itella

FINANCIAL STATEMENTS 2012

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Board of Directors' Report 2012

Business environment

After a promising first quarter, the Finnish economy slipped onto a downward trend during late spring and early summer. In line with this general trend, Itella's net sales also developed positively during the first half of the year, but slowed down during the second quarter and came to a complete stop during the third. The final quarter was challenging, particularly in terms of Itella Logistics' road, air and sea freight operations.

In respect of Itella's business environment, the integration of VR Transpoint's groupage logistics into Itella Logistics constituted one of the most important changes that took place during the year. Among other things, this transaction between two strong industry operators means that Itella's customers now have at their disposal the widest network of terminals and the most comprehensive transportation capacity in Finland.

As anticipated, electronic replacement showed signs of acceleration, in addition to which the downward trend in the volumes of newspapers and magazines continued. Changes in the competitive environment are prepared for by the continuous development of Itella's own delivery network. The number of automatic parcel terminals – introduced to the Finnish market in 2011 – has been increased. In 2012, the Group put into operation a total of one hundred new automated parcel terminals and pick-up outlets. Recipients' chances to route shipments addressed to them have also been improved on a continuous basis. The parcel routing service introduced to consumers during the year allows them to route their online store parcels to the Posti outlet of their choice. In addition to Posti shops, such outlets include pickup outlets managed by our partners and Posti's parcel terminals.

The volumes of addressed letters continued to decline. This trend is also evident in the growing volumes of electronic letters. Newspaper and magazine volumes continued to fall as well. This decline was accelerated by the nine percent value added tax recently levied on newspapers and magazines.

The digitization of invoicing and financial management impacts Itella's business, offering business opportunities to Itella Information, in particular.

Cost-cutting program

In August 2011, Itella initiated an extensive cost-cutting program with the objective of accruing savings in excess of EUR 100 million over the next three years. The program has proceeded according to schedule in both the business groups as well as in the Group's centralized operations. The savings achieved in 2012 were generated particularly through restructuring measures and efforts aimed at increasing efficiency and sourcing.

Profit performance and net sales

Itella Group's net sales in 2012 totaled EUR 1,946.7 (1,900.1) million representing growth of 2.4 percent. In local currencies, the increase in net sales was 1.9 percent. Corporate acquisitions did not have a significant effect on development at the annual level, but the increase in sales during the final quarter reflected the integration of VR Transpoint's groupage logistics. The Group's net sales grew in all business groups except Itella Information. Net sales increased in Finland by 4.6 percent, and declined by 1.9 percent in other countries. International operations accounted for 31 percent (33 percent) of net sales.

The operating result before non-recurring items improved to EUR 53.2 (30.5) million, or 2.7 percent (1.6 percent) of net sales. Operating result before non-recurring items improved in Itella Mail Communications and Itella Information, and declined in Itella Logistics.

Performance in 2012 was strained by non-recurring items in the amount of EUR 14.2 (36.4) million, of which EUR 3.8 (27.0) million related to personnel restructuring, EUR 3.0 million to Logistics' lease provisions, and EUR 7.3 (9.4) million to other items. At the end of May, Itella Information sold its German subsidiary to the subsidiary's operative management. This transaction generated a non-recurring cost item of EUR 14.3 million. The additional purchase price of the Russian logistics corporation NLC acquired by Itella Logistics in 2008 was confirmed, resulting in a non-recurring positive performance impact of EUR 7.0 million.

The Group recorded an operating result of EUR 39.0 (-5.9) million, representing 2.0 percent (-0.3 percent) of net sales. Operating result improved in all business groups.

The Group's net financing costs amounted to EUR 8.3 (10.6) million. The Group's operating result after financial items amounted to EUR 30.8 (-16.4) million. Income tax totaled EUR 16.7 (14.2) million.

The Group's operating result for the period amounted to EUR 14.1 (-30.7) million. Return on equity stood at 2.1 percent (-4.5 percent).

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Key figures of Itella Group

	2012	2011	2010
Net sales, MEUR	1,946.7	1,900.1	1,841.6
Operating result (non-IFRS), MEUR *)	53.2	30.5	49.6
Operating result (non-IFRS), % *)	2.7	1.6	2.7
Operating result (EBIT), MEUR	39.0	-5.9	32.4
Operating result (EBIT), %	2.0	-0.3	1.8
Result before taxes, MEUR	30.8	-16.4	25.3
Result for the period, MEUR	14.1	-30.7	9.3
Return on equity, %, 12 months	2.1	-4.5	1.4
Return on investment, %, 12 months	4.8	-0.2	4.2
Equity ratio, %	46.4	46.1	50.5
Gearing, %	23.4	22.1	18.4
Gross capital expenditure, MEUR	134.7	102.9	89.5
Employees on average	27,460	28,493	28,916
Dividends, MEUR	6,8 **)	-	4.4

**) Non-IFRS = excluding non-recurring items*
***) Board of Directors´ proposal*

Itella Mail Communications

Itella Mail Communications’ net sales increased by 1.4 percent to EUR 1,167.6 (1,151.7) million. The increase in net sales during the final quarter was largely attributable to the positive development in parcel volumes.

The share of operations subject to the universal service obligation amounted to EUR 139.1 (125.1) million, or 11.9 percent (10.9 percent) of Itella Mail Communications’ net sales.

The business group’s operating result improved, and totaled EUR 74.0 (31.4) million, or 6.3 percent (2.7 percent). The operating result before non-recurring items amounted to EUR 74.0 (49.8) million. The reporting period did not include non-recurring cost items (EUR 18.4 million).

In 2012, the delivery volumes of mail items developed as follows in comparison to the corresponding period in the previous year:

- Newspapers, -8 %
- Magazines, -5 %
- Total volume of addressed letters, -4 %
- Unaddressed direct marketing, +20 %
- Parcel services, +5 %
- Electronic letters, +36 %

The growth in parcel services continued to be robust, particularly in terms of online commerce. Itella increased its market share. The growth in unaddressed direct marketing also continued throughout the year, and we increased our market share despite tough competition.

The volumes of addressed letters continued to decline. This trend is also evident in the growing volumes of electronic letters. Newspaper and magazine volumes continued to fall as well. This decline was accelerated by the nine percent value added tax recently levied on newspapers and magazines.

Itella Mail Communications’ business environment is subject to the effects of the new Postal Act, which opened up competition to other operators. In March, Esan kirjapaino Oy was issued a license for regional letter deliveries. Itella’s readiness to respond to changes in the competitive environment is maintained through the continuous development of the delivery network’s quality and productivity. In 2012, the Group put into operation a total of one hundred new automatic parcel terminals and pick-up outlets. Recipients’ chances to route shipments addressed to them have also been improved on a continuous basis. The parcel routing service introduced to consumers during the year allows them to route their online store parcels to the Posti outlet of their choice. At the end of 2012, there were 1,098 such outlets.

The investments of Itella Mail Communications totaled EUR 26.8 (33.3) million. The most significant of these involved the new point-of-sale system employed in Posti shops and production maintenance investments.

Itella Logistics

Itella Logistics’ net sales grew by 6.8 percent, to EUR 781.5 (731.6) million. Net sales increased, driven by the integration of VR Transpoint. Growth was furthermore spurred by positive development in Russian operations as well as contract logistics in Finland.

The business group’s operating loss before non-recurring items increased from the year before, and stood at EUR 12.0 (-6.4) million. In terms of the entire year, Itella Logistics recorded an operating loss of EUR 9.5 (-15.7) million, representing -1.2 percent (-2.1 percent) of net sales. Performance declined due to the continuing business challenges in Scandinavia and the warehouse accident that occurred in Russia in July 2012. Profitability decreased in air and sea freight. On the other hand, the additional purchase price of the Russian logistics corporation NLC acquired by Itella Logistics in 2008 was confirmed, and this had a non-recurring positive performance impact of EUR 7.0 million.

A large part of the shelf system in Itella Logistics' Shushary warehouse in St. Petersburg collapsed in July 2012. The accident damaged a substantial number of customers' products, and has also necessitated environmental protection and cleanup measures. Freight operations, the office, and customers' logistics services were transferred to a temporary office in Utkina Zavod. Repair measures are underway, and we expect to have the premises back in use by April 2013. Itella has insurance policies that cover its liabilities in accidents such as these (excluding business interruption insurance). Assessments concerning liability issues and the calculation of the insurance indemnity are underway, but the indemnity is yet to be paid. The total loss is estimated to amount to EUR 31 million, of which a EUR 7.7 million expense strains performance.

Itella Logistics' investments–in the logistics center located in Pennala, Orimattila, ICT upgrades, and the integration of VR Transpoint's groupage logistics–totaled EUR 90.4 (31.0) million. The most significant of these investments is the new logistics center being built in Pennala, Orimattila. The construction of this logistics center, set to be completed in 2013, began in 2011, and the total investment amounts to more than EUR 60 million.

Itella Information

Itella Information's net sales declined slightly (-1.3 percent), to EUR 270.1 (273.7) million. The decline was influenced by the sale of the printing business in Germany.

The operating result before non-recurring items improved to EUR 15.6 (3.2) million. This represents 5.8 percent (1.2 percent) of net sales. The improvement was attributable to the sale of the printing business in Germany, the efforts to increase efficiency carried out at the end of the previous year, and the increase in sales in print operations and outbound services. The business group's operating result improved to EUR -1.1 (-4.1) million.

Outbound and e-Services developed positively in Finland and Sweden due to the iPost and iBilling solutions, in particular. Financial management outsourcing services gained new customer accounts, but the business's profitability remains modest. This is the result of investment in growth, process development, and internationalization. After a challenging spring, payments automation services (OpusCapita) were back on a positive track in the second half of the year. Cloud services grew by more than 100 percent. The economic recession offers new business opportunities for Itella Information.

At the beginning of 2013, Itella Group's payroll services transferred from Silta Oy to being managed by Itella Information.

In June, Itella Information sold its German subsidiary, Itella Information GmbH, which operates in the printing services business, to the company's operative management. Due to the sale of the subsidiary, which was carried out as a management buyout, some one hundred people transferred from Itella to the employment of the new company, docsellent GmbH. The transaction is shown in the second quarter results as a non-recurring loss of EUR 14.3 million.

The business group's investments amounted to EUR 5.8 (30.0) million. The investments are largely related to activated development projects and the printing business's maintenance investments.

Key Figures of Business Groups, MEUR

	2012	2011	Change
Net sales			
Itella Mail Communications	1,167.6	1,151.7	1.4 %
Itella Logistics	781.5	731.6	6.8 %
Itella Information	270.1	273.7	-1.3 %
Other activities	63.1	55.8	13.2 %
Intra-Group sales	-335.6	-312.7	7.3 %
Itella Group	**1,946.7**	**1,900.1**	**2.4 %**
Operating result (non-IFRS) *)			
Itella Mail Communications	74.0	49.8	48.5 %
Itella Logistics	-12.0	-6.4	neg
Itella Information	15.6	3.2	..
Other activities	-24.4	-16.1	neg
Itella Group	**53.2**	**30.5**	**74.4 %**
Operating result (EBIT)			
Itella Mail Communications	74.0	31.4	..
Itella Logistics	-9.5	-15.7	39.5 %
Itella Information	-1.1	-4.1	72.2 %
Other activities	-24.4	-17.5	neg
Itella Group	**39.0**	**-5.9**	**..**
Operating result (non-IFRS), % *)			
Itella Mail Communications	6.3 %	4.3 %	
Itella Logistics	-1.5 %	-0.9 %	
Itella Information	5.8 %	1.2 %	
Itella Group	**2.7 %**	**1.6 %**	
Operating result (EBIT), %			
Itella Mail Communications	6.3 %	2.7 %	
Itella Logistics	-1.2 %	-2.1 %	
Itella Information	-0.4 %	-1.5 %	
Itella Group	**2.0 %**	**-0.3 %**	

**) Non-IFRS = excluding non-recurring items*

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Other activities of the Group

Itella's subsidiary Itella Bank Ltd. began its operations as a deposit bank at the beginning of 2012. Itella Bank specializes in the transmission of payment and invoicing data, particularly with regard to online commerce, parcel services, and other postal affairs.

The Post Museum located in the General Post Office in Helsinki was closed. The new Post Museum will be opened in Museum Centre Vapriikki in Tampere in 2014.

Business risks

In 2012, risk management focused particularly on continuing to improve the quality and extent of the risk management process. The Group's key strategic risks involve the markets, the business environment, the ability of business operations to develop, and regulation. The principal operational risks, on the other hand, involve first and foremost the profitability of business, as well as business interruptions and other disruptive risks. Any deepening of the economic recession, acceleration in the spread of digital services, or increase of already significant competition would have an adverse effect on growth.

Strategic and operational risks

Any protraction of the economic downturn may have an impact on the activities of companies and consumers and, consequently, on the volumes of products transported by Itella. Turbulence in the financial markets and any related disturbances may also pose a risk to Itella's business operations.

Significant market risks are considered to include a faster-than-expected rate of replacement (in electronic alternatives replacing traditional postal delivery) and any unanticipated changes in this area, such as an increasingly steep decline in the volumes of letters, magazines, and newspapers. Itella strives to develop its operations continuously to minimize this risk.

Any possible protraction in the integration of the acquired companies and their operations to the Group and, consequently, in the management of corporate acquisitions, would constitute both direct financial losses as well as a strategic risk that would constrain business development. Our goal is to ensure the successful integration of corporate acquisitions through careful monitoring. The integration of VR Transpoint's groupage logistics–which Itella acquired in 2012–to the Finnish business operations of our Logistics business group is vitally important for the development of our competitiveness and the management of profitability in our home market.

In terms of Logistics, increasing international competition and the resultant decline in volumes in the Nordic countries is also considered a risk.

In Russia, the development of the social, legislative, and overall business environment may come to constitute a significant market risk for Itella. Itella Logistics' investments in Russia are substantial. Our risk management measures include the continuous monitoring of developments and trends, as well as a solid establishment in the Russian market by means of Itella's own companies and personnel and effective networking.

A large part of the shelf system in Itella Logistics' Shushary warehouse in St. Petersburg collapsed in July 2012. The accident damaged a substantial number of customers' products, and has also necessitated environmental protection and cleanup measures. Itella has insurance policies that cover its liability in such eventualities (excluding business interruption insurance). The assessment of liability and the calculation of the insurance indemnity are underway, but the indemnity is yet to be paid. Thus the ultimate effects of the accident are yet to be ascertained. An insurance receivable has been recognized under other receivables.

Itella Information's capacity to develop the outsourcing of financial processes and the processes associated with them during a period of rapid growth involves an operational risk.

Itella's position as an operator with a partially dominant market position and as a producer of universal services may introduce risks involving government regulation or supervision. At the moment, these risks relate, in particular, to Itella Posti's pricing solutions in terms of letter and parcel products–an issue that involves the interpretation of the former Postal Services Act, which remained in force until the end of May 2011. The related dispute between Itella and the Finnish Communications Regulatory Authority is pending. Should the court's findings be unfavorable from Itella's point of view, the financial repercussions for the company will be considerable.

Itella Bank's risk management measures relate to that of a credit institution and comply with the relevant regulations issued by authorities. The aforementioned risks are described in more detail in the Bank's financial statements.

The rigidity of cost structures slows the improvement of profitability, especially in Finland; and the universal service obligation presents a further constraint on the potential for increasing efficiency. As volumes decline, a new economic downturn would further complicate efforts to maintain profitability.

The protection and development of key production and warehouse facilities and the continuity of IT infrastructure are of utmost importance in the management of operational risks related to loss and interruption. Should such risks (for example a fire) materialize, they could result in a substantial loss of customer accounts and losses in value for Itella.

Regarding other business disruption risks, the most significant involve the vulnerability of information security, networks, and the production infrastructure. These risks are both operational and image-related in nature.

Other risks:
An account of financial risks and their management is available in the Notes to the Financial Statements.

Insurance has been taken out to cover all risks for which insurance is the best alternative for financial or other reasons. Insurance policies concerning business continuity, property, and liabilities as well as certain insurance policies relating to personnel are managed centrally, at Group level. Liability risks include risks arising from operations and products as well as corporate management liabilities. The determination of deductibles accounts for the Group's risk-bearing capacity.

Changes in corporate structure

On May 30, 2012, Itella sold the entire capital share of Itella Information GmbH to the subsidiary's operative management.

Regarding associated companies, Itella sold AS Eesti Elektron Post in Estonia on September 24, 2012 and Ageris Kontacktcenter AB, based in Sweden, on December 21, 2012.

The business acquisition between Itella Logistics Oy and VR Group was finalized on October 1, 2012. The transaction transferred VR Transpoint's groupage logistics business in Finland and the related entire capital share of PT Logistiikka Oy to the ownership of Itella Logistics.

Itella Customer Relationship Marketing Ltd. and OpusCapita Group Oy merged with their parent company Itella Corporation on December 1, 2012. In Denmark, the companies KEC A/S, Spedition Dyhr Eftf A/S, and Honold Combifragt Logistics A/S merged with Itella Logistics A/S, also on December 1, 2012.

Itella Real Estate Oy, which specializes in property management, sold the entire capital share of KOY Sahronmaa on June 6, 2012.

Capital expenditure

The additions to Itella Group's intangible assets and PPE amounted to EUR 92.9 (72.5) million. EUR 41.8 (30.4) million was spent on business combinations. A total of 93 percent of the Group's investments were allocated to Finland. A more detailed account of investments is available in the financial reports of each business group.

Research and development

Itella Group's research and development expenditure in 2012 totaled EUR 15.2 million, or 0.8 percent of the Group's total operating expenses. The corresponding figures in 2011 and 2010 were EUR 14.0 million (0.7 percent) and EUR 9.5 million (0.5 percent), respectively.

Itella Mail Communications concluded a multi-year development and implementation project concerning the Posti shop system, and carried out a complete reform of post box services. The productization of addressed letter, magazine, and advertisement delivery services was simplified. Furthermore, the business group introduced a rerouting service to the market, with which mail recipients may route shipments to a location of their choice. The service was first introduced in relation to parcel services. The development of online services targeted at the customers of marketing services, small and medium-sized companies, and consumers was continued by way of updating, among others, the aTarget, Netposti, and Well-wisher's Address Book services and by creating the Itella Network service package for small and medium-sized companies. Computer-supported processes for the management and monitoring of operating statements, the development portfolio, and the work contribution of the company's own personnel were created to raise the productivity of development.

In Mail Communications, research focused on the spread of the use of social media and its effects on the demand for postal services, as well as on the significance of communality in the development of print and electronic media. In addition, research activities involved the advancement of the electronification of consumer invoices and the factors that have a bearing on such development, the structure and electronification of letter traffic, the importance of online shops as a channel for buying Christmas gifts, and the trends in subscriber activity regarding newspapers and magazines in the next few years.

Itella Logistics invested in a new warehouse management system and freight operating system. After VR Transpoint's groupage logistics and PT Logistiikka became a part of Itella Logistics, the development concerning the optimization and transport management systems of the domestic transport business was also continued.

Itella Information continued the development of the OpusCapita products–designed designed for the automation of cash flows—by introducing new mobile and cloud service solutions to the market and by further investment in the user-friendliness of the products.

Itella Bank's systems were also one of the focal points of development work.

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Environmental impacts

The vast majority of the environmental impact attributable to Itella's operations is related to greenhouse gas emissions. Itella has made a commitment to reduce its carbon dioxide emissions by 30 percent by the year 2020 (in proportion to net sales, year of comparison 2007). This emissions target and the reporting system that supports it encompass all of Itella's business operations and countries of operation.

Our special focus in 2012 was on the energy-efficiency of our properties. Thanks to the measures carried out in Finland during 2012, the electricity consumption of our properties fell by more than three percent and standardized heat consumption by almost seven percent. Our goal is to cut electricity consumption by two percent and heat consumption by three percent annually up until 2015.

Itella publishes a Corporate Responsibility Report in connection with the 2012 Financial Statements. This Report will contain more detailed accounts of environmental considerations and issues. The past year was the first one during which Itella commissioned a verification of the environmental responsibility data to be published for 2012 and an audit of the GRI level. The verification and audit were carried out by PricewaterhouseCoopers Oy.

