



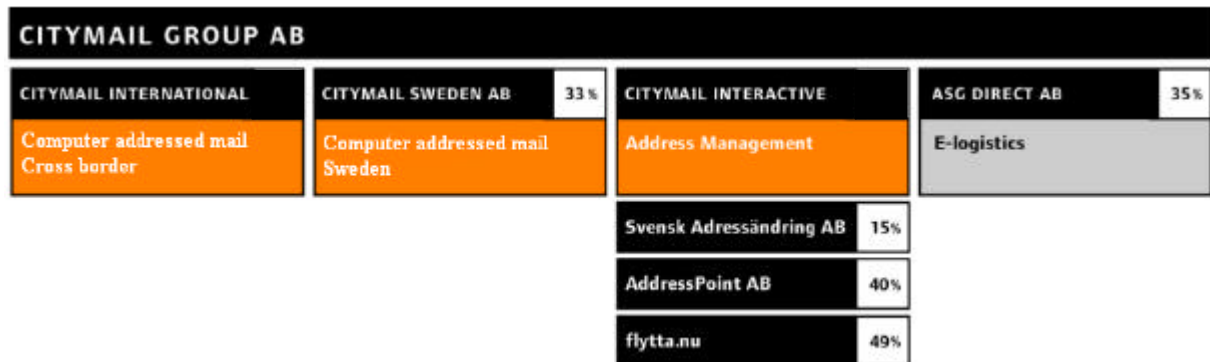
## Half-Yearly Report

1 January - 30 June 2000

- Results after financial items amounted to MSEK 53.8 (MSEK -14.2).
- Turn-around achieved by CityMail Group.
- Net turnover amounted to MSEK 182.3 (MSEK 192.1), a reduction of 5.1 percent due to the market's uncertainty regarding the future operations in Gothenburg and Malmö.
- *CityMail International*: Significant increase in turnover with positive result. CityMail's future core business.
- *CityMail Sweden*: Royal Mail assumes management responsibility and carries out a resumption and expansion in Gothenburg and Malmö in order to achieve profitability.
- *CityMail Interactive*: Co-operation with Sweden Post and a new issue for continued investments within the address area.

### New Structure for CityMail Group AB

Through the newly completed transaction with Royal Mail, a new expansive structure has been formed for the CityMail Group and, at the same time, the conditions have been created for the new CityMail Sweden AB to resume and expand in Gothenburg and Malmö. CityMail Group is continuing to capitalise on the know-how and experience which have been built up during ten years on the postal market. The company is continuing to focus on the development of business within the market for international computer-addressed mail and related areas, such as address processing and customer register processing. CityMail Group do only consolidate businesses that are owned to more than 50 percent.



**CityMail International:** CityMail International was established in 1998 and the business area's largest and most rapidly expanding operations are the distribution of international computer-addressed mail. CityMail International focuses primarily on multinational companies with large numbers of consumer customers in several countries. The customer groups which are primarily cultivated are telecom companies, card companies within, for example, financial services, cable TV companies and Internet companies. These industries are all characterised by increased internationalisation and, in many cases, deregulation and new regulatory systems are opening the way for the creation of pan-European or global companies. Technical developments have meant that it is possible to send large quantities of data between countries safely and at a low cost. This provides the companies with greatly increased opportunities to co-ordinate administrative procedures. CityMail International offers customers total distribution solutions which optimise the company's invoicing from time, cost, and return processing perspectives. This means a significant savings potential for customers.

The total postal market in Europe is estimated to expand by 2-3 percent per year. However, growth varies within different sections of the market. New technology in the form of e-mail and other electronic communications is replacing mailbox and office mail to an increasing extent. The market for computer-addressed mail is thus estimated to have growth in excess of 5 percent.

CityMail International is expected to achieve continued very strong growth in volumes and has as its goal a turnover of MSEK 400-500 within 3-4 years. The inflow of orders exceeds MSEK 100, compared with approximately MSEK 20 in 1999. The goal is that CityMail International will have an operating margin of not less than 10 percent. The operations are adapted to an appreciably larger volume than that which is used today. This means that synergy effects will increase in pace with growth in volume.

**Revenues:** CityMail International's revenues increased during the first half of 2000 by 131 percent to MSEK 23.3 (MSEK 10.1). Most of this increase is attributable to international computer-addressed mail. In the middle of February 2000, CityMail International received a major order of approximately MSEK 100 on a yearly basis. Intensive work has taken place during the first and second quarters in order to put this order into operation. Implementation will take place on a country by country basis and it is currently estimated that more than half of the order has been put into operation. Negotiations with several large additional customers is taking place. In July a contract was signed with Graphium Card regarding distribution of Shells credit cards in Europe. The contract is worth 10-12 MSEK on a 12 month basis.

