



## **Interim Report**

**1 January - 30 September 2000**

- **Profit for the CityMail Group after financial items and capital gains of MSEK 93,5 amounted to MSEK 54.0 (MSEK -23.8). During the third quarter, the profit amounted to MSEK 0.2 million.**
- **The new core business, City Mail International, more than doubled its turnover and reported invoicing during the first nine months in the amount of MSEK 40.4 (18.1). The operating margin for the third quarter was 11.1 percent.**
- **Continued low financial risk following the sale of the Swedish distribution operation to the company jointly owned with Royal Mail, CityMail Sweden AB.**
- **A new growth strategy was established for CityMail Group with CityMail International as the base.**



## CityMail Group AB's new structure

In 2000, the CityMail Group underwent a fundamental restructuring. The CityMail Group's previous core business, CityMail Sweden - the Swedish distribution operation - was sold to a new company, CityMail Sweden AB. This company is 67 percent owned by Royal Mail and 33 percent owned by CityMail Group. Consequently, the financial risk in the CityMail Group has also been significantly reduced.

Royal Mail is entitled to purchase CityMail Group's remaining 33 percent at a later date. In the event this takes place in 2004, the lowest purchase price will be MSEK 175.

CityMail International, which was founded in 1998, is now CityMail Group's core operation. Other activities within the market for interactive address services and logistics supplement the core business.

In this report, CityMail Group presents the first results of the restructuring which include, among other things, a significant increase in CityMail International's revenues. In addition, CityMail Group presents the core of the new strategy which will be to develop the company from offering services within cross-border mail processing to becoming an international integrator of large companies customer communications within the business-to-consumer (B2C) area, e.g. customers within the telecommunications, cable-TV, electricity distribution, and financial services areas.

CITYMAIL GROUP AB							
CITYMAIL INTERNATIONAL	JOINT VENTURES AND PROJECTS						
<ul style="list-style-type: none"><li>➤ <b>Wholly-owned business</b></li><li>➤ <b>Distribution of international mail and fulfilment services</b><ul style="list-style-type: none"><li>○ <b>Cross-border mail</b></li><li>○ <b>Inbound mail Sweden</b></li></ul></li><li>➤ <b>The base of the future international integrated customer dialogue services</b></li></ul>	<table><tr><th>CITYMAIL SWEDEN AB</th></tr><tr><td>Distribution of pre-sorted, computer-addressed mail in Sweden 33%</td></tr><tr><th>CITYMAIL INTERACTIVE</th></tr><tr><td>Svensk Adressändring AB 15%, AddressPoint AB 40% and the "Flytta.nu" project.</td></tr><tr><th>REAL LOGISTICS SWEDEN AB</th></tr><tr><td>E-Commerce deliveries - currently a wholly-owned company (previously, ASG Direct)</td></tr></table>	CITYMAIL SWEDEN AB	Distribution of pre-sorted, computer-addressed mail in Sweden 33%	CITYMAIL INTERACTIVE	Svensk Adressändring AB 15%, AddressPoint AB 40% and the "Flytta.nu" project.	REAL LOGISTICS SWEDEN AB	E-Commerce deliveries - currently a wholly-owned company (previously, ASG Direct)
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## The core business – CityMail International

CityMail International revenues: The operation has developed according to plan, however with certain delays in outstanding orders. Of the order in the amount of approximately MSEK 100, which CityMail International obtained in February 2000, it is now estimated that approximately one half is in operation. Work to implement the order is taking place gradually, country by country, and has been delayed due to longer technical and administrative lead times.

During the first nine months, revenues increased to MSEK 40.4 (18.1), an increase of 123 percent. The increase is due largely to strong growth in cross border mail.



CityMail International operating costs: Relatively speaking, costs increased in parallel with revenues since distribution in each country is purchased directly from Royal Mail. During the nine-month period, expenses amounted to MSEK 37.1, and the operating margin amounted to 7.9 percent. The operating margin for the third quarter was 11.1 percent. During the last nine-month period, CityMail International's organisation has also been strengthened.

