Industriförvaltnings AB Kinnevik

Annual Report 1998

Financial information

Interim Report 1999 1st quarter, May 18, 1999

Half-yearly report 1999, August 17, 1999.

Interim report 1999 3rd quarter, November 23, 1999.

The Year-end Report for fiscal 1999, February 2000.

The Annual Report for fiscal 1999, April 2000.

Annual General Meeting, May 2000.

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

Contents

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 February 25, 1999.

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, President
Ulf Spång	

Deputy Members

Hans Wahlbom*	Wilhelm Klingspor
Åke Lamm*	

Auditors

Auditors
Lars Träff   Anders Wiger   Hans Karlsson
Authorized Public Accountants

Deputy Auditors
Erik Åström   Ingemar Rindstig   Carl Lindgren
Authorized Public Accountants

* Representatives nominated by union organizations.

See page 47 for further information about Kinnevik's Board of Directors.

Management

Left to right, front row:	Vigo Carlund, President of Korsnäs AB, Gävle; Stig Nordin, President of Industriförvaltnings AB Kinnevik, Stockholm; Thomas Jönsson, Executive Vice President of Industriförvaltnings AB Kinnevik, Stockholm.
Second row:	Ingemar Pettersson, President of Svenska JCB AB, Huddinge; Anders Siberg, President of SMA Maskin AB, Järfälla; Christina Bellander, President of Moderna Tider Förlags AB, Stockholm; Lars-Johan Jarnheimer, President of Investment AB Kinnevik, Stockholm; Tobias Wirén, President of Transcom AB, Karlskoga.
Back row:	Peter Wall, President of AirTime (AT) AB, Stockholm; Sture Gustavsson, President of Mellersta Sveriges Lantbruks AB, Vadstena; Anders Norrman, President of Credit International Services AB, Karlskoga.
Travelling:	Jan Persson, President of Fagersta Australia Pty Ltd, Australia.

Financial Highlights 1994–1998

Consolidated Statements of Income [1]

(MSEK)	1994	1995	1996	1997	1998
Net sales	5,513.1	5,997.9	6,384.8	6,565.7	6,887.9
Income from corporate development	667.3	318.5	333.9	128.8	758.6
Income from sales of securities	– 0.3	– 17.9	214.4	264.9	277.4
Operating income	1,337.6	1,116.1	875.9	733.8	1,063.2
Participations in affiliated companies	238.2	110.7	– 25.0	– 264.7	– 230.1
Income after financial revenue and expenses exclusive of interest on convertibles	1,433.6	1,105.8	625.1	206.7	532.2
Key ratios					
Return on capital employed (%)	13.2	10.7	9.0	4.7	7.0
Return on stockholders' equity (%)	16.5	6.7	neg	2.9	8.0
Interest coverage ratio (times)	42.4	5.6	2.0	1.5	2.3
Profit margin (%)	26.0	18.4	9.8	3.1	7.7
Equity/assets ratio (%)	53.5	49.5	38.7	37.3	39.2
Debt/equity ratio (times)	0.7	0.9	1.1	1.3	1.3
Risk capital ratio (%)	58.6	51.4	40.6	39.5	41.9
Per share data [2]					
Earnings per share after full tax (SEK)	15.50	6.27	– 8.53	2.74	7.37
Stockholders' equity per share	114	122	115	88	92
Market price at December 31 (SEK), excluding distributed companies	246	207.50	187.50	131.50	190.00
Dividend (SEK)	5.00	5.00 *	5.00 **	5.00 ***	6.70 [3]
Direct return (%)	2	2	3	4	4 [3]

* Excluding distribution of shares in NetCom AB (NetCom)

** Excluding distribution of shares in Modern Times Group MTG AB (MTG).

***Excluding distribution of warrants in Société Européenne de Communication S.A. (SEC).

1) Figures for 1994-1997 relate to the Group post forma excluding distributed and sold companies.

2) Earnings per share relate to the profit/loss post forma excluding distributed and sold companies.

3) For 1998, proposed dividend consists of distribution of warrants entitling holder to share in Invik & Co. AB having a market value of SEK 5.70 at February 25th 1999, and of a cash dividend of SEK 1.

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.

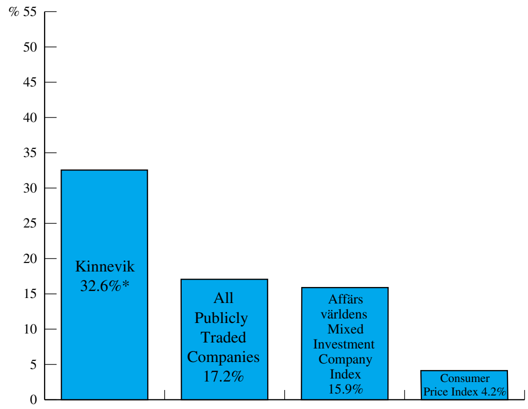
Earnings per share after full tax
Net income + interest on convertible debenture loans reduced by 28% tax/number of shares after full conversion. Net income for 1994-1996 has been charged with group contributions/stockholders' contributions to NetCom and MTG respectively.

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.

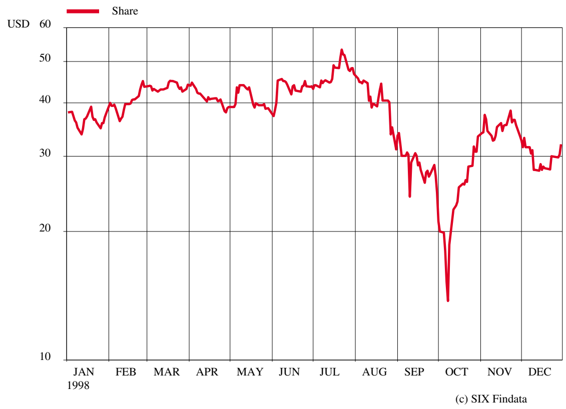
Direct return
Dividend/market price on December 31.

Effective Annual Average Rate of Return on Share Ownership 1984-1998



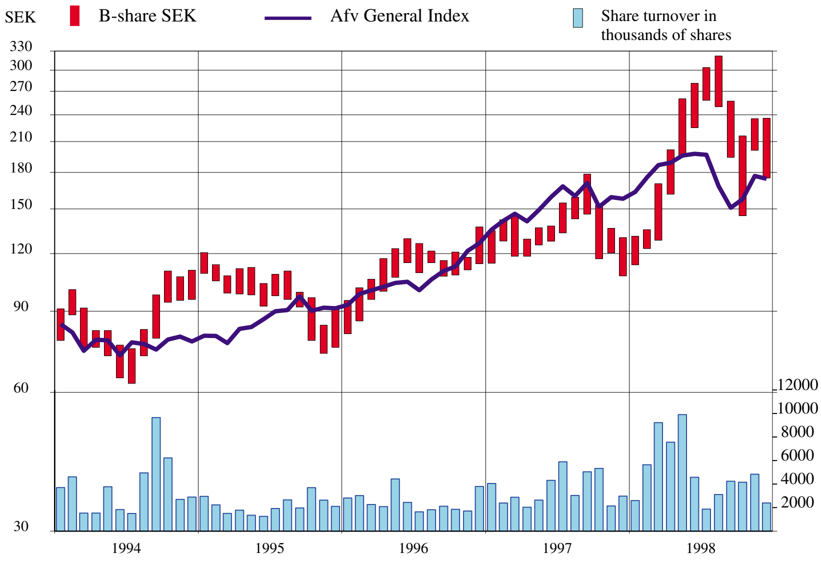
* Including the value of dividends of NetCom, MTG and SEC and the value of share subscription offers.

MICs share price during 1998



Kinnevik's holding in MIC amounts to 34%; the market value on December 31, 1998 was MSEK 4,594.

Shares, Convertible debentures and Options



Kinnevik shares

The above graph shows changes in Kinnevik's share price during the past five years. The share price has been historically adjusted for the distribution of shares in NetCom AB (NetCom), Modern Times Group MTG AB (MTG) and Société Européenne de Communication S.A. (SEC). On May 14th 1996 all the shares in NetCom were distributed to Kinnevik's shareholders. On September 15th 1997 all the shares in MTG were distributed to Kinnevik's shareholders. On June 4th 1998 warrants were distributed to shareholders entitling them to acquire a total of 20 per cent of the shares in SEC for SEK 1.50 each.

Convertible loan

Kinnevik's convertible loan was redeemed on February 28th 1998.

Kinnevik options

Options in Kinnevik were first listed on OM in October 1993. On average, 295 option contracts (corresponds to 29,500 shares) were traded daily in 1998.

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, 1998.

Shareholder	"A" shares	"B" shares	Per cent of capital	Per cent of votes
Invik & Co. AB	5,624,387	2,778,936	13.4	29.7
Afti AB	2,421,493	0	3.8	12.2
Jan H Stenbeck	1,649,912	0	2.6	8.3
Klingspor Family	1,142,982	244,976	2.2	5.9
Confidentia Förvaltnings AB	904,500	0	1.4	4.5
Franklin Mutual Series Funds	377,050	3,558,452	6.3	3.7
Korsnäs foundations	703,183	44,588	1.2	3.6
S-E-Banken/ Trygg-Hansa	210,040	4,581,828	7.6	3.4
von Horn Family	495,800	64,921	0.9	2.5
Folksam incl. AMF-Sjukförsäkringar	0	4,788,739	7.6	2.4
Svenska Handelsbanken	129,709	2,424,611	4.1	1.9
Fidelity Retirement Growth	0	3,037,000	4.8	1.5
SPP	2,700	2,357,010	3.7	1.2
Hugo Stenbecks Trust	199,530	0	0.3	1.0
Skandia	90,000	846,252	1.5	0.9
Kungl Skogs- & Lantbruksakademin	172,000	0	0.3	0.9
State Street Bank and Trust	25,500	1,396,161	2.3	0.8
Wasa	122,000	382,106	0.8	0.8
Zenit Brummer & Partners	0	1,419,500	2.3	0.7
Oppenheimer Global Fund	0	990,000	1.6	0.5
Others	852,955	18,899,856	31.3	13.6
	15,123,741	47,814,936	100.0	100.0

Review by the Board of Directors

Objectives

The purpose of Industriförvaltnings AB Kinnevik is to produce value for its shareholders, primarily by net asset value growth. The business comprises the long-term development of operating companies. Kinnevik seeks, as often as possible, to play an active role on the boards of its subsidiaries and affiliated companies, together with other large, long-term shareholders. 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. Decisions on investments are often made against the prevailing market trend, or contrary to generally accepted views. As other investors tend to give too much credence to these views the return on their investments is consequently often lower than the market average.

Historical background

The predecessor of Insustriförvaltnings AB Kinnevik was founded on December 18th 1936, by a group of friends, and the business has been carried on by their offspring, now in the third generation. Thus the Company embodies more than sixty years of entrepreneurship under the same group of principal owners. The original investments mainly took the form of purchases of substantial minority holdings in listed companies, with price as an important criterium. Consequently, such investments have mainly been made in periods of unclear outlook, or in companies with uncertain prospects.

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 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 19 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.

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 the Modern Times Group MTG AB (MTG) to Kinnevik's shareholders. This split was carried out on September 15th, and the shares were listed shortly thereafter on Stockholm Börsinformation (SBI) and Nasdaq.

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; and Société Européene de Communication S.A. (SEC) (45%), a fast-growing telecom operator on the continent. At Kinnevik's Annual General Meeting on May 15th, it was decided to distribute warrants corresponding to 20 per cent of the total number of shares in SEC to Kinnevik's shareholders. SEC is listed on SBI in Stockholm, Nasdaq in New York, and the Luxembourg Stock Exchange.

On December 31st 1998 the sum of the value of the spun-off shares in NetCom and MTG, plus the premium over the book value of the shares subscribed to in SEC, was MSEK 43,238, or SEK 678 per share, on the number of Kinnevik shares currently in issue.

Operations in 1998

For arable farmers, 1998 was the wettest year in living memory. After a mild winter and a fairly damp, cold spring, the early summer saw rain and more rain. Under such conditions, crops respond by growing vigorously and luxuriantly, but this causes the stalks to weaken. When the weather failed to change the result was extensive lying crops. In by far the most cases, the lying crops caused quality problems. The basic price was on average broadly unchanged compared with last year's, while quality problems influenced the selling price of the products. The crayfish farm on the Svedberga Estate produced a good catch in 1998.

