



ICON MEDIALAB

27 October 1999

Interim Report, 1 January 1999 - 30 September 1999 Icon Medialab International AB

- **Net sales soar 233 percent...**
For the first three quarters of the year, net sales amounted to SEK 254.8 (76.6) m, with non-Swedish Medialabs' net sales rising 454 percent.
- **...while subsidiaries outside of Sweden now provide 54 percent of net sales**
The net sales share from non-Swedish subsidiaries is continuing to advance; overall, these units achieved sales of SEK 137.8 (25.9) m, or 54 (34) percent of the SEK 254.8 (76.6) m total group sales for the first three quarters. In the most recent quarter, the non-Swedish sales share was 58 (41) percent.
- **Operating profit before goodwill amortization: SEK -63.9 (-27.7) m**
Operating profit for the period was SEK -73.2 (-28.4) m, after goodwill amortization of SEK 9.3 (0.7) m. In percentage terms, the third quarter's operating profit margin prior to goodwill amortization, improved markedly compared with the same quarter last year. The profit net of financial items for the nine-month period was SEK -75.0 (-28.9) m.
- **Net sales per professional continues to improve**
Net sales per professional has improved by 29 percent during the last twelve months, from SEK 553 thousand to SEK 713 thousand. As of 30 September, the group had 711 employees—411 more than as of 1 January, and 460 more than one year ago.
- **Carphone Warehouse, Sony, Siemens, Opel (Vauxhall), Telia, Bank One and Telecom Italia** are among new clients during the most recent quarter.
- **Icon Medialab has become a member of the wireless Internet WAP Forum** along with Ericsson, Siemens, Nokia, Microsoft, Telia Mobile, Motorola and Sony.
- **New CEO Ulf Dahlsten is moving quickly** to recruit additional key professionals, focus on growth and profit performance, assure continued top quality client service, and implement processes to lead a far larger and stronger Icon Medialab.
- **Acquisitions strengthen technology quality and capability**
Icon Medialab acquired CyberConsult of the Netherlands during the last quarter, while it has also signed an agreement to acquire Sweden's Parallel Consulting Group, a world-class Internet technology company. Icon Medialab has also established a new office in Barcelona.
- **Net sales forecast of no less than SEK 1.2 bn in 2000**
The Board forecasts net sales of no less than SEK 1.2 bn in 2000. The Board reiterates its forecast of SEK 400 m in net sales for the full year 1999.

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The **Icon Medialab International AB** group, subsequently referred to as *Icon Medialab*, is Europe's leading Internet consultancy, and specializes in interactive digital communication services. Such services include solutions for the Internet, intranets, extranets and e-commerce, supplied with a high degree of professionalism, creativity and quality.

Unless otherwise indicated, this interim report concerns the *Icon Medialab International* group. Comparative figures for periods prior to 1999, which are presented within parentheses throughout this report, are reviewed on a pro forma basis because of the shift of *Icon Medialab's* financial year to match the calendar year from 1999 onwards.

Net sales and profit

Group net sales for the first three quarters of the year were SEK 254.8 (76.6) m, up 233 percent compared with corresponding period last year. In the same period, the non-Swedish net sales share rose from 34 percent in 1998 to 54 percent.

The following table illustrates the distribution of net sales during the first three quarters of the year, compared to the year-ago period and full-year 1998.

SEK m	1999 Jan.-Sep.	1998 Jan.-Sep.	1998 Full year
Medialab Sweden	112.0	50.9	81.9
Other Medialabs	149.1	26.9	43.9
Medialab total	261.1	77.8	125.8
Other operations	17.4	5.2	22.6
Internal sales	-23.7	-6.4	-17.1
Total	254.8	76.6	131.3

The group recorded an operating profit of SEK -73.2 (-28.4) m after adjusting for goodwill amortization of SEK 9.3 (0.7) m. The departure of senior executives has burdened the third quarter's profits with one-time expenses of SEK 1.2 m.

The profit and growth of sales for the third quarter was affected by the holiday months in Europe.

In percentage terms, the third quarter operating profit margin improved markedly compared with the same quarter last year. The margin improved from -44.8 to -33.0 percent.

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The following table illustrates group expenses and operating profit excluding goodwill amortization.

SEK m	1999 Jan.-Sep.	1998 Jan.-Sep.	1998 Full year
Net sales	254.8	76.6	131.3
Production exp.* excl. goodwill amort.	-206.3	-60.9	-99.9
Gross profit excl. goodwill amort.	48.5	15.7	31.4
Sales expenses excl. goodwill amort.	-30.8	-14.2	-20.6
Admin. exp. excl. goodwill amortization	-81.8	-29.2	-50.6
Other revenues/expenses	0.2	-	0.2
Operating profit excl. gdwill amort.	-63.9	-27.7	-39.6
Goodwill amortization	-9.3	-0.7	-0.9
Operating profit	-73.2	-28.4	-40.5

* Production expenses include personnel expenses, consultants and a proportion of overhead allocations to cover such costs as premises expenses and depreciation.