CityMail International	Q1-2		Q3		Q1-Q3	
MSEK	2000	1999	2000	1999	2000	1999
Net turnover	23.3	10.1	17.1	8.0	40.4	18.1
Operating costs before depreciation	21.9	9.3	15.2	6.7	37.1	16.0
Depreciation	0.1	0.0	0.0	0.0	0.1	0.0
<b>Operating result</b>	<b>1.3</b>	<b>0.8</b>	<b>1.9</b>	<b>1.3</b>	<b>3.2</b>	<b>2.1</b>

CityMail International is the new core business of the CityMail Group, and currently constitutes all operating income. The operation, which will constitute the basis for the future growth strategy (see below), currently handles international mail distribution and related services for its customers. The business area has two separate operations, Cross-border Mail and Inbound Mail Sweden.

➤ *Cross-border mail*

This operation covers processing of cross-border mail, frequently coupled with printing, fulfillment, and return processing. Customers consist primarily of multi-national B2C companies. The primary customer groups which are targeted are telecommunications companies, card companies within the area of, for example, financial services, cable TV companies, and Internet companies. As a consequence of technical developments, large amounts of data may be sent between countries securely and at low costs. This significantly enhances the possibilities for companies to co-ordinate administrative routines and marketing communications. CityMail International offers its customers total distribution solutions which, in terms of time, cost, and return processing, optimise eg invoicing by companies. The savings potential for customers is significant.

Through its co-operation with Royal Mail, CityMail International has access to the price structures applicable between postal operators and which are significantly more advantageous than the prices which national postal operators offer to their customers. There are major opportunities to increase market shares on the European, cross-border postal market which exceeds SEK 20 billion and has an annual growth of 10 percent.

➤ *Inbound mail Sweden*

The operation for inbound mail, which means distribution of postal flows to Sweden, is linked to mail delivery within Sweden both via CityMail Sweden and Sweden Post. The customers are primarily foreign postal authorities.

To date, the Swedish postal market is the only postal market which has been fully deregulated and subjected to real competition. CityMail International exploits the resulting prices which are significantly lower than the fees charged by other postal operators in accordance with applicable international agreements. As a consequence of new sorting routines, CityMail International is now expanding its service range to also include 1st class letters. Consequently, the potential volume is expanding from approx. 20 percent to cover all international inbound mail on a market worth over MSEK 750 with an annual growth of 5 percent.

CityMail International is expected to have continued strong volume growth both in cross-border and inbound mail, and has a goal of sales of MSEK 400-500 in 3-4 years. Order inflows currently amount to more than MSEK 120. The goal is that CityMail International will have an operating margin of not less than 10 percent.



## **Partially owned companies and projects**

### **CityMail Sweden AB**

On 30 June 2000, the new company, CityMail Sweden AB, acquired the distribution operations which previously constituted the CityMail Sweden business area in CityMail Group AB. The company is active within the area of the distribution of pre-sorted, computer-addressed mail in Sweden and is 33 percent owned by the CityMail Group and 67 percent owned by Royal Mail (Post Office Investment Limited) which has assumed management responsibility for the operation.

Royal Mail obtained an option to acquire 33 percent of the shares in CityMail Sweden AB during the period from 1 January 2004 to 31 December 2006. The purchase price shall be equal to CityMail Group's share of CityMail Sweden AB, multiplied seven times by CityMail Sweden AB's results before financial items and taxes, plus 33 percent of the depreciation on goodwill arising in conjunction with the transaction, for the preceding calendar year. In the event Royal Mail exercises the option during the period 1 January 2004 – 31 December 2004, the lowest purchase price will be MSEK 175.

