

Corporate Governance

This Report provides information regarding Modern Times Group MTG AB's Corporate Governance policies and practices. The Company follows the Swedish Code of Corporate Governance in most aspects and only deviates from the recommendations in respect of the membership of the Remuneration Committee and the Chairmanship of the Nomination Group, which are explained below.

Background

Modern Times Group MTG AB is a Swedish public limited liability company and the Annual General Meeting (AGM) of shareholders is the highest decision-making authority in the Group's governance hierarchy.

The Board of Directors

The Board of Directors of Modern Times Group MTG AB comprises eight non-executive Directors. The members of the Board of Directors are Asger Aamund, Vigo Carlund, David Chance, Nick Humby, Lars-Johan Jarnheimer, David Marcus, Cristina Stenbeck and Pelle Törnberg. The Directors were all elected or re-elected at the Company's AGM on 11 May 2005. At a statutory Board meeting following the AGM, David Chance was elected as Chairman of the Board of Directors.

Biographical information on each Board member is provided on pages 32-33 of this report.

Nomination Group

Following a resolution of the AGM of Modern Times Group MTG AB in May 2005, a Nomination Group consisting of major shareholders in Modern Times Group MTG AB was created with Cristina Stenbeck as Chairman. The Nomination Group comprises Cristina Stenbeck on behalf of Investment AB Kinnevik and Emesco AB; Annika Andersson on behalf of the Fourth Swedish National Pension Fund; Mats Lagerquist on behalf of Robur; and Björn Lind on behalf of SEB Asset Management and SEB Trygg Liv, who together represent more than 50% of the voting rights in Modern Times Group MTG AB. The Nomination Group will submit a proposal for the composition of the Board of Directors and the appointment of the Group's auditors to the 2006 AGM for approval.

The composition of the Nomination Group does not follow the Code of Corporate Governance, which recommends that the Chairman of the Nomination Group should not be a member of the Board of Directors. The Nomination Group however considers it to be in the best interests of the Company to elect Cristina Stenbeck as Chairman, due to her representation of a substantial

combined shareholding in Modern Times Group MTG AB.

Responsibilities and duties of the Board of Directors

The Board of Directors is constituted to provide effective support for, and control of, the activities of the executive management of the Company. The Board has adopted working procedures for its internal activities that include rules pertaining to the number of Board meetings to be held, the matters to be handled at such regular meetings of the Board, and the duties of the Chairman.

In order to carry out its work more effectively, the Board has appointed a remuneration committee and an audit committee with special tasks. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions. However, all members of the Board have the same responsibility for all decisions made, irrespective of whether the issue in question has been reviewed by such a committee or not.

The Board has also adopted procedures for instructions and mandates issued to the Chief Executive Officer. These procedures require that investments in fixed assets with a value of more than SEK 500,000 have to be

approved by the Board. The Board also approves large scale programming investments and other significant transactions including acquisitions and closures or disposals of businesses. In addition, the Board has also issued written instructions specifying when and how information, which is required in order to enable the Board to evaluate the Group and its subsidiaries' financial positions, should be reported to the Board.

Remuneration Committee

At a statutory Board meeting following the 2005 AGM, Asger Aamund was appointed as Chairman of the Remuneration Committee and David Chance, David Marcus and Cristina Stenbeck were appointed as members of the Committee. The Board of Directors commissions the work of the Remuneration Committee. The responsibilities of the Remuneration Committee include issues regarding salaries, pension plans, bonus programmes and other employment terms for the Chief Executive Officer and executive management within the MTG Group. The Committee also advises the Board on share option programmes.

The remuneration paid to the Group's senior management, as well as information about the Company's existing share option programmes and executives'

beneficial ownership of shares and other financial instruments in the Company, are set out in Note 28 to the Accounts on pages 67–68 of this report.

Cristina Stenbeck's seat on the Remuneration Committee is not in compliance with the Code, which requires that only Directors who are independent of the company and its management should sit on the Remuneration Committee. The Directors however consider that it is in the best interests of the Group that an exception to the Code be made in this respect, provided that a majority of the members of the Remuneration Committee are independent.

