ITELLA CORPORATION INTERIM REPORT OCTOBER 30, 2013, AT 9:00 A.M. (EET)

Itella's result weakened by declining delivery volumes

Itella Corporation Interim Report January–September 2013

July–September 2013

- Itella Group's net sales grew by 2.6 percent in July–September, totaling EUR 457.0 (445.6) million. Net sales in Itella Mail Communications declined to EUR 257.0 (264.4) million. However, net sales increased to EUR 210.1 (188.1) million in Itella Logistics and to EUR 61.3 (60.3) million in Itella Information.
- Operating result before non-recurring items decreased, amounting to EUR 8.0 (11.7) million, or 1.7 (2.6) percent of net sales. Operating result before non-recurring items in Itella Mail Communications declined to EUR 2.5 (12.5) million. Operating result before non-recurring items improved to EUR 0.2 (-2.9) million in Itella Logistics, and increased to EUR 7.2 (5.7) million in Itella Information.
- The operating result for the third quarter was impaired by non-recurring items totaling EUR 11.1 (0.0) million.
- The operating result for the period showed a loss of EUR -3.1 (11.7) million, or -0.7 (2.6) percent of net sales.
- Itella Information sold its printing business in Poland to PostNord. Itella sold its subsidiary Logia Software to the company's management.

January–September 2013

- Itella Group's net sales grew by 3.1 percent, totaling EUR 1,448.0 (1,404.1) million in January–September. The growth was due to the integration of VR Transpoint's groupage logistics business into Itella Logistics.
- Net sales in Itella Mail Communications declined to EUR 832.7 (843.8) million, increased to EUR 632.6 (558.7) million in Itella Logistics and decreased to EUR 198.0 (202.5) million in Itella Information. Itella Information's comparable net sales grew by 4.5 percent.
- Operating result decreased, totaling EUR 24.1 (40.4) million, or 1.7 (2.9) percent of net sales, before non-recurring items. Operating result before non-recurring items in Itella Mail Communications declined to EUR 32.4 (48.5) million and to EUR -12.2 (-6.4) million in Itella Logistics. In Itella Information, the operating result before non-recurring items improved to EUR 18.1 (11.5) million.
- The operating result declined year-on-year and amounted to EUR -2.4 (29.9) million, representing -0.2 (2.1) percent of net sales. The operating result was impaired by non-recurring items totaling EUR 26.5 (10.5) million.
- Cash flow from operating activities was EUR 9.8 (55.8) million and capital expenditure amounted to EUR 28.5 (52.0) million.
- In April, Itella announced the start of a EUR 100 million performance improvement program for 2013–2014. As part of the performance improvement program, Itella started cooperation negotiations in centralized and decentralized group functions and signed an extensive partnership agreement with IBM, according to which some of Itella's ICT operations were outsourced to IBM as of June 1, 2013. In addition, Itella sold Itella Bank to the Savings Banks on April 18, 2013.

Itella key figures	7-9/2013	7-9/2012	1-9/2013	1-9/2012	2012
Net sales, MEUR	457.0	445.6	1,448.0	1,404.1	1,946.7
Operating result (non-IFRS), MEUR*)	8.0	11.7	24.1	40.4	53.2
Operating result (non-IFRS), %*)	1.7	2.7	1.7	2.9	2.7
Operating result, MEUR	-3.1	11.9	-2.4	29.9	39.0
Operating result, %	-0.7	2.7	-0.2	2.1	2.0
Result before taxes, MEUR	-5.2	10.3	-12.0	23.8	30.8
Result for the financial period, MEUR	-3.7	4.9	-9.9	9.1	14.1
Return on equity, %, 12 months			-0.7	2.3	2.1
Return on invested capital (12 months), %			1.1	5.8	4.7
Equity ratio, %			47.6	48.0	46.2
Gearing, %			30.3	22.3	23.5
Gross capital expenditure, MEUR		19.6	41.3	64.8	134.7
Employees on average			27,669	27,391	27,460
Dividends, MEUR	-	-	-	-	6.8

**) Non-IFRS = excluding non-recurring items*

President and CEO Heikki Malinen:

"The structural transformation in the postal industry is beginning to have an increasingly significant impact on Itella's business. The delivery volume of traditional letters declined by 5 percent in January-September, while newspaper delivery volume fell by 6 percent and magazines by 7 percent. In addition to the decline in volume, the economic recession had a negative effect on the Group's result.

The positive development of Itella Information's result continued. In Itella Logistics, the operating result improved compared to the previous quarters and the operative result of Russian operations, which are included in the Itella Logistics business group, were quite satisfactory.

According to the new vision published today, Itella will refocus its business and seek further growth and profitability in rapidly growing e-commerce and the Russian market. The delivery volume for parcels and goods is rising substantially as e-commerce grows, while electronic communications threaten to halve the delivery volumes of traditional letters, newspapers and magazines by 2020. Itella's new vision is "Your first choice for postal, logistics and e-commerce services" and its mission statement is "Our main mission is to manage the flow of commerce and everyday life".

We also see growth potential in Russia, which, going forward, will be Itella's second primary market alongside Finland. Our aim is to double our net sales in Russia by 2020. From January 1, 2014 onwards, the Russian operations will be organized into a separate business group and its resources will be strengthened.

Maintaining effective mail delivery operations while achieving growth and making new investments requires an improvement in profitability. Faced with the accelerating decline in delivery volumes, we must take action to ensure our continued profitability. The EUR 100 million performance improvement *program initiated in spring 2013 is intended to support this objective by achieving savings in sourcing costs and eliminating unprofitable operations.*

As part of Itella's new strategy, Itella Information will be renamed OpusCapita and operate as a subgroup of Itella Group. The restructuring supports OpusCapita's aim of achieving strong growth and boosting its market position in Europe.

We anticipate Itella's net sales for 2013 to show growth in comparison to the previous year. The full-year operating result before non-recurring items is expected to be decrease than in 2012. The operating result for the full year is expected to be impacted by substantial non-recurring items."

