

26 October 2007

## Itella Corporation Interim report for January–September 2007

### Net Sales and Profit Performance

#### July-September

The Corporation's consolidated net sales grew to EUR 391.2 million (EUR 359.8 million), an increase of 9 per cent. Excluding corporate acquisitions, the increase was 5 per cent. Net sales increased in all business areas, in particular in Itella Logistics. The increase was 6 per cent in Finland and 17 per cent in other countries. International operations represented 27 per cent (25 per cent) of consolidated net sales.

Consolidated operating profit decreased by 9 per cent, to EUR 14.1 million (EUR 15.5 million), accounting for 3.6 per cent (4.3 per cent) of consolidated net sales. Operating profit improved in Itella Mail Communication and Itella Information, and declined in Itella Logistics. The profit for the period included a business operations sales profit of EUR 2 million, which was simultaneously undermined by write-downs totalling EUR 3.8 million pertaining to applications and fittings.

#### January-September

Consolidated net sales grew to EUR 1,230.9 million (EUR 1,120.6 million), an increase of 10 per cent. Excluding corporate acquisitions, the increase was 6 per cent. Net sales increased in all business areas, in particular in Itella Logistics and Itella Information. The increase was 6 per cent in Finland and 24 per cent in other countries. International operations represented 26 per cent (23 per cent) of consolidated net sales.

Consolidated operating profit increased by 18 per cent, to EUR 79.7 million (EUR 67.6 million), accounting for 6.5 per cent (6.0 per cent) of consolidated net sales. Operating profit improved in Itella Mail Communication and Itella Information, and declined in Itella Logistics. The profit for the period was affected by write-downs totalling EUR 6.9 million pertaining to IT systems, applications and fittings. As an exception to the previous year, the Group made an expense provision totalling EUR 5.5 million, for the employee's profit-sharing scheme.

Itella Group							
Key Figures	7-9	7-9	Change	1-9	1-9	Change	1-12
	2007	2006	%	2007	2006	%	2006
Net sales. EUR million	391,2	359,8	8,7	1,230.9	1,120.6	9,8	1,550.6
Operating profit (EBIT). EUR million	14,1	15,5	-9,0	79,7	67,6	17,9	89,0
Operating margin. %	3,6	4,3		6,5	6,0		5,7
Profit before income tax. EUR million	15,5	16,4	-5,5	85,1	70,9	20,0	94,4
Return on equity. %				11,4	9,1		10,1
Equity ratio. %				64,1	67,9		65,1
Gearing. %				-23,6	-20,4		-32,1
Gross capital expenditure. EUR million	34,8	21,8	59,6	73,0	51,5	41,7	69,5
Average personnel	26,360	25,707	2,5	25,793	25,087	2,8	25,294

### Itella Mail Communication

In July-September, net sales amounted to EUR 197.7 million (EUR 192.4 million), an increase of 3 per cent. In January-September, net sales amounted to EUR 645.2 million (EUR 626.3 million), an increase of 3 per cent.

In July-September, operating profit came to EUR 14.1 million (EUR 7.6 million), accounting for 7.1 per cent (4.0 per cent) of net sales. In January-September, operating profit was EUR 67.6 million (EUR 45.5 million), accounting for 10.5 per cent (7.3 per cent) of net sales. The profitability improvement that began in Q1 and Q2 continued in Q3, due to brisk demand for all of the business group's services and more efficient use of its delivery network.

The office services business of Itella's Inhouse unit were sold to ISS Palvelut Oy. The annual net sales of the business in question amounted to approximately EUR 10 million, and its 300 employees transferred to the employment of ISS Palvelut as of 1 September 2007.

1st and 2nd class letter volumes decreased in July-September by 1 per cent compared to the same period last year. The volume for January-September increased slightly, but without the effect of the parliamentary elections, the volume would have decreased in comparison to the previous year.

Addressed DM delivery volumes decreased slightly in Q3 and the first half of the year, while unaddressed DM delivery volumes continued their brisk growth in July-September. At the same time, the price level decreased due to fiercer competition.