Financial position

The consolidated cash flow from operating activities increased and totaled EUR 118.9 (85.7) million before investments. Expenditure on investments and corporate acquisitions amounted to EUR 115.0 (76.3) million, of which corporate acquisitions and sales accounted for EUR 55.9 (23.7) million.

The EUR 100 million domestic bond issued by Itella Corporation in December 2011 was listed on the Helsinki Stock Exchange, managed by NASDAQ OMX Helsinki, on January 16, 2012. The bond's loan period is six years and it has a fixed yield of 4.625 percent.

At the end of 2012, liquid assets amounted to EUR 148.3 (177.7) million, and undrawn committed credit facilities totaled EUR 120.0 (120.0) million. The Group's interest-bearing liabilities were EUR 324.8 (335.5) million. The equity ratio stood at 46.4 percent (46.1 percent) and gearing was 23.4 percent (22.1 percent).

Share capital and shareholding

Itella Corporation is wholly owned by the State of Finland, its share capital consisting of 40,000,000 shares of equal per-share value. The company holds no treasury shares and does not have subordinated loans. No loans have been granted to related parties and no commitments have been given on their behalf. The company has not issued shares, stock options, or other rights with entitlement to company shares. The Board of Directors is not authorized to issue shares, stock options, or other rights with entitlement to company shares.

Administration and auditors

Itella Corporation's Annual General Meeting was held in Helsinki on March 14, 2012. The General Meeting adopted the 2011 financial statements and discharged the Supervisory Board, Board of Directors, and President and CEO from liability.

The General Meeting also decided that the Board of Directors be composed of eight members in 2012. Arto Hiltunen continues to chair the Board of Directors, and Päivi Pesola continues as the Board's Vice Chairman. Ilpo Nuutinen was elected to join the Board as a new member. Hele-Hannele Aminoff, Jussi Kuutsa, Timo Löyttyniemi, Riitta Savonlahti, and Maarit Toivanen-Koivisto continued as Board members in 2012.

Itella's Supervisory Board was composed of 12 members in 2012. New members elected to the Supervisory Board were Ritva Elomaa, MP (Finns); Lars-Erik Gästgivars, MP (Swedish People' Party); Mauri Pekkarinen, MP (Centre Party); Raimo Piirainen, MP (Social Democratic Party); Tuomo Puumala, MP (Centre Party); Teuvo V. Riikonen, Executive Manager; and Kimmo Sasi, MP (National Coalition Party). Mauri Pekkarinen, MP, was elected Chairman of the Supervisory Board and Johanna Karimäki, MP, Vice Chairman of the Supervisory Board. Continuing members include Johanna Karimäki, MP (Greens of Finland); Susanna Huovinen, MP (Social Democratic Party); Sari Moisanen, student (the Left Alliance); Outi Mäkelä, MP (National Coalition Party); and Reijo Ojennus, entrepreneur (Finns).

The authorized public accountancy firm PricewaterhouseCoopers Oy was elected as Itella Corporation's auditor in 2012, with Authorized Public Accountant Merja Lindh acting as the principal auditor.

Jukka Alho (M.Sc. Tech.) served as Itella Corporation's President and CEO until December 10, 2012. He was succeeded by Heikki Malinen (M.Sc. Econ., MBA) as of December 11, 2012.

Human Resources

At the end of 2012, Itella Group employed 27,816 (27,585) people, with the average number of personnel being 27,460 (28,493). If part-time employees are converted to full-time employees, this corresponds to 23,676 (24,616) person-years, of which an average of 5,859 (6,370) work abroad.

Personnel distribution was as follows:

Itella Mail Communications	17,844
Itella Logistics	7,391
Itella Information	2,168
Group and other activities	413

The number of employees working outside Finland was 5,997 (6,462), and the number of employees working in Finland was 21,819 (21,123). At the end of 2012, the parent company had 386 (336) employees. The parent company's average number of employees was 379 (350).

Group personnel

	2012	2011	2010
Wages and salaries, MEUR	713.8	731.8	706.3
Employees on Dec 31	27,816	27,585	29,022
Employees on average	27,460	28,493	28,916

The Group’s personnel expenses decreased by EUR 25.5 million, or by approximately 2.8 percent in comparison to the previous year. Personnel expenses included restructuring costs in the amount of EUR 3.8 (27.0) million. The operating result for the period included a EUR 3.1 million expense provision for the purposes of the entire personnel’s bonuses. There are also provisions for the purposes of the annual incentive plan and the management’s long-term incentive plan.

At the end of the review period, the number of employees in Finland had increased by 696 in comparison to the previous year. The number increased due to the personnel of VR Transpoint’s groupage logistics and PT Logistiikka Oy, who transferred to Itella’s employment.

The company also signed 772 new full-time employment contracts in Finland in 2012. Personnel reductions amounted to a total of 435 person-years. Out of this total, 408 person-years were reduced for production-related and financial reasons, and 27 person-years were reduced via voluntary resignations and pension plans.

Events after the reporting period

At the beginning of 2013, Itella Group’s payroll services transferred from Silta Oy to being managed by Itella Information.

The first phase of the new logistics center under construction in Pennala, Orimattila, was completed at the beginning of 2013. Work on the second phase began in January 2013, and the entire facility will be completed in the summer of 2013.

Outlook for 2013

Net sales in 2013 are expected to increase significantly, partly due to the acquisition of VR Transpoint. The Group’s operating result before non-recurring items is expected to improve.

The net sales of Itella Mail Communications are expected to remain at the level of the previous year, whereas its operating result is expected to decline slightly due to traditional services being replaced by electronic ones, as well as due to the decline in delivery volumes.

Itella Logistics’ net sales are expected to increase significantly as a result of the acquisition of VR Transpoint’s groupage logistics business. The operating result is expected to turn positive.

The net sales of Itella Information are expected to grow, even without the effect of the sale of the printing business in Germany. The operating result is expected to increase clearly.

The amount of investment is expected to decrease in comparison to last year.

Board of Directors’ proposal to the AGM

According to the financial statements, the parent company’s distributable funds total EUR 623,460,452.09, of which the loss for 2012 accounts for EUR 13,437,847.83.

No material changes have taken place in the Group’s financial standing since the end of the financial period, nor does the solvency test, as referred to in Section 13(2) of the Finnish Limited Liability Companies Act, affect the proposed distributable profit.

The Board of Directors proposes to the General Meeting that the distributable funds be allocated as follows:

- a dividend of EUR 0.17 to be paid per share, or a total of EUR 6,800,000.00
- retaining EUR 616,660,452.09 under shareholders’ equity.

Helsinki, February 13, 2013

Itella Corporation
Board of Directors

Comprehensive Consolidated Income Statement

EUR million	Note	2012	2011
Net sales	1,3	**1,946.7**	**1,900.1**
Other operating income	4	25.3	25.5
Share of associated companies' results		0.0	0.1
Materials and services	5	546.9	549.2
Employee benefits	7	885.2	910.7
Depreciation and amortisation	9	88.0	88.7
Impairment losses	9	1.4	18.3
Other operating expenses	10	411.5	364.7
Operating profit (EBIT)		**39.0**	**-5.9**
Financial income	11	26.4	25.1
Financial expenses	11	-34.7	-35.7
Profit before income tax		**30.8**	**-16.4**
Income tax	12	-16.7	-14.2
Result for the financial period		**14.1**	**-30.7**
Result for the financial period attributable to			
Parent company shareholders		14.1	-30.7
Non-controlling interest		0.0	0.0
Comprehensive consolidated income			
Result for the financial period		**14.1**	**-30.7**
Other items of comprehensive income			
Available-for-sale financial assets		-0.3	0.1
Translation differences		10.9	-3.4
Comprehensive income		**24.7**	**-34.0**
Comprehensive income attributable to			
Parent company shareholders		24.7	-34.0
Non-controlling interest		0.0	0.0

Consolidated Balance Sheet

EUR million	Note	31 Dec 2012	31 Dec 2011
Non-current assets			
Goodwill	13	186.9	171.7
Other intangible assets	13	100.3	77.5
Investment property	14	3.1	3.8
Property, plant and equipment	15	675.4	664.1
Investments in associated companies	16	0.4	0.8
Other non-current investments	19	6.0	6.4
Non-current receivables	20	13.0	12.1
Deferred tax assets	21	12.8	12.0
Total non-current assets		**997.8**	**948.5**
Current assets			
Inventories	22	4.9	5.8
Trade receivables and other receivables	23	329.9	299.1
Current tax assets		2.1	7.3
Financial assets available-for-sale	24	2.6	1.5
Financial assets held until maturity	24	15.2	10.9
Financial assets at fair value through profit or loss	25	56.2	58.7
Cash and cash equivalents	26	90.3	121.0
Total current assets		**501.1**	**504.4**
Non-current assets classified as held for sale	27	**10.7**	**12.4**
Total assets		**1,509.7**	**1,465.3**
Equity			
Share capital	28	70.0	70.0
Contingency reserve		142.7	142.7
Fair value reserve		-0.2	0.1
Translation differences		6.7	-4.2
Retained earnings		469.2	456.3
Equity attributable to equity holders of the parent company		**688.4**	**664.9**
Equity attributable to equity holders of non-controlling interest		0.0	0.0
Total equity		**688.4**	**664.9**
Non-current liabilities			
Deferred tax liabilities	21	53.7	53.1
Non-current interest-bearing loans	31	288.3	304.9
Other non-current liabilities	32	12.2	4.0
Non-current provisions	30	18.6	20.3
Defined benefit pension plan obligations	29	4.2	7.5
Total non-current liabilities		**377.0**	**389.8**
Current liabilities			
Current interest-bearing loans	31	36.3	30.5
Trade payables and other liabilities	32	**375.7**	**372.1**
Current tax liabilities		1.2	3.0
Current provisions	30	30.4	4.5
Total current liabilities		**443.7**	**410.1**
Liabilities associated with non-current assets classified as held for sale	27	**0.5**	**0.5**
Total liabilities		**821.3**	**800.4**
Total equity and liabilities		**1,509.7**	**1,465.3**

Consolidated Cash Flow Statement

EUR million	Note	2012	2011
Result for the financial period		14.1	-30.7
Adjustments:			
Depreciation and amortisation	9	88.0	88.7
Impairment losses	9	1.4	18.3
Gains on sale of intangible assets and PPE	4	-4.8	-2.6
Losses on sale of intangible assets and PPE	10	15.3	2.6
Financial income	11	-26.5	-25.1
Financial expenses	11	34.7	35.7
Income tax	12	16.7	14.2
Other adjustments		-7.0	-8.2
Cash flow before change in net working capital		**132.0**	**92.9**
Change in trade and other receivables		-18.2	-6.4
Change in inventories		0.8	0.0
Change in trade payables and other liabilities		6.4	12.7
Change in provisions		25.3	8.4
Change in net working capital		**14.3**	**14.6**
Cash flow from operating activities before financial items and income tax		**146.2**	**107.5**
Interests paid		-19.8	-17.0
Interests received		8.2	6.9
Other financial items		-0.1	0.1
Income tax paid		-15.6	-11.7
Cash flow from financial items and income tax		**-27.3**	**-21.8**
Cash flow from operating activities (net)		**118.9**	**85.7**
Purchase of intangible assets		-28.1	-8.8
Purchase of property, plant and equipment		-45.4	-43.8
Proceeds from sale of intangible and tangible assets		7.4	6.5
Acquisitions	2	-41.5	-23.7
Sales of subsidiaries less cash and cash equivalents at the date of sale	2	-14.4	0.0
Financial assets at fair value through profit or loss		2.5	1.9
Cash flow from other investments		-3.1	1.1
Cash flow from investing activities (net)		**-122.5**	**-66.8**
Drawings of current loans	31	4.8	-
Repayment of current loans	31	-	-21.4
Drawings of non-current loans	31	-	99.5
Repayment of non-current loans	31	-23.8	-25.0
Finance lease principal payments		-6.6	-7.1
Financial assets held until maturity	24	-4.2	-10.9
Dividends paid		-	-4.4
Cash flow from financing activities (net)		**-29.8**	**30.6**
Change of cash and cash equivalents		**-33.5**	**49.5**
Cash and cash equivalents at period-start	26	**121.0**	**75.6**
Effect of change in exchange rates		2.7	-4.1
Change of fair value of cash and cash equivalents		0.0	0.0
Cash and cash equivalents at period-end	26	**90.3**	**121.0**

Statement of Changes in Shareholders' Equity

	Equity attributable to equity holders of the parent company							
EUR million	**Share capital**	**Contingency reserve**	**Fair value reserve**	**Translation differences**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Equity 1 Jan 2011	**70.0**	**142.7**	**0.0**	**-0.8**	**492.2**	**704.1**	**0.0**	**704.2**
Comprehensive income								
Result for the financial period					-30.7	-30.7		-30.7
Other items for the comprehensive income:								
Change in fair value reserve			0.1			0.1		0.1
Change in translation differences				-3.4		-3.4		-3.4
Other changes					-0.7	-0.7		-0.7
Comprehensive income for the financial period			**0.1**	**-4.2**	**460.8**	**669.3**	**0.0**	**669.3**
Transactions with equity holders								
Dividends paid					-4.4	-4.4		-4.4
Non-controlling interest							0.0	0.0
Transactions with equity holders, total					**-4.4**	**-4.4**	**0.0**	**-4.4**
Equity 31 Dec 2011	**70.0**	**142.7**	**0.1**	**-4.2**	**456.3**	**664.9**	**0.0**	**664.9**
Equity 1 Jan 2012	**70.0**	**142.7**	**0.1**	**-4.2**	**456.3**	**664.9**	**0.0**	**664.9**
Comprehensive income								
Result for the financial period					14.1	14.1		14.1
Other items for the comprehensive income:								
Change in fair value reserve			-0.3			-0.3		-0.3
Change in translation differences				10.9		10.9		10.9
Other changes *)					-1.3	-1.3		-1.3
Comprehensive income for the financial period			**-0.2**	**6.7**	**469.2**	**688.4**	**0.0**	**688.4**
Transactions with equity holders								
Non-controlling interest							0.0	0.0
Transactions with equity holders, total					**0.0**	**0.0**	**0.0**	**0.0**
Equity 31 Dec 2012	**70.0**	**142.7**	**-0.2**	**6.7**	**469.2**	**688.4**	**0.0**	**688.4**

**) The accumulated depreciation differences of two domestic Group companies were adjusted to correspond to the difference between the expenditure residue of taxation and accounting. The retained earnings in the Group financial statements has been respectively adjusted with the amount of deferred tax liability.*

Notes to the consolidated financial statements

Basic Group information

Itella Group provides mail communication, logistics and financial management sevices and operates in eleven countries. Its Parent Company, Itella Corporation, is domiciled in Helsinki, the address of its registered office being Postintaival 7 A, FI-00230 Helsinki.

ACCOUNTING POLICIES

Itella Corporation has prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), adopted by the European Union, while adhering to the related IFRS/IAS standards, effective on December 31, 2011, and their SIC and IFRIC interpretations.

On 1 January 2006, Itella Group began to prepare its consolidated financial statements under IFRS. The notes to the consolidated financial statements are also in compliance with Finnish Accounting legislation and Community legislation.

The consolidated financial statements are prepared at historical cost, with the exception of financial assets and liabilities measured at fair value through profit or loss and non-current assets held for sale and available-for-sale financial assets. The consolidated financial statements are presented in millions of euros. The figures are rounded and thus the sum total of individual figures may be different than the total presented.

New and revised standards

New IFRS standards or amendments to abovementioned have not been implemented during the financial period 2012 that would have had impact on Group financial statements.

Consolidation principles

Subsidiaries

The consolidated financial statements include the accounts of the parent company, Itella Corporation, and those of all of its subsidiaries. Subsidiaries refer to companies over which the Parent company exercises control, directly or indirectly, arising from the Group holding more than half of the entity's voting rights or in other respects having the power to govern its financial and operating policies for the purpose of profiting from its operations.

Subsidiaries are consolidated from the date on which control is transferred to the Group until the date on which said control ceases. Intra-group shareholdings are eliminated using the purchase method and the resulting residual is allocated to the acquiree's assets and liabilities measured at fair value. Any excess of the cost of acquisition over the Group's interest in the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities are recognized as goodwill.

Intra-group transactions, receivables, liabilities and distribution of profits are eliminated in the consolidated financial statements. Comprehensive income attributable to the parent company's shareholder and non-controlling interest is presented in the consolidated comprehensive income statement. Non-controlling interest is presented as a separate item within equity in the consolidated balance sheet.

Associated companies

An associated company refers to an entity in which the Group holds more than 20 per cent of its shares and votes or, in other respects, over which the Group exercises significant influence, but not control. Holdings in associated companies are consolidated using the equity method. Investments in associated companies are recognized at cost as adjusted by post-acquisition changes in the Group's share of the associated company's net assets. The Group's share of associates company's results, based on the Group's interest in the associated company, is shown as a separate item before operating profit in the comprehensive income statement.

Mutual property companies

Itella Group has holdings in property companies over which it exercises control jointly with other shareholders. These mutual property companies' controlled assets are consolidated as required under IAS 31 Interests in Joint Ventures, whereby the consolidated financial statements include the Group's share of assets, liabilities, income and expenses.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the functional currency of the Group's parent company.

Transactions denominated in foreign currencies are translated into euros at the exchange rate quoted on the transaction date. While monetary items in the balance sheet are translated into euros using the exchange rate quoted on the balance sheet date, non-monetary items are translated using the exchange rate quoted on the transaction date, excluding items carried at fair value translated using the exchange rate quoted on the date when the fair value was determined. Any exchange gains or losses arising from business operations are recorded in the comprehensive income statement under the respective items above operating profit and those arising from financial instruments are included in financial income and expenses.

If the subsidiaries' functional currency differs from the Group's presentation currency, their income statements will be converted into euros using the average exchange rate quoted for the financial year, and their balance sheets into the exchange rate on the balance sheet date. Differences resulting from these exchange rates are recognized in other items of the comprehensive income statement. When the subsidiary is disposed of, any accumulated translation differences are recognized through profit or loss as part of capital gain or loss.

Goodwill resulting from the acquisition of foreign entities and the fair value adjustments of the carrying amounts of these entities' assets and liabilities made during the acquisition have been treated as the entity's assets and liabilities and translated into euros quoted on the balance sheet date. The goodwill resulting from acquisitions made before January 1, 2006, and fair value adjustments are recognized in euros.

In accordance with IAS 21, translation differences from net investments in foreign units are recorded under other items of the comprehensive income statement. Net investments also comprise long-term loans granted by the Group to foreign units with unscheduled repayment and with unlikely repayment in the foreseeable future. As of October 1, 2009, intra-Group loan receivables from the Russian companies have been classified as long-term investments in compliance with IAS 21.

Revenue recognition

A significant portion of Itella Group's revenue is generated by the production of short-term services. The revenue from services is recognized when the service in question has been carried out in accordance with the agreement. Revenue from the sale of goods is recognized when the goods have been delivered to the customer, and the significant risks and benefits associated with the ownership of the goods have transferred to the buyer.

Net sales comprise the revenue generated by the sale of goods and services less the indirect taxes related to sales, granted discounts and exchange differences.

Itella Mail Communications

Versatile delivery solutions form a significant portion of the Group's range of services. Net sales derived from the delivery of letters, publications, and direct marketing are recognized monthly using the accrual method of accounting. With regard to services charged on an annual basis, such as post office boxes, net sales are recognized monthly in accordance with use.

The net sales of online shopping and parcel services are recognized per calendar month, based on the date of observation. The date of observation reflects the moment at which the first registration concerning a parcel was entered into the production system.

A Group company has its own shops which sell both letter and parcel services as well as goods. The sale of goods and services is recognized in net sales when the Group company sells a product to a customer. Retail sales consist of cash and credit card sales.

Itella Logistics

The Group offers freight and warehousing services. Net sales are based on agreements drawn up with customers. With regard to freight services, sales are recognized as income when the goods have been delivered to the customer. In terms of international freight, the date of border crossing determines the period under which the income belongs.

The net sales of warehousing services include two components: processing and the rent for premises. Processing means collection done on behalf of a customer that is recognized on the basis of the number of occurrences. The rent for premises is recognized as income according to the space a customer's goods require (pallet meters per day).

Depending on the intervals between invoices specified in the agreement, a customer can be invoiced for freight and warehouse services alike on a daily, weekly, or monthly basis. Rarely any revenue accruals are needed, since the service performances can be invoiced at intervals corresponding to calendar months.

