

Itella Corporation Interim Report for January–June 2008

Market Overview

The general economical downtrend was not yet evident in the demand for Itella services with the exception of the Danish and Baltic business operations. Demand remained strong in Russia. Insecurities in the international financial and capital markets did not have an adverse effect on demand.

There were no changes in the competitive situation. The first merger of two national postal companies in Sweden and Denmark is proceeding apace.

Net Sales and Profit Performance

Itella Group's consolidated net sales rose during the first half of 2008 to EUR 923.5 million (EUR 850.9 million in January–June 2007), up by 8.5 per cent, organic growth accounting for 5.1 percentage points and company acquisitions for 3.4 percentage points. Net sales grew in all business groups. Finland represented 3.6 per cent and other countries 22.6 per cent of Group growth. International operations represented 29 per cent (26 per cent) of consolidated net sales.

Consolidated operating profit decreased by 33.1 per cent, to EUR 43.9 million (EUR 65.6 million), accounting for 4.8 per cent (7.7 per cent) of consolidated net sales. Itella Mail Communication and Itella Logistics showed a decrease while Itella Information showed an improvement in operating profit. The most important reasons for the weaker profitability were the brisk increase in labour expenses as a result of last autumn's collective labour agreements and increased fuel costs.

| Key figures of Itella Group | Q2/2008 | Q2/2007 | Change | H1/2008 | H1/2007 | Change | 2007 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Net sales, MEUR *) | 470.6 | 413.0 | 13.9 % | 923.5 | 850.9 | 8.5 % | 1,710.6 |
| Operating profit (EBIT), MEUR | 10.6 | 19.7 | -46.2 % | 43.9 | 65.6 | -33.1 % | 101.8 |
| EBIT margin, % | 2.3 | 4.8 | | 4.8 | 7.7 | | 6.0 |
| Profit before tax, MEUR | 8.7 | 21.4 | -59.3 % | 44.0 | 69.6 | -36.8 % | 109.5 |
| Return on equity, % | | | | 8.2 | 11.8 | | 11.1 |
| Return on investment, % | | | | 12.5 | 16.2 | | 15.6 |
| Equity ratio, % | | | | 64.5 | 66.1 | | 65.9 |
| Gearing, % | | | | -20.9 | -26.6 | | -36.4 |
| Personnel on average | 26,610 | 26,232 | 1.4 % | 25,920 | 25,509 | 1.6 % | 25,623 |
| Capital expenditure, MEUR | 30.5 | 22.1 | 38.0 % | 61.2 | 38.2 | 60.2 % | 94.2 |

*) The calculation principles for net sales were changed in Q2 compared to the previous year. The net sales figures have been converted into comparable figures in the above table.

Itella Mail Communication

In January–June, Itella Mail Communication improved its net sales by 1.6 per cent, to EUR 454.7 million (EUR 447.5 million).

Compared to last year's figures, first and second-class letter volumes increased by a total of 3 per cent.

Unaddressed direct-mail delivery volume remained at last year's level. The volume of newspaper deliveries decreased by 3 per cent from that of the previous year, while the volume for magazine deliveries decreased by 1 per cent.

Reported operating profit came to EUR 41.5 million (EUR 53.5 million), accounting for 9.1 per cent (12.0 per cent) of net sales. The reduced profitability was a result of an increase in production costs, especially personnel costs.

In February, 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 by 11.2 per cent to EUR 122.7 million (EUR 110.3 million). Net sales improved for all product lines, with the exception of Transactional Messaging, which handles invoicing process related services and EDI solutions. Geographically speaking, net turnover improved in all countries of operation.

Reported operating profit came to EUR 6.6 million (EUR 4.2 million), accounting for 5.4 per cent (3.8 per cent) of net sales. The improvement was due to streamlining measures in all product lines.

In June, the joint venture established by Norway Post and Itella Information began operations in Norway. It combines Itella Information's operations in Norway and Norway Post's information logistics services. Itella owns 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.

In May, a new subsidiary established in Poland, Itella Information sp. z o.o began operations. The operations of the Polish company BusinessPoint S.A., acquired in January, were transferred to it. The company's annual net sales are some EUR 10 million.