APPENDICES
Itella's full Interim Report

FURTHER INFORMATION
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Key media
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FINANCIAL CALENDAR IN 2014:
Financial Statements Bulletin 2013 to be published on February 14, 2014

PHOTOGRAPHS AND LOGOS
www.itella.fi/media

***Itella** is your first choice for postal, logistics and e-commerce services. We manage the flow of commerce and everyday life in 11 countries. Net sales in 2012 amounted to EUR 1,947 million. The number of staff is approximately 27,500. We deliver corporate services under the Itella brand, while the Posti brand is used for services targeted at consumers in Finland. www.itella.com.*

Interim Report for January-September 2013

Market situation and business environment

Electronic substitution in postal services continues, accelerating in the third quarter. The volume of addressed letters decreased by -5 percent in January–September compared to the previous year; during the corresponding period in 2012, the volume decreased by -4 percent. Volume declined in both first-class and second-class letters. Addressed marketing declined by -7 percent year-on-year. The postal licenses that have been granted allow for competition in addressed deliveries, but competition is yet to have an impact on Itella.

Newspaper and magazine volumes also continued to decline. The growth in parcel services slowed down to 5 percent from the rate of 6 percent recorded in the corresponding period last year. The change in volume in parcel services was affected by the moderate GDP development and consumers increasingly using foreign online retailers instead of those located in Finland.

The market situation in logistics and retail is challenging. This is reflected in the decline of the comparable operating result in Itella Logistics' road freight business and in the lower processing volumes in contract logistics. The situation is clearly weaker than previously in Finland and has remained challenging in Scandinavia. In Russia, Itella Logistics has seen positive development, although Russian economic growth and consumption have slowed down.

The digitization of invoicing and financial management have an impact on Itella's business, offering opportunities in the form of outsourcing services and multi-channel solutions, particularly for Itella Information. On the other hand, the accelerating rate of digitization has an effect on the printing services business, and electronic data communications between organizations reflect the deteriorated market situation.

In August, the Finnish Supreme Administrative Court repealed the majority of the decisions of the Finnish Communications Regulatory Authority (FICORA) concerning the cost basis of fees charged for universal postal services and the pricing of universal postal services. According to the decision of the Supreme Administrative Court, the obligations stipulated by FICORA for Itella in 2008 and 2009 concerning adjustments to prices for corporate clients and lowering the prices of universal postal services were illegal. The Court found that FICORA was not competent to supervise the individually negotiated pricing for Itella’s corporate clients and also overturned FICORA’s decision that Itella’s pricing had not been reasonable and cost-based.

Net sales and financial performance in July–September 2013

Itella Group’s net sales grew by 2.6 percent in July–September, totaling EUR 457.0 (445.6) million. Net sales declined to EUR 257.0 (264.4) million in Itella Mail Communications, rose to EUR 210.1 (188.1) million in Itella Logistics and increased to EUR 61.3 (60.3) million in Itella Information. The operating result before non-recurring items decreased, amounting to EUR 8.0 (11.7) million, or 1.7 (2.6) percent of net sales.

The operating result for the period was affected by impairment losses of EUR 7.4 (0.0) million recognized on goodwill and intangible assets in Itella Logistics’ air and sea freight business. Non-recurring items totaled EUR 11.1 (0.0) million. The non-recurring items are described in more detail below, in connection with the results analysis of each business group.

The operating result declined year-on-year and amounted to EUR -3.1 (11.7) million, representing -0.7 (2.6) percent of net sales. The result before taxes was EUR -5.2 (10.3) million.

Net sales and financial performance in January–September 2013

Itella Group’s net sales in January–September amounted to EUR 1,448.0 (1,404.1) million. Net sales increased by 3.1 percent. In local currencies, the increase in net sales was 3.6 percent. Net sales in Itella Mail Communications declined to EUR 832.7 (843.8) million, increased to EUR 632.6 (558.7) million in Itella Logistics and decreased to EUR 198.0 (202.5) million in Itella Information. Net sales in Finland grew by 6.8 percent and declined by 6.5 percent in other countries. International operations accounted for 24.9 (27.5) percent of net sales.

The Group’s operating result before non-recurring items declined and was EUR 24.1 (40.4) million. The operating result before non-recurring items declined to EUR 32.4 (48.5) million in Itella Mail Communications and to EUR -12.2 (-6.4) million in Itella Logistics. In Itella Information, the operating result before non-recurring items improved to EUR 18.1 (11.5) million.

The result was impacted by non-recurring items totaling EUR 26.5 (10.5) million, of which EUR 15.3 million were personnel related expenses. In addition, the Group recognized impairment losses on goodwill and intangible assets totaling EUR 12.4 million..

The Group’s operating result amounted to EUR -2.4 (29.9) million, representing -0.2 (2.1) percent of net sales. The Group’s net financing expenses were EUR -9.6 (-6.0) million.

The Group's result after financing items was EUR -12.0 (23.8) million.

Income tax totaled EUR 2.0 (-14.8) million.

The Group's result for the period was EUR -9.9 (9.1) million.

Net cash flow from operations was EUR 9.8 (55.8) million.

Return on equity (rolling 12 months) was -0.7 (2.3) percent.

Performance improvement program for 2013–2014

To ensure its competitiveness and profitability, Itella established a new performance improvement program that covers the years 2013 and 2014. The target is to accumulate cost savings of EUR 100 million. The savings will be achieved by restructuring and improving the efficiency of operations and processes, eliminating unprofitable operations, achieving savings in sourcing and improving productivity.

The program has started and as part of it, Itella sold Itella Bank, ended cooperation negotiations in centralized and decentralized group functions started in April, outsourced a part of its ICT operations, and increased its emphasis on sourcing. To date, Itella has accumulated total savings of nearly EUR 30 million through the measures implemented under the program.

Itella Mail Communications

July–September

The net sales of Itella Mail Communications decreased by 2.8 percent and amounted to EUR 257.0 (264.4) million. The decrease in net sales is particularly attributable to a -15 percent decline in addressed marketing and a decrease of -6 percent in addressed letter deliveries. The tighter financial situation faced by customers is reflected in lower marketing expenditure. Net sales from the delivery of newspapers and magazines decreased by -4 percent. The growth in parcel services slowed down to 3 percent in the third quarter. Growth has been the strongest in consumer parcels, but growth slowed down during the third quarter. Business parcel volume increased by 2 percent year-on-year.