In 1998, MIC started operations for commercial traffic in three new regions in Russia. New licenses were obtained in Senegal by SENTEL (GSM 900 license), a company that is 75 per cent owned by MIC, and a license was obtained for wireless data communications in Argentina. During the fourth quarter of 1998, MIC sold its business in Estonia (Ritabell 48%) to NetCom AB, that in Delhi, India (Bahti Cellular Ltd 13%), and its operations in Lithuania to Tele Denmark A/S (Bité GSM UAB 35.8%, and Combit UAB 24.5%). The sale prices per subscriber were USD 1,700 for Delhi, USD 2,700 for Lithuania, and USD 2,900 for Estonia. The lower price for the Delhi business was due to the fact that the sale was of a small minority interest that was sold to the company's majority shareholder, whereas the two other sales were to new shareholders.

MIC currently has equity interests in 30 companies in 19 countries, together representing a market with 455 million inhabitants. In 1998, the total number of subscriptions in these companies increased by 70 per cent to 1,380,186. Net acquisitions of subscribers amounted to 570,601 in 1998. The buyers of the licenses mentioned above acquired 179,543 subscribers as a result of the sale. In proportional terms, the subscriber base increased by 81 per cent to 827,422. Netcom's subscriber base is not included in the above figures.

SEC's principal asset is Tele2 Europe, whose business includes national and international fixed telecom services, and which commenced operations in Holland at the end of October 1997, in Germany during the first quarter of 1998, and in Switzerland at the beginning of October 1998. In 1998, the company also obtained licenses in France, Italy, Austria, and Ireland. The company plans to commence operations in these countries at the beginning of 1999. The number of customers on December 31st 1998 was 792,494, of whom 257,173 had not yet been connected to Tele2 Europe's services in Germany by that time. SEC also owns 3C Communications, Transcom International, Transcom Europe, and Tango, a mobile telecom company operating in Luxembourg.

A brief look back and future prospects

In contrast to the widely held view at the beginning of the year, which was that the level of economic activity would slow down, the growth rate in the USA continued at the same level as in 1997, i.e. at almost 4 per cent. Parallel to this, the rate of price increases moderated, defined according to the broadest standard – the GDP deflator- from 1.9 per cent to around one per cent. Total employment rose by more than one per cent to a new record level, and in December unemployment fell to 4.3 per cent. The yield on long fed funds, one of the most sensitive indicators of inflation expectations, fell by 100 points between the start of the year and the end.

The contrast between the USA and the world's second largest economy, Japan, could hardly be greater. Japan is going through its deepest recession in the post war period. Last year, GDP fell by almost 3 per cent in real terms, and industrial output by 7 per cent due to slacker demand in many sectors - private consumption, capital expenditure and exports. Japan's public finances weakened rapidly at both central and local level as the deepening recession bit. However, cost levels in the Japanese domestic economy were forced down from excessively high levels, and Japanese manufacturers experienced a dramatic improvement in their competitive advantages in relation to their foreign competitors.

A slow process of stabilisation gradually gained a hold in Asia during the year, especially in South Korea and in Taiwan, and renewed export growth can be expected soon. However, the crisis in Asia also had repercussions on the western hemisphere, especially in Latin America. The Brazilian real has come under growing pressure since the autumn of 1998, and the currency was allowed to float in January of this year. The result - a deep depreciation of the real – intensified the pressure on Brazil's trading partners in the form of stiffer competition from Brazilian companies as well as lower import demand from Brazil, by far the largest economy in Latin America. Neighbouring countries such as Argentina, Chile, Colombia and Venezuela, where the industrial economy is swinging rapidly into recession, will come under further pressure. The region's financiers, in Europe and in the USA, will face demands to make further provisions to cover their exposure to the region and even increase their loans.

Europe developed well, primarily during the first part of the year. During the second half of the year, however, the effects of the Russian crisis and a slow-down in export growth began to show through. Following the Social Democrats' victory in the election in Germany, the relaxation of the tight economic policies due to the convergence undertakings can now be expected. Only two countries deviated from this generally encouraging pattern. Great Britain went its own way as the results of a tight economic policy began to emerge. In Norway, falling oil prices brought on a temporary crisis in confidence on the financial markets. The competitiveness of Norwegian industry is continually being undermined by the oil income's contribution towards easier alternative employment and a generally unjustified optimism.

All essentials remaining unchanged, 1999 should see continued economic growth, although at a slightly lower rate. The most serious risk is the volatility on the financial markets. The financial services industry has become significantly over-established with excessively high cost levels, most blatantly with regard to the salaries of leading executives. Higher risks are being taken as a means of generating the necessary profits. It is hard to foresee what level these will reach, not to mention their cumulative consequences. The financial institutions whose most important role in society is to monitor and regulate the level of risk in the economy by means of pricing and allocating of investment resources, are now themselves becoming the greediest of speculators.

Another serious risk is that of disturbances to trading. The currency depreciations, actual and potential, in Latin America, and in Asia, among the later where China's yuan renminbi, and the Hong Kong dollar are probably the most exposed, are subjecting the American trade surplus to great strain. Imports are soaring while exports are plumeting, and the trade deficit could be as much as USD 300 billion in 1999 – a hardly sustainable level.

Renewed turmoil on financial markets or a United States that is less willing to import – either alone or together – could trigger off the long expected end to the exceptional eight years of uninterrupted economic growth in the USA in particular, but also in many more of the world's economies.

Return and asset value

Over the past 15 years, Kinnevik's shares have generated an average effective yield of 33 per cent per year as a result of rising prices and dividends, including the value of warrant offers and subscription offers. The effective yield in 1998 was 76 per cent.

During the year, warrants equivalent to 20 per cent of the total number of shares in Société Européenne de Communication S.A. (SEC) were distributed to Kinnevik's shareholders. The listed price of these warrants was SEK 36.50 at the time of distribution. At the year-end, Kinnevik's shares had a listed price of SEK 190.

Consolidated result

Net sales for 1998 amounted to MSEK 6,888, compared with MSEK 6,566 for the previous year for comparable units. Other operating revenue amounted to MSEK 266 (201).

Income from corporate development and the result of sales of securities amounted to MSEK 1,036 (394), largely in the form of non-recurring effects arising in connection with the formation of SEC, and the distribution of warrants in SEC to Kinnevik's shareholders, totalling a net amount of MSEK 723. This item also includes sales of convertible loan stock in NetCom AB (NetCom), sales of shares in Invik & Co. AB (Invik) and the option premium in respect of TV1000.

Operating income amounted to MSEK 1,063 (734). Pursuant to the decision made by the Annual General Meeting in May 1996, a sum of MSEK 36 was charged against the result in the form of a provision to cover options issued to key employees of Modern Times Group MTG AB (MTG).

The net interest in the earnings of affiliated companies was a loss of MSEK 230 (loss 265), of which the interest in Millicom International Cellular S.A.'s (MIC) income was MSEK 196, and the interest in SEC's loss was MSEK 384. MIC's income includes capital gains of MUSD 138 on sales of shares and non-recurring income of MUSD 56 on the formation of SEC.

Financial revenue and expense, excluding interest on convertible loan stock, amounted to a net expense of MSEK 301 (expense 262).

Income after financial net, excluding interest on convertible loan stock, amounted to MSEK 532 (207).

Net income amounted to MSEK 464 (169).

The comparative figures for 1997 are post forma and relate to the Kinnevik Group including the companies currently belonging to the Group.

Organisation

During the past 19 years, total investments in new businesses have amounted to some MSEK 13,000.

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. On May 15th 1998, Kinnevik's Annual General Meeting resolved in favour of distributing warrants in SEC to Kinnevik's shareholders, equivalent to 20 per cent of the total number of shares. When the offer closed on October 30th 1998, 99.8 per cent of the shares had been subscribed to.

Investment AB Kinnevik will continue Kinnevik's tradition of developing new business. Moreover, assets which were part of the three principal 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, are owned by the investment company. Holdings of large interests, such as those in MIC and SEC, 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 favour.

Important events during the year.

On February 17th, Kinnevik sold its entire holding of 1993/97/98 convertible loans, corresponding to 3,228,586 Series "B" shares, partly on the open market, and partly to Invik. Sales proceeds amounted to MSEK 462 and resulted in a loss of MSEK 5.

On April 7th, Kinnevik and MIC merged their telecommunication operations in Europe into one company, SEC. The non-recurring effect arising from the formation of SEC resulted in net income of MSEK 461.

On May 15th, Kinnevik's Annual General Meeting resolved in favour of distributing warrants corresponding to 20 per cent of the shares in SEC to Kinnevik's shareholders. Subscriptions corresponding to 99.8 per cent of the shares had been received when the offer closed on October 30th 1998. Kinnevik subsequently owns 45 per cent of the capital and 52 per cent of the votes in SEC. The non-recurring effect of the subscription to shares in SEC was MSEK 262.

In May, Kinnevik sold its remaining holding of convertibles in NetCom, corresponding to 755,555 Series "B" shares. The sale, the proceeds of which amounted to MSEK 206, generated a capital gain of MSEK 148.

On May 14th, Kinnevik subscribed to a 5-year convertible loan in Invik for a nominal amount of MSEK 330 and paying interest of 2 per cent per year in return for waiving claims of MSEK 550. In the event of full conversion, the convertibles correspond to 1,000,000 shares, of which 160,000 are Series "A" shares and 840,000 Series "B".

Kinnevik disposed of its interest in NetSys Technology Group AB in May 1998 for a capital gain of MSEK 14.

In July Kinnevik sold 360,000 Series "B" shares in Invik for MSEK 237 and a capital gain of MSEK 39.

In September, a 20 per cent interest in Viking Telecom AB was acquired for MSEK 35.

The compulsory acquisition proceedings instituted by Korsnäs Holding AB on January 3rd, 1994 relating to the minority shareholdings in Korsnäs AB are still in progress.

Kinnevik has owned all the shares in TV1000 Sverige AB since November 2nd 1998.

Financial position

The Group's liquid funds, including short-term placements and undrawn credit facilities, amounted to MSEK 3,803 (3,331) at December 31, 1998.

The Group's net interest-bearing liabilities amounted to MSEK 5,095 (4,522) at the year-end.

The average interest cost for the year was some 5.4 per cent (6.3%) (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.

Research and development

The Group's research and development costs amounted to MSEK 110 (115), most of which is attributable to Korsnäs AB.

Kinnevik and the new Millennium

The Kinnevik Group has been working systematically for some time to ensure that the transition to 2000 runs without any problems.

This project has been divided into a number of subprojects, such as administrative systems, process-controlled production systems and external deliveries of important input items.

Parent company

The parent company reports net income from corporate development and net capital gains on sales of securities of MSEK 279 (266).

Net income from interests in Group companies amounted to MSEK 655 (deficit MSEK 110) and consisted of dividends of MSEK 775 from Investment AB Kinnevik and of MSEK 55 from SMA Holding AB and write-downs of MSEK 175 in the value of shares in subsidiaries.

Other financial revenue and expense, excluding interest on convertibles, resulted in a net expense of MSEK 9 (expense 68).

Conversions of 1993/97/98 convertible loan stock during the year resulted in the share capital increasing by MSEK 32 and equity by MSEK 356.

The parent company's income before tax amounted to MSEK 822 (43).

The work of the Board

Odd Engström, formerly a member of the Swedish government, and a member of Kinnevik's board, passed away on May 18th 1998. We who worked together with Odd Engström were privileged to learn from his wisdom, to feel the warmth of his personality, and to be entertained by his sense of humour. We owe him a lasting debt of gratitude. His memory will forever remain bright.

Kinnevik's Board held nine minuted meetings in 1998.

The Board has adopted a set of work procedures for its activities and a set of instructions for the president.

Future outlook

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

Proposed treatment of unappropriated earnings

At the disposal of the parent company's Annual General Meeting are	(SEK thousand)
Non-restricted equity	732,570

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

It is proposed to distribute to shareholders	
One dividend warrant entitling the holder to share in Invik & Co. AB per share, amounting to	346,163
And to pay a cash dividend of SEK 1 per share, amounting to	62,939
To be carried forward	323,468
Total	732,570

For every 100 shares of Series "A" and Series "B" in Industriförvaltnings AB Kinnevik the owner is entitled to one Series "A" or Series "B" share in Invik & Co. AB respectively.

629,387 shares in Invik & Co. AB are to be distributed, of which 151,238 are Series "A" shares and 478,149 are Series "B" shares.

The Group's non-restricted equity amounts to MSEK 1,302.7 (1,101.2) after deduction of the proposed transfer to restricted reserve.

