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Finland Post Corporation | Interim Report 2005

January–June

Interim Report for 1 January–30 June 2005

Interim Report for January–June 2005

- Net turnover: EUR 625.8 million (up 2%)
- Operating profit: EUR 42.2 million (down 20%)
- Profit for the period: EUR 32.2 million (down 14%)

- The acquisition of Combifragt Group will strengthen Logistics' position in Northern Europe
- Information Logistics' business developed favourably in Finland and the Baltic countries
- Free sheets boosted unaddressed mail delivery volumes

Net Turnover and Profit

Finland Post's consolidated net turnover for 1 January–30 June 2005 rose by 2.3 per cent, to EUR 625.8 million (EUR 611.5 million during 1 January–30 June 2004), with all core business areas – Messaging, Information Logistics and Logistics – showing net turnover growth. Other Business Activities generated a lower net turnover year on year, due to the divestment of Easy Km Ltd in the spring of 2004.

Consolidated operating profit fell from the previous year's figure, to EUR 42.2 million (EUR 53.0 million). The higher 2004 operating profit resulted from capital gains on the divestment of Easy Km Ltd and Jakelumarkkinat Oy. Like-for-like operating profit, which excludes these items, was EUR 1.3 million smaller than a year ago. Net financial income increased to EUR 5.3 million (EUR 1.9 million). A total of EUR 1.5 million of this growth, which was non-recurring in nature, resulted from the adoption of IFRS-compliant revaluation of financial items at the beginning of the year. Consolidated profit before extraordinary items, appropriations and taxes decreased to EUR 47.6 million (EUR 54.3 million), while profit for the period totalled EUR 32.2 million (EUR 37.3 million).

Performance by Business Group

Messaging improved its net turnover by 2.1 per cent, to EUR 407.3 million (EUR 398.9 million). Addressed letter delivery volumes grew slightly as a result of growth in addressed direct mail volumes com-

Key figures of Finland Post Group

	1 Jan–30 June 2005	1 Jan–30 June 2005	Change %	Year 2004
Net turnover, EUR million	625.8	611.5	+2	1,235.2
Operating profit, EUR million	42.2	53.0	-20	95.2
Operating margin,%	6.7	8.7		7.7
Return on equity, %	10.8	11.3		12.0
Return on investment, %	14.9	16.0		16.1
Equity ratio, %	64.9	65.0		65.6
Gearing, %	-34.2	-31.6		-35.9
Gross capital expenditure, EUR million	41.3	58.4	-29	78.3
Personnel on average	23,412	24,018	-3	23,544

pensating for a minor fall in letter mail volumes. The uncertainty over how letter mail volumes will develop in the second half comes from the underlying trend towards electronic communication. Direct-mail volumes experienced a particularly rapid improvement thanks to vigorous growth in unaddressed direct-mail deliveries. Newspaper and magazine delivery volumes rose by 3.1 per cent, with free sheets showing the strongest growth.

The early March launch of upgraded letter, direct-mail and publication services went smoothly. The aim of this upgrade was to improve customer service and increase production efficiency.

On 23 February 2005, the Finnish Parliament passed an amendment to the Postal Services Act, relaxing the delivery time standard for 1st Class letters so that 85 per cent of letters, as compared with the former requirement of 95 per cent, must be delivered on the working day following their posting and 98 per cent on the second working day. This relaxation will enable Finland Post to deliver newspapers in rural areas earlier in the morning. Finland Post has not yet begun earlier newspaper deliveries because it is still negotiating over delivery schedules with newspaper publishers.

Finland Post Corporation has agreed to buy Etelä-Karjalan Jakelu Oy's early-morning delivery business. From this deal's effective date on 1 September 2005, Finland Post will be responsible for the delivery of Etelä-Saimaa, a Lappeenranta daily, and other early-morning newspapers in the Etelä-Karjala region.

In early 2005, the business of Leijonajakelu Oy, a subsidiary engaged in the early-morning newspaper delivery business in Uusimaa, and that of Jakeluykkönen Oy, a subsidiary providing transport and delivery services, merged with the parent company's production services, resulting in delivery efficiency gains and cost savings.

Information Logistics increased its net turnover by 9.3 per cent, to EUR 93.2 million (EUR 85.3 million). This improvement stemmed mainly from favourable business developments in Finland and the Baltic countries, as well as acquisitions.