Delivery volumes of magazines experienced a positive development in July-September. Delivery volumes of subscription papers remain stable, corresponding to general circulation trends. The volumes of free papers delivered by Itella continued to decrease in July-September.

The development and investment project concerning the modernisation of mail sorting and delivery services has been launched as planned. Relating to this, a decision was reached on the construction of a new post centre in Oulu. With respect to the modernisation of the sorting machine stock, it was decided that alteration work at the Helsinki post centre be launched and the post centres in Tampere and Kuopio be extended.

## Itella Information

In July-September, net sales amounted to EUR 47.9 million (EUR 39.3 million), an increase of 22 per cent. In January-September, net sales amounted to EUR 147.0 million (EUR 124.7 million), an increase of 18 per cent. Net sales showed favourable developments in all countries, with the exception of Germany.

In July-September, operating profit came to EUR 0.9 million (EUR 1.3 million operating loss), accounting for 1.9 per cent (-3.3 per cent) of net sales. In January-September, operating profit came to EUR 5.1 million (EUR 1.7 million operating loss), accounting for 3.5 per cent (-1.4 per cent) of net sales. Favourable developments in document management and e-business services improved the business group's profitability, whereas the launch of e-services, declining volumes in printing services and price erosion presented challenges for profit development in countries where printing operations constitute a significant part of operations.

## Itella Logistics

In July-September, net sales amounted to EUR 159.0 million (EUR 132.5 million), an increase of 20 per cent. In January-September, net sales amounted to EUR 466.3 million (EUR 383.1 million), an increase of 22 per cent. Excluding corporate acquisitions, the increase in net sales in July-September was 12 per cent and, in January-September, 12 per cent. The Finnish SHW Logistiikka Oy has been included in the accounts as of 1 June 2007 and the Swedish SP Logistics AB as of 1 August 2007. Purchased in the previous year, Roadlink AB (now called Itella Logistics AB) has been included in the accounts as of 1 March 2006 and Universal Spedisjon AS (now Itella Logistics AS) as of 1 September 2006. Demand for services continued to be brisk; in Finland, parcel services in particular experienced a strong upswing.

In July-September, operating profit came to EUR 5.2 million (EUR 10.3 million), accounting for 3.3 per cent (7.8 per cent) of net sales. Profit for the previous year's Q3 includes capital gains on business divestment worth EUR 1.8 million. In January-September, operating profit was EUR 21.0 million (EUR 27.0 million), accounting for 4.5 per cent (7.0 per cent) of net sales. Net sales were eroded by the launch expenses for the Russian operations and tightening sales margins in freight services.

Itella Group							
Key Figures of Business Groups, EUR million							
	7-9	7-9	Change	1-9	1-9	Change	1-12
	2007	2006	%	2007	2006	%	2006
Itella Mail Communication							
Net sales	197,7	192,4	2,8	645,2	626,3	3,0	869,6
Operating profit/loss	14,1	7,6	85,5	67,6	45,5	48,6	73,6
% of net sales	7,1	4,0		10,5	7,3		8,5
Itella Information							
Net sales	47,9	39,3	21,9	147,0	124,7	17,9	171,3
Operating profit/loss	0,9	-1,3	(..)	5,1	-1,7	(..)	-5,2
% of net sales	1,9	-3,3		3,5	-1,4		-3,0
Itella Logistics							
Net sales	159,0	132,5	20,0	466,3	383,1	21,7	530,0
Operating profit/loss	5,2	10,3	-49,5	21,0	27,0	-22,2	35,3
% of net sales	3,3	7,8		4,5	7,0		6,7
Other operations							
Net sales	2,4	2,3	4,3	8,9	10,6	-16,0	21,6
Operating profit/loss	-6,1	-1,1	(..)	-14,0	-3,2	(..)	-14,7
% of net sales	-254,2	-47,8		-157,3	-30,2		-68,1
<b>Intra-Group sales</b>	<b>-15,8</b>	<b>-6,7</b>	<b>135,8</b>	<b>-36,5</b>	<b>-24,1</b>	<b>51,5</b>	<b>-41,9</b>
<b>Itella Group</b>							
Net sales	391,2	359,8	8,7	1,230.9	1,120.6	9,8	1,550.6
Operating profit/loss	14,1	15,5	-9,0	79,7	67,6	17,9	89,0
% of net sales	3,6	4,3		6,5	6,0		5,7

## Financial Position and Capital Expenditure

In July-September consolidated net cash flow from operating activities totalled EUR 19.1 million (EUR -0.2 million) before investment activities. Capital expenditure totalled EUR 34.8 million (EUR 21.8 million), company acquisitions accounting for EUR 9.3 million (EUR 12.3 million).