Consolidated Statement of Income

for the period January 1 – December 31 (MSEK)

	1997	1997 * post forma	**1998**
Net sales, Note 2	6,965.7	6,565.7	**6,887.9**
Cost of sales	– 5,493.9	– 5,121.2	**– 5,739.4**
Gross result	1,471.8	1,444.5	**1,148.5**
Selling expenses	– 414.1	– 379.5	**– 441.3**
Administration expenses	– 653.1	– 656.2	**– 659.0**
Research and development expenses	– 115.1	– 115.1	**– 110.3**
Income from corporate development, Note 3	128.8	128.8	**758.6**
Income from sales of securities, Note 3	264.9	264.9	**277.4**
Other operating income	200.8	200.7	**265.8**
Transfer to Korsnäs' employees' profit-sharing foundation	– 35.1	– 35.1	**– 16.1**
Other operating expenses	– 142.6	– 119.2	**– 160.4**
Operating income, Note 2, 4	706.3	733.8	**1,063.2**
Result from participation in affiliated companies, Note 6	– 274.1	– 264.7	**– 230.1**
Interest income and similar, Note 7	180.8	179.5	**101.7**
Interest expense and similar, Note 8	– 448.1	– 441.9	**– 402.6**
Income after financial items, excluding interest on convertibles, Note 2	164.9	206.7	**532.2**
Interest on convertibles	– 5.2	– 5.2	**0.1**
Income before tax	159.7	201.5	**532.3**
Current taxes	– 69.9	– 69.5	**– 57.6**
Deferred taxes, Note 16	14.4	12.1	**– 25.6**
Minority share in earnings	25.6	24.9	**14.8**
Net result for the year	129.8	169.0	**463.9**

* Excluding SMA USA and Imedia.

Consolidated Statement of Changes in Financial Position

for the period January 1 – December 31 (MSEK)

	1997	**1998**
Sources of funds		
Income after financial items	164.9	**532.2**
Translation differences	91.9	**177.7**
Depreciation	470.7	**562.2**
Income from corporate development and sales of securities	– 393.7	**– 1,036.0**
Participations in affiliated companies	274.1	**230.1**
Taxes	– 55.5	**– 83.2**
Interest on convertibles	– 5.2	**0.1**
Minority share in earnings	25.6	**14.8**
Funds generated from the year´s operations	572.8	**397.9**
Change in minority interests	– 32.0	**– 21.6**
Sales of securities	1,211.2	**334.4**
Increase in long-term liabilities	1,843.8	**517.0**
New stock issue	33.4	**356.5**
Total sources of funds	3,629.2	**1,584.2**
Application of funds		
Investments in fixed assets	937.8	**567.1**
Increase in long-term receivables	63.5	**193.6**
Dividends	1,610.6	**352.4**
Total application of funds	2,611.9	**1,113.1**
Change in working capital	1,017.3	**471.1**
Specification of change in working capital		
Change in liquid funds and short-term investments	244.9	**– 358.9**
Change in current receivables	– 2,515.3	**178.8**
Change in inventories	– 175.6	**190.4**
Change in current liabilities	3,463.3	**460.8**
Total change	1,017.3	**471.1**

Consolidated Balance Sheet

December 31 (MSEK)

ASSETS	1997	**1998**
Fixed assets		
Intangible assets, Note 9		
Capitalized development costs	145.5	**50.6**
Beneficial rights	7.4	**1.3**
Goodwill	347.4	**321.7**
	500.3	**373.6**
Property, plant and equipment, Note 10		
Land and buildings	980.4	**954.2**
Forest and agricultural property	3,029.0	**3,040.1**
Machinery	3,012.7	**3,290.9**
Equipment, tools and fittings	349.3	**202.3**
Leasing objects	29.3	**33.8**
Construction in progress and advances relating to property, plant and equipment	336.6	**347.6**
	7,737.3	**7,868.9**
Financial assets, Note 11		
Stocks and participations in affiliated companies	630.9	**1,092.7**
Receivables from affiliated companies	300.7	**905.2**
Stocks and participations in other companies	201.7	**211.4**
Other long-term receivables	552.7	**141.8**
	1,686.0	**2,351.1**
Total fixed assets	9,923.6	**10,593.6**
Current assets		
Inventories etc		
Raw materials and consumables	349.5	**391.8**
Felling rights	55.5	**43.8**
Work in progress	62.8	**93.4**
Finished products and goods for resale	733.5	**852.5**
Work on contract	3.0	**2.4**
Advance payment to suppliers	158.3	**169.1**
	1,362.6	**1,553.0**
Current receivables		
Accounts receivable	1,158.3	**1,104.2**
Other receivables	292.5	**511.3**
Prepaid expenses and accrued income, Note 12	218.5	**232.6**
	1,669.3	**1,848.1**
Short-term investments, Note 13	1,492.7	**1,288.8**
Liquid funds	491.0	**336.0**
Total current assets	5,015.6	**5,025.9**
TOTAL ASSETS	14,939.2	**15,619.5**

STOCKHOLDERS' EQUITY AND LIABILITIES	1997	1998
Stockholders' equity, Note 14		
Restricted equity		
Stock capital	597.0	**629.4**
Restricted reserves	3,467.1	**3,879.0**
	4,064.1	**4,508.4**
Unrestricted equity		
Unrestricted reserves	971.5	**838.8**
Net result	129.8	**463.9**
	1,101.3	**1,302.7**
Total stockholders' equity	5,165.4	**5,811.1**
Minority interest in equity	45.4	**23.8**
Provisions		
Provisions for pensions, Note 15	660.9	**687.5**
Deferred tax liabilities, Note 16	325.4	**401.1**
Other provisions, Note 17	753.9	**798.5**
Total provisions	1,740.2	**1,887.1**
Long-term liabilities, Note 18		
Interest-bearing		
Checking account credit facilities, Note 19	35.9	**40.2**
Other liabilities to credit institutions	5,737.2	**5,955.5**
Other liabilities	9.8	**173.6**
	5,782.9	**6,169.3**
Non-interest-bearing	17.2	**0.9**
Total long-term liabilities	5,800.1	**6,170.2**
Short-term liabilities		
Interest-bearing		
Liabilities to credit institutions	192.8	**173.2**
Convertible debenture loan	358.4	**–**
Liabilities to affiliated companies	16.1	**9.0**
Notes payable	28.7	**–**
	596.0	**182.2**
Non-interest-bearing		
Advance payments from customers	9.2	**11.4**
Accounts payable	610.6	**447.2**
Liabilities to affiliated companies	25.6	**7.2**
Income tax liabilities	35.7	**22.4**
Other liabilities	389.0	**453.0**
Accrued expenses and prepaid income, Note 20	522.0	**603.9**
	1,592.1	**1,545.1**
Total short-term liabilities	2,188.1	**1,727.3**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	14,939.2	**15,619.5**
Pledged assets, Note 22	7,587.6	**8,153.0**
Contingent liabilities, Note 23	910.5	**898.2**

Parent Company Statement of Income

for the period January 1 – December 31 (MSEK)

	1997	**1998**
Net sales	18.8	**17.4**
Administration expenses	– 58.8	**– 120.3**
Income from corporate development, Note 3	–	**8.1**
Income from sales of securities, Note 3	266.2	**270.9**
Operating income, Note 4	226.2	**176.1**
Result from participation in Group companies, Note 5	– 110.3	**655.2**
Interest income and similar, Note 7	419.0	**435.4**
Interest expense and similar, Note 8	– 486.6	**– 444.8**
Income after financial items, excluding interest on convertibles	48.3	**821.9**
Interest on convertibles	– 5.2	**0.1**
Income before tax	43.1	**822.0**
Current taxes	–	**–**
Net result for the year	43.1	**822.0**

Parent Company Statement of Changes in Financial Position

for the period January 1 – December 31 (MSEK)

	1997	**1998**
Sources of funds		
Income after financial items	48.3	**821.9**
Depreciation	1.4	**1.3**
Income from corporate development	–	**– 8.1**
Income from sales of securities	– 266.2	**– 270.9**
Interest on convertibles	– 5.2	**0.1**
Funds generated from the year´s operations	– 221.7	**544.3**
Sales of stocks and other securities	266.2	**279.0**
Decrease of long-term receivables	389.4	**–**
Group contributions, net	535.4	**–**
New stock issue	33.4	**356.5**
Increase in long-term liabilities	931.6	**1,038.0**
Total sources of funds	1,934.3	**2,217.8**
Application of funds		
Investments in stocks and other securities	1,119.5	**17.4**
Investments in fixed assets	0.6	**0.9**
Increase in long-term receivables	–	**29.4**
Group contributions, net	–	**210.7**
Dividends	678.0	**615.1**
Total application of funds	1,798.1	**873.5**
Change in working capital	136.2	**1,344.3**
Specification of change in working capital		
Change in liquid funds and short-term investments	410.4	**– 231.6**
Change in current receivables	– 2,730.9	**1,207,4**
Change in current liabilities	2,456.7	**368.5**
	136.2	**1,344.3**

Parent Company Balance Sheet

December 31 (MSEK)

ASSETS	1997	**1998**
Fixed assets		
Property, plant and equipment, Note 10		
Equipment	3.1	**2.7**
Financial assets, Note 11		
Stocks and participations in Group companies	6,679.4	**6,678.4**
Receivables from Group companies	1,700.0	**1,702.1**
Stocks and participations in affiliated companies	35.9	**57.6**
Receivables from affiliated companies	200.8	**213.7**
Stocks and participations in other companies	144.3	**139.9**
Other long-term receivables	4.0	**18.4**
	8,764.4	**8,810.1**
Total fixed assets	8,767.5	**8,812.8**
Current assets		
Current receivables		
Receivables from Group companies	2,002.7	**3,083.2**
Other receivables	121.2	**260.1**
Prepaid expenses and accrued income, Note 12	30.6	**18.6**
	2,154.5	**3,361.9**
Short-term investments, Note 13	1,369.1	**1,198.0**
Liquid funds	61.2	**0.7**
Total current assets	3,584.8	**4,560.6**
TOTAL ASSETS	12,352.3	**13,373.4**

STOCKHOLDERS' EQUITY AND LIABILITIES

STOCKHOLDERS' EQUITY AND LIABILITIES	1997	1998
Stockholders' equity, Note 14		
Restricted equity		
Stock capital	597.0	**629.4**
Premium reserve	32.6	**356.7**
Revaluation reserve	190.4	**190.4**
Legal reserve	2,986.7	**2,986.7**
	3,806.7	**4,163.2**
Unrestricted equity		
Retained earnings	693.3	**– 89.4**
Net result	43.1	**822.0**
	736.4	**732.6**
Total stockholders' equity	4,543.1	**4,895.8**
Provisions		
Provisions for pensions, Note 15	35.9	**34.8**
Long-term liabilities, Note 18		
Interest-bearing		
Liabilities to credit institutions	2,267.2	**2,520.3**
Liabilities to Group companies	699.3	**1,336.5**
Other liabilities	–	**156.3**
	2,966.5	**4,013.1**
Non-interest-bearing		
Other liabilities	8.6	**–**
	8.6	**–**
Total long-term liabilities	2,975.1	**4,013.1**
Short-term liabilities		
Interest-bearing		
Convertible debenture loan	358.4	**–**
Liabilities to Group companies	4,259.7	**4,274.8**
Other liabilities	28.7	**–**
	4,646.8	**4,274.8**
Non-interest-bearing		
Accounts payable	8.3	**3.8**
Liabilities to Group companies	81.8	**49.2**
Other liabilities	17.9	**75.1**
Accrued expenses and prepaid income, Note 20	43.4	**26.8**
	151.4	**154.9**
Total short-term liabilities	4,798.2	**4,429.7**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	12,352.3	**13,373.4**
Pledged assets, Note 22	7,372.0	**7,347.0**
Contingent liabilities, Note 23	1,864.3	**1,711.7**

Note 1

Accounting and valuation principles
The annual report is made up in accordance with the Annual Accounts Act, pursuant to which the accounting and valuation principles stated below have been applied.

Group contributions and shareholder contributions are taken up in accordance with the recommendations of the Swedish Financial Accounting Standards Council's acute group. Previous year income statements and balance sheets have been adjusted for purposes of comparability.

Principles of consolidation
The consolidated financial statements relate to the parent company and all companies in which the parent company controls more than 50 per cent of the votes, with the exception of Sociéte Européenne de Communication S.A. (SEC) (see below).

The consolidated financial statements are made up in accordance 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 acquisition date. The difference between the acquisition value of shares in subsidiary companies and their stated equity at the acquisition date that is not due to differences between the market value and book value of net assets is stated as goodwill. Goodwill is written off linearly over a period of 5-20 years. Goodwill arising on the acquisition of Bates Korsnäs A/S in 1997 is written off at a rate of 5 % per year as the acquisition is in line with Korsnäs's long-term integration policy and Bates has a strong, well-established brand name and a dominating position on its markets.

Closing date exchange rates are used for translating the balance sheet items of foreign subsidiary companies, while average exchange rates are used for translating their income statements. 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
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. SEC is also treated as an affiliated company.

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

Excess value upon consolidation is allotted to the fixed assets of the affiliated company in question or to goodwill. Goodwill is written off over 5 or 10 years, and other fixed assets are depreciated in accordance with the depreciation plan for the respective class of asset.