The business group’s operating result before non-recurring items decreased substantially, and was EUR 2.5 (12.5) million. The operating result amounted to 1.0 (4.7) percent of net sales. The decrease in the operating result is attributable to the decline in the volumes of addressed shipments as well as the decline in average prices as customers move to lighter and more inexpensive postal shipments. The growth in parcel services slowed down due to moderate GDP growth and consumers switching to foreign online retailers. Due to the cost structure, rapid negative changes in net sales have a direct impact on profitability.

Itella Mail Communications has already increased, and will have to continue increasing, the efficiency of its operations to adjust its costs to the declining volumes in addressed shipments. No significant non-recurring items were recorded in the review period.

Net sales from the services that fall under the scope of the universal service obligation amounted to 10.0 (11.1) percent of Itella Mail Communications' net sales in July–September.

<u>January–September</u>

The net sales of Itella Mail Communications fell by 1.3 percent in January–September, amounting to EUR 832.7 (843.8) million.

The business group's operating result before non-recurring items declined and stood at EUR 32.4 (48.5) million. The operating result amounted to 3.9 (5.8) percent of net sales. The business group recorded a total of EUR 4.1 (0.0) million non-recurring items due to personnel restructuring during the period.

In January–September, the delivery volumes of mail items developed as follows compared to the corresponding period in the previous year:

- Total volume of addressed letters, -5 (-4) percent
- Unaddressed direct marketing +14 (+20) percent
- Newspapers -6 (-8) percent
- Magazines -7 (-6) percent
- Parcel services +5 (+6) percent
- Electronic letters +14 (+39) percent

The transition affecting the business environment of Itella Mail Communications and its customers continues. The decline in letter volumes has accelerated in the economic downturn and alongside the market's digitization process, while the magazine market is feeling the effects of the general economic situation and electronic substitution. At the same time, growth in e-commerce and parcel services continued, despite slowing down towards the end of the review period. Consumers increasingly switched to foreign online retailers instead of those located in Finland. The volumes of unaddressed direct marketing also continued to grow, although the growth was slightly more modest than last year.

The most common postage fees changed on June 3, when the price of a first-class stamp increased to 85 cents (from 80 cents) and the price of a second-class stamp increased to 75 cents (from 70 cents). Finnish households spend an average of slightly less than EUR 30 per year on sending cards, letters and parcels, which means that the annual increase per household will come to about EUR 1.50–2.00.

The number of Netposti users had increased to 520,000 – or by 26 percent in comparison to the previous year – by the end of September. Netposti is the free electronic mailbox provided by Posti.

Posti's service outlets numbered 1,309 at the end of September. Of these outlets, 102 were outlets managed by Posti itself and 901 were outlets managed by entrepreneurs. Posti also took 175 automatic parcel terminals into use in January–September, bringing the total number of automatic parcel terminals to 306. The goal is to increase the number of the various service outlets to 1,700 by 2020.

The business group invested EUR 20.2 (18.5) million in production-related projects and automatic parcel terminals in January–September as planned.

Itella Logistics

July–September

The net sales of Itella Logistics grew by 11.7 percent in July–September, totaling EUR 210.1 (188.1) million. Net sales in Russia grew by 11 percent, while the increase in net sales in Finland was supported by a business acquisition.

The business group's operating result before non-recurring items improved on the strength of Russian operations and amounted to EUR 0.2 (-2.9) million. However, the market situation in logistics and retail remains challenging. The situation is significantly weaker than before in Finland, with profitability declining year-on-year, particularly in road freight. The profitability of contract logistics improved from earlier in the year, but remained weak.

The situation has remained challenging in Scandinavia, although the result improved slightly compared to the corresponding period in the previous year. The result in the Baltic countries also improved somewhat. The third quarter result in Russia was quite satisfactory despite a slow-down of economic growth and consumption in the Russian market.

The business group recorded non-recurring expenses of EUR 7.8 (0.0) million during the period, which includes EUR 7.4 million impairment loss on goodwill and intangible assets.

As part of Itella Logistics' annual impairment testing and reorganization of Logistics business group, the Group carriedout impairment testing of goodwill and other assets in the third quarter. Based on the tests, the Group recognized impairment losses amounting to EUR 7.4 million on Itella Logistics' goodwill and intangible assets originating from previous corporate acquisitions in air and sea freight operations.

The operating result decreased, amounting to EUR -7.6 (-2.9) million.

On September 2, 2013, Itella Corporation sold Logia Software Oy, a subsidiary under the Itella Logistics business group, in a management buyout. The transaction did not have a significant effect on the net sales and operating result of Itella Logistics.

January–September

The net sales of Itella Logistics grew by 13.2 percent in January–September, totaling EUR 632.6 (558.7) million. Net sales in Russia grew by 9.8 percent, while the increase in net sales in Finland was supported by a business acquisition.

The business group's operating result before non-recurring items decreased, and was EUR -12.2 (-6.4) million. The operating result declined to EUR -27.6 (-0.2) million. Non-recurring expenses recorded during the period amounted to EUR 15.4 (6.2 in non-recurring income) million. Of the non-recurring expenses, personnel restructuring costs represented EUR 6.2 million and impairment losses EUR 12.4 million. The non-recurring items of the previous year include the additional purchase price of the Russian logistics company acquired by Itella Logistics in 2008; this had a non-recurring positive performance impact of EUR 7.0 million.

The investments of Itella Logistics – the most significant one of which related to the logistics center in Pennala, Orimattila and warehouse services in Russia – amounted to EUR 13.7 (33.9) million. The new logistics center in Pennala was fully completed in June 2013.

Itella Information

July–September

The net sales of Itella Information increased by 1.7 percent in July–September, totaling EUR 61.3 (60.3) million. Net sales were boosted by improved sales in outbound services, e-services and OpusCapita's services. Growth in finance and accounting outsourcing services stagnated, however. The business group achieved growth in Finland, Sweden, Norway and Germany, from both new and existing customers. Net sales in the Baltic countries decreased due to the challenging competitive situation.

The business group's operating result before non-recurring items improved and amounted to EUR 7.2 (5.7) million. The improved result is primarily due to the increased profitability of finance and accounting outsourcing services and stronger sales of financial automation solutions. The profitability of outbound and e-services operations remained strong and improved slightly despite the challenging competitive environment in the Baltic countries and the price pressure on electronic services. The improved result of finance and accounting outsourcing services was primarily attributable to improved margins. Nevertheless, profitability remains low. Measures implemented in 2012 to improve the efficiency of operations had a positive impact on the result.

