POSTI GROUP CORPORATION INTERIM REPORT, MAY 3, 2018 AT 9:00 A.M. (EET)

Posti Group Corporation Interim Report Q1/2018

Posti's Q1/2018: Parcel growth continues

Posti Group Corporation Interim Report Q1/2018

Financial highlights

- The Group's net sales decreased by 1.5% to EUR 407.5 (413.8) million.
- The Group's adjusted EBITDA declined to EUR 28.3 (35.5) million, 6.9% (8.6%).
- The Group's EBITDA declined to EUR 28.5 (30.0) million, 7.0% (7.3%).
- The adjusted operating result declined to EUR 11.5 (15.5) million, or 2.8% (3.8%) of net sales.
- The operating result declined and amounted to EUR -18.5 (10.0) million, representing -4.5% (2.4%) of net sales.
- Net debt to adjusted EBITDA was 0.1x (-0.5x).
- The updated Group's Outlook for 2018 is as follows: Net sales in 2018 are expected to remain on a par with 2017 or decrease slightly. The Group's adjusted operating result is expected to remain on a par with 2017 or decrease slightly. Capital expenditure, excluding acquisitions and disposals, is expected decrease slightly.

  The previous Outlook was as follows: The euro-denominated net sales in 2018, excluding possible acquisitions and divestments, are expected to remain on a par with 2017. The Group's adjusted operating result, excluding possible acquisitions and divestments, is expected to remain on a par with 2017 or decrease slightly. Capital expenditure, excluding possible acquisitions, is expected to remain on a par with 2017.

Operational highlights

- The combined parcel volume of Finland and the Baltic countries increased by 10%, with 21% of this growth coming from consumer (B2C) parcels. Measured in waybills and excluding food logistics, Posti's domestic freight grew by 5%. The number of addressed letters decreased by 10% in Finland.
- Universal service obligation was 4.0% (4.5%) of all Posti's delivery volumes.
- As a result of management evaluation OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year.
- The number of working days was 63 (64). Easter took place earlier in 2018 than last year, thus reducing the number of working days during the first quarter. The number of working days affects the Group's net sales and result, having an impact on both year-on-year comparisons and comparisons between consecutive quarters.
- In March 2018, the Supreme Court did not grant leave to appeal in litigation concerning the value added tax on postal services requested by the claimants. This means that the decision given in September 2017 by the Court of Appeal of Helsinki to overrule the complaint as requested by Posti and to compensate the legal expenses of Posti remains final.
- Posti initiated its first sourcing procedure on the five-day delivery of universal service letters in areas not covered by an early-morning newspaper delivery. The amended Postal Act, entering into force at the beginning of July 2018, requires Posti to arrange the tendering procedure.
- Posti Group Corporation's Annual General Meeting was held in Helsinki on March 27, 2018. The Annual General Meeting decided to distribute a dividend of EUR 27 million based on the result in 2017 and an extra dividend of EUR 13 million. The dividend distribution totals EUR 40 million. It was decided that the Board of Directors be composed of nine members: **Markku Pohjola (chair), Suvi-Anne Siimes (vice chair), Eero Hautaniemi, Petri Järvinen, Frank Marthaler**, **Pertti Miettinen, Marja Pokela, Per Sjödell and Arja Talma.**

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Key figures of Posti Group

	1-3 2018	1-3 2017	1-12 2017
Net sales, EUR million	407.5	413.8	1,647.0
Adjusted EBITDA, EUR million	28.3	35.5	118.6
Adjusted EBITDA margin, %	6.9	8.6	7.2
EBITDA, EUR million	28.5	30.0	83.7
EBITDA margin, %	7.0	7.3	5.1
Adjusted operating result, EUR million	11.5	15.5	42.4
Adjusted operating result margin, %	2.8	3.8	2.6
Operating result, EUR million	-18.5	10.0	-27.5
Operating result margin, %	-4.5	2.4	-1.7
Result for the period, EUR million	-21.3	5.9	-44.3
Return on equity (12 months), %	-14.5	5.1	-8.0
Return on capital employed (12 months), %	-11.8	8.0	-5.5
Net debt, EUR million	9.4	-65.5	-43.4
Net debt / Adjusted EBITDA	0.1x	-0.5x	-0.4x
Equity ratio, %	46.7	50.1	48.8
Gross capital expenditure, EUR million	15.4	24.4	73.3
Personnel, end of period	19,781	20,083	20,014
Personnel on average, FTE	16,911	18,058	17,912
Earnings per share, basic, EUR	-0.53	0.15	-1.11
Dividend per share, EUR			1.0
Dividends, EUR million			40.0

Heikki Malinen, President and CEO

The transformation of the postal service continued in the first quarter, as the market further shifted towards parcels and logistics. Due to the increasing impact of digitalization, the number of addressed letters delivered by Posti decreased by 10 percent, compared to the previous year. Easter mail volumes, however, remained at the previous year's level. At the same time, consumers are purchasing physical products from webshops in ever greater numbers, which increased Posti's parcel volumes by 10 percent. We are encouraged by the strong growth of B2C parcel.

Posti's net sales in January-March decreased slightly and the adjusted operating result was EUR 11.5 million, representing 2.8 percent of net sales. Mail, Parcel, and Logistics Services revenue grew 0.7 percent, driven by parcels and logistics, and the adjusted operating result decreased by EUR 3.7 million.

Operational cost increases, part of which we do not expect to continue, were not sufficiently mitigated through efficiency improvements. Wage increases originating from collective bargaining and a challenging flu season required the utilization of additional labor. Posti has set clear savings targets for the year 2018 and will continue to actively pursue methods to improve efficiency and savings. In 2017, Posti achieved net savings of EUR 35 million.

Itella Russia's net sales in local currency grew by 8.8 percent, compared to the previous year and the adjusted operating profit slightly improved. Posti's goal is to continue improving operational efficiency and profitability in core areas, i.e., contract logistics and transportation. However, the recent geopolitical turmoil and fluctuations in markets and currency may affect our business during 2018.

The OpusCapita segment has undertaken an extensive transformation over the last few years, with its core now within the Buyer-Supplier Ecosystem (BES) business, which offers global solutions for sourcing, payment and cash management. OpusCapita is now well positioned to digitalize and automate customers' core financial processes in this market.

To ensure competitiveness and growth, Posti will continue to pursue its updated strategy, focusing heavily on its core businesses: mail, parcel and logistics services. Posti's main goals are to win e-commerce, keep mail relevant to customers, develop digital services and to renew its service culture, Posti Orange. Posti Orange focuses on building a strong sense of community among employees and on delivering a first-rate customer service.

For Posti, the growth of e-commerce offers growth potential in parcels and logistics services. Finland is still behind European countries in terms of online shopping and parcels per capita. Online retail sales are forecasted to grow around 10 percent in Finland.

Posti is well positioned to benefit from the growth opportunities with its fast, high-quality service and an extensive delivery network as part of the international DHL alliance. Posti's domestic parcel locker network is one of the largest in Europe and the target is to open 1,000 new units by 2019. This coming autumn, Posti will launch a same-day parcel delivery service, six days a week in the Helsinki metropolitan area. Posti will also enhance its logistic service capacity by opening the new K3 freight terminal in Vantaa this coming summer.

APPENDICES

Posti Group's Interim Report in full (PDF)

FURTHER INFORMATION

Heikki Malinen, President and CEO, and Sari Helander, CFO
Tel. +358 20 452 3366 (MediaDesk)

FINANCIAL CALENDAR IN 2018

January–June: Wednesday, July 25, at 9:00 a.m.
January–September: Wednesday, October 24, at 9:00 a.m.

DISTRIBUTION

Key media
www.posti.com/financials

IMAGES AND LOGOS

www.posti.com/media

Posti is a service provider that delivers the smartest and most customer-focused postal and logistics services in the market. Posti is expanding into new service areas and playing an increasingly significant role in the daily life of its customers. We operate in 11 countries, our net sales in 2017 amounted to EUR 1,600 million and the number of our personnel is approximately 20,000. Our businesses also include the logistics service provider Itella Russia and the electronic business specialist OpusCapita. www.posti.com.

Market situation and business environment, January–March 2018

According to the Bank of Finland, economic growth in the euro area has been exceeding forecasts. Both consumption and investment have increased and the European Central Bank's monetary policy, lowering financing costs for households and companies, has supported the economic recovery. However, geopolitical tensions and increased protectionism, amongst other identified risks, are casting a shadow over the global economic outlook, which also reflects on the Finnish economy.

In their Economic Survey published in April, the Finnish Ministry of Finance stated that Finnish GDP is expected to grow by 2.6 percent in 2018. The growth in private consumption will accelerate as a result of the rise in employment in 2018.

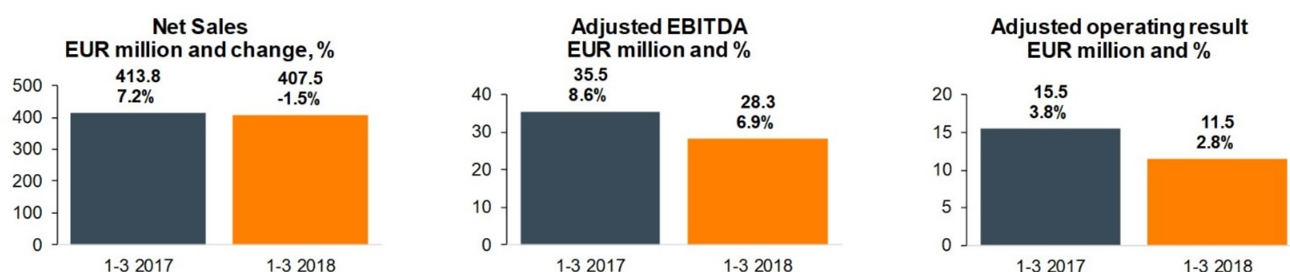
The positive economic outlook is also reflected in Finnish consumers' expectations. The consumer confidence indicator (CCI), published by Statistics Finland in March, stated that the figures both in February and in March 2018 were the highest recorded measurements since the records began 30 years ago, indicating very bright expectations with regards to the public and personal economy.