CityMail Sweden's distribution area has been Greater Stockholm and the central areas of Gothenburg and Malmö. The distribution areas in Malmö and Gothenburg were insufficiently large to be an attractive alternative for local and regional customers. In order to achieve profitability in Gothenburg and Malmö, geographic expansion was necessary.

Through the transaction with Royal Mail, CityMail Sweden has been provided the necessary financial strength to carry out the necessary geographic expansion in Gothenburg and Malmö. The expansion is currently being carried out, and the distribution will commence in December 2000. Through the expansion, CityMail Sweden AB will be able to significantly increase its market share in Sweden and attain good profitability. The current market share for computer-addressed mail in Sweden amounts to 10 percent for CityMail Sweden, a market share which the company intends to double in five-years. This equals sales in the amount of MSEK 700-800 and a margin exceeding 10 percent. The total investment for the expansion is approx. MSEK 25, and it is the goal of the company to achieve profitability in August 2001.

In spite of the fact that the delivery operation in Gothenburg and Malmö was not in operation from the end of May until the end of August 2000, turnover for the third quarter amounted to MSEK 68.1 ( 74.2). During the first nine months, sales were MSEK 227.1 (245.0). The disruptions on the market caused by the decision to wind up in April have been resolved and distribution volumes in Gothenburg and Malmö have now reached previous levels. The company is developing in accordance with the business plan prepared in conjunction with the transaction in June, both with respect to volumes and results.

### **Svensk Adressändring AB**

CityMail Group owns 15 percent of Svensk Adressändring, and the remainder is owned by Sweden post. The company receives and verifies changes in address, forwarding of mail, and storage of mail. Pursuant to an agreement with the National Tax Board, Svensk Adressändring also handles applications for relocation on behalf of the tax authorities. Svensk Adressändring primarily collects address changes over the telephone and the Internet, but it is also possible to obtain this service at post offices. The company's services have been well received on the market and are currently responsible for approx. 90 percent of all address changes in Sweden. Svensk Adressändring had revenues amounting to MSEK 121.2 during the first nine months of 2000. The profit margin amount to approx. 8 percent.

### **AddressPoint AB**



AddressPoint is 40 percent owned by the CityMail Group, and Sweden Post owns 60 percent. The company was established at the end of April 2000 and is still under development. The company will provide services with which companies and private persons may simply, and on a single occasion, be able to notify their new address to companies and organisations with whom they have relations. The companies and organisations effected by the address changes will be invited to subscribe for the address changes. Subscribers will be able to receive the address changes in an electronic format. The address changes will be delivered continuously, and the subscribers will thereby be able to eliminate the disadvantages which follow from outdated customer lists. The company is planning to launch its services during the first quarter of 2001. The company has incurred start-up costs, but has generated no revenues.

### **The Flytta.nu Project**

During the year, the flytta.nu project was carried out by CityMail Group and Sweden Post. The website is directed towards private persons who have moved or are planning to move. This service will be developed to become the natural information channel for the group concerned with respect to information and services relating to the moving process. Through the website, companies will have a unique possibility to come into contact with this target group with strong buying power by offering e-commerce services related to relocation, e.g. renovation, transport, cleaning, housing loans, and the purchase and sale of homes. The project is in a phase in which negotiations are being conducted with potential co-operation partners.

### **Real Logistics Sweden AB (previously, ASG Direct)**

Real Logistics is specialised in offering e-commerce companies and other distance-trading companies distribution and logistics solutions. The company was formed under the name, ASG Direct, together with ASG AB, which was acquired by Danzas at the end of 1999. ASG Direct's operation did not fit into Danzas' overall strategy, as a consequence of which the parties agreed to dissolve the co-operation. Thus, CityMail Group is the temporary owner of 100 percent of the shares in the company after having purchased 65 percent of the shares of Danzas' ASG AB on 2 October 2000. However, CityMail does not intend to operate the company on its own, but is striving to further develop the company together with other partners. Negotiations are currently being conducted and more detailed information will be presented in conjunction with the formation of a new group of owners. In the mean time, a maximum of twelve months, the company will not be consolidated by CityMail Group

Real Logistics has developed a unique IT platform, Directrix, which is integrated with e-commerce companies. The system enables total, real-time interaction between consumers and e-commerce companies. Among other things, the consumer can select the day and time of delivery.

