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Finland Post Corporation | Interim Report 2005

January–March

Interim Report for 1 January–31 March 2005

Interim Report for January–March 2005

- Net turnover: EUR 312.4 million (unchanged on previous year)
- Operating profit: EUR 27.2 million (down 7%)
- Profit for the period: EUR 21.5 million (up 4%)

- First quarter company acquisitions and major outsourcing agreements will strengthen the warehousing business
- Information Logistics' net turnover boosted by acquisitions
- Strong growth in unaddressed direct-mail deliveries

Net Turnover and Profit

Finland Post's consolidated net turnover of EUR 312.4 for the period remained almost unchanged on the previous year's level (EUR 313.0 million). While Information Logistics and Logistics improved their net turnover, Messaging posted a slight fall. The growth in Information Logistics was mainly due to company acquisitions. Last spring's divestment of Easy Km Ltd, a subsidiary within Other Business Activities specialising in vehicle leasing and repair services, reduced year-on-year consolidated net turnover.

The consolidated operating profit of EUR 27.2 million remained almost at the previous year's level (EUR 29.3), showing a fall of EUR 2.1 million. Financial income rose to EUR 5.1 million (EUR 1.4 million). A total of EUR 1.5 of this growth was due to the adoption of IFRS-compliant revaluation of financial items. Profit before extraordinary items, appropriations and taxes came to EUR 30.8 million (EUR 29.6 million). Profit for the period totalled EUR 21.5 million (EUR 20.7 million).

Performance by Business Group

Messaging reported a one per cent fall in its net turnover, to EUR 204.6 million (EUR 206.0 million). Growth in mail delivery volumes levelled off, except for unaddressed direct-mail deliveries. Addressed mail deliveries (letters and addressed direct mail) remained at Q1/2004 levels. Growth in unaddressed direct mail deliveries stemmed, for example, from telephone directory deliveries. Newspaper deliveries decreased slightly.

The service standard for letter mail delivery achieved its target defined in the Postal Services Act: an average of 95 per cent of

Key figures of Finland Post Group

	1 Jan–31 March 2005	1 Jan–31 March 2005	Change %	Year 2004
Net turnover, EUR million	312.4	313.0	0	1,235.2
Operating profit, EUR million	27.2	29.3	-7	95.2
Operating margin,%	8.7	9.4		7.7
Return on equity, %	14.1	14.6		12.0
Return on investment, %	18.6	19.0		16.1
Equity ratio, %	64.7	65.6		65.6
Gearing, %	-40.6	-23.4		-35.9
Gross capital expenditure, EUR million	5.5	27.7	-80	78.3
Personnel on average	22,136	23,522	-6	23,544

1st Class letters were delivered on the working day following their posting during the 12-month period ending in March. 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 must be delivered on the working day following their posting and 98 per cent on the second working day. In force since 1 April 2005, this new law will enable Finland Post to deliver newspapers in rural areas earlier in the morning. Finland Post has entered into negotiations with newspaper publishers over new delivery schedules, the first of which will probably be adopted during the current year.

Early March saw the launch of upgraded letter, direct-mail and publication services for contract customers, making it easier for them to use these services. Mailing costs incurred by mailers now depend on the particular service they select. Finland Post also aims to enhance its competitiveness in printed communications and provide, for example, a new, more flexible range of marketing communications services.

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 cost benefits and a more efficient delivery network that better serves customers.

Information Logistics improved its net turnover by 14 per cent to EUR 48.2 million (EUR 42.4 million), this growth coming mainly from last year's corporate acquisitions in Finland and the Baltic countries.

Since late January, Finland Post Group's subsidiaries within the Information Logistics business group have operated under the new marketing name of Itella. These integrated subsidiaries operate in eight Northern and Central European countries under this name. Operating under a single name better facilitates the marketing and development of services.

Itella Finland saw favourable developments in its first-quarter net turnover, thanks to good progress made by eLetter and direct-marketing services.

Net turnover by business group	Share of net turnover %	Net turnover 1 Jan–31 March 2005 EUR million	Net turnover 1 Jan–31 March 2004 EUR million	Change %
Messaging	64	204.6	206.0	-1
Information Logistics	15	48.2	42.4	+14
Logistics	20	64.3	62.6	+3
Other Business Activities	1	11.4	26.5	-58
Internal net turnover		-16.1	-24.5	
Consolidated net turnover	100	312.4	313.0	0

Net turnover posted by Elma Electronic Trading, a subsidiary acquired in 2004 and operating in Finland and the other Nordic countries, continued its upward trend, with eGovernment services, offered to public-sector organisations, and eCommerce services showing a particularly strong expansion.