Itella Information

The business group's net sales consist primarily of the volume-based invoicing of outbound services, electronic solutions, and financial management services. Sales are recognized on the accrual basis of accounting during the month of production. Annual licenses related to electronic services are recognized during a license's period of validity.

Government grants

Government grants mainly refer to product and business development grants and low-wage support, which are recognized in other operating income.

Other operating income

Other operating income includes capital gains on sale of assets and income other than that based on the sale of goods and services, such as rental income.

Notes to the consolidated financial statements

Employee benefits

Pensions

The majority of the Group's pension plans have fallen under defined contribution plans. Contributions under defined contribution pension plans are recognized through profit or loss for the period during which such contributions are made. Following the payment of such contributions, the Group has no pension obligations left.

For defined benefit plans, the pension liability recognized in the balance sheet equals the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduced by the fair value of plan assets on the balance sheet date. The Group applies the IAS 19 corridor approach to actuarial gains and losses, whereby these gains and losses outside certain limits are divided by the average remaining working lives of employees within the plan. Actuarial gains or losses are recognized if they exceed 10 per cent of the greater of the fair value of the defined benefit plan assets or the present value of the defined benefit obligation.

Expenses under both the defined contribution and defined benefit plans are included in employee benefit expenses in the comprehensive income statement.

Other operating expenses

Other operating expenses include lease expenses, voluntary personnel expenses, maintenance expenses related to premises and vehicles, expenses related to fuels and lubricants, as well as other production expenses. In addition, commissions paid to non-employees and other sales costs and marketing, entertainment, office and IT expenses are included in other operating expenses.

Operating profit

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. The Group applies the following definition: an operating profit is a net amount derived from net sales plus other operating income, less purchase expenses from which change in finished goods inventory and work in progress is subtracted, adjusted for expenses from production for own use, less employee benefit expenses, depreciation, amortisation and any impairment losses, other operating expenses and the share of associated company's results. All other items in the income statement are shown below the operating profit. Exchange rate differences are included in the operating profit if they arise from items related to operations. Otherwise, they are recognized in financial items.

Borrowing costs

Borrowing costs are expensed as incurred. Direct borrowing costs incurred by the acquisition, construction or manufacture of an asset that meets the conditions of IAS 23 are capitalised as part of the asset's acquisition cost. Loan-related transaction expenses clearly associated with a specific loan are included in the loan's original amortised cost and recognized as interest expenses using the effective interest method.

Income taxes

Income tax expense shown in the consolidated comprehensive income statement includes Group companies' current income tax calculated on their profit for the financial year using the tax rate effective on the balance sheet date based on local tax regulations, as well as any tax adjustments for previous financial years and changes in deferred tax.

Deferred taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases, with certain exceptions such as consolidated goodwill. The largest temporary differences arise from depreciation of property, plant and equipment, defined benefit pension plans, unused tax losses and fair value adjustments related to acquisitions.

The tax rate enacted by the balance sheet date or, in practice, confirmed by the closing date of the reporting period, is used to determine deferred tax. A deferred tax asset is recognized to the extent that it appears probable that future taxable profit will be available against which the temporary difference can be utilised.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree on the date of acquisition.

Instead of amortisation, goodwill is annually tested for impairment. For this purpose, goodwill is allocated to cash generating units (CGUs). Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Research and development expenditure

Research and development costs are primarily expensed as incurred. Only development costs arising from new significant or substantially improved products and enterprise resource planning systems will be capitalised as intangible assets only if they are technically and commercially feasible and the Group has sufficient resources to complete the intangible asset and it is probable that the created asset will generate future economic benefits. The majority of Group development costs do not fulfil the criteria set for IAS 38 Intangible Assets.

Capitalised development costs are recognized as intangible assets and amortised over the assets' useful lives.

Other intangible assets

A purchased intangible asset is initially recognized at cost. Intangible assets purchased through business combinations, such as intangible assets related to customers, marketing and technology, are carried at fair value on the date of acquisition. Intangible rights mainly comprise software licences and customer portfolios, trademarks and leases acquired through business combinations. The Group's other intangible assets have definite economic lives, over which period they are amortised. The expected useful lives are below:

Software licences	3-5 years
Customer portfolios	5-10 years
Trademarks	5 years
Leases	4 years

Property, plant and equipment

Following initial recognition, property, plant and equipment (PPE) are carried at cost less any accumulated depreciation and impairment losses.

PPE are depreciated on a straight-line basis over their expected useful lives. Land and water are not subject to depreciation. The expected useful lives of PPE are as follows:

Production buildings	8-25 years
Office buildings	25-40 years
Structures	15 years
Machinery and equipment	3-13 years
Other tangible assets	3-10 years

If an asset under PPE constitutes several items with differing useful lives, each of them is accounted for as a separate asset. In such a case, the cost of replacing the item is recognized as an asset. Otherwise, costs arising at a later date, such as modernisation and renovation project costs, are capitalised if it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Normal repair, maintenance and servicing costs are expensed as incurred. Assets' useful lives are reassed on the balance sheet date and, if necessary, adjusted to meet the requirements of changed circumstances.

When an asset's carrying amount is expected to be recovered principally through a sale rather than through continuing use, it is classified as held for sale. An asset is classified as held for sale if its sale is highly probable and it is available and ready for immediate sale. Furthermore, the company's management must be committed to a plan to sell the asset within 12 months of classification as held for sale. Assets classified as held for sale are not subject to depreciation.

Investment property

Investment property refers to land or buildings, or part thereof, held for rental income or capital appreciation. It is measured at cost less accumulated depreciation and impairment losses. Buildings under investment property are depreciated on a straight-line basis over their expected useful lives, 30 - 40 years. Land included in investment property is not depreciated.

Leases

Leases on property, plant and equipment, in which substantially all risks and rewards of ownership transfer to the lessee, are classified as finance leases. Leases in which risks and rewards remain with the lessor are classified as operating leases.

The Group as lessee

Assets under finance leases are recognized as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Lease obligations are included in interest-bearing liabilities. Leased assets are depreciated over their useful lives or shorter lease term. Finance lease payments are apportioned between interest expenses and reduction of the lease liability.

Operating lease payments are expensed in the comprehensive income statement on a straight-line basis over the lease term.

Notes to the consolidated financial statements

The Group as lessor

Leases, for which the Group acts as a lessor and substantially all risks and rewards of ownership have transferred to the lessee, are accounted for as finance leases and recognized as receivables at the present value of investment. Finance lease income is recognized in such a way that the residual net investment generates the same return over the lease term.

Assets leased under the operating lease are included in property, plant and equipment and depreciated over their useful lives in the same way as for similar assets in own use. Lease income is recorded on a straight-line basis through profit or loss over the lease term.

Inventories

Subsequent to initial recognition, inventories are measured at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Financial assets and liabilities

Financial assets are initially recognized at fair value. Their subsequent measurement depends on their classification. The Group's financial assets are classified according to IAS 39: financial assets recognized at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Classification of a financial asset is determined by the purpose for which the asset is purchased at the time of its original purchase. Transaction costs are included in the financial asset's original carrying amount, in the case of the financial asset is not measured at fair value through profit of loss. Purchases and sales of financial assets are recognized or derecognized using trade date accounting,

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.

Financial assets recognized through profit or loss include held-for-trading financial assets. Investments in bonds and money-market instruments are measured at fair value on the balance sheet date, based on price quotes on the market, or bid quotes on the balance sheet date. Held-for-trading financial assets are included in current assets. Any unrealized and realized gains or losses resulting from fair value changes are recognized through profit or loss during the period in which they occur.

Held-to-maturity investments are financial assets with fixed payments and fixed maturity, which an entity intends to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest-rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for trading. Included in both current and non-current assets, loans and receivables are measured at amortized cost using the effective interest-rate method. Trade and other receivables are recognized at cost, corresponding to their fair value and recorded under current assets.

Available-for-sale financial assets are non-derivatives designated in this asset category or not classified in any of the other asset categories. They are measured at fair value on the balance sheet date. Changes in the available-for-sale financial assets' fair value are recognized in other items of the comprehensive income statement, taking account of the related tax effect. Changes in the fair value are recorded through profit or loss if the investment is sold or its value has fallen in such a way that an impairment loss must be recognized on it. Available-for-sale financial assets include equity fund investments measured at fair value on the balance sheet date notified by the fund manager or at the latest available fair value.

Non-derivative financial liabilities are initially recognized based on the consideration received. Transaction costs are included in the initial carrying amount of financial liabilities. Subsequently, financial liabilities are measured at amortised cost using the effective interest-rate method. The initial carrying amount of trade and other current liabilities equal their fair value, since the effect of discounting is not substantial in view of the maturity of liabilities. Financial liabilities are included in both non-current and current liabilities.

Derivative contracts and hedge accounting

Derivative contracts are initially recognized at the fair value of the date the derivative contract was concluded. Subsequently, their value is re-valuated to their fair value on the balance sheet date. Profit 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 (fair-value hedge) of either assets or fixed liabilities recorded on the balance sheet or as derivative contracts, which do not meet the conditions for applying hedge accounting.

When commencing hedge accounting, the Group documents 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 hedging measures. When commencing hedging, and at least in connection with each closing of the books, the Group documents and assesses the effectiveness of the hedging relationship by inspecting the hedge instrument's ability to offset the fair value of the hedged item.

Changes in the fair value of derivatives that meet the conditions and determined as fair-value hedges as well as changes in the fair value of a property item attributable to the hedged risk or the fair value of a loan are recognized in the income statement. The Group has applied the fair-value hedge accounting for hedging against fixed-rate loans as of January 1, 2011. Changes in the fair value of a derivatives contract hedging against a fixed-rate loan and changes in fair value attributable to the interest rate risk of a hedged fixed-rate loan are shown in financial items.

The fair values of derivatives are determined on the basis of the market values of similar derivatives or standard valuation models. The fair value of currency forward contracts is the market quotation on the balance sheet date and the fair value of interest-rate swaps is the present value of future interest cash flows.

Cash and cash equivalents

Cash and cash equivalents consist of cash, callable bank deposits and other short-term, highly liquid investments that can be easily exchanged for a pre-determined amount of cash and that involve a very small risk of changes in value. The money-market investments classified as the Group's cash and cash equivalents have a maximum maturity of three months.

Provisions and contingent liabilities

A provision is recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made. Provisions for restructuring are recognized when the related, detailed and official plan has been approved and disclosed.

A contingent liability is a potential liability based on previous events. It depends on the realisation of an uncertain future event beyond the Group's control. Contingent liabilities also include obligations that will most likely not require the fulfillment of a payment obligation or the amount of which cannot be reliably determined. The contingent liability is disclosed in the Notes.

Critical accounting estimates and judgements in applying accounting policies

Preparing the consolidated financial statements in compliance with IFRS requires that Group management make certain estimates and judgements in applying the accounting policies. These estimates and assumptions are based on the management's best knowledge of current events and actions, but the actuals may differ from these estimates and assumptions as stated in the financial statements. The most important section, in which the management uses estimates described above, is the impairment testing of goodwill.

Goodwill is annually tested for any impairment in accordance with the accounting policy stated in the notes. The recoverable amounts of cash-generating units (CGUs) are based on calculations of value in use, whose preparation requires estimates and assumptions regarding aspects such as discount rate, long-term market growth and business profitability. In order to assess the changing component's impact to the results, sensitivity analysis is used. During the year, the management also assesses whether there is an indication of an impaired asset.

In the context of business combinations, the acquired entity's assets are measured at fair value. In significant business combinations, group has consulted external specialists in evaluating the fair values of the tangibles and intangibles assets. Allocating the total purchase cost to intangible assets and goodwill is partly based on an estimate. Determining assets' depreciation/amortisation periods is based on estimates of the assets' useful lives. In connection with business combinations, contingent liability is recognized as part of the purchase price.

The carrying amounts of property, plant and equipment are based on the cost of acquisition and the related asset depreciation according to the asset's useful life. The assets' useful lives and their adjustment to meet the requirements of changed circumstances are based on estimates and assumptions. The carrying amounts of the tangible and intangible assets will be annually evaluated in the connection of fixed assets physical inventory.

Itella group's revenue recognition is not considered to involve material discretionary items.

Impairment test

An impairment test will be performed on non-current assets which is depreciated during its economic lifetime if there is any indication that its balance sheet value exceeds the recoverable amount. However, goodwill is subject to an annual impairment test and factors which have an effect on testing are reviewed during the financial period. For this purpose, goodwill is allocated to cash generating units, i.e. to the lowest level for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets. Itella Group's cash generating units are listed in the Notes.

The recoverable amount is the fair value of the asset less costs to be incurred in selling or a higher cash flow-based value in use. Value in use refers to estimated future net cash flows from an asset or a cash generating unit, discounted to their present value. Any resulting impairment loss is recognized through profit or loss if the asset's carrying amount exceeds its estimated recoverable amount. The impairment loss of cash generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the unit and then reduce the carrying amounts of the unit's other assets on a pro rata basis.

Impairment losses of tangible assets previously charged to expenses may be reversed only if circumstances have changed and the asset's recoverable amount has changed from the date of impairment loss recognition. An impairment loss may only be reversed to the extent the reversal does not increase the asset's carrying amount above the carrying amount that would have been determined for the asset had no impairment loss been recognized. Impairment losses for goodwill may not be reversed.

Application of new or amended International Financial Reporting Standards

IAS1 Presentation of Financial Statements (amendment, effective for financial periods beginning as of January 1, 2013 and after). The requirements concerning the presentation of comparative amounts are to be clarified when the enterprise presents the third statement of financial position. In addition, IAS1 contains an amendment that specifies the presentation method of comprehensive income statement.

IAS16 Property, Plant and Equipment (amendment, effective for financial periods beginning as of January 1, 2013 and after). The amendment concerns the maintenance supplies and spare parts to be capitalized in property, plant and equipment.

IFRS13 Fair Value Measurement. This entirely new standard focuses on regulations and the requirements concerning disclosure related to the measurement of fair value. The requirements concerning notes to the financial statements have been specified.

IAS19 Employee Benefits (amendment, effective for financial periods beginning as of January 1, 2013 and after). The amendments to this standard concern the recognition and presentation of defined benefit plans. The Group employs such plans. The use of corridor approach is no more allowed and the actuarial gains and losses will be recognized through other comprehensive income when they occur.

IAS32 Financial Instruments: Presentation (amendment, effective for financial periods beginning as of January 1, 2013 and after) This standard's clarification requires that the tax effects of transaction costs concerning distributions and equity are recognized according to IAS 12. Thus, taxes related to equity distributions are recognized in the income statement and transaction costs concerning equity are recognized in equity.

IAS34 Interim Financial Reporting (amendment, effective for financial periods beginning as of January 1, 2013 and after). The amendment requires assets and liabilities to be reported per segment in interim financial reports. So far the Group has already applied this reporting model in the interim financial reporting.

In subsequent financial years, the Group will apply the following new or amended standards as of their effective dates:

IFRS10 Consolidated financial statements

IFRS11 Joint arrangements

IFRS12 Disclosure of interests in other entities

The group will adapt the changes in the 2014 financial statement. The impact of changes will be investigated during the financial year 2013.

1. Operating segments

Itella Group's operating segments consist of three operating segments: Itella Mail Communications, Itella Logistics and Itella Information. Itella Group's operating segments are based on the various services and products they offer, which is why they are managed as separate entities. The President and CEO is the chief operating decision maker, responsible for allocating resources to operating segments and the evaluation of the segments' results.

Other operations and unallocated items consist of centralised Group functions supporting the business, and of investment properties. Unallocated items include tax and financial items, as well as corporate items.

In internal management reporting, the segments' performance assessment is based on the operating result and return on investment. Items allocated to the segments include non-current and current operating assets and liabilities, including non-interest bearing liabilities and provisions. Operating items are items the segment uses in its operations or that may be reasonably allocated to the segments. Investments consist of additions of non-current tangible and intangible assets.

The valuation and accrual principles used in the internal management reporting are IFRS-compliant. Inter-segment sales are conducted at market prices.

Itella Mail Communications

Itella Mail Communications offers delivery services for letters, advertisements, parcels, magazines and newspapers, and provides daily postal services to consumers. Multi-channel customer relationship marketing solutions for companies represent a growth area. Operations are primarily conducted in Finland.

Itella Logistics

Itella Logistics provides solutions for customer companies' freight, transportation and warehousing needs. Services comprise the entire supply chain, from manufacturer to the retail store. The business group operates in Northern Europe and Russia, and runs global operations through its partners.

Itella Information

Itella Information is the forerunner in electronic invoicing in Europe. It provides companies and organizations with solutions for processing outgoing and incoming invoices and outsourcing financial management as well as automation of cash flows. The business group operates in 10 countries.

EUR million	Itella Mail Communications	Itella Logistics	Itella Information	Segments total	Other operations and unallocated	Eliminations	Group total
2012							
External sales	1,113.0	575.6	257.9	1,946.5	0.2		1,946.7
Inter-segment sales	54.6	205.9	12.2	272.7	62.9	-335.6	0.0
Net sales	1,167.6	781.5	270.1	2,219.1	63.1	-335.6	1,946.7
Share of associated companies' results		0.0	0.0	0.0			0.0
Operating profit/loss (EBIT)	74.0	-9.5	-1.1	63.4	-24.4		39.0
Financial income and expenses					-8.3		-8.3
Profit/loss for the period before taxes							30.8
Shares in associated companies		0.4	0.0	0.4			0.4
Assets	464.3	689.7	179.0	1,333.0	202.7	-36.7	1,499.0
Non-current assets classified as held for sale	10.7			10.7			10.7
Liabilities	271.4	148.7	47.3	467.4	389.8	-36.7	820.5
Liabilities associated with non-current assets classified as held for sale	0.5			0.5			0.5
Capital expenditure	26.8	90.4	5.8	123.0	11.7		134.7
Depreciation and amortisation	34.1	38.9	8.7	81.7	6.3		88.0
Impairment losses					1.4		1.4
Personnel at period-end	17,844	7,391	2,168	27,403	413		27,816

Notes to the consolidated financial statements

EUR million	Itella Mail Communications	Itella Logistics	Itella Information	Segments total	Other operations and unallocated	Eliminations	Group total
2011							
External sales	1,107.5	530.8	261.6	1,899.8	0.3		1,900.0
Inter-segment sales	44.2	200.8	12.1	257.2	55.5	-312.7	0.0
Net sales	1,151.7	731.6	273.7	2,157.0	55.8	-312.7	1,900.1
Share of associated companies' results		0.1	0.0	0.1			0.1
Operating profit (EBIT)	31.4	-15.7	-4.1	11.6	-17.5		-5.9
Financial income and expenses					-10.6		-10.6
Profit/loss for the period before taxes							-16.4
Shares in associated companies		0.3	0.5	0.8			0.8
Assets	479.4	598.3	188.5	1,266.2	225.2	-38.5	1,452.9
Non-current assets classified as held for sale	12.4			12.4			12.4
Liabilities	276.1	107.5	49.6	433.3	405.0	-38.4	799.9
Liabilities associated with non-current assets classified as held for sale	0.5			0.5			0.5
Capital expenditure	33.3	31.0	30.0	94.3	8.6		102.9
Depreciation and amortisation	32.8	37.7	10.6	81.1	7.6		88.7
Impairment losses	1.9	15.9	0.5	18.3			18.3
Personnel at period-end	17,883	7,088	2,259	27,230	355		27,585

Geographical areas

Information on geographical areas

Itella Group operates in four geographical areas: Finland, Scandinavia, Baltic countries and Russia, and Other countries. Segment net sales are determined by the geographical location of the Group's customer. Assets are presented according to their geographical location, and they include non-current assets except Group goodwill, deferred tax assets and financial instruments. Finland is the only individual country that generates a material part of the Group's net sales. Itella's customer base consists of a large number of customers over several market areas, where the net sales of any single customer do not make up a significant part of Itella's net sales.

