

Norway Post

# Quarterly report

3rd QUARTER 2007



## SUMMARY

Norway Post's operating revenues have developed positively in the first nine months of this year compared with the same period last year. This is mainly due to acquisitions and an increase in the volumes of addressed mail and logistics products.

The reduction in EBIT before non-recurring items from NOK 872 million in 2006 to NOK 411 million in 2007 is largely due to increased personnel and transport costs and the start-up of CityMail in Denmark. However, EBIT as at 30 September 2007 was positively affected by a gain of NOK 625 million on the sale of Norway Post's Letter Centre in Oslo.

The return on invested capital (ROIC) before non-recurring items for the past 12 months was 10.7 per cent, compared with 27.4 per cent as at 30 September 2006. The decrease in net income (last 12 months) and increase in invested capital as a result of acquisitions are the main reasons for this decline. The return on equity for the 12-month period ending 30 September 2007 was 20.6 per cent.

In the third quarter of the year, 88.1 per cent of A-priority mail was delivered overnight, an improvement of 2.9 percentage points compared with the same period last year. The licence requirement is 85 per cent.

In the third quarter of the year, ErgoGroup bought 75 per cent of the shares in Bekk Consulting AS, a consulting firm. In addition, Norway Post-owned Frigoscandia bought the logistics operations of Stenkilssons Åkeri, a Swedish company.

The operating revenues from existing operations increased by 5.6 per cent.

The Group's companies in Sweden, Denmark and Finland achieved total operating revenues of NOK 4 510 million for the first three quarters of 2007 - an increase of 54.7 per cent compared with the equivalent period last year. This increase is largely due to the acquisition of SYSteam. As at 30 September 2007, 22.8 per cent of the operating revenues came from outside Norway, compared with 17.2 per cent for the corresponding period in 2006.

## Net income

The Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to NOK 1 019 million as at 30 September 2007, compared with NOK 1 380 million as at 30 September 2006.

The Group's EBIT before non-recurring items equalled NOK 411 million, NOK 461 million less than for the equivalent period last year. The reduction in EBIT before non-recurring items is mainly due to increased personnel and transport costs and the start-up of CityMail in Denmark.

EBIT amounted to NOK 1 035 million, compared with NOK 839 million as at 30 September 2006. A gain of NOK 625 million on the sale of Norway Post's Letter Centre in Oslo is the main reason for this increase.

Operating income before taxes came to NOK 971 million as at 30 September 2007, compared with NOK 776 million as at 30 September 2006.

The EBIT margin before non-recurring items as at 30 September 2007 equalled 2.1 per cent, compared with 5.1 per cent for the same period in 2006.

Q3 2007	Q3 2006	MNOK	YTD 2007	YTD 2006	Year 2006
6 418	5 646	Operating revenues	19 806	17 009	23 668
353	444	EBITDA	1 019	1 380	2 037
143	247	EBIT (before non-recurring items)	411	872	1 287
149	231	EBIT	1 035	839	1 313
-58	-20	Net financial items	-64	-63	-113
91	210	Profit before tax	971	776	1 200

## THE GROUP'S RESULTS

### Operating revenue

Norway Post's operating revenues for the first three quarters of 2007 came to NOK 19 806 million, an increase of NOK 2 797 million (16.4 per cent) compared with the corresponding period last year. Acquisitions increased the operating revenue by NOK 1 843 million compared with the equivalent period last year.

## KEY FIGURES

		30.09 2007	30.09 2006	31.12 2006
Equity ratio	%	34,0	35,1	35,5
EBIT margin before non-recurring items	%	2,1	5,1	5,4
EBIT margin	%	5,2	4,9	5,5
Profit margin	%	4,9	4,6	5,1
Return on invested capital before non-recurring items <sup>1)</sup>	%	10,7	27,4	21,1
Return on invested capital <sup>1)</sup>	%	19,6	19,7	21,5
Return on equity <sup>1)</sup>	%	20,6	15,7	16,5
Debt ratio (net)		0,3	0,3	0,1
Liquidity reserves	MNOK	5 705	5 582	6 712
Investments, incl. acquisitions	MNOK	2 484	2 428	2 932
Workforce—parent company	Full-time equiv.	15 324	14 948	15 510
Workforce – Group	Full-time equiv.	24 013	21 451	22 272

