operating loss before depreciation of SEK 29 (31) million, and an operating loss after depreciation of SEK 29 (32) million.

Associated companies

Earnings for the business area include MTG’s participation in the associated companies TV3 Estonia and TV4. Participation in those companies’ earnings totaled SEK 4 (3) million in the first quarter.

Pay TV

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

ViaSat

The negative trend in Pay TV appears to have reversed following the introduction of the buy-through concept in autumn 1997. Since the introduction six months ago, the number of ViaSat Gold subscribers has surged 35%, to more than 160,000. ViaSat Guld contains TV1000 and 10 other channels, including MTG’s TV6 and ZTV.

ViaSat was also the first distributor to launch Internet access via satellite, in December 1997 with the telecom operator Tele2. By the end of March, more than 2,000 people had signed up for more information on this service.

The number of ViaSat smartcards on issue at the end of March totaled 928,000 (854,000).

Sales for the first quarter were SEK 87 (56) million, operating income before depreciation was SEK 24 (10) million, and operating income after depreciation SEK 18 (6) million.

TV6

TV6 changed format at March 1, 1998, and is now broadcast as a pay-TV channel (as mentioned above) containing two programming blocks: TV6 Nature World and TV6 Action World. This has reduced expenses some SEK 60 million on an annual basis, and a majority of those savings are expected to feed through to TV6’s earnings in 1998.

Sales for the first quarter were SEK 3 (2) million, the operating loss before depreciation SEK 10 (17) million, and the operating loss after depreciation SEK 12 (19) million. The cost savings appeared in March 1998.

TV1000

According to a separate agreement between Kinnevik and MTG, MTG distributes the premium channel TV1000 as part of the ViaSat Gold package and to cable-TV networks. In 1998, Kinnevik will cover SEK 60 million (1997: 100 million) of all losses made by TV1000.

At the end of the quarter, TV1000 had 251,000 subscribers (217,000).

The business area's share of losses in TV1000 totaled SEK 35 (7) million for the first quarter. The share of losses was greater than in the preceding year as a result of weaker earnings in TV1000 and Kinnevik covering less losses in 1998 than in 1997, in accordance with the agreement.

During the period, expenses equaling SEK 13 (16) million for over-capacity on transponders and goodwill amortization were incurred by the business area.

Sales for the entire Broadcasting business area equaled SEK 450 (402) million, giving an operating loss before depreciation of SEK 53 (102) million, and an operating loss after depreciation of SEK 77 (125) million.

MTG Radio

In 1998, Radio Rix advanced to become Sweden's biggest commercial radio network based on listener shares, by two of the three criteria used in RUAB's latest survey. The radio market grew apace during the first quarter, and MTG Radio pushed up sales 60%, winning market share.

During the quarter, a new sales force of 50 salespeople was established, and the start-up costs were charged to income for the area. For the remainder of the year, all expenses except variable sales costs are expected to be stable, so continued strong sales growth should reduce the loss for the full year.

Sales for MTG Radio as a whole were SEK 16 (10) million in the first quarter, the operating profit before depreciation SEK 1 (Q1 1997: 5 loss) million, and an operating loss after depreciation of SEK 1 (7) million.

The Norwegian radio station P4, in which MTG is the largest shareholder, continued growing. MTG's participation in P4's profit, estimated by MTG at SEK 7 (5) million, is reported in MTG Radio's share of earnings in associated companies.

MTG Publishing

On February 16, 1998, Metro was successfully launched in Gothenburg. The 70,000 copies of the newspaper printed each day are read by an estimated 125,000 commuters. Sales of advertising space are proceeding as planned.

Also, a decision was made to launch Metro in Budapest, Hungary, after the summer of 1998. Preparations are advancing as planned.

Sales in Stockholm and Prague expanded vigorously during Q1 1998, and circulation was maintained at the forecast levels, while the number of readers increased to 604,000 in Stockholm and 330,000 in Prague. Sales in Stockholm and Gothenburg totaled SEK 67 (39) million and in Prague SEK 6 million.

After the end of the period, Metro's contract with the Greater Stockholm Public Transport Company was extended five years, to the end of the year 2005.

Sales for the entire Publishing business area were SEK 75 (40) million in the first quarter, the operating profit before depreciation SEK 15 (6) million, and operating profit after depreciation SEK 12 (5) million.

MTG Electronic Retailing

In Q4 1997, a decision was made and carried out to trim the business area's organization to counter the lack of media time and attractive products that had led to declining sales. However, media time was regained through new contracts, for example in Poland and the Czech Republic, and product concepts developed in the business area sold well, so the business area boosted sales 41% in Q1 1998 compared to the same period one year previous. In combination with lower costs, the sales expansion returned MTG Electronic Retailing to profit in Q1 1998.

Sales for MTG Electronic Retailing were thus SEK 158 (112) million in the first quarter, operating profit before depreciation SEK 13 (Q1 1997: 1 loss) million, and operating profit after depreciation SEK 10 (Q1 1997: 4 loss) million.

MTG Media Services

The business area increased sales 18% compared to the same period one year previous. The sales gain was mainly attributable to the operations of Spice/Sonet and MTG Media Properties. Sonet's sales growth chiefly resulted from films it produced itself: *Lilla Jönssonligan 2* (The Junior Jönsson Gang), *Glasblåsarns barn* (The Glassblower's Children), and *Sista kontraktet* (The Final Contract). However, sales would probably have been even greater if the U.S. production *Titanic* had not taken such a big share of the Swedish market during the first quarter. MTG Media Properties is expected to maintain its brisk pace of growth throughout 1998.