**Operating costs:** Operating costs within the CityMail International business area are a consequence of volume growth. Distribution services within respective countries are purchased from Royal Mail, and

consequently, most of the costs are variable. CityMail International's organisation was strengthened during the period.

CityMail International MSEK	Q1		Q2		Q1+Q2	
	2000	1999	2000	1999	2000	1999
Net turnover	9.4	4.2	13.9	5.9	23.3	10.1
Operating costs before dep.	8.7	3.9	13.2	5.4	21.9	9.3
Depreciation	0.1	0.0	0.0	0.0	0.1	0.0
<b>Operating result</b>	<b>0.6</b>	<b>0.3</b>	<b>0.7</b>	<b>0.5</b>	<b>1.3</b>	<b>0.8</b>

**CityMail Sweden AB:** The company engages in distribution of computer-addressed mail within Sweden and is 33 percent owned by CityMail Group. The operation's distribution areas have been Greater Stockholm and the central parts of Malmö and Gothenburg. The distribution areas in Malmö and Gothenburg have not achieved the scope required in order for CityMail to be a sufficiently attractive alternative for local customers who only require distribution in these regions. As a consequence, the operations in Malmö and Gothenburg have accounted for a disproportionately large portion of CityMail's losses since 1996. The best strategic solution to this structural profitability problem would have been to carry out a geographical expansion of the distribution organisation in Gothenburg and Malmö. However, this would have required substantial financial resources and entailed a significantly increased financial risk for the CityMail Group. Accordingly, on 27 April 2000 the Board of Directors of CityMail decided to phase out the operations in Malmö and Gothenburg and to concentrate CityMail's distribution on Greater Stockholm.

In the middle of May 2000, discussions were initiated with Royal Mail concerning the future of CityMail's distribution in Sweden. Royal Mail's opinion was that CityMail Sweden's business concept possessed major development potential but that it was necessary, from strategic and financial perspectives, that geographic coverage be expanded in Gothenburg and Malmö.

On 21 June 2000, an agreement was signed between CityMail Group and Royal Mail, through Post Office Investments Limited, to form a jointly-owned company which would take over and conduct the operations conducted within the CityMail Sweden business area. Instead of phasing out the operations in Gothenburg and Malmö, the structural profitability problems would be solved by geographical expansion of the distribution areas in order to achieve critical geographic coverage.

On 30 June 2000, the new company, CityMail Sweden AB, purchased from CityMail Group AB the distribution operations which constituted the CityMail Sweden business area. The purchase price of GBP 7.46 million was paid in the form of GBP 2 million in cash upon the entry into force of the agreement, GBP 2 million in the form of a promissory note which matures on 31 December 2001, GBP 1 million in the form of a promissory note which matures on 31 December 2002, and the set-off of a debt owed to CityMail Group AB in the amount of MSEK 33. Royal Mail has an option to acquire CityMail Group's 33 percent of the company during the period 1 January 2004 - 31 December 2006.

Royal Mail has further undertaken to provide CityMail Sweden AB, subject to market terms and conditions, with capital for its normal operational requirements, including the geographical expansion in Gothenburg and Malmö. This undertaking is limited to MSEK 120. Any further capital requirements will be met by Royal Mail and CityMail Group in proportion to their respective holdings in the company.

Through the transaction with Royal Mail, CityMail Group now enjoys the possibility to participate in an expanded CityMail Sweden with limited financial risks for the CityMail Group. Through the geographical expansion, it is estimated that CityMail Sweden AB will be able to achieve good profitability. CityMail Sweden currently has a market share of 10 percent of computer-addressed mail in Sweden. Royal Mail has the express ambition of doubling this share within a five-year period. Commencing 1 July 2000,

Royal Mail has assumed management responsibility for CityMail Sweden and reinforced the management with three senior executives from Post Office.

**Revenues:** During the first half of 2000, CityMail Sweden's net turnover amounted to MSEK 159.0, compared with MSEK 182.1 for the corresponding period of 1999. During the second quarter of 1999, a settlement agreement was signed with Sweden Post which resulted in the payment of compensation to CityMail Group, of which MSEK 11.6 was booked as revenue during the second quarter. Excluding the settlement revenues, CityMail Sweden's revenues declined by MSEK 11.5, or by 7 percent, compared with the first half of 1999.