The business group's non-recurring expenses during the period totaled EUR 1.4 (0.0) million of which EUR 0.8 (0.0) million were personnel-related.
Operating result improved, amounting to EUR 5.8 (5.7) million.

On August 30, 2013, Itella Information sold its printing business in Poland to PostNord. In conjunction with the sale, 50 employees of Itella Information were transferred to PostNord Strålfors' Warsaw unit. The transaction did not have a significant effect on the net sales and operating result of Itella Information.

January–September

The net sales of Itella Information fell by 2.2 percent in January–September, totaling EUR 198.0 (202.5) million. However, comparable net sales grew by EUR 4.5 percent, or EUR 8.5 million, due to the sale of the printing business in Germany carried out in the previous year.

The result showed positive development. The business group's operating result before non-recurring items improved to EUR 18.2 (11.5) million. Non-recurring expenses recorded during the period amounted to EUR 3.3 (16.7) million. Of the non-recurring items, EUR 2.7 million were related to personnel restructuring.

Itella Group's payroll services transferred from Silta Oy to Itella Information at the beginning of 2013.

The business group's investments amounted to EUR 1.4 (3.0) million. They were primarily related to capitalized development projects and the printing business's maintenance investments.

Key figures for business groups, MEUR	7-9/2013	7-9/2012	Change	1-9/2013	1-9/2012	Change
Net sales						
Itella Mail Communications	257.0	264.4	-2.8%	832.7	843.8	-1.3%
Itella Logistics	210.1	188.1	11.7%	632.6	558.7	13.2%
Itella Information	61.3	60.3	1.7%	198.0	202.5	-2.2%
Other operations	15.4	15.5	-0.8%	46.0	47.0	-2.1%
Intra-Group sales	-86.8	-82.7	4.9%	-261.3	-247.9	5.4%
Itella Group	457.0	445.6	2.6%	1,448.0	1,404.1	3.1%
Operating result (non-IFRS) *)						
Itella Mail Communications	2.5	12.5	-80.0%	32.4	48.5	-33.3%
Itella Logistics	0.2	-2.9	neg	-12.2	-6.4	neg
Itella Information	7.2	5.7	26.7%	18.1	11.5	57.4%
Other operations	-2.0	-3.6	neg	-14.2	-13.2	neg
Itella Group	8.0	11.7	-31.7%	24.1	40.4	-40.4%
Operating result						
Itella Mail Communications	2.6	12.5	-79.2%	28.3	48.5	-41.8%
Itella Logistics	-7.6	-2.9	neg	-27.6	-0.2	neg
Itella Information	5.8	5.7	2.2%	14.9	-5.2	neg
Other operations	-4.0	-3.6	neg	-17.9	-13.2	neg
Itella Group	-3.1	11.7	neg	-2.4	29.9	-108.1%
Operating result (non-IFRS), %*)						
Itella Mail Communications	1.0%	4.7%		3.9%	5.8%	
Itella Logistics	0.1%	-1.5%		-1.9%	-1.1%	
Itella Information	11.8%	9.5%		9.2%	5.7%	
Itella Group	1.7%	2.6%		1.7%	2.9%	
Operating result, %						
Itella Mail Communications	1.0%	4.7%		3.4%	5.8%	
Itella Logistics	-3.6%	-1.5%		-4.4%	0.0%	
Itella Information	9.5%	9.5%		7.5%	-2.5%	
Itella Group	-0.7%	2.6%		-0.2%	2.1%	

Financial position and investments

Group’s cash flow from operating activities before investments was EUR 9.8 (55.8) million. The decrease in cash flow was attributable to the weaker result and an increase in working capital.

Capital expenditure amounted to EUR 28.5 (52.0) million.

At the end of September, liquid assets amounted to EUR 102.4 (161.7) million, and undrawn committed credit facilities totaled EUR 120.0 (120.0) million. The Group’s interest-bearing liabilities amounted to EUR 299.8 (314.7) million. The equity ratio stood at 47.6 (48.0) percent and gearing was 30.3 (22.3) percent.

Human Resources

In January–September, Itella Group employed an average of 27,669 (27,391) people. At the end of the review period, the number of personnel was 26,149 (26,497), of whom 20,508 (20,575) worked in Finland.

At the end of the period, the number of personnel employed in each of Itella Corporation's business groups was as follows:

- Itella Mail Communications 16,774 (17,408)
- Itella Logistics 6,851 (6,557)
- Itella Information 2,103 (2,126)
- Other operations 421 (406)

The Group's personnel expenses increased by EUR 17.3 million (decreased by EUR 24.5 million) representing a growth of 2.7 percent year-on-year. Personnel expenses included EUR 15.3 million restructuring costs. Expenses increased particularly as a result of the transfer of VR Transpoint groupage logistics' personnel to Itella.

Changes in corporate structure

Itella Corporation sold the entire share capital of Itella Bank to the Savings Banks on April 18, 2013.

On September 2, 2013, Itella Corporation sold its subsidiary Logia Software Oy in a management buyout.

On August 30, 2013, Itella Information sold its printing business in Poland to PostNord.

Short-term business risks and uncertainties

The business risks are described in the Group's 2012 Financial Statements.

Consumer confidence declined in January–September, particularly in Finland. This was clearly evident in the volumes of our customers.

The rate of electronic substitution in postal services has accelerated. The decline in the volumes of addressed letters gained speed, falling by -5 percent year-on-year. In the previous year, the rate of decline was -4 percent. The volumes of postal letters in certain other EU countries have fallen even faster than in Finland. Newspaper and magazine volumes also continued to decline. In addition, the growth in parcel services has slowed down.

Due to the declining volumes in postal operations and the weak general economic situation, the company must take measures to improve profitability. Possible risks include the inadequacy of such measures should the market situation become increasingly challenging. The state of the economy in Russia has also deteriorated. Should this state of affairs continue, it may have adverse effects on consumer demand and the market situation in Russia, and on Itella's growth opportunities there.

The collective agreement made with the Finnish Post and Logistics Union PAU will expire in October 2013. The agreement covers a significant proportion of Itella's employees in Finland. Any protraction of the negotiations concerning the renewal of this pivotal agreement may have an impact on Itella's operations.