E-commerce has continued its growth. E-commerce in retail increased by 8 percent and e-commerce of daily consumer goods grew by 88 percent in 2017, according to the Finnish Commerce Federation. The value of Finnish consumers' online shopping in 2017 represented 11 percent of total Finnish retail. The growth of e-commerce is reflected favorably in Posti's parcel volumes.

According to the Bank of Finland, Russian GDP is forecasted to grow by 2 percent this year. During the next few years, the growth is expected to slow down to 1.5 percent if the oil price remains close to its current level. Economic growth will remain relatively slow, as there are no prospects for reforms in economic income formation to support growth.

Net sales and profit performance, January–March 2018

The number of working days in the first quarter was 63, compared to 64 days in the previous year. Easter took place earlier in 2018 than last year, thus reducing the number of work days. The number of working days affects the Group's net sales and result.



The Group's net sales decreased by 1.5% to EUR 407.5 (413.8) million. Net sales grew by 0.2% in Finland and declined by 11.9% in other countries. International operations accounted for 13.0% (14.6%) of net sales. The decline in international operations' net sales was mainly due to the divestment of OpusCapita's Finance and Accounting Outsourcing business and related subsidiaries during Q3/2017.

The Group's adjusted EBITDA declined to EUR 28.3 (35.5) million, 6.9% (8.6%). EBITDA declined to EUR 28.5 (30.0) million, 7.0% (7.3%). The decline in the adjusted EBITDA was attributable to the weaker result of Mail, Parcel and Logistics Services and group overheads.

The adjusted operating result declined to EUR 11.5 (15.5) million, or 2.8% (3.8%) of net sales.

The operating result was EUR -18.5 (10.0) million, or -4.5% (2.4%) of net sales. As a result of management evaluation OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year.

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Universal service obligation was 4.0% (4.5%) of all Posti's delivery volumes. Operations under the universal service obligation amounted to EUR 30.9 (28.6) million, or 7.6% (6.9%) of the Group's net sales.

Mail, Parcel and Logistics Services

The year-on-year development of Posti's product volumes was as follows:

- Addressed letters: -10% (-8%)
- Parcels in Finland and the Baltics: 10% (8%), of which B2C parcels 21% (9%)
- Domestic freight* measured in waybills: 5% (13%)
- Warehouse fill rate in Finland on average, January-March 84% (76%)

* The reported figure for domestic freight excludes food logistics

The total amount of parcels delivered by Posti in Finland and the Baltic countries increased to 10.4 (9.4) million parcels. The figure does not include letter-like e-commerce items. In the Baltic countries, parcel volumes increased by 16%.

The net sales of Mail, Parcel and Logistics Services increased to EUR 366.2 (363.9) million. Net sales are itemized below.

Net sales of Mail, Parcel and Logistics Services:

Net sales, EUR million	1–3 2018	1–3 2017	Change
Mail and Marketing Services	**161.5**	164.4	-1.7%
Press Services	**42.0**	41.7	0.9%
Parcel Services	**71.8**	69.1	4.0%
Logistics Services	**92.7**	91.0	1.8%
Other and eliminations	**-1.8**	-2.3	
Total	**366.2**	363.9	0.7%

Q1 net sales grew slightly despite of mail volume decline. The Mail and Marketing Services net sales decrease was driven by a decline in volume, which was largely mitigated by pricing and product mix changes. The Press revenues increase was driven by the acquisition last May. Strong volume growth, especially in B2C continued to drive parcel net sales growth. However, the net sales growth was below volume growth due to product mix changes, a decrease in the net sales of small items that are not included in volumes, and a decline in the average price. Logistics volumes were soft before spring deliveries, and were also affected by a shorter Q1 period, but net sales still grew by 1.8%. Warehouse fill rates also improved.

The adjusted EBITDA of Mail, Parcel and Logistics Services declined to EUR 26.6 (31.5) million, 7.3% (8.6%). The result decrease was driven by a core postal volume decline, with operational costs affected by the collective labor agreement increasing salary levels, and a long winter combined with a challenging flu season that required the utilization of additional workforce. The Q1 results included approximately EUR 3 million for items that are not expected to continue. The business mix continued to move towards parcel and logistics, but logistics delivery efficiency was low. EBITDA declined to EUR 27.1 (30.0) million.

The adjusted operating result decreased to EUR 16.0 (19.7) million, 4.4% (5.4%).

Special items improved the operating result for the first quarter by EUR 0.5 (-1.5) million. The special items include EUR 1.1 million gain on the divestment of debt collection business in Finland and Norway, EUR 0.5 million personnel restructuring costs and EUR 0.2 other costs reported as special items.

The operating result declined to EUR 16.4 (18.2) million.

The renewal of the service point network has proceeded as planned. At the end of March, Posti had a total of 1,515 service points in Finland, of which 597 were Posti Parcel Lockers.

Itella Russia

Itella Russia's net sales measured in local currency grew by 8.8%. Reported euro-denominated net sales decreased by 2.7% to EUR 26.8 (27.5) million due to currency translation effects. The growth in net sales (measured in local currency) was attributable to higher volumes among the existing customers in the warehousing business and transport, as well as to the stabilization in the economy.

The adjusted EBITDA was EUR 1.0 (0.9) million, 3.8% (3.3%). EBITDA was EUR 1.9 (0.9) million. Itella Russia continues to implement measures to improve its EBITDA.

The adjusted operating result improved and was EUR -0.6 (-1.0) million. The average fill rate for warehouses in Moscow was 85% (76%), while in other regions it was 78% (79%).

The operating result was EUR 0.1 (-1.0) million. The improvement was driven by a release of provisions.

OpusCapita

OpusCapita net sales declined by 3.3% and totaled EUR 15.5 (16.0) million. The net sales decline was mainly due to paper invoice sending volumes. Business Network product line volumes and net sales were impacted by the timing of the Easter holidays and the decline in transactions.

Adjusted EBITDA declined to EUR -0.9 (-0.7) million, -6.1% (-4.1%). EBITDA declined to EUR -1.2 (-0.7) million. The decline in adjusted EBITDA was driven by the decline in net sales and increased investments in products, sales and marketing. Costs also increased due to the organizational changes allowing OpusCapita to operate as a separate business.

The adjusted operating result improved to EUR -1.7 (-2.0) million, -11.2% (-12.8%).

The operating result declined to EUR -32.0 (-2.0) million.

As a result of management evaluation OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year.

Other operations

In 2017, Other operations revenues included EUR 8.2 million from the divested Finance and Accounting Outsourcing business.

Key figures for segments

EUR million	1-3 2018	1-3 2017	1-12 2017
Net sales			
Mail, Parcel and Logistics Services	366.2	363.9	1,448.7
Itella Russia	26.8	27.5	119.1
OpusCapita	15.5	16.0	64.7
Other and unallocated	1.2	9.0	23.5
Inter-segment sales	-2.1	-2.6	-9.0
Posti Group	**407.5**	**413.8**	**1,647.0**
Net sales change-%			
Mail, Parcel and Logistics Services	0.7%	5.4%	2.3%

Itella Russia	-2.7%	31.0%	13.8%
OpusCapita	-3.3%	20.3%	4.4%
Posti Group	**-1.5 %**	**7.2 %**	**2.5%**
Adjusted EBITDA			
Mail, Parcel and Logistics Services	26.6	31.5	106.3
Itella Russia	1.0	0.9	3.7
OpusCapita	-0.9	-0.7	-2.6
Other and unallocated	1.6	3.8	11.2
Posti Group	**28.3**	**35.5**	**118.6**
Adjusted EBITDA, %			
Mail, Parcel and Logistics Services	7.3%	8.6%	7.3%
Itella Russia	3.8%	3.3%	3.1%
OpusCapita	-6.1%	-4.1%	-4.0%
Posti Group	**6.9%**	**8.6%**	**7.2%**
EBITDA			
Mail, Parcel and Logistics Services	27.1	30.0	102.2
Itella Russia	1.9	0.9	-14.4
OpusCapita	-1.2	-0.7	-3.6
Other and unallocated	0.7	-0.2	-0.6
Posti Group	**28.5**	**30.0**	**83.7**
EBITDA, %			
Mail, Parcel and Logistics Services	7.4%	8.2%	7.1%
Itella Russia	7.0%	3.3%	-12.0%
OpusCapita	-7.5%	-4.1%	-5.6%
Posti Group	**7.0%**	**7.3%**	**5.1%**

Key figures for segments

EUR million	**1-3 2018**	**1-3 2017**	**1-12 2017**
Adjusted operating result			
Mail, Parcel and Logistics Services	16.0	19.7	60.4
Itella Russia	-0.6	-1.0	-3.5
OpusCapita	-1.7	-2.0	-7.9
Other and unallocated	-2.2	-1.1	-6.5
Posti Group	**11.5**	**15.5**	**42.4**
Adjusted operating result, %			
Mail, Parcel and Logistics Services	4.4%	5.4%	4.2%
Itella Russia	-2.1%	-3.7%	-2.9%

OpusCapita	-11.2%	-12.8%	-12.3%
Posti Group	**2.8%**	**3.8%**	**2.6%**
Operating result			
Mail, Parcel and Logistics Services	16.4	18.2	49.3
Itella Russia	0.1	-1.0	-21.5
OpusCapita	-32.0	-2.0	-35.9
Other and unallocated	-3.1	-5.2	-19.4
Posti Group	**-18.5**	**10.0**	**-27.5**
Operating result, %			
Mail, Parcel and Logistics Services	4.5%	5.0%	3.4%
Itella Russia	0.3%	-3.6%	-18.1%
OpusCapita	-206.8%	-12.8%	-55.4%
Posti Group	**-4.5%**	**2.4%**	**-1.7%**

Financial position and investments

The consolidated cash flow from operating activities was EUR 2.7 (3.5) million, the cash flow from investing activities EUR 3.8 (-31.0) million and cash flow from financing activities EUR -43.0 (-3.3) million following the dividend payment totaling EUR 40.0 (0.0) million.

Investments in intangible assets, property, plant and equipment and business acquisitions according to the statement of cash flow amounted to EUR 16.0 (23.1) million. During the first quarter, the Group invested in the new freight terminal in Vantaa, information systems, the transport fleet and production projects.