Audit Committee

At a statutory Board meeting following the 2005 AGM, Nick Humby was appointed as Chairman of the Audit Committee and David Marcus and Asger Aamund were appointed as members of the Committee. The Board of Directors commissions the work of the Audit Committee. The Audit Committee's responsibility is to maintain the working relationship with the Company's internal and external auditors, as well as to review the Group's accounting and financial reporting procedures. The Audit Committee focuses on ensuring quality and accuracy in the Company's financial reporting, the internal controls within the Company, the qualification and

independence of the auditors, the Company's adherence to prevailing rules and regulations and, where applicable, transactions between the Company and related parties.

The work of the Board during 2005

The Board reviewed the financial position of Modern Times Group MTG AB and the MTG Group on a regular basis during the year. The Board also regularly dealt with matters involving divestments, acquisitions, the establishment of new operations, and matters related to investments in programming and non-current assets in the Group's business areas. The Board of Directors also reviewed the Group's strategy and forward development plans, and visited Group operations in Sweden and the United Kingdom.

The Board of Directors met seven times during 2005. One Director was excused from two of the ordinary meetings. Three Directors were excused from one ordinary meeting each.

The Remuneration Committee held one ordinary meeting during 2005, which was attended by all Directors, and a number of extraordinary meetings.

The Audit Committee held three ordinary meetings during 2005. Two Directors attended all three

meetings and one Director was excused from two meetings.

External auditors

MTG's auditors are elected by the AGM for a period of four years. The two current auditors were elected at the 2002 and 2003 AGMs respectively. KPMG was last elected as MTG's lead auditor in 2002 and has been MTG's external auditor since 1997. Carl Lindgren (authorized public accountant) of KPMG is responsible for the audit of the company. The next election of the auditor will take place at the 2006 AGM. The second auditor is Ernst & Young and Erik Åström (authorized public accountant) is responsible for the audit. The next election of the second auditors will take place at the 2007 AGM. Ernst & Young has served as co-auditor since 1997.

The auditors report their findings to the shareholders by means of the auditors report, which is presented to the AGM. In addition, the auditors report detailed findings at each of the ordinary meetings of the Audit Committee and to the full Board once a year.

KPMG provided certain additional and audit-related services to MTG during 2003, 2004 and 2005. These services comprised advice on the preparation and implementation of internal control

testing and reporting procedures, advice on the transition to International Financial Reporting Standards, and other similar assignments, which took place during 2003, 2004 and 2005.

Auditing assignments over the three year period have involved the examination of the annual report and financial accounts and the administration by the Board and the CEO, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as other assignments.

For more detailed information concerning the auditors' fees for the year, see note 29 of the notes to the consolidated financial statements of page 68 of this report.

Executive Remuneration

The objective of the Group's remuneration policy is to offer competitive remuneration packages in order to attract, motivate and retain senior group and operational management, within the context of MTG's international peer group. The aim is to incentivize management to deliver excellent operating results and also align senior executive remuneration with the creation of value for shareholders.

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Remuneration should provide for an appropriate balance between fixed and variable, short and long term incentives. The current senior executive remuneration programme therefore consists of a combination of fixed salary, variable remuneration and participation in option programmes.

MTG Group senior executives comprise the Chief Executive Officer, the Chief Financial Officer, Vice Presidents and Business Area Managing Directors. Variable remuneration is based on the performance of executives in relation to established goals and targets. The general contractual bonus system is based on an earnings period of one year, and is normally capped at 50 % of an executive's fixed salary. However, bonuses of more than 50% of salary may be granted in some cases on the basis of exceptional performance.

The CEO and the other senior executives are entitled to the standard prevailing pension contributions in the country in which they are employed, and pension commitments are secured by means of premiums paid to insurance companies. Other benefits include company cars and, in one case, housing allowance.

If the company terminates the employment of other senior executives, salary payments will

continue to be paid during the contractual notice period for a maximum of 12 months. There is no standard severance pay in addition to the notice period. The Chief Executive Officer has a three year contract from the beginning of 2005 until the end of 2007, and one of the senior executives has a three-year contract from the beginning of 2006 until the end of 2008.