EUR million	Finland	Scandinavia	Baltic and Russia	Other countries	Total
2012					
Net sales	1,333.9	263.2	239.4	110.2	1,946.7
Non-current assets	504.3	38.8	249.7	2.9	795.6
2011					
Net sales	1,275.3	276.7	221.0	127.2	1,900.1
Non-current assets	454.9	41.8	260.2	7.8	764.7

2. Acquired business activities and business divestments

Acquired business operations in 2012

On October 1, 2012, Itella Group's subsidiary Itella Logistics Oy acquired the VR Transpoint's groupage logistics business and entire capital share of PT Logistiikka Oy. PT Logistiikka Oy operates in warehousing services. In acquisition, Itella Logistics seeks to become the market leader in its service segment. Following the deal, Itella can offer its customers the most comprehensive network of terminals and transportation capacity in the country. Indeed, the business combination makes Itella an increasingly interesting partner as well as a substantial employer in terms of the Finnish logistics industry.

The transaction price - which totaled EUR 41.8 million - was paid in cash. The expenses of the consultation and value appraisement services related to the preparatory phases of the transaction are recognized under other operating expenses. More than 800 employees transferred to Itella's employment.

Goodwill is generated by the substantial cost synergies to be gained as the production systems are combined. A significant part of the goodwill is tax deductible. Had the business acquisition carried out during the period been combined in the consolidated financial statements as of the beginning of the 2012 period, the Group's net sales in 2012 would have totaled EUR 2,046.6 million and its results EUR 9.9 million.

Analysis of net assets acquired

EUR million	Fair value
Effect on assets	
Intangible assets	15.4
Property, plant and equipment	10.9
Receivables	15.5
Cash and cash equivalents	0.3
Effect on assets	42.1
Effect on liabilities	
Deferred tax liability	0.5
Non-current interest-bearing liabilities	-
Current interest-bearing liabilities	-
Trade payables and other liabilities	14.5
Effect on liabilities	15.1
Net assets acquired	27.1

Components of acquisition cost

EUR million	Fair value
Purchase price paid in cash	41.8
Purchase price owed	-
Total cost of acquisition	41.8
Fair value of net assets acquired	27.1
Goodwill	14.7

Effect of acquisition on cash flow

EUR million	Fair value
Purchase price paid in cash	41.8
Cash and cash equivalents acquired	0.3
Cash flow	41.5

The final additional purchase price (EUR 0.4 million) of the Russian logistics group acquired by Itella Logistics in 2008 was confirmed. A positive, non-recurring item of EUR 7.0 million was recognized in the Group earnings, since the final additional purchase price was significantly lower than the preliminary estimate.

Business divestments in 2012

On May 30, 2012, Itella sold all shares of Itella Information GmbH in Germany. Subsidiary operating in printing business has been divested through management buyout arrangement and approximately 100 employees have transferred from Itella to new company called docsellent GmbH. Loss on disposal EUR 14.3 million is recognized through income statement in other operating expenses. In order to ensure the future operational condition of the company, Itella capitalized it before the disposal.

Analysis of net assets business divestments

EUR million	31 Dec 2012
Intangible assets	0.1
Property, plant and equipment	3.6
Inventories	0.2
Trade and other non-interest bearing receivables	17.4
Cash and cash equivalents	4.0
Trade payables and other non-interest bearing liabilities	-10.9
Net assets	**14.3**
Consideration for the divestment	0.0
Loss on disposal	**-14.3**

Effect on cash flow

EUR million	31 Dec 2012
Consideration paid in cash	-10.6
Cash and cash equivalents for divestments company	-4.0
Debt of the purchase price	-
Effect on cash flow	**-14.5**

The associated company AS Eesti Elektron Post, which operates in the printing services and postal services sector, was sold on September 24, 2012. The transaction yielded a profit of EUR 0.1 million. On December 20, 2012, Itella sold its ownership in its Swedish associated company Ageris Kontaktcenter AB. This transaction resulted in a sales loss of EUR 0.1 million.

Acquired business operations in 2011

On April 1, 2011, the Itella Information business group acquired all shares in German NewSource GmbH. The company is a significant outsourcing partner in electronic financial administration in Germany. According to the agreement, the company's 60 employees will continue under Itella's service. In addition, the Itella Information business group acquired all shares in OpusCapita Group Oy on July 1, 2011. Through the business acquisition, Itella can broaden its service offering to cover the automation of cash flows, a step that supports Itella's competitiveness as an innovative outsourcing partner that creates added value for customers in the sector of financial management. Through the transaction, the company's 134 employees were transferred to Itella.

The acquired business operations have been presented as consolidated information because neither acquisition is significant individually. The transaction price paid in cash totalled EUR 25.4 million, with the additional purchase price of EUR 0.4 million becoming payable in 2012 and 2013. The goodwill generated through the business merger consists of synergy benefits within mutual sales channels and product management, as well as personnel.

Net sales of the acquired operations stood at EUR 10.8 million, with the operating result being EUR 0.5 million after the acquisition. Itella Group's net sales would have been EUR 1,909.8 million and result EUR -30.7 million if the companies had been merged into the group at the beginning of the year.

The additional purchase price of the Russian logistics group NLC, which Itella acquired in 2008, will fall due payable at the end of the first quarter in 2012. According to the agreement, the final payment is determined on the basis of the 2011 result. Following the management's estimate, the additional purchase price liability is EUR 7.4 million.

The additional purchase price of Outsourcing Solutions Sp. Z o.o, acquired by Itella in 2010, was recognized at fair value on the basis of the agreement. Furthermore, a profit of EUR 0.4 million was recognized in the 2011 financial statements.

Analysis of net assets acquired

EUR million	Fair value
Effect on assets	
Intangible assets	14.9
Property, plant and equipment	0.3
Receivables	3.2
Cash and cash equivalents	1.9
Effect on assets	20.3
Effect on liabilities	
Deferred tax liability	3.7
Non-current interest-bearing liabilities	2.5
Current interest-bearing liabilities	0.4
Trade payables and other liabilities	6.0
Effect on liabilities	12.6
Net assets acquired	7.7

Components of acquisition cost

EUR million	Fair value
Purchase price paid in cash	25.4
Purchase price owed	0.4
Total cost of acquisition	25.8
Fair value of net assets acquired	7.7
Goodwill	18.1

Effect of acquisition on cash flow

EUR million	Fair value
Purchase price paid in cash	-25.4
Cash and cash equivalents acquired	1.9
Cash flow	-23.5

Business divestments in 2011

On December 30, 2011, Itella sold all shares in Danish Itella Information A/S which was part of the Itella Information business group. On November 22, 2011, the NLC subgroup within the Itella Logistics business group sold all shares in OOO Complex Logistics Service and OOO Logistics Service Center. The printing and mailing services of Itella Mail Communications were sold to Mailhouse Oy and TP-Avuksenne Oy as a transfer of business starting from November 1, 2011. Itella Real Estate Oy, which specializes in property management, sold the entire share capital of KOY Laitilan Postikulma on August 30, 2011, and the entire share capital of KOY Kulmakeskus on September 30, 2011. On October 5, 2011, Itella Information Oy sold the entire share capital of Kiinteistöosakeyhtiö Tampereen Kuoppamäentie 3 a. The sales did not have a material impact on Itella Group's figures.

3. Net sales

EUR million	2012	2011
Sales of services	1,920.1	1,874.1
Sales of goods	16.8	20.4
Sales of licences	9.7	5.6
Net sales total	1,946.7	1,900.1

More information on sales of service can be found in segment information, Note 1.

Sales of goods are mainly based on gift and packaging materials and and office supplies sold by postal outlets.

4. Other operating income

EUR million	2012	2011
Gains on sale of property, plant and equipment	4.8	2.6
Rental income	11.7	11.6
Rents from investment property	1.0	0.9
Government grants	0.2	0.1
Other operating income	7.6	10.3
Total	25.3	25.5

Gains on sale of property, plant and equipment consists the sale of subsidiary shares, real estate shares as well as the sale of buildings and land areas. Rental income consists mainly of rents for the Group's buildings and flats received from external parties. The final additional purchase price (EUR 0.4 million) of the Russian logistics group acquired by Itella Logistics in 2008 was confirmed. A positive, non-recurring item of EUR 7.0 million was recognized in the Group earnings, since the final additional purchase price was significantly lower than the preliminary estimate.

5. Materials and services

EUR million	2012	2011
Purchases	41.0	49.1
Change in inventories	0.4	0.7
External services	505.5	499.4
Total	546.9	549.2

Other expenses of operating activities include administrative costs and travel expenses as well as the maintenance and repair costs of production equipment.

6. Non-recurring items

EUR million	2012	2011
Restructuring costs for personnel	3.8	27.0
Impairment of goodwill	-	16.6
Information - Loss on sale of subsidiary	14.3	-
Logistics - Purchase price adjustment	-7.0	-7.7
Others	3.0	0.5
Total	14.2	36.4

Extraordinary events outside regular operations are regarded as non-recurring items and allocated to segments. Within the Group, non-recurring items include reorganization costs, impairment on goodwill and impairment on purchase price allocations generated in the business combinations, significant sales gains or losses generated through the sale of shares, properties or business operations, and changes in acquisition consideration generated through business combination and recognized in the income statement after the acquisition date.

Personnel reorganization costs are included in employment benefit costs in the income statement. Testing resulting in 2011 impairment on goodwill is presented in Note 13, and the result is included in the impairment item in the income statement. More information about the subsidiary sale can be found in Note 2 Acquired business activities and business divestments. Note 4 Other operating income includes more information about the Purchase price adjustment related to Logistics.

Notes to the consolidated financial statements

7. Employee benefits

EUR million	2012	2011
Wages and salaries	713.8	731.8
Pensions (defined contribution plans)	107.2	107.4
Pensions (defined benefit plans)	0.5	0.9
Other social expenses	63.7	70.6
Total	885.2	910.7

Employee benefits

More detailed information on pension defined benefit plans can be found in Note 29.

A total of EUR 3.8 million worth of restructuring costs were recorded as employee benefits in 2012 (EUR 27.0 million in 2011).

Employee incentive scheme:

All of the Group's employees are involved in the Group's profit sharing scheme. In Finland, the annual profit bonuses are transferred to the Personnel Fund, the aim of which is to motivate employees to meet long-term targets and to enhance interest in the Group's financial success. The profit bonus is determined on the basis of Itella's profit. On the basis of the financial result of 2012 profit bonus proposes to be distributed EUR 3.1(-) million.

The Group's experts and supervisors and managers are involved in the performance-based bonus scheme, based on financial indicators specific to the Group, the unit and the team and on personal or team-specific performance indicators. Itella annually confirms threshold values for these indicators used to determine bonus payments.

Decisions concerning long-term reward schemes are made by the Board of Directors on the recommendation of the Remuneration and Nomination Committee. Long-term reward schemes are rolling three-year programs. The systems cover the Executive Board as well as key employees per scheme named by the Board of Directors. The systems have been implemented according to the guidelines concerning the remuneration of executive management issued by the state-owner on September 8, 2009.

8. Research and development costs

EUR million	2012	2011
R&D costs charged to expenses	14.6	13.8
Amortisation on development costs	0.7	0.1
Total	15.2	14.0

9. Depreciation, amortisation and impairment losses

EUR million	2012	2011
Amortisation on intangible assets		
Development costs	0.1	0.1
Intangible rights	20.3	18.8
Total	20.3	18.9
Impairment losses on intangible assets		
Impairment losses on goodwill	-	16.6
Impairment losses on intangible assets	-	0.5
Amortisation on tangible assets		
Buildings and structures	23.1	22.9
Investment properties	0.3	0.3
Machinery and equipment	35.9	38.4
Assets leased under finance lease	7.5	7.2
Other tangible assets	0.9	0.9
Total	67.7	69.8
Impairment losses on tangible assets		
Impairment losses on land and water	0.1	-
Impairment losses on buildings	1.4	0.7
Impairment losses on machinery and equipment	-	0.5
Total depreciation, amortisation and impairment losses	89.5	107.0

Regular depreciation is not recognized on goodwill. Instead, goodwill is tested annually in case of any impairment and whenever there is a risk of impairment. On the basis of testing conducted during the third quarter in the 2012 financial period, no indicators of impairment were found. For the financial period 2011 impairment of EUR 15.4 million was recognized as a result of profitability developing more poorly than estimated and increased profit requirements within Itella Logistics Freight and Forwarding business unit. In addition, Itella Mail Communications business group's result was strained by impairment on goodwill of EUR 1.2 million caused by operational reorganization. More information about goodwill testing is presented in Note 13.

10. Other operating expenses

EUR million	2012	2011
Lease expenses	124.9	120.3
Voluntary employee expenses	18.9	17.8
Losses on sale of property, plant and equipment	1.0	2.3
Loss on sale of subsidiary	14.3	0.3
IT operating costs	77.6	78.3
Facility maintenance expenses	51.3	48.1
Other operating expenses	123.5	97.7
Total	411,5	364,7

Other operating expenses contains costs of administration and traveling, production equipment as well as maintenance and repairs.

Auditors' remuneration

EUR million	2012	2011
Audit	0.7	0.8
Tax counseling	0.1	0.0
Other services	0.3	0.1
Total	1.1	0.9

11. Financial income and expenses

EUR million	2012	2011
Financial income		
Dividends	0.2	-
Interest income		
On financial assets at fair value through profit or loss	6.5	5.6
On loans and other receivables	1.7	1.6
On financial assets held until maturity	0.2	0.2
On available-for-sale financial assets	0.1	0.0
Gains on the sale of financial assets at fair value through profit or loss	0.0	0.0
Exchange rate gains		
Interest-bearing receivables and liabilities	4.0	3.4
Currency derivatives, non-hedge accounting	9.7	8.0
Unrealised gains from financial assets and liabilities at fair value through profit or loss		
Investments	2.0	0.0
Currency derivatives, non-hedge accounting	-	3.3
Interest rate derivatives, hedge accounting	2.1	2.9
Total	26.4	25.1

EUR million	2012	2011
Financial expenses		
Interest expenses		
Financial liabilities measured at amortised cost	13.7	12.6
Financial liabilities at fair value through profit and loss	4.1	3.7
Other financial expenses on financial liabilities measured at amortised cost	1.3	1.7
Losses on the sale of financial assets at fair value through profit or loss	0.1	0.0
Exchange rate losses		
Interest-bearing receivables and liabilities	0.3	6.2
Currency derivatives, non-hedge accounting	10.5	8.6
Unrealised losses from financial assets and liabilities at fair value through profit and loss		
Currency derivatives, non-hedge accounting	2.5	-
Change in fair value of the hedged loan	2.0	2.9
Impairment on available-for-sale financial assets	0.0	-
Total	34.7	35.7

12. Income tax expense

EUR million	2012	2011
Current tax	19.1	12.2
Tax for previous years	-0.1	0.1
Deferred tax	-2.4	1.9
Total	16.7	14.2
Reconciliation of tax charge at Finnish tax rate (24.5%)		
Profit or loss before tax and associate's results	30.8	-16.4
Income tax at Parent Company's tax rate	7.5	-4.3
Effect of foreign subsidiaries’ deviating tax rates	-2.8	0.3
Effect of non-deductible impairment losses	-	4.0
Non-deductible expenses and other differences	1.3	3.0
Tax-exempt income	-4.0	-3.1
Tax from previous years	0.2	0.1
Effect of changes of tax rates on deferred tax	0.2	-0.1
Unrecognised deferred tax asset on losses for the financial period	17.0	14.3
Changes in deferred tax receivables accrued in previous years	-1.4	-
Other changes - Adjustment of depreciation in excess of plan	-1.3	-
Tax charge in the consolidated income statement	**16.7**	**14.2**
Effective tax rate	54.3%	-

Notes to the consolidated financial statements

13. Intangible assets

EUR million	Goodwill	Intangible rights *)	Development costs	Advances paid and construction in progress	Total
2012					
Cost on 1 Jan	228.5	216.3	24.8	2.9	472.5
Translation differences	-0.5	2.0	-	-	1.5
Acquired businesses	14.7	15.4	-	-	30.0
Sale of businesses	-	-10.3	-	-	-10.3
Additions	-	21.6	1.0	10.6	33.2
Disposals	-	-5.0	-	-	-5.0
Transfers between items	-	-	-	-5.0	-5.0
Cost on 31 Dec	242.7	239.9	25.8	8.6	517.0
Accumulated amortisation and impairment losses 1 Jan	-56.8	-141.7	-24.8	-	-223.3
Translation differences	1.0	-1.2	-	-	-0.2
Sale of businesses	-	10.3	-	-	10.3
Amortisation for the financial period	-	-20.3	-0.1	-	-20.3
Accumulated amortisation on disposals and transfers	-	3.7	-	-	3.7
Accumulated amortisation and impairment losses 31 Dec	-55.8	-149.2	-24.9	-	-229.8
Carrying amount on 1 Jan	171.7	74.6	0.0	2.9	249.2
Carrying amount on 31 Dec	186.9	90.8	0.9	8.6	287.2
2011					
Cost on 1 Jan	208.7	201.9	24.8	2.9	438.3
Translation differences	2.3	-0.8	0.0	-	1.5
Acquired businesses	18.1	15.8	-	-	33.9
Sale of businesses	-0.6	-0.8	-	-	-1.5
Additions	-	8.8	-	-	8.8
Disposals	-	-8.7	-	-	-8.7
Transfers between items	-	0.1	-	-	0.1
Cost on 31 Dec	228.5	216.3	24.8	2.9	472.5
Accumulated amortisation and impairment losses 1 Jan	-37.8	-131.4	-24.7	-	-193.8
Translation differences	-2.4	0.3	-	-	-2.1
Sale of businesses	-	0.4	-	-	0.4
Amortisation for the financial period	-	-18.8	-0.1	-	-18.9
Impairment losses	-16.6	-0.5	-	-	-17.2
Accumulated amortisation on disposals and transfers	-	8.3	-	-	8.3
Accumulated amortisation and impairment losses 31 Dec	-56.8	-141.7	-24.8	-	-223.3
Carrying amount on 1 Jan	170.9	70.5	0.1	2.9	244.5
Carrying amount on 31 Dec	171.7	74.6	0.0	2.9	249.2

**) Intangible rights include customer relationships and brands acquired in business combinations, licenses, and computer software.*

Goodwill allocation

Goodwill is allocated to to the Group's cash-generating units (CGUs) which are operating segments in Itella, according to the definition. Itella Logistics' cash-generating units were redefined during the 2012 period due to a change in the control system. The management system changed from a country-specific control system to a global control system. Itella Logistics business group has standardized its operational processes and initiated a global development project related to operational systems.

The goodwill formerly allocated to the Freight and Forwarding business unit in connection with defining Itella Logistics' cash-generating units was re-allocated at fair value to the Road, Air and Sea, and Contract Logistics business units. The fair value was determined on the basis of each CGU's recoverable cash flow. Goodwill has been allocated as follows:

EUR million	2012	2011
Itella Mail Communications	8.6	8.6
Itella Information	101.2	100.8
Itella Logistics: Freight and Forwarding	-	47.0 *)
Itella Logistics: Road	53.2	-
Itella Logistics: Air and Sea	5.3	-
Itella Logistics: Contract Logistics	18.6	15.3 **)
Total	186.9	171.7

**) Reallocation of goodwill in 2012*
***) In 2011, the GCU Contract Logistics comprised solely the business in Finland, due to which the comparative information is not included in the following tables.*

The result of the goodwill impairment testing in 2012

In the third quarter of 2012, the Group performed an impairment test on every cash-generating unit which involved goodwill. Itella Group does not have other intangible assets the useful life of which is unlimited. The impairment test did not result in observations of impairment. (In 2011, Itella Logistics' Freight and Forwarding business unit recognized a EUR 15.4 million impairment loss as a result of weaker-than-expected profitability development and higher return requirements. In addition, the result of Itella Mail Communications business group in the 2011 period was strained by a goodwill impairment of EUR 1.2 million attributable to operational restructuring.)

Impairment testing and sensitivity analysis

In impairment testing the recoverable amount of cash of the CGU's is based on the value-in-use method. The value-in-use is calculated according to the forecasted and discounted cash flows. Value-in-use projections are performed for a five-year period. Cash flow projections are based on strategic plans, in line with the current business structure, approved by the management, and assumptions applied in the plans about the development of the business environment. Estimates of total market growth in the long term, market positions and the level of profitability affect five-year cash flow projections as key assumptions. Investments are expected to be ordinary replacement investments. The exchange rates used were euros quoted on the date of the related tests.

The terminal value beyond five years of cash-generating units is based on a moderate growth rate expectation of 0% - +2.0% (0% - +3.0% in 2011). Each cash-generating unit's specific features have been taken into account in the expectations.

