

Finland Post Corporation Interim Report for January–March 2007

Introduction

This interim report is based on IFRS-compliant recognition and measurement principles, applying the same accounting policies and practices as the Annual Report 2006.

At the turn of the year 2006/2007, the Group carried out some restructuring in its organisation, which also affected segment figures in this report. In addition, the Group specified cost-allocation principles governing other business activities. For these reasons, segment comparatives for 2006 differ from the financial statements of the previous year's interim reports and accounts.

Market Overview

For Finland Post Group's business, January–March 2007 saw favourable economic development, reflected in sustained demand for the Group's services, thanks to economic and foreign-trade buoyancy.

However, there are signs of intensifying competition. Ever-toughening competition from electronic communications and media is affecting developments in addressed letter mail and printed newspapers.

Net Sales and Profit Performance

Finland Post's consolidated net sales for the first quarter of 2007 came to EUR 431.5 million (EUR 384.9 million for January–March 2006), up by 12 per cent, organic growth accounting for 8 percentage points and company acquisitions for 4 percentage points. With all business groups reporting improvements in their net sales, Logistics recorded particularly strong growth. Consolidated net sales increased by 7 per cent in Finland and 31 per cent elsewhere, while international operations represented 25 per cent (21 per cent) of consolidated net sales.

Consolidated operating profit for the period improved by 22 per cent, to EUR 45.9 million (37.6), accounting for 11 per cent of net sales (10 per cent). In particular, Mail Communication showed an improvement in its net sales.

Finland Post Group

Key Figures

	Q1/2007	Q1/2006	Change	2006
Net sales, EUR million	431.5	384.9	12.1 %	1,550.6
Operating profit (EBIT), EUR million	45,9	37.6	22.1 %	89.0
Operating margin, %	10.6	9.8		5.7
Profit before income tax	48,2	38,7	24.5 %	94,4
Return on equity, %	10,8	10.4		10.1
Equity ratio, %	63,1	65.4		65.1
Gearing, %	-24,6	-25.2		-32.1
Gross capital expenditure, EUR million	16,1	16.3	-1.2 %	69.5
Average personnel	24,787	24,482	1.2 %	25,294

Mail Communication

Mail Communication's January–March net sales rose by 5 per cent, to EUR 232.7 million (222.4), delivery services for newspapers/magazines, direct mail and letters showing growth.

1st and 2nd class letter volumes increased by a total of 2 per cent, year on year. The first quarter saw an exceptionally strong performance due to the general election. In comparable terms, letter mail volumes continued to fall.

Year on year, unaddressed direct-mail delivery volumes grew by 33 per cent, but with lower price levels. The volume of magazine deliveries rose by 2.6 per cent.

Reported operating profit amounted to EUR 36.0 million (27.7), accounting for 15 per cent (12 per cent) of net sales. Brisk demand for all of the business group's services and more efficient use of its own delivery network contributed to this profitability improvement.

Information Logistics

Information Logistics reported a 15 per cent net sales improvement, to EUR 51.0 million (44.4), with all product groups and countries generating growth except Germany.

Operating profit rose to EUR 4.3 million (2.3), accounting for 8 per cent (5 per cent) of net sales, due to the already-completed streamlining measures, especially in Germany, and favourable development in new services, especially in Sweden.

Early 2007 saw the acquisition in Sweden of Infologistics AB, engaged in electronic invoicing, the digitisation of information in print format and the quality assurance of business-critical databases. This acquisition, combined with that of DigiDoc AB in late 2006, increased the payroll by 139 employees and will contribute roughly EUR 12 million to annual net sales.

The end of the first quarter marked the beginning of Information Logistics' reorganisation in Finland, aimed at simplifying corporate office functions and the Finnish subsidiary's organisation.

Logistics

Logistics increased its year-on-year net sales to EUR 151.6 million (121.7), up by 25 per cent, last year's acquisitions accounting for 12 percentage points. Roadlink AB of Sweden has been included in Group accounts since 1 March 2006 and Universal Spedision AS of Norway since 1 September 2006.

By region, Finland and other non-Nordic countries showed the strongest growth. Parcel services continued to record vigorous growth in net sales in Finland. In particular, B2B parcels made good progress during the reporting period.

Reported operating profit came to EUR 10.6 million (9.7), accounting for 7 per cent (8 per cent) of net sales. This growth was due to favourable developments in B2B parcel volumes.