At the end of March, liquid assets amounted to EUR 88.0 (119.7) million, and undrawn committed credit facilities totaled EUR 210.0 (150.0) million. The Group's interest-bearing liabilities were EUR 117.0 (128.9) million. The equity ratio was 46.7% (50.1%) and the net debt totaled EUR 9.4 (-65.5) million.

Annual General Meeting

Posti Group Corporation's Annual General Meeting was held in Helsinki on March 27, 2018. In line with the Board of Directors' proposal, the Annual General Meeting decided to distribute a dividend of EUR 27 million based on the result in 2017 and an extra dividend of EUR 13 million. The dividend distribution totals EUR 40 million.

The meeting adopted the 2017 financial statements and discharged the members of the Supervisory Board, Board of Directors and President and CEO from liability.

It was decided that the Board of Directors be composed of nine members.

The following persons will continue as members of the Board of Directors:

- **Markku Pohjola**
- **Suvi-Anne Siimes**
- **Eero Hautaniemi**
- **Petri Järvinen**
- **Marja Pokela**
- **Arja Talma**

Kirsi Nuotto and Petri Kokko informed that they were not available for re-election. The following persons were elected as new members of the Board of Directors:

- **Per Sjödell**
- **Frank Marthaler**
- **Pertti Miettinen**

It was decided that the Supervisory Board be composed of 12 members.

The following persons will continue as members of the Supervisory Board:

- **Maria Guzenina**, MP, Social Democratic Party
- **Rami Lehto**, MP, Finns Party
- **Eeva-Maria Maijala**, MP, Centre Party
- **Mats Nylund**, MP, Swedish People's Party of Finland
- **Juha Pylväs**, MP, Centre Party
- **Sari Raassina**, MP, National Coalition Party
- **Markku Rossi,** MP, Centre Party
- **Satu Taavitsainen**, MP, Social Democratic Party
- **Jani Toivola**, MP, The Greens of Finland

MP **Juhana Vartiainen**, National Coalition Party, MP **Kari Kulmala**, Blue Reform, and MP **Silvia Modig**, Left Alliance, were elected as new members of the Supervisory Board.

Markku Rossi was re-elected as the Chair of the Supervisory Board and Jani Toivola as the Deputy Chair of the Supervisory Board.

PricewaterhouseCoopers Oy (PwC), a firm of authorized public accountants, was elected as Posti Group Corporation's auditor, with Authorized Public Accountant, Merja Lindh, as the auditor with the principal responsibility.

The fees of the members of the Board of Directors and Supervisory Board remained mostly unchanged. Members of the Board of Directors receive a monthly remuneration and a meeting fee, and the meeting fee will be paid in double for the non-Finnish Board members. No Board remuneration will be paid for the member of the Board of Directors employed by the Posti Group. Members of the Supervisory Board receive a meeting fee.

Changes in management

Hanna Reijonen, M.Sc. (Econ.), was appointed as Senior Vice President, Human Resources and as a member of the Posti Group Corporation Executive Board as of March 22, 2018. Jaana Jokinen, who has acted as Senior Vice President, Human Resources since 2009, will retire on June 30, 2018.

Jani Jolkkonen, Director, ICT and digitalization, and a member of the Posti Group Corporation Executive Board left Posti Group Corporation on January 11, 2018.

Employees

The Group's personnel	1-3 2018	1-3 2017	1-12 2017
Personnel at period-end	19,781	20,083	20,014
Personnel on average, FTE*	16,911	18,058	17,912

*Full time equivalent personnel on average

Personnel at the end of the period was:

- Finland: 16,354 (15,648) employees
- Other countries of operation: 3,427 (4,435) employees

The Group's personnel expenses amounted to EUR 174.5 (176.9) million, down 1.4% from the previous year. The personnel expenses included EUR 0.6 (1.7) million in restructuring costs. Excluding restructuring costs, the personnel expenses declined by 0.7% year-on-year.

The Uusi polku (New path) program March 31, 2018:

- Applications: 59
- Approved: 18

Launched at the beginning of 2014, the Uusi polku (New path) program offers personnel not only financial support, but also training and support for job seeking, as well as support for retraining or starting a business.

Cooperation negotiations

There have been no major cooperation negotiations during the first quarter.

Acquisitions, divestments and changes in corporate structure

In March, Posti's Finnish Debt Collection business was sold to Intrum and the Norwegian Debt Collection business to Visma.

Regulatory environment

Posti initiated its first mandatory tendering procedure based on the Postal Act amendment, which comes into force on July 1, 2018. The mandatory tendering procedure covers the five-day delivery of universal service letters in areas not covered by the early-morning newspaper delivery, which is based on commercial agreements. The areas subject to the tendering procedure are based on a decision issued by The Finnish Communications Regulatory Authority. The tendering covers more than 1,700 areas.

According to the legislator, the aim of this regulation is to introduce new delivery activities, including a combination of existing deliveries, in sparsely populated areas. In Posti's view, an increased co-operation in sparsely populated areas is a positive development.

Legal proceedings

In March 2018, the Supreme Court did not grant leave to appeal in litigation concerning the value added tax on postal services requested by the claimants. This means that the decision given at September 2017 by the Court of Appeal of Helsinki to overrule the complaint as requested by Posti and to compensate the legal expenses of Posti remains final.

In 2011 and 2012, seven financial institutions submitted a claim primarily against Posti and secondarily against Posti and the State of Finland in order to receive compensation for the value added tax charged by Posti on its postal services in 1999–2014. The claim was based on the allegation that the Finnish Value Added Tax Act had been, and still remained, contrary to the EU's Value Added Tax Directive. According to the claims, the postal services provided for the financial institutions should have been VAT exempt. The claims were rejected in their entirety by a decision of the Helsinki District Court in September 2015, and by a decision of the Court of Appeal of Helsinki in September 2017. Posti is not obliged to compensate the VAT that it has charged from its customers. During the process, Posti has considered that the allegations made by the plaintiffs are without merit.

Business risks

The risks and uncertainties related to Posti's business include risks relating to Posti's operating environment, operational risks, legal and regulatory risks as well as financing risks.

Posti's business is particularly dependent on the general economic conditions, and in Finland in particular, the key strategic and operating environment related risk for Posti is the potential instability of general economic, political and financial market conditions in Finland or surrounding countries. The continued decline of letter mail and print volumes due to the increased digital substitution also constitutes a considerable risk, if Posti is not able to appropriately predict and adjust itself for such a decline, by reducing costs and creating new businesses to mitigate impacts of such volume decline, or if those measures are not sufficient to compensate for the declining mail business. Finally, Posti operates in competitive industries and an intensifying competition in both the traditional postal market as well as other markets like parcel and freight businesses create additional operating environment related risks.

Posti is going through a profound business transformation. Adapting to and taking benefit from the changing business environment is the key operational risk for the company. During the transformation, Posti should be able to implement its strategic objectives, focusing on the four Must-Win Battles, while simultaneously increasing effectiveness through savings and other similar programs. Posti is also dependent on the reliability, functionality and cost-efficiency of its' ICT systems and infrastructure, which may not meet the requirements of Posti's current or planned new businesses or support them.

Other dependencies consist of the key customers and partners that may be lost and not appropriately replaced, Posti's operational facilities and transportation infrastructure in Finland and Russia with limited or no comparable back-ups as well as Posti's ability to recruit and retain competent leaders and managers as well as talented employees, and to keep them motivated. Other operational risks include the seasonality of Posti's business, potential challenges in acquisition and the integration of possibly acquired businesses, general reputation management, the risk of not meeting the financial targets, and the risk of not having adequately protected its intellectual property, among others, as well as risks relating to the insurance coverage and the increased risk of fraud, theft and embezzlement that have become more commonplace in the logistics market.

Even if the Postal Act in Finland was amended in 2017 in a manner where many restrictions earlier imposed on the USO (Universal Service Obligation) operator were deleted, there is no certainty of stability in the legal environment as to the postal regulation in Finland or more generally in other countries, Russia in particular. The sanctions imposed by the US and EU on a number of Russian persons, entities and activities may also have an adverse impact on Posti's overall operations. In Finland, Posti tends to be subject to a number of antitrust reviews and investigations on a continuous basis. Finally, the general conditions of the financing markets may impose risks to Posti.

Events after the review period

Posti announced that the prices of Posti's letter services paid in cash will change on May 4, 2018. The prices of Posti's forwarding and mail delivery interruption services will change as of June 1, 2018.

On April 24, 2018, Itella Russia divested its MaxiPost courier business to the Moscow based Strategic Business Alliance. According to its strategy, Itella Russia focuses on its core businesses, contract logistics and transportation. The transaction is legal and binding between the parties thereto, but subject to final registration by the local tax authorities.

Outlook for 2018

The Group's updated Outlook for 2018 is as follows: The net sales in 2018 are expected to remain on a par with 2017 or decrease slightly. The Group's adjusted operating result is expected to remain on a par with 2017 or decrease slightly. Capital expenditure, excluding acquisitions and disposals, is expected to decrease slightly.

The previous Outlook was as follows: The euro-denominated net sales in 2018, excluding possible acquisitions and divestments, are expected to remain on a par with 2017. The Group's adjusted operating result, excluding possible acquisitions and divestments, is expected to remain on a par with 2017 or decrease slightly. Capital expenditure, excluding possible acquisitions, is expected to remain on a par with 2017.

The Group's business is characterized by seasonality. Net sales and operating profit in the segments are not accrued evenly over the year. In postal services and consumer parcels, the first and fourth quarters are typically strong, while the second and third quarters are weaker.

The development of exchange rates, especially the ruble exchange rate, may affect the Group's net sales, result and balance sheet.

Helsinki, May 2, 2018

Posti Group Corporation
Board of Directors

APPENDICES

Calculation of key figures
Interim report tables

Calculation of key figures

In addition to IFRS-based performance measures, Posti Group discloses alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet, consolidated statement of cash flows and in the notes disclosures. Management believes that adjusted performance measures provide meaningful supplemental information to both management and investors regarding the business performance. Adjusted EBITDA and adjusted operating result are also one of the key business performance indicators in Posti Group's management reporting.