Group profit net of financial items was SEK -75.0 (-28.9) m for the first three quarters of the year. Associated company WebCat's development of a Web-based system, which enables knowledge distribution and practical knowledge management, continues to impact net financial items, the last quarter by SEK -0.7 m and in total SEK -2.0 m for the whole period under review.

The following table illustrates trends in calendar quarterly net sales, operating profit prior to goodwill amortization, operating profit margin prior to goodwill, operating profit and profit net of financial items from 1997 onwards.

SEK m	1997				1998				1999		
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
Net sales	6.0	8.7	10.5	17.9	23.3	22.8	30.5	54.7	61.0	90.7	103.1
Operating profit prior to goodwill amortization	-3.8	-5.8	-6.8	-8.0	-5.1	-9.0	-13.6	-11.9	-15.8	-14.1	-34.0
Operating margin prior to goodwill amortization, %	-63.5	-66.6	-65.1	-44.8	-21.7	-39.3	-44.8	-21.8	-25.8	-15.5	-33.0
Operating profit after goodwill amortization	-3.8	-5.8	-6.8	-8.1	-5.3	-9.2	-13.9	-12.1	-17.0	-17.6	-38.6
Profit net of fin. items	-3.8	-5.3	-7.2	-8.4	-5.8	-9.7	-13.4	-5.2	-16.8	-19.2	-39.0

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Significant events

On 2 September, Icon Medialab's Board appointed Ulf Dahlsten as its new President and Chief Executive. Most recently, he served as Chief Executive of Sweden Post, where he led the strategic re-orientation and assigned high priority to digital business solutions. These developments elicited early Internet and e-commerce initiatives including the creation of the portal www.torget.se, one of Europe's most visited portals.

Beyond directing international business development and maintaining Icon Medialab's expansion, the new Chief Executive has begun to recruit additional key staff, creating a high-quality team capable of leading a far larger and stronger Icon Medialab. So far, the following Vice Presidents have been appointed: Helga Baagøe, Corporate Communications; Oscar Bjers, Sales; Alex Nieminen, Business Development; and Johan Staël von Holstein, Strategy. Other people appointed are Per Appert, Acting Chief Financial Officer; Pierre Dicksson, Chief Legal Counsel; and Ulf Tingström, Knowledge Manager. On 9 November, elements of the parent company will start relocate to Brussels, where certain central management functions will be centered.

During the most recent quarter, Icon Medialab has received new projects from Coca-Cola, Nestlé, Bank One, Opel (Vauxhall), Carphone Warehouse, Sony, Siemens, Telecom Italia, Telia and FreeFund. FreeFund is to be considered an affiliated company, and is a client of Icon Medialab's German subsidiary. The FreeFund project has an initial value of SEK 4 m.

Icon Medialab has established a WAP (Wireless Application Protocol) competence center in each local office, and has itself become a member of the trade organization WAP Forum along with Ericsson, Siemens, Nokia, Microsoft, Telia Mobile, Motorola and Sony.

Acquisitions, start-ups and disposals

In September, Icon Medialab signed an agreement to acquire Stockholm-based Internet consultancy Parallel Consulting Group, a world-class Internet technology company. Parallel was incorporated in 1992, and has concentrated on providing the banking, finance and telecom sectors with technologically advanced solutions for e-commerce, security and mobile datacommunications. The company has some 100 employees and estimated full-year sales of about SEK 105 m for 1999. Parallel enjoys healthy profitability and has achieved roughly 100 percent annual growth over the last three years, in terms of both sales and headcount. Parallel's clients include: Boxman, a leading online retailer; Fritidsresor, a leading travel agent; and FöreningsSparbanken, Europe's No.1—and the world's No. 2—Internet banking service. Icon Medialab and Parallel already have an established collaboration, which is now being intensified. The acquisition will be implemented by means of a new issue of a maximum of 945,000 shares, and subject to the approval of an Extraordinary Shareholders' Meeting on 12 November. Ownership transfer and group consolidation will be effective from the same date.