Executive Share Option Plans 2005 Global Share Option Plan

The 2005 AGM resolved to establish a new stock-based incentive programme for senior executives. The programme offered a combination of warrants and stock options to a group of 20 executives, entitling them to a combined maximum of 399,999 MTG class B shares. The participants were offered the opportunity to buy warrants at the prevailing market price and, for each warrant purchased, a maximum of two stock options were issued, each carrying the right to purchase one class B share. The exercise price for the options allotted during 2005 was set at SEK 261.70 per MTG class B share, which was the average trading price of the class B share over the ten days following the AGM. The stock options may be exercised on or after 15 May 2008, provided that the holder is still employed by the Group. In order to encourage participation in the incentive programme, the Board of Directors decided upon a

cash bonus that may be paid three years following the acquisition of the warrants by the participant. The cash bonus will only be paid if the warrants, stock options and/or class B shares acquired by exercising the warrants and stock options are still held by the participant and if the participant is still employed by the Group. The bonus may amount to a maximum of the difference between the total price paid by the participant and 2% of the total value of the underlying class B shares at the time of the acquisition of the warrants and stock options. It is the intention of the Board of Directors to make proposals to the 2006 and 2007 AGMs for annual allocations to be made on the same basis as in 2005.

2001 Global Share Option Plan

An Extraordinary General Meeting of Shareholders in 2001 resolved to issue a maximum of 2,052,840 options to acquire shares in the company to a group of senior executives. The options could be exercised after three years and no later than eight years from the date of issue, provided that the holder is still employed by the Group. No options have been granted as part of this plan since August 2002, and a total of 696,384 options had been granted and were still valid by the end of the year. The exercise price for these options is SEK 294.50 per class B share.

This report is not part of the formal Annual Report and has not been reviewed by the Company's auditors.

Internal Control

This report is limited to a description of how the internal control of MTG's financial reporting is organized. This report has been prepared in accordance with the Swedish Code of Corporate Governance; the guidelines proposed by the Swedish Association of Authorised Auditors (FAR) and the Confederation of Swedish Enterprise (Svenskt Näringsliv); and the transitional regulations introduced by The Swedish Corporate Governance Board (Kollegiet för svensk bolagsstyrning) with effect from 15 December 2005.

Control environment

In order to ensure the efficient management of MTG's business risk, the Board has specified a set of instructions and plan of work regarding the roles and responsibilities of the Chief Executive Officer and the Board committees. The Board also has a number of established basic guidelines, which are central to its work on internal control activities. This includes monitoring performance against plans and prior years. The senior management regularly reports to the Board according to established routines and in addition to the Audit Committee's reports. The senior management is however responsible for internal controls

being in place to manage the risks of MTG's daily business operations. Guidelines for other employees are also distributed so that they may understand and appreciate the importance of their respective roles, and in order to maintain properly functioning internal controls.

Risk assessment and control activities

The Company has prepared a model for assessing the risk in all areas in which a number of items are identified in the income statement and the balance sheet where significant risks are enhanced. The summary of these risks is reviewed regularly by the Board of Directors and by the Audit Committee. Designing control activities is of particular importance to enable the Company to prevent and identify shortcomings in these areas.

Information and communication

The most significant guidelines and manuals used in the Company's financial reporting are communicated to the employees concerned. There are formal as well as informal information channels to the Group management and to the Board of Directors for information from the employees identified as significant information. Guidelines for external communication ensure that the Company applies the highest standards for providing

accurate information to the financial market.

Follow-up

The Board of Directors regularly evaluates the information provided by Group management and the Audit Committee. The Audit Committee is responsible for further investigation into the work in this area, which is of particular importance for the following up of the internal control activities. The work includes ensuring that measures are taken to deal with any inaccuracies and to follow-up suggestions for actions emerging from internal and external audits.

Internal audit

The Company has an internal audit function responsible for the evaluation of risk management and internal control activities. This work includes scrutinizing the application of established routines and guidelines. The internal audit function plans its work in cooperation with the Audit Committee and reports its reviews to the Audit Committee.

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Directors' Report

Modern Times Group MTG AB (publ.) is a publicly listed company. The Group's class 'A' and class 'B' shares are listed on the Stockholm Stock Exchange (Stockholmsbörsen) O-list. The Company's registered office is at Skeppsbron 18, Box 2094, SE-103 13 Stockholm, Sweden. Registration no. 556309-9158.

Significant events in 2005

In line with the Group's focus on its core broadcasting assets, MTG made a number of changes to its structure during 2005.