Key figure		Definition
EBITDA		Operating result excluding depreciation, amortization and impairment losses.
Adjusted EBITDA		EBITDA excluding special items.
Adjusted operating result		Operating result excluding special items.
Special items		Special items are defined as significant items of income and expenses, which are considered to incur outside the ordinary course of business. Special items include restructuring costs, significant impairment losses on assets, impairment on goodwill, significant gains or losses on sale of shares, real estates or business operations, changes in contingent purchase considerations originated from business combinations and other material items outside of ordinary course of business.
Gross capital expenditure		Additions to intangible assets and property, plant and equipment including additions through finance leases as well as business acquisitions comprising of total amount of purchase considerations.
Equity ratio, %	100 x	Total equity / Total assets - advances received
Return on equity, %	100 x	Result for the period (12 months rolling) / Total equity (average of opening and closing balance of the previous 12 months)
Return on capital employed, %	100 x	Operating result (12 months rolling) / Capital employed (average of opening and closing balance of the previous 12 months)
Capital employed		Non-current assets less deferred tax assets plus inventories and trade and other receivables less other non-current liabilities, less advances received, less provisions, less defined benefit pension obligations, less trade and other payables.
Net debt		Interest bearing borrowings - liquid funds - debt certificates.
Net debt / Adjusted EBITDA		Net debt / Adjusted EBITDA (12 months rolling)
Interest-bearing borrowings		Non-current and current borrowings.
Liquid funds		Cash and cash equivalents + money market investments + investments in bonds.
Personnel on average, FTE		Full time equivalent personnel on average.

Interim Report Tables January–March 2018

CONDENSED CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Condensed consolidated income statement

EUR million	1–3 2018	1–3 2017	1–12 2017
Net sales	**407.5**	**413.8**	**1,647.0**
Other operating income	4.2	3.9	15.4
Materials and services	-125.9	-121.8	-508.0
Employee benefits	-174.5	-176.9	-696.6
Other operating expenses	-82.9	-89.0	-374.1
Depreciation and amortisation	-16.7	-19.9	-75.8
Impairment losses	-30.3	-0.1	-35.4
Operating result	**-18.5**	**10.0**	**-27.5**
Finance income	1.1	2.5	3.8
Finance expenses	-2.0	-2.8	-13.1
Result before income tax	**-19.4**	**9.7**	**-36.9**
Income tax	-2.0	-3.8	-7.4
Result for the period	**-21.3**	**5.9**	**-44.3**
Result for the period attributable to			
Parent company shareholders	-21.3	5.9	-44.3
Non-controlling interest	0.0	0.0	0.0
Earnings per share, basic, EUR	-0.53	0.15	-1.11
Earnings per share, diluted, EUR	-0.53	0.15	-1.11

Condensed consolidated Statement of Comprehensive Income

EUR million	1–3 2018	1–3 2017	1–12 2017
Result for the period	**-21.3**	**5.9**	**-44.3**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Changes in the fair value of financial assets at fair value through other comprehensive income*	-	-	-0.1
Change in fair value of cash flow hedges	0.3	0.0	-0.9
Translation differences	-2.9	6.7	-7.0
Income tax relating to these items	-0.1	0.0	0.2
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	0.2	-	-0.4
Income tax relating to these items	0.0	-	0.1
Comprehensive income for the period	**-23.9**	**12.6**	**-52.5**
Comprehensive income attributable to			
Parent company shareholders	-23.9	12.6	-52.5
Non-controlling interest	0.0	0.0	0.0

* In 2018, new term according to IFRS9. 2017: Changes in the fair value of available-for-sale financial assets.

Condensed consolidated Balance Sheet

Assets

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Non-current assets			
Goodwill	148.8	214.6	180.7
Other intangible assets	56.3	60.5	56.9
Investment property	8.9	9.6	9.1
Property, plant and equipment	343.2	371.4	346.4
Other non-current investments	3.5	4.6	3.5
Non-current receivables	1.1	1.9	1.4
Deferred tax assets	11.3	13.2	11.0
Total non-current assets	**573.1**	**675.8**	**609.0**
Current assets			
Inventories	4.5	3.9	4.8
Trade and other receivables	298.3	307.9	314.2
Current income tax receivables	3.4	7.6	1.5
Current financial assets	58.5	142.9	77.4
Cash and cash equivalents	49.2	51.6	86.0
Total current assets	**413.9**	**514.0**	**483.9**
Assets classified as held for sale	**2.6**		
Total assets	**989.6**	**1,189.8**	**1,092.9**

Equity and liabilities

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Equity attributable to the shareholders of the parent company			
Share capital	70.0	70.0	70.0
General purpose reserve	142.7	142.7	142.7
Fair value reserve	-0.5	0.1	-0.8
Translation differences	-93.5	-76.9	-90.6
Retained earnings	309.0	425.1	370.9
Total shareholders' equity	**427.6**	**561.0**	**492.3**
Non-controlling interests	0.3		0.3
Total equity	**427.9**	**561.0**	**492.6**
Non-current liabilities			
Deferred tax liabilities	22.6	26.7	23.7
Non-current borrowings	67.4	16.6	70.5
Other non-current payables	11.7	14.8	16.8
Advances received	14.1	13.6	14.0
Non-current provisions	17.8	13.4	20.6
Defined benefit pension plan liabilities	11.5	11.9	11.8
Total non-current liabilities	**145.2**	**97.0**	**157.4**
Current liabilities			
Current borrowings	49.5	112.3	49.5
Trade and other payables	296.6	358.1	317.6
Advances received	59.3	55.6	68.7
Current income tax liabilities	2.1	3.4	0.2
Current provisions	7.4	2.2	6.9
Total current liabilities	**415.0**	**531.7**	**442.9**
Liabilities associated with assets classified as held for sale	**1.5**		
Total liabilities	**561.7**	**628.7**	**600.3**
Total equity and liabilities	**989.6**	**1,189.8**	**1,092.9**

Condensed consolidated Statement of Cash Flows

EUR million	1–3 2018	1–3 2017	1–12 2017
Result for the period	**-21.3**	**5.9**	**-44.3**
Adjustments to cash flow	46.3	23.2	144.7
Change in net working capital	-19.1	-22.1	4.1
Cash flow before financial items and income tax	**5.8**	**7.0**	**104.4**
Financial items (net)	0.0	0.6	-3.7
Income tax paid	-3.1	-4.1	-4.7
Cash flow from operating activities	**2.7**	**3.5**	**96.0**
Purchase of intangible assets	-3.4	-3.1	-13.2
Purchase of property, plant and equipment	-10.3	-18.9	-54.4
Proceeds from sale of intangible and tangible assets	0.0	1.4	7.4
Business acquisitions, net of cash acquired	-2.3	-1.0	-9.4
Proceeds from business disposals less cash and cash equivalents	1.1		-7.1
Cash flow from financial assets	18.7		
Financial assets at fair value through profit or loss		9.7	39.3
Financial assets held to maturity		-20.0	15.0
Cash flow from other investments	-0.1	1.0	2.0
Cash flow from investing activities	**3.8**	**-31.0**	**-20.4**
Increases in current loans			39.9
Repayment of current loans			-99.9
Increases in non-current loans			60.3
Repayment of non-current loans	-0.5		
Finance lease payments	-2.5	-3.3	-12.7
Dividends paid	-40.0		-60.0
Transactions with non-controlling interests			1.5
Cash flow from financing activities	**-43.0**	**-3.3**	**-70.9**
Change in cash and cash equivalents	**-36.5**	**-30.8**	**4.7**
Cash and cash equivalents at the beginning of the period	**86.0**	**82.0**	**82.0**
Effect of exchange rates changes	-0.3	0.4	-0.7
Cash and cash equivalents at the end of the period	**49.2**	**51.6**	**86.0**

Consolidated Statement of Changes in Equity

EUR million	Share capital	General purpose reserve	Fair value reserve	Translation differences	Retained earnings	Total	Non-con-trolling interests	Total equity
	Attributable to the owners of the parent company							
Jan 1, 2018	**70.0**	**142.7**	**-0.8**	**-90.6**	**370.9**	**492.3**	**0.3**	**492.6**
Change in accounting policies IFRS 9 and IFRS 15*			0.0		-0.7	-0.7		-0.7
Jan 1, 2018, restated	**70.0**	**142.7**	**-0.7**	**-90.6**	**370.2**	**491.6**	**0.3**	**491.9**
Comprehensive income								
Result for the period					-21.3	-21.3	0.0	-21.3
Other comprehensive income:								
Changes in the fair value of cash flow hedges, net of tax			0.2			0.2		0.2
Translation differences				-2.9		-2.9		-2.9
Remeasurements of post-employment benefit obligations, net of tax					0.1	0.1		0.1
Comprehensive income for the period			**0.2**	**-2.9**	**-21.2**	**-23.9**	**0.0**	**-23.9**
Transactions with equity holders								
Dividends paid					-40.0	-40.0		-40.0
Mar 31, 2018	**70.0**	**142.7**	**-0.5**	**-93.5**	**309.0**	**427.6**	**0.3**	**427.9**

* Impact of changes in accounting policies is described in note 1. Accounting policies.