Weighted average cost of capital (WACC) before taxes has been used as a discount rate determined for different segments as well as determined for different countries. The calculation components are risk-free interest rate, market risk premium, beta for business branch, target capital structure, the cost of liability and the country-specific risks. The basis for the risk-free discount rate was derived from the State bond rate. In countries where a reliable time series for State bond rates is not available, data provided by the European Central bank was used. In comparison to previous financial year, the discount rates increased in all countries in which Itella has operations because the market interest rates were generally increasing.

The table on next page shows the key outcomes and the parameters used in testing. The corresponding figures for the previous period are given in parentheses, provided that the structure of the CGU in question has not changed.

The result of impairment testing and the parameters used

	Value-in-use exceeds carrying amount,%	EBIT margin average 5 year,%	Terminal growth percentage per year	Discount rate,%	Terminal EBIT margin per year,%
Itella Mail Communications	336 (344)	4.5 (4.2)	0.0 (0.0)	7.0 (7.3)	4.9 (5.4)
Itella Information	155 (149)	8.4 (5.3)	2.0 (3.0)	8.6 (8.1)	7.0 (6.5)
Itella Logistics: Road business unit	455 (-)	4.3 (-)	2.0 (-)	8.4 (-)	4.6 (-)
Itella Logistics: Air and Sea business unit	424 (-)	4.2 (-)	2.0 (-)	8.6 (-)	5.2 (-)
Itella Logistics: Contract Logistics business unit	42 (-)	9.1 (-)	2.0 (-)	8.4 (-)	11.3 (-)

The performance of a sensitivity analysis was not considered necessary with regard to Itella Mail Communications and Itella Information business groups, and Road and Air and Sea business units of Itella Logistics, since the recoverable amounts clearly exceeded the balance sheet value of the tested assets in the business groups reviewed.

A sensitivity analysis was performed on the Contract Logistics business units by determining which key parameter values would produce a carrying amount that would equal the recoverable amount (value-in-use). The parameters used in the analyses were EBIT margin, discount rate, terminal year growth and terminal EBIT margin per year. The analysis was carried out by changing the values of a single parameter while leavings the others constant. The table below indicates the limits within which the carrying amount and value-in-use are equal.

	EBIT margin average 5 year,%	Terminal growth percentage per year	Discount rate,%	Terminal EBIT margin per year,%
Itella Logistics: Contract Logistics business unit	5.3 (-)	-3.2 (-)	11.4 (-)	6.2 (-)

14. Investment property

EUR million	2012	2011
Cost on 1 Jan	7.7	7.7
Cost on 31 Dec	7.7	7.7
Accumulated deprecation and impairment losses 1 Jan	-3.8	-3.6
Depreciation for the financial period	-0.3	-0.3
Impairment	-0,5	-
Accumulated depreciation and impairment losses 31 Dec	-4.6	-3.8
Carrying amount on 1 Jan	3.8	4.4
Carrying amount on 31 Dec	3.1	3.8

On December 31, 2012, the fair value of investment property totaled EUR 7.6 million (EUR 5.2 million in 2011). Fair values are primarily measured based on an external estate agent's appraisal, review of the year 2012. In 2012 rental income from investment property totaled EUR 1.0 million (EUR 0.9 million in 2011) and maintenance charges amounted to EUR 0.3 million (EUR 0.2 million in 2011).

15. Property, plant and equipment

EUR million	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
2012						
Cost on 1 Jan	81.4	601.1	423.0	9.0	23.8	1,138.3
Translation differences	1.3	8.0	3.4	-0.1	0.1	12.7
Acquired businesses	-	0.3	10.6	-	-	10.9
Sale of businesses	-	-1.7	-13.6	-	-	-15.3
Additions	6.4	2.3	30.4	0.1	51.6	90.8
Disposals	-0.6	-4.8	-21.3	-0.1	-	-26.7
Transfers between items	-	-	-	2.0	-25.5	-23.5
Cost on 31 Dec	88.5	605.3	432.6	10.9	50.0	1,187.3
Accumulated amortisation and impairment losses 1 Jan	-	-216.4	-251.3	-6.6	-	-474.2
Translation differences	-	-0.9	-2.1	0.0	-	-3.0
Sale of businesses	-	1.5	10.1	-	-	11.7
Amortisation for the financial period	-	-23.1	-43.4	-0.9	-	-67.4
Impairment	-	-0.9	-	-	-	-0.9
Accumulated amortisation on disposals and transfers	-	2.7	19.3	-0.1	-	21.9
Accumulated amortisation and impairment losses 31 Dec	-	-236.9	-267.3	-7.7	-	-511.9
Carrying amount on 1 Jan	81.4	384.7	171.8	2.4	23.8	664.1
Carrying amount on 31 Dec	88.5	368.4	165.3	3.2	50.0	675.4

The fixed assets subject to wear and tear of the Logistics Russia business have been tested in accordance with IAS 36, and no need to record an impairment was identified. The fixed assets subject to wear and tear of Itella Mail Communications and Itella Information business groups and Itella Logistics business units Contract Logistics, Road and Air and Sea have been tested as part of goodwill testing (see Note 13).

EUR million	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
2011						
Cost on 1 Jan	82.0	604.2	427.3	10.7	24.1	1,148.2
Translation differences	-0.1	-3.9	-1.6	0.0	-0.4	-6.1
Sale of businesses	-	-1.6	-2.6	-	-	-4.3
Additions	-	11.9	51.7	0.0	38.3	102.0
Disposals	-0.5	-9.4	-53.2	-0.2	-38.3	-101.7
Transfers between items	-	-	1.5	-1.5	-	0.0
Cost on 31 Dec	81.4	601.1	423.0	9.0	23.8	1,138.3
Accumulated amortisation and impairment losses 1 Jan	-	-199.1	-258.8	-5.8	-	-463.7
Translation differences	-	0.6	0.7	0.0	-	1.2
Sale of businesses	-	-	1.4	-	-	1.4
Amortisation for the financial period	-	-22.9	-45.6	-0.9	-	-69.5
Impairment	-	-0.7	-0.5	0.0	-	-1.1
Accumulated amortisation on disposals and transfers	-	5.8	51.6	0.1	-	57.5
Accumulated amortisation and impairment losses 31 Dec	-	-216.4	-251.3	-6.6	-	-474.2
Carrying amount on 1 Jan	82.0	405.0	168.5	4.9	24.1	684.6
Carrying amount on 31 Dec	81.4	384.7	171.8	2.4	23.8	664.1

Property, plant and equipment include the following assets leased under finance lease:

EUR million	Machinery and equipment
2012	
Cost on 31 Dec	57.8
Accumulated depreciation 31 Dec	-29.4
Carrying amount on 31 Dec	28.4
2011	
Cost on 31 Dec	53.7
Accumulated depreciation 31 Dec	-32.0
Carrying amount on 31 Dec	21.8

In 2012, additions to assets leased under finance leases totaled EUR 14.2 million (EUR 19.9 million in 2011).

16. Associated companies

EUR million	2012	2011
Carrying amount on 1 Jan	0.8	0.7
Translation differences	0.0	0.0
Disposals	-0.5	-
Share of associated companies' results	0.0	0.1
Shares in associated companies on 31 Dec	0.4	0.8

The associated companies' balance sheet value does not include goodwill.

EUR million	Assets	Liabilities	Net sales	Operating result	Group holdings %
2012					
Offentliga Dokument	0.3	0.3	2.0	0.0	50
Porlogis-Transitos e Logistika Lda	0.5	0.2	1.0	0.0	35
Total	0.9	0.5	3.0	0.0	
2011					
Ageris Kontaktcenter AB	0.7	0.4	2.0	0.0	49
Offentliga Dokument	0.4	0.4	1.4	0.0	50
AS Eesti Elektron Post	0.4	0.2	0.7	0.0	49.14
Porlogis-Transitos e Logistika Lda	0.3	0.3	1.1	0.1	35
Total	1.7	1.3	5.1	0.1	

17. Carrying amounts of financial assets and liabilities by valuation category

EUR million	Financial assets at fair value through profit or loss	Loans and other receivables	Financial assets held until maturity	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying amounts of balance sheet items	Fair value	Note
2012								
Non-current financial assets								
Non-current receivables	6.9	3.2	-	-	-	10.0	10.0	20
Current financial assets								
Trade receivables and other receivables	-	253.3	-	-	-	253.3	253.3	23
Available-for-sale financial assets	-	-	-	2.6	-	2.6	2.6	24
Financial assets at fair value through profit or loss	56.2	-	-	-	-	56.2	56.2	25
Financial assets held until maturity	-	-	15.2			15.2	15.2	24
Cash and cash equivalents	44.8	45.6	-	-	-	90.3	90.3	26
Carrying amount by valuation category	107.8	302.0	15.2	2.6	-	427.6	427.6	
Non-current financial liabilities								
Non-current interest-bearing liabilities	-	-	-	-	288.3	288.3	305.9	31
Other non-current interest-bearing liabilities	0.3		-		-	0.3	0.3	32
Current financial liabilities								
Current interest-bearing liabilities	-	-	-	-	36.3	36.3	36.3	31
Trade payables and other liabilities	1.6	-	-	-	74.5	76.1	76.1	32
Carrying amount by valuation category	1.9	-	-	-	399.2	401.1	418.6	

The carrying amounts of non-current and current financial assets as well as current financial liabilities measured at amortised cost are equal to their fair value. Current interest-bearing liabilities are variable interest rate based by nature, which is why their fair values are not materially different from their carrying amounts. The fair value of non-current financial liabilities has been measured by the method of discounted cash flow and the used discount rates have been the market interest rates of the balance sheet date.

EUR million	Financial assets at fair value through profit or loss	Loans and other receivables	Financial assets held until maturity	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying amounts of balance sheet items	Fair value	Note
2011								
Non-current financial assets								
Non-current receivables	4.8	1.4	-	-	-	6.2	6.2	20
Current financial assets								
Trade receivables and other receivables	-	233.3	-	-	-	233.3	233.3	23
Available-for-sale financial assets	-	-	-	1.5	-	1.5	1.5	24
Financial assets at fair value through profit or loss	58.7	-	-	-	-	58.7	58.7	25
Financial assets held until maturity			10.9			10.9	10.9	24
Cash and cash equivalents	74.9	46.2	-	-	-	121.1	121.1	26
Carrying amount by valuation category	138.4	280.9	10.9	1.5	.	431.7	431.7	
Non-current financial liabilities								
Non-current interest-bearing liabilities	-	-	-	-	304.9	304.9	316.0	31
Current financial liabilities								
Current interest-bearing liabilities	-	-	-	-	30.5	30.5	30.5	31
Trade payables and other liabilities	0.8	-	-	-	84.0	84.8	84.8	32
Carrying amount by valuation category	0.8	-	-	-	419.4	420.2	431.2	

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

EUR million	Fair values at the end of the reporting period Total	Level 1	Level 2	Level 3
2012				
Financial assets measured at fair value				
Non-current receivables				
Derivative contracts				
Interest rate swaps, hedge accounting	6.9		6.9	
Financial assets at fair value through profit and loss				
Money market investments	46.8		46.8	
Bonds	54.1		54.1	
Derivative contracts				
Currency forward contracts, non-hedge accounting	0.1		0.1	
Electricity forward contracts, non-hedge accounting	0.0	0.0		
Available-for-sale financial assets				
Debt certificates	1.8		1.8	
Equity fund investments	0.8			0.8
Total	110.4	0.0	109.6	0.8
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivative contracts				
Currency forward contracts, non-hedge accounting	1.3		1.3	
Electricity forward contracts, non-hedge accounting	0.6	0.6		
Total	1.9	0.6	1.3	

EUR million	Fair values at the end of the reporting period Total	Level 1	Level 2	Level 3
2011				
Financial assets measured at fair value				
Non-current receivables				
Derivative contracts				
Interest rate swaps, hedge accounting	4.8		4.8	
Financial assets at fair value through profit and loss				
Money market investments	83.3		83.3	
Bonds	48.2		48.2	
Derivative contracts				
Currency forward contracts, non-hedge accounting	2.1		2.1	
Available-for-sale financial assets				
Equity fund investments	1.5			1.5
Total	139.9		138.3	1.5
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivative contracts				
Currency forward contracts, non-hedge accounting	0.8		0.8	
Total	0.8		0.8	

During the financial period 2012 and 2011 no transfers were made between levels 1 and 2 of the fair value hierarchy.

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.

Reconciliation of financial assets measured at fair value in accordance with level 3

EUR million	Available-for-sale equity fund investments
2012	
Carrying amount on 1 Jan	1.5
Total profits and losses	
In the statement of comprehensive income	
Available-for-sale financial assets	-0.4
Exercises	-0.4
Carrying amount on 31 Dec	0.8
Total profits and losses recorded on assets held at the end of the reporting period	
In financial income and expenses	-0.1
2011	
Carrying amount on 1 Jan	2.2
Total profits and losses	
In the statement of comprehensive income	
Available-for-sale financial assets	0.1
Exercises	-0.8
Carrying amount on 31 Dec	1.5
Total profits and losses recorded on assets held at the end of the reporting period	
In financial income and expenses	0.0

19. Other non-current investments

EUR million	2012	2011
Cost on 1 Jan	7.7	2.7
Additions	0.2	5.0
Disposals	-0.6	-
Cost on 31 Dec	7.3	7.7
Accumulated amortisation and impairment losses 1 Jan	-1.3	-1.3
Accumulated amortisation and impairment losses 31 Dec	-1.3	-1.3
Carrying amount on 1 Jan	6.4	1.4
Carrying amount on 31 Dec	6.0	6.4

Other non-current investments contain mainly of holdings in real estate shares.

20. Non-current receivables

EUR million	2012	2011
Loans and other receivables		
Derivative contracts, hedge accounting	6.9	4.8
Loan receivables from others	2.8	0.9
Finance lease receivables	0.4	0.5
Total	10.0	6.2
Other receivables	2.9	5.9
Non-current receivables, total	13.0	12.1

Loan receivables from others include receivables from housing corporations. The interest rate stood at 8 per cent.

Major part of the other receivables are ordinary accruals of sales and prepaid expenses.

Finance lease receivables: minimum lease income

EUR million	2012	2011
Under 1 year	0.1	0.1
1 - 5 years	0.4	0.4
Over 5 years	0.0	0.1
Minimum lease income	0.5	0.6
Unearned income	-0.1	-0.1
Total	0.4	0.5

Maturity of finance lease receivables:

EUR million	2012	2011
Under 1 year	0.1	0.1
1 - 5 years	0.3	0.3
Over 5 years	0.0	0.1
Total	0.4	0.5

The Group has leased out one property classified as a finance lease. On 31 December 2012, finance lease receivables totalled EUR 0.4 million (EUR 0.5 million on 31 Dec 2011) and the interest rate of 6 per cent. The property has been classified as finance lease, because the lease period is twenty years and the lease will expire in 2017. The lessee may terminate the lease only by paying the amount of the the remaining rents adjusted by the cost-of-living index.

21. Deferred tax assets and liabilities

Changes in deferred tax assets and liabilities are as follows:

EUR million	1 Jan 2012	Translation difference	Transfers between items	Acquired/ Divested subsidiaries	Recorded through profit or loss	Other disposals	31 Dec 2012
Deferred tax assets 2012							
Pension obligations	1.4	-	-	-0.1	-0.2	-	1.1
Unused tax losses	0.0	-	-	-	1.3	-	1.3
Impairment on real estate shares	3.5	-	-	-	-0.9	-	2.6
Restructuring provision	5.7	-	-	-0.2	-0.4	-	5.1
Other temporary differences	1.4	-	0.5	-	0.7	-	2.6
Total	12.0	-	0.5	-0.3	0.5	-	12.8
Deferred tax liabilities 2012							
Fair value measurement of PPE and intangible assets in acquisition	35.9	0.9	-	0.5	-3.3	-	34.0
Accumulated depreciation in excess of plan	11.4	-	1.3	-	0.9	-	13.7
Other temporary differences	5.8	-	0.5	-	0.5	-0.8	6.0
Total	53.1	0.9	1.8	0.5	-1.9	-0.8	53.7

EUR million	1 Jan 2011	Translation difference	Transfers between items	Acquired/ Divested subsidiaries	Recorded through profit or loss	Other disposals	31 Dec 2011
Deferred tax assets 2011							
Pension obligations	1.3	-	-	-	0.1	-	1.4
Unused tax losses	2.9	-	-	-	-2.9	-	0.0
Finance leases	4.0	-	-	-	-0.5	-	3.5
Restructuring provision	5.5	-	-	-	0.2	-	5.7
Other temporary differences	1.1	-	-	-	0.3	-	1.4
Total	14.7	-	-	-	-2.8	-	12.0
Deferred tax liabilities 2011							
Fair value measurement of PPE and intangible assets in acquisition	38.4	-0.6	-2.6	3.8	-3.1	-	35.9
Accumulated depreciation in excess of plan	9.8	-	-	-	1.6	-	11.4
Other temporary differences	2.3	0.3	2.6	-	0.6	-	5.9
Total	50.4	-0.3	0.0	3.8	-0.9	-	53.1

On 31 December 2012, the Group had unused tax losses for which it has not recognised deferred taxes of EUR 161.4 million (EUR 138.8 million in 2011), mainly arising from businesses in Russia and Germany. Deferred tax assets arising from unused tax losses recognized in 2012 amounted to EUR 1.3 million (2011: EUR 0.0 million).

22. Inventories

EUR million	2012	2011
Materials and supplies	1.3	1.2
Goods	3.0	4.3
Prepayments for inventories	0.6	0.3
Total	4.9	5.8

23. Trade receivables and other receivables

EUR million	2012	2011
Finance lease receivables	-	0.0
Loan receivables	0.1	0.1
Trade receivables	224.5	224.8
Trade receivables from associated companies	0.9	1.0
Loan receivables from associated companies	0.1	0.0
Accrued income and prepayments	76.6	65.8
Other receivables	27.8	7.4
Total	329.9	299.1

More information on trade receivables is provided in Note 35 Financial risk management. Other receivables include a EUR 23.3 million insurance claim related to a warehouse accident that occurred in Russia. The expense reserve related to the accident is disclosed in Note 30 to the financial statements. Other receivables mainly include credit card receivables from banks and insurance companies.

The largest item under accrued income and prepayments includes EUR 28.8 million (EUR 27.6 million on 31 Dec 2011) in accrued terminal rate receivables from other postal administrations. Items under other receivables include ordinary accruals of sales and prepaid expenses.

24. Available-for-sale financial assets and financial assets held until maturity

Available-for-sale financial assets

EUR million	2012	2011
Equity fund investments	0.8	1.5
Debt certificates	1.8	-
Total	2.6	1.5

Financial assets held until maturity

EUR million	2012	2011
Debt certificates	15.2	10.9

25. Financial assets at fair value through profit or loss

EUR million	2012	2011
Derivative contracts, non-hedge accounting	0.1	2.1
Money market investments	2.0	8.5
Bonds	54.1	48.2
Total	56.2	58.7

26. Cash and cash equivalents

EUR million	2012	2011
Money market investments	44.8	64.0
Cash and bank	45.6	57.1
Total	90.3	121.0

27. Non-current assets classified as held for sale and associated liabilities

EUR million	2012	2011
Non-current assets classified as held for sale		
Buildings and structures, land and water	10.4	12.1
Other current receivables	0.3	0.3
Total	10.7	12.4
Liabilities associated with non-current assets classified as held for sale		
Other non-current liabilities	0.2	0.1
Other liabilities	0.4	0.5
Total	0.5	0.5

Assets classified as held for sale include a number of real estate shares, the location of which no longer meets the needs of Itella Mail Communications business group. These sites have previously served as sales and delivery outlets. In 2012 total 13 sites have been sold resulting to EUR 0.5 million recording of gain of sales. The estimated sale schedule has delayed because the general economic situation has been weakened and made the sales efforts more difficult. The sites have open sales mandate and the management is engaged purposefully to sell the shares.