Other companies in the business area also enjoyed success in Q1 1998, reflected in the strong influx of orders chiefly to Strix, including additional episodes of the 1997 hits *På rymmen* (On the Run) and *Expedition: Robinson.* SDI continued expanding at a healthy pace.

Sales for the entire Media Services business area reached SEK 163 (137) million in the first quarter, the operating profit before depreciation being SEK 29 (16) million, and operating profit after depreciation SEK 19 (10) million.

FINANCIAL POSITION

Equity/assets ratio

The Group's equity/assets ratio (consolidated shareholders' equity and minority interests including the convertible debenture loan, divided by total assets) equaled 40% at March 31, 1998.

This figure does not include MTG's holdings in TV4 and P4 reported as fixed assets, which had a combined market value of SEK 1,121 million at March 31, 1998. The underlying value of the shares in Millicom International Cellular SA, corresponding to the option to acquire shares in Millicom which is reported as a current asset, had a market value of SEK 544 million at March 31, 1998. The aggregate book value and exercise price for these holdings was SEK 344 million.

Liquidity

The Group's liquidity, including unutilized credit facilities and the Millicom option, equaled SEK 713 million at the end of the first quarter.

Net borrowings

Consolidated net borrowings (interest-bearing liabilities, excluding the convertible debenture loan, less interest-bearing assets) totaled SEK 310 million at the end of the first quarter.

Investing activities

During Q1 1998, the Group invested SEK 23 million. During Q1 1997, investments totaled SEK 22 million.

Depreciation and amortization

Group depreciation and amortization was SEK 45 (40) million.

OTHER INFORMATION

Interim report for January-June 1998

MTG's interim report for the period January—June 1998 is tentatively scheduled to be released on August 17, 1998.

Annual report

MTG’s annual report for 1997 is available at the Company’s office: MTG, Skeppsbron 18, Box 2094, SE-103 13 Stockholm, Sweden.

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Stockholm, May 11, 1998

Modern Times Group MTG AB

The Board of Directors

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

CONSOLIDATED INCOME STATEMENT (SEK million)	1997	1997	1998
	Full year	Jan 1—Mar 31	Jan 1—Mar 31
Net sales	2989	659	825
Cost of goods and services	- 2483	- 602	- 678
Gross income/loss	506	57	147
Selling, administrative, research and development expenses	- 616	- 156	- 130
Income / loss from corporate development	4	-	-
Expensed option premium for TV1000	- 96	- 7	- 35
Other operating revenues	30	7	-
Other operating expenses	- 123	- 44	- 51
Interest in earnings of associated companies	54	14	16
Operating income/loss	- 241	- 129	- 53
Financial items, net	- 52	- 15	8
Income/loss after financial revenue and expense	- 293	- 144	- 45
Interest on convertible debentures	- 9	-	- 7
Income /loss before tax	- 302	- 144	- 52
Taxes	- 41	- 6	- 10
Minority interests	- 1	- 1	- 3
Net income/loss for the period	- 344	- 151	- 65

REVIEW OF THE GROUP (SEK million)	1997 Full year	1997 Jan 1—Mar 31	1998 Jan 1—Mar 31
Net sales by business area			
MTG Broadcasting	1870	402	450
MTG Radio	59	10	16
MTG Publishing	217	40	75
MTG Electronic Retailing	451	112	158
MTG Media Services	518	137	163
Parent company and other companies	26	6	7
Eliminations	- 152	- 48	- 44
Total	2989	659	825
Operating income/loss by business area			
MTG Broadcasting	- 178	- 125	- 77
MTG Radio	- 23	- 7	- 1
MTG Publishing	40	5	12
MTG Electronic Retailing	- 41	- 4	10
MTG Media Services	27	10	19
Parent company and other companies	- 56	- 6	- 14
Eliminations	- 10	- 2	- 2
Total	- 241	- 129	- 53
Income/loss after financial items by business area			
MTG Broadcasting	- 301	- 150	- 95
MTG Radio	- 32	- 10	- 3
MTG Publishing	37	4	12
MTG Electronic Retailing	- 65	- 9	5
MTG Media Services	15	8	16
Parent company and other companies	63	15	22
Eliminations	- 10	- 2	- 2
Total	- 293	- 144	- 45

CONSOLIDATED BALANCE SHEET (SEK million)	Dec. 31, 1997	March 31, 1997	March 31, 1998
Fixed assets			
Capitalized development expenditure	180	213	172
Intellectual property rights	128	76	120
Goodwill	281	305	270
Machinery, equipment, real estate, etc.	200	231	189
Shares and participations in other companies	319	301	330
Long-term receivables	13	15	15
	1121	1141	1096
Current assets			
Inventories	638	620	683
Current receivables	776	913	927
Cash, cash equivalents, and short-term investments	326	140	202
	1740	1673	1812
Total assets	2861	2814	2908
Shareholders' equity			
Restricted equity	375	25	375
Non-restricted equity	473	679	400
	848	704	775
Minority interests in equity	8	6	11
Provisions	82	84	82
Long-term liabilities			
Convertible debenture loan 1997/2000	377	-	380
Non-interest-bearing liabilities	-	49	-
Interest-bearing liabilities	449	378	447
	826	427	827
Current liabilities			
Net liability to Kinnevik	-	622	-
Non-interest-bearing liabilities	1010	892	1130
Interest-bearing liabilities	87	79	83
	1097	1593	1213
Total shareholders' equity and liabilities	2861	2814	2908