1) Rolling 12 months

## BALANCE SHEET AND CAPITAL

MNOK	30.09 2007	30.09 2006	31.12 2006
<b>Assets</b>			
Fixed assets	10 909	8 873	8 920
Current assets	6 492	6 605	6 713
Assets held for sale	0	5	136
<b>Total assets</b>	<b>17 401</b>	<b>15 483</b>	<b>15 769</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>5 922</b>	<b>5 441</b>	<b>5 604</b>
Provisions for liabilities	1 980	2 049	1 902
Interest-bearing liabilities	3 170	2 705	2 693
Interest-free liabilities	6 329	5 288	5 547
Liabilities held for sale	0	0	23
<b>Total equity and liabilities</b>	<b>17 401</b>	<b>15 483</b>	<b>15 769</b>

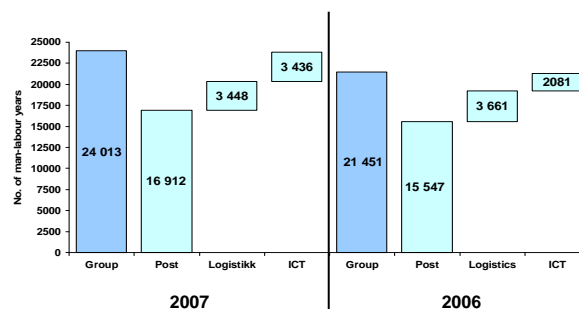
The increase in fixed assets of NOK 2 036 million from 30 September 2006 to 30 September 2007 is mainly due to investments relating to the acquisition of SYSteam AB. The total investments as at 30 September 2007 equalled NOK 2 484 million, an increase of NOK 56 million compared with 30 September 2006.

Interest-bearing liabilities as at 30 September 2007 amounted to NOK 3 170 million, NOK 466 million less than as at 30 September 2006. The Group's liquidity reserve (including unused drawing rights) came to NOK 5 705 million as at 30 September 2007.

Cash flow from operations as at 30 September 2007 was NOK 786 million, an increase of NOK 432 million compared with the corresponding period last year. This increase is mainly due to a rise in the short-term interest-free debt.

## WORKFORCE

### Employees, Group 30.09.2007 vs. 30.09.2006



As at 30 September 2007, Norway Post's workforce consisted of 24 013 full-time equivalents, compared with 21 451 full-time equivalents as at 30 September 2006.

The number of employees in the Post and IT segments has increased by 1 365 and 1 355 respectively, mainly due to acquisitions, the expansion in CityMail's coverage and the transfer of the parcel centre from Logistics to Post. The number of employees in the Logistics segment has been reduced by the net figure of 213 for some of the same reasons.

The operating revenue per full-time equivalent came to NOK 1 065 000, based on the previous 12 months' operating revenues, compared with NOK 1 004 000 for the corresponding period last year.

The Group's sickness absence rate was 7.1 per cent as at 30 September 2007, a reduction of 1.2 percentage points compared with the corresponding period for 2006. This reduction is due mainly to the Group's systematic efforts to reduce the long-term sickness absence rate and the number of work injuries.

## MARKET AND DEVELOPMENT BY SEGMENT

### Post

*This segment comprises letter products, banking services, information logistics and the sale of goods.*

*The segment is made up of the Post Division (including the subsidiaries CityMail Group, Talk2Me AS and Customer View AB) and the Distribution Network Division.*

MNOK	YTD 2007	YTD 2006	Year 2006
Volume (million physical items)	2 156	2 201	3 026
Volume, bank transactions (million transactions)	14,2	16,0	21,3
Operating revenues *	9 219	8 884	12 318
Segment result (EBITDA)*	336	853	1 157
Segment result (EBIT)*	41	549	716

\* The comparative figures for 2006 have been restated as a result of organisational changes and a new principle for distributing the Group's common expenses.