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The September acquisition of Dutch Internet consultancy CyberConsult means Icon Medialab has become established in another European country. The former CyberConsult is one of the Netherlands' leading Internet consultancies with broad-based competencies and extensive experience in digital communications and integrated e-commerce solutions. The company, which was founded in 1995, has close to 40 employees and its sales for 1999 totalled SEK 12 m. This acquisition was particularly attractive for Icon Medialab, since the Dutch Internet market is one of the fastest growing in Europe. CyberConsult's clients include publisher Kluwer, Origin, Hewlett Packard, Janssen-Cilaq, REMU, Nissan and the Dutch Royal Family, by appointment of the Government. This acquisition was implemented by means of a non-cash issue of 80,508 new shares; the resolution for this issue was reached by the Board in accordance with authorisation granted at a previous shareholders' meeting. If the company achieves a certain sales in 1999, a supplementary purchase fee may arise. Ownership transfer and group consolidation was effective from 30 September 1999.

In early-October, Icon Medialab's Spanish subsidiary, which is based in Madrid, expanded its operations with a new office in Barcelona, by taking over interactive communications bureau Pixelbox Communications' premises, and four employees.

Icon Medialab's German subsidiary is currently preparing to complement its Hamburg activities with new offices in Munich and Berlin. The Munich presence is expected to be operational on 1 November; the Berlin operation in early December.

During the second quarter, an employee of the Spanish subsidiary exercised a proportion of his call option, in accordance with the current options program, to acquire shares in the subsidiary from the parent company. This exercise relates to 5 percent of the shares outstanding in the company. The transaction did not exert any influence on profits. During the coming year, this employee has the right to exchange his shares in the subsidiary for newly issued shares in Icon Medialab International, provided approval of shareholders' meeting, which would imply some dilution effect.

Investments

Except from above described acquisitions, the company made investments in tangible and intangible fixed assets totalling SEK 33.0 m during the first three quarters of the year, of which SEK 13.0 m was financed through financial leasing contracts. The majority of the investments were in office equipment and computers.

Financial position

As of the balance sheet date, shareholders' equity was SEK 424.3 m, compared to SEK 102.6 m as at 30 September 1998, yielding equity ratios of 71.2 and 72.3 percent respectively.

The company's liquid assets were SEK 184.3 (79.5) m as at the balance sheet date, representing an increase of SEK 104.8 m over the last year.

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Share data

Earnings per share after tax were SEK -13.94 (-9.01) for the first three quarters of 1999. Shareholders' equity per share was SEK 66.93 at the end of the period, compared to SEK 25.88 on 30 September 1998.

As of 30 September 1999, there were 6,259,785 shares recorded in the parent company. The number of shares increased by 142,856 during the third quarter, through conversions of convertible loans of SEK 10 m. 80,508 shares for the acquisition in the Netherlands are undergoing registration. Considering this acquisition and full dilution, the number of shares was 8,745,694 as of 30 September 1999. There may be additional dilution if minority shares in subsidiaries are repurchased.

Personnel

Net sales per professional has improved by 29 percent, from SEK 553 thousand to SEK 713 thousand, during the last twelve months. During the first three quarters of the year, the number of employees increased by 411. As of 30 September 1999, the headcount was 711, of which 220 are women.

Outlook

The Board forecasts net sales of no less than SEK 1.2 bn in 2000. Increased focus will be put on operating profitability prior to goodwill amortization. The Board reiterates its forecast of SEK 400 m in net sales for the full year 1999.

Parent company

The parent company recorded net sales of SEK 16.5 (3.4) m during the first three quarters of the year. Its profit net of financial items was SEK -29.4 (-2.9) m. Coincident with the resignation of key executives, the profit for the third quarter has been burdened by one-time expenses amounting to SEK 1.2 m. Investments totalled SEK 2.8 m, of which SEK 0.8 m was financed via leasing. The parent company's liquid assets were SEK 172.4 (72.5) m as of 30 September 1999.

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Summary Consolidated Income Statement

SEK 000	Jan.-Sep. 1999	Jan.-Sep. 1998*	Jan.-Dec. 1998*
Net sales	254 836	76 602	131 317
Production expenses	-213 120	-61 387	-100 641
Gross profit	41 716	15 215	30 676
Sales expenses	-32 481	-14 380	-20 766
Administrative expenses	-82 641	-29 210	-50 615
Other income/expenses	235	-	199
Operating profit	-73 171	-28 375	-40 506
Profit contribution from assoc. co.'s	-1 986	96	237
Net financial position	202	-634	6 146
Profit net of financial items	-74 955	-28 913	-34 123
Tax	-1 737	-156	-23
Minority shares	-678	-28	-1
Net profit	-77 370	-29 097	-34 147

**Pro forma, since the financial year was changed to coincide with the calendar year from 1999 onwards.*

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Summary Consolidated Balance Sheet

