

## Itella Corporation Interim report for January-March 2008

### Market Overview

General economic conditions remained favourable in January-March for Itella and its various divisions. Insecurities in the international financial and capital markets were not reflected in the demand for Itella's services. Competition remained fierce.

Restructuring in the industry continued, with the postal services of Sweden and Denmark announcing a merger. This is the first merger of two national postal entities. The owners have agreed to keep the option open for a future IPO within 3-5 years.

### Net Sales and Profit Performance

Itella Group's consolidated net sales rose during the first quarter of 2008 to EUR 447.4 million (EUR 431.5 million in January-March 2007), up by 3.7 per cent, organic growth accounting for 2.3 percentage points and company acquisitions for 1.4 percentage points. Itella Information and Itella Logistics reported increased net sales, while Itella Mail Communication remained on the same level year-on-year. Finland represented 2.0 per cent and other countries 8.8 per cent of Group growth. International operations represented 26 per cent (25 per cent) of consolidated net sales.

Consolidated operating profit for Q1 decreased by 27.5 per cent, to EUR 33.3 million (EUR 45.9 million), accounting for 7.4 per cent of net sales (10.6 per cent). Itella Mail Communication and Itella Logistics showed a decrease while Itella Information showed an improvement in operating profit.

Itella's key figures, in EUR millions	Q1/2008	Q1/2007	2007
Net sales	447.4	431.5	1,688.3
Operating profit (EBIT)	33.3	45.9	101.8
EBIT margin	7.4	10.6	6.0
Profit before income tax	35.3	48.2	109.5
Return on equity, %	9.7	10.8	11.1
Return on investment, %	13.7	15.1	15.6
Equity ratio, %	64.1	63.1	65.9
Gearing, %	-16.5	-24.6	-36.4
Employees, on average	25,278	24,787	25,623
Investments	30.7	16.1	94.2

## Itella Mail Communication

Itella Mail Communication's January-March net sales remained on the same level year-on-year, at EUR 232.7 million.

Compared to last year's figures, first- and second-class letter volumes increased by a total of 1 per cent.

Unaddressed direct-mail delivery volumes grew by 9 per cent year-on-year, with competition remaining tight. The volume of newspaper deliveries decreased by 6 per cent from that of the previous year, as did the volume for magazine deliveries, because of the timing of Easter and a drop in the circulation volume of a few weekly general magazines.

Itella Mail Communication's operating profit came to EUR 27.8 million (EUR 36.0 million), accounting for 11.9 per cent (15.5 per cent) of net sales. The reduced profitability was a result of an increase in production costs and the fact that the first quarter of last year was strong on account of the parliamentary elections and as a result of Easter not being until the second quarter.

Itella purchased DH Tools Oy, which specialises in enterprise marketing management services and has a staff of 16.

## Itella Information

Itella Information increased its net sales to EUR 56.6 million (EUR 51.0 million) — i.e., by 11.0 per cent. With the exception of Germany, net sales improved in all countries of operation. Of the global production lines, iPost Services in particular showed brisk growth, Digitising Solutions improving favourably as well.

Itella Information recorded an operating profit of EUR 5.3 million (EUR 4.3 million), accounting for 9.4 per cent (8.4 per cent) of net sales. The improvement was due especially to the favourable development of electronic services in Finland and the Baltic countries and streamlining measures already implemented in Finland and Germany.

Norway Post and Itella Information will establish a joint venture in Norway, combining Itella Information's operations in Norway and Norway Post's information logistics services. After the arrangements are made, Itella will own 51 per cent and Norway Post 49 per cent of Itella Information AS. The company's net sales will amount to approximately EUR 25 million. The contract is conditional and requires the approval of the Office of Fair Trading.

A new subsidiary was established in Poland, Itella Information sp. z o.o., to which the operations of the Polish company BusinessPoint S.A., the acquisition of which Itella agreed on in January, will be transferred. This integration is expected to be implemented in Q2. In 2006, BusinessPoint S.A.'s net sales amounted to approximately EUR 15 million, and the company has a permanent staff of about 100 people.

## Itella Logistics

The net sales of Itella Logistics rose in Q1 to EUR 165.8 million (EUR 151.6 million), up 9.4 per cent, acquisitions during the previous year accounting for 3.7 percentage points of this growth.

Itella Logistics operating profit for Q1 came to EUR 3.0 million (EUR 10.6 million), accounting for 1.8 per cent (7.0 per cent) of net sales. The decrease was due to higher production costs in Finland and investments in service warehousing operations in Russia. The results were weakened also because Easter was in March this year.

Itella acquired Kauko Group Oy, specialising in international transport services. Kauko Group Oy had net sales of EUR 56 million in 2007 and has a staff of 110 people. At the same time, the Swedish company Hansar Logistics AB was acquired. Its net sales came to EUR 15 million in 2007, and it employed 35 people. The companies will be included in Itella Group's figures as of the beginning of the second quarter of 2008.