MTG sold its entire holding of 3,020,013 shares in TV4 AB, which was equivalent to a 15.1% interest in the Company, to Proventus Industrier AB in the first quarter for SEK 513 million. The shares were sold for SEK 170 per share, which represented a premium to the price of the shares on the Stockholm Stock Exchange on the day of the transaction, and resulted in a net gain of SEK 389 million. The gain was reported as a financial item below the 'Operating Income' line in the Group's accounts.

MTG has consolidated the results of Nordic Betting Limited since the second quarter, when the Group increased its shareholding in the Company from 19.9% to 51.0% by means of a directed new share issue. Nordic Betting Limited owns the BET24.com online betting and gaming businesses. MTG signed an option agreement in December, which, on exercise, would increase its shareholding in Nordic Betting Limited to 90% for a cash consideration of EUR 8 million.

MTG also acquired 60% of the shares in Engine Holding AS in June for SEK 12 million. Engine is a concept developer, creating unique music and video products for market leading brands and characters, and is developing the official music programme for the 2006 FIFA World Cup in Germany. The purchase agreement provides for additional payments, depending on the fulfillment of pre-agreed conditions.

MTG sold the majority of the movie title rights in its Modern Entertainment library to Lions Gate Entertainment in July, which resulted in a small net gain. MTG simultaneously announced the intention to close down the Los Angeles-based business. This reflects the Group's strategy to focus on its core broadcasting operations and directly related businesses in Europe.

MTG's shareholding in CTC Media, Inc. increased from 39.8% to 43.1% in August following a repurchase of shares by the Company. CTC repurchased and cancelled 3,320,800 shares from non-institutional shareholders, which corresponded to 8.7% of the total number of outstanding shares.

The Group signed an agreement at the end of September 2005 to acquire 50% of the shares in GES Media Holding a.s. (GMH) in the Czech Republic for a total cash consideration of EUR 96 million. GMH owns 100% of FTV Prima, spol. s r.o. (TV Prima), which is the second largest national television channel in the Czech Republic. TV Prima was consolidated with effect from 1 November.

Business Overview

The Group's objective as stated previously, is to build market-leading positions and generate earnings and cash flow growth in order to deliver enhanced shareholder value. The Group announced the following specific goals in June 2004:

- To double the size of Viasat Broadcasting in five years in revenue terms
- For TV3 to become the largest commercial free-to-air channel in Sweden within five years and for TV3 to become the second largest commercial free-to-air channel in Norway within five years
- To export the integrated operating model into high growth new territories with the intention that the Central & East European businesses should generate the same level of revenues and profits as the Scandinavian operations within five years
- To achieve more than 15% operating margins in MTG's three core businesses – Free-to-air TV Scandinavia, Pay-TV Nordic, Central & Eastern Europe
- To consolidate the Swedish radio market and establish clear market leadership

The Group made significant progress in each of these areas during the year and has, in some cases, already delivered these objectives in 2005.

MTG's results for 2005 reflected the investments made in 2004, as the Group was able to show strong

growth in its core markets and to exploit the strong position that the Group has developed in the high growth Central and East European territories.

Viasat's investments in programming to drive ratings and share of viewing, together with increasing penetration arising from the structural change in the TV markets in Scandinavia, enabled the Group's free-to-air operations to take advertising market shares. The structural change relates to the switch-off of analogue terrestrial TV distribution in Sweden, which started during the Fall and is scheduled for completion in 2008, and the anticipated similar development in the Norwegian market. The inclusion of TV3 and ZTV in the fast-growing digital terrestrial network in Sweden enabled the channels to increase their penetration to 73% and 66% respectively. At the same time, Viasat has switched off its own analogue distribution in Norway and Sweden and is now preparing to do the same in Denmark, which is yielding considerable cost savings. The Group's free-to-air operations in Scandinavia therefore reported 11% year on year sales growth and an increased operating margin to 17% (7%) following an almost tripling of operating income.

Viasat's Nordic pay-TV business also reaped the rewards of the investments made in 2004 to secure the operating platform by switching to a new conditional access encryption system for its premium pay-TV channels, as well as the launch of new Viasat channels during 2004 and 2005. The consequent elimination of piracy on the platform and

reduction in churn, combined with continued strong new subscriber sales, enabled Viasat to report a 27% growth in the Nordic premium subscriber base in 2005. Sales growth of 13% generated an increased operating margin of 19% (16%) and a 37% increase in operating income. The year ended with the introduction of the Viasat+ personal video recorder product, which is expected to revolutionize TV viewing habits and lead to a further reduction in churn and increased ARPU over time.