The Itella Scandinavia companies' net turnover remained at the previous year's level due to markedly intensified competition in Scandinavia. Information management services developed favourably, although printing volumes were lower than a year ago.

The German companies' net turnover remained at the previous year's level. Information management services in Germany too performed better than digital printing services.

Reporting a rapid increase in net turnover, Estonian, Latvian and Lithuanian subsidiaries, acquired last spring, made better-than-expected progress.

Logistics' net turnover rose three per cent to EUR 64.3 million (EUR 62.6 million), due primarily to favourable developments in services provided to corporate customers.

Price competition remained fierce in transport services in Finland. Finland Post's logistics-service volumes did not undergo any major changes year on year, with corporate services and door-to-door deliveries continuing to make good progress.

In early March, Finland Post launched an upgraded range of consumer parcel services offered at post offices, with a view to making it simpler and easier for customers to post their parcels, and increasing the delivery volume of consumer parcels.

The first quarter saw favourable developments in warehouse services' volumes. In addition, Logia Oy, a Finland Post subsidiary, concluded a major agreement for providing Altia Corporation with warehouse services for its imported alcoholic beverages. Altia will gradually transfer its storage operations to Finland Post's soon-to-be completed warehouse adjacent to the Vantaa Logistics Centre.

In March, Finland Post acquired John Nurminen Oy's Fashion Logistics business, which will operate under the name of Logia Moda Oy within Finland Post Group. It will provide the clothing industry, importers and retailers with logistics services for garments, textiles and clothing accessories. A Finland Post Group subsidiary as of early May, Logia Moda Oy will be based in Lahti, Finland and Tallinn, Estonia.

After the report period 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.

Development of Post Office Network

Maintaining its nationwide post office network forms a major source of costs incurred by Finland Post. Finland Post aims to maintain a cost-efficient post office network catering for customers' needs in the best possible way. Based on this aim, in 2005 Finland Post will convert the operations of around 60 of its post offices into sub post offices managed by private entrepreneurs. It aims to run some 200 post offices by the end of 2006, instead of the current number of a little less than 300. The goal is to keep the total number of postal outlets within the network at around today's 1,300.

Financial Position

Consolidated net cash flow from business operations came to EUR 31.6 million (EUR 41.1 million) before investments. The Group held no net interest-bearing liabilities. Liquid assets exceeded its interest-bearing liabilities by EUR 251.0 million (EUR 135.6 million) at the end of the period. The period-end equity ratio stood at 64.7 per cent (65.6 per cent) and gearing was -40.6 per cent (-23.4 per cent). Financial income totalled EUR 5.1 million (EUR 1.4 million), EUR 1.5 million of which stemmed from changed accounting principles. Financial expenses rose to EUR 1.4 million (EUR 0.7 million).

Capital Expenditure

Finland Post Group's capital expenditure of EUR 5.5 million (EUR 27.7 million) reported for the period consisted mainly of construction investments in the warehouse business.

Human Resources

The number of Finland Post Group employees for January–March averaged 22,136 (23,522), while the period-end number of employees totalled 23,693 (23,559). The divestment of Easy Km Ltd and Tampereen Ykkösjakelut Oy decreased the year-on-year number of staff, whereas acquisitions carried out by Information Logistics increased the payroll. Personnel increased within the parent company's delivery services.

Finland Post Group's employee fund held its constitutive meeting on 25 February 2005. All Finland Post Corporation's and domestic subsidiaries' staff are members of the fund. A total of 19 members were elected to the council of representatives that manages the fund.

Changes in Corporate Structure

In early 2005, Leijonajakelu Oy and Jakeluykkönen Oy, subsidiaries operating in the Uusimaa regions, 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.

Board of Directors

Finland Post Corporation's Annual General Meeting of 12 April 2005 elected the following members to the Board of Directors: Eero Kasanen (Chairman), Rector; Mikko Kosonen (Vice Chairman), Senior Vice President, Strategy and Business Infrastructure; Samuli Haapasalo, Director General; Erkki Helaniemi, Partner; Soili Suonoja, Kauppaneuvos (Finnish honorary title); and, a new member, Pirjo Tiiri, Managing Director. The AGM re-elected Antero Palmolahti, National Chief Shop Steward, and Mirja Sandberg, National Chief Shop Steward, as employee representatives.