### Key Figures of Itella's business groups, EUR million

	Q1/2008	Q1/2007	Change
Itella Mail Communication			
Net sales	232.7	232.7	0.0%
Operating profit (EBIT)	27.8	36.0	-22.8%
EBIT margin	11.9%	15.5%	
Itella Information			
Net sales	56.6	51.0	11.0%
Operating profit	5.3	4.3	23.3%
EBIT margin	9.4%	8.4%	
Itella Logistics			
Net sales	165.8	151.6	9.4%
Operating profit (EBIT)	3.0	10.6	-71.7%
EBIT margin	1.8%	7.0%	
Other Functions			
Net sales	4.3	4.0	7.5%
Operating profit/loss	-2.8	-5.0	..
EBIT margin	-65.1%	-125.0%	
Internal sales	-12.0	-7.8	..
GROUP TOTAL			
Net sales	447.4	431.5	3.7%
Operating profit (EBIT)	33.3	45.9	-27.5%
EBIT margin	7.4%	10.6%	

## Financial Position and Capital Expenditure

Consolidated net cash flow from operating activities totalled EUR 76.8 million to the negative (EUR -37.0 million) before investment activities. Cash flow was affected by an increase in working capital of EUR 120.2 million (EUR 90.9 million), which was partly due to prepaid full-year pension contributions made in the first quarter, totalling EUR 128 million (EUR 119 million). This year, employee bonuses totalling EUR 5.9 million (EUR 4.2 million) were paid in the first quarter; in the previous year, the bonuses were paid in Q2.

Capital expenditure totalled EUR 30.7 million (EUR 16.1 million), company acquisitions accounting for EUR 15.8 million (EUR 7.2 million). Dividends for 2007 of EUR 39,0 million (EUR 27,0 million) were paid to shareholders in the first quarter, whereas last year's dividends were paid in the second quarter.

On 31 March 2008, cash and cash equivalents stood at EUR 178.8 million (EUR 205.2 million) and investments issued in commercial papers amounted to EUR 32.4 million. Interest-bearing liabilities totalled EUR 60.0 million (EUR 35.8 million). Equity ratio stood at 64.1 per cent (63.1 per cent), and gearing was -16.5 per cent (-24.6 per cent).

## Human Resources

The number of Itella Group employees for January-March averaged 25,228 (24,787), while the period-end staff totalled 25,245 (24,767). This year-on-year increase in Group staff numbers stemmed from company acquisitions carried out by Itella Logistics. On 31 March 2008, staff numbers by segment were as follows: Itella Mail Communication 18,911, Itella Information 1,656, Itella Logistics 4,648, and other Group operations 30.

Itella Information Oy's printing production became the subject of joint discussions. The estimated required cut is 25 people. In connection with the renewal of the network of postal outlets, the human resources are expected to be reduced by a total of 80 man-years. At the same time, Itella Mail Communication's Itella TGM production is subject to joint discussions, wherein the estimated required reduction is 60 man-years. In Finland the Group made 607 new permanent work contracts in January-March.

## Changes in Corporate Structure

DH Tools Oy, specialising in enterprise marketing management and acquired by Itella Mail Communication, was consolidated into the Group as of the beginning of February.

## AGM's Decisions

Itella Corporation's Annual General Meeting (AGM) of 18 March 2008 decided on a dividend of EUR 39 million to be paid to the company's shareholder.

The number of members of the Board of Directors was set at nine. Riitta Savonlahti, Executive Vice President, Human Resources, was elected as a new Board member. Eero Kasanen, Rector of the

Helsinki School of Economics, was re-elected as Board Chairman, and Mikko Kosonen, Senior Vice President, Nokia Corporation, as Vice Chairman of the Board. The AGM re-elected the following as members of the Board: Kalevi Alestalo, Financial Counsellor, Hele-Hannele Aminoff, General Manager, Erkki Helaniemi, Partner, Maarit Toivanen-Koivisto, Board Chairman, and as employee representatives national chief shop stewards Antero Palmolahti and Mirja Sandberg.

The number of members for the Supervisory Board was set at 12, each elected for a one-year term. Eero Lehti, MP (National Coalition Party) was elected as the new Supervisory Board Chairman, and Antti Rantakangas, MP (Centre Party) as the new Supervisory Board Vice Chairman. Susanna Huovinen, MP (Social Democratic Party); Harri Jaskari, MP (National Coalition Party); Lauri Kähkönen, MP (Social Democratic Party); Outi Mäkelä, MP (National Coalition Party); and Reijo Ojennus, Chairman (True Finns / Pirkanmaa District Organisation) were elected as new members of the Supervisory Board. The AGM re-elected the following Supervisory Board members: Bjarne Kallis (Christian Democrats), Pertti Salovaara (Centre Party), Birgitta Gran (Left Alliance), Sirpa Hertell (Green Party), and Harry Wallin (Social Democratic Party).

#### Near-future Business Risks and Uncertainties

Risks related to Group operations are explained in connection with the 2007 financial statements.

#### Seasonal Operations

Seasonal fluctuation is characteristic of the Group's business performance, for which reason the business divisions' net sales and operating profit are not distributed evenly throughout the year. In particular, Q1 and Q2 are strong, whereas Q2 and Q3 are usually weaker in performance. Since Easter occurred in Q1 this year, the difference between Q1 and Q2 will be diluted for 2008.

#### Outlook for Year-end

The prerequisites for growing demand for Itella's services remain positive. However, the risk of changes in the economic situation is greater than last year, which may be reflected in levels of demand for logistics and market communication services in particular. The accelerating electronic substitution depresses letter volumes while simultaneously offering new growth possibilities for the information logistics markets. Increasing outsourcing, internationalisation, and diversification of delivery channels create potential for service logistics. Itella expects its consolidated net sales to continue rising.

The new two-year collective labour agreement formed in the autumn of 2007 is generating a considerable increase in costs in Finland in comparison with the previous year. Increasing productivity and adjusting production costs to fluctuations in volumes are key prerequisites for maintaining profitability. Reforms in Itella Mail Communication's production structure in Finland will increase investments in fixed assets from those of the previous year.

## Accounting Policies

This interim report is in compliance with IFRS-based recognition and measurement principles. The same accounting policies and calculation methods have been applied as in the previous annual financial statements.