EUR million	Share capital	General purpose reserve	Fair value reserve	Translation differences	Retained earnings	Total	Non-con-trolling interests	Total equity
Jan 1, 2017	**70.0**	**142.7**	**0.1**	**-83.5**	**479.2**	**608.4**	**-**	**608.4**
Comprehensive income								
Result for the period					5.9	5.9		5.9
Other comprehensive income:								
Changes in the fair value of available-for-sale financial assets and cash flow hedges, net of tax			0.0			0.0		0.0
Translation differences				6.7		6.7		6.7
Comprehensive income for the period			**0.0**	**6.7**	**5.9**	**12.6**	**-**	**12.6**
Transactions with equity holders								
Dividends paid					-60.0	-60.0	-	-60.0
Mar 31, 2017	**70.0**	**142.7**	**0.1**	**-76.9**	**425.1**	**561.0**		**561.0**

EUR million	Attributable to owners of parent company						Non-con-trolling interests	Total equity
	Share capital	General purpose reserve	Fair value reserve	Translation differences	Retained earnings	Total		
Jan 1, 2017	**70.0**	**142.7**	**0.1**	**-83.5**	**479.2**	**608.4**	**-**	**608.4**
Comprehensive income								
Result for the period					-44.3	-44.3	0.0	-44.3
Other comprehensive income:								
Changes in the fair value of available-for-sale financial assets and cash flow hedges, net of tax			-0.8			-0.8		-0.8
Translation differences				-7.0		-7.0		-7.0
Remeasurements of post-employment benefit obligations, net of tax					-0.4	-0.4		-0.4
Comprehensive income for the period			**-0.8**	**-7.0**	**-44.6**	**-52.5**	**0.0**	**-52.5**
Transactions with equity holders								
Contributions by non-controlling interest					1.2	1.2	0.3	1.5
Other transactions with non-controlling interest					-4.8	-4.8		-4.8
Dividends paid					-60.0	-60.0		-60.0
Dec 31, 2017	**70.0**	**142.7**	**-0.8**	**-90.6**	**370.9**	**492.3**	**0.3**	**492.6**

Dividends

Posti Group Corporation's Annual General Meeting was held in Helsinki on March 27, 2018. The Annual General Meeting decided to distribute a dividend of EUR 27 million based on the result in 2017 and an extra dividend of EUR 13 million. The dividend distribution totals EUR 40 million.

Notes

1. Accounting Policies

The interim report has been prepared in accordance with IAS 34 Interim financial reporting. In the preparation of this interim report, Posti Group (the "Group") has applied the same accounting policies, methods of computation and presentation as in the consolidated financial statements for 2017 except for the adoption of new standards IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments effective as of January 1, 2018. Other amendments to IFRS standards effective as of 1 January 2018 had no impact on consolidated income statement or balance sheet. The figures shown have been rounded, which is why the sum total of individual figures may differ from totals presented. The interim report is unaudited.

Application of new or amended IFRS standards

The effects of the new standards IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments on this interim report have been described below. The new accounting policies on revenue recognition and financial assets and liabilities can be found at the end of this interim report.

Impact of adoption of IFRS 15 Revenue from contracts with customers

The Group has adopted the new standard IFRS 15 Revenue from contracts with customers on January 1, 2018 using the modified retrospective application. Under the modified retrospective application, the comparative financial information presented in this interim report has not been restated. The impact of adoption of IFRS 15 was recognised in the retained earnings on January 1, 2018. The Group has applied IFRS 15 only to contracts that were not completed at January 1, 2018.

The new standard defines a five-step model to recognize revenue based on contracts with the customers and replaces the predecessor standards IAS 18 and IAS 11 as well as related interpretations. The timing of the revenue recognition can take place over time or at a point of time, depending on the transfer of control. The standard also entails increased disclosures on revenue from customer contracts.

Adjustment to retained earnings January 1, 2018 from IFRS 15

EUR million	
Retained earnings Dec 31, 2017	**370.9**
Revenue recognition change in Parcel Services	-0.8
Revenue recognition change in Russian freight services	0.0
Impact on deferred tax	0.2
Adjustment to retained earnings Jan 1, 2018 - before restatement of IFRS 9	**-0.7**
Retained earnings Jan 1, 2018, restated - before restatement of IFRS 9	**370.3**

Revenue recognition for parcel business in Finland has been changed and the revenue for parcel services is recognized when the parcel has been delivered. According to previous accounting policies the revenue was recognised when parcel was received to Group's delivery network. The impact of the transition recognized in the shareholders' equity was EUR -0.8 million before and EUR -0.6 million after deferred tax.

Revenue recognition for long-term transport services in Itella Russia segment has been redefined. Revenue and related expected costs are recognised during the progress of the transport. Progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days. According to previous accounting policies revenue and related expected costs were recognised at the beginning of the transport. The impact of the transition was EUR -0.3 million in net sales and EUR -0.3 million in freight expenses, total impact to equity was EUR 0.0 million.

A significant portion of the Group's revenue is generated by rendering of short-term services. These services include freight services in Finland and in the Baltic countries, parcel services in the Baltic countries, delivery of international mail from Finland and via Finland, and delivery of unaddressed direct marketing. According to IFRS 15 revenue for these services should be recognized over time. However, the Group continues to recognize the revenue for these services when the delivery is received to the Group's delivery network because the Group has concluded that this has only a minor impact on the Group's income statement and balance sheet.

In addition to the short-term services described above, where the impact of the new standard is minor, the Group has identified the following areas where the new standard involves special consideration:

The Group has identified that some of the customer contracts of Supply Chain Solutions and Messaging include payments and costs relating to the implementation of the services. According to IFRS 15, these contract cost for fulfilling the service obligation are capitalized and amortized over the contract period. Also the payments received for these services are allocated over the contract period. The impact of the change was minor.

Certain service level penalty fees were previously recognized as expense and according to IFRS 15 they are recognized as a deduction of net sales. The impact on the financial statements was minor.

OpusCapita sell its customers either licenses or software as a service (SaaS). Licenses or service agreements do not involve significant tailoring but may include implementation services, which are considered as separate performance obligations. According to IFRS 15 the revenue for licenses is recognized when the license is granted and for SaaS the revenue is recognized over time. Revenue for implementation services is recognized for the period during which the service is performed. Before the implementation of IFRS 15 revenue for part of these services were recognized on invoicing basis, but the impact of this accounting policy change was immaterial.

Any possible sales bonuses for obtaining a customer contract were previously recognized as an expense. According to IFRS 15 they should be capitalized and accrued over the contract period. However, the Group has only a small amount of sales bonuses, relating to a limited amount of customers, that fulfill the capitalization criteria of IFRS 15 and consequently this does not have a material impact on the Group's income statement or balance sheet.

During the review period of January 1, 2018–March 31, 2018, the implementation of IFRS 15 increased the Group's net sales EUR 0.3 million and operating result EUR 0.3 million as compared to the net sales and operating result reported in accordance with the previous accounting policies. The impact on balance sheet items was less than EUR 1 million.

Impact of adoption of IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaced the classification and measurement models in IAS 39 from 1 January, 2018. Posti Group applies the new standard for the future periods with prospective application. Under the prospective application, the comparative financial information presented in this interim report has not been restated. The impact of adoption of IFRS 9 Financial instruments was recognised in the opening balance sheet on January 1, 2018. The new standard brought changes to classification and measurement of financial assets, to their impairment assessment and to hedge accounting.

Adjustment to retained earnings January 1, 2018 from IFRS 9 and IFRS 15

EUR million	
Retained earnings Dec 31, 2017	**370.9**
Reclassify investments from available-for-sale to FVPL	0.0
Reclassify investments from FVPL to amortised cost	-0.3
Increase in loss allowance for debt investments at amortised cost	-0.1
Decrease in loss allowance for trade receivables	0.3
Impact in deferred tax	0.0
Adjustment to retained earnings Jan 1, 2018 from IFRS 9	**-0.1**
Adjustment to retained earnings Jan 1, 2018 from IFRS 15	**-0.7**
Retained earnings Jan 1, 2018, restated	**370.2**

Impairment of trade receivables

Impairment of financial asset is based on a new expected credit loss method. Posti Group applies a simplified provision matrix approach for trade receivables whereby the impairment loss is measured over the life of the asset unless the asset is already written off. A loss allowance of 100% is recognised for more than 180 days past due trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowances for trade receivables as at December 31, 2017 reconcile to the opening loss allowances on January 1, 2018 as follows:

EUR million	
December 31, 2017–calculated under IAS 39	1.5
Amounts restated through opening retained earnings	-0.3
Opening loss allowance January 1, 2018– calculated under IFRS 9	1.2

Classification, measurement and impairment of other financial assets

A debt instrument is measured at amortized cost only if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments are recognized at fair value and the fair value movements on these assets are taken through the income statement.

The new guidance had an impact on the classification and measurement of the Group's financial assets. Money market investments and investments in bonds that were previously classified at fair value through profit or loss are currently classified at amortized cost category based on business model and SPPI (solely payments of principal and interest) test. The impact of reclassification was a decrease in the carrying amount of EUR 0.3 million. Further, equity instruments previously classified as available for sale are currently classified at fair value through profit or loss. The reclassification of equity investments to fair value through profit or loss had no impact on the carrying amount.

The Group estimates that the changes in classification of financial assets due to new standard decrease the volatility in the income statement to some extent.

The Group revised its impairment methodology under IFRS 9 for financial assets at amortised cost. The Group assesses the expected credit losses associated with its debt instruments carried at amortised cost on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in the credit risk. For low credit risk bond investments, Posti applies a 'low credit risk' exemption, where the loss allowance recognised is limited to 12 months' expected credit losses. The impact of adopting impairment model under IFRS 9 on the carrying amounts was EUR -0.1 million and is included in the below change effect.

The effects of reclassification, measurement and impairment on other financial assets than trade receivables are presented below:

	Measurement category		Carrying amount		
EUR million	Dec 31, 2017 (IAS 39)	Jan 1, 2018 (IFRS 9)	Dec 31, 2017 (IAS 39)	Jan 1, 2018 (IFRS 9)	Change effect*
Non-current financial assets					
Investments in non-trading equities	Available for sale	FVPL**	3.5	3.5	
Current financial assets					
Money market investments	FVPL**	Amortised cost	57.0	56.9	0.0
Investments in bonds	FVPL**	Amortised cost	18.2	17.9	-0.3
Equity fund investments	Available for sale	FVPL**	0.1	0.1	

* The change effects noted in this column are the result of applying the new expected credit loss model and the change of measurement category.

** FVPL = financial assets measured at fair value through profit or loss

Hedge accounting

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it is easier to apply hedge accounting going forward due to the fact that only prospective effectiveness testing is required. However, the Group has not increased hedge accounting following the new standard. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

Changes in standards not yet effective - IFRS 16 Leases

IFRS 16 Leases becomes effective for the years commencing on or after January 1, 2019. The new standard will affect primarily the accounting by lessees and as a result Posti will recognize significant amount of leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to fulfill the payment obligation under the lease contract. The standard continues to require Posti to distinguish between service contracts and lease contracts.

