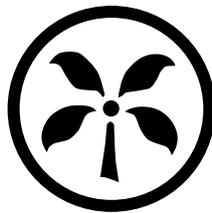


*Industrieförvaltnings AB*  
*Kinnevik*



*Interim Report 1998*  
*January 1 - June 30*

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- Operating income for the first quarter was MSEK 710 (471).
    - Earnings per share was SEK 4.78 (3.76).
    - Korsnäs' operating margin was 17% (15%).
    - SEC had 505,500 subscribers on August 18.

## OPERATIONS

### Group structure

The Annual General Meeting of the company held on May 15, resolved in favour of distributing warrants corresponding to 20% of the total number of shares in Société Européenne de Communication S.A. (SEC) to Kinnevik's shareholders, after which Kinnevik owns a 45% interest in SEC.

As of June 1, SEC is stated as an associate company pursuant to the agreement reached with the other shareholder Millicom International Cellular S.A. (MIC) in connection with the formation of SEC.

### Consolidated result

The net turnover for the first six months of 1998 amounted to MSEK 3,544, compared with MSEK 3,161 last year.

Korsnäs Holding AB increased its turnover by 9% to MSEK 2,625. The net turnover of Other Units amounted to MSEK 919 (746).

The operating income amounted to MSEK 710, compared with MSEK 471 for the corresponding period of the previous year, an increase of 51%. A sum of MSEK 33 was charged against this result in respect of provisions to cover option commitments in favour of senior executives of MTG.

Income from corporate development amounted to MSEK 493 (122) and relates to non-recurring effects arising in connection with the formation of SEC, for which Kinnevik states net income of MSEK 461, as well as MSEK 14 from the sale of NetSys Technology AB, and MSEK 14 from the sale of a property in Great Britain.

Net income from sales of securities amounted to MSEK 203 (163), of which income of MSEK 148 relates to the sale of convertible loan stock in NetCom Systems AB, a loss of MSEK 5 relates to the sale of the company's holdings of its own convertibles, and income of MSEK 60 in the form

of option premiums relating to TV1000.

Interests in the earnings of associates amounted to a net deficit of MSEK 185 (deficit 97), of which the interest in the loss of MIC was MSEK 105 and the interest in SEC's loss in June amounted to MSEK 64.

Financial revenue and expense excluding interest on convertibles amounted to net expense of MSEK 173 (expense 118).

Income after financial net, excluding interest on convertibles, amounted to MSEK 352 (256).

Income before tax amounted to MSEK 352, compared with MSEK 250 in the previous year.

Earnings per share for the period amounted to SEK 4.78 compared with SEK 3.76 for the same period in the previous year.

The pro forma comparative figures for the first half of 1997 relate to the Kinnevik Group, including the companies that currently belong to the Group.

### MELLERSTA SVERIGES LANTBRUKS AB

Crops are expected to be harvested later than normal this year. The yield will be higher but, as a consequence of the wet summer, the quality may be poorer as the damp conditions cause problems due to fungal attack. Extensive measures have been taken to limit the damage. The main harvesting season begins at the end of August and lasts until around September 20-25.

The deliveries of the 1997 harvest were drawn out due to the saturated market. All stocks have now been sold.

The net turnover amounted to MSEK 9 (9). The operating income amounted to MSEK 5 (5).

### KORSNÄS HOLDING AB

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

### Korsnäs group

Demand remained firm for all products and overall the price structure was relatively stable, although pricing pressure built up in certain segments. Deliveries of products in the fields of paperboard, paper and pulp were approximately the same during the half-year period as in 1997, whereas sack deliveries rose by 32%. Production is still running at a high level and is 5 % higher than last year.

Within Korsnäs's four divisions, the results of the Forestry and Sawn timber divisions improved, whilst Korsnäs Pulp Paper Board earned about the same profit as last year. The result for comparable units in the Packaging division was also unchanged by comparison with 1997.

The Korsnäs group's net turnover for the first half of 1998 amounted to MSEK 2,625 (2,415). Operating income after depreciation, but before transfer to the profit-sharing plan for employees, increased by 21% to MSEK 434 (360). The profit margin was 17% (15). Income after financial net amounted to MSEK 465 (387).

Currency fluctuations have had a positive effect on the result of more than MSEK 13 compared to previous year.

### Korsnäs Skog (Forestry)

Pulpwood stocks in Sweden are falling slowly and the supply of wood from private forest owners is on a low level.

Korsnäs's wood stocks are running at their planned levels. The volume of wood sourced from private forest-owners within Korsnäs's catchment area has fallen overall, whilst Korsnäs's contracted purchases are running at a higher level than at the corresponding date in 1997. Felling rights have

declined during the period. Harvesting in company forests is running as planned and was 6% above last year's volumes by the end of June. Wood prices have so far been steady this year although they are slightly above the 1997 level.