The reduction in revenues is largely due to the decision in April to phase out the distribution operations in Malmö and Gothenburg. The distribution operation was successively phased out during May, and was totally discontinued in 31 May. The decision to phase out distribution along with the reverse decision shortly after created great confusion in the market. The 4 percent increase in revenues experienced during the first quarter was replaced by a 19 percent reduction in revenues for the second quarter.

**Operating costs:** During the first half of 2000, operating costs amounted to MSEK 199.7 (MSEK 196.1), corresponding to an increase of 1.8 percent.

CityMail Sweden's new distribution system with rolling three day distribution was implemented on 13 January 2000. The structural change is aimed at equalising the flow of mail over time at the same time as distribution costs can be significantly reduced. The changed distribution structure entailed a major restructuring of the distribution organisation and costs incurred due to the fine-tuning of the new system affected the first quarter by MSEK 6.6 and are included in operating costs.

A short time after the decision was taken to start negotiations with the trade unions pursuant to the Co-Determination in the Workplace Act regarding the phasing out of the distribution operations in Gothenburg and Malmö, discussions were commenced with Royal Mail regarding the formation of the joint venture which has now been realised. Thus, although distribution was stopped, it was not possible to wind up any costs in Gothenburg and Malmö. Rather, the fixed costs have remained during the second quarter.

CityMail Sweden MSEK	Q1		Q2		Q1+Q2	
	2000	1999	2000	1999	2000	1999
Net turnover	96.1	92.7	62.9	77.8**	159.0	170.5**
Operating costs before dep.	91.4*	94.9	92.0	91.5	183.4*	186.4
Depreciation	4.8	4.6	4.9	5.1	9.7	9.7
<b>Operating result</b>	<b>-0.1</b>	<b>-6.8</b>	<b>-34.0</b>	<b>-18.8</b>	<b>-34.1</b>	<b>- 25.6</b>

\*) Excluding restructuring costs for new delivery system 6.6 MSEK

\*\*) Excluding settlement revenues from Sweden Post amounting to MSEK 11.6

**CityMail Interactive:** The market for computer-addressed mail has experienced a continuous growth in volume. The growth in volume is encouraged by the development of new businesses which communicate directly with consumers with invoices and offers. Examples include mobile telephony, Internet commerce and unit trust savings. The other driving force is the development of modern computer-based processing which provides ever-increasing possibilities to work with different types of relations marketing.

As companies invest increasing amounts in the expansion of customer databases, it is becoming increasingly important for them to ensure that addresses in databases are kept up to date. In Sweden alone, approximately 1.5 million persons per year change in address. This means that a company's customer registers can quickly become out of date.

Accordingly, in 1999 CityMail Group decided to develop operations within the area of address management and these were placed in the CityMail Interactive business area. The area currently includes CityMail Group's holdings in Svensk Adressändring AB and AddressPoint AB, as well as a website under development called flytta.nu. All of these operations are owned and developed together with Sweden Post.

### ***Svensk Adressändring***

Svensk Adressändring is 15 percent owned by CityMail Group and 85 percent owned by Sweden Post. The company receives and verifies changes in address, orders for mail forwarding and storage of mail. Pursuant to an agreement with the National Tax Board, since 1994 the company has also handled applications for relocation on behalf of the tax authorities. Within the framework of the operations, CityMail Group and Sweden Post have together developed a system for the compilation of address changes by telephone and Internet, in addition to the possibility to notify address changes via post offices, which has been available for a long time. The operations handle approximately 90 percent of all changes of address in Sweden. During the first half of 2000 Svensk Adressändring had a net turnover of 80.9 MSEK. The profit margin (result after financial items) is approximately 8 per cent.

### ***AddressPoint***

CityMail Group owns 40 percent of AddressPoint. The remainder is owned by Sweden Post. The company was established at the end of April 2000 and is still under development. AddressPoint will provide private persons and companies who change their address with the opportunity to notify their new address simply and conveniently in one go to the companies of which they are customers and the organisations of which they are members. Companies and other organisations will be invited to subscribe to obtain these verified address changes which are provided in electronic form. The operations will thus offer companies with extensive customer registers a speedy and simple electronic updating service. With AddressPoint's updating system, the possibility will be created for companies and other organisations with large address registers to obtain updating which is as rapid and reliable as that received by postal operators. The company plans to launch its services at the end of 2000/ beginning of 2001.