Itella Logistics

The net sales of Itella Logistics rose in the first half to EUR 360.7 million (EUR 307.3 million), showing an increase of 17.4 per cent, company acquisitions during the previous or the current year accounting for 8.2 percentage points.

The business group posted an operating profit of EUR 5.3 million (EUR 15.8 million), accounting for 1.5 per cent (5.1 per cent) of net sales. The decrease was due to higher production costs, investments in service warehousing operations in Russia, and the decrease in road traffic volumes over the last few months, especially in the Baltic region and Denmark.

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, Hansar Logistics AB, a Swedish associated company of Kauko Group, was fully acquired. Its net sales came to EUR 15 million in 2007, and it employed 35 people. These companies are included in Itella Group's figures from April onwards.

In April, Itella entered into an agreement concerning the acquisition of the Russian logistics group NLC (National Logistic Company). With a staff of roughly 6,000, NLC's net sales for 2008 will be around EUR 180 million. The selling parties in the deal are RosEvoGroup and the capital investment funds administered by Citi Venture Capital International (CVCI). The purchase price for the shares is some EUR 200 million. RosEvoGroup will continue to operate as a minority shareholder with a share of 10 per cent until the end of the year 2010, and the current customs clearance operations of NLC will be transferred to it in full as a consequence of this transaction. The acquisition of the 10 per cent minority share, to be concluded at a later date, will increase the total purchase price by a minimum of some EUR 20 million. Real estate owned by NLC forms a significant part of the total value of the acquisition. Interest-bearing liabilities on NLC's balance sheet amount to some EUR 100 million. The purchase price is intended to be paid using Itella's cash assets and existing credit limit. Official permissions required for the acquisition have been received, and the transaction will be concluded at the end of August.

In June, Itella sold the 51 per cent ownership of the Danish CF Geologistics A/S, and the company will no longer be included in the Group's figures. The deal has no significant effect on the figures of Itella Logistics.

Key Figures of Business Groups, EUR million

| | Q2/2008 | Q2/2007 | Change | H1/2008 | H1/2007 | Change |
|------------------------------|----------|----------|---------|----------|----------|---------|
| Itella Mail Communication | | | | | | |
| Net sales | 222,0 | 214,8 | 3,4 % | 454,7 | 447,5 | 1,6 % |
| Operating profit (EBIT) | 13,7 | 17,5 | -21,7 % | 41,5 | 53,5 | -22,4 % |
| EBIT margin, % | 6,2 % | 8,1 % | | 9,1 % | 12,0 % | |
| Itella Information | | | | | | |
| Net sales *) | 60,6 | 52,9 | 14,6 % | 122,7 | 110,3 | 11,2 % |
| Operating profit (EBIT) | 1,3 | -0,1 | .. | 6,6 | 4,2 | 57,1 % |
| EBIT margin, % | 2,1 % | -0,2 % | | 5,4 % | 3,8 % | |
| Itella Logistics | | | | | | |
| Net sales | 194,9 | 155,7 | 25,2 % | 360,7 | 307,3 | 17,4 % |
| Operating profit (EBIT) | 2,3 | 5,2 | -55,8 % | 5,3 | 15,8 | -66,5 % |
| EBIT margin, % | 1,2 % | 3,3 % | | 1,5 % | 5,1 % | |
| Other activities | | | | | | |
| Net sales | 4,4 | 2,5 | 76,0 % | 8,7 | 6,5 | 33,8 % |
| Operating profit/loss (EBIT) | -6,7 | -2,9 | .. | -9,5 | -7,9 | .. |
| EBIT margin, % | -152,3 % | -116,0 % | | -109,2 % | -121,5 % | |
| Intra-Group sales | -11,3 | -12,9 | | -23,3 | -20,7 | .. |
| Itella Group | | | | | | |
| Net sales | 470,6 | 413,0 | 13,9 % | 923,5 | 850,9 | 8,5 % |
| Operating profit (EBIT) | 10,6 | 19,7 | -46,2 % | 43,9 | 65,6 | -33,1 % |
| EBIT margin, % | 2,3 % | 4,8 % | | 4,8 % | 7,7 % | |

*) The calculation principles for net sales were changed in Q2 to the previous year. The net sales figures have been converted into comparable figures in the above table. The effect of change was +22,3 MEUR in 2007 into net sales but had no effect into profit.