Korsnäs Skog's turnover amounted to MSEK 785 (752) and its operating income amounted to MSEK 115 (82). This figure includes a capital gain of some MSEK 7 (2) on sales of land.

### Korsnäs Timber

The markets for both sawn redwood and whitewood products were weak during the first half of the year. Demand for Korsnäs's products displayed continued stability and the company has continued to focus on customized products for the Scandinavian market.

Production at the Korsnäs sawmill benefited from the mild winter but was, at the same time, affected by some technical disruptions. The overall result of these factors was an unchanged level of output compared with the previous year. Deliveries are marginally down on last year's and prices so far are higher.

Korsnäs Timber's turnover amounted to MSEK 169 (162), and its operating income was MSEK 5 (3).

### Korsnäs Pulp Paper Board

During the first half of 1998, total demand for the company's products in the fields of paperboard, paper and fluff pulp remained steady at around the same level as in 1997. Production increased by 5% during the first half-year in relation to the previous year. The level of output was high and thanks to Korsnäs's flexibility the product mix could be adapted to market conditions. There was some build-up of stocks, as planned, on the

### Invoiced sales and operating income by division (MSEK)

	Net sales		Operating income			
	January - June		January - June			
	1997	1998	1997	1997	1998	1998
	MSEK	MSEK	MSEK	% of sales	MSEK	% of sales
Forestry	752	785	82	11	115	15
Timber	162	169	3	2	5	3
Pulp, paper board	1,752	1,796	274	16	273	15
Packaging	473	665	23	5	41	6
Group adjustments and other	- 724	- 790	- 22		0	
<b>Total</b>	<b>2,415</b>	<b>2,625</b>	<b>360</b>	<b>15</b>	<b>434</b>	<b>17</b>

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paperboard segment in order to balance the decline in production that will occur in connection with the MSEK 460 investment in the large, new PM5 paperboard machine, which will be installed in the late autumn of this year.

Prices were maintained at a stable level for the first half-year, at a higher level than one year ago, although the prices of fluff pulp, and sack and kraft paper came under some pressure. In comparison with the first half year of 1997, the result is unchanged.

Korsnäs Pulp Paper Board's turnover amounted to MSEK 1,796 (1,752) and its operating income was MSEK 273 (274).

### **Korsnäs Packaging**

During the first half of the year, Korsnäs Packaging increased its deliveries by 32% compared with the previous year, largely due to last year's acquisitions of sack factories in Denmark, Yugoslavia and Croatia. For comparable units, deliveries remain unchanged. Prices on the sack market are under pressure, with lower margins as a result.

Korsnäs Packaging's turnover amounted to MSEK 665 (473) and its operating income was MSEK 41 (23).

An agreement was reached in July with Jefferson Smurfit to set up a joint venture company in Poland, under the name of Smurfit-Korsnäs Paper Sacks (Polska) Ltd.

### **SOCIETE EUROPEENNE DE COMMUNICATION**

The main asset of Société Européenne de Communication S.A. (SEC) is Tele2 Europe, a telecom operator which commenced operations in Holland in late October 1997 and also in Germany during the first quarter of 1998. The company has also been awarded licences in France, Switzerland and Austria in 1998. It plans to commence operations in these countries in the later part of 1998. The number of subscribers at August 18, 1998 was 483,000. The company has also applied for a licence in Italy.

SEC also includes 3C Communications, Transcom International, Transcom Europe and Tango, a mobile telecom company in Luxembourg. The number of subscribers in Tango's portfolio on August 18, 1998 was 22,500.

The net turnover of the SEC companies now belonging to SEC which were wholly owned by

Kinnevik up to May 31, 1998, amounted to MSEK 206 (128) and the operating result was a loss of MSEK 240 (loss 16). Kinnevik's interest in the earnings of associate companies for June was a deficit of MSEK 64.

The market value of Kinnevik's 45% equity interest in SEC amounted to MSEK 5,381 at June 30, 1998. The market value of the holding at August 18, was MSEK 6.373.

### **OTHER SUBSIDIARIES**

Other subsidiaries include the operative subsidiaries Transcom AB, Svenska Motor AB SMA, Fagersta Australia, TV1000 and AirTime. Net turnover of Other subsidiaries amounted to MSEK 713, compared with MSEK 638 for the same period last year. The operating result was a loss of MSEK 17 compared with a profit of MSEK 5 in the prior year.

Income from corporate development, which amounted to MSEK 14 (96), relates to the sale of a property in Great Britain.

