



CityMail and The Post Office Enter Into Memorandum of Understanding on Mail Distribution in Sweden

MoU on Investment within Distribution of Computer Addressed Mail

CityMail Group AB ("CityMail") and Post Office Investments Limited ("The Post Office"), have today reached an agreement on a Memorandum of Understanding ("MoU") on the formation of a joint venture comprising CityMail's business of distributing computer addressed mail within Sweden. These operations are at present conducted within CityMail's business area CityMail Sweden and cover the Greater Stockholm Area along with the central parts of Gothenburg and Malmö.

Sharpened focus for CityMail Group AB

Through the transaction, The Post Office, one of the world's largest post offices, will enter as a partner to CityMail in the business of distributing mail in Sweden. These operations are at present conducted within CityMail's business area CityMail Sweden. In 1999, The Post Office reported net revenue corresponding to some SEK 95 billion and a profit of approximately SEK 8 billion. The number of employees totals around 170,000.

CityMail Sweden will now be able to effect an expansion of operations in line with previous plans.

The European postal market is worth some EUR 80 billion and is currently undergoing quick and radical change. CityMail has during its close to ten-year presence on the world's only fully deregulated postal market acquired unique knowledge within distribution, logistics and computer based address management.

CityMail Group may now focus on the rapid development of the expanding business areas CityMail International and CityMail Interactive as well as the distribution of goods generated by e-commerce (CityMail's part-ownership in ASG Direct). Furthermore, CityMail Group will be able to capitalise on the acquired knowledge and experience through the development of

consulting services and new business opportunities on the European postal and communications market.

Structure of the Joint Venture

The intention is that CityMail shall transfer its operations within the distribution of computer addressed mail, currently conducted in the business area CityMail Sweden, to a joint venture in which CityMail is to own 33 percent and The Post Office 67 percent. CityMail is to receive a cash consideration in the amount of GBP 5 million from The Post Office. The consideration will be paid in three parts 2000, 2001 and 2002.

The Post Office shall have an option to acquire CityMail's 33 percent shareholding in the joint venture during the period 1 January, 2004-31 December, 2006 for an amount to be calculated as the proportion that CityMail's shareholding in the joint venture bears to the total shareholding in the joint venture, multiplied by seven times earnings before interest and taxes (EBIT) of the joint venture for the preceding calendar year. If the option is exercised during the period 1 January - 31 December 2004, the minimum amount shall be SEK 175 million.

The Post Office is to provide the joint venture with capital to cover its normal working capital needs in the immediate future, including an expansion of the distribution organisation in Gothenburg and Malmö. However, this commitment shall be limited to SEK 120 million. Any funding requirements in excess of that amount shall be provided by The Post Office and CityMail in proportion to their respective shareholdings in the joint venture at the time of the required funding.

The final purchase agreement will be subject to approval by an Extra General Meeting of CityMail, the Board of the Post Office and the granting of necessary regulatory approvals.

Rationale for the Joint Venture

With The Post Office as a major shareholder, the joint venture will have access to the resources necessary to retain and to expand the distribution organisation in Gothenburg and Malmö to cover also the peripheries of the respective areas. The distribution organisation in Gothenburg and Malmö, which at present cover the central areas of the respective cities, has not achieved the scope that would make CityMail a viable alternative for local and regional companies and other organisations with a need for distribution in these regions only. The volume of mail sent has therefore not reached a level to support a satisfactory profitability. As a consequence, the operations in Gothenburg and Malmö have been responsible for a disproportionately large part of CityMail's losses since 1996. On 27 April, 2000 the Board of Directors of CityMail therefore resolved to wind up the mail distribution operations in Gothenburg and Malmö.

Through the geographic expansion however, preconditions for profitability in the mail distribution operations also in Gothenburg and Malmö should be significantly improved to the benefit of both CityMail and The Post Office.

Rights Issue

On 17 May, 2000 an Extra General Meeting of CityMail approved the Board of Directors' decision of 27 April, 2000 to increase the share capital in the company by a maximum of SEK 34,135,000 from SEK 34,135,000 to a maximum of SEK 68,270,000 through a new share issue, with preferential rights for existing shareholders, of a maximum of 6,827,000 Series A shares with a nominal value of SEK 5 each. Through the new share issue, the number of shares in CityMail will increase from 6,827,000 to not more than 13,654,000. The subscription price has been set at SEK 9 per share and the subscription period is 29 May–16 June, 2000.

A prospectus has been sent to shareholders or representatives of shareholders who on the record date, 23 May, 2000 were recorded in the share register. An addendum to the prospectus, containing information on the joint venture, will be distributed in ample time before the expiration of the subscription period.

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