Given that Posti leases a large number of production, office and warehousing premises, transportation vehicles and production equipment from third parties for time periods longer than a year or under cancellable leases, the application of the standard is expected to have a significant impact on components of Posti's consolidated financial statements. Operating lease expense recorded on a straight-line basis will be replaced with interest and depreciation, so key metrics like operating result and EBITDA will change. The amount of leased assets and respective lease liabilities in the balance sheet will increase, which has an impact on balance sheet based performance indicators, such as the net debt.

Cash flow from operating activities will be higher as cash payments for the principal portion of the lease liability are classified within cash flow from financing activities and payments that reflect interest will continue to be presented as operating cash flows.

Posti is currently preparing for the implementation of the new standard including the definition of accounting policies and management judgments, planning and developing the accounting processes, tools and related controls as well as training of finance organization and communication.

The new standard requires management to apply judgment regarding the accounting treatment of leases. For leases that have been classified as operating leases under IAS 17, the lease liability will be recognized at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease. Where the rate is not available, Posti uses its incremental borrowing rate. Posti defines the rate separately for each significant geographical area, contract term and asset type.

Posti will make use of the practical expedients provided for leases with low-value asset and short-term leases (12 months or less), including rental contracts for premises, where Posti and the lessor both have termination options within 12 months or less. In case the contract includes termination or extension option, Posti will consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Posti will transition to IFRS 16 using the full retrospective method and thus restate the comparative figures.

As at March 31, 2018, Posti has off-balance sheet non-cancellable operating lease commitments of EUR 251.2 million. On the basis of impact analysis conducted to date, the Group estimates that approximately EUR 240–260 million of these commitments and other cancellable leases will result in the recognition of an asset and a liability for future payments. In addition, Posti estimates that EUR 70–80 million of the lease expenses will be reclassified into depreciation and interest. The impact on operating result is estimated to be positive EUR 5–7 million and minor on the result for the period. A portion of the operating lease commitments will fall under the relief for short-term and low-value leases and therefore continue to be recognized as lease expense in the consolidated income statement under operating expenses. The impact estimate is based on the current lease portfolio and certain assumptions. The final impact of the new standard is dependent on the lease agreements that are valid on the date of the initial application on January 1, 2019 and it may differ from the current estimate. Posti's estimates are dependent on the overall structure and evolution of its lease portfolio and rental levels at any given time.

2. Foreign exchange rates

Average rate	1–3 2018	1–3 2017	1–12 2017
RUB	69.9464	62.5198	65.8877
SEK	9.9731	9.5050	9.6369
NOK	9.6341	8.9837	9.3286

Closing rate	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
RUB	70.8897	60.3130	69.3920
SEK	10.2843	9.5322	9.8438
NOK	9.6770	9.1683	9.8403

3. Operating segments

The Group's business is characterized by seasonality. Net sales and operating profit in the segments are not accrued evenly over the year. In postal services and consumer parcels, the first and fourth quarters are typically strong, while the second and third quarters are weaker.

Posti's reportable segments consist of four operating segments: Postal Services, Parcel and Logistics Services, Itella Russia and OpusCapita. The Postal Services operating segment and the Parcel and Logistics Services operating segments have been aggregated into a single reportable segment called Mail, Parcel and Logistics Services.

Postal Services is in charge of mail, press and marketing services as well as document sending and digitizing services. Parcel and Logistics Services is in charge of comprehensive supply chain solutions, parcel and eCommerce services, transport services for companies, as well as warehousing and supplementary services. Itella Russia offers comprehensive logistics services to both Russian and international companies. OpusCapita focuses on global procurement, payments and cash management solutions.

Majority of Group's net sales is derived from Finland. Geographical distribution of net sales is presented in Note 4. Net sales by geographical location. Mail, Parcel and Logistics services include Mail and Marketing Services, Press Services and Parcel Services with diverse customer base including private, corporate and public customers as well as foreign postal administrations. Services are mainly short-term services. Logistics Services serve corporate customers with long-term contracts. Itella Russia operates in Russia offering services to Russian and international corporate customers. OpusCapita offers services globally to corporate customers.

1–3 2018

EUR million	Mail, Parcel and Logistics Services	Itella Russia	Opus-Capita	Segments total	Other and unallocated	Elimi-nations	Group total
External sales	366.0	26.8	14.7	407.5	0.0		407.5
Inter-segment sales	0.2		0.7	0.9	1.2	-2.1	
Net sales	366.2	26.8	15.5	408.5	1.2	-2.1	407.5
EBITDA	**27.1**	**1.9**	**-1.2**	**27.8**	**0.7**		**28.5**
Special items included in EBITDA:							
Personnel restructuring costs	0.5	0.0	0.1	0.6			0.6
Disposals of subsidiaries, real-estates and businesses, net gain (-) /loss (+)	-1.1			-1.1			-1.1
Onerous contracts		-0.9		-0.9			-0.9
Other	0.2		0.1	0.3	0.9		1.2
Special items included in EBITDA total	**-0.5**	**-0.8**	**0.2**	**-1.1**	**0.9**		**-0.2**
Adjusted EBITDA	**26.6**	**1.0**	**-0.9**	**26.7**	**1.6**		**28.3**
Operating result	**16.4**	**0.1**	**-32.0**	**-15.4**	**-3.1**		**-18.5**
Special items included in operating result:							
Special items included in EBITDA	-0.5	-0.8	0.2	-1.1	0.9		-0.2
Impairment losses		0.2	30.0	30.2			30.2
Special items total	**-0.5**	**-0.6**	**30.2**	**29.1**	**0.9**		**30.0**
Adjusted operating result	**16.0**	**-0.6**	**-1.7**	**13.7**	**-2.2**		**11.5**
Financial income and expense							-0.8
Profit/loss for the period before taxes							**-19.4**

1–3 2017

EUR million	Mail, Parcel and Logistics Services	Itella Russia	Opus-Capita	Segments total	Other and unallocated	Elimi-nations	Group total
External sales	363.5	27.5	15.6	406.6	7.3		413.8
Inter-segment sales	0.4		0.4	0.8	1.8	-2.6	
Net sales	363.9	27.5	16.0	407.4	9.0	-2.6	413.8
EBITDA	**30.0**	**0.9**	**-0.7**	**30.3**	**-0.2**		**30.0**
Special items included in EBITDA:							
Personnel restructuring costs	1.5	0.0		1.5	0.2		1.7
Disposals of subsidiaries, real-estates and businesses, net gain (-) /loss (+)					0.7		0.7
Onerous contracts		0.0		0.0			0.0
Changes in contingent purchase considerations					2.5		2.5
Other					0.6		0.6
Special items included in EBITDA total	**1.5**	**0.0**		**1.5**	**4.0**		**5.5**
Adjusted EBITDA	**31.5**	**0.9**	**-0.7**	**31.7**	**3.8**		**35.5**
Operating result	**18.2**	**-1.0**	**-2.0**	**15.2**	**-5.2**		**10.0**
Special items included in operating result:							
Special items included in EBITDA	1.5	0.0		1.5	4.0		5.5
Special items total	**1.5**	**0.0**		**1.5**	**4.0**		**5.5**
Adjusted operating result	**19.7**	**-1.0**	**-2.0**	**16.6**	**-1.1**		**15.5**
Financial income and expense							-0.3
Profit/loss for the period before taxes							**9.7**

1–12 2017

EUR million	Mail, Parcel and Logistics Services	Itella Russia	Opus-Capita	Segments total	Other and unallocated	Elimi-nations	Group total
External sales	1,447.5	119.1	62.5	1,629.0	18.0		1,647.0
Inter-segment sales	1.2	0.1	2.1	3.4	5.5	-9.0	
Net sales	1,448.7	119.1	64.7	1,632.5	23.5	-9.0	1,647.0
EBITDA	**102.2**	**-14.4**	**-3.6**	**84.2**	**-0.6**		**83.7**
Special items included in EBITDA:							
Personnel restructuring costs	3.8	0.3	0.7	4.9	0.1		5.0
Disposals of subsidiaries, real-estates and businesses, net gain (-) /loss (+)					8.1		8.1
Onerous contracts		17.7		17.7	-1.1		16.6
Changes in contingent purchase considerations					2.5		2.5
Other	0.2		0.3	0.5	2.2		2.7
Special items included in EBITDA total	**4.1**	**18.0**	**1.0**	**23.1**	**11.8**		**35.0**
Adjusted EBITDA	**106.3**	**3.7**	**-2.6**	**107.4**	**11.2**		**118.6**
Operating result	**49.3**	**-21.5**	**-35.9**	**-8.1**	**-19.4**		**-27.5**
Special items included in operating result:							
Special items included in EBITDA	4.1	18.0	1.0	23.1	11.8		35.0
Impairment losses	7.0		26.9	33.9	1.1		35.0
Special items total	**11.1**	**18.0**	**27.9**	**57.0**	**12.9**		**69.9**
Adjusted operating result	**60.4**	**-3.5**	**-7.9**	**48.9**	**-6.5**		**42.4**
Financial income and expense							-9.4
Profit/loss for the period before taxes							**-36.9**

Net sales of Mail, Parcel and Logistics Services

EUR million	1–3 2018	1–3 2017	1–12 2017
Mail and Marketing Services	161.5	164.4	630.2
Press Services	42.0	41.7	166.9
Parcel Services	71.8	69.1	287.5
Logistics Services	92.7	91.0	373.4
Other and eliminations	-1.8	-2.3	-9.3
Total	**366.2**	**363.9**	**1,448.7**

Mar 31, 2018

EUR million	Mail, Parcel and Logistics Services	Itella Russia	Opus-Capita	Segments total	Other and unal-located	Elimi-nations	Group total
Assets	598.4	129.9	70.8	799.1	191.4	-1.0	**987.0**
Non-current assets classified as held for sale		2.6					**2.6**
Liabilities	347.2	31.5	11.4	390.1	172.6	-1.0	**560.2**
Liabilities associated with non-current assets classified as held for sale		1.5					**1.5**
Capital expenditure	7.1	0.0	1.1	8.2	7.2		**15.4**
Depreciation and amortization	10.5	1.6	0.8	12.9	3.8		**16.7**
Impairment losses	0.1	0.2	30.0	30.3	0.0		**30.3**
Personnel, end of period	16,385	2,307	393	19,085	696		**19,781**
Personnel on average, FTE	13,543	2,306	386	16,235	676		**16,911**