SEK 000			
	30 Sep. '99	30 Sep. '98	31 Dec. '98

Assets

Intangible fixed assets	5 846	6 391	8 735
Goodwill	211 753	7 869	8 143
Tangible fixed assets	42 507	14 104	24 064
Financial fixed assets	5 355	1 080	4 571
Total fixed assets	265 461	29 444	45 513
Work in progress	4 417	1 562	911
Accounts receivable, trade	102 196	24 487	38 074
Other receivables	40 691	6 927	11 217
Cash, bank balances, sh.-term investm'ts	184 328	79 541	51 756
Total current assets	331 632	112 517	101 958
Total assets	597 093	141 961	147 471

Liabilities and shareholders' equity

Restricted equity	569 746	161 632	165 841
Profit/loss carried forward	-68 033	-29 945	-31 838
Net profit	-77 370	-29 097	-34 147
Total shareholders' equity	424 343	102 590	99 856
Minority shares	735	117	91
Long-term liabilities	12 370	-	2 564
Convertible debentures	55 569	10 000	10 000
Customer advances	2 891	2 195	985
Other current liabilities	101 185	27 059	33 975
Total liabilities	172 750	39 371	47 615
Total liabilities and sh'holders' equity	597 093	141 961	147 471

**Pro forma, since the financial year was changed to coincide with the calendar year from 1999 onwards*

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Consolidated Cash Flow Statement

SEK 000	Jan.-Sep. 1999	Jan.-Sep. 1998*	Jan.-Dec. 1998*
Current operations			
Operating profit	-73 171	-28 375	-40 506
Adjustment for items not included in cash flow	18 923	3 475	6 790
Financial items	202	-634	6 146
Income tax paid	-1 043	-156	-23
Cash flow from current operations before change in working capital	-55 089	-25 690	-27 593
Change in working capital	-37 476	-63	-19 005
Cash flow from current operations	-92 565	-25 753	-46 598
Investment activities			
Acquisition of fixed assets	-33 688	-8 770	-24 350
Cash flow from investment activities	-33 688	-8 770	-24 350
Financing activities			
New issues	205 706	121 427	129 089
Net borrowing	53 403	-9 838	-9 001
Cash flow from financing activities	259 109	111 589	120 088
Change in cash, bank balances and short-term invest.	132 856	77 066	49 140
Exchange rate differences, cash and bank balances	-284	29	170
Cash, bank balances and short-term investments at end of period	184 328	79 541	51 756

**Pro forma, since the financial year was changed to coincide with the calendar year from 1990 onwards.*

Non-cash and set-off issues attendant to acquisitions during 1999 amounting to SEK 198.8 m have not been taken into account as they have no impact on cash, bank balances or short-term investments.

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Key figures

	Jan.-Sep. 1999	Jan.-Sep. 1998*	Jan.-Dec. 1998*
Equity ratio	71%	72%	68%
Debt/equity ratio	0,2	0,1	0,2
Number of employees at end of period	711	251	300
Number of employees (average in period)	434	171	205
Sales per employee, SEK 000 (rolling 12 months')	713	553	641
Average number of shares	5 551 969	3 228 774	3 412 636
Earnings per share (SEK)	-13,94	-9,01	-10,01
Average number of shares after dilution	6 928 487	3 481 480	3 708 417
Earnings per share (SEK) after dilution	-10,2	-8,2	-8,96
Shareholders' equity per share (SEK)	66,93	25,88	25,19
Shareholders' equity per share (SEK) after dilution	117,42	28,22	28,48

**Pro forma, since the financial year was changed to coincide with the calendar year from 1999 onwards.*

Equity ratio is calculated by dividing shareholders' equity including minority holdings by total assets.

Debt/equity ratio is calculated by dividing financial liabilities by shareholders' equity including minority shares.

Net sales per employee concerns net sales during the latest 12-month period divided by average number of employees during the same period.

Average number of shares is calculated in consideration of when the issue payment or the capital contributed in kind has been accessible. Average number of shares after dilution includes shares added when issued convertible debts are converted and shares added when issued warrants are exercised.

Earnings per share concerns earnings after full taxation divided by average number of shares. In consideration of dilution, the earnings per share are adjusted for interest expenses of convertible debts and earnings on issue payments.

Shareholders' equity per share is calculated by dividing shareholders' equity by number of shares at end of period. In consideration of dilution, shareholders' equity has been increased by received issue payments.

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Forthcoming report

The financial statement will be published on 18 February 2000.

Stockholm, 27 October 1999

For the Board:

Ulf Dahlsten
President and CEO

This interim report has not been subject to review by the company's auditor.

Disclaimer

This document is a non-official translation of a Swedish original that has been approved by the Board of Directors of Icon Medialab International AB. In the event of discrepancies between this translation and the Swedish original, the Swedish document shall take precedence. The Swedish version should be consulted when evaluating the Icon Medialab share.

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