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Finland Post Corporation | Interim Report 2004

January–September

Interim Report for 1 January–30 September 2004

Higher Net Turnover Boosted by Acquisitions, Better Profitability Resulting from Cost Control

- Net turnover: EUR 886.0 million (+8%)
- Operating profit: EUR 63.5 million (+27%)
- Profit: EUR 45.7 million (+34%)

- Letter mail volumes remained unchanged, unaddressed direct-mail volumes are on the rise
- The acquisition of Leijonajakelu increased net turnover
- Company acquisitions expanded Electronic Messaging
- B2B parcel volumes were on the increase

Net Turnover and Profit

Finland Post Group's net turnover for 1 January–30 September 2004 came to EUR 886.0 million (EUR 819.4 million for 1 January–30 September 2003), up 8.1 per cent over the corresponding period a year ago, over half of this growth stemming from company acquisitions.

Consolidated operating profit grew by EUR 13.6 million, to EUR 63.5 million (EUR 49.9 million), year on year. In comparable terms, i.e. if adjusted for capital gains on subsidiary and associated companies' shares and business divestments completed this year and last year, operating profit grew by EUR 5.7 million, or 12.2 per cent.

Profit before extraordinary items, appropriations and taxes came to EUR 67.3 million (EUR 52.0 million), while profit for the period totalled EUR 45.7 million (EUR 34.2 million).

Performance by Business Group

Messaging improved its net turnover to EUR 581.3 million (EUR 530.2 million), or by 9.6 per cent, due mostly to the acquisition of Leijonajakelu Oy's Uusimaa newspaper delivery business last year. The volume of unaddressed direct mail delivered by Finland Post grew from the previous year's level, while addressed mail (1st and 2nd class letter mail and addressed direct mail) volume remained unchanged on a year earlier.

The delivery service standard for 1st class letters achieved its target set in the Postal Services Act: approximately 95 per cent of the letters were delivered on the next working day following their posting during the 12-month period ending in September.

A task force set up by the Ministry of Transport and Communications in September unanimously agreed to put forward a motion on the relaxation of the conveyance speed requirement for 1st class letter mail to 85 per cent. If passed by the Finnish Parliament, this bill will provide Finland Post with the opportunity to deliver mail in rural areas earlier in the morning.

Finland Post and the Finnish Communications Regulatory Authority (FICORA) have continued negotiations over the cost allocation and pricing bases applied by Finland Post to its standard services. In June, Finland Post filed a complaint on FICORA's decision in this regard with the Helsinki Administrative Court, which is still processing it. The hearing in the Supreme Administrative Court

Key Figures	1 Jan.–30 Sept. 2004	1 Jan.–30 Sept. 2003	Change %	Year 2003
Net turnover, EUR million	886.0	819.4	+8	1,145.5
Operating profit, EUR million	63.5	49.9	+27	73.7
Operating margin,%	7.2	6.1		6.4
Return on equity, %	10.1	8.5		8.7
Return on investment, %	13.9	11.7		12.9
Equity ratio, %	66.8	67.1		65.8
Gearing, %	-27.1	-13.0		-21.1
Gross capital expenditure, EUR million	64.3	46.4	+39	71.6
Average personnel	23,619	22,203	+6	23,592

on the enforcement ban related to the pricing of standard products is still in progress.

Electronic Messaging's net turnover soared to EUR 127.6 million (EUR 97.3 million), up 31.1 per cent, due largely to company acquisitions in Finland and the Baltic countries, and major outsourcing agreements signed in Germany late last year.

The Group concentrated its services related to e-business, e-invoicing and e-services on Elma Electronic Trading, a subsidiary acquired in March, which is the Nordic leader in the industry.

Atkos Ltd, a subsidiary operating in Finland, reported a marked improvement in its net turnover, which was partly attributable to Mailer Oy's and Ykköslogistiikka Oy's direct-mail businesses acquired late last year.

The Scandinavian companies recorded practically the same net turnover as in the previous year. The digital printing and information management businesses are expected to show favourable development and higher net turnover.

The improved net turnover posted by the German companies was mainly due to the outsourcing agreements concluded at the end of the previous year. In Germany, Finland Post is investigating opportunities to widen its product and service range – digital printing and information management – into electronic invoicing.