A large section of the shelf system at Itella Logistics' warehouse in Shushary, St. Petersburg, collapsed in July 2012. Clean-up measures to minimize the environmental impact of the collapse were initiated immediately in accordance with instructions issued by the authorities. In July, Itella's management in Russia was indicted for the inappropriate handling of environmentally hazardous material. The assessment of liability and the calculation of the insurance indemnity are under way, but the full amount of the indemnity is yet to be confirmed. Thus, the ultimate effects of the accident are yet to be ascertained. The indemnity is posted under other receivables in the balance sheet and debts include a short-term loss provision.

Seasonal fluctuation

The Group's business is characterized by seasonal fluctuation. Net sales and operating result in the business groups are not accrued evenly over the year. The first and fourth quarters, in particular, are typically strong, while the second and third quarters are weaker in comparison.

Events after the review period

PT Logistiikka Oy merged with Itella Logistics Oy on October 1, 2013.

NLC International Corporation, an Itella subsidiary previously domiciled in the British Virgin Islands, was registered in Cyprus on October 9, 2013. Itella no longer has any subsidiaries registered in the British Virgin Islands.

Itella Information, which is part of Itella Group, will change its name to OpusCapita on November 1, 2013. OpusCapita will continue to be part of Itella Group and will operate as its subgroup.

Outlook for the rest of the year

The Group's net sales for 2013 are expected to show growth. The full-year operating result before non-recurring items is expected to be lower than in 2012. The operating result for the full year is expected to be impacted by substantial non-recurring items.

The net sales of Itella Mail Communications are expected to decline from the previous year, whereas its operating result is expected to decline substantially due to traditional services being replaced by electronic ones, as well as due to the decline in delivery volumes.

Itella Logistics' net sales are expected to grow significantly as a result of the acquisition of VR Transpoint's groupage logistics business. The business group is expected to post a loss in the operating result before non-recurring items.

The net sales of Itella Information are expected to show growth, excluding the effect of the sale of the printing services business in Germany. The operating result is expected to improve significantly.

The amount of investment is expected to decrease significantly in comparison to 2012.

Helsinki, October 29, 2013

Itella Corporation
Board of Directors

APPENDICES

Key figures of Itella Group
Consolidated Income Statement and Statement of Comprehensive Income
Consolidated Statement of Financial Position
Consolidated Cash Flow Statement
Consolidated Statement of Changes in Equity
Notes to the Interim Report

Itella Corporation

Interim Report for January-September 2013

Key figures of Itella Group

	7-9 2013	7-9 2012	1-9 2013	1-9 2012	1-12 2012
Net sales, MEUR	457,0	445,6	1 448,0	1 404,1	1 946,7
Operating result (non-IFRS), MEUR *)	8,0	11,7	24,1	40,4	53,2
Operating result (non-IFRS), % *)	1,7	2,6	1,7	2,9	2,7
Operating result (EBIT), MEUR	-3,1	11,7	-2,4	29,9	39,0
Operating result (EBIT), %	-0,7	2,6	-0,2	2,1	2,0
Result before taxes, MEUR	-5,2	10,3	-12,0	23,8	30,8
Result for the period, MEUR	-3,7	4,9	-9,9	9,1	14,1
Return on equity, %, 12 months			-0,7	2,3	2,1
Return on invested capital (12 months), %			1,1	5,8	4,7
Equity ratio, %			47,6	48,0	46,2
Gearing, %			30,3	22,3	23,5
Gross capital expenditure, MEUR	14,2	19,6	41,3	64,8	134,7
Employees on average			27 669	27 391	27 460
Dividends, MEUR	-	-	-	-	6,8

*) Non-IFRS = excluding non-recurring items, see note 2.

Consolidated Income Statement

EUR million	7-9 2013	7-9 2012	1-9 2013	1-9 2012	1-12 2012
Net sales	457,0	445,6	1 448,0	1 404,1	1 946,7
Other operating income	3,4	3,0	11,3	18,2	25,3
Share of associated companies' results	0,0	0,0	0,0	0,0	0,0
Materials and services	141,2	129,0	422,6	392,2	546,9
Employee benefits	192,9	195,5	661,6	644,3	885,2
Depreciation and amortisation	22,9	21,3	69,8	64,9	88,0
Impairment losses	9,3	-	12,4	-	1,4
Other operating expenses	97,2	90,9	295,4	291,0	411,5
Operating result (EBIT)	-3,1	11,9	-2,4	29,9	39,0
% of net sales	-0,7 %	2,7 %	-0,2 %	2,1 %	2,0 %
Financial income and expenses	-2,1	-1,7	-9,6	-6,0	-8,3
Result before income tax	-5,2	10,3	-12,0	23,8	30,8
% of net sales	-1,1 %	2,3 %	-0,8 %	1,7 %	1,6 %
Income tax	1,5	-5,3	2,0	-14,8	-16,7
Result for the financial period	-3,7	4,9	-9,9	9,1	14,1
% of net sales	-0,8 %	1,1 %	-0,7 %	0,6 %	0,7 %
Result for the financial period attributable to					
Equity holders of the parent company	-3,7	4,9	-9,9	9,1	14,1
Non-controlling interests	-	-	-	-	-
	-3,7	4,9	-9,9	9,1	14,1

Consolidated Statement of Comprehensive Income

Result for the financial period	-3,7	4,9	-9,9	9,1	14,1
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Available-for-sale financial assets	-0,3	0,0	0,2	-0,2	-0,3
Translation differences	-6,0	7,5	-19,6	13,6	10,9
Tax effect	-0,1	-	-0,1	-	-
Items that will not be reclassified to proft or loss in subsequent periods:					
Actuarial gains and losses	-	-0,7	-	-2,2	-2,9
Tax effect	-	0,2	-	0,5	0,7
Comprehensive income for the financial period	-10,0	11,9	-29,3	20,9	22,5
Comprehensive income attributable to					
Equity holders of the parent company	-10,0	11,9	-19,0	20,9	22,5
Non-controlling interests	-	-	-	-	-
	-10,0	11,9	-29,3	20,9	22,5