Excess value arising upon consolidation in the case of foreign affiliated companies is stated among assets in foreign currency. These profits are translated in accordance with the same principles as the income statements and balance sheets of affiliated companies.

The accounts of affiliated companies are harmonised with Kinnevik's accounting and valuation principles before the Group's interest in their earnings is calculated.

Internal profits arising on transactions with affiliated companies are adjusted in connection with the calculation of the Group's interest in their earnings and capital. Such internal profits are reversed in pace with realisation in the form of external sales and/or a reduction in the Kinnevik Group's interest in the equity of the affiliated company.

In connection with increases or reductions in the Group's interest in affiliated companies as the result of a share issue, the income or loss respectively is stated in the consolidated income statement under Interest 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. Realised and unrealised currency gains/losses are stated in the income statement.

Long-term monetary balances between the parent company and subsidiary companies may be deemed to represent an extension or a reduction in 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 as follows:

Raw materials and supplies, excluding wood from the Group's own forests, are valued at the lower of acquisition and replacement cost. Wood from Group-owned forests is valued at harvesting cost, while wood from Group-owned forests at the mill is valued at harvesting cost plus transportation cost.

Chemicals and supplies are valued at the lower of acquisition cost and replacement cost.

Obsolescence is provided for at a standard rate of 3 % in those cases where replacement value or net sales values are used.

Felling rights are valued at acquisition cost and recognised in the income statement when the wood in question is used in production or sold.

Work in progress is valued at the lower of production cost and net sales value.

Finished goods are valued at the lower of production cost and net sales value. Traded merchandise is valued at the lower of acquisition cost and net sales value.

The Group's inventories include the library of programme rights owned by TV1000, a subsidiary.

Fixed assets

Fixed assets are stated after deduction of 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 into the following groups:

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

Capitalised development costs relate to the cost of start-up projects and activities. Development and establishment costs are capitalised during the build-up phase of a development project. Start-up costs until commercial introduction of the project, and some of the costs during the first financial year are capitalised and depreciated over a maximum period of five years.

Book values of fixed assets are regularly reviewed to establish possible depreciation requirements. Depreciation is provided in the case of a lasting decline in value, taking into account the future cash flow that the asset is expected to generate.

Leasing

Financial leasing agreements are characterised by the economic risks and benefits associated with ownership of a product being in all essentials transferred from the lessor to the lessee, regardless of whether the legal ownership right remains with the lessor or passes to the lessee. Assets available on financial leasing agreements are stated as fixed assets, and undertakings to make payments in the future as liabilities, in the balance sheet. Other leasing agreements are classified as operational. Leasing charges resulting from operational leasing agreements are taken up as costs linearly during the leasing period, even though the payment plan may have a different structure.

Revenue recognition

Revenue from sales of goods is recognised when they are delivered, with deductions for returns and discounts.

Revenue from pay-TV subscriptions is spread over the subscription period.

Revenue from service activities is recognised when the services are performed for the customer.

Income from corporate development

Income from corporate development includes capital gains/losses on sales of shares in subsidiary companies and affiliated companies and similar items.

Other operating revenue and expense

Revenue from secondary activities within the company's business, as well as currency gains on operating receivables and liabilities are stated in the accounts in the same way as other operating revenues.

Tax

Each Group company's income for the year is subject to tax on the taxable income for the year ("paid tax") plus an estimated tax on the year's allocations ("change in deferred tax liability"). Tax liabilities include Swedish and foreign corporate taxes. Deferred tax liabilities include the tax liability component of untaxed reserves.

Deferred tax liabilities in respect of the Group's accrued tax losses are taken into account and stated net against deferred tax liabilities for those losses that are expected to be utilised in the near future.

Société Européenne de Communication S.A.

During the first half of 1998, Kinnevik and Millicom International Cellular S.A. (MIC) injected certain assets into a joint venture company, Société Européenne de Communication S.A. (SEC), Luxembourg, in exchange for shares corresponding to 65% and 35% of the equity respectively. Kinnevik injected the following subsidiaries: 3C Communications International S.A., Transcom Europe S.A., I.K. Transcom International S.A., and Kinnevik Telecommunication International S.A. with its subsidiary company Tele2 Europe S.A.

In connection with the formation of SEC, Kinnevik and MIC reached an agreement to exercise joint control over the company. Under the terms of this agreement, decisions on elections to the board of SEC and the raising of loans by SEC shall be made jointly by Kinnevik and MIC.

Following the exercise of call options corresponding to 20% of the total number of shares in SEC, which were distributed to Kinnevik's shareholders pursuant to a decision by the Annual General Meeting, Kinnevik's equity interest amounts to 45% and its votes to 52%.

In view of the joint control over SEC, the shareholding is stated as a joint venture in accordance with the equity interest method as stated above (see affiliated companies). A capital gain of MSEK 723 is stated in respect of the assets injected into SEC by Kinnevik. This accounting practice is considered to accord with FAR's draft recommendation regarding the accounting treatment of interests in affiliated companies and International Accounting Standard 31 "Financial Reporting of Interests in Joint Ventures", including Interpretation SIC-D13 "Jointly Controlled Entities Non-Monetary Contributions by Ventures".

Note 2

Review of the Group	1997	**1998**
Net sales by business area	Post forma	
Mellersta Sveriges Lantbruks AB	14.1	**14.9**
Korsnäs Holding AB	4,979.4	**5,025.7**
Société Européenne de Communication S.A.*	288.5	**213.1**
Other subsidiaries	1,316.8	**1,661.6**
Parent Company, Holding companies and eliminations	– 33.1	**– 27.4**
Total	6,565.7	**6,887.9**
Operating income by business area		
Mellersta Sveriges Lantbruks AB	3.5	**2.3**
Korsnäs Holding AB	743.5	**611.0**
Société Européenne de Communication S.A.*	– 46.6	**– 246.0**
Other subsidiaries	– 40.8	**– 61.4**
Parent Company, Holding companies and eliminations	109.3	**773.4**
Total	768.9	**1,079.3**
Less: Transfer to Korsnäs' employees' profit-sharing foundation	– 35.1	**– 16.1**
Net	733.8	**1,063.2**
Income after financial items by business area		
Mellersta Sveriges Lantbruks AB	4.2	**1.6**
Korsnäs Holding AB	653.9	**491.3**
Société Européenne de Communication S.A.*	– 73.2	**– 265.1**
Other subsidiaries	– 55.0	**– 65.2**
Affiliated companies**	– 275.6	**– 212.2**
Parent Company, Holding companies and eliminations	– 12.5	**597.9**
Total	241.8	**548.3**
Less: Transfer to Korsnäs' employees' profit-sharing foundation	– 35.1	**– 16.1**
Net	206.7	**532.2**
Distribution of net sales by geographic market* **		
Sweden	2,351.5	**2,315.3**
Other Nordic countries	368.2	**817.3**
Rest of Europe	3,100.5	**3,066.0**
North- and South America	93.4	**74.9**
Asia	390.0	**351.3**
Oceania	213.6	**189.7**
Africa	48.5	**73.4**
	6,565.7	**6,887.9**

* Relates to companies that were wholly owned by Kinnevik that are included within SEC until May 31st 1998.

** Excluding affiliated companies within Korsnäs Holding AB.

*** Breakdown is based on domicile of purchaser.

Note 3

Income from corporate development	Parent Company 1997	Parent Company 1998	Group 1997	Group 1998
Electric Farm A/S	–	–	– 0.3	–
Imedia A/S	–	–	0.3	–
Imedia AB	–	–	12.0	–
Infral Interactive System AB	–	–	– 2.9	–
MTV Produktion AB	–	–	25.6	–
Multinational Automated Clearing House S.A.	–	–	–	**7.7**
NetSys Technology Group AB	–	**8.1**	–	**14.1**
Oy eWORKS Finland AB	–	–	– 0.9	–
Popular Net Games PNG AB	–	–	– 0.4	–
Société Européenne de Communication S.A.	–	–	–	**723.1**
SMA Group Holding Inc.	–	–	94.8	–
Webtime Nordic AB	–	–	0.6	–
Properties	–	–	–	**13.7**
	–	**8.1**	128.8	**758.6**

Income from sales of securities	Parent Company 1997	Parent Company 1998	Group 1997	Group 1998
Option premium TV1000 Sverige AB	96.5	**91.3**	96.5	**91.3**
Option premium Millicom International Cellular S.A.	0.1	–	0.1	–
Convertible debenture loan 93/97/98	–	**– 5.1**	–	**– 5.1**
Invik & Co. AB	–	**39.1**	–	**39.1**
NetCom AB, convertible debenture loan	167.4	**147.9**	167.4	**147.9**
Other	2.2	**– 2.3**	0.9	**4.2**
	266.2	**270.9**	264.9	**277.4**

Note 4

Depreciation according to plan	Parent Company 1997	Parent Company 1998	Group 1997	Group 1998
Capitalized development costs	–	–	– 28.9	**– 35.1**
Beneficial rights	–	–	– 1.5	**– 0.2**
Goodwill	–	–	– 34.3	**– 52.0**
Land and buildings	–	–	– 48.5	**– 54.0**
Agricultural property	–	–	– 0.2	**– 0.2**
Machinery	–	–	– 277.3	**– 294.3**
Equipment, tools and fittings	– 1.4	**– 1.3**	– 73.4	**– 120.7**
Leasing objects	–	–	– 6.6	**– 5.7**
	– 1.4	**– 1.3**	– 470.7	**– 562.2**

Not 5

Result from participation in Group companies	Parent Company 1997	Parent Company 1998
Dividend from		
AirTime (AT) AB	3.0	–
Investment AB Kinnevik	–	**775.0**
SMA Holding AB	–	**55.0**
The write-down corresponds largely to shareholder contributions paid to subsidiary companies during the year.	– 113.3	**– 174.8**
	– 110.3	**655.2**

Note 6

Result from participation in affiliated companies (ownership % at December 31, 1998)

	Group 1997	Group 1998
Danu Industries Ltd (50%)	–	**– 1.7**
Gamla Stans Millennium Evenemang KB (25%)	–	**– 0.6**
Imedia A/S Norge (–)	– 9.3	**–**
Karskär Energi AB (41%)	10.2	**– 24.8** *
Latsin Sia (50%)	– 5.1	**–**
Mediamätning i Skandinavien MMS AB (–)	0.3	**–**
Millicom International Cellular S.A. (34%)	– 252.5	**196.5**
Modern Cartoons USA Ltd (27%)	–	**– 7.2**
MTV Produktion AB (44%)	– 9.6	**1.0**
SCD Invest AB (50%)	– 13.8	**– 15.1**
Société Européenne de Communication S.A. (45%)	–	**– 384.2**
Tordera SpA (50%)	3.7	**3.9**
Valvosacco SpA (20%)	2.0	**2.9**
Viking Telecom AB (20%)	–	**– 0.8**
	– 274.1	**– 230.1**

* The item includes depreciation/write-downs of MSEK 31.2 in the value of premiums over book values.