After the relevant authorities had granted all of the permits required for the logistics centre business in Moscow, contract logistics operations started at the end of the quarter.

Key Figures of Business Groups

	Q1/2007	Q1/2006	Change	2006
Mail Communication				
Net sales, EUR million	232,7	222,4	4,6 %	869,6
Operating profit, EUR million	36,0	27,7	30,0 %	73,6
% of net sales	15,5 %	12,5 %		8,5 %
Information Logistics				
Net sales, EUR million	51,0	44,4	14,9 %	171,3
Operating profit, EUR million	4,3	2,3	87,0 %	-5,2
% of net sales	8,4 %	5,2 %		-3,0 %
Logistics				
Net sales, EUR million	151,6	121,7	24,6 %	530,0
Operating profit, EUR million	10,6	9,7	9,3 %	35,3
% of net sales	7,0 %	8,0 %		6,7 %
Other operations				
Net sales, EUR million	4,0	4,8	-16,7 %	21,6
Operating profit, EUR million	-5,0	-2,1		-14,7
% of net sales	-125,0 %	-43,8 %		-68,1 %
Intra-Group sales, EUR million	-7,8	-8,4	-7,1 %	-41,9
Finland Post Group				
Net sales, EUR million	431,5	384,9	12,1 %	1550,6
Operating profit, EUR million	45,9	37,6	22,1 %	89,0
% of net sales	10,6 %	9,8 %		5,7 %

Financial Position and Capital Expenditure

Consolidated net cash flow from operating activities totalled EUR –37.0 million (–36.7) before investing activities. As in the previous year, cash flow was affected by pre-paid, full-year pension contributions EUR 119.3 million (106.1). Capital expenditure totalled EUR 16.1 million (16.3), company acquisitions accounting for EUR 7.2 million (6.3). On 31 March 2007, cash and cash equivalents stood at EUR 205.2 million (213.9) and interest-bearing liabilities were EUR 35.8 million (33.4). Equity ratio stood at 63.1 per cent (65.4 per cent) and gearing was –24.6 per cent (–25.2 per cent).

Following the end of the first quarter, Finland Post Corporation paid out EUR 27 million in dividends to its shareholder, in addition to EUR 4.2 million in bonuses paid into the Employee Fund.

Human Resources

The number of Finland Post Group employees for January–March averaged 24,787 (24,482), while the period-end staff totalled 24,767 (24,955). This year-on-year increase in Group staff numbers stemmed from company and business acquisitions carried out by Logistics and Information Logistics. On 31 March 2007, Group staff numbers

by segment were as follows: Mail Communication 18,589, Information Logistics 1,564, Logistics 4,002 and other Group operations 612.

Changes in Corporate Structure

At the turn of 2006/2007, Finland Post Group purchased Infologistics AB of Sweden and the scanning operations of DigiDoc AB of Sweden.

AGM's Decisions

The Annual General Meeting (AGM) of 27 March 2007 re-elected the following Board members: Eero Kasanen (Chairman), Rector; Mikko Kosonen (Vice Chairman), Senior Vice President; Kalevi Alestalo, Financial Counsellor; Hele-Hannele Aminoff, General Manager; Erkki Helaniemi, Partner; and Soili Suonoja, Kauppaneuvos (Finnish honorary title); and elected Maarit Toivanen-Kuusisto, Chairman of Onninen Group Board of Directors, a new Board member. The AGM re-elected Antero Palmolahti, National Chief Shop Steward, and Mirja Sandberg, National Chief Shop Steward, to the Board as employee representatives.

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

The AGM re-elected KPMG Oy Ab, Authorised Public Accountants, the company's auditor, with Reino Tikkanen as the chief auditor.

Based on the AGM's decision, on 1 June 2007 Finland Post Corporation will be renamed Itella Corporation while Finland Post Group will become Itella Group.

Prospects towards the Year-end

Since January–March typically sees strong performances within the postal sector, it does not reflect our full-year profit performance. However, prospects towards the end of the year look favourable, due to the Finnish economy's sustained growth and foreign-trade buoyancy. The trend away from letter mail towards electronic services is expected to intensify.

Greater volume fluctuations will make it more difficult to manage production costs and allocate resources. Moreover, a boom may weaken the supply of production resources.

Finland Post expects its consolidated net sales to continue rising in 2007. Modernising its production structure will add to capital expenditure. There is every prospect of outperforming the previous year's financial results.