

April 30, 2009

Itella Corporation
Board of Directors' Report
Interim Report January-March 2009

Market Overview

The global economic downturn has significantly decreased the demand for Itella's services. In Finland, the logistic and mail volumes saw a sharp decline in the first quarter compared with the same period a year earlier. Customer business volumes and the number of transactions also fell in other operating countries, thereby reducing the demand for Itella's services. Competition for the decreasing volumes is becoming increasingly fierce. The growing competition is affecting the parcel delivery business in particular.

In the next few years, the European postal industry will face a major structural change as postal industry competition will be promoted through a Directive reform. In addition to legislative changes, the growing electronic communication is affecting the industry.

Net Sales and Profit Performance

Itella Group's consolidated net sales rose to EUR 477.6 million in the first quarter of 2009 (EUR 452.9 million in January-March 2008). Net sales grew by 5.5% with acquisitions accounting for 11.6%. Acquisitions excluded, net sales fell by 6.1%. Itella Information and Itella Logistics were able to increase their net sales while Itella Mail Communication saw its net sales drop. Finland represented 0.8% and other countries 18.1% of Group growth. International operations accounted for 30% (27%) of net sales.

Consolidated EBIT decreased by 40.2% in the first quarter to EUR 19.9 million (EUR 33.3 million), representing 4.2% (7.4%) of net sales. EBIT shrank in all business groups.

The Group's net financing cost was EUR -28.0 million (EUR +2.0 million). The consolidated income statement included EUR 21.9 million net in exchange rate losses due in particular to the weakening of the Russian ruble, EUR 4.4 million of which were realized losses. Consolidated loss after financial items was EUR -8.1 million (EUR +35.3 million). Income tax totaled EUR 2.7 million (EUR 10.0 million) and the Group recorded a net loss of EUR -10.8 million (net profit of EUR 25.3 million).

Itella's Key Figures	Q1/ 2009	Q1/2008	2008
Net sales, MEUR	477.6	452.9	1,952.9
Operating profit (EBIT), MEUR	19.9	33.3	95.1 *)
EBIT margin, %	4.2	7.4	4.9 *)
Profit before income tax, MEUR	-8.1	35.3	46.6
Return on equity, %	-2.5	9.7	2.6
Return on investment, %	11.7	13.7	12.4
Equity ratio, %	49.0	64.1	51.1
Gearing, %	21.7	-16.5	14.8
Personnel on average	30,372	25,228	28,163
Gross capital expenditure, MEUR	35.9	30.7	351.5

*) excl. non-recurring item

Itella Mail Communication

Itella Mail Communication recorded net sales of EUR 231.7 million (EUR 232.7 million) in January–March, showing a decrease of 0.4%.

- First-class letter volume declined by 10% from the same period a year earlier.
- Second-class letter volume remained largely unchanged from the previous year.
- Addressed direct mail volumes fell by 14% in January–March from the previous year.
- Subscription newspaper delivery volumes decreased by 2% and magazine delivery volumes by 1% from the previous year.
- No volume decline was seen in unaddressed direct mail delivery.

This year, Easter occurred after the first quarter, which affected both volumes and profitability.

Itella Mail Communication posted EBIT of EUR 24.0 million (EUR 27.8 million), representing 10.4% (11.9%) of net sales. The decline in profitability could be attributed to the decrease in net sales, particularly in important major products. The mail sorting and delivery development project moved ahead as planned.

Itella Information

Itella Information's net sales were up by 9.5% to EUR 68.0 million (EUR 62.1 million). The 10.0 percentage point growth could be attributed to the acquisitions made last year. Excluding the impact of acquisitions, net sales fell by 0.5%. Net sales picked up in all operating countries and product lines.

Itella Information posted EBIT of EUR 5.1 million (EUR 5.3 million), representing 7.5% (8.5%) of net sales. Profitability weakened due to the volume decline, particularly in multi-channel invoicing services, resulting from the general economic downturn.

Itella Logistics

Itella Logistics improved its net sales to EUR 186.7 million (EUR 165.8 million) in the first quarter. Net sales grew by 12.6% with acquisitions made last year accounting for 27.7 percentage points. Excluding the impact of acquisitions, net sales fell by 15.1%.