Consolidated Statement of Financial Position

EUR million	30 Sept 2013	30 Sept 2012	31 Dec 2012
Non-current assets			
Goodwill	180,9	172,9	186,9
Other intangible assets	79,1	83,3	100,3
Investment property	2,9	3,6	3,1
Property, plant and equipment	639,6	664,4	675,4
Investments in associated companies	0,4	0,6	0,4
Other non-current investments	6,0	6,4	6,0
Non-current receivables	13,0	12,4	13,0
Deferred tax assets	24,8	16,2	13,8
Total non-current assets	946,6	959,8	998,9
Current assets			
Inventories	7,2	7,0	6,7
Trade and other receivables	328,5	301,9	329,9
Income tax receivables	8,6	18,6	2,1
Financial assets available-for-sale	0,8	1,2	2,6
Financial assests held to maturity	0,0	0,0	15,2
Financial assets at fair value through profit or loss	64,9	59,1	56,2
Cash and cash equivalents	37,9	103,0	90,3
Total current assets	447,9	490,8	503,0
Non-current assets classified as held for sale	9,9	11,4	10,7
Total assets	1 404,5	1 462,1	1 512,5
Equity			
Share capital	70,0	70,0	70,0
Contingency reserve	142,7	142,7	142,7
Fair value reserve	0,0	0,0	-0,2
Translation differences	-12,8	9,4	6,7
Retained earnings	450,7	464,2	467,5
Equity attributable to equity holders of the parent company	650,6	686,3	686,7
Equity attributable to non-controlling interests	-	-	-
Total equity	650,6	686,3	686,7
Non-current liabilities			
Deferred tax liabilities	48,4	52,3	54,1
Non-current interest-bearing loans	280,8	285,3	288,3
Other non-current liabilities	11,7	10,5	12,2
Non-current provisions	16,1	22,0	18,6
Defined benefit pension plan obligations	6,7	8,5	8,3
Total non-current liabilities	363,7	378,7	381,5
Current liabilities			
Current interest-bearing loans	18,9	29,5	36,3
Trade payables and other liabilities	339,2	346,7	375,7
Income tax payables	10,4	19,0	1,2
Current provisions	21,1	1,4	30,4
Total current liabilities	389,6	396,6	443,7
Liabilities associated with non-current assets classified as held for sale	0,5	0,5	0,5
Total liabilities	753,8	775,8	825,8
Total equity and liabilities	1 404,5	1 462,1	1 512,5

Consolidated Cash Flow Statement

EUR million	1-9 2013	1-9 2012	1-12 2012
Profit or loss for the financial period	-9,9	9,1	14,1
Adjustments to cash flow	87,6	91,8	117,9
Change in net working capital	-56,0	-27,2	14,3
Cash flow before financial items and income tax	21,7	73,7	146,2
Financial items (net)	-2,0	-2,7	-11,7
Income tax paid	-9,8	-15,2	-15,6
Cash flow from operating activities (net)	9,8	55,8	118,9
Purchase of intangible assets	-5,6	-19,9	-28,1
Purchase of property, plant and equipment	-22,9	-32,1	-45,4
Proceeds from sale of intangible and tangible assets	1,2	3,4	7,4
Business acquisitions	-	-0,6	-41,5
Proceeds from sale of subsidiaries and business divestments less cash and cash equivalents	12,5	-10,7	-14,4
Financial assets at fair value through profit or loss	-8,9	-0,5	2,5
Cash flow from other investments	0,4	2,1	-3,1
Cash flow from investing activities (net)	-23,3	-58,2	-122,5
Change in loans (net)	-24,8	-24,1	-19,0
Payments of finance lease liabilities	-5,8	-4,6	-6,6
Financial assets held to maturity	0,3	-	-4,2
Dividends paid	-6,8	-	-
Cash flow from financing activities (net)	-37,1	-28,6	-29,8
Change in cash and cash equivalents	-50,6	-31,0	-33,4
Cash and cash equivalents at the beginning of the period	90,3	132,0	121,0
Effect of changes in exchange rates	-1,8	2,0	2,7
Cash and cash equivalents at the end of the period	37,9	103,0	90,3

Consolidated Statement of Changes in Equity

EUR million	Equity attributable to equity holders of the parent company							
	Share capital	Contingency reserve	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 January 2012	70,0	142,7	0,1	-4,2	456,8	665,4	0,0	665,4
Comprehensive income								
Result for the financial period					9,1	9,1		9,1
Other items of Comprehensive income:								
Change in fair value reserve			-0,2			-0,2		-0,2
Change in translation differences				13,6		13,6		13,6
Actuarial gains and losses					-1,7	-1,7		-1,7
Comprehensive income for the financial period			-0,2	13,6	7,4	20,9	0,0	20,9
Transactions with equity holders								
Non-controlling interests							0,0	0,0
Transactions with equity holders, total					0,0	0,0	0,0	0,0
Equity 30 September 2012	70,0	142,7	0,0	9,4	464,2	686,3	0,0	686,3
Equity 1 January 2013	70,0	142,7	-0,2	6,7	467,5	686,7	0,0	686,7
Comprehensive income								
Result for the financial period					-9,9	-9,9		-9,9
Other items of Comprehensive income:								
Change in fair value reserve			0,2			0,2		0,2
Change in translation differences				-19,6		-19,6		-19,6
Actuarial gains and losses						0,0		0,0
Comprehensive income for the financial period			0,2	-19,6	-9,9	-29,3	0,0	-29,3
Transactions with equity holders								
Dividends paid					-6,8	-6,8		-6,8
Transactions with equity holders, total					-6,8	-6,8	0,0	-6,8
Equity 30 September 2013	70,0	142,7	0,0	-12,8	450,7	650,6	0,0	650,6

Notes

1. Accounting Principles

The interim report has been prepared in accordance with IAS 34 'Interim Financial Reporting' applying the same accounting principles as those used in Itella's financial statements for 2012 with the exception of the changes in IFRS standards described below. Itella has applied the currently valid IFRS standards and interpretations in the preparation of this interim report. The figures shown have been rounded, which is why the sum total of individual figures may differ from totals presented in the tables. The interim report is unaudited.

Changes in IFRS standards

As of January 1, 2013 the Group applies the following new and revised standards:
- IFRS 13

As of January 1, 2013 the Group applies the following new and revised standards retrospectively:
- IAS 19 (Amendment)

Under the revized standard the liabilities on defined benefit pension plans are measured at present value at the end of the reporting period, and the so-called corridor method is no more permitted. The remeasurement component is presented immediately in other comprehensive income. Because of retrospective application the opening balance of the comparative period has been restated to reflect previous periods' adjustments.