The Group's Central and East European assets continued to provide the Group with exposure to the faster growing regional economies and advertising markets and also reported their first combined annual profit on sales up 72%. TV3 was established as the largest channel in each of the Baltic States and the secondary channels consolidated their strong niche demographic reach. Sales were up 17% year on year and the operating margin of 22% (25%) reflected increased programming costs and the launch of the new secondary Russian language channels. Viasat3 in Hungary and DTV in Russia both significantly increased their commercial shares of viewing to above 5% and 2% respectively. This was reflected in an almost doubling of sales in Hungary and the operation's first profitable quarter at the end of the year, and in 62% sales growth for DTV. Associated company CTC Media, Inc. in Russia continued to outperform the national advertising market with a 50% increase in sales. CTC Media's operating margin was 38% (40%) for the year and reflected the successful launch of a second national network

channel and rising programming costs. The roll-out of the mini-pay business in Central and Eastern Europe continued and Viasat added a fifth channel to the offering. By the end of the year, the channels had increased their number of wholesale subscribers by 81% to 11.5 million through third party cable networks in 17 countries.

MTG has already fulfilled its strategic objective to consolidate the Swedish radio market and establish clear market leadership. Following the cooperation agreement with NRJ in 2004 and the subsequent operational integration of NRJ's 20 Swedish stations, MTG Radio now broadcasts 53 out of the 86 commercial radio stations in Sweden and has an unrivalled national penetration of 89%. The Group's Swedish stations now attract more than two million daily listeners and have a 65% commercial share of listening. Sales were consequently up 34% year on year.

The performance of MTG's other businesses (Modern Studios and Home Shopping) reflected strong sales growth and margin improvement in the direct response TV and internet retailing businesses, but lower sales and earnings in the content businesses following an exceptional 2004 result, the write-off of unsuccessful movies in 2005 and fewer box office releases.

The Group's revenue mix continued to reflect the Group's diversified and balanced structure, with 40% of revenues derived from advertising sales; 39% from subscription payments; and 21%

from other business-to-business and business-to-consumer sales. This compared with 40%, 38% and 22% respectively in 2004.

The Group employed 1,760 full time employees at the end of the year, compared to 1,446 employees at the beginning of 2005. Details of the average number of employees during the year and the aggregated remuneration paid during the year are presented in Notes 27 and 28 to the Accounts on pages 67 and 68 of this report.

Consolidated financial results

The Group generated 18% year on year net sales growth to SEK 8,012 (6,805) million, which reflected continued strong growth in each of the Group's three core broadcasting businesses – Free-to-air TV Scandinavia, Pay-TV Nordic and Central & Eastern Europe – as well as the consolidation of the BET24 betting and gaming business and the newly acquired Czech TV channel – TV Prima.

The Group reported its highest ever annual operating profit in 2005, with operating income (earnings before interest and tax) up 21% to SEK 1,285 million. Excluding the SEK 381 million net gain from the sale of SDI Media in the third quarter of 2004, Group operating income grew by 90% year on year. The record level of operating profitability reflected continued margin improvement in each of the Group's core television broadcasting businesses – Free-to-air TV Scandinavia, Pay-TV Nordic and Central & Eastern Europe – as well as a substantially increased contribution from the Group's 43.1% shareholding in CTC Media in Russia.

Depreciation and amortization charges totaled SEK 146 (219) million. Operating costs excluding discontinued or sold businesses increased by 19% year on year, which reflected the consolidation of BET24 and TV Prima from April and November respectively, higher subscriber acquisition costs relating to the continued substantial subscriber intake throughout the year, as well as increased programming investments and channel launch costs in the Group's broadcasting operations in Scandinavia and Central & Eastern Europe. Excluding discontinued businesses and the net gain from the sale of SDI Media, the Group reported an operating margin of 16% (10%) including associated companies. The margin comparison for the full year also reflects the non-recurring costs incurred during 2004 to successfully secure the pay-TV platform against piracy.

MTG hedges its US dollar, Swiss Franc and Euro denominated contracted outflow on a rolling twelve month basis, which relates solely to programming content acquired in foreign currencies. The hedging programme reduces the impact of short term currency exchange effects on the Group's cost base.