The business of the customer services company Transcom has experienced continued expansion. During the first half-year, turnover increased by 103% to MSEK 132 (65), compared with the previous year. The company is currently active in Sweden and Norway. The unit in Denmark is at the start-up phase. During the first half-year period, Transcom acquired Medodata, based in Kungsör, Sweden. Transcom had 1,110 employees at June 30, 1998.

The level of building activity in Sweden improved marginally during the first half of the year although it is still low. A further improvement in the building industry in Sweden can be foreseen for the second half of 1998. This will have a favorable effect on SMA throughout the remainder of the year.

Fagersta Australia's sales reached the same level during the first half as for the corresponding period in 1997. On the other hand, margins are lower this year owing to the current economic crisis in Asia. TV1000 has noted solid growth since June 1997. The number of subscribers increased to 253,000 (209,000) by June 30, 1998. Pursuant to a separate agreement between Kinnevik and Modern Times Group MTG AB (MTG), MTG distributes the TV1000 and TV1000 Cinema pay channels. In 1998 Kinnevik will cover TV1000's losses up to MSEK 60, after which MTG will assume liability. Airtime

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made good progress during the first half-year, largely thanks to the strength of the advertising market in Sweden.

#### **ASSOCIATE COMPANIES**

The main associate companies are a 34% interest in Millicom International Cellular S.A. (MIC) and a 43% interest in MTV Production AB (MTV).

MIC had 1,227,525 subscribers at June 30, 1998, which represents an increase of 74%. During the first half of the year, three units were started in further geographical regions in Russia. MIC is now active in no fewer than 12 Russian regions with an aggregate population of 47 million. SENTEL, a company in which MIC has 75% equity interest, has been awarded a new licence in Senegal. MIC is now engaged in 34 mobile telecom businesses in 21 countries with a total population of 470 million. Revenue rose by 35% during the period to MUS\$ 209. Income before depreciation for the period increased by 60% compared with the previous year and now amounts to MUS\$ 68 (42). In addition to operative growth, sales of cash cards together with cost reduction programs were other factors making a valuable contribution to the improvement in the result. Solid growth was achieved in Latin America, Eastern Europe and Africa whereas developments in Asia during the first half-year were somewhat poorer due to the economic turmoil prevailing in this region. Vietnam, which has shown continuous steady growth, is an exception.

The market value of Kinnevik's holding of shares in MIC was MSEK 5,702 at June 30, 1998, an increase of MSEK 851 since December 31, 1997. The market value of the holding at August 18, 1998 was MSEK 5,508.

MTV's business noted a sharp improvement in the result compared with the previous year.

#### **YIELD**

During the past 15 years, Kinnevik's shares have generated an average effective annual yield of 35%, as a result of rising share prices and dividends, including the value of warrants to subscribe to shares.

#### **FINANCIAL POSITION**

The Group's liquid funds, including undrawn credit facilities and holdings of shares in NetCom, as well as convertible loan stock in Invik and MTG, amounted to MSEK 3,330 (2,147) at June 30, 1998.

The Group's net interest-bearing debt amounted to MSEK 4,969 (4,182).

The average cost of interest during the period was 5.4% (5.8) (calculated as interest expense in relation to average interest-bearing debt, excluding pension liabilities and convertibles).

The Group's fixed capital expenditure (excluding acquisitions of shares) amounted to MSEK 388 (344).

The equity ratio at the end of the period was 38% (42).

The net effect of the Group's foreign currency inflows and outflows amounted, on an annual basis, to a net inflow equivalent to some MSEK 1,200.

In July, Kinnevik sold 360,000 Series B shares in Invik & Co AB for MSEK 237. This transaction generated a capital gain of MSEK 39.

#### **PARENT COMPANY**

The parent company's income for the period, after financial net, but excluding interest on convertibles, amounted to MSEK 296 (109). A sum of MSEK 33 was charged against this income in the form of provisions to cover option commitments in favor of senior executives with MTG.

The parent company's fixed capital expenditure for the period amounted to MSEK 1 (1). Closing liquid funds, including undrawn credit facilities, amounted to MSEK 1,748 (1,009).

#### **NEXT FINANCIAL REPORT**

The nine-monthly report for the January-September 1998 period, is expected to be released on November 16, 1998.

Stockholm, August 19, 1998

Industriförvaltnings AB Kinnevik

Board of Directors

This interim report has not been subject to specific examination by the company's auditors.