In the short perspective, the volumes have developed more slowly than indicated by most forecasts. One of the problems confronting e-commerce has been to produce for consumers an attractive alternative to shopping in stores. The logistics function has not worked satisfactorily, and consumers have found longer home-delivery times to be inconvenient. Real Logistics' unique system offers the consumer a high level of service. Currently, within a time interval of two hours, the customer can determine when and where the products will be delivered. Real Logistics' possibility to offer a higher service level than the competitors has been getting attention, and we have noted growing interest in the company's services.

The area which, to date, is considered to have the strongest volume development is convenience goods. Real Logistics is responsible for distribution to most Internet convenience stores in Stockholm and Gothenburg.

Real Logistics' turnover for the first nine months amounted to MSEK 4.2. During recent months, the company's turnover has grown by approx. 10 percent per month. The result amounts to MSEK -14.6. A comprehensive programme to improve revenues and cost savings has commenced following the acquisition.



## The CityMail Group's results

As set forth above, the listed company, CityMail Group AB, currently consists of the CityMail International operation and the partially owned companies, CityMail Sweden AB, Svensk Adressändring AB, AddressPoint AB, Real Logistics Sweden AB, and Project Flytta.nu. The partially owned companies are not consolidated.

The CityMail Group also incurs costs for management and business development which do not affect CityMail International. During the third quarter, these costs amounted to MSEK 4.0, primarily due to external costs in conjunction with the realignment of CityMail Group's future strategy and focus. The result for the third quarter after financial items was MSEK 0.2.

Commencing in 2001, costs incurred for management and business development in the CityMail Group are estimated to amount to approximately MSEK 5 on an annual basis.

### Pro forma profit and loss statement 2000. CityMail Group.

	Q1-Q2	Q3	Q1-Q3
MSEK	2000	2000	2000
Net sales	23,3	17,2	40,5
Operating costs before depreciation.	28,6	19,1	47,7
Depreciation	0,1	0,1	0,2
<b>Operating result</b>	<b>-5,4</b>	<b>-2,0</b>	<b>-7,4</b>
Financial income/expenses	-0,2	2,2	2,0
<b>Profit/loss before tax</b>	<b>-5,6</b>	<b>0,2</b>	<b>-5,4</b>

CityMail Group's profit for the first nine months of 2000 amounted to MSEK 54.0, compared with a loss of MSEK -23.8 for the corresponding period last year. The results for 2000 include income affecting comparability in the amount of MSEK 93.5 as a consequence of the sale of the distribution operation of computer-addressed mail in Sweden to CityMail Sweden AB, a company jointly owned with Royal Mail.

Net financial items amounted to MSEK 2.0 during the first nine months of 2000, compared with MSEK -1.3 during the corresponding period last year. The improvement is primarily due to the dividend paid by Svensk Adressändring in the amount of MSEK 1.4 during the first quarter of 2000, and currency exchange effects on receivables from the Post Office in the amount of MSEK 2.2.

Results per share during the first nine months of 2000, excluding outstanding warrants, amounted to SEK 5.28 (SEK -2.58).

### Financial position

On 30 September 2000, the company's liquid funds, including unutilised credit facilities, amounted to MSEK 19.2 (31.1). Receivables from Royal Mail in the amount of MSEK 42.4, 3 GBP millions in the form of promissory notes with maturity dates of 31 December 2001 and 31 December 2002 are reported as financial fixed assets.

During the first nine months of 2000, cashflow amounted to MSEK 4.5 (MSEK -16.6).

As of 30 September, the company had no interest-bearing liabilities.