Income from associated companies amounted to SEK 299 (167) million before tax in 2005. MTG's participations principally comprise the Group's shareholdings in CTC Media, Inc. and P4 Radio Hele Norge ASA.

Net interest and other financial items totaled SEK 282 (-34) million, which included the net gain of SEK 389 million from the

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sale of TV4 shares in the first quarter. Net interest amounted to SEK -42 (-61) million, whilst other financial items of SEK -65 (27) million included unrealised currency exchange rate differences of SEK -51 (10) million arising from the translation of the Euro-denominated convertible debentures, but excluding the gain on the sale of TV4 shares.

Group pre-tax profit therefore increased by 53% year on year to SEK 1,567 (1,024) million. Group tax charges amounted to SEK 330 (278) million. The Group tax rate is lower than in previous years, which is due to the effect of confirmed tax loss carry forward that had not previously been confirmed or accounted for; to the rapid development of operations in countries with tax rates of below 30%; and to declining losses with unrecognized tax benefits in certain territories. The underlying forward Group tax rate is expected to be approximately 30-35%, but may vary between interim reporting periods. Paid taxes in the year amounted to SEK 131 (57) million, and the sale of the TV4 shares was not subject to any tax charges. The Group consequently reported a 66% year on year increase in net income after tax to SEK 1,237 (746) million, and Group earnings per share increased by 65% to SEK 18.56 (11.23).

The Group generated SEK 966 (558) million of cash flow from operations. Net cash flow from operations amounted to SEK 981 (578) million, which reflected a SEK 16 (20) million change in working capital. Group capital expenditure totaled SEK 80 (107) million, which

was equivalent to less than 1% of Group sales. The Group's return on capital employed, excluding non-recurring items, increased to 22% (17%) in 2005.

Parent company

The parent company reported net sales of SEK 108 (89) million, principally relating to charges to Group companies. Net interest and other financial items totaled SEK -34 (113) million and the parent company's pre-tax profit therefore amounted to SEK -153 (-3) million. MTG's financial policy includes the provision of a central cash pool to support operating companies. Parent company capital expenditure totaled SEK 0 (0) million in 2005.

Financial position

The Group's available liquid funds, including unutilized credit facilities, amounted to SEK 2,046 (1,349) million at 31 December 2005 and the Group's cash and cash equivalents totaled SEK 1,207 (574) million at the end of the year.

The Group had a net cash position at the end of 2005 of SEK 15 million, compared to a net debt position of SEK 438 million at the end of 2004. The convertible debentures are included within current liabilities as they are due for repayment in June 2006.

The Group's total assets amounted to SEK 9,893 (6,398) million at 31 December and the Group's equity to assets ratio, which is defined as consolidated equity as a percentage of total assets, stood at 55% (44%). The Group's 27.9% shareholding in Metro International S.A. had a stock market value of

SEK 1,940 million as at the close of business on the last trading day of 2005, which compared with a stock market value of SEK 2,184 million as at the close of business on the last trading day of 2004. The difference in these market values has been charged directly to the Group's equity. The Group's 39.7% shareholding in associated company P4 Radio Hele Norge ASA is accounted for at its book value of SEK 72 million, whereas the stock market value of the holding on the last trading day of December 2005 was SEK 394 million.

Significant events after the end of the year

The following significant events have taken place since 31 December 2005 and before the publication of this annual report.

MTG announced in February 2006 the arrangement of a new five year SEK 3,500 million revolving multi-currency credit facility. The facility is unsecured and there are no required amortizations. The new facility replaces the existing SEK 800 million credit facility and may be drawn to cover the repayment of the EUR 120 million convertible bond maturing in June 2006, as well as to fund the continued expansion of the Group.

MTG announced in March 2006 that its Modern Betting subsidiary had exercised the option to increase its shareholding in Nordic Betting Limited from 51% to 90%.

The Group has received a claim after the end of the year relating to the disposal of the SDI Media businesses area in July 2004 to

private equity group Warburg Pincus. The buyer is claiming damages of approximately USD 9.4 million of the USD 60 million consideration paid, in relation to warranties given by the Group in the sales process. Based on the arguments for the claim and the initial information received, the Group finds that the claim is substantially without merit, both in regards to the basis of the claim and the amounts, and has therefore not made any provisions in relation to the claim.