The changes in the opening balance 1 January 2012 as well as the changes recognized in the comparative period's income statement figures are presented in the table below.

EUR million	Previously reported figures	Change	Revised figures according IAS 19
Statement of Financial Position 1 Jan 2012			
Deferred tax assets	12,0	0,3	12,3
Defined benefit pension plan obligations	7,5	1,2	8,7
Equity	664,9	-0,9	664,0
Consolidated Statement of Comprehensive Income 1 January - 30 September 2012			
Other items of comprehensive income			
Actuarial gains and losses	-	-2,2	-2,2
Taxes on other items of comprehensive income	-	0,5	0,5
Comprehensive income for the financial period	-	-1,7	-1,7

Other retrospective changes

Itella has identified an error in the valuation of inventories. The error relates to earlier accounting periods and it has been amended retrospectively as presented in the table below.

	Previously reported figures	Change	Revised figures
Statement of Financial Position 1 Jan 2012			
Inventories	5,8	1,9	7,7
Equity	664,9	1,4	666,3
Deferred tax liability	53,1	0,5	53,5

2. Segment Information

EUR million	7-9 2013	7-9 2012	1-9 2013	1-9 2012	1-12 2012
Net sales by business segment					
Itella Mail Communications	257,0	264,4	832,7	843,8	1 167,6
inter-segment sales	-13,7	-13,7	-43,2	-39,8	-54,6
Itella Logistics	210,1	188,1	632,6	558,7	781,5
inter-segment sales	-54,4	-50,5	-161,2	-152,6	-205,9
Itella Information	61,3	60,3	198,0	202,5	270,1
inter-segment sales	-3,3	-3,0	-10,9	-8,7	-12,2
Other operations	15,4	15,5	46,0	47,0	63,1
inter-segment sales	-15,4	-15,5	-46,0	-46,8	-62,9
Total eliminations (Interim sales)	-86,8	-82,7	-261,3	-247,9	-335,6
Total	457,0	445,6	1 448,0	1 404,1	1 946,7
Operating result by business segment (non-IFRS) *)					
Itella Mail Communications	2,5	12,5	32,4	48,5	74,0
Itella Logistics	0,2	-2,9	-12,2	-6,4	-12,0
Itella Information	7,2	5,7	18,1	11,5	15,6
Other operations	-2,0	-3,6	-14,2	-13,2	-24,4
Total	8,0	11,7	24,1	40,4	53,2
Non-recurring items by business segment					
Itella Mail Communications	-0,1	-	4,1	-	-
Itella Logistics	7,8	-	15,4	-6,2	-2,5
Itella Information	1,4	-	3,3	16,7	16,7
Other operations	2,0	-	3,7	-	-
Total	11,1	0,0	26,5	10,5	14,2
Operating result (EBIT) by business segment					
Itella Mail Communications	2,6	12,5	28,3	48,5	74,0
Itella Logistics	-7,6	-2,9	-27,6	-0,2	-9,5
Itella Information	5,8	5,7	14,9	-5,2	-1,1
Other operations	-4,0	-3,6	-17,9	-13,2	-24,4
Total	-3,1	11,7	-2,4	29,9	39,0

Financial income and expenses	-2,1	-1,7	-9,6	-6,0	-8,3
Result for the financial period	-3,7	4,9	-9,9	9,1	14,1

EUR million	30 Sept 2013	30 Sept 2012	31 Dec 2012
Assets			
Itella Mail Communications	485,3	481,2	476,8
Itella Logistics	622,5	617,3	689,7
Itella Information	170,8	178,9	179,0
Other operations and unallocated	160,8	222,9	203,7
Eliminations	-35,0	-38,0	-36,7
Total	1 404,5	1 462,4	1 512,5
Liabilities			
Itella Mail Communications	251,2	252,9	276,0
Itella Logistics	122,3	110,3	148,7
Itella Information	36,9	44,4	47,3
Other operations and unallocated	378,2	406,1	390,5
Eliminations	-34,9	-38,0	-36,7
Total	753,8	775,8	825,8
Personnel at end of the period			
Itella Mail Communications	16 774	17 408	17 844
Itella Logistics	6 851	6 557	7 391
Itella Information	2 103	2 126	2 168
Other operations	421	406	413
Total	26 149	26 497	27 816

*) Non-IFRS = excluding non-recurring items

3. Acquired businesses and business divestments

Acquired businesses 2013
No business acquisitions has been carried out during the review period.

Business divestments in 2013

Itella Bank Ltd
Itella Corporation sold the entire share capital of Itella Bank Ltd to the Finnish Savings Bank Group in April 2013. Employees transferred from Itella to Bank of Savings Banks Ltd. Gain on disposal EUR 1.6 million has been recognized in other operating income.

Net assets sold, EUR million	30 Apr 2013
Deposit certificates and other receivables	18,3
Cash and cash equivalents	1,9
Liabilities to the public and public sector entities and other liabilities	-7,7
Net assets	12,5
Consideration for the divestment	14,1
Gain on disposal	1,6

Effect on cash flow	
EUR million	
Consideration paid in cash	14,1
Cash and cash equivalents of the divested company	-1,9
Effect on cash flow	12,2

Printing business in Poland
Itella Information sold its printing business in Poland to PostNord in August. As a result of the transaction, 50 employees were transferred from Itella to PostNord. The Group has recognised a loss on disposal totalling EUR 0.2 million in other operating expenses.

Logia Software Oy
Itella Corporation sold its entire shareholding in Logia Software Oy to the management of the company in September. The gain on disposal totalling EUR 0.3 million has been recognised in other operating income.