Net turnover by business group	Share of net turnover %	Net turnover 1 Jan–30 June 2005 EUR million	Net turnover 1 Jan–30 June 2004 EUR million	Change %
Messaging	63	407.3	398.9	+2
Information Logistics	14	93.2	85.3	+9
Logistics	21	134.8	122.8	+10
Other Business Activities	2	16.5	33.2	-50
Internal net turnover		-26.0	-28.7	
Consolidated net turnover	100	625.8	611.5	+2

Since late January, Finland Post Group's subsidiaries within the Information Logistics business group have operated under the new marketing name of Itella. The rationale behind this reorganisation was to standardise service offerings and streamline marketing. In early summer, the business group established an R&D unit responsible for the development of new and innovative products.

Itella Finland posted growth in its net turnover, thanks to favourable developments in direct-marketing services, eLetter and printing volumes. Due to intense price competition in Scandinavia, the Itella Scandinavia companies' net turnover remained at the previous year's level despite printing volume growth.

The German companies' net turnover also remained at the previous year's level. The slowdown in growth was due to the market situation and keener price competition in Germany resulting mainly from the country's persistently lacklustre economy. Efforts to develop these companies' businesses as part of the business group have continued, involving, for example, integrating financial management with other companies.

Growth in the net turnover of the Estonian, Latvian and Lithuanian subsidiaries acquired in the spring of 2004 was better than expected. The Baltic markets' strong upward trend was reflected in favourable developments in direct-marketing services in particular.

Logistics' net turnover increased to EUR 134.8 million (EUR 122.8 million), up by 9.8 per cent, resulting from good progress made by services provided to corporate customers, and acquisitions. The volume of parcels and consignment services rose by 3.2 per cent on a year earlier, due especially to the 8.2 per cent growth in B2B deliveries. B2C parcel volumes remained almost at the previous year's levels. The volume of upgraded consumer parcels posted primarily at post offices and paid in cash took off in the spring.

First-half developments in the transport sector were characterised by ever-intensifying price competition and a higher cost level, as a result of fuel price hikes. Finland Post's competitiveness is based on the efficient, comprehensive logistics solutions it offers to its customers. Major first-half outsourcing agreements included those concluded with Altia Corporation and Canon Oy for warehousing services and that made with Marimekko Oyj for transport and warehousing services.

Finland Post continued to expand its warehouse business in March by buying John Nurminen Oy's fashion logistics business in Finland and Estonia, covering services for the clothing industry, importers and retailers. In early May, a subsidiary, Logia Moda Oy, was established to run this business. In April, Finland Post acquired AW-Store Oy, a company providing warehousing and logistics services for the trade and industrial sectors operating in the Finnish market.

On July 12, after the report period, Finland Post Corporation agreed to acquire Combifragt Group, a Danish logistics company providing transport and forwarding services and service warehouse solutions. With a staff of roughly 450, the company's annual net turnover totals around EUR 140 million. It operates in the European market, particularly in Scandinavia and the Baltic countries. In order to take effect, this deal will require antitrust approval in the Baltic countries.

Financial Position

Consolidated net cash flow from business operations came to EUR 61.5 million (EUR 76.0 million) before investments. The Group held no net interest-bearing liabilities. Liquid assets exceeded interest-bearing liabilities by EUR 203.3 million (EUR 178.5 million). The period-end equity ratio stood at 64.9 per cent (65.0 per cent) and gearing was -34.2 per cent (-31.6 per cent). Financial income totalled EUR 7.5 million (EUR 3.3 million), EUR 1.5 million of which stemmed from changed accounting principles. Financial expenses rose to EUR 2.3 million (EUR 1.3 million).

Capital Expenditure

Finland Post Group's reported capital expenditure of EUR 41.3 million (EUR 58.4 million) consisted mainly of construction investments by Logistics, and acquisitions.

Human Resources

The number of Finland Post Group employees for January–June averaged 23,412 (24,018), while the period-end staff totalled 26,144 (25,797). Year on year, Group personnel increased within the parent company's delivery services. Company acquisitions also increased the number of Group employees.

Changes in Corporate Structure

In early 2005, Leijonajakelu Oy and Jakeluykkönen Oy, subsidiaries operating in the Uusimaa region, merged with the parent company, Finland Post Corporation.

In February, Finland Post Corporation sold its 48.76 per cent holding in Latvijas Elektroniskais Pasts to its co-owner, Latvian Post. The Latvian competition authorities required Finland Post to dispose of its holding in the company when Finland Post acquired the information logistics company Nacionalais Maksajumu Centras, currently A/S Itella, last spring.