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28. Equity

Shares and shareholders

EUR million	2012	2011
Share capital	70.0	70.0

The Finnish State holds all Itella Corporation's shares totalling 40,000,000. Other reserves: Based on the AGM's decision, assets were transferred from the share premium under restricted equity to other reserve (contingency reserve) in 1998, when Finland PT Group demerged. This is a distributable reserve, in accordance with the Articles of Association. The change of fair value of available-for-sale financial assets is recognised in the fair value reserve. Translation differences include the differences resulting from the translation of foreign units' financial statements and net investments made. Statement of Changes in Shareholders' Equity contains additional information on equity.

29. Pension obligations

The Group applies several pension plans in different countries, managed according to the local regulations and practice effective in each country. The Group's defined benefit pension schemes are related to Finnish insured voluntary pension plans.

Defined benefit pension liabilities in the balance sheet:

EUR million	2012	2011
Present value of unfunded obligations	0.4	2.8
Present value of funded obligations	11.8	11.1
Fair value of plan assets	-3.9	-5.3
Deficit/Surplus	8.2	8.6
Unrecognised actuarial gains (+) / losses (-)	-4.1	-1.1
Unrecognised gains (+) / losses (-) resulting from past services	-	0.0
Net liability in the balance sheet	4.1	7.5

Defined benefit pension expenses in the income statement:

EUR million	2012	2011
Current service costs	0.3	0.4
Interest costs	0.5	0.7
Expected return on plan assets	-0.3	-0.3
Actuarial gains and losses	0.5	1.0
Past service costs	0.0	0.0
Losses (-) / gains (+) on curtailments	0.3	0.0
Total	1.4	1.7

Return on the plan assets totalled EUR -1.8 million (EUR -0.4 million in 2011).

Changes in the pension obligation's present value:

EUR million	2012	2011
Obligation at period-start	13.7	15.4
Current service costs	0.3	0.4
Interest costs	0.5	0.7
Curtailment	-3.9	-0.9
Paid benefits	0.0	-0.1
Actuarial gains and losses	1.6	-1.7
Obligation at period-end	12.2	13.7

Changes in the plan assets' fair value:

EUR million	2012	2011
Plan assets' fair value at period-start	5.3	5.7
Return on plan assets	0.3	0.3
Employer contributions	2.1	0.7
Curtailment	-1.7	-0.8
Actuarial gains and losses	-2.0	-0.6
Plan assets' fair value at period-end	3.9	5.3

Figures on the pension plan:

EUR million	2012	2011	2010	2009
Pension obligation's present value	12.2	13.7	15.4	14.1
Plan assets' fair value	3.9	5.3	5.7	6.1
Surplus (+) / Deficit (–)	-8.3	-8.4	-9.7	-8.0
Experience adjustments arising on the plan liabilities	-0.9	-1.6	-0.2	-0.3
Experience adjustments arising on the plan assets	-2.0	-1.0	-0.4	-2.6

Estimated contributions payable to the defined benefit plans will total EUR 2.7 million during the next financial period.

Key actuarial assumptions were as follows:

EUR million	2012	2011
Discount rate	3.50	4,25 - 4,50
Expected return on plan assets	3,5 - 4,3	4,38 - 4,50
Future salary increase assumption	0 - 2,50	0 - 2,50
Future pension increase expectation	2.1	2.1

30. Provisions

EUR million	Restructuring provision	Accident provision	Other	Total
2012				
Carrying amount on 1 Jan	23.6	-	1.1	24.7
Translation difference	0.0	-	-	0.0
Increase in provisions	2.4	28.7	0.6	31.6
Used provisions	-3.9	-	0.0	-3.9
Acquired / sold businesses	-3.5	-	-	-3.5
Carrying amount on 31 Dec	18.6	28.7	1.7	48.9
2011				
Carrying amount on 1 Jan	16.8		0.5	17.3
Increase in provisions	18.3		2.0	20.4
Used provisions	-11.5		-1.4	-12.9
Carrying amount on 31 Dec	23.7		1.1	24.8

EUR million	2012	2011
Long-term provisions	18.6	20.3
Short-term provisions	30.3	4.5
Total	48.9	24.8

Restructuring provisions are primarily related to the statutory labor negotiations conducted during 2009 - 2011. A significant portion of the long-term personnel expense provisions in the Group's Finnish companies is made up of the employer's liability component within the unemployment insurance contribution towards the Unemployment Insurance Fund. Approximately 50% is expected to be realized during 2013 and 2014, and another 50% in 2015.

A large part of the shelf system in Itella Logistics' Shushary warehouse in St. Petersburg collapsed in July 2012. A large number of customers' products were damaged, in addition to which environmental protection and cleanup measures were required. Freight operations, the office, and customers' logistics services were transferred to a temporary office in Utkina Zavod. Restoring operations to normal in the Shushary warehouse will take several months. Itella has insurance policies that cover its liability in such cases. An assessment concerning the liability for damages is pending, and the outcome is as yet unclear. The insurance receivable of EUR 23.3 million related to the Shushary accident is recognized under other receivables in Note 23.

31. Interest-bearing loans

EUR million	Balance sheet values 2012	Fair values 2012	Balance sheet values 2011	Fair values 2011
Non-current				
Financial liabilities at amortised cost:				
Bonds	253.9	271.0	251.7	262.0
Loans from financial institutions	0.6	0.6	0.6	0.6
Pension loans	12.5	13.0	37.5	38.3
Finance lease liabilities	21.3	21.3	15.1	15.1
Liabilities associated with non-current assets classified as held for sale	0.2	0.2	0.1	0.1
Total	288.5	306.0	304.9	316.0
Current				
Financial liabilities at amortised cost:				
Loans from financial institutions	-	-	0.1	0.1
Pension loans	25.0	25.0	25.4	25.4
Finance lease liabilities	6.5	6.5	5.0	5.0
Other	4.8	4.8	-	-
Total	36.3	36.3	30.5	30.5

Notes to the consolidated financial statements

Finance lease liabilities: minimum lease payments

EUR million	2012	2011
Under 1 year	7.5	5.6
1 - 5 years	21.6	15.0
Over 5 years	0.7	1.0
Minimum lease payments total	29.8	21.6
Future accrued financial expenses	-1.9	-1.5
Total	27.9	20.1

Present value of minimum lease payments:

EUR million	2012	2011
Under 1 year	6.8	5.0
1 - 5 years	20.7	14.1
Over 5 years	0.4	1.0
Total	27.9	20.1

Itella Group has mainly leased transport equipment, IT equipment and franking machines under finance leases concluded on market terms and valid from three to ten years.

32. Trade payables and other non-interest-bearing liabilities

Other non-current liabilities

EUR million	2012	2011
Other liabilities	7.9	3.1
Other accrued expenses	4.3	0.9
Total	12.2	4.0

Current trade payables and other liabilities

EUR million	2012	2011
Financial liabilities measured at fair value:		
Derivative contracts, non-hedge accounting	1.6	0.8
Financial liabilities at amortised cost:		
Trade payables	74.5	84.0
Advances received	27.2	22.8
Accrued personnel expenses	155.5	148.6
Other accrued expenses and deferred income	47.7	46.1
Other liabilities	69.1	69.8
Current non-interest-bearing liabilities	375.7	372.1

The most significant item within other accrued expenses and deferred income includes estimated payables for terminal payments to other postal administrations, totalling EUR 17.5 million on 31 December 2012 (EUR 13.1 million on 31 December 2011). The remaining items comprise accruals of ordinary expenses.

33. Operating leases

Maturity of minimum lease payments:

EUR million	2012	2011
Under 1 year	96.9	93.9
1 - 5 years	220.4	187.9
Over 5 years	63.9	46.5
Total	381.1	328.3

The income statement in 2012 contains EUR 124.9 million expenses for operating lease agreements (EUR 120.3 million). Itella Group has leased e.g. premises, office equipment and vehicles. The lease period for office equipment and vehicles varies between 2 and 5 years and that for premises until 10 years.

Minimum lease payments:

EUR million	2012	2011
Under 1 year	2.2	2.3
1 - 5 years	0.6	0.5
Over 5 years	2.1	2.1
Total	4.9	4.9

Itella Group leases out premises in its possession. The notice period of leases generally varies between 1 and 12 months. The lease of As Oy Kirjekyyhky's site will expire in 2050.

34. Pledges, commitments and other responsibilities and contingent liabilities

EUR million	2012	2011
Pledges given on own behalf:		
Bank guarantee	13.6	13.0
Guarantee	5.2	5.6
Pledges	0.1	0.9
Total	18.9	19.5

Itella has received claims from its contract customers to refund the value added taxes they have paid amounting to a total of EUR 94 million. The decision given by the Helsinki District Court in summer 2011 was positive to Itella. The decision was however nullified by the Helsinki Court of Appeal and thus returned to the district court in which the proceedings began in 2012. Itella considers the customers' claims to be unfounded in their entirety.

In accordance with the secured environmental permit, the Group is subject to environmental liability regarding the cleanup of land in the Pohjois-Pasila office lot. The liability amounts to approximately EUR 19.9 million and it will be realized over 10 to 15 years in the costs, provided that the purpose of use of the lot is changed from the current purpose of use. Itella has assigned 34,745 square meters of the area to the City of Helsinki for street, park, and recreational use, and agreed to pay EUR 4.2 million of the planning and building costs related to public utility construction to the City of Helsinki in exchange for the area's zoning. A provision of EUR 4.2 million related to the construction costs and a provision of EUR 2.2 million related to the expenses of the cleanup of the assigned land areas has been recognized on the balance sheet. A corresponding capitalization has been recognized in land and water areas on the balance sheet.

35. FINANCIAL RISK MANAGEMENT

Principles of risk management

The aim of financial risk management is to secure an adequate and competitive financial position for executing the Group's operative businesses and strategy and to minimize the effects of market risks in Group's financial results, the balance sheet and cash flows. The Group aims to identify risk concentrations and hedge against them to the extent necessary. The Group's business involves financial risks, such as market, liquidity, credit and counterparty risks. Regarding the Group's commodities risks, the price risk related to electricity is monitored actively, and managed with electricity derivatives.

Risk management organization

Group Treasury is responsible for the centralized management of finances and financial risks in line with the financing guidelines approved by the Board of Directors. Group Treasury is responsible for the entire Group's currency, interest rate, liquidity and refinancing risk management in close co-operation with the business areas. The business areas are responsible for the identification, management and reporting to Group Treasury of the financial risks associated with their operations. Credit risk related to customer receivables is managed by the business area's sales organization. The Group's sourcing unit is responsible for managing the price risk of electricity. Itella Bank is responsible for managing the financial risk of credit institution operations.

Market risks

Currency risk

The goal of currency risk management is to reduce the Group's currency risk to an optimal level as well as improve the transparency of profitability and predictability of financial results. The Group's transaction risk primarily consists of currency-denominated receivables, payables and commitments. The key principle is to achieve full hedging against the transaction risks related to the balance sheet. Unhedged exposure is permitted within the limits specified in the Group's financing policy. Loans granted by the parent company to subsidiaries are primarily in the subsidiary's domestic currency, in which case the subsidiary has no currency risk arising from financial agreements. On the balance sheet date, Itella Corporation had external currency derivatives with a nominal value of EUR 121.4 million used to hedge against the currency risk associated with the loans and receivables between Itella Corporation and the group companies. The Group's balance is exposed to a translation risk in connection with investments in subsidiaries outside the euro zone. The objective of translation risk management is to ensure exchange rate fluctuations do not cause any material changes in the Group's net gearing. On the balance sheet date, the Group did not hedge against translation risk. Currency derivatives are included in the currency position calculation but the hedge accounting under IFRS is not in use.

Major transaction positions on the balance sheet date

EUR million	RUB	USD	SEK	NOK	PLN
2012					
Trade receivables and payables	0.1	-1.2	1.0	1.0	1.2
Loans and bank accounts [1]	41.6	-41.8	22.5	5.7	2.8
Derivatives	-41.5	41.7	-22.7	-6.1	-2.7
Open position	0.1	-1.3	0.8	0.6	1.3
2011					
Trade receivables and payables	-1.2	2.0	-1.4	1.1	0.7
Loans and bank accounts [1]	27.1	-41.7	17.9	6.2	0.3
Derivatives	-27.3	42.1	-17.9	-6.4	-0.3
Open position	-1.3	2.3	-1.5	0.8	0.7

1) Includes cash and cash equivalents, interest-bearing receivables and liabilities

The currency sensitivity analysis is based on the balance sheet items denominated in foreign currency other than each Group company's own functional currencies on the balance sheet date. The analysis includes only currency risks related to financial instruments. Calculated in this way, if the euro strengthens by ten per cent against all currencies on the balance sheet date, profit before taxes would decrease by EUR -0.1 million (2011: EUR -0.3 million).

Major translation positions on the balance sheet date

EUR million	RUB	USD	SEK	NOK	DKK	LTL
2012						
Net investment	204.2	42.1	27.6	21.3	55.4	5.3
Hedging	-	-	-	-	-	-
Open position	204.2	42.1	27.6	21.3	55.4	5.3
2011						
Net investment	235.1	42.3	26.8	20.1	45.6	8.5
Hedging	-	-	-	-	-	-
Open position	235.1	42.3	26.8	20.1	45.6	8.5

Interest rate risk

The Group is exposed to interest rate risks through its investments and interest bearing liabilities. The goal of interest rate risk management is to minimize financing costs and moderate the uncertainty that interest rate movements cause in the Group's income statement. The average interest-rate fixing period for the liability portfolio is determined in the financing policy. The objective of interest rate risk management related to liquid funds is to minimize the effect of interest rate movements on the fair value of the funds. In addition to diversification, interest rate risks associated with interest-bearing receivables and liabilities can be hedged through interest rate swaps, interest rate options and forward rate agreements.

On the balance sheet date, the Group's interest-bearing liabilities amounted to EUR 324.8 million and interest-bearing receivables to EUR 163.4 million. On the balance sheet date, all of the Group's interest-bearing loans were subject to a fixed rate of interest. A share of the loans was hedged with an interest-rate swap. The interest rate risk of the fixed rate interest bond issued by Itella Corporation for nominal value EUR 70 million is hedged by the interest rate swap. Since January 1, 2011 the Group has applied fair value hedge accounting to the interest-rate swap hedging the loan. The effectiveness of the hedge accounting is monitored every quarter. During financial year 2012 the hedging has been effective.

Net interest-bearing receivables and debt according to interest rate fixing

EUR million	Under 1 year	1-5 years	Over 5 years	Total
2012				
Interest-bearing receivables	-113.3	-40.8	-9.3	-163.4
Bond	-	253.9	-	253.9
Loans from financial institutions	-	0.6	-	0.6
Pension loans	-	37.5	-	37.5
Finance lease liabilities	6.8	21.1	-	27.9
Other liabilities	5.1	-	-	5.1
Net debt	-101.4	272.3	-9.3	161.4
Impact of interest-rate swaps	70.0	-70.0	-	0.0
Total	-31.4	202.3	-9.3	161.4
2011				
Interest-bearing receivables	-156.4	-25.1	-7.0	-188.5
Bond	-	152.3	99.4	251.7
Loans from financial institutions	0.5	0.6	-	1.1
Pension loans	-	62.5	-	62.5
Finance lease liabilities	5.0	15.1	-	20.1
Net debt	-150.9	205.4	92.4	146.9
Impact of interest-rate swaps	70.0	-70.0	-	0.0
Total	-80.9	135.4	92.4	146.9

A one percent change in interest rates at the end of the financial period would affect the Group profit before taxes for the next 12 months by EUR 1.6 million (2011: EUR 0.7 million).

The price risk related to electricity

The management of the price risk related to electricity aims to reduce the volatility generated by price fluctuations in electricity with regard to the Group's cash flows and operating result. The Group employs electricity derivatives to reduce the price risks related to its future electricity procurement. Electricity hedging is accomplished by way of standardized market-listed derivatives products. The electricity derivatives are employed solely for the purpose of hedging, but hedge accounting such as referred to in the IFRS has not been adopted.

A sensitivity analysis pursuant to IFRS 7 has been performed on electricity derivative instruments outstanding at the time of reporting. Any variation in the market price of electricity equal to ten percentage points would have an effect of EUR 0.2 million on the Group's pre-tax earnings.

Derivative contracts

EUR million	Nominal value	Net fair value	Positive fair value	Negative fair value
2012				
Foreign currency derivatives:				
Foreign currency forward contracts, non-hedge accounting	121.4	-1.3	0.1	-1.3
Interest rate derivatives:				
Interest rate swaps, hedge accounting	70.0	6.9	6.9	-
Electricity derivatives:				
Electricity forwards, non-hedge accounting	8.0	-0.5	0.0	-0.5
2011				
Foreign currency derivatives:				
Foreign currency forward contracts, non-hedge accounting	126.8	1.3	2.1	-0.8
Interest rate derivatives:				
Interest rate swaps, hedge accounting	70.0	4.8	4.8	-

Derivative instruments were used to hedge against currency risk, interest rate risk and electricity price risk. Currency forward contracts were measured at fair value by using the market prices on the closing day, and the fair values of interest rate swaps are the present values of forecast future cash flows. The fair value of electricity derivatives are based on market prices on the closing day.

Liquidity risk

The liquidity and refinancing risk means that the Group's liquidity reserve is insufficient to cover the Group's commitments and investment possibilities or that the cost of the refinancing or additional financing need is exceptionally high. The Group places a considerable emphasis on accurate cash management and liquidity planning in order to minimize liquidity risks generated by large daily fluctuations in the Group's cash flows. In addition to cash and cash equivalents, the Group aims to secure sufficient financing in all circumstances using the following financial reserves:

- syndicated credit facility (committed) of EUR 120 million maturing in 2015
- commercial paper programs (non-committed) of EUR 200 million

On the balance sheet date, the Group had liquid funds and an unused committed credit facility of EUR 268.3 million (2011: EUR 297.7 million). Liquid funds include cash and cash equivalents and investments tradable on the secondary market whose tradability is secured by the liquid size of the issue and the creditworthiness of the issuer. In addition, the Group had an unused commercial paper program of EUR 200.0 million (2011: EUR 200.0 million).

Contractual cash flows from financial liabilities, including interest costs

EUR million	2013	2014	2015	2016	2017	2018 -	Total
2012							
Loans							
Bonds	11.2	11.2	11.2	161.2	104.6	-	299.4
Loans from financial institutions	0.2	0.1	0.1	0.1	-	-	0.6
Pension loans	25.9	12.7	-	-	-	-	38.5
Finance lease liabilities	7.5	21.3	0.1	0.1	0.0	0.7	29.8
Other loans	4.8	-	-	-	-	-	4.8
Trade payables	74.5	-	-	-	-	-	74.5
Derivatives							
Interest rate derivatives, cash flows payable	1.1	1.1	1.1	1.1	-	-	4.5
Interest rate derivatives, cash flows receivable	-3.1	-3.1	-3.1	-3.1	-	-	-12.3
Currency derivatives, cash flows payable	1.6	-	-	-	-	-	1.6
Currency derivatives, cash flows receivable	0.0	-	-	-	-	-	0.0
Electricity serivatives, cash flows payable	3.3	2.2	1.7	-	-	-	7.2
Total	127.0	45.6	11.2	159.5	104.6	0.7	448.6

Notes to the consolidated financial statements

EUR million	2012	2013	2014	2015	2016	2017 -	Total
2011							
Loans							
Bonds	11.2	11.2	11.2	11.2	161.2	104.6	310.6
Loans from financial institutions	0.5	0.2	0.1	0.1	0.1	-	1.1
Pension loans	26.6	25.9	12.7	-	-	-	65.1
Finance lease liabilities	5.6	14.7	0.2	0.1	0.0	1.0	21.6
Trade payables	84.0	-	-	-	-	-	84.0
Derivatives							
Interest rate derivatives, cash flows payable	2.1	2.1	2.1	2.1	2.1	-	10.3
Interest rate derivatives, cash flows receivable	-3.1	-3.1	-3.1	-3.1	-3.1	-	-15.3
Currency derivatives, cash flows payable	0.6	-	-	-	-	-	0.6
Currency derivatives, cash flows receivable	-1.7	-	-	-	-	-	-1.7
Total	125.8	50.9	23.2	10.4	160.4	105.6	476.2

Pension loans are secured with bank guarantees. Other loans have no security. Finance lease liabilities are in fact secured liabilities since, in default of payment, rights to leased property transfer back to the lessor.