In July-September consolidated net cash flow from operating activities totalled EUR 44.4 million (EUR -7.7 million) before investment 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 119.3 million (EUR 106.1 million). In January-September, capital expenditure totalled EUR 73.0 million (EUR 51.5 million), company acquisitions accounting for EUR 20.9 million (EUR 23.2 million). 38 per cent of consolidated capital expenditure was targeted at international operations.

At the period-end, cash and cash equivalents stood at EUR 203.7 million (EUR 167.5 million) and interest-bearing liabilities totalled EUR 34.5 million (EUR 39.8 million). Equity ratio was 64.1 per cent (67.9 per cent) and gearing stood at –23.6 per cent (–20.4 per cent).

#### Human Resources

The number of Itella Group employees for July-September averaged 26,360 (25,707) and, for January-September, 25,793 (25,087). As in the previous year, Itella employed around 3,000 seasonal workers in Finland in the summer.

The period-end staff totalled 25,022 (24,277). Compared to the same period last year, staff numbers increased both in Finland and internationally. The period-end staff in Finland totalled 23,012 (92 per cent) and, in other countries, 2,010 (8 per cent).

#### Changes in Corporate Structure

At the turn of 2006/2007, Itella Information business group purchased Infologistics Scandinavia AB and DigiDoc AB. In Q2, Itella Logistics acquired SHW Logistiikka Oy of Finland and, in Q3, PS Logistics AB of Sweden. The office services business of In-house unit of Itella Mail Communication were sold in Q3.

#### Events after the review period

On 1 October, the EU Ministers of Transport and Communications approved the schedule for the new postal directive, based on which European postal services will be opened up to competition from 2011. The markets will open up for the delivery of addressed letters weighing less than 50 grams. For other deliveries, competition restrictions have already been removed.

Opening up the markets includes clauses on how to arrange basic postal services offered to all citizens. In the future, member countries can more flexibly define how the basic delivery of letters and parcels and other universal services are to be secured and financed.

In Finland, restrictions on competition were removed in 1991. The impact of the new postal directive in Finland depends on how our legislators decide on the implementation of the directive.

TIKLI ry, the employers' association for the IT and technology industries, and PAU ry, the Finnish Post and Logistics Union, signed a two-year collective labour agreement at the beginning of October, concerning approximately 22,000 employees in the communications and logistics industries. This allows the agreement of local salary and working hour models in collective labour agreements.

#### Business risks and uncertainties

Risks related to group operations are explained in connection with the 2006 financial statements. Profit development will be affected by the two-year collective labour agreement concluded in October, which will raise operational costs already during Q4 in 2007. This increase cannot be offset in the short-term by improving profitability or through other measures.

### Seasonal operations

Seasonal fluctuation is characteristic of Group business performance, for which reason business group net sales and operating profit do not accumulate evenly throughout the year. In particular, Q1 is strong, especially for Itella Mail Communication, whereas the end of Q2 and Q3 are usually weaker in performance than the beginning and end of the year.

### Prospects towards the year-end

Finland's brisk economic growth and lively foreign trade will keep demand for Itella's services strong. Greater volume fluctuations in Itella Mail Communication are making the management of production costs and the allocation of resources more difficult. The salary increases in accordance with the new collective labour agreement will raise expenses for the year-end. Moreover, the economic boom may complicate the supply of production resources for all business operations.

Itella expects its consolidated net sales to continue rising, while modernisation of its production structure will add to capital expenditure. There is every prospect of outperforming the previous year's operational financial results.