Mar 31, 2017

EUR million							
Assets	610.9	158.7	127.8	897.4	297.5	-5.0	**1,189.8**
Liabilities	345.2	20.6	8.6	374.3	259.5	-5.0	**628.7**
Capital expenditure	9.0	0.4	0.9	10.3	14.1		**24.4**
Depreciation and amortization	11.7	1.9	1.4	15.0	4.9		**19.9**
Impairment losses	0.0	0.0		0.1	0.0		**0.1**
Personnel, end of period	16,012	2,345	365	18,722	1,361		**20,083**
Personnel on average, FTE	14,030	2,359	353	16,742	1,315		**18,058**

Dec 31, 2017

EUR million							
Assets	606.8	138.6	101.4	846.8	248.9	-2.9	**1,092.9**
Liabilities	379.8	29.4	12.9	422.1	181.0	-2.9	**600.3**
Capital expenditure	27.1	2.3	4.3	34.9	38.4		**73.3**
Depreciation and amortization	45.5	7.0	5.3	57.8	18.0		**75.8**
Impairment losses	7.5	0.2	26.9	34.6	0.8		**35.4**
Personnel, end of period	16,615	2,329	404	19,348	666		**20,014**
Personnel on average, FTE	14,133	2,325	372	16,830	1,082		**17,912**

4. Net sales by geographical location

EUR million	1–3 2018	1–3 2017	1–12 2017
Finland	322.7	321.4	1,289.2
Other Nordic countries	28.9	35.0	124.9
Russia	26.6	27.6	118.8
Other countries	29.3	29.8	114.2
Total	**407.5**	**413.8**	**1,647.0**

Disaggregated information on the net sales is presented in the Note 3. Operating segments.

5. Acquired businesses and business divestments

Business divestments January–March 2018

In March, Posti's Finnish Debt Collection business was sold to Intrum and the Norwegian Debt Collection business to Visma. The business was reported in the Mail, Parcel and Logistics Services segment. The divestment did not have a material impact on the Group's income statement or balance sheet.

The assets and liabilities of OOO Maxipost, which is reported in the Itella Russia segment, have been classified as held for sale in accrodance with IFRS 5.

6. Property, plant and equipment

The changes in the carrying amount of property, plant and equipment are as follows:

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Carrying amount on Jan 1	**346.4**	**360.5**	**360.5**
Additions	11.9	19.1	55.1
Disposals and transfers between items	-0.2	-0.6	-4.5
Depreciation	-12.8	-14.8	-56.6
Impairment	0.0	0.0	-0.3
Translation differences	-2.0	7.2	-7.9
Moved to assets classified as held for sale	-0.1	-	-
Carrying amount at the end of the period	**343.2**	**371.4**	**346.4**

7. Goodwill and other intangible assets

The changes in the carrying amount of a total of goodwill and other intangible assets are as follows:

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Carrying amount on Jan 1	**237.6**	**274.4**	**274.4**
Additions	3.4	5.7	18.3
Disposals and transfers between items	-0.1	0.1	-1.1
Amortization	-3.7	-5.0	-18.6
Impairment	-30.3	0.0	-35.1
Translation differences	-0.7	0.1	-0.3
Moved to assets classified as held for sale	-1.2	-	-
Carrying amount at the end of the period	**205.1**	**275.2**	**237.6**

As a result of management evaluation OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year.

8. Net debt and liquid funds

EUR million	Borrowings	Borrowings on finance leases	Borrowings total	Liquid funds	Debt certificates	Net debt total
Carrying amount on Jan 1, 2018	**100.7**	**19.3**	**120.0**	**123.7**	**39.7**	**-43.4**
Cash flows	-0.5	-2.5	-3.0	-35.3	-20.2	52.5
Business acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Effect of exchange rates changes	0.0	0.0	0.0	-0.3	0.0	0.3
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0
Carrying amount on Mar 31, 2018	**100.2**	**16.8**	**117.0**	**88.0**	**19.5**	**9.4**
Fair value on Mar 31, 2018	**100.4**	**16.8**	**117.2**			

EUR million	Borrowings	Borrowings on finance leases	Borrowings total	Liquid funds	Debt certificates	Net debt total
Carrying amount on Jan 1, 2017	**100.4**	**31.6**	**132.1**	**159.9**	**54.7**	**-82.5**
Cash flows	0.0	-3.3	-3.3	-40.5	20.0	17.2
Business acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Effect of exchange rates changes	0.0	0.0	0.0	0.4	0.0	-0.4
Other non-cash items	0.0	0.1	0.1	-0.1	0.0	0.2
Carrying amount on Mar 31, 2017	**100.4**	**28.5**	**128.9**	**119.7**	**74.7**	**-65.5**
Fair value on Mar 31, 2017	**103.4**	**28.5**	**131.9**			

EUR million	Borrowings	Borrowings on finance leases	Borrowings total	Liquid funds	Debt certificates	Net debt total
Carrying amount on Jan 1, 2017	**100.4**	**31.6**	**132.1**	**159.9**	**54.7**	**-82.5**
Cash flows	0.3	-12.7	-12.4	-34.5	-15.0	37.2
Business acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Effect of exchange rates changes	0.0	0.0	0.0	-0.7	0.0	0.7
Other non-cash items	0.0	0.3	0.3	-1.0	0.0	1.2
Carrying amount on Dec 31, 2017	**100.7**	**19.3**	**120.0**	**123.7**	**39.7**	**-43.4**
Fair value on Dec 31, 2017	**101.0**	**19.3**	**120.3**			

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Cash and cash equivalents	49.2	51.6	86.0
Money market investments and investments in bonds	38.8	68.0	37.7
Liquid funds	**88.0**	**119.7**	**123.7**

9. Fair value hierarchy of financial assets and liabilities measured at fair value

EUR million	Total	Level 1	Level 2	Level 3
Mar 31, 2018				
Financial assets measured at fair value				
Non-current receivables				
Other non-current investments	3.4			3.4
Current financial assets				
Derivative contracts				
Currency derivatives, non-hedge accounting	0.0		0.0	
Equity fund investments	0.1			0.1
Total	**3.5**		**0.0**	**3.4**
Financial liabilities measured at fair value				
Other non-current liabilities				
Derivative contracts				
Interest rate derivatives, hedge accounting	0.7		0.7	
Equity derivatives, written put option	4.8			4.8
Trade payables and other liabilities				
Derivative contracts				
Currency derivatives, non-hedge accounting	0.3		0.3	
Total	**5.8**		**1.0**	**4.8**

EUR million	Total	Level 1	Level 2	Level 3
Mar 31, 2017				
Financial assets measured at fair value				
Non-current receivables				
Other non-current investments	4.5			4.5
Trade and other receivables				
Derivative contracts				
Currency forward contracts, hedge accounting	0.0		0.0	
Financial assets at fair value through profit or loss				
Money market investments	36.5		36.5	
Bonds	31.5	22.6	8.9	
Derivative contracts				
Currency derivatives, non-hedge accounting	0.0		0.0	
Available-for-sale financial assets				
Equity fund investments	0.2			0.2
Total	**72.7**	**22.6**	**45.4**	**4.7**
Financial liabilities measured at fair value				
Trade payables and other liabilities				
Derivative contracts				
Currency derivatives, non-hedge accounting	0.1		0.1	
Total	**0.1**		**0.1**	

No transfers between the fair value hierarchy levels have been made during the reporting periods. The Group identifies and recognizes transfers between different levels as the transaction is excercised or at the moment when the parametres change materially.

Hierarchy levels:

Level 1: Fair values are based on the quoted prices of identical asset groups or liabilities in active markets.

Level 2: Fair values are, to a significant degree, based on data other than quoted prices included in level 1, but on data that can be either directly or indirectly verified for the asset group or liability in question.

To determine the fair value of these instruments, the Group uses generally accepted valuation models that are, to a significant degree, based on verifiable market data.

Level 3: Fair values are based on data regarding the asset group or liability that is not based on verifiable market data.

The fair value of currency forward contracts is calculated by measuring forward contracts against the forward rates on the reporting date. The fair values of interest rate swaps are calculated by discounting the forecast cash flows of the contracts with the market interest rate curves on the reporting date. The measurement of equity funds relies on valuations delivered by external investment managers, based on the general valuation techniques used by asset managers. The fair value of the written put option is based on the expected contractual cash flows.

The group also has a number of financial instruments which are not measured at fair value in the balance sheet. The fair value of investments in bonds was EUR 15.3 million and their carrying value EUR 14.9 million. For the other instruments, the fair values are not materially different to their carrying amounts, since the instruments are short-term in nature.

10. Pledges, commitments and other contingent liabilities

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Pledges for own behalf	10.9	8.2	11.1
Bank guarantees	6.8	3.8	6.7
Guarantees	4.0	4.2	4.2
Pledges	0.1	0.2	0.2

Operating leases

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Maturity of minimum lease payments:			
Less than a years	56.3	73.1	56.0
1–5 years	119.2	147.9	118.8
More than 5 years	75.6	97.6	79.5
Total	**251.2**	**318.6**	**254.3**

Legal proceedings

In March 2018, the Supreme Court did not grant leave to appeal in litigation concerning the value added tax on postal services. This means that the decision given at September 2017 by the Court of Appeal of Helsinki to overrule the complaint and to compensate the legal expenses of Posti remains final.

In 2011 and 2012, seven financial institutions submitted a claim primarily against Posti and secondarily against Posti and the State of Finland in order to receive compensation for the value added tax charged by Posti on its postal services in 1999–2014. The claim was based on the allegation that the Finnish Value Added Tax Act had been, and still remained, contrary to the EU's Value Added Tax Directive. According to the claims, the postal services provided for the financial institutions should have been VAT exempt. The claims were rejected in their entirety by a decision of the Helsinki District Court in September 2015, and by a decision of the Court of Appeal of Helsinki in September 2017. Posti is not obliged to compensate the VAT that it has charged from its customers. During the process, Posti has considered that the allegations made by the plaintiffs are without merit.