Logistics' net turnover grew to EUR 181.3 million (EUR 176.2 million), with the volume of parcels and consignment services showing an almost 4 per cent increase from the previous year's level, this growth stemming from B2B deliveries. Domestic Express Parcels showed the most vigorous growth. Weak development in the domestic mail-order business lowered consumer-parcel volumes.

The service warehouse business won major, new outsourcing contracts. Early November will see the completion of a 12,000-m^2-warehouse extension in the Vantaa logistics centre, providing Logistics with greater scope for outsourcing agreements. The business unit is also analysing new business opportunities in the expanding Baltic and Russian markets.

Other Business Activities included the IT company IT Optimo Oy, and, until the end of April, Easy Km Ltd, a company offering repair shop and leasing services for vehicles, whose business operations were sold to Raskone Oy. As a result of this divestment, Other Business Activities' net turnover declined to EUR 40.0 million (EUR 57.7 million). IT Optimo Oy reported a net turnover of EUR 19.8 million (EUR 13.1 million), consisting mainly of intra-Group operations.

Net Turnover by Business Group

	Share of net turnover %	Net turnover 1 Jan.–30 Sept. EUR million	Net turnover 1 Jan.–30 Sept. EUR million	Change %
Messaging	64	581.3	530.2	+10
Electronic Messaging	14	127.6	97.3	+31
Logistics	20	181.3	176.2	+3
Other Business Activities	2	40.0	57.7	-31
Group Activities and internal net turnover		-44.2	-42.0	
Consolidated net turnover	100	886.0	819.4	+8

Financial Position

The Group's net cash flow from business operations came to EUR 57.7 million (EUR 43.4 million) before investments. The Group held no net interest-bearing liabilities. Liquid assets exceeded interest-bearing liabilities by EUR 155.6 million (EUR 71.0 million). The period-end equity ratio was 66.8 per cent (67.1 per cent) and gearing stood at -27.1 per cent (-13.0 per cent). Net financing income was EUR 4.2 million (EUR 1.7 million).

Capital Expenditure

Finland Post Group's capital expenditure for January–September amounted to EUR 64.3 million (EUR 46.4 million), consisting of first-half company acquisitions and standard replacement investments in machinery and equipment, as well as construction investment.

Human Resources

The number of Finland Post Group's employees for January–September averaged 23,619 (22,203), with the period-end number of employees decreasing to 23,040 (23,253). The disposal of Easy Km Ltd's business reduced the payroll by 350 employees, year on year.

Changes in Corporate Structure

In January, Finland Post increased its shareholding in Poske Logistiikka Oy, a joint venture set up by Finland Post and Rautakesko, by 40 per cent, after which Poske Logistiikka Oy became a Finland Post wholly owned subsidiary.

The competition authorities set certain conditions on the acquisition of Leijonajakelu's newspaper delivery business carried out in the autumn of 2003. Finland Post Corporation fulfilled these conditions by selling its shareholding in the following distribution firms in the spring: 40 per cent of Helsingin Jakelu-Expert Oy, 55 per cent of Tampereen Ykkösjakelut Oy and 20 per cent of Turku-Palvelu Oy.

The EMS companies Finland Post acquired from a subsidiary of Posten, the Swedish Post – Eesti Maksekeskuse AS operating in Estonia, Nacionālais Maksājumu Centrs A/S operating in Latvia, and UAB Nacionalinis Atsiskaitymu Centras operating in Lithuania – were consolidated as of the beginning of May.

In March, Finland Post purchased a majority shareholding in Elma Electronic Trading, and the rest of the shares in June.

In April, Finland Post sold the business operations of Easy Km Ltd to Raskone Oy. These operations were transferred to the new owner on 30 April 2004. The deal included a convertible bond of EUR 10.1 million issued by the buyer, the amount of which Finland Post paid as an extra dividend to its owner.

Fourth-Quarter Prospects

The Group's businesses are expected to develop favourably during the fourth quarter, too. Taking account of first-half company acquisitions, Finland Post will record a year-on-year improvement in its consolidated net turnover for 2004, and show higher profits due to capital gains reported for the first half, and continuous streamlining measures.