Credit and counterparty risk

Pursuant to authorizations given by the Board of Directors, the Group invests its liquid funds in debt instruments and bonds issued by companies, banks and states with a high credit rating, as well as bank deposits. Itella concludes derivative contracts only with banks and credit institutions with high capital adequacy. The balance sheet value of investments and derivative contracts corresponds to the maximum amount of the associated credit risk. Financing operations did not incur any credit losses during the financial year.

Trade receivables are subject to only minor credit risk concentrations due to the Group's extensive customer base. The balance sheet value of trade receivables corresponds to the maximum amount of the credit risk associated with them. Credit losses recognized for 2012 came to EUR 3.4 million (2011 EUR 2.2 million).

The breakdown of trade receivables:

EUR million	2012	2011
Non-matured trade receivables	187.6	191.7
Trade receivables 1-30 days overdue	27.7	21.7
Trade receivables 31-60 days overdue	4.4	4.0
Trade receivables 61-90 days overdue	1.2	2.0
Trade receivables 91-180 days overdue	2.6	1.5
Trade receivables 181-365 days overdue	1.0	3.9
Total	224.5	224.8

Equity structure management

Group equity structure management aims to safeguard financing required by businesses and the Group's operating conditions in capital markets under all circumstances. Although the Group has no public credit rating issued by a credit rating agency, it seeks to maintain a capital structure that would justify a high credit rating (investment grade).

The Board of Directors assesses the equity structure regularly while discussing strategic plans. The covenants associated with the Group's loan agreements are standard terms and conditions that feature limitations on securities given, material changes in business activities, and changes in majority holdings. The Group has met the conditions of the covenants in financial years 2011 and 2010. The Group's loan agreements do not contain key figure covenants.

The Group monitors developments in its equity structure by measuring equity ratio and gearing.

Group equity	2012	2011
Interest-bearing liabilities	324.8	335.4
./. Interest-bearing receivables	163.4	188.5
= Interest-bearing net liabilities	161.4	146.9
Total equity	688.4	664.9
Equity ratio, %	46.4	46.1
Gearing, %	23.4	22.1

36. Related party transactions

The Group's related party consists of bodies that hold authority within the Group or are under the Group's authority. Such authority or other significant control is associated with financial or operational decision-making. Itella Group's related party consists of the Board of Directors, President and CEO, Itella Corporation's Management Team, and the close family members of the aforementioned. In addition, the related party includes the joint ventures, affiliates, mutual real estate companies, and the State of Finland, which owns 100% of Itella Corporation's shares.

The upper management consists of the members of the Board of Directors, President and CEO and members of the Management Team. No financial loans have been granted to the upper management. Business transactions with related party companies, such as joint-ownership companies and other state-owned companies, are subject to market terms. Itella did not have significant business transactions with the upper management or their related party. Itella Group has business relations with associations tied to its state-owner. During the financial period, the Group did not have any business operations that, reviewed singly or jointly, are significant financially or qualitatively. As an exception to above-mentioned, during the financial period Itella acquired business activity from VR Group which is fully owned by government of Finland. This is further presented in Note 2.

Business transactions with related party

Net sales and purchases, as well as the receivables and payables consist of business transactions with related party.

EUR million	2012	2011
Net sales	3.6	2.7
Purchases	0.5	0.2
Trade receivables and other receivables	1.0	1.0
Trade payables	0.0	0.0

Management remuneration

EUR million	2012	2011
Wages and salaries and other employee benefits	2.9	2.6
Pensions-Defined benefit plans	0.5	0.9

The management's salaries and fees

EUR million	2012	2011
President and CEO	0.5	0.5
Executive Board (excl. CEO)	2.0	1.7
Board of Directors	0.3	0.3
Supervisory Board	0.0	0.1
Total	2.9	2.6

The management's pension commitments

Persons appointed to the Management Team before September 22, 2009, are within the scope of a benefit-based pension scheme. Their retirement age is 60 years but the employer may postpone the retirement up to the maximum age of 62. Persons appointed to the Management Team after September 22, 2009, are within a premium-based pension scheme, and their retirement age is prescribed in the Employees Pensions Act (TyEL). The retirement age of Managing Directors of Group companies has been agreed to be 60 - 65 years.

The Board of Directors' salaries and fees

EUR thousand	2012	2011
Arto Hiltunen (chairman)	54.6	50.4
Päivi Pesola (vice chairman)	40.2	38.4
Kalevi Alestalo *)	6.9	34.8
Hele-Hannele Aminoff	34.2	34.8
Maarit Toivanen-Koivisto	35.4	34.2
Riitta Savonlahti	36.0	33.6
Eero Kasanen	-	10.2
Erkki Helaniemi	-	6.6
Antero Palmolahti	-	6.0
Jussi Kuutsa	34.8	28.2
Timo Löyttyniemi	36.6	28.8
Ilpo Nuutinen **)	28.5	-
Total	307.2	306.0

**) Member of the Board of Directors till 14 March 2012*
***) Member of the Board of Directors since 14 March 2012*

Notes to the consolidated financial statements

37. The Group's holdings in Itella Group

The Group's parent-company and subsidiary holdings are as follows:

The Parent company is Itella Corporation

Subsidiaries 31 Dec 2012	Group holdings %	Country	Business Group
Itella Posti Oy	100	Finland	Itella Mail Communications
OOO Itella Connexions	100	Russia	Itella Mail Communications
Itella SmartPOST OÜ	100	Estonia	Itella Mail Communications
Itella Information Oy	100	Finland	Itella Information
Itella Information AB	100	Sweden	Itella Information
Itella Information AS	100	Norway	Itella Information
Itella Holding GmbH	100	Germany	Itella Information
Itella Information Production GmbH	100	Germany	Itella Information
Itella Information AS	100	Estonia	Itella Information
AS Itella Information	100	Latvia	Itella Information
UAB Itella Information	100	Lithuania	Itella Information
Itella Information Sp. z o.o.	100	Poland	Itella Information
Itella Information s.r.o.	100	Slovakia	Itella Information
Itella Information s.r.o.	100	Czech Republic	Itella Information
Itella Information S.R.L	100	Romania	Itella Information
Itella Information Kft	100	Hungary	Itella Information
Itella Information GmbH	100	Austria	Itella Information
NewSource GmbH	100	Germany	Itella Information
OpusCapita Oy	100	Finland	Itella Information
OpusCapita Sweden AB	100	Sweden	Itella Information
OOO Itella Information	100	Russia	Itella Information
Global Mail FP Oy	100	Finland	Itella Logistics
Itella Logistics Oy	100	Finland	Itella Logistics
PT Logistiikka Oy	100	Finland	Itella Logistics
Logia Software Oy	100	Finland	Itella Logistics
Itella Logistics AB	100	Sweden	Itella Logistics
Itella Logistics A/S	100	Denmark	Itella Logistics
Itella Logistics OÜ	100	Estonia	Itella Logistics
Itella Logistics SIA	100	Latvia	Itella Logistics
Itella Logistics UAB	100	Lithuania	Itella Logistics

Subsidiaries 31 Dec 2012	Group holdings %	Country	Business Group
KEC GmbH	100	Germany	Itella Logistics
UAB KEC Eastern	100	Lithuania	Itella Logistics
Itella Logistics AS	100	Norway	Itella Logistics
KH Fur Oy	100	Finland	Itella Logistics
NLC International Corporation	100	British Virgin Islands	Itella Logistics
NLC Development Ltd	100	Cyprus	Itella Logistics
GSB Logistics Ltd	100	Cyprus	Itella Logistics
Centerfin Ltd	100	Cyprus	Itella Logistics
OOO Rent-Center	100	Russia	Itella Logistics
OOO Terminal Lesnoy	100	Russia	Itella Logistics
OOO Kapstroymontazh	100	Russia	Itella Logistics
OOO RED-Krekshino	100	Russia	Itella Logistics
OOO Terminal Sibir	100	Russia	Itella Logistics
OOO NLC-Ekaterinburg	100	Russia	Itella Logistics
OOO NLC-Samara	100	Russia	Itella Logistics
OOO NLC-Bataisk	100	Russia	Itella Logistics
OOO Itella	100	Russia	Itella Logistics
OOO NLC-Trans	100	Russia	Itella Logistics
Vindtunneln Holding AB	100	Sweden	Itella Logistics
Itella Bank Ltd	100	Finland	Other operations
Itella Real Estate Oy	100	Finland	Other operations

The Group's joint ventures 31 Dec 2012	Group holdings %	Country	Business Group
KOY Säästösaku	58.5	Finland	Other operations

Associated companies 31 Dec 2012	Group holdings %	Country	Business Group
Offentliga Dokument	50	Sweden	Itella Information
Porlogis-Transitos e Logistika Lda	35	Portugal	Itella Logistics

Income Statement of the Parent Company, FAS

EUR million	Note	2012	2011
Net sales	1	**63.5**	**55.7**
Other operating income	2	9.3	7.7
Materials and services	3	-0.2	-0.2
Personnel expenses	4	-40.5	-30.6
Depreciation, amortisation and impairment losses	5	-5.1	-5.8
Other operating expenses	6	-80.5	-53.6
Operating profit/loss		**-53.5**	**-26.7**
Financial income and expenses	8	-40.9	-66.1
Proofit/loss before extraordinary items		**-94.4**	**-92.8**
Extraordinary items	9	97.0	58.6
Proofit/loss before appropriations and income tax		**2.6**	**-34.2**
Income tax	10	-16.0	-9.3
Proofit/loss for the financial period		**-13.4**	**-43.5**

Balance Sheet of the Parent Company, FAS

EUR million	Note	31 Dec 2012	31 Dec 2011
Assets			
Non-current assets			
Intangible assets	11	11.6	6.5
Tangible assets	12	6.7	6.6
Investments	13	751.0	763.8
Total non-current assets total		**769.3**	**776.9**
Current assets			
Inventories	14	0.1	0.2
Non-current receivables	15	203.0	198.9
Current receivables	16	153.7	121.9
Current investments		101.7	133.0
Cash and bank		0.0	0.0
Tota current assets total		**458.4**	**454.1**
Total assets		**1,227.7**	**1,231.0**
Equity and liabilities of the parent company			
Equity	18		
Share capital		70.0	70.0
Fair value reserve		-0.2	0.1
Other reserves		142.7	142.7
Retained earnings		494.2	537.7
Profit/loss for the financial period		-13.4	-43.5
Total equity		**693.3**	**707.0**
Provisions for liabilities and charges	19	**0.9**	**1.0**
Liabilities			
Non-current	21	270.3	289.3
Current	22	263.2	233.8
Total liabilities		**533.5**	**523.1**
Total equity and liabilities		**1,227.7**	**1,231.0**

Cash Flow Statement of the Parent Company, FAS

EUR million	2012	2011
Cash flow from operations:		
Result before extraordinary items	-94.4	-92.8
Adjustments:		
Depreciation and amortisation according to plan	5.1	5.8
Gains or losses on sale of fixed assets	-0.3	1.9
Financial income (-) and expenses (+)	-3.6	-0.9
Impairment losses on non-current investments	47.2	67.0
Gain on merger	-0.6	-
Loss on merger	19.7	-
Other adjustments	-0.3	-
Cash flow before change in working capital	**-27.1**	**-19.1**
Change in working capital:		
Non-interest-bearing current receivables, increase (-), decrease (+)	-2.9	1.3
Non-interest-bearing non-current receivables, increase (-), decrease (+)	-0.1	-2.9
Inventories, increase (-), decrease (+)	0.1	-0.2
Non-interest-bearing current liabilities, increase (+), decrease (-)	3.2	-4.5
Non-interest-bearing non-current liabilities, increase (+), decrease (-)	-	-0.2
Change in provisions	0.1	0.4
Change in working capital	0.4	-6.0
Cash flow from operating activities before financial items and income tax	**-26.8**	**-25.1**
Interests paid	-17.0	-14.3
Interests received	12.2	11.3
Other financial items	-0.1	-3.3
Income taxes paid	-13.9	-9.4
Cash flow from financial items and taxes	-18.8	-15.6
Cash flow from operating activities (A)	**-45.6**	**-40.7**
Cash flow from investing activities:		
Investments in tangible and intangible assets	-10.4	-5.9
Proceeds from sale of tangible and intangible assets	0.0	0.0
Other investments	-39.8	-142.0
Proceeds from sale of other investments	0.4	2.6
Loans granted	-87.4	-18.2
Repayments of loan receivables	83.7	120.4
Dividends received	3.0	-
Other cash flow from investing activities	-0.8	-
Cash flow from investing activities (B)	**-51.2**	**-43.1**
Cash flow from financing activities:		
Drawings of current loans	-	4.7
Repayment of current loans	0.3	-15.6
Drawings of non-current loans	0.2	99.4
Repayment of non-current loans	-25.0	-25.0
Dividends paid	-	-4.4
Received and paid group contributions	58.6	18.8
Cash flow from financing activities (C)	**34.1**	**77.8**
Change in cash and cash equivalents before in trasfer of business (A+B+C), increase (+), decrease (-)	**-62.7**	**-6.0**
Change in balances of Group accounts	30.5	101.4
Cash and cash equivalents given in transfer of business	-	-44.5
Cash and cash equivalents received in merger	0.8	-
Change in cash and cash equivalents	**-31.4**	**50.9**
Cash and cash equivalents at the start of financial period	**133.0**	**82.2**
Cash and cash equivalents at the end of financial period	**101.7**	**133.0**

Notes to the Financial Statements of the Parent Company, FAS

ACCOUNTING POLICIES

Itella Corporation has prepared its financial statements in accordance with Finnish Accounting legislation.

Revenue recognition and net sales

Revenue from the sale of goods (incl. postage stamps) in the store of Post Museum is recognised when the goods have been delivered to the customer and significant risks and rewards of ownership have transferred to the buyer. Offering services of short duration generates a major part of Itella Corporation's revenues. Such revenues are recognised when the service is rendered as agreed. The store of Post Museum was closed in summer 2012.

Net sales derive from revenue based on the sale of goods and services net of indirect taxes, discounts and exchange rate differences.

Other operating income

Other operating income includes capital gains on sale of assets and income other than that based on the sale of goods and services, such as income from administration services. Government grants mainly refer to product and business development grants and low-wage support, which are recognised as other operating income.

Valuation of fixed assets

Tangible and intangible assets are carried at historical acquisition cost less accumulated depreciation.

Fixed assets are depreciated on a straight-line basis according to plan. The depreciations are based on expected useful lives, starting from the time items are in use. The expected useful lives of PPE in Itella Corporation are as follows:

Immaterial rights and other long-term expenses	3 - 5 years
Machinery and equipment	3 - 5 years

Land and water are not subject to depreciation.

Non-current investments are valued at their original acquisition cost. If the probability that the future revenue of the investment is permanently smaller than the acquisition cost, the difference is recognised as an impairment loss.

Research and development expenditure

Research costs are expensed as incurred. Only development costs arising from significant new or substantially improved products and enterprise resource planning systems will be capitalised as intangible assets if they are technically feasible and it is probable that the created asset will generate future economic benefits and development expenses can be measured reliably. Development costs which have been expensed once will not be capitalised later. Amortisations on intangible assets are recognised as of the date asset has been taken in use. Capitalised development costs are recognised as intangible assets and amortised over the assets' useful lives which is three to five years. The value of the intangible asset is the original acquisition cost less any accumulated depreciation and impairment losses. If the previous criteria are not fulfilled, the development cost is expensed as incurred.

Maintenance and renovation expenditure

Normal repair, maintenance and servicing costs are expensed as incurred with the exception of large renovation expenditures which have been capitalised in the acquisition cost.

Leasing

Lease payments are expensed in the income statement and leased assets are not included in the fixed assets.

Inventory

Inventories are measured at acquisition cost, average acquisition cost or probable realisation value, whichever is lower.

Cash and cash equivalents

Cash and cash equivalents include bank accounts and other assets equivalent to cash.

Pension schemes

Itella Corporation's statutory pension coverage is provided by Ilmarinen Mutual Pension Insurance Company. Supplementary pension coverage (for those in the long-time service of Post and Telecommunications) is provided by OP Life Assurance Company Ltd.

Notes to the Financial Statements of the Parent Company, FAS

Extraordinary income and expenses

Extraordinary income and expenses include transactions that do not specifically belong in the scope of the business activity of the company but are notable in size, incl. group contributions.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made. Provisions for restructuring are recognised when the related, detailed and official plan has been approved and disclosed.

Income taxes

Income tax includes tax calculated on the profit for the current financial year as well as tax adjustments for previous financial years.

Deferred taxes are calculated using the tax rate effective on the balance sheet date. A deferred tax asset is recognised to the extent that it appears probable that future taxable profit will be available against which the temporary difference can be utilised.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into euros at the exchange rate quoted on the transaction date.

Receivables and liabilities in foreign currencies are translated into euros using the average exchange rate quoted on the balance sheet date by the European Central Bank. The exchange rate gains or losses arising from the business operations are recognised as adjustments of net sales and purchases. The exchange rate gains and losses arising from financial instruments are included in the financial income and expenses.

Measurement of financial instruments

Investments in bonds and commercial papers have been measured at fair value at the market rates quoted on the balance sheet date. The fair values of currency forward contracts are based on the forward prices quoted on the balance sheet date. The fair value of interest-rate swaps equals the present value of future interest cash flows. Other investments are equity fund investments measured at the fair value on the balance sheet date notified by the fund manager or the latest available fair value.

Derivative contracts and hedge accounting

Derivative contracts are initially recognized at the fair value of the date the derivative contract was concluded. Subsequently, their value is re-valuated to their fair value on the balance sheet date. Profit 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 company recognizes derivative contracts as hedges (fair-value hedge) of either assets or fixed liabilities recorded on the balance sheet or as derivative contracts, which do not meet the conditions for applying hedge accounting.

When commencing hedge accounting, the company documents 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 hedging measures. When commencing hedging, and at least in connection with each closing of the books, the company documents and assesses the effectiveness of the hedging relationship by inspecting the hedge instrument's ability to offset the fair value of the hedged item.

Changes in the fair value of derivatives that meet the conditions and determined as fair-value hedges as well as changes in the fair value of a property item attributable to the hedged risk or the fair value of a loan are recognized in the income statement. The company has applied the fair-value hedge accounting for hedging against fixed-rate loans as of January 1, 2011. Changes in the fair value of a derivatives contract hedging against a fixed-rate loan and changes in fair value attributable to the interest rate risk of a hedged fixed-rate loan are shown in financial items.

The fair values of derivatives are determined on the basis of the market values of similar derivatives or standard valuation models. The fair value of currency forward contracts is the market quotation on the balance sheet date and the fair value of interest-rate swaps is the present value of future interest cash flows.