Itella Logistics' EBIT were -3.8 million negative (EUR 3.0 million positive), representing -2.0% (+1.8%) of net sales. The main reason for the negative earnings trend was the 10% parcel delivery volume decline in Finland from the previous year. The fall in logistics volumes that began in all countries and in almost all market areas last year also had a negative effect on profit performance.

Due to the weak market conditions, a decision was made to postpone the scheduled construction of a logistics center in Orimattila, Finland.

Key Figures of Business Groups, MEUR

	Q1/2009	Q1/2008	Change
Itella Mail Communication			
Net sales	231,7	232,7	-0,4 %
Operating profit (EBIT)	24,0	27,8	-13,7 %
EBIT margin,%	10,4 %	11,9 %	
Itella Information			
Net sales	68,0	62,1	9,5 %
Operating profit (EBIT)	5,1	5,3	-3,8 %
EBIT margin,%	7,5 %	8,5 %	
Itella Logistics			
Net sales	186,7	165,8	12,6 %
Operating profit/loss (EBIT)	-3,8	3,0	..
EBIT margin,%	-2,0 %	1,8 %	
Other activities			
Net sales	4,1	4,3	-4,7 %
Operating profit/loss (EBIT)	-5,4	-2,8	..
EBIT margin,%	-131,7 %	-65,1 %	
Intra-Group sales	-12,9	-12,0	..
Itella Group			
Net sales	477,6	452,9	5,5 %
Operating profit (EBIT)	19,9	33,3	-40,2 %
EBIT margin,%	4,2 %	7,4 %	

Financial Position and Capital Expenditure

Consolidated net cash flow from operating activities totaled EUR 7.5 million (EUR -76.8 million) before investing activities. Net cash flow from operating activities improved from last year as a result of a change in the payment of employee pension insurance contributions, which are payable quarterly this year instead of as an advance payment made in the first quarter.

The EUR 2.7 million (EUR 5.9 million) paid into the personnel fund under the employee profit-sharing scheme for the financial year 2008 was paid in the first quarter, as in the previous year.

Capital expenditure amounted to EUR 35.9 million (EUR 30.7 million). No acquisitions were made in this quarter whereas EUR 15.8 million was spent on acquisitions a year earlier. Dividends for 2008 paid to shareholders totaled EUR 10.0 million (EUR 39.0 million).

At the end of March, liquid assets stood at EUR 131.2 million (EUR 178.8 million) and undrawn committed credit facilities totaled EUR 185.0 million (EUR 200.0 million). Commercial papers issued amounted to EUR 80.8 million at the end of the period. The Group's interest-bearing liabilities were EUR 276.2 million (EUR 60.0 million). Equity ratio stood at 49.0% (64.1%) and gearing was 21.7% (-16.5%).

Personnel

In January–March, the Itella Group employed an average of 30,372 people (25,228). The number of personnel at the end of the period was 30,361 (25,245) with 22,535 (23,099) based in Finland.

The number of Group personnel grew from the corresponding period a year earlier as a result of Itella Logistics' acquisitions. At the end of the period, the Group employed personnel by segment as follows: Itella Mail Communication 18,159; Itella Information 2,165; Itella Logistics 9,999; and other Group functions 38.

At the beginning of the year, Itella conducted statutory labor negotiations in Finland affecting 325 people in administrative and production functions. The negotiations resulted in 70 jobs being made redundant: 53 employees were offered relocation and 17 employees opted for a pension solution.

Itella Logistics is conducting statutory labor negotiations on lay-offs at its logistics center near Helsinki. The negotiations concern employees working in sorting and terminal operations at the logistics center, a total of around 460 employees. By resorting to lay-offs, Itella is seeking to identify a flexible method of adapting production to the changes in demand, which are expected to be temporary. The need for lay-offs will be a maximum of 60 days per person. The lay-offs have initially been planned to take effect in stages between April 2009 and April 2010.

In January–March, the Itella Group signed 200 new, permanent employment contracts in Finland.

In operations outside Finland, Itella took various adjustment measures that resulted in a personnel reduction of approximately 500 employees.

Changes in Corporate Structure

Itella sold its holding in Oy Confidea Business Consulting Oy, part of the Itella Logistics business group. Prior to the sale, Itella held a 69.9% share in the company. The sale will not have a material impact on Itella's figures.