### ***Flytta.nu***

[www.flytta.nu](http://www.flytta.nu) is a web service which is 49 percent owned by CityMail Group and 51 percent by Sweden Post. CityMail and Sweden Post will jointly develop the service, which will be primarily focused on private persons who are intending to move. The service provides companies and other organisations with the opportunity to collectively come into contact with this customer group. The web service will offer services and possibilities for e-commerce within areas related to relocation, e.g. renovation, transport, cleaning, housing loans, and the purchase and sale of homes. At the time of launching, the service is expected to be well-positioned through these possibilities for exposure in contexts related to AddressPoint. Development of the service is under way and it is estimated that it will be launched in the first quarter of 2001.

In order to finance the investments within AddressPoint, and flytta.nu, a new issue has been completed providing CityMail Group with MSEK 55.4.

**ASG Direct:** ASG Direct offers distribution and logistics solutions for e-commerce and other distance trading companies. CityMail Group owns 35 percent of the company, with the remainder being owned by ASG. The company has developed a unique platform, Directrix, which operates in an integrated manner with e-commerce sites. The data platform provides a high level of service to end customers and the possibility, among other things, for consumers to themselves determine the method of distribution and delivery time.

ASG Direct has built up a system which provides the functions which consumers require in order for e-commerce to become an attractive alternative to shopping in stores. In the short-term, volumes within e-commerce have developed more slowly than most of the forecasts on the market, a factor which has also affected volume development in ASG Direct. This development has, at the same time, greatly increased the focus on, and awareness of, the crucial nature of distribution and logistics for the development of e-commerce. ASG Direct has thus experienced a increase in interest for the company's services.

The area which thus far has been deemed to possess the greatest volume development within e-commerce is groceries. ASG Direct is responsible for distribution on behalf of most grocery stores in the Greater Stockholm area.

It is estimated that the logistics function will play an increasingly significant role in the integration of e-commerce companies with their customers. The distribution company will become the face seen by the market and an important partner for those companies which use relations marketing as a means of competition.

**Results**

CityMail Group's results for the first half of 2000 amounted to MSEK 53.8, compared with MSEK -14.2 for the corresponding period last year. The results for the first half of 1999 included MSEK 11.6 in settlement revenues from Sweden Post which were booked as revenues. The results for the first half of 2000 have included an item affecting comparability in the amount of MSEK 93.5 from the sale of the distribution operations for computer-addressed mail in Sweden to CityMail Sweden AB, which is jointly owned with Royal Mail. During the first quarter restructuring costs of 6.6 MSEK was taken due to changed distribution schedule

Excluding items affecting comparability, the operating result was MSEK -32.8, which was MSEK 8.1 less than in the first half of 1999.

The results for the first half of the year have been negatively affected by primarily the fall in revenues after the decision to phase out distribution operations in Gothenburg and Malmö. Because of the discontinuation of the process of phasing out costs remained in June.

Net financial items amounted to MSEK -0.2 during the first half of 2000, compared with MSEK -1.1 for the corresponding period of last year. The improvement was primarily due to a dividend of MSEK 1.4 which was received from Svensk Adressändring during the first quarter of 2000.

Earnings per share during the first half of 2000, excluding outstanding warrants, amounted to SEK 5.25 (SEK -1.55).

**Financial Position**

The company's liquid funds, including non-utilised credit, amounted on 30 June 2000 to MSEK 37.3 (MSEK 54.4 as per 30 June 1999). Claims in the amount of MSEK 40.2 against Royal Mail in the form of promissory notes with maturity dates of 31 December 2001 and 31 December 2002 are reported as financial fixed assets.

Cash flow during the first half of 2000 amounted to MSEK 22.7 (MSEK 6.7 during the first half of 1999).

At the end of the half-year period the company had no interest-bearing liabilities.

The equity ratio as per 30 June 2000 amounted to 88.1 percent, compared with 40.1 percent at the beginning of the year. During the second quarter, a new issue of 6,827,000 class A shares, subject to subscription rights for shareholders of CityMail Group AB, has been carried out. The new issue, which was fully subscribed, was completed in June 2000 and has provided the company with MSEK 55.4.

As of 31 December 1999, CityMail had accumulated tax loss carry-forwards of MSEK 285.1.

**Capital Expenditures**

Net capital expenditures during the first half of 2000 amounted to MSEK 8.3 following the transfer to CityMail Sweden AB of assets and liabilities related to the distribution operations in Sweden. During the same period of last year, capital expenditures amounted to MSEK -1.7, including the disposal of intangible fixed assets as a consequence of the settlement agreement with Sweden Post.

The 33 percent holding in the new CityMail Sweden has a book value of 33.0 MSEK.