1. Net sales by geographical market

EUR million	2012	2011
Net sales by geographical market		
Finland	**56.9**	**50.9**
Scandinavia	3.7	2.7
Baltic and Russia	1.7	1.0
Other countries	1.1	1.1
Total	**63.5**	**55.7**

2. Other operating income

EUR million	2012	2011
Gains on sale of fixed assets	0.3	0.1
Rental income	0.1	0.1
Gain on merger	0.6	-
Other operating income	8.3	7.5
Total	**9.3**	**7.7**

3. Materials and services

EUR million	2012	2011
Purchases during the financial period	0.0	0.3
Change in inventories	0.1	-0.2
External services	0.0	0.1
Total	**0.2**	**0.2**

4. Personnel expenses

EUR million	2012	2011
Wages and salaries	33.5	23.4
Pension expenses	5.1	3.6
Other social expenses	1.9	3.6
Total	**40.5**	**30.6**
Management remuneration		
President and CEO	0.5	0.5
Executive Board (excl. CEO)	1.2	1.7
Board of Directors	0.3	0.3
Supervisory Board	0.0	0.1
Total	**2.1**	**2.6**

	2012	2011
Average number of personnel during the financial period		
Administrative employees	381	345
Employees	6	5
Total	**387**	**350**

5. Depreciation, amortisation and impairment losses

EUR million	2012	2011
Depreciation and amortisation according to plan		
Development costs	-	0.1
Intangible rights	2.4	2.3
Machinery and equipment	2.7	3.4
Total	**5.1**	**5.8**

6. Other operating expenses

EUR million	2012	2011
Lease expenses	4.6	4.5
Losses on sale of fixed assets	0.0	2.0
Personnel related costs	1.1	0.8
Traveling expenses	1.4	1.1
Marketing expenses	1.8	1.7
Entertainment expenses	0.3	0.3
Facility maintenance expenses	0.1	0.1
Security expenses	0.0	0.0
Office and administrative expenses	7.3	5.9
IT operating costs	41.0	35.7
Loss on merger	19.7	-
Other operating expenses	3.1	1.4
Total	**80.5**	**53.6**

7. Auditors' remuneration

EUR million	2012	2011
Audit	0.1	0.1
Tax counseling	0.1	0.0
Other services	0.1	0.0
Total	**0.3**	**0.1**

Notes to the Financial Statements of the Parent Company, FAS

8. Financial income and expenses

EUR million	2012	2011
Dividends received		
From Group companies	2.9	-
From associated companies	0.0	-
From others	0.1	-
Total	**3.0**	**-**
Other interest and financial income		
From Group companies	11.0	12.8
Gains from currency exchange	15.6	14.7
Other interest income from others	6.7	6.1
Other financial income from others	4.1	2.9
Total	**37.4**	**36.5**
Total financial income	**40.5**	**36.5**
Interest and other financial expenses		
To Group companies	1.1	1.7
Losses on currency exchange	13.2	16.5
Other interest expenses to others	16.6	13.4
Other financial expenses to others	3.2	4.0
Total	**34.1**	**35.6**
Impairment losses on non-current assets		
Impairment losses on group interests/receivables on Group companies	47.2	67.0
Impairment losses on financial securities	0.0	-
Total	**47.3**	**67.0**
Impairment on shares in subsidiaries and loan receivables from subsidiaries are caused by the subsidiaries' decreased earnings capacity.		
Total financial expenses	**81.4**	**102.6**
Total financial income and expenses	**-40.9**	**-66.1**
Financial income and expenses including gains and losses on currency exchange (net)	**2.4**	**-1.7**

9. Extraordinary items

EUR million	2012	2011
Group contributions received	98.2	64.6
Group contributions distributed	-1.2	-6.0
Total	**97.0**	**58.6**

10. Income tax

EUR million	2012	2011
Income tax on extraordinary items	23.8	15.2
Income tax on business activities	-7.6	-6.1
Income tax from previous years	0.3	0.1
Change in deferred tax assets	-0.4	0.1
Total	**16.0**	**9.3**

11. Intangible assets

EUR million	2012	2011
Development costs		
Cost 1 Jan	4.1	4.1
Cost 31 Dec	**4.1**	**4.1**
Accumulated amortisation 1 Jan	4.1	4.0
Amortisation for the financial period	-	0.1
Accumulated amortisation 31 Dec	**4.1**	**4.1**
Book value 31 Dec	**0.0**	**0.0**
Intangible rights		
Cost 1 Jan	25.7	49.3
Additions	2.7	2.1
Disposals	-0.1	-2.1
Disposals in transfer of business	-	-23.6
Transfers between items	0.4	-
Cost 31 Dec	**28.6**	**25.7**
Accumulated amortisation 1 Jan	20.2	34.0
Accumulated amortisation on disposals	-0.1	-2.1
Accumulated depreciation in transfer of business	-	-14.0
Amortisation for the financial period	2.4	2.3
Accumulated amortisation 31 Dec	**22.5**	**20.2**
Book value 31 Dec	**6.1**	**5.5**

EUR million	2012	2011
Goodwill		
Cost 1 Jan		8.6
Disposals in transfer of business		-8.6
Cost 31 Dec		**0.0**
Accumulated amortisation 1 Jan		6.6
Accumulated depreciation in transfer of business		-6.6
Accumulated amortisation 31 Dec		**0.0**
Book value 31 Dec		**0.0**
Other capitalised non-current expenses		
Cost 1 Jan		1.4
Disposals in transfer of business		-1.4
Cost 31 Dec		**0.0**
Accumulated depreciation 1 Jan		1.1
Accumulated depreciation in transfer of business		-1.1
Accumulated amortisation 31 Dec		**0.0**
Book value 31 Dec		**0.0**
Prepayments		
Cost 1 Jan	1.0	2.9
Additions	4.8	1.0
Disposals in transfer of business	-	-2.9
Transfers between items	-0.4	-
Cost 31 Dec	**5.5**	**1.0**
Book value 31 Dec	**5.5**	**1.0**
Total intangible assets	**11.6**	**6.5**

12. Tangible assets

EUR million	2012	2011
Land and water		
Cost 1 Jan	0.9	40.0
Disposals in transfer of business	-	-39.1
Cost 31 Dec	**0.9**	**0.9**
Book value 31 Dec	**0.9**	**0.9**

EUR million	2012	2011
Buildings and structures		
Cost 1 Jan		293.1
Disposals in transfer of business		-293.1
Cost 31 Dec		**0.0**
Accumulated depreciation 1 Jan		117.9
Accumulated depreciation on disposals and transfers		-117.9
Accumulated depreciation 31 Dec		**0.0**
Book value 31 Dec		**0.0**
Machinery and equipment		
Cost 1 Jan	21.0	227.2
Additions	2.8	2.8
Disposals	-1.4	-2.4
Disposals in transfer of business	-	-206.6
Cost 31 Dec	**22.4**	**21.0**
Accumulated depreciation 1 Jan	16.4	126.4
Accumulated depreciation on disposals and transfers	-1.4	-2.4
Accumulated depreciation in transfer of business	-	-111.0
Depreciation for the financial period	2.7	3.4
Accumulated depreciation 31 Dec	**17.7**	**16.4**
Book value 31 Dec	**4.6**	**4.6**
Other tangible assets		
Cost 1 Jan	1.2	4.7
Additions	0.0	-
Disposals in transfer of business	-	-3.6
Cost 31 Dec	**1.2**	**1.2**
Accumulated depreciation 1 Jan	0.1	2.3
Accumulated depreciation in transfer of business	-	-2.2
Accumulated depreciation 31 Dec	**0.1**	**0.1**
Book value 31 Dec	**1.1**	**1.1**
Work in progress		
Cost 1 Jan	0.0	13.8
Additions	0.1	-
Disposals in transfer of business	-	-13.8
Cost 31 Dec	**0.1**	**0.0**
Book value 31 Dec	**0.1**	**0.0**
Total intangible assets	**6.7**	**6.6**

Notes to the Financial Statements of the Parent Company, FAS

13. Investments

EUR million	2012	2011
Shares in Group companies		
Cost 1 Jan	930.1	564.5
Additions	58.2	369.8
Disposals	-27.9	-2.3
Disposals in transfer of business	-	-1.8
Cost 31 Dec	**960.4**	**930.1**
Accumulated impairment losses 1 Jan	214.0	153.0
Impairment losses in transfer of business	-	-1.1
Impairment losses	46.3	62.3
Reversals of impairments	-1.8	-0.1
Book value 31 Dec	**701.9**	**716.1**
Shares in associated companies		
Cost 1 Jan	0.6	15.4
Disposals	-0.1	-1.8
Disposals in transfer of business	-	-13.0
Cost 31 Dec	**0.5**	**0.6**
Share of profits or losses 1 Jan	1.3	1.3
Accumulated impairment losses 1 Jan	-1.1	7.5
Impairment losses in transfer of business	-	-7.8
Reversals of impairments	-	-0.8
Book value 31 Dec	**0.3**	**0.4**
Other shares and holdings		
Cost 1 Jan	6.7	14.1
Additions	-	5.0
Disposals	-	-0.3
Disposals in transfer of business	-	-12.1
Cost 31 Dec	**6.7**	**6.7**
Accumulated impairment losses 1 Jan	0.7	6.1
Impairment losses in transfer of business	-	-5.3
Reversals of impairment losses	-	-0.2
Book value 31 Dec	**6.0**	**6.0**

EUR million	2012	2011
Receivables from Group companies		
Capital loan receivables		
Cost 1 Jan	94.1	127.4
Additions	-	20.5
Disposals	-0.9	-53.8
Cost 31 Dec	**93.2**	**94.1**
Accumulated impairment losses 1 Jan	52.8	51.9
Impairment losses	-	0.9
Reversals of impairment losses	-0.9	-
Book value 31 Dec	**41.3**	**41.3**
Receivables from others		
Capital loan receivables		
Cost 1 Jan		
Additions	1.5	
Cost 31 Dec	**1.5**	
Book value 31 Dec	**1.5**	
Total investments	**751.0**	**763.8**

14. Inventories

EUR million	2012	2011
Materials and consumables	0.0	0.2
Prepayments	0.1	0.0
Total	**0.1**	**0.2**

15. Non-current receivables

EUR million	2012	2011
Receivables from Group companies		
Loan receivables	193.8	192.5
Total	**193.8**	**192.5**
Receivables from others		
Loan receivables	0.9	0.9
Other receivables	0.1	-
Deferred tax assets	1.3	0.8
Other accrued income and prepayments	6.9	4.8
Total	**9.1**	**6.4**
Total non-current receivables	**203.0**	**198.9**

16. Current receivables

EUR million	2012	2011
Receivables from Group companies		
Trade receivables	6.3	3.6
Loan receivables	19.0	23.8
Interest receivables	23.4	18.1
Other receivables	0.0	0.6
Prepayments and accrued income	98.3	65.1
Total	**147.0**	**111.2**
Receivables from others		
Trade receivables	0.0	-
Other receivables	0.7	2.8
Prepayments and accrued income	6.0	8.0
Total	**6.7**	**10.8**
Total current receivables	**153.7**	**121.9**
Key items in prepayments and accrued income		
Interest receivables	2.3	2.0
Tax assets	0.1	2.9
Other prepayments and accrued income	3.6	3.1
Total	**6.0**	**8.0**

17. Fair value and change in fair value by financial instrument

EUR million	2012	2011
Investments in bonds and notes	54.1	48.2
Change in fair value recognized in the income statement	2.0	0.0
Investments in commercial papers	46.8	83.3
Change in fair value recognized in the income statement	0.0	0.0
Currency derivatives	-1.3	1.3
Change in fair value recognized in the income statement	2.5	3.3
Interest rate derivatives	6.9	4.8
Change in fair value recognized in the income statement	-2.1	2.9
Other investments	0.8	1.5
Change in fair value recognized in the fair value reserve	-0.4	0.1
which the deferred tax	0.1	0.0

18. Restricted equity

EUR million	2012	2011
Share capital 1 Jan	70.0	70.0
Share capital 31 Dec	**70.0**	**70.0**
Fair value reserve and other reserves 1 Jan	0.1	0.0
Profit or loss at fair value, other current investments	-0.3	0.1
Fair value reserve 31 Dec	**-0.2**	**0.1**
Restricted equity total	**69.8**	**70.1**
Unrestricted equity		
Other reserves 1 Jan	142.7	142.7
Other reserves 31 Dec	**142.7**	**142.7**
Retained earnings 1 Jan	494.2	543.2
Dividend distribution	-	-4.4
Negative depreciation difference on transfers of business	-	-1.1
Retained earnings 31 Dec	**494.2**	**537.7**
Profit/loss for the financial year	**-13.4**	**-43.5**
Total unrestricted equity	**623.5**	**636.9**
Total equity	**693.3**	**707.0**
Calculation of distributable equity 31 Dec		
Other reserves	142.7	142.7
Retained earnings	494.2	537.7
Profit/loss for the financial period	-13.4	-43.5
Total	**623.5**	**636.9**

19. Provisions for liabilities and charges

EUR million	2012	2011
Pension provisions	0.3	0.3
Restructuring provision	0.6	0.7
Total	**0.9**	**1.0**

Notes to the Financial Statements of the Parent Company, FAS

20. Deferred tax liability and assets

EUR million	2012	2011
Deferred tax assets		
From provisions for liabilities and charges	0.2	0.2
From impairments	0.2	0.2
From temporary differences	0.8	0.3
Total	**1.3**	**0.8**
Deferred tax liability		
Measured at fair value	-	0.0
Total	**-**	**0.0**

21. Non-current liabilities

EUR million	2012	2011
Bond	253.9	251.7
Pension liabilities	12.5	37.5
Deferred tax liability	-	0.0
Other non-current liabilities	3.9	0.0
Total	**270.3**	**289.3**
Liabilities, maturity more than 5 years		
Bond	-	99.4
Total	**-**	**99.4**

22. Current liabilities

EUR million	2012	2011
Amounts owed to Group companies		
Trade payables	0.9	-
Interest liabilities	1.8	1.1
Other liabilities	210.2	180.6
Accruals and deferred income	2.8	7.7
Total	**215.7**	**189.3**

EUR million	2012	2011
Amounts owed to others		
Pension liabilities	25.0	25.0
Trade payables	5.5	6.8
Other liabilities	2.4	2.7
Accruals and deferred income	14.6	9.9
Total	**47.5**	**44.5**
Total current liabilities	**263.2**	**233.8**
Key items in other liabilities		
Liabilities of payroll	1.0	1.0
Other liabilities	1.4	1.7
Total	**2.4**	**2.7**
Key items in accruals and deferred income		
Accruals of personnel expenses	10.4	6.7
Interest rate items	1.8	2.3
Tax liabilities	0.7	-
Other accruals and deferred income	1.6	1.0
Total	**14.6**	**9.9**
Interest-bearing liabilities		
Non-current liabilities	266.4	289.2
Current liabilities	74.6	74.3
Total	**341.0**	**363.5**

23. Assets pledged, commitments and other responsibilities

EUR million	2012	2011
Pledges given for Group companies		
Guarantees	120.6	35.2
Total	**120.6**	**35.2**
Other pledges given for others		
Guarantees	0.0	-
Other securities	0.1	-
Total	**0.1**	**-**
Lease contracts unpaid amounts		
Payable within one year	1.3	0.6
Payable in later years	0.9	0.7
Total	**2.2**	**1.3**
Remaining lease commitments	**0.0**	**0.1**

Other responsibilities

Economic responsibilities

Itella Corporation has issued a commitment to provide capital to its subsidiary Itella Bank Ltd so that the company's equity will be at least EUR 10 million or, if the law requires a higher level of equity, at least at the level required by law.

Itella's contract customers have filed a claim with the District Court of Helsinki for Itella Corporation and Itella Posti Oy to jointly and severally refund approximately EUR 94 million worth of paid value added taxes. The District Court's decision in the summer of 2011 favored Itella. The Helsinki Court of Appeal overturned the District Court's decision and referred the case back to the District Court, where the proceedings were initiated in 2012. Itella considers the customers' claims to be wholly without merit.

EUR million	2012	2011
Derivative contracts		
Currency forward contracts		
Fair value	-1.3	1.3
Nominal value	121.4	126.8
Interest rate swaps		
Fair value	6.9	4.8
Nominal value	70.0	70.0

Derivative instruments are used for hedging the foreign exchange rate risk and they are valued at the market rates available on the balance sheet date. Currency forward contracts are used to hedge against currency-denominated receivables and payables. As a rule, transaction positions arising from subsidiary financing are hedged fully. A portion of the company's fixed-interest loan was converted to variable-interest loan with an interest-rate swap.

Board of Directors' proposal

BOARD OF DIRECTORS' PROPOSAL TO THE ANNUAL GENERAL MEETING

According to the financial statements for 2012, the parent company's distributable profits total EUR 623,460,452.09 of which net loss for the financial year accounts for EUR 13,437,847.83.

No material changes in the company's financial standing since the end of the financial period, nor does the solvency test, as referred to in Section 13(2) of the Finnish Limited Liability Companies Act, affect the proposed distributable profits.

The Board of Directors proposes to the Annual General Meeting that the distributable funds be allocated as follows:

- a dividend of EUR 0.17 to be paid per share, or a total of EUR 6,800,000.00
- retaining EUR 616,660,452.09 under shareholders' equity

Signatures of the Board of Directors' Report and the Financial Statements

Helsinki, 13 February 2013

Arto Hiltunen
Chairman

Päivi Pesola
Vice Chairman

Ilpo Nuutinen

Hele-Hannele Aminoff

Jussi Kuutsa

Timo Löyttyniemi

Riitta Savonlahti

Maarit Toivanen-Koivisto

Heikki Malinen
President and CEO

Auditor's Report

To the Annual General Meeting of Itella Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Itella Corporation for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Supervisory Board and the Board of Directors as well as the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki, 13 February 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant

Statement by the Supervisory Board

At its meeting today, the Supervisory Board of Itella Corporation has considered Itella Corporation's Board of Directors' Report , Financial Statements and the Auditors' Report for 2012.

The Supervisory Board proposes to the 2013 Annual General Meeting that the Income Statement and Balance Sheet for 2012 be adopted, and concurs with the proposal made by the Board of Directors on disposal of the profit.

Helsinki, 14 February 2013

Mauri Pekkarinen
Chairman of the Supervisory Board

Key Figures of Itella Group

	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008
Operations					
Net sales, MEUR	1,946.7	1,900.1	1,841.6	1,819.7	1,952.9
Personnel 31 Dec.	27,816	27,585	29,022	29,568	31,672
Personnel on average	27,460	28,493	28,916	30,217	28,163
Capital expenditure, MEUR	134.7	102.9	89.5	144.9	351.5
% of net sales	6.9	5.4	4.9	8.0	18.0
Profitability					
Operating result (Non-IFRS), MEUR *)	53.2	30.5	49.6	86.3	95.1
% of net sales	2.7	1.6	2.7	4.7	4.9
Operating result (EBIT), MEUR	39.0	-5.9	32.4	46.7	69.0
% of net sales	2.0	-0.3	1.8	2.6	3.5
Result before tax, MEUR	30.8	-16.4	25.3	19.6	46.6
% of net sales	1.6	-0.9	1.4	1.1	2.4
Result for the financial period, MEUR	14.1	-30.7	9.3	-4.6	18.6
% of net sales	0.7	-1.6	0.5	-0.3	1.0
Balance sheet and key ratios					
Equity, MEUR	688,4	664.9	704.2	677.2	696,3
Total assets, MEUR	1,509.7	1,465.3	1,412.1	1,408.1	1,370.5
Return on equity, %	2.1	-4.5	1.4	-0.7	2.6
Return on investment, %	4.8	-0.2	4.2	5.8	12.4
Equity ratio, %	46.4	46.1	50.5	48.5	51.1
Gearing, %	23.4	22.1	18.4	19.7	14.8

*) *Non-IFRS = excluding non-recurring items*

Calculation of key figures (IFRS)

$$\text{Return on equity, \%} \quad 100 \times \frac{\text{profit for financial period}}{\text{total equity (average for the financial period)}}$$

$$\text{Return on investment, \%} \quad 100 \times \frac{\text{profit before income tax + interests and other financial expenses}}{\text{total assets - non-interest-bearing liabilities (average for the financial period)}}$$

$$\text{Equity ratio, \%} \quad 100 \times \frac{\text{total equity}}{\text{total assets - advances received}}$$

$$\text{Gearing, \%} \quad 100 \times \frac{\text{interest-bearing liabilities - cash and cash equivalents - interest bearing receivables}}{\text{total equity}}$$

JOUTSEN-
MERKKI

Itella Corporation – Financial Statements 2012
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Investor Relations

Financial communications and principles

Our financial reports follow the International Financial Reporting Standards. As an issuer of two publicly listed bonds, we are obligated to disclose periodic information to a limited extent.

The first EUR 150 million bond was issued in November 2009 and listed on the stock exchange in December 2009, whereas the second EUR 100 million bond was issued in November 2011 and listed on the stock exchange in January 2012.

This disclosure obligation is based on the Finnish Securities Market Act and the rules and regulations of NASDAQ OMX Helsinki Oy. We fulfill our obligation to disclose periodic information by publishing our financial statements and interim reports (quarterly) as stock exchange releases.

Our financial communications policy is available in full at www.itella.com/financials.

Financial calendar in 2013:

Financial Statements for 2012: February 15
January–March: April 29
April–June: July 24
July–September: October 30

Silent period

Itella has a silent period of 21 days before each quarterly financial report announcement. During the silent period Itella refrains from making any contacts or comments to investors, analysts and the media about the company's business prospects or financial results.

Annual General Meeting

Itella Corporation's Annual General Meeting in 2012 was held on March 14, 2012. Itella deviates from the Finnish Corporate Governance Code in that notices concerning its Annual General Meeting and the notes thereto are not published on its webpages since, as a State-owned company, it has only a single shareholder.

The tasks and resolutions of the General Meeting are available on the Internet at www.itella.com/agm.

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