Helsinki, 26 October 2004

Board of Directors

Finland Post Group

Profit and Loss Account, EUR million	1 Jan.–30 Sept. 2004	1 Jan.–30 Sept. 2003	1 Jan.–30 Dec. 2003
Net turnover	**886.0**	**819.4**	**1,145.5**
Other operating income	19.9	13.7	17.3
Operating expenses	842.4	783.2	1, 089.1
Operating profit	**63.5**	**49.9**	**73.7**
Share of associated companies' results	-0.4	0.4	0.1
Financial income and expenses	4.2	1.7	2.3
Profit before extraordinary items	**67.3**	**52.0**	**76.1**
Profit before taxes	**67.3**	**52.0**	**76.1**
Income taxes	-21.6	-17.9	-29.0
Minority interest	0.0	0.1	-0.3
Profit for the period	**45.7**	**34.2**	**46.8**

Balance Sheet, EUR million	30 Sept.2004	30 Sept. 2003	31 Dec. 2003
Fixed and other non-current assets	**454.6**	**519.5**	**515.8**
Intangible assets	130.7	121.7	126.8
Tangible assets	286.3	356.9	348.4
Long-term investments	37.6	40.9	40.6
Inventories and current assets	**413.0**	**300.4**	**340.6**
Inventories	6.0	8.1	8.7
Receivables and other assets	170.4	139.3	150.0
Short-term investments	216.8	137.9	164.6
Cash and bank receivables	19.8	15.1	17.3
Total assets	**867.6**	**819.9**	**856.4**
Shareholders' equity	**572.6**	**544.3**	**556.9**
Share capital	70.0	70.0	70.0
Other reserves	502.6	474.3	486.9
Minority interest	**0.8**	**2.1**	**2.7**
Provisions	**0.5**	**0.9**	**0.4**
Liabilities	**293.7**	**272.6**	**296.4**
Long-term liabilities	13.5	76.3	77.1
Short-term liabilities	280.2	196.3	219.3
Total shareholders' equity and liabilities	**867.6**	**819.9**	**856.4**

Cash Flow Statement, EUR million	1 Jan.–30 Sept. 2004	1 Jan.–30 Sept. 2003	1 Jan.–30 Dec. 2003
Cash flow before change in net working capital	**101.9**	**96.2**	**138.1**
Change in net working capital	-26.3	-39.0	-9.3
Cash flow from business operations before financial items and income taxes	**75.6**	**57.2**	**128.8**
Cash flow from financial items and income taxes	-17.9	-13.8	-23.5
Cash flow from business operations	**57.7**	**43.4**	**105.3**
Cash flow from investments (net)	**10.2**	**-34.5**	**-49.6**
Change in long-term and short-term loans	17.0	-9.7	-27.7
Dividends paid	-30.1	-15.2	-15.2
Cash flow from financing	**-13.1**	**-24.9**	**-42.9**
Change in liquid assets	**54.8**	**-16.0**	**12.8**
Liquid assets at period-start	181.8	169.0	169.0
Liquid assets at period-end	236.6	153.0	181.8

Pledges and Contingent Liabilities, EUR million

Pledges and Contingent Liabilities, EUR million	30 Sept. 2004	30 Sept. 2003	31 Dec. 2003
Mortgages on real estate:			
Loans from financial institutions	1.3	-	1.4
Mortgages given	2.7	2.5	5.2
Other pledges for the Group	13.1	12.7	13.1
Pledges for other companies	0.4	0.1	0.1
Leasing liabilities	40.6	6.8	7.6
Remaining rental agreement commitments	79.1	75.6	81.4
Other contingent liabilities	0.3	-	2.6

Derivative Contracts, EUR million

Derivative Contracts, EUR million	30 Sept. 2004	30 Sept. 2003	31 Dec. 2003
Foreign exchange forward contracts			
Market value	-0.0	-0.1	-0.0
Underlying value	4.6	7.2	5.6
Interest-rate swaps			
Market value	-0.3	-0.8	-0.6
Underlying value	16.2	40.0	41.4

Used for hedging exchange-rate and interest-rate risks, derivative instruments are valued at market rates available on the balance sheet date.

The figures are not audited.

Finland Post Corporation will release its financial results for 2004 in week 9 of 2005.

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