As of 30 September 2000, the equity ratio amounted to 88.4 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 with subscription rights for the shareholders in CityMail Group AB was carried out. The new issue, which was fully subscribed, was concluded in June 2000 and has provided MSEK 55.4 to the company.

The CityMail Group has an aggregate loss carried forward of MSEK 285.1.

### Capital Expenditures

During the first nine months of 2000, net capital expenditures amounted to MSEK 10.7 following a transfer to CityMail Sweden AB of assets and liabilities relating to the distribution operation in Sweden. During the same period last year, capital expenditures amounted to MSEK 4.6 including the disposal of intangible fixed assets as a consequence of the settlement agreement with Sweden post. The acquisition of Svensk Adressändring AB and the total investments for the year in Real Logistics Sweden AB, and Addresspoint AB amount to MSEK 12.9.

Holdings in CityMail Sweden AB have a book value of MSEK 33,0 in the balance sheet of CityMail Group.

### Personnel

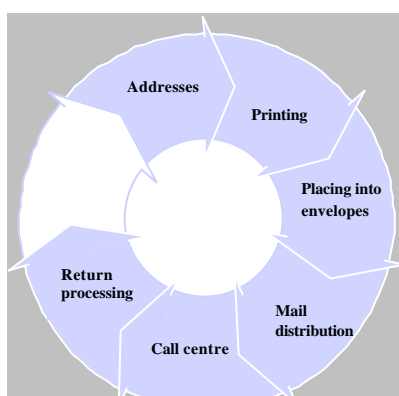
The average number of employees during the first nine months of 2000 amounted to 652 (973). As of 30 June 2000, the majority of employees were transferred to CityMail Sweden AB, as a consequence of which the number of employees as of 30 September was 13 persons in the CityMail Group.

### CityMail Group's new growth strategy: an integrator of the customers' international customer communication

The CityMail Group is experiencing significant changes within the market for traditional mail processing. Deregulation, new technology, and changes in customer needs are contributing to defining the markets more on the basis of customer needs than on the basis of the range of services offered by the suppliers. The market for mail distribution is developing gradually towards a much larger market for services in B2C communications. The growth in the new market is driven by changing needs within B2C communications - the explosive growth within CRM services is a clear indicator of this trend. The market is growing still further due to the greater tendency of customers to use outsourcing, even within the area of customer communications.

The goal of the CityMail Group is to develop within the new market for services with in B2C communications. The company will focus on supplying an integrated range of services which covers all operational components of customer communications for major international companies with extensive customer databases. With its traditional, mail-related core operation, CityMail is already responsible for a significant portion of all operational customer communications fees. The company will be able to benefit from its ability to process complex, cross-border operations with a number of partners in both a time and cost efficient manner.

### Overview of the future service range





The CityMail Group's international mail operation constitutes the core of the new positioning. During the next 18 months, the range of services, geographic proximity, and revenues will grow based on this business operation. The development of a wider range of services will be carried out with the assistance of selected partnerships as well as through a strengthening of internal expertise. The potential future revenues outside of traditional mail processing are significant and will be substantiated in pace with the implementation of the new strategy.

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

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Stockholm, 7 November 2000

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### **Upcoming reports for 2001**

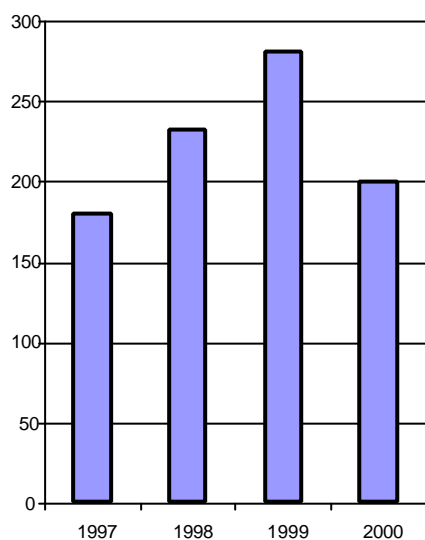
- Unaudited annual results: 7 February
- General shareholders' meeting: 24 April
- First quarter report, 3 months: 24 April
- Semi-annual report: 21 August
- Third quarter report 9 months: 7 November