Financial Position and Capital Expenditure

Consolidated net cash flow from operating activities totalled EUR -12.0 million (EUR +25.3 million) before investing activities. As in the previous year, cash flow for the first part of the year was affected by pre-paid, full-year pension contributions of EUR 128 million (EUR 119 million). Net cash flow from operating activities shrank due to the decrease in profit.

Capital expenditure totalled EUR 61.2 million (EUR 38.2 million), company acquisitions accounting for EUR 24.8 million (EUR 11.6 million). The most significant investments were allocated to mail processing sorting machines and premises in Finland.

Dividends for 2007 of EUR 39.0 million (EUR 27.0 million) were paid to shareholders.

At the end of June, cash and cash equivalents stood at EUR 187.7 million (EUR 216.8 million) and investments issued in commercial papers amounted to EUR 7 million at the end of the period. The Group's interest-bearing liabilities totalled EUR 35.6 million (EUR 34.8 million). Equity ratio was 64.5 per cent (66.1 per cent) and gearing stood at -20.9 per cent (-26.6 per cent).

Human Resources

The number of Itella Group employees for January–June averaged 25,920 (25,509), while the period-end staff totalled 27,975 (27,697). This year-on-year increase in Group staff numbers stemmed from company acquisitions carried out by Itella Logistics and Itella Information. At the end of the report period, Group staff numbers by segment were as follows: Itella Mail Communication 21,294, Itella Information 1,744, Itella Logistics 4,909, and other Group operations 28.

In joint discussions concerning Itella Information's printing operations, the required reduction was specified to 20 persons, with 12 persons to be reassigned. In connection with the renewal of Posti's sales network, the human resources are expected to be reduced by a total of 70 work-years. In joint discussions at Itella Mail Communication concerning Itella TGM's production, the required reduction was specified to 38 work-years.

In June the maintenance and small-scale development of the SAP systems was outsourced to Accenture Oy, with 15 Itella staff transferred to Accenture.

In January–June, Itella concluded about a thousand new permanent employment contracts in Finland. The Group is also a major provider of seasonal employment.

Changes in Corporate Structure

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

The Finnish company Kauko Group Oy, specialising in international freight, was purchased into the Itella Logistics business group. In connection with the deal, the entire share capital of its Swedish associated company, Hansar Logistics AB, was purchased. In 2007, Kauko Group's net sales came to some EUR 56 million. It employs 110 people. The net sales of Hansar Logistics was EUR 15 million, and it employs 35 people. These companies are included in Itella Group's figures from April onwards.

Itella Logistics business group's 51 per cent share in CF Geologistics A/S was sold in June.

May saw the beginning of operations of Itella Information sp. z o.o, into which the business operations of the Polish BusinessPoint S.A., purchased in January, were transferred. The joint venture Itella Information AS, of which Itella owns 51 per cent and Norway Post 49 per cent, began operations in June.

Short-term Business Risks and Uncertainties

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

The general uncertainty concerning economical trends makes it more difficult to anticipate the development of the demand for Itella services.

The conclusion of the NLC acquisition will significantly increase Itella's presence in Russia. The continuing strong growth in demand for warehouse services increases the risk related to the Russian market in Itella's business operations.

Seasonal Operations

Seasonal fluctuation is characteristic of the Group's business performance, for which reason the business group's net sales and operating profit are not distributed evenly throughout the year. In particular, Q1 and Q4 are strong, whereas Q2 and Q3 are usually weaker in performance. Since Easter occurred in Q1 this year, the difference between Q1 and Q2 was diluted for 2008.

Prospects towards the year-end

An economical downtrend is evident, and is likely to be initially reflected in the demand for logistics and marketing communication. Prospects for the demand of Itella's other services remain strong. Itella Group's net sales are estimated to continue to grow due to the company acquisitions in early 2008 and the NLC deal is to be concluded in the second half.

The sharp increase in production costs from the previous year will adversely impact profitability. Retaining the profitability will require improving the productivity and adjusting the production costs to fluctuations in the volume.

Reforms in Itella Mail Communication's production structure in Finland will increase investments in fixed assets from those of the previous year. The NLC acquisition will have a major impact in Itella Group's balance sheet and financing.

Accounting Policies

This interim report is carried out 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.