## Personnel

During the first half of 2000, there were, on average, 865 (960) employees. The number of employees fell during the first quarter of 2000 as a consequence of the new distribution system. On 30 June 2000, most of the employees transferred to CityMail Sweden AB and the number of employees in CityMail Group thereafter amounted to 12 persons.

## Prospects

CityMail Group is operating within growth areas, primarily within the new technology, with increased needs for advanced marketing methods, as well as the internationalisation of customers. Within its areas, CityMail possesses a strong trade mark but, thus far, still has limited market shares. In order to ensure growth, the CityMail Group has thus developed co-operation with leading companies. Similar co-operations are conceivable in other countries and in related business areas.

*This interim report has not been reviewed by the company's auditors.*

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Stockholm, 16 August 2000

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## Upcoming reports

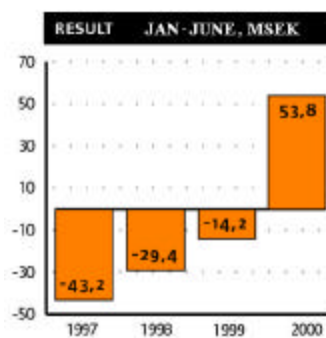
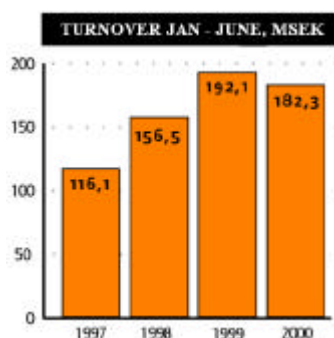
Interim report, 9 months  
7 November 2000

Unaudited annual results 2000  
February 2001

## CityMail Group AB (publ)

Upplagsvägen 10  
Box 47058  
100 74 Stockholm

## Financial information, 1997 - 2000



## Financial information, quarterly (MSEK)

Quarter items	Net turnover			Operating results			Results after financial		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Q1	105.6	96.9	83.9	-6.1	-6.4	-7.2	-5.5	-6.9	-7.8
Q2	76.7	95.2	72.6	60.2	-6.7	-20.8	59.3	-7.3	-21.6
Q3		88.5	75.7		-9.4	-15.0		-9.6	-15.2
Q4		93.5	86.4		-29.2	-13.3		-29.8	-14.1

<b>TOTAL</b>	<b>374.1</b>	<b>318.6</b>	<b>-51.7</b>	<b>-56.3</b>	<b>-53.6</b>	<b>-58.7</b>
	Amounts in SEK '000					
<b>Income statement in summary</b>			<b>Jan. - June 2000</b>		<b>Jan. - June 1999</b>	
Net turnover			182 277		192 107	
Operating result before items affecting comparability			-32 773		-24 722	
Items affecting comparability (Note 1)			86 855		11 600	
Operating result after items affecting comparability			54 082		-13 122	
Result after financial items			53 828		-14 237	
Tax on earnings for the period			0		0	
<b>Results for the period</b>			<b>53 828</b>		<b>-14 237</b>	
Note 1.	Items effecting comparability					
	Revenue from joint venture with Royal Mail		93 455			
	Restructuring cost delivery organisation		- 6 600			
	Settlement revenues, Sweden Post				11 600	
	Sum		86 855		11 600	
<b>Balance sheet in summary</b>			<b>30 June 2000</b>		<b>30 June 1999</b>	
<b>Assets</b>						
Intangible fixed assets			48		26 077	
Shares and participations in affiliated companies			131 197		7 140	
Other long-term claims, Royal Mail promissory notes			40 200		0	
Tangible fixed assets			575		21 061	
Accounts receivable			2 983		37 189	
Other current assets			6 073		14 299	
Cash and bank equivalents			27 348		29 423	
<b>Total assets</b>			<b>208 424</b>		<b>135 189</b>	
<b>Shareholders' equity and liabilities</b>						
Shareholders' equity			183 678		37 384	
Accounts payable			0		19 367	
Other liabilities			24 746		78 438	
<b>Total shareholders' equity and liabilities</b>			<b>208 424</b>		<b>135 189</b>	
<b>Cash flow statement in summary</b>			<b>Jan. - June 2000</b>		<b>Jan. - June 1999</b>	
Cash flow from operating activities			41 903		14 409	
Cash flow from investing activities			-8 349		1 733	
Cash flow from financing activities			-10 886		-9 420	



<b>Cash flow for the period</b>	<b>22 668</b>	<b>6 722</b>
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