The segment's total operating revenue was 3.8 per cent higher than for the same period last year, while the total letter volume handled by the parent company was 2.8 per cent lower than for the same period last year. The volume of unaddressed direct mail advertising declined by 6 per cent compared with the same period in 2006 as a result of strong competition in the market. Unaddressed direct mail advertising accounted for 51 per cent of the total letter volume as at 30 September 2007, compared with 53 per cent as at 30 September 2006.

A-priority and B-economy mail and addressed mail advertising were on a level with last year as at 30 September 2007. The volume of banking transactions continues to fall as a result of the transition to electronic solutions, and was 11.3 per cent less than for the same period in 2006. The number of customers using the post office network fell by 4.1 per cent compared with the same period last year.

CityMail Sweden AB's volume increased by 1.3 per cent during the first three quarters of 2007 compared with the same period last year. As at 30 September 2007, the company covered 43 per cent of households in Sweden. CityMail Denmark is still in a start-up phase.

Earnings for the first nine months of 2007 have been affected by increased personnel and transport costs and by the start-up of CityMail in Denmark. The prices of some postal products have been adjusted as from 1 October as a result of increased

costs and the fact that the prices of several postal products have not been changed in two years.

The overnight delivery quality of A-priority mail was 88.1 per cent in the third quarter 2007, compared with 85.2 per cent in the third quarter 2006. The licence requirement is 85 per cent. For the first nine months of the year, the delivery quality was 85 per cent, compared with 85.5 per cent for the same period in 2006. Norway Post continues its focus on stabilising the delivery quality at a high level.

Customer satisfaction with the sales and service network was measured at 83 per cent in total, the same level as for the previous survey conducted in the spring of 2007.

### Logistics

*This segment consists of general cargo, temperature-controlled transport, air, sea, special and heavy goods transport, third-party logistics, container handling, national and international parcels, courier services in the Nordic region and express-related logistics solutions.*

*The segment comprises the Logistics Division with its subsidiaries the Nor-Cargo Group, the Frigoscandia Group, the Box Group, the Transflex Group, Nettlast Hadeland AS, the BoxSolutions Group, and PNL AB.*

MNOK	YTD 2007	YTD 2006	Year 2006
Volume (million shipments) *	23,5	21,8	30,1
Operating revenues**	9 037	7 973	11 089
Segment results (EBITDA)**	506	357	546
Segment results (EBIT)**	417	248	446

\* Shows the increase in volume for parcel services excluding courier services.

\*\* The figures for 2006 have been altered as a result of organisational changes and a new principle for distributing the Group's common expenses.

In the first quarter 2007, the former Express and Logistics segments were merged for reporting purposes to form one business area.

The segment's total revenues as at 30 September 2007 were 13.3 per cent higher than for the same period last year. The increase in operating revenues and net income was a result of acquisitions, a strong increase in volume and measures implemented to improve the results.

The Logistics segment has had an increase in volume during the first three quarters of the year of 8.3 per cent compared with the same period last year. This increase is due mainly to company parcels (B2B) as well as increased international parcel volumes.



The logistics industry is still characterised by capacity problems, especially a lack of drivers. This situation has resulted in quality challenges and increased costs for the industry. As one of its measures to ensure sufficient capacity, Norway Post has participated in the establishment of a Slovakian transport company, which will provide greater capacity and improved quality for international transport.

During the third quarter 2007, Frigoscandia purchased the transport- and logistics operations of the Swedish company Stenkilssons Åkeri, which comprises 81 employees and 30 vehicles. This purchase will strengthen the Group's position in the field of grocery-logistics in Sweden.

## IT

*This segment consists of operations, infrastructure, solutions and consultancy services. The segment comprises the operations of ErgoGroup.*

MNOK	YTD 2007	YTD 2006	Year 2006
Operating revenues	4 001	2 545	3 620
Segment results (EBITDA)*	392	293	374
Segment results (EBIT)*	187	189	214

\* The figures for 2006 have been restated as a result of a new principle for distributing the Group's common expenses.

The 57.2 per cent growth in operating revenues compared with the first three quarters of 2006 was mainly due to the acquisition of companies (Allianse ASA, SYSteam AB and Bekk Consulting AS) and new contracts that have been entered into in 2007. The organic growth rate as at 30 September 2007 was 7.9 per cent. ErgoGroup's sales to Posten Norge AS came to 15.1 per cent of ErgoGroup's total sales as at 30 September 2007, compared with 23.2 per cent as at 30 September 2006.