Antero Kekkonen, MP, and Leena Harkimo, MP, were re-elected as Supervisory Board Chairman and Vice Chairman, respectively.

Prospects towards the Year-End

Finland Post Group expects companies to continue to outsource their operations, contributing favourably to demand for the Group's services. This is expected to result in rather brisk growth in demand for logistics and information logistics services. There are good prospects for steady developments in net turnover and profit performance.

Helsinki, 26 April 2005

Board of Directors

Finland Post Group

Profit and loss account, EUR million	1 Jan–31 March 2005	1 Jan–31 March 2004	1 Jan–31 Dec 2004
Net turnover	**312.4**	**313.0**	**1,235.2**
Other operating income	3.9	4.4	23.3
Operating expenses	289.1	288.1	1,163.3
Operating profit	**27.2**	**29.3**	**95.2**
Share of associated companies' results	0.0	-0.4	0.1
Financial income and expenses	3.6	0.7	5.8
Profit before extraordinary items	**30.8**	**29.6**	**101.1**
Profit before taxes	**30.8**	**29.6**	**101.1**
Income taxes	-9.3	-8.8	-31.5
Minority interest	0.0	-0.1	0.0
Profit for the period	**21.5**	**20.7**	**69.6**

Balance sheet, EUR million	31 March 2005	31 March 2004	31 Dec 2004
Fixed and other non-current assets	**433.7**	**520.0**	**445.8**
Intangible assets	123.8	120.6	127.6
Tangible assets	272.9	345.1	280.9
Long-term investments	37.0	54.3	37.3
Inventories and current assets	**527.9**	**369.5**	**473.0**
Inventories	6.2	8.6	6.4
Receivables and other assets	173.0	155.0	182.5
Short-term investments	328.5	189.1	267.7
Cash and bank receivables	20.2	16.8	16.4
Total assets	**961.6**	**889.5**	**918.8**
Shareholders' equity	**617.8**	**577.6**	**596.3**
Share capital	70.0	70.0	70.0
Other reserves	547.8	507.6	526.3
Minority interest	**0.6**	**1.2**	**0.6**
Provisions	**2.5**	**0.3**	**2.6**
Liabilities	**340.7**	**310.4**	**319.3**
Long-term liabilities	12.2	76.2	12.9
Short-term liabilities	328.5	234.2	306.4
Total shareholders' equity and liabilities	**961.6**	**889.5**	**918.8**

Cash flow statement, EUR million	1 Jan–31 March 2005	1 Jan–31 March 2004	1 Jan–31 Dec 2004
Cash flow before change in net working capital	**39.0**	**45.6**	**151.2**
Change in net working capital	-2.5	-1.6	2.3
Cash flow from operations before financial items and income taxes	**36.5**	**44.0**	**153.5**
Cash flow from financial items and income taxes	-4.9	-2.9	-31.7
Cash flow from operations	**31.6**	**41.1**	**121.8**
Cash flow from investments (net)	**1.8**	**-23.3**	**4.9**
Change in long-term and short-term loans	27.6	6.3	5.6
Dividends paid	0.0	0.0	-30.1
Cash flow from financing	**27.6**	**6.3**	**-24.5**
Change in liquid assets	**61.0**	**24.1**	**102.2**
Liquid assets at period-start	284.0	181.8	181.8
Change in liquid assets at fair value	3.7		
Liquid assets at period-end	348.7	205.9	284.0

Assets pledged and contingent liabilities, EUR million	31 Mach 2005	31 March 2004	31 Dec 2004
Mortgages on real estate:			
Loans from financial institutions	0.5	1.4	0.8
Mortgages given	1.7	2.7	1.7
Other pledges for the Group	14.0	13.1	12.8
Pledges for other companies	0.1	0.1	0.4
Leasing liabilities	43.8	7.4	42.3
Remaining rental agreement commitments	67.6	79.7	75.2
Other liabilities	-	1.3	-

Derivative contracts, EUR million	31 March 2005	31 March 2004	31 Dec 2004
Foreign exchange forward contracts			
Market value	-0.0	-0.0	-0.0
Underlying value	4.7	5.5	3.0
Interest-rate swaps			
Market value	-0.1	-0.5	-0.3
Underlying value	15.7	31.4	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 32.

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