Note 7

Interest income and similar

	Parent Company 1997	Parent Company 1998	Group 1997	Group 1998
Dividends	–	**0.1**	0.5	**2.1**
Interest income from third-parties	157.8	**37.1**	197.5	**91.7**
Interest income from subsidiaries	296.3	**340.1**	–	**–**
Exchange rate differences	– 35.1	**58.1**	– 17.2	**7.9**
	419.0	**435.4**	180.8	**101.7**

Note 8

Interest expense and similar

	Parent Company 1997	Parent Company 1998	Group 1997	Group 1998
Interest expense to third-parties	– 165.2	**– 127.4**	– 417.3	**– 369.8**
Interest expense PRI	– 0.9	**– 0.8**	– 18.9	**– 25.2**
Interest expense to subsidiaries	– 317.9	**– 315.6**	–	**–**
Other financial items	– 2.6	**– 1.0**	– 11.9	**– 7.6**
	– 486.6	**– 444.8**	– 448.1	**– 402.6**

Note 9
Intangible fixed assets

Group	Capitalized development costs	Beneficial rights	Goodwill
Opening acquisition values	341.1	10.3	403.5
Changes in the Groups composition structure	– 131.4	– 1.3	– 147.0
Capital expenditure	38.5	0.1	30.4
Sale/scrapping	– 14.6	– 7.1	– 0.2
Translation differences	11.0	– 0.1	88.8
Closing acquisition values	244.6	1.9	375.5
Opening accumulated depreciation	– 195.6	– 2.9	– 56.1
Changes in the Groups composition structure	36.3	– 0.3	71.7
Sale/scrapping	2.7	2.8	0.0
Depreciation	– 35.1	– 0.2	– 52.0
Translation differences	– 2.3	0.0	– 17.4
Closing accumulated depreciation	– 194.0	– 0.6	– 53.8
Closing net book value	50.6	1.3	321.7

Note 10
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	1,611.1	3,029.0	5,789.2	768.4	43.5	336.6
Changes in the Groups composition structure	– 16.7	–	– 9.4	– 437.8	–	– 5.5
Capital expenditure	8.6	17.2	26.4	151.8	29.9	627.3
Sale/scrapping	– 16.8	– 5.9	– 52.7	– 22.2	– 26.8	–
Reclassification	30.2	–	544.4	35.9	–	– 610.5
Translation differences	19.0	–	63.4	38.3	–	– 0.3
Closing acquisition values	1,635.4	3,040.3 *	6,361.3	534.4	46.6	347.6
Opening accumulated depreciation	– 630.7	0.0	– 2,776.5	– 419.1	– 14.2	–
Changes in the Groups composition structure	11.1	–	– 8.3	214.8	–	–
Sale/scrapping	0.4	–	41.5	17.6	7.1	–
Reclassification	0.4	–	6.3	– 6.7	–	–
Depreciation	– 54.0	– 0.2	– 294.3	– 120.7	– 5.7	–
Translation differences	– 8.4	–	– 39.1	– 18.0	–	–
Closing accumulated depreciation	– 681.2	– 0.2	– 3,070.4	– 332.1	– 12.8	–
Closing net book value	954.2	3,040.1	3,290.9	202.3	33.8	347.6
Tax assessment values	2,906.5	3,725.0				

Parent Company	Equipment
Opening acqusition values	9.6
Capital expenditure	1.2
Sale/scrapping	– 1.6
Closing acquisition values	9.2
Opening accumulated depreciation	– 6.5
Sale/scrapping	1.3
Depreciation	– 1.3
Closing accumulated depreciation	– 6.5
Closing net book value	2.7

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

Note 11
Financial assets (TSEK)

	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value
Stocks and participations in Group companies					
AirTime (AT) AB	556281-6040	Stockholm	275	55	**23,957**
Zales (TRT) AB	556211-0444	Stockholm	–	100	–
AirTime Sport & Entertainment AB	556298-4426	Stockholm	–	100	–
AirTime Intressenter AB	556461-1670	Stockholm	500	100	**484**
Asia Gold AB	556480-8730	Stockholm	900	90	**360**
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	–
CIS Danmark A/S		Denmark	–	100	–
CIS Luxembourg S.A.		Luxembourg	–	100	–
Eldrimner AB	556024-4955	Stockholm	1,000	100	**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	**158,750**
Gamla Stans Millennium Evenemang AB	556052-9942	Stockholm	500	100	**600**
Indokinesiska Kompaniet AB	556081-0037	Stockholm	3,000	100	**300**
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 Australia Pty Ltd		Australia	–	70	–
Fagersta Steels Pty Ltd.		Australia	–	100	–
Latellana AG		Switzerland	–	100	–
Invik Intressenter AB	556301-1872	Stockholm	500	100	**16,215**
Kinnevik International AB	556094-7623	Stockholm	1,000	100	**22,870**
Biovik AB	556281-6149	Stockholm	–	100	–
KB Baltic Oil AB	916504-1709	Stockholm	–	100	–
Kinnevik Media International SA		Luxembourg	100	100	**0**
Korsnäs Holding AB	556170-7703	Fagersta	500	100	**5,479,643**
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	–
Diacell AB	556155-2786	Gävle	–	100	–
Korsnäs Advanced Systems AB	556560-8527	Gävle	–	78	–
Korsnäs Croatia dd		Croatia	–	68	–
Korsnäs GmbH.		Germany	–	100	–
Korsnäs Ltd		Yugoslavia	–	71	–
Korsnäs France SA		France	–	100	–
Korsnäs Italia Srl		Italy	–	100	–

Korsnäs Latvia Sia		Latvia	–	100	–
Sia Ferrum		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	–
Latsin Sia		Latvia	–	50	–
Korsnäs Wilhelmstal GmbH Papiersackfabrieken		Germany	–	100	–
Icoma FBS Packtechnik GmbH		Germany	–	100	–
Korsnäs Re S.A.		Luxembourg	–	100	–
Korsnäs Sales Ltd		Great Britain	–	100	–
Korsnäs Sågverks AB	556024-8477	Gävle	–	100	–
San Sac AB	556082-9359	Linköping	–	100	–
AB Stjernsunds Bruk	556028-6881	Gävle	–	100	–
Trävaru AB Dalarne	556044-3920	Gävle	–	100	–
Loyalty Management Sweden AB	556061-4124	Fagersta	7,000	100	**4,898**
Collect AB	556253-8602	Stockholm	–	100	–
Ludvika Personalservice KB	916582-0268	Ludvika	–	100	**100**
Mellersta Sveriges Lantbruks AB	556031-9013	Vadstena	5,000	100	**29,660**
Svedberga Lantbruks AB	556042-5398	Vadstena	–	100	–
AB Agrovik	556278-5880	Vadstena	–	100	–
Russelbacka Egendom AB	556266-5793	Vadstena	–	100	–
Modern Cartoons Holding AB	556463-2296	Stockholm	1,000	100	**0**
Modern Cartoons Europe AB	556513-5513	Stockholm	–	100	–
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	–
Play TV Holding S.A.		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	70	**4,598**
SMA Holding AB	556491-9487	Sollentuna	500	100	**92**
Svenska Motor AB SMA	556207-5506	Stockholm	–	100	–
SMA Maskin AB	556100-9373	Stockholm	–	100	–
Svenska Traktor AB	556051-6352	Järfälla	–	100	–
AB Sveatrade	556045-6666	Järfälla	–	100	–
Stenblocket AB	556031-4498	Stockholm	–	100	–
Stenblocket i Järfälla AB	556034-7832	Stockholm	–	100	–
SMA Group Holding Inc		USA	–	100	–
Stenblocket i Fagersta AB	556004-6723	Stockholm	125	100	**4,000**
Stenblocket i Trelleborg AB	556098-5888	Stockholm	500	100	**110**
Strix Vakt AB	556476-4958	Stockholm	500	100	**100**
Svenska JCB AB	556306-0960	Järfälla	5,000	100	**488**
Transcom AB	556201-3234	Karlskoga	1,000	100	**115,382**
Transcom A/S		Norway	–	100	–
Transcom A/S Danmark		Denmark	–	100	–
TV1000 Sverige AB	556364-5372	Stockholm	113,258	100	**779,532**
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**
Vilandevik AB	556359-1105	Stockholm	500	100	**100**
Carlovik AB	556253-9394	Stockholm	–	100	–
Allodium Technologies AB	556488-7007	Stockholm	–	100	–
Intact Media & Communication Gamla Stan AB	556304-7066	Stockholm	–	100	–
Vilovik AB to be Kinnevik Radio AB	556237-4594	Sollentuna	7,500	100	**1,207**
					6,678,352

Stocks and participations in affiliated companies	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value	Market value
(Parent company)						
Gamla Stans Millennium Evenemang KB	969653-5997	Stockholm	–	25	**1,000**	
Modern Cartoons Ltd		USA	2,544,000	27	**19,402**	
Net Entertainment AB	556532-6443	Stockholm	350	35	**36**	
SCD Invest AB	556353-6753	Stockholm	5,821,335	50	**35,897**	
Société Européenne de Communication S.A.		Luxembourg	207,589	0	**1,259**	6,108
World Desk AB	556359-1113	Stockholm	500	50	**50**	
					57,644	

Stocks and participations in other companies	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value	Market value
(Parent company)						
Innova International Corporation		USA	695,054	18	**123,751**	
Invik & Co. AB	556090-4251	Stockholm	40,790	1	**14,318**	26,310
MTG Intressenter AB	556519-8529	Stockholm	6,050	24	**1,210**	
Apartments					**639**	
					139,918	

Stocks and participations in affiliated companies	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value	Market value
(in the Group)						
Charter Reassurance Ltd		Great Britain	6,140,225	–	**0**	
Combi Shipping AB	556153-9932	Gävle	250	50	**50**	
Danu Industries Ltd		Ireland	–	50	**0**	
Eco-Sack Europe BV		The Netherlands	–	50	**6,354**	
Förvaltnings AB Gävle Stuveriintressenter	556178-9040	Gävle	128	26	**33**	
Gamla Stans Millennium Evenemang KB	969653-5997	Stockholm	–	25	**420**	
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	**135,896**	
Millicom International Cellular S.A.		Luxembourg	16,383,224	34	**514,148**	4,593,774*
Modern Cartoons Ltd		USA	2,544,000	27	**7,229**	
MTV Produktion AB	556333-4662	Göteborg	2,110,900	44/46	**37,942**	40,107
Net Entertainment AB	556359-1113	Stockholm	350	350	**0**	
Repasack GmbH		Germany	–	21	**4,114**	
SCD Invest AB	556353-6753	Stockholm	5,821,335	50	**6,971**	
Smurfit-Korsnäs Paper Sacks (Polska) Ltd		Poland	–	50	**6,004**	
Société Européenne de Communication S.A.		Luxembourg	142,041,997	45/52	**282,585**	3,907,048
Söderhamn Invest AB	556295-1755	Söderhamn	500	33	**0**	
Tordera SpA		Italy	100,000	50	**32,428**	
Trätåg AB	556116-2719	Falun	250	50	**3**	
Valvosacco SpA		Italy	33,800	20	**19,889**	
Viking Telecom AB	556330-3055	Göteborg	2,794	20	**34,810**	
World Desk AB	556359-1113	Stockholm	500	50	**50**	
Others					**424**	
					1,092,718	

Reconciliation of book value of stocks and participations in affiliated companies (in the Group)	
Opening balance January 1, 1998	630.9
Investments in new affiliated companies	59.2
Transfer from Group companies	671.0
Transfer to Group companies	– 7.2
Participations according to Note 6	– 230.1
Share in tax costs in affiliated companies	– 62.0
Disposals/liquidated affiliated companies	– 1.3
Translation differences	32.2
Closing balance December 31, 1998	1,092.7

Stocks and participations in other companies (in the Group)	Org nr	Registered office	Number of shares	Capital/ voting (%)	Book value	Market value
Cherryföretagen AB	556090-4251	Stockholm	680,500	4/1	**6,718**	5,784
Innova International Corporation		USA	695,054	18	**123,751**	
Invik & Co. AB	556047-9742	Stockholm	360,661	5/9	**77,844**	232,687
Modern Times Group Intressenter AB	556519-8529	Stockholm	6,050	24	**1,210**	
P4 Radio Hele Norge asa		Norway	8,200	–	**267**	219
Svensk Kartongåtervinning AB	556483-8828	Stockholm	45	6	**45**	
Apartments					**1,412**	
Others					**136**	
					211,383	

* The market value of the shares in MIC is stated without any provision for the options issued in relation to Modern Times Group MTG AB, which had a closing value equivalent to MSEK 335.

Note 12
Prepaid expenses and accrued income

	Parent Company 1997	Parent Company 1998	Group 1997	Group 1998
Accrued sales revenue	–	–	45.3	**52.6**
Accrued interest income	28.0	**16.8**	29.0	**17.2**
Accrued exchange rate gains	–	–	35.1	**3.3**
Accrued insurance compensation	–	–	2.2	**42.5**
Accrued rebate on energy tax	–	–	16.3	**0.2**
Accrued allowance from affiliated companies	–	–	2.7	**3.4**
Accrued allowance from foundations	–	–	5.8	**18.7**
Prepaid rents	–	–	5.1	**3.8**
Prepaid transponder costs	–	–	0.4	**6.3**
Prepaid insurance premiums	2.5	**1.3**	24.0	**24.8**
Other	0.1	**0.5**	52.6	**59.8**
	30.6	**18.6**	218.5	**232.6**

Note 13
Short-term investments

	Book value	Market value
Short-term investments (Parent Company)	1,198.0	2,101.8
Short-term investments (in the Group)	1,288.8	2,192.6

Note 14
Stockholders' equity

Industriförvaltnings AB Kinnevik's stock capital at December 31, 1998 consisted of 62.9 million shares each having a nominal value of SEK 10. The breakdown by class of share at December 31, 1998 was as follows:

	Number of shares	Total nominal amount
A shares	15,123,741	151.2
B shares	47,814,936	478.2
	62,938,677	629.4

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

	Stock capital	Premium reserve	Revaluation reserve	Legal reserve	Unrestricted equity	Total
Parent Company						
Opening balance, January 1, 1998	597.0	32.6	190.4	2,986.7	736.4	4,543.1
Increase due to conversion of convertible debenture loan	32.4	324.1	–	–	–	356.5
Net result for the year	–	–	–	–	822.0	822.0
Dividend	–	–	–	–	– 615.1	– 615.1
Group contributions, net	–	–	–	–	– 210.7	– 210.7
Closing balance, December 31, 1998	629.4	356.7	190.4	2,986.7	732.6	4,895.8

	Stock capital	Restricted reserves	Unrestricted reserves	Total
Group				
Opening balance, January 1, 1998	597.0	3,467.1	1,101.3	5,165.4
Increase due to conversion of convertible debenture loan	32.4	324.1	–	356.5
Translation differences	–	–	177.7	177.7
Net result for the year	–	–	463.9	463.9
Dividend	–	–	– 352.4	– 352.4
Transfer between restricted and unrestricted reserves	–	87.8	– 87.8	–
Closing balance, December 31, 1998	629.4	3,879.0	1,302.7	5,811.1

The Group's restricted reserves include a capital interest reserve of MSEK 11.4, i.e. positive differences between the value upon consolidation and the value in the books of the company in question of shares in associate companies.