EBITDA is significantly higher than for the same period in 2006, mainly due to acquisitions. EBIT is on a level with that for the same period last year.

ErgoGroup acquired Informatikk's operations unit in Ålesund in July in order to strengthen its local presence in the north-west of Norway. This unit has 15 employees.

In September, ErgoGroup acquired 75 per cent of the shares in Bekk Consulting AS, and has agreed to acquire the remaining

shares in three years' time. This company has 180 employees and achieved revenues of NOK 110 million and an operating income of NOK 29 million in the first half-year. This acquisition places ErgoGroup as a leading player in consultancy services for major clients in the Norwegian IT market, and one that can offer a full range of services, from advice, development and integration through to management and operations.

## FUTURE PROSPECTS

### Market developments

The Group's strategy plan for 2007-2011 aims to develop an integrated, world-class postal and logistics group. The Nordic region is Norway Post's domestic market, and the goal is to achieve a competitive increase in value through profitable growth and the continued efficiency enhancement and industrialisation of Norway Post's production processes.

In order to ensure continued profitability and maintain and develop strong market positions, Norway Post must actively participate in the extensive changes taking place in its markets. Its customers are becoming international, the Nordic region is becoming one market and large, global players are making the competition fiercer. The liberalisation of the postal markets and increased internationalisation and privatisation are leading to the restructuring and consolidation of the postal and logistics industries in Europe.

Norway Post expects the revenue from its individual business areas to continue developing positively in the future. External revenues from logistics and ICT services made up 62 per cent of the Group's total revenues as at 30 September 2007, compared with 58 per cent on 30 September 2006.

During the first nine months of 2007, the Group's profit development has been affected by high personnel and transport costs, related especially to the increase in prices and wages and to meeting the delivery requirement for overnight deliveries of A-priority mail. A tighter labour market and capacity shortages in the transport industry are also contributing to a pressure on margins.

The future earnings will continue to be negatively affected by further increases in prices and wages, in addition to the fall in the volume of A (priority) and B (economy) mail and banking transactions, portfolio changes in favour of products with lower margins and increasing competition.

Norway Post will continue its efforts to ensure a stable, high level of delivery quality, to develop more cost-effective processes and to make its costs more flexible. One of the most

important measures for ensuring stable high quality in the long run is the building of the new South-East Norway sorting terminal at Robsrud in Lørenskog, which will be finished in 2009.

At the same time, Norway Post is continuing to focus on health, safety and the environment (HSE) in order to reduce its sickness absence rate, number of employees incapacitated for work and lost-time injuries.

Norway Post is also focusing on measures to improve the environment throughout the Group.

### **Regulatory conditions**

On 18 October 2006, the EU Commission presented a proposal regarding a new EU Postal Directive which will lead to the full liberalisation of the EU/EEA postal market in 2009. This proposal was discussed by the EU Parliament in July and by the Council of Ministers in October. Both bodies were in favour of postponing the liberalisation until 2011 and until 2013 in some countries. A final decision will be reached in 2008.

Norway Post has conducted a wide-ranging assessment of its future channel strategy and the consequences for its sales network have been presented to the Minister of Transport and Communications in accordance with §10 of Norway Post's articles of association (a matter of social/fundamental importance). The Ministry of Transport and Communications' views will be stated in the Owner Report on Norway Post, which is expected to be submitted to the Norwegian parliament in the autumn of 2007.

Oslo, 29 October 2007

## Appendix 1 – Financial information for the third quarter 2007

### GENERAL INFORMATION

This quarterly report has been prepared in accordance with IFRS (International Financial Reporting Standards), as approved by the EU. The interim financial report is in accordance with the prevailing accounting standard IAS 34 for interim financial reports.

The information in this document has not been audited.