Investment commitments

Posti began the construction of a new freight terminal during 2017. As at March 31, 2018, the related unpaid investment commitment amounted to EUR 1.9 million.

Other contingent liabilities

In accordance with the environmental permit, the Group is subject to environmental liability regarding the cleanup of land of Pohjois-Pasila building lots. The liability amounts to approximately EUR 19.9 million and it will be realized if the construction in the building lots begins.

Derivative contracts

EUR million	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Currency derivatives			
Non-hedge accounting			
Fair value	-0.3	-0.1	-0.2
Nominal value	12.5	5.2	10.3
Hedge accounting			
Fair value		0.0	-0.1
Nominal value		3.4	3.1
Interest rate derivates			
Hedge accounting			
Fair value	-0.7		-0.9
Nominal value	60.0		60.0

11. Events after the reporting period

Posti announced that the prices of Posti's letter services paid in cash will change on May 4, 2018. The prices of Posti's forwarding and mail delivery interruption services will change as of June 1, 2018.

On April 24, 2018, Itella Russia divested its MaxiPost courier business to the Moscow based Strategic Business Alliance. According to its strategy, Itella Russia focuses on its core businesses, contract logistics and transportation.

Accounting policies

The Group has adopted the new standards IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments on 1 January, 2018. New accounting policies on revenue recognition and financial assets and liabilities can be found below. Other accounting policies are in accordance with the accounting policies published in 2017 financial statements.

Revenue recognition

A significant portion of the Group's revenue is generated by rendering of short-term postal and logistics services. Revenue for services is recognized when the entity satisfies the performance obligations of the customer contract. Performance obligations are satisfied either over time or at a point in time, depending on the transfer of control. For the majority of Group's services performance obligations are satisfied over time.

Net sales comprise the revenue generated by the sale of goods and services net of value added taxes, discounts, service level related and other refunds to customers and foreign exchange differences.

At contract inception, Group assesses services promised in the contract with a customer to identify performance obligations. Performance obligation can be either a promise to transfer to the customer a distinct good or service or a series of distinct goods or services. For majority of contracts, the Group has identified a promise to transfer a series of distinct services as a performance obligation.

Some contracts include variable components of transaction price, such as volume discounts or service level penalty fees. Variable consideration is recognized to net sales using the expected value or most likely amount method, to the extent that it is highly probable that a significant reversal will not occur.

The revenue is typically invoiced when the performance obligation is satisfied, with the exception of the implementation costs invoiced from the customer related to certain services. The Group follows market practices for payment terms, which most commonly vary between 14 and 30 days. Payment terms for terminal dues related to international mail are in accordance with international multilateral contracts. Consequently, the Group's contracts do not include significant financing components.

Mail, marketing and press services

Revenue for mail, marketing and press services is recognized over time as the Group satisfies performance obligations. The progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days. For unadressed direct marketing and delivery of international mail from Finland and via Finland the revenue is recognized when the delivery is received to Group's delivery network. The difference between the applied method and a method measuring progress towards complete satisfaction is considered immaterial for the Group. Where the payments are received for a service to be provided over a specified period of time (such as post office boxes), payments received are recognized as deferred revenue and released to the income statement over the period that the service is performed.

Group acts as a principal for outbound international mail and parcel services under universal service obligation and revenue is recognized as gross with terminal dues to third parties charged as expenses and reported as operating costs.

Volume-based invoicing of document processing automatization services is recognized as revenue for the period when the service has been performed.

The Group recognizes the revenue for certain prepaid services, including stamps, franking machines and prepaid envelopes, based on their estimated usage. Estimated usage is based on statistical model that incorporates historical sales and usage volumes and price changes. The unperformed services are accrued as a deferred revenue liability on the balance sheet. The amount of the liability is based on a statistical sampling that has been carried out to consumers, small businesses and associations and a survey carried out to the retailers. The volume of stamps held but not used by the customers to be used in the foreseeable future has been assessed based on the survey. Management estimates the value of these stamps based on the statistical model reflecting the usage of stamps and stamp prices. Deferred revenue is presented on the balance sheet as current and non-current. The portion of the prepaid services that are estimated to be performed within the next 12 months is presented as a current liability. The rest of the liability is presented as non-current.

The commissions to the retailers are recognized as an expense when Posti has performed the prepaid service. Accordingly, the sales commissions estimated to relate to unused stamps which are paid in advance to the retailers are recognized as receivables on the balance sheet and recognized as expense when the related revenue is recognized in net sales.

The Group has used external specialists for developing both the revenue recognition model and statistical research. These models and researches will be regularly updated in future financial periods to generate as up-to-date estimate as possible on the existing conditions. Changes in estimates will be accounted for in the consolidated financial statements in accordance with IAS 8.

Parcel and logistics services

Revenue for parcel and logistics services is recognized over time as Posti satisfies performance obligations. The progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days. For freight services in Finland and in the Baltic countries and for parcel services in the Baltic countries revenue is recognized when the delivery is received to Group's delivery network. The difference between the applied method and a method measuring progress towards complete satisfaction is considered immaterial for the Group. For long-term transports in Itella Russia progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days.

Supply chain services include reception of goods, handling and storage of goods, order picking and dispatch of goods and warehouse accounting. Revenue is recognized when the service has been performed on the basis of the number of occurrences and the space allocated to the customer's goods. Group's customer contracts do not contain lease contracts.

Other mail, parcel and logistics revenue

Revenue for the sale of goods comprising of various packaging materials, stationary products and office supplies sold in retail outlets is recognized when the customer makes the purchase and takes the possession of the goods.

OpusCapita services

OpusCapita offers software solutions for sourcing, payment and cash management either by selling licenses or software as a service (SaaS). Licenses or service agreements do not involve significant tailoring but may include implementation services, which are considered as separate performance obligations. Revenue for licenses is recognized at a point in time when the license is granted and for software as a service over time during the contract period. Revenue for software implementation projects is recognized over time during the project. For implementation services the progress towards complete satisfaction of a performance obligation is measured using an output method based on actual labour hours spent relative to the total expected labour hours.

Contract costs

Incremental costs of obtaining a contract, for example sales commissions are capitalized if they expect to be recovered. The Group recognizes as an expense incremental costs with amortization period of one year or less.

Costs to fulfill a contract are capitalized in balance sheet and recognized as expense during the contract period if criteria for capitalization are met. Costs need to relate directly to a contract, to generate or enhance resources to be used in satisfying performance obligations of the contract and to be recovered. General or administrative costs are not capitalized.

Financial assets and liabilities

Classification and measurement of financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are initially recognized at fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets are recognized at settlement date. The Group derecognizes a financial asset when its contractual right to the cash flows from the asset has expired or is forfeited, or it has transferred substantially all risks and rewards outside the Group.

Subsequent measurement of investments in debt instruments depends on the group's business model for managing the asset and the cash flow characteristic of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost include investments in bonds and money-market investments, fixed-term bank deposits as well as trade and other receivables. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of financial asset is recognised directly in profit or loss and presented in other finance income or expense (or in other operative income or expense for trade receivables), together with foreign exchange gains and losses. Financial assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss.

The Group subsequently measures all investments in equity investments at fair value through profit or loss. Changes in the fair value of investments in equity instruments are recognized in finance income or expenses at each balance sheet date. This category includes unlisted shares and equity fund investments for which the fair value is determined by the fund manager.

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For low credit risk bond investments, Posti applies a 'low credit risk' exemption, where the loss allowance recognised is limited to 12 months expected credit losses. Change in loss allowance is presented in in other finance expenses.

For trade receivables, the Group applies a simplified loss allowance matrix approach whereby the impairment loss is measured over the life of the asset unless the asset is already written off. Write-off is based on indicators that there is no reasonable expectation of recovery for example due to failure to make contractual payments or bankruptcy. Change in loss allowance and loss from write-off are presented in in other operating expenses.

Financial liabilities

Non-derivative financial liabilities are initially recognized based on the consideration received and subsequently measured at amortized cost applying the effective interest-rate method. Transaction costs are included in the initial carrying amount of financial liabilities. Financial liabilities are included in both non-current and current liabilities.

Derivative contracts and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at each balance sheet date. Gain or loss arising from valuation at fair value is recognized in accordance with the derivative contract's purpose of use. The income effect of the value changes of derivative contracts, which constitute effective hedging instruments and which are subject to hedge accounting, is shown consistently with the hedged item. The Group recognizes derivative contracts as hedges of highly probable future transactions (cash flow hedge) or as economic hedges, to which hedge accounting is not applied.

When hedge accounting is applied, the Group documents at the inception of the hedging transaction the relationship between the hedged item and the hedge instruments as well as the objectives of the Group's risk management and the strategy for carrying out the hedging transaction. The Group also documents and assesses prospectively at inception of the hedge and at each reporting date the effectiveness of the hedging relationship by inspecting the hedge instruments' ability to offset the changes in fair values or cash flows of hedged items.

Effective portion of changes in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognized in other comprehensive income. Amounts accumulated in equity are reclassified into profit or loss when the hedged item is recognized through profit or loss. The Group applies cash flow hedging for hedging against foreign exchange risk on certain commitments in foreign currencies and interest-rate risk of a loan with variable interest-rate. For foreign currency forwards the Group designates the full change in fair value of the forward contract as the hedging instrument. The gains or losses on foreign currency forwards are recognized in other operating expenses as the hedged item realizes. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance expenses at the same time as the interest expense on the hedged borrowings. If a derivative contract classified as a cash flow hedging instrument expires or it is sold, or it no longer meets the conditions for hedge accounting, the accumulated fair value gain or loss is retained in the equity until the projected business transaction occurs. However, if the projected business transaction is no longer expected to occur, the accumulated fair value gain or loss is recognized trough profit or loss immediately.

For certain derivative instruments while entered into for risk management purposes, hedge accounting is not applied. Such derivatives include currency derivatives hedging against foreign exchange risk of currency denominated receivables and liabilities. For these contracts, the changes in their fair value are recognized through profit or loss, and presented in financial items or other operating income or expenses, depending on the purpose of hedging.