The Annual General Meeting held on May 15th 1998 resolved in favour of paying a cash dividend of MSEK 5, which absorbs MSEK 314.7, and of distributing warrants corresponding to 20 per cent of the total number of shares in Société Européenne de Communication S.A. (SEC) to shareholders.

The net value in the books of the parent company of the shares in SEC was MSEK 300.4 on the distribution date; this is stated as distribution of shares. The consolidated financial statements state the book value upon consolidation of SEC as a distribution of shares.

The large positive translation difference is largely explained by the holding of shares in Millicom International Cellular S.A., an associate company, which is stated on the asset side in American dollars.

Note 15
Provisions for pensions

	Parent Company 1997	Parent Company **1998**	Group 1997	Group **1998**
Provision for pensions	35.9	**34.8**	660.9	**687.5**
Whereof through FPG/PRI	21.9	**22.0**	513.0	**527.9**

Note 16
Deferred taxes

	Group 1997	Group **1998**
Change of deferred tax liability		
Change in untaxed reserves	7.2	**88.6**
Change in value of unutilized tax loss carryforwards	7.2	**– 114.2**
	14.4	**– 25.6**
Deferred tax liability		
Deferred tax liability for untaxed reserves, 28%	824.8	**786.3**
Deferred tax receivable for the value of unutilized tax loss carryforwards	– 499.4	**– 385.2**
	325.4	**401.1**

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

The Kinnevik Group is currently subject to a tax audit. No claims of any significance have yet been submitted.

Note 17
Other provisions

	Group 1997	Group **1998**
Compulsory acquisition proceedings	652.8	**698.7**
Forest restoration	86.0	**91.9**
Other	15.1	**7.9**
	753.9	**798.5**

Note 18
Long term debt

	Parent Company **1998**	Group **1998**
Maturities 2000-2003	**2,466.6**	**2,869.2**
Maturities 2004 or later	**210.0**	**3,301.0**
	2,676.6	**6,170.2**

Note 19
Checking account credit facilities

Credit limits on checking account credit facilities in the Group amounted as per December 31, 1998 to MSEK 300.0 (MSEK 300.0), whereof unutilized limits amounted to MSEK 259.8 (MSEK 264.1).

Note 20
Accrued expenses and prepaid income

	Parent Company 1997	Parent Company **1998**	Group 1997	Group **1998**
Accrued expense for purchase of goods	–	**–**	32.0	**61.1**
Accrued personnel expenses	2.9	**4.6**	169.4	**228.1**
Accrued interest expenses	39.0	**14.8**	68.1	**45.8**
Accrued discounts	–	**–**	22.7	**21.7**
Accrued energy costs	–	**–**	38.0	**29.6**
Accrued royalties	–	**–**	3.6	**5.4**
Accrued authority fees	–	**–**	4.2	**8.0**
Accrued organization expenses	0.9	**7.1**	2.8	**10.9**
Accrued transport costs	–	**–**	8.1	**12.3**
Accrued cost for affiliated companies	–	**–**	18.6	**–**
Prepaid income	–	**–**	61.4	**97.8**
Other	0.6	**0.3**	93.1	**83.2**
	43.4	**26.8**	522.0	**603.9**

Note 21
Leasing agreements

Companies in the Group have entered into a number of agreements on the leasing/rental of premises and other fixed assets. In 1998, MSEK 162.0 were paid out under the terms of operational leasing agreements. This figure includes MSEK 69.2 in respect of TV1000's rented capacity on transponders for satellite TV broadcasting and MSEK 53.8 on account of RoRo vessels chartered by Korsnäs.

The annual cost of rented/leased assets is estimated to continue at broadly the same level during the next few years.

Note 22
Pledged assets

	Parent Company 1997	Parent Company **1998**	Group 1997	Group **1998**
Liquid funds	6.8	**6.8**	28.2	**28.2**
Receivables	3,141.0	**3,141.0**	–	**–**
Shares	4,224.2	**4,199.2**	106.0	**64.6**
Real estate mortgages	–	**–**	3,059.5	**3,738.0**
Other assets corresponding value in books of Parent Company or subsidiary in respect of shares in subsidiary	–	**–**	3,389.9	**3,503.2**
Chattel mortgages	–	**–**	1,004.0	**819.0**
	7,372.0	**7,347.0**	7,587.6	**8,153.0**

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 23
Contingent liabilities

	Parent Company		Group	
	1997	**1998**	1997	**1998**
Sureties and guarantees*	834.1	**550.2**	836.5	**818.3**
Sureties and guarantees for subsidiaries	1,029.8	**1,161.1**	–	–
Pension commitments	0.4	**0.4**	68.4	**73.4**
Purchase guarantees	–	–	1.9	–
Other contingent liabilities	–	–	3.7	**6.5**
	1,864.3	**1,711.7**	910.5	**898.2**
* Thereof guarantees for the benefit of former subsidiaries as follows:				
Multinational Automated Clearing House S.A.	1.0	–	1.0	–
NetCom AB	256.1	**2.7**	256.1	**2.7**
Modern Times Group MTG AB	551.0	**460.4**	551.0	**460.5**
Société Européenne de Communication S.A.	–	**87.1**	–	**275.2**
	808.1	**550.2**	808.1	**738.4**

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

Note 24
Average number of employees

	1997		1998	
	men	women	**men**	**women**
Parent Company				
Stockholm	8	1	**6**	**3**
Group				
Sweden	2,485	858	**2,543**	**1,121**
Denmark	192	146	**235**	**253**
Germany	344	168	**336**	**125**
Latvia	–	1	**320**	**41**
Great Britain	193	90	**166**	**80**
Yugoslavia	32	26	**70**	**38**
Norway	4	9	**43**	**56**
Croatia	–	–	**33**	**31**
Australia	34	11	**39**	**9**
France	9	11	**2**	**3**
Finland	1	1	**3**	**1**
Poland	7	15	**2**	**1**
USA	102	14	–	–
Luxembourg	66	44	–	–
Russia	25	15	–	–
The Netherlands	2	6	–	–
Belgium	2	4	–	–
Italy	1	4	–	–
Spain	4	1	–	–
The Philippines	1	–	–	–
Austria	1	–	–	–
	3,505	1,424	**3,792**	**1,759**
Total number of employees		4,929		**5,551**

Note 25
Wages, salaries and other remuneration

	1997 Board of Directors and senior management	1997 Other employees	**1998 Board of Directors and senior management**	**1998 Other employees**
Parent Company				
Salaries and other remuneration	8.7	5.5	**13.1**	**8.8**
Social expenses	2.4	1.8	**4.6**	**2.9**
Pension expenses*	3.9	0.5	**13.2**	**0.5**
Pension commitments*	13.3	–	**12.6**	**–**
Group				
Companies in Sweden	25.7	944.4	**25.4**	**988.9**
Companies abroad	18.4	402.8	**13.5**	**355.1**
Total salaries and other remuneration	44.1	1,347.2	**38.9**	**1,344.0**
Social expenses	15.4	336.8	**13.6**	**369.8**
Pension expenses*	17.3	121.2	**15.3**	**108.9**
Pension commitments*	70.0	–	**74.0**	**–**

No bonuses were paid to the parent company's board, its president of vice-presidents. Elsewhere in the Group bonuses of MSEK 0.3 (0.4) were paid. A fee of SEK 1,555,000 was paid to the board in 1998 pursuant to a decision by the Annual General Meeting, of which SEK 270,000 were paid to the chairman pursuant to a decision by the board. The chairman and companies owned by him received consulting fees of USD 200,000 during the year pursuant to a decision by the board. Over and above this, the chairman received fees of SEK 308,000 as a member of the boards of subsidiaries. Other members of the board received total fees of SEK 1,390,000 as members of subsidiary company boards.

The president does not receive a fee as a member of the board of Industriförvaltnings AB Kinnevik, but he received a total fee of SEK 257,000 as a member of various subsidiary company boards. Salary and perquisites in the form of a car and house amounting in total to SEK 5,299,000 were paid to the president. Normal pension premiums were paid with the framework of a pension plan, over and above which there are no pension commitments.

Pension commitments have been entered into on behalf of other members of the company's top management within the framework of a general pension plan.

A sum of MSEK 7 was paid into a bonus program for 16 senior executive of the Kinnevik Group.

Pursuant to a decision by Industriförvaltnings AB Kinnevik's Annual General Meeting on May 3, 1996 an option program has been set up for senior executives of Modern Times Group MTG AB, whereby these individuals have acquired options on shares in MTG via a company formed for that purpose.

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

Note 26
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, February 25, 1999

Jan Hugo Stenbeck	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 February 26, 1999

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 1998. These accounts and the administration of the Company are the resposnsibility 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 Genrerally 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 account 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 wether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We belive 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, February 26, 1999

Lars Träff	Anders Wiger	Hans Karlsson
Authorized Public Accountant	Authorized Public Accountant	Authorized Public Accountant

Mellersta Sveriges Lantbruks AB

MSEK	1997	**1998**
Income statement		
Net sales	14	**15**
Operating income	3	**2**
Earnings after financial items	4	**2**
Capital expenditures in property, plant and equipment	2	**2**
Number of employees	10	**11**

Farming was Kinnevik's original business. Mellersta Sveriges Lantbruks AB now owns three estates through subsidiaries, namely Ullevi outside Vadstena, Russelbacka south of Lidköping, and Svedberga north of Helsingborg, which cultivate a total acreage of 1,499 hectares. These estates concentrate exclusively on arable farming. Their activities are highly specialised and mechanised. All cultivation takes environmental considerations into account

For arable farmers, 1998 was the wettest year in living memory. After a mild winter and a fairly damp, cold spring, the early summer saw rain and more rain. Under such conditions, crops respond by growing vigorously and luxuriantly, but this causes the stalks to weaken. When the weather failed to change, the result was extensive lying crops. In by far the most cases the lying crops caused quality problems. The damp weather provided the right conditions for an abundant harvest, which did in fact materialise. The harvest of leguminous crops was also a disappointment, which was hardly surprising per se, since leguminous crops are extremely sensitive to the lack of oxygen around the roots. Heavy rain drives off the air in the ground and causes root rot, which was a widespread phenomenon in 1998. The leguminous harvest was half its normal volume.

Harvesting was difficult and drawn out. The generally high water content caused serious wear to the harvesters, and also resulted in high drying costs. This year the fuel consumption of the machinery and grain dryers was considerably above the average for the past few years.

A late harvest inevitably causes delays to the autumn season. The almost constant rain made it difficult to use the available machinery to the full. Consequently, the autumn ploughing was not completed before the end of November and early December, or six weeks later than usual.

The basic price was on average broadly unchanged compared with last year's, while quality problems influenced the selling price of the products.

Ecological cultivation went well during the year, and the yield on the 65 hectares under cultivation was outstanding by comparison with other farms.

The crayfish farm on the Svedberga Estate produced a good catch in 1998.

Turnover amounted to MSEK 15 (14). Operating income amounted to MSEK 2 (3).

Sowing malt corn on the Ullevi Estate near Vadstena at the end of March 1998.

Korsnäs Holding AB

MSEK	1997	**1998**
Income statement		
Net sales	4,979	**5,026**
Operating income	743	**611**
Earnings after financial items	654	**491**
thereof participations in affiliated companies	11	**– 18**
Capital expenditures in property, plant and equipment	687	**704**
Number of employees	3,491	**3,866**

Korsnäs Holding AB is the parent company of Korsnäs AB, which, together with its subsidiaries, comprises the Korsnäs group.

Historical background

Korsnäs AB was founded in 1855, when the company's name was Korsnäs Sågverks AB. The company is now one of the leading producers of high quality paperboard and paper products for the packaging industry. These products account for 70 per cent of the total turnover. Korsnäs has 3,500 employees, of whom 2,340 work in Sweden.