MTG also announced that the Swedish Government has awarded Viasat Broadcasting a new license to broadcast an additional channel in the Swedish digital terrestrial network. The new channel, TV6, will be a broad-based entertainment channel and will be made available free of charge on an unencrypted basis, to viewers through Sweden's digital terrestrial network, as well as be available to all subscribers to the Viasat satellite TV platform and to third party cable networks. TV6 is expected to be launched and start broadcasting at the beginning of May 2006.

Outlook

The Group has a clear set of strategic objectives and a defined execution path in order to generate enhanced shareholder value. The Group continues to be on track to deliver these objectives subject to the prevailing advertising market environment and general economic development in the operating regions. The Group's core broadcasting assets are well positioned to exploit further market growth and structural changes.

The Scandinavian free-to-air assets are capitalising on market growth, as well as penetration gains due to the ongoing digitalization of terrestrial television distribution in the region. Programming costs are increasing year on year but the Viasat channels are also benefiting from the cost savings resulting from the discontinuation of analogue distribution. The Nordic pay-TV business has established itself as one of the main providers of premium content with competitive pricing and an extensive range of in-house and leading third party channels. The securing of the platform and elimination of piracy, as well as the introduction of new services and technologies, continues to enable Viasat to grow its premium subscriber base and take market share, whilst also benefiting from ARPU increases over time. The Group has built a valuable portfolio of assets in Central & Eastern Europe, which enable MTG to continue to benefit from increased exposure to these higher growth economies, where advertising spend per capita and pay-TV penetration and pricing remain low by comparison with their European peers.

The Group is even more strongly positioned than a year ago, and continues to benefit from the synergies and economies of scale that arise from its efficient operating model and broad geographical diversification. The addition of TV Prima and the consolidation of BET24 during 2005 provide two further exciting high growth stories for the Group. Cash flow management has improved further and the Group's balance sheet provides significant financial

flexibility to take advantage of organic and acquisition-led growth opportunities.

Environmental impact

The company does not own or operate any businesses in Sweden that require a licence or have a reporting duty that would require compliance with rules or laws regarding environmental impact.

Proposed appropriation of earnings

The following funds are at the disposal of the shareholders as at 31 December 2005 (SEK):

Retained earnings	2,730,311,920
Net loss for 2005	-161,705,918
Total	2,568,606,002

The Board of Directors and Chief Executive Officer propose that the retained earnings be carried forward into the accounts for 2006 and that no dividend be paid to shareholders for the twelve months ended 31 December 2005.

In order to further enhance capital deployment efficiency levels and to achieve a capital structure that better reflects the profile of MTG's core broadcasting operations, the Board of Directors and Chief Executive Officer will also propose to the Annual General Meeting that a distribution of shares in Metro International S.A. be achieved by means of a share split and mandatory redemption programme, with payment to be made in Metro International shares. MTG currently owns 50,107,485 Metro International class 'A' shares and 96,860,828 class 'B' shares, which is equivalent to a 28% economic interest and 19% voting interest in

the Company. As per the close of trading on 15 February 2006, the market value of the Metro shares to be distributed was approximately SEK 1,907 million.

The Group's consolidated accounts have been prepared according to International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), as well as the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission. This financial report is the first annual financial report to be prepared according to IFRS. IFRS 1 First Time Adoption has been used for the transition from previously applied accounting principles to IFRS. Recommendation RR30 on Supplementary Accounting Regulations for Groups, and RR32 on Accounting for Legal Entities, as issued by the Swedish Financial Accounting Standards Council, had also been applied in the preparation of the report. The 2004 figures have been restated accordingly for comparative purposes. IAS 39 regarding financial instruments has been applied from 1 January 2005 and has therefore not had an impact on the 2004 figures. A description of the significant changes affecting the Group, as well as reconciliations between the previously reported accounts and current IFRS accounts, are included at the end of this report. This report has been prepared in accordance with IAS 1 and has been reviewed by the Company's auditors. The parent company

applies the same accounting principles as the Group, except where the possibility to apply IFRS is restricted by the Swedish Companies Act and, in some cases, due to tax rules. The effects of the adoption of IFRS are set out in Note 34 to the Accounts on page 70 of this report.