4. Net Sales by Geographical Location

	7-9	7-9	1-9	1-9	1-12
EUR million	2013	2012	2013	2012	2012
Finland	319,5	295,0	1021,5	945,7	1 333,9
Scandinavia	55,6	64,9	181,8	198,6	263,2
Baltic countries and Russia	59,0	62,3	173,3	176,2	239,4
Other countries	22,9	23,3	71,4	83,6	110,2
Total	457,0	445,6	1 448,0	1 404,1	1 946,7

5. Changes in Property, Plant and Equipment

	30 Sept	30 Sept	31 Dec
EUR million	2013	2012	2012
Carrying amount on 1 January	675,4	664,1	664,1
Additions	35,7	44,8	76,3
Disposals and transfers between items	-2,6	-4,9	-6,9
Depreciation and Impairment	-51,6	-50,1	-67,3
Translation differences	-17,4	10,5	9,2
Carrying amount at the end of the period	639,6	664,4	675,4

6. Fair value hierarchy of financial assets and liabilities measured at fair value

EUR million		Level 1	Level 2	Level 3
30 Sept 2013				
Financial assets measured at fair value				
Non-current receivables				
Derivative contracts				
Interest rate swaps, hedge accounting	5,1		5,1	
Trade and other receivables				
Derivative contracts				
Currency forward contracts, hedge accounting	0,0		0,0	
Financial assets at fair value through profit and loss				
Money market investments	13,8		13,8	
Bonds	50,7	39,7	11,0	
Derivative contracts				
Currency forward contracts, non-hedge accounting	0,3		0,3	
Electricity forward contracts, non-hedge accounting	0,1	0,1		
Available-for-sale financial assets				
Equity fund investments	0,8			0,8
Total	71,0	39,8	30,3	0,8
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivative contracts				
Currency forward contracts, non-hedge accounting	1,0		1,0	
Electricity forward contracts, non-hedge accounting	0,4	0,4		
Total	1,4	0,4	1,0	

	Fair values at the end of the reporting period			
EUR million	Total	Level 1	Level 2	Level 3
31 Dec 2012				
Financial assets measured at fair value				
Non-current receivables				
Derivative contracts				
Interest rate swaps, hedge accounting	6,9		6,9	
Financial assets at fair value through profit and loss				
Money market investments	46,8		46,8	
Bonds	54,1	42,9	11,2	
Derivative contracts				
Currency forward contracts, non-hedge accounting	0,1		0,1	
Electricity forward contracts, non-hedge accounting	0,0	0,0		
Available-for-sale financial assets				
Debt certificates	1,8		1,8	
Equity fund investments	0,8			0,8
Total	110,4	43,0	66,7	0,8
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivative contracts				
Currency forward contracts, non-hedge accounting	1,3		1,3	
Electricity forward contracts, non-hedge accounting	0,6	0,6		
Total	1,9	0,6	1,3	

No transfers between the fair value hierarchy levels has been made during the reporting periods. The Group identifies and recognizes transfers between different levels as the transaction is excercised or at the moment when the parametres change materially.

Hierarchy levels:
Level 1: Fair values are based on the quoted prices of identical asset groups or liabilities in active markets.
Level 2: Fair values are, to a significant degree, based on data other than quoted prices included in level 1, but on data that can be either directly or indirectly verified for the asset group or liability in question. To determine the fair value of these instruments, the Group uses generally accepted valuation models that are, to a significant degree, based on verifiable market data.
Level 3: Fair values are based on data regarding the asset group or liability that is not based on verifiable market data.

Investments in money markets instruments are measured at fair value by employing the market interest rate curves on the reporting date. The fair values of investments in bonds are based on the quoted market prices on the reporting date (Level One) or a price based on observable market information (Level Two). The measurement of Equity funds relies on valuations delivered by external investment managers, based on the general valuation techniques used by Asset Managers. The fair value of currency forward contracts is calculated by measuring forward contracts against the forward rates on the reporting date. The fair values of interest rate swaps are calculated by discounting the forecast cash flows of the contracts with the market interest rate curves on the reporting date. The fair values of electricity derivatives are based on the quoted market price on the reporting date.

Reconciliation of financial assets measured at fair value in accordance with level 3

EUR million	Available-for-sale equity fund investments
2013	
Carrying amount on 1 January	0,8
Total profits and losses	
In income statement	
Available-for-sale financial assets	0,0
In other comprehensive income	
Available-for-sale financial assets	0,2
Acquisitions	0,0
Exercises	-0,2
Carrying amount on 30 September	0,8

Total profits and losses recorded on assets held at the end of the reporting period

In financial income and expenses	0,1

7. Contingent Liabilities

EUR million	30 Sept 2013	30 Sept 2012	31 Dec 2012
Pledges for own behalf	16,8	19,5	18,9
Lease commitments	350,4	349,5	381,1

Itella has received claims from its contract customers to refund the value added taxes they have paid amounting to a total of EUR 94 million. The ruling by the Helsinki District Court in summer 2011 was positive to Itella. The decision was however nullified by the Helsinki Court of Appeal and returned to the district court where the proceedings began in 2012. Itella considers the customers' claims to be unfounded in their entirety.

Derivative Contracts

EUR million	30 Sept 2013	30 Sept 2012	31 Dec 2012
Currency derivatives			
Currency forward contracts, non-hedge accounting			
Fair value	-0,7	-2,3	-1,3
Nominal value	126,1	117,5	121,4
Currency forward contracts, hedge accounting			
Fair value	0,0	-	-
Nominal value	8,0	-	-
Interest rate derivates			
Interest rate swaps, hedge accounting			
Fair value	5,1	6,8	6,9
Nominal value	70,0	70,0	70,0
Electricity derivatives			
Electricity forwards, non-hedge accounting			
Fair value	-0,3	-	-0,5
Nominal value	7,4	-	8,0

8. Impairment testing

Goodwill is allocated to Group's cash generating units. As a part of Itella's restructuring program published in Apil 2013, the organization, management and reporting structures of Itella Logistics have been changed during the third quarter. Following the reorganization the Itella's managment has decided to redefine the Group's cash genereating units as follows:

Previous cash generating units:	Redefined cash generating units:
Mail Communication	Mail Communication
Information	Informaatio
Logistics: Road	Logistics: Road ja Air and Sea, Finland
Logistics: Contract Logistics	Logistics: Contract Logistics, Finland
Logistics: Air and Sea	Logistics: Baltics
Logistics: Russia	Logistics: Scandinavia
	Logistics: Russia

Prior to reallocation of goodwill to the new cash generating units the Group carried out impairment tests in accordance with the previous structure. Based on the tests the Group recognized impairment losses on goodwill and intangible assets totaling EUR 7.4 million in Logisics' Air and Sea business. The impairment was due to weakened outlook in the profitability and market share of the business.

The Group has also carried out the annual impairment testing of all cash generating units containing goodwill during the third quarter. No impairment losses were recognized based on the tests.