The original business was that of sawmilling at Korsnäs, a village in Dalecarlia. It was transferred at the end of the 19th century to Gävle, on the coast, where the current output of sawn timber, more than 140 years since the beginning, is primarily of high quality timber for the joinery and furniture industries. The annual capacity of the sawmill is 160,000 m^3 of redwood products.

Korsnäs is one of Sweden's largest private forest-owners. The total acreage is 665,000 hectares, of which 518,000 hectares are productive forest land. Annual growth is estimated at 1.8 million m^3. Korsnäs has a high degree of self sufficiency and a half of the raw materials required by the mills are harvested in the company's own forests. In addition to purchases of wood on the domestic market, a growing proportion of the pulpwood that is used, is imported from Russia and the Baltic states, where Korsnäs is building up its own business and long-term commercial relationships.

Korsnäs industrial activities are concentrated at the Korsnäsverken complex in Gävle, which is the largest integrated sulphate pulp mill in Sweden with its

Korsnäs plant

current annual capacity of 660,000 tonnes. The entire output of sulphate pulp is converted within the complex into paperboard, sack and kraft paper, and fluff pulp, which are Korsnäs's main products.

Since the middle of the seventies, paperboard has grown into the largest product area in terms of volume; beverage board is used for beverage packaging and whitetop kraft board for the outer layer in corrugated board packaging.

In the field of high quality sack and kraft paper, Korsnäs has evolved, since the 1950s, into a leading producer, as well as being a leader in quality developments. More than half of the sack paper production is further processed in the company's own wholly-owned or associated sack factories into sacks, paper bags and other types of packaging. These production units are located in seven countries in Europe. The packaging business in Germany also includes a company, Icoma, which develops, manufactures and markets machinery for the packaging industry. The annual sack and paper bag production capacity amounts to some 700 million units.

Since the mid-sixties, Korsnäs has successively increased the level of processing to the point where highly processed products now account for 85 per cent of total output compared with 15 per cent then. Korsnäs has become a less cyclically exposed forest products company as its product range is so differentiated.

Markets and events in 1998

Korsnäs Industrial

Market conditions for the company's pulp, paper and board products remained weak throughout the year. Conditions were more favourable during the first half of 1998 than they turned out to be during the second half of the year. The recession in Asia and its repercussions on other markets had an adverse effect on the market during the later months of 1998.

Total deliveries for the year amounted to 614,000 tonnes (636,000), of which paperboard accounted for 328,000 tonnes (338,000), paper for 180,000 tonnes (199,000) and fluff pulp for 106,000 tonnes (99,000).

The PM5 paper machine investment project that began in 1997 has been completed. It was an extensive project, which was carried out in stages throughout the whole of 1998 until November when the largest rebuild stage was completed while production was stopped for 17 days. In order to safeguard deliveries during and after the rebuild, finished product stocks were built up prior to the rebuilding period. This MSEK 460 investment involved the rebuilding of PM5 to make it possible to further increase capacity and improve quality. For instance, a third wire has been installed, which will permit the production of three-ply paperboard. Start-up after the rebuild went better than expected with stable production and quality.

Production at the pulp and paper mills functioned satisfactorily in 1998 and the available capacity was utilised to the full. The output of unbleached and bleached pulp as well as of paper and board on PM4 was higher in 1998 than in previous years. On account of the production stop for rebuilding, PM5's output was lower than normal. In September, PM2 and PM3 were indirectly affected by the fire that occurred in a paper warehouse close to PM2 and PM3.

The operating income of the Industrial division amounted to MSEK 375 (530).

Korsnäs Packaging

In 1998, demand in the packaging sector was slightly lower in Western Europe than in the foregoing year. The financial year was characterised by intensely competitive pricing. Korsnäs's Packaging division raised its sales volume by 13 per cent. During the year a sack factory was established in Poland in the form of a joint venture with Jefferson Smurfit. Companies were set up together with the same partner for the sale and marketing of refuse sacks in Holland, France and Great Britain. A restructuring programme was begun in Germany and Scandinavia with the object of concentrating production in Germany at Achern and successively transferring production in Scandinavia to Aalborg.

The Packaging division's operating income amounted to MSEK 72 (74).

Korsnäs Timber

The sawn market was weak during the year. The whitewood market slowly stabilised in the autumn, which is eventually expected to have a positive effect on the redwood market. Nonetheless, demand for Korsnäs Timber's redwood products remained relatively firm, especially in the case of the customised product range for which prices were stable.

Delivery and production volumes amounted to 156,000 m^3 (154,000) and 154,000 m^3 (156,000) respectively. Korsnäs Timber's operating income amounted to MSEK 2 (3).

Korsnäs Forestry

After remaining unchanged for more than two years, softwood and hardwood prices were reduced in response to economic conditions and stock levels.

The low level of supply, coupled with the difficult harvesting conditions in the autumn, as well as continued high production by Swedish sawmills, resulted in slight shortages of saw timber at sawmills without their own forests during the later part of 1998. However, the saw timber market is now back in balance.

Rationalisation and programmes to improve operating efficiency in Korsnäs's own forestry activities have continued and helped to further lower production and administrative costs. The Forestry division's operating income improved to MSEK 228 (212), largely due to lower operating costs.

Korsnäs and the environment

Korsnäs's business is based on a renewable raw material. Production processes involve reducing environmental impact and producing increasingly resource-lean materials, which can be re-used to recover energy or materials. In the longer term, this represents efficient use of natural resources.

In 1998 Korsnäs took further measures to close its production processes.

Korsnäs's mill activities and its forestry division have been certificated in accordance with the ISO 14001 standard, and the forestry activities have also been certificated in accordance with the Swedish FSC standard. The paper mill has also been awarded hygiene certification in accordance with the British ADAS standard.

Employees and competence development

The extensive measures to further develop the competence of the personnel are continuing and apply to the entire business. In order to satisfy external requirements and market demands it is becoming increasingly important that employees are more closely involved and participate more fully in the development of the company.

A review of Korsnäs's salaried employees organisation was started in 1998 in co-operation with Applied Value, a firm of outside consultants. The purpose of this review is to ensure that functioning structures are properly used and that weaknesses are identified. The review will serve as a basis for the further strengthening of the organisation throughout the company. The review will be completed during the first quarter of 1999.

A profit-sharing plan was introduced in 1993. A share of the profit will be paid on the proportion of the consolidated income in excess of a defined return on operative capital. The amount transferred to the profit-sharing foundation for 1998 was MSEK 16 (35), or SEK 4,800 (10,900) per employee.

Result

Korsnäs's operating income after depreciation, but before transfer to profit-sharing plan, amounted to MSEK 630 (770). This result was affected by lower delivery volumes in combination with successively falling prices during the second half of the year. The result was also affected by costs of MSEK 55 incurred on the stop, restart and running in of the completed rebuild of PM5, as well as costs arising in connection with the snowstorms that paralysed the Gävle district December 7th-9th 1998.

MSEK	1997	**1998**
Income statement		
Net sales	1,317	**1,662**
Operating income	– 41	**– 61**
Earnings after financial items	– 55	**– 65**
Capital expenditures in property, plant and equipment	67	**107**
Number of employees	1,086	**1,670**

Other subsidiary companies include Transcom, CIS, Svenska Motor, TV1000 and AirTime.

Transcom (100%)
Transcom is Scandinavia's leading supplier of individually designed customer relations service packages, the purpose being to construct, maintain and develop customer databases on behalf of consumer intensive companies.

Since Transom AB was formed in 1995, the business has expanded dramatically in scope, quality and volume. Transcom now offers turnkey solutions to meet companies' individual service requirements.

During the year, the company commenced operations in Denmark and in two new locations in Sweden, Kungsör and Strömsnäsbruk. Although Transcom still focuses on clients in the media and telecommunication sectors, at the beginning of 1998 it also started to accept business on behalf of the travel, insurance and energy industries.

The volume of transactions increased by some 3,200,000 calls to around 7,900,000. Besides these, around 3,000,000 debitable administrative items of business were handled.

At the end of 1998 Transcom had 1,453 employees, of whom 1,101 were in Sweden, 117 in Norway and 235 in Denmark.

The market for outsourced customer services is continuing to expand at around 35-40 per cent per year. The factor driving this development is the measures taken by growing numbers of consumer-

Transcom AB

intensive companies to increase their added value by developing their customer service, combined with the growing acceptance of outsourcing.

Transcom's extensive measures to improve the efficiency of its business produced results in 1998. For the first time since the company was formed, a profit was made and this was achieved during a period of rapid growth. Turnover for the year amounted to MSEK 358 (160), an increase of 124 per cent, and the operating income amounted to MSEK 21 (loss 5).

CIS Credit International Services (100%)

CIS is a Business Service Center (BSC) providing financial management and credit services to small companies as well as large groups. Services provided include accounting, controlling, credit appraisal, collection, legal affairs and financial support.

The customer base expanded sharply in 1998, partly via new customer acquisitions in Sweden, and partly due to the formation of new units in Norway, Denmark and Luxembourg. In order to satisfy customer demands for an efficient supplier of financial services, the Group introduced new services in that field during the year. Turnover is expected to continue expanding strongly now that services can be provided for the entire sector.

The year's turnover amounted to MSEK 37 (19) and the operating income was MSEK 4 (2).

Loyalty Management (100%)

Loyalty Management started its business in April 1998. The company's business idea is to increase loyalty between companies and their customers, by means of a variety of customer care packages. These packages are marketed under the "Collect" brand, which provides rebates and offers of products and services at favourable prices. The "Collect" customer care program had some 200,000 customers by the year-end.

Turnover amounted to MSEK 22 and the operating result amounted to MSEK 0.

Svenska Motor (100%)

The operating company within Svenska Motor is SMA Maskin AB (SMA Maskin). For many years, SMA Maskin has acted as general agent in Sweden for a number of leading manufacturers of contractors, machinery and plant. The company imports a wide range of contractors' plant from Komatsu, the second largest manufacturer in the world, also Atlas Weyhausen excavators and Moxy's center-controlled dump trucks. SMA Maskin represents Bomag within the field of road maintenance and compacting equipment. Counterbalanced and warehouse lift-trucks are imported, mainly from Hyster, which is part of Nacco, the world's leading supplier. In addition, SMA Maskin is the general agent for Cummins diesel engines and complete diesel-powered generating sets. Cummins is the world's largest, independent supplier of diesel engines.

SMA Maskin has its own nationwide sales and service organisation, which includes service workshops and workshops at major customers – all in all more than 20 companies - as well as an extensive field service organisation.

During the year, the organisation was complemented by the acquisition of Truck Hägglund AB, a company selling and servicing materials handling equipment, mainly in Östergötland.

SMA Maskin also offers rental/leasing agreements customised for companies not wishing to tie up their resources in machinery. These agreements include service and maintenance, as well as administration and financing.

The market for contractors' plant expanded during the year. SMA Maskin also improved its market share for several products. All in all, this resulted in a healthy increase in volume.

The market for counterbalanced trucks remained broadly unchanged during the year. SMA Maskin increased its unit sales by steadily raising its market share.

Engine sales also increased thanks to an extensive range of modern products. Further growth will primarily take place in the complete generating sets segment.

Svenska Motor AB SMA's turnover amounted to MSEK 437 (388) for comparable units. The operating income amounted to MSEK 3 (loss 2).

Svenska JCB (100%)

The company is the general agent for JCB's contractors' plant, industrial machines and agricultural plant and for spare parts and accessories.

Customer sales are handled by the company's own sales force, or local agents and dealers. The business extends over the whole country. JCB is the leading manufacturer of contractors' plant in Europe.

In 1998, the total market for contractors' plant in Sweden grew in comparison with 1997. JCB's strengthened during the year with higher market shares in certain segments.

Svenska JCB's business concept and strength is to provide high quality products and services, with a small organisation. This concept proved to be successful during the past year.

Turnover in 1998 amounted to MSEK 92 (56). The operating income amounted to MSEK 1 (loss 1).

Fagersta Australia (70%)
Fagersta Australia markets stainless steel in Australia through its subsidiary Fagersta Steels.

The business comprises the sale of an extensive range of products from distribution centres in Melbourne, Sydney, Brisbane and Adelaide.

The bulk of the products are purchased from manufacturers in Europe, Japan and South-East Asia.

The global market for cold-rolled sheet, which accounts for 60 per cent of Fagersta's turnover, was characterised by over-capacity due to slack demand in Japan and south-east Asia. During the first nine months of the year, producer prices fell by some 45 per cent as a result of this imbalance, as a result of which distributors were quick to lower their stocks. Domestic demand remained stable and sales volumes rose by three per cent.

Sales amounted to MSEK 168 (190), even though they remained unchanged on 1997 when expressed in local currency. Operating income amounted to MSEK 8 (11).