AGM Decisions

Itella Corporation's Annual General Meeting held on March 27, 2009 decided to pay out EUR 10.0 million in dividends to its shareholders for its 2008 profit.

Päivi Pesola, Vice President, Business Control, Fortum Power and Heat Oy, was elected as a new member to Itella's Board of Directors. Eero Kasanen, Rector, was re-elected as Board Chairman, and Mikko Kosonen, President, as Vice Chairman. The AGM re-elected the following Board members: Kalevi Alestalo, Financial Counsellor; Hele-Hannele Aminoff, General Manager; Erkki Helaniemi, Partner; Riitta Savonlahti, Executive Vice President; Maarit Toivanen-Koivisto, General Manager and, as employee representative, Antero Palmolahti, National Chief Shop Steward.

The Supervisory Board continues in same composition: Eero Lehti, MP (National Coalition Party) was re-elected as the new Supervisory Board Chairman, and Antti Rantakangas, MP (Centre Party) as the Supervisory Board Vice Chairman. The following Supervisory Board members were re-elected: Birgitta Gran, Social Services Ombudsman (Left Alliance); Sirpa Hertell, Secretary General (Green Party); Susanna Huovinen, MP (Social Democratic Party); Harri Jaskari, MP (National Coalition Party); Bjarne Kallis, MP (Christian Democrats); Lauri Kähkönen, MP (Social Democratic Party); Outi Mäkelä, MP (National Coalition Party); Reijo Ojennus, entrepreneur (True Finns); Pertti Salovaara, MP (Centre Party); and Harry Wallin, engine driver (Social Democratic Party).

Short-Term Business Risks and Uncertainties

There has been no material change in the risks and uncertainty factors from those reported in the latest Annual Report.

Seasonal Fluctuation

Seasonal fluctuation is characteristic of the Group's business operations. Net sales and earnings in the business segments are not accrued evenly over the year. The first and fourth quarters are typically strong while performance in the second and third quarter is often weaker. Due to the timing of Easter this year, the difference between the first and the second quarter is more distinct than it was last year.

Outlook for the Rest of the Year

The economic recession is clearly affecting the demand for Itella's services. Moreover, the economic recession may rapidly accelerate the digitization process and electronic communications, with a major impact on changes in long-term demand for Itella's services. In some business areas, market overcapacity may lead to more aggressive price competition. On the other hand, Itella also sees the downturn as an opportunity for offering extensive integrated solutions to customers.

Technically, the Group's net sales for 2009 will be boosted by the previous year's acquisitions, which were not included in the consolidated accounts for the entire fiscal year of 2008. The downward trend in volumes and in the number of transactions will have an adverse effect on net sales development. Exchange rate fluctuations will have a greater impact on Itella's figures than in previous years.

Measures and projects aimed at improving work productivity will be a key priority, particularly in Itella Mail Communication. The entire Group has taken action to lower costs with special emphasis on cutting overhead. In addition, measures have been taken to enhance discretionary cost management and control. Savings achieved by adjusting the number of employees will not yet show in 2009. The full-year earnings before non-recurring items will fall short of the previous year's figures.

The timing and number of acquisitions and other investments will be considered carefully. However, the level of capital expenditure will remain above the long-term average, due to the ongoing projects of Itella Mail Communication in Finland.

Events after the Reporting Period

Itella Group companies in Finland initiated statutory labor negotiations. The negotiations will affect both administrative and production functions. All in all, the negotiations will concern around 2,200 people. According to a preliminary estimate, up to approximately 390 permanent employees may be made redundant.

In the Itella Information business group, Swedish contact center business was transferred to a joint venture in which Itella is a minority shareholder. The eFlow business related to invoice automation solutions, part of Itella's Norwegian company, was sold. As a result of these measures, the number of personnel employed by Itella Information decreased by 70 from the beginning of the year. These arrangements have no material impact on the business group's result.

Accounting Policies

The interim report was prepared in accordance with IFRS-based recognition and measurement principles. As of January 1, 2009, the Group applies the following new and revised standards: IFRS 8 Operating segments and IAS 1 Presentation of financial statements. In other respects, the accounting policies applied in the preparation of financial statements for 2008 have been applied here.