In early May, the logistics companies Logia Moda Oy and AW-Store Oy were merged with the Group.

Second-half Prospects

Finland Post Group expects demand for Information Logistics' and Logistics' services to develop favourably. There are good prospects for steady developments in consolidated net turnover, despite the uncertainty over letter mail volumes. First-half profit performance is in line with that projected for 2005 as a whole.

Helsinki, 8 August 2005

Board of Directors

Finland Post Group

Profit and loss account, EUR million	1 Jan–30 June 2005	1 Jan–30 June 2004	1 Jan–31 Dec 2004
Net turnover	**625.8**	**611.5**	**1,235.2**
Other operating income	5.9	17.0	23.3
Operating expenses	589.5	575.5	1,163.3
Operating profit	**42.2**	**53.0**	**95.2**
Share of associated companies' results	0.1	-0.6	0.1
Financial income and expenses	5.3	1.9	5.8
Profit before extraordinary items	**47.6**	**54.3**	**101.1**
Profit before taxes	**47.6**	**54.3**	**101.1**
Income taxes	-15.4	-17.0	-31.5
Minority interest	0.0	0.0	-0.0
Profit for the period	**32.2**	**37.3**	**69.6**

Balance sheet, EUR million	30 June 2005	30 June 2004	31 Dec 2004
Fixed and other non-current assets	**467.0**	**464.2**	**445.8**
Intangible assets	127.8	136.6	127.6
Tangible assets	301.6	290.2	280.9
Long-term investments	37.6	37.4	37.3
Inventories and current assets	**458.7**	**412.4**	**473.0**
Inventories	6.3	6.0	6.4
Receivables and other assets	171.0	159.5	182.5
Short-term investments	264.3	224.3	267.7
Cash and bank receivables	17.1	22.6	16.4
Total assets	**925.7**	**876.6**	**918.8**
Shareholders' equity	**593.5**	**564.2**	**596.3**
Share capital	70.0	70.0	70.0
Other reserves	523.5	494.2	526.3
Minority interest	**0.6**	**0.8**	**0.6**
Provisions	**2.5**	**0.6**	**2.6**
Liabilities	**329.1**	**311.0**	**319.3**
Long-term liabilities	25.1	74.0	12.9
Short-term liabilities	304.0	237.0	306.4
Total shareholders' equity and liabilities	**925.7**	**876.6**	**918.8**

Cash flow statement, EUR million	1 Jan–30 June 2005	1 Jan–30 June 2004	1 Jan–31 Dec 2004
Cash flow before change in net working capital	**68.4**	**75.4**	**151.2**
Change in net working capital	10.0	14.3	2.3
Cash flow from operations before financial items and income taxes	**78.4**	**89.7**	**153.5**
Cash flow from financial items and income taxes	-16.9	-13.7	-31.7
Cash flow from operations	**61.5**	**76.0**	**121.8**
Cash flow from investments (net)	**-33.3**	**14.7**	**4.9**
Change in long-term and short-term loans	0.7	4.5	5.6
Dividends paid	-35.0	-30.1	-30.1
Cash flow from financing	**-34.3**	**-25.6**	**-24.5**
Change in liquid assets	**-6.1**	**65.1**	**102.2**
Liquid assets at period-start	284.0	181.8	181.8
Change in liquid assets at fair value	3.4		
Liquid assets at period-end	281.3	246.9	284.0

Assets pledged and contingent liabilities, EUR million	30 June 2005	30 June 2004	31 Dec 2004
Mortgages on real estate:			
Loans from financial institutions	6.8	1.3	0.8
Mortgages given	9.9	2.7	1.7
Other pledges for the Group	14.4	12.8	12.8
Pledges for other companies	0.2	0.4	0.4
Leasing liabilities	46.2	40.8	42.3
Remaining rental agreement commitments	69.4	78.2	75.2
Other liabilities	-	0.3	-

Derivative contracts, EUR million	30 June 2005	30 June 2004	31 Dec 2004
Foreign exchange forward contracts			
Market value	-0.0	0.0	-0.0
Underlying value	1.2	4.6	3.0
Interest-rate swaps			
Market value	-0.1	-0.4	-0.3
Underlying value	15.0	31.2	15.7

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 publish its next interim report in week 43.

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