### CONDENSED INCOME STATEMENT.

Q3 2007	Q3 2006		YTD 2007	YTD 2006	Year 2006
<b>6 418</b>	<b>5 646</b>	<b>Operating revenues</b>	<b>19 806</b>	<b>17 009</b>	<b>23 668</b>
2 493	2 156	Cost of goods and services	7 555	6 305	8 765
2 550	2 118	Payroll expenses	8 086	6 611	9 253
1 021	928	Other operating expenses	3 147	2 713	3 614
6 065	5 202	Operating expenses	18 787	15 630	21 631
<b>353</b>	<b>444</b>	<b>EBITDA</b>	<b>1 019</b>	<b>1 380</b>	<b>2 037</b>
210	197	Depreciation and amortization	608	507	750
<b>143</b>	<b>247</b>	<b>EBIT - Income before non-recurring items</b>	<b>411</b>	<b>872</b>	<b>1 287</b>
-6	-1	(Gains) loss from sale of fixed assets/subsidiaries	-640	-6	-16
1	18	Restructuring costs	15	39	13
0	0	Costs related to transfer to new pension scheme	0	0	-22
<b>149</b>	<b>231</b>	<b>EBIT - Income before interest and taxes</b>	<b>1 035</b>	<b>839</b>	<b>1 313</b>
0	0	Share of profit from associated companies	1	1	-12
66	34	Financial income	272	174	261
124	55	Financial expenses	337	238	363
<b>-58</b>	<b>-20</b>	<b>Net financial items</b>	<b>-64</b>	<b>-63</b>	<b>-113</b>
<b>91</b>	<b>210</b>	<b>Income before taxes</b>	<b>971</b>	<b>776</b>	<b>1 200</b>
-150	59	Taxes	97	217	344
<b>241</b>	<b>151</b>	<b>Net income</b>	<b>874</b>	<b>558</b>	<b>856</b>

### CONDENSED BALANCE SHEET

	30.09.07	30.09.06	31.12.06
<b>Assets</b>			
Intangible assets	6 698	4 958	5 082
Tangible assets	3 905	3 620	3 684
Financial assets	306	295	154
Total fixed assets	10 909	8 873	8 920
Current assets	6 492	6 605	6 713
Assets held for sale	0	5	136
<b>Total assets</b>	<b>17 401</b>	<b>15 483</b>	<b>15 769</b>
<b>Equity and liabilities</b>			
Equity	5 922	5 441	5 604
Provisions for liabilities and charges	1 980	2 049	1 902
Interest-bearing long-term liabilities	3 121	1 455	2 633
Interest-bearing short-term liabilities	49	1 250	61
Interest-free liabilities	6 329	5 288	5 547
Liabilities held for sale	0	0	23
<b>Total equity and liabilities</b>	<b>17 401</b>	<b>15 483</b>	<b>15 769</b>

Norway Post

# Quarterly report



#### STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Other equity	Other reserves	Minority interests	Total equity
<b>Equity at 01.01.2006</b>	<b>3 120</b>	<b>1 560</b>	<b>31</b>	<b>28</b>	<b>13</b>	<b>4 752</b>
Translation differences			6			6
Transfer to other equity		-568	568			
Cash flow hedges						
Recorded in equity/transferred to income				11		11
Tax on equity changes				-3		-3
Available-for-sale investments						
Recorded in equity				-16		-16
Net income for the period			564			558
Other equity transactions			27		106	133
<b>Equity at 30.09.2006</b>	<b>3 120</b>	<b>992</b>	<b>1 196</b>	<b>20</b>	<b>113</b>	<b>5 441</b>
<b>Equity at 01.01.2007</b>	<b>3 120</b>	<b>992</b>	<b>1 476</b>	<b>1</b>	<b>15</b>	<b>5 604</b>
Translation differences			-9			-9
Cash flow hedges						
Recorded in equity/transferred to income				32		32
Tax on equity changes				-8		-8
Net income for the period			871		3	874
Dividends			-488		-2	-490
Distributions to owner			-80			-80
Other equity transactions			2		-3	-1
<b>Equity at 30.09.2007</b>	<b>3 120</b>	<b>992</b>	<b>1 772</b>	<b>25</b>	<b>13</b>	<b>5 922</b>