Moderna Tider (100%)
Moderna Tider magazine had another success year, in media terms, in 1998. It plays an important part in current affairs and is often quoted by other media. During the year, TV programs focusing on culture, journalism and current affairs were sold to SVT and TV3, TV4 and UR. Moderna Tider was restructured and diversified its business during the year. Book publishing is a new business, the first title being "The Process", a work by Uri Savir. A series of seminars was started in October in co-operation with Södra Teatern in Stockholm. Moderna Tider has also produced a complete set of teaching aids for technical subjects, which is being distributed via the Internet under the name of Skolnet.

Turnover amounted to MSEK 13 (15) and the operating result was a loss of MSEK 4 (loss 2).

Brombergs (98%)
Brombergs developed well during the year and 18 new titles were published. The major success was Ilon Wikland's children's book with illustrated Christmas carols which was the main title in the Swedish Children's Book Club. Some titles from the back list are still doing well, including John Gray's book "Men are from Mars, Women from Venus" which sold over 30,000 copies in 1998 alone.

Turnover during the year amounted to MSEK 11 (8) and operating income was MSEK 1 (0).

TV1000 (100%)
Kinnevik has transferred the operative management of TV1000 to Modern Times Group MTG AB (MTG). An option agreement exists between Kinnevik and MTG giving MTG the right to acquire Kinnevik's interest in TV1000 at its market value. Under the terms of the agreement, MTG will also cover TV1000's losses over and above MSEK 60 for 1998 and MSEK 30 for 1999.

The TV1000 Group distributes two premium pay-TV channels - TV1000 and TV1000 Cinema - in Sweden, Norway, Denmark and Finland. Most of the programs broadcast are feature films, but other events, such as live boxing matches, concerts and galas, as well as historical documentaries are also broadcast.

The total demand for premium pay-TV channels increased in 1998. The number of subscribers to TV1000 rose by 42 per cent to reach 325,934 by December 31st 1998, compared with 229,462 the previous year. The strong positive growth is mainly on the DTH market, where TV1000 is included in ViaSat's channels in the ViaSat Gold package.

Competition on the pay-TV market remained fierce in 1998, and has intensified since the introduction of digital TV.

TV1000 signed an exclusive, long-term program agreement with Walt Disney in the autumn of 1998, to add to the existing long-term program agreements with SF, 20th Century Fox and Sony Pictures Entertainment, which ensures the quality of the programs broadcast.

The company's turnover amounted to MSEK 449 (372) and it reported an operating loss of MSEK 150 (loss 179).

Air Time (AT) AB (55%)
Air Time is mainly engaged in the sale of advertising time on TV and radio.

During 1998 further drives were started to sell radio advertising, mainly involving expansion of the sales force, training and further efficiency improvements. A comprehensive cost reduction program was also introduced. This reduced costs markedly, whilst turnover increased by more than the market on average, particularly in radio advertising. Earnings for 1998 as a whole thus improved considerably in relation to the previous year.

The year's turnover amounted to MSEK 70 (57). The operating loss was MSEK 16 (loss 31).

The principal affiliated companies are Millicom International Cellular S.A. (MIC), Société Européenne de Communication S.A. (SEC) MTV Produktion AB (MTV) in which Kinnevik has equity holdings of 34%, 45% and 44% respectively.

MIC, Millicom International Cellular (34%)

MIC is one of the world's leading providers of mobile telecommunication services. MIC acquires licenses 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.

Businesses opened up for commercial traffic in 1998 in three new regions in Russia. New licenses were obtained in Senegal by SENTEL (GSM 900 license), a company that is 75 per cent owned by MIC, and a license was obtained for wireless data communications in Argentina.

During the fourth quarter of 1998, MIC sold its business in Estonia (Ritabell 48%) to NetCom AB, that in Delhi, India (Bahti Cellular Ltd 13%), and its operations in Lithuania to Tele Denmark A/S (Bité GSM UAB 35.8%, and Combit UAB 24.5%). The sale prices per subscriber were USD 1,700 for Delhi, USD 2,700 for Lithuania, and USD 2,900 for Estonia. The lower price for the Delhi business was due to the fact that the sale was of a small minority interest that was sold to the company's majority shareholder, whereas the two other sales were to new shareholders.

MIC currently has equity interests in 30 companies in 19 countries, together representing a market with

Société Européenne de Communication S.A.

455 million inhabitants. In 1998, the total number of subscriptions in these companies increased by 70 per cent to 1,380,186. Net acquisitions of subscribers amounted to 570,601 in 1998.

The buyers of the licenses mentioned above acquired 179,543 subscribers as a result of the sale. In proportional terms, the subscriber base increased by 81 per cent to 827,422. Netcom's subscriber base is not included in the above figures.

MIC consists of four strategic business areas: FORA Telecom, which is engaged in the provision of mobile telecommunication services in Russia and the Baltic states, and Sanbao Telecom in Asia, which owns the Asian subsidiary companies. A similar arrangement has been set up in Latin America, where MIC Latin America and GSM Clearing (MIC Systems) has been formed. The latter includes MIC's wholly-owned subsidiary company Multinational Automated Clearing House S.A. (MACH), the leading GSM clearing company in the world.

Turnover amounted to MUSD 448 (347). Operating income before depreciation amounted to MUSD 124 (91). The company's income after financial net amounted to MUSD 75 (loss 94).

The market value of Kinnevik's holding of shares in MIC was MSEK 4,594 on December 31, 1998. On February 24, 1999 the market value was MSEK 3,601.

SEC, Société Européenne de Communication (45%)

SEC's principal asset is Tele2 Europe, whose business includes national and international fixed telecom services, and which commenced operations in Holland at the end of October 1997, in Germany during the first quarter of 1998, and in Switzerland at the beginning of October 1998. In 1998, the company also obtained licenses in France, Italy, Austria, and Ireland. The company plans to commence operations in these countries at the beginning of 1999. The number of customers on December 31st 1998 was 792,494, of whom 257,173 had not yet been connected to Tele2 Europe's services in Germany by that time.

SEC also owns 3C Communications, Transcom International, Transcom Europe, and Tango, a mobile telecom company operating in Luxembourg.

Tango, which is a GSM 900/DCS 1800 mobile operator in Luxembourg, introduced an extensive range of mobile telecommunication services at the end of May 1998 and had 36,506 subscribers by December 31, 1998.

SEC is listed on SBI in Stockholm, Nasdaq in New York and also on the Luxembourg Stock Exchange.

Turnover amounted to MDEM 117, the operating result was a loss of MDEM 150 and the operating result after financial net was a loss of MDEM 158.

The market value of Kinnevik's holding of shares in SEC was MSEK 3,907 as of December 31, 1998. On February 24, 1999, the market value of the holding was MSEK 3,693.

MTV (44%)

The cost base was lowered during the year, which has generated a significant improvement in the result. Sales volumes have remained high and the Swedish drama series "White Lies", and other programs, were very popular with TV audiences. The subsidiary company Primetech, which is a leading events and sponsorship company, noted positive growth and improved profitability during the year.

The company's turnover in 1998 amounted to MSEK 273 (295) and its operating income was MSEK 6 (loss 32).

Acronym and explanations

ADAS	British institution that awards good hygiene certificates to manufacturers and companies.
Leguminous crops	Peas, runner beans and clover.
DTH market	“Direct To Home” – the satellite dish market.
FSC standard	“Forest Stewardship Council” is an international and independent organisation for certification of forests.
fluff pulp	paper product consisting of more or less loose fibre or fibre flock, produced by tearing dried pulp.
SMA-TV	Small Master Antenna TV - local cable TV network.

Kinnevik's Board of Directors

Name	Assignments within Kinnevik	Other assignments
Jan Hugo Stenbeck, Chairman Born 1942	Chairman of the Board since 1993. Member of the Board since 1978.	Miscellaneous board assignments.
Edvard von Horn Born 1943	Member of the Board since 1992.	Member of the Board in Korsnäs AB.
Thorbjörn Hallström Born 1950	Member of the Board since 1996. Employee representative.	Deputy member of the Board in Korsnäs AB. Employee representative.
Ulf Spång Born 1948	Member of the Board since 1998.	Vice President and CFO in Försäkrings-aktiebolaget Skandia. Member of the Board in Korsnäs AB, John Mattsons Fastighets AB and Posten AB.
Dag Tigerschiöld Born 1942	Member of the Board since 1998. Deputy member of the Board since 1993.	Member of the Board in Skandigen AB, Investment AB Öresund and Deputy member of the Board in Korsnäs AB.
Björn Wissén Born 1953	Member of the Board since 1983.	Member of the Board in Korsnäs AB and Invik & Co. AB.
Lars Åhlin Born 1936	Member of the Board since 1988. Employee representative.	Member of the Board in Korsnäs AB. Employee representative.
Stig Nordin, President and CEO Born 1943	Member of the Board since 1992.	Member of the Board in NetCom AB, Modern Times Group MTG AB, Millicom International Cellular S.A., Invik & Co. AB and Korsnäs AB.
Hans Wahlbom Born 1950	Deputy member of the Board since 1996. Employee representative.	Member of the Board in Korsnäs AB. Employee representative.
Åke Lamm Born 1944	Deputy member of the Board since 1993. Employee representative.	Member of the Board in Korsnäs AB. Employee representative.
Wilhelm Klingspor Born 1962	Deputy member of the Board since 1997.	Member of the Board in Invik & Co. AB. Deputy member of the Board in Korsnäs AB.

Addresses

Industriförvaltnings AB Kinnevik
Box 2094
S-103 13 Stockholm
Street address: Skeppsbron 18
Telephone: +46 8 562 000 00
Telefax: +46 8 20 37 74

AirTime (AT) AB
Box 17206
S-104 62 Stockholm
Street address: Söder Mälarstrand 31
Telephone: +46 8 562 024 00
Telefax: +46 8 562 024 10

Brombergs Bokförlag AB
Box 12 886
S-112 98 Stockholm
Street address: Industrigatan 4A
Telephone: +46 8 562 620 80
Telefax: +46 8 562 620 85

CIS Credit International Services AB
S-691 88 Karlskoga
Street address: Baggängsvägen 37
Telephone: +46 586 795 400
Telefax: +46 586 344 99

Fagersta Australia Pty Ltd
P.O. Box 1254, Moorabbin
Melbourne, Victoria 3189
Australia
Telephone: +61 395 555 122
Telefax: +61 395 551 070

Gamla Stans Informations AB
Box 7092
S-103 87 Stockholm
Street address: Kungsgatan 37, 5 tr.
Telephone: +46 8 545 130 40
Telefax: +46 8 545 130 49

Investment AB Kinnevik
Box 2094
S-103 13 Stockholm
Street address: Skeppsbron 18
Telephone: +46 8 562 000 00
Telefax: +46 8 20 37 74

Korsnäs AB
S-801 81 Gävle
Telephone: +46 26 15 10 00
Telefax: +46 26 19 50 22

Loyalty Management Sweden AB
Drottninggatan 77
S-111 60 Stockholm
Telephone: +46 8 412 13 30
Telefax: +46 8 411 13 50

Mellersta Sveriges Lantbruks AB
Ullevi Egendom
S-592 91 Vadstena
Telephone: +46 143 230 50
Telefax: +46 143 233 70

Millicom International Cellular S.A.
B.P. 23
L-8005 Bertrange
Street address: 75, route de Longwy
L-8080 Bertrange
Luxembourg
Telephone: +352 45 71 451
Telefax: +352 45 73 52

Moderna Tider Förlags AB
Box 12880
S-112 98 Stockholm
Street address: Industrigatan 4A
Telephone: +46 8 562 62 001
Telefax: +46 8 562 62 020

MTV Produktion AB
William Gibsons väg 1
S-433 87 Jonsered
Telephone: +46 31 721 21 00
Telefax: +46 31 795 73 49

SMA Maskin AB
Äggelundavägen 7
S-175 62 Järfälla
Telephone: +46 8 562 225 00
Telefax: +46 8 760 72 81

Société Européenne de Communication S.A.
B.P. 23
L-8005 Bertrange
Street address: 75, route de Longwy
L-8080 Bertrange
Luxembourg
Telephone: +352 45 95 451
Telefax: +352 45 95 51

Svenska JCB AB
Ellipsvägen 4-8
S-141 75 Kungens kurva
Telephone: +46 8 680 66 80
Telefax: +46 8 710 87 92

Transcom AB
S-691 88 Karlskoga
Street address: Baggängsvägen 37
Telephone: +46 586 795 000
Telefax: +46 586 344 50

TV1000 Sverige AB
Box 17104
S-104 62 Stockholm
Street address: Söder Mälarstrand 65
Telephone: +46 8 - 562 41 000
Telefax: +46 8 - 562 41 010

Registered office: Gamla Brukskontoret i Fagersta
Head office: Skeppsbron 18 Box 2094 SE-103 13 Stockholm Telephone: +46 8-562 000 00