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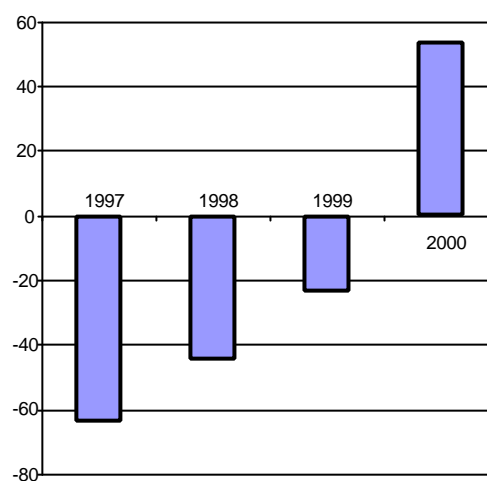


## Financial information, 1997-2000

**TURNOVER, JAN - SEPT, MSEK**



**RESULTS, JAN - SEPT, MSEK**



## Financial information, quarterly (MSEK)

Quarter	Net turnover			Operating results			Results after financial items		
	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	17.3	88.5	75.7	-2.1	-9.4	-15.0	0.2	-9.6	-15.2
Q4		93.5	86.4		-29.2	-13.3		-29.8	-14.1
<b>TOTAL</b>	<b>199.6</b>	<b>374.1</b>	<b>318.6</b>	<b>52.0</b>	<b>-51.7</b>	<b>-56.3</b>	<b>54.0</b>	<b>-53.6</b>	<b>-58.7</b>



<b>Income Statement in Summary</b>	Amounts in SEK '000	
	<b>Jan - Sept 2000</b>	<b>Jan - Sept 1999</b>
Net turnover	199 552	280 643
Operating results before items affecting comparability and non-recurring effects	-34 824	-39 952
Items affecting comparability and non-recurring effects (Note 1)	86 855	17 477
Operating results after items affecting comparability and non-recurring effects	52 031	-22 475
Results after financial items	54 019	-23 797
Tax on earnings for the period	0	0
<b>Results for the period</b>	<b>54 019</b>	<b>-23 797</b>

Note 1: Items affecting comparability and non-recurring effects:

Income from joint venture with Royal Mail	93 455	
Running in costs associated with new distribution system	-6 600	
Settlement income from Posten		17 477
Total	86 855	17 477

<b>Balance Sheet in Summary</b>	<b>30 Sept 2000</b>	<b>30 Sept 1999</b>
<b>Assets</b>		
Intangible fixed assets	32	24 208
Interests in affiliated companies and group companies	133 447	11 235
Other long-term claims, Royal Mail promissory notes	42 420	0
Tangible fixed assets	601	20 652
Receivables	15 846	41 800
Other current assets	6 471	12 676
Liquid funds	9 172	6 107
<b>Total assets</b>	<b>207 989</b>	<b>116 678</b>
<b>Shareholders' equity and liabilities</b>		
Shareholders' equity	183 869	27 823
Accounts payable	4 098	18 051
Other liabilities	20 022	70 804
<b>Total shareholders' equity and liabilities</b>	<b>207 989</b>	<b>116 678</b>

<b>Cash flow Analysis in Summary</b>	<b>Jan - Sept 2000</b>	<b>Jan - Sept 1999</b>
Cash flow from current operations	26 018	-14 252





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Cash flow from investment operations	-10 662	-4 573
Cash flow from financing operations	-10 863	2 231
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<b>Cash flow for the period</b>	<b>4 493</b>	<b>-16 594</b>