#### CONDENSED CASH FLOW STATEMENT

	30.09.2007	30.09.2006	Year 2006
<b>Cash flows from operational activities</b>			
Provided by operations	939	1 277	1 220
Changes in working capital and other accruals	-153	-923	845
<b>Net cash flow from operational activities</b>	<b>786</b>	<b>354</b>	<b>2 065</b>
<b>Cash flows from investing activities</b>			
Investments in tangible assets/IT development/subsidiaries	-2 484	-2 428	-2 932
Sales of tangible assets	779	35	57
Changes in other fixed assets	-152	-102	26
<b>Net cash flow from investing activities</b>	<b>-1 858</b>	<b>-2 495</b>	<b>-2 849</b>
<b>Cash flows from financing activities</b>			
Changes in loans and other financial items	410	1 286	1 174
Group contribution/dividends paid	0	2	-124
<b>Net cash flow from financing activities</b>	<b>410</b>	<b>1 288</b>	<b>1 050</b>
Total change in liquid assets	-662	-852	266
<b>Cash and cash equivalents at start of period</b>	<b>2 306</b>	<b>2 040</b>	<b>2 040</b>
<b>Cash and cash equivalents at end of period</b>	<b>1 644</b>	<b>1 188</b>	<b>2 306</b>

Comparative figures for 2006 have been restated as a result of changes in the principles for classification between lines in the Cash Flow Statement.

## SEGMENT REPORTING

	Total operating revenues					Earnings before interest and taxes (EBIT)				
	Q3 2007	Q3 2006	YTD 2007	YTD 2006	Year 2006	Q3 2007	Q3 2006	YTD 2007	YTD 2007	Year 2006
<b>MNOK</b>										
External operating revenues	2 327	2 246	7 488	7 189	9 964					
Internal operating revenues	616	559	1 730	1 695	2 354					
<b>Post</b>	<b>2 943</b>	<b>2 805</b>	<b>9 219</b>	<b>8 884</b>	<b>12 318</b>	<b>-28</b>	<b>100</b>	<b>41</b>	<b>549</b>	<b>716</b>
External operating revenues	2 983	2 676	8 952	7 896	10 986					
Internal operating revenues	28	31	86	77	103					
<b>Logistics</b>	<b>3 011</b>	<b>2 707</b>	<b>9 037</b>	<b>7 973</b>	<b>11 089</b>	<b>124</b>	<b>93</b>	<b>417</b>	<b>248</b>	<b>446</b>
External operating revenues	1 107	722	3 362	1 917	2 752					
Internal operating revenues	206	219	639	628	868					
<b>Electronic services</b>	<b>1 313</b>	<b>941</b>	<b>4 001</b>	<b>2 545</b>	<b>3 620</b>	<b>73</b>	<b>70</b>	<b>187</b>	<b>189</b>	<b>214</b>
External operating revenues	3	2	6	7	-34					
Internal operating revenues	-851	-809	-2 455	-2 400	-3 325					
<b>Other/eliminations</b>	<b>-848</b>	<b>-807</b>	<b>-2 449</b>	<b>-2 393</b>	<b>-3 359</b>	<b>-20</b>	<b>-32</b>	<b>390</b>	<b>-146</b>	<b>-64</b>
<b>Norway Post Group</b>	<b>6 418</b>	<b>5 646</b>	<b>19 806</b>	<b>17 009</b>	<b>23 668</b>	<b>149</b>	<b>231</b>	<b>1 035</b>	<b>839</b>	<b>1 313</b>

Comparative figures for 2006 have been restated as a result of organisational changes and a change in the principle for distributing the Group's common expenses.

## ADDITIONAL INFORMATION

### SIGNIFICANT CHANGES IN RELATION TO PREVIOUS YEARS

The increase in intangible assets from the third quarter 2006 to the third quarter 2007 is largely due to goodwill acquired in connection with the acquisition of AddIQ AB, Talk2me AS, Customer:View AB, Scanex B.V., Grenland Transport og Industriservice AS, SYSteam AB, Tranflex AB, ConCentric AS and Bekk Consulting AS. The process to identify any excess values which can be allocated to specific intangible and tangible assets in connection with these acquisitions, with the exception of AddIQ AB, has not been completed as of 30 September 2007 and these goodwill amounts are therefore preliminary.

The increase in interest-bearing long-term and short-term liabilities from the third quarter 2006 to the third quarter 2007 is largely due to new loans to finance acquisitions so far this year.