## CONSOLIDATED INCOME STATEMENT (MSEK)

	1997 Full year	1997 Jan. 1-June 30 pro forma*	1998 Jan. 1-June 30
Net sales	6,966	3,161	3,544
Cost of sales	<u>- 5,494</u>	<u>- 2,362</u>	<u>- 2,859</u>
<b>Gross result</b>	1,472	799	685
Expenses for selling, administration, research and development	- 1,218	- 545	- 670
Income from corporate development	129	122	493
Income from sales of securities	265	163	203
Other operating income	201	109	84
Other operating expenses	<u>- 143</u>	<u>- 177</u>	<u>- 85</u>
<b>Operating income</b>	706	471	710
Participations in affiliated companies	- 274	- 97	- 185
Net financial items	<u>- 267</u>	<u>- 118</u>	<u>- 173</u>
<b>Income after financial items, excluding interest on convertibles</b>	165	256	352
Interest on convertibles	<u>- 5</u>	<u>- 6</u>	<u>-</u>
<b>Income before tax</b>	160	250	352
Minority share in income	26	15	8
Earnings per share after full tax, and after full conversion, kronor	2.12	3.76	4.78

Any amount to be transferred to Korsnäs' profit-sharing plan is calculated when the income for the financial year is arrived at in connection with the finalization of the year-end accounts.

## REVIEW OF THE GROUP (MSEK)

	1997 Jan. 1-June 30 pro forma*	1998 Jan. 1-June 30
<b>Breakdown of net sales by business area</b>		
Mellersta Sveriges Lantbruks AB	9	9
Korsnäs Holding AB	2,415	2,625
Société Européenne de Communication SA**	128	206
Other operating companies	638	713
Parent company, Holding companies and eliminations	<u>- 29</u>	<u>- 9</u>
<b>Total</b>	<u>3,161</u>	<u>3,544</u>
<b>Breakdown of operating income/loss by business area</b>		
Mellersta Sveriges Lantbruks AB	5	5
Korsnäs Holding AB	338	431
Société Européenne de Communication SA**	- 16	- 240
Other operating companies	5	- 17
Parent company, Holding companies and eliminations	<u>139</u>	<u>531</u>
<b>Total</b>	<u>471</u>	<u>710</u>
<b>Breakdown of income/loss after net financial items by business area</b>		
Mellersta Sveriges Lantbruks AB	5	5
Korsnäs Holding AB	294	374
Société Européenne de Communication SA**	- 34	- 257
Other operating companies	- 10	- 36
Affiliated companies	- 109	- 180
Parent company, Holding companies and eliminations	<u>110</u>	<u>446</u>
<b>Total</b>	<u>256</u>	<u>352</u>

\* The comparative figures for 1997 refer to the Kinnevik group on a pro forma basis with the companies now being part of the Group.

\*\* Refers to the companies in SEC being wholly-owned by Kinnevik through May 31, 1998.

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**CONSOLIDATED BALANCE SHEET (MSEK)**

	December 31, 1997	June 30, 1997 pro forma*	June 30, 1998
<b>Fixed assets</b>			
Capitalized development and establishment costs	146	76	38
Goodwill	347	168	300
Machinery, equipment, property etc	7,745	7,452	7,656
Stocks in Modern Times Group MTG AB	–	891	–
Other stocks and participations	776	878	972
Long-term receivables	<u>853</u>	<u>879</u>	<u>451</u>
	9,867	10,344	9,417
<b>Current assets</b>			
Inventories	1,363	1,112	1,464
Short-term receivables	1,669	3,474	1,629
Cash, bank and short-term investments	<u>2,040</u>	<u>1,524</u>	<u>1,988</u>
	5,072	6,110	5,081
<b>Total assets</b>	<u>14,939</u>	<u>16,454</u>	<u>14,498</u>
<b>Equity</b>			
Restricted equity	4,064	3,991	4,461
Unrestricted equity	<u>1,101</u>	<u>2,485</u>	<u>1,001</u>
	5,165	6,476	5,462
<b>Minority interests in equity</b>	45	54	31
<b>Provisions</b>			
Provisions for pensions	661	624	672
Deferred tax liability	325	323	394
Other provisions	<u>754</u>	<u>724</u>	<u>774</u>
	1,740	1,671	1,840
<b>Long-term liabilities</b>			
Non-interest bearing liabilities	17	10	10
Interest-bearing liabilities	<u>5,783</u>	<u>4,397</u>	<u>5,701</u>
	5,800	4,407	5,711
<b>Short-term liabilities</b>			
Convertible debenture loan	358	388	–
Non-interest bearing liabilities	1,593	1,628	1,232
Interest-bearing liabilities	<u>238</u>	<u>1,830</u>	<u>222</u>
	2,189	3,846	1,454
<b>Total stockholders' equity and liabilities</b>	<u>14,939</u>	<u>16,454</u>	<u>14,498</u>

\* The comparative figures for 1997 refer to the Kinnevik group on a pro forma basis with the companies now being part of the Group.