Itella Corporation Financial Statements Release 2011

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Itella Corporation's Financial Statements and Board of Directors' Report 2011

October–December 2011

- Itella Group's net sales grew by 1.8% in October–December to EUR 518.1 (508.9) million. Net sales developed positively in all business groups.
- Operative result improved: operating profit (non-IFRS) before non-recurring items amounted to EUR 23.5 million (EUR 17.7 million), 4.5% (3.5%) of net sales. Operating profit before non-recurring items grew to EUR 32.8 (20.6) million in Itella Mail Communications and fell to EUR -0.9 (3.5) million in Itella Information and to EUR -1.3 (0.9) million in Itella Logistics.
- Operating profit in the fourth quarter grew by 24.6% from the previous year, representing a profit of EUR 19.8 (15.9) million, or 3.8% (3.1%) of net sales. The period's performance was weighed down by non-recurring items to the amount of EUR 3.8 (1.8) million.

Year 2011

- Itella Group's net sales grew by 3.2%, to EUR 1,900.1 million (EUR 1,841.6 million). In local currencies, the increase in net sales was 2.9%. International operations accounted for 33% (32%).
- Operating profit (non-IFRS) before non-recurring items amounted to EUR 30.5 million (operating profit EUR 49.6 million), or 1.6% (2.7%) of net sales. Solvency remained on a good level.
- Operating loss, non-recurring items included, was EUR 5.9 million (operating profit 32.4), representing -0.3% of net sales (1.8%). The result was burdened by non-recurring items to the amount of EUR 36.4 (17.3) million, of which EUR 27.0 million related to personnel and the cost cutting program initiated by Itella in August 2011, EUR 16.6 million to a write-down of goodwill, and EUR -7.2 million to other items.
- Profit before taxes showed a loss of EUR 16.4 million (operating profit EUR 25.3 million).
- Net sales in Itella Mail Communications grew modestly (0.9%) and profitability decreased clearly.
- Itella Information's net sales grew by 5.4%, but the business group's operating result before non-recurring items decreased clearly.
- Itella Logistics' net sales grew by 8.0%, and operating loss before non-recurring items decreased from the year before.
- The Board of Directors will not propose the distribution of a dividend for 2011.
- The Finnish Parliament enacted the new Postal Services Act, and the law entered into force on June 1, 2011. Itella's subsidiary Itella Posti Oy has the license for universal service.

Key figures of Itella Group	2011	2010	2009
Net sales, MEUR	1,900.1	1,841.6	1,819.7
Operating result (Non-IFRS), MEUR *)	30.5	49.6	86.3
EBIT margin (Non-IFRS), % *)	1.6	2.7	4.7
Operating result (EBIT), MEUR	-5.9	32.4	46.7
EBIT margin, %	-0.3	1.8	2.6
Result before tax, MEUR	-16.4	25.3	19.6
Return on equity (12 months), %	-4.5	1.4	-0.7
Return on investment (12 months), %	-0.2	4.2	5.8
Equity ratio, %	46.1	50.5	48.5
Gearing, %	22.1	18.4	19.7
Gross capital expenditure, MEUR	102.9	89.5	144.9
Personnel on average	28,493	28,916	30,217
Dividends, MEUR	-	4.4	-

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

Jukka Alho, President and CEO:

"Itella now faces a new era. The impact of electronic communications shows especially in the decline of the print media's delivery volumes. For a long time now, we have prepared ourselves for the new competitive situation brought about by the Postal Services Act. The development has required Itella a continuous adaptation. The vital question of how to secure future funding for the universal service obligation remains unsettled. Itella's answer to this question is to develop its practices in accordance with customer needs and the income derived from customers. This involves an increase in the number of modern service outlets, particularly for the needs of e-commerce. However, it is also possible that the government will define service obligations, which need funding from the state.

Traditional postal operations are showing many positive signs as well, such as robust growth in Itella's parcel volumes, arising from the growth of online commerce. Itella's operating result grew during the final quarter of the year. The global financial crisis a couple of years ago still reflects the market, however, and our parcel volumes continue to remain below the levels of peak years. Itella will continue to invest heavily in the promotion and development of electronic services. The latest advancement on this front was the banking license, which, among other advantages, enables the development of solutions for the receiving and payment of e-invoices within Itella's online services.

Itella's profitability weakened and the result was burdened particularly by various non-recurring items regarding for example reduction in the workforce. In addition to that, in Itella Mail Communications the result was negatively affected by a clear reduction in the magazine and letter volumes. All of our business groups are in the process of focusing on their respective core areas of business. During the past few years, the company has been engaged in an active – at times even risky – search for growth. It is now time to review such ventures further and decide which investments show future promise and which ones to abandon. In Finland, for example, we have disposed of a part of Mail Communications' Customer Relationship Marketing activities. Regarding the Information business group, we are in the process of reviewing the operations in Germany. In respect of Itella Logistics, Swedish and Danish operations, in particular, face major challenges related to profitability, which demand systematic improvement measures. While Russian operations are still in need of further improvement, both our market position and operative development is on positive trend. All in all, Itella's current performance is not at a satisfactory level.

Itella's position, however, is sound. Thanks to active investment, we are considered an interesting alternative or, in some cases, the market leader in our chosen business segments in Finland and neighboring areas. The postal and logistics sectors are in the midst of a transition towards a multi-channel service model, one aspect of which involves the growth of online commerce. The standing and competitiveness of Logistics' service warehouses in the Nordic and the Baltic countries, and particularly Russia, is strong. Russia's WTO membership is expected to promote the growth of the logistics market in our operating area. Our Information business group has positioned itself as a unique global provider in demanding outsourcing projects involving financial management.

Even after this period of heavy investment, Itella's solvency remains good and we have been satisfied to note that, despite a difficult year, the operative cash flow of both the entire Group and all of our business groups is clearly in the black. On the basis of this perspective, the company's future outlook is not only challenging, but inspiring."

APPENDICES
Itella's Financial Statements Release and the Board of Directors' Report (PDF)
Corporate Governance Statement 2011

FURTHER INFORMATION
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DISTRIBUTION
NASDAQ OMX Helsinki
Key media
http://www.itella.com/about/financials/

FINANCIAL CALENDER 2012
Interim Report Q1/2012 May 3
Interim Report Q2/2012 July 25
Interim Report Q3/2012 October 31

PHOTOGRAPS AND LOGOS
http://www.itella.com/about/media/

***Itella Group** provides solutions for managing information and product flows. Itella operates in the fields of mail communications, logistics, and financial management in Europe and Russia. Net sales in 2011 amounted to EUR 1,900 million. The number of staff is approximately 27 500. Corporate services are delivered under the Itella brand, while the Posti brand is used for services targeted at consumers in Finland. More information is available online at www.itella.com/about.*

Itella Corporation
Board of Directors' Report 2011

Business environment 2011

Following the positive growth of the first half of the year, general economic uncertainty increased towards the end of the year, as the crisis in the euro zone deepened. Alongside the economic uncertainty, the postal industry is in the midst of a vast change. The significance of traditional postal services has changed and the change in demand attributable to electronic communications is evident in the clear drop of delivery volumes for printed communications. The 9 percent value added tax on newspapers and magazines, effective since the beginning of 2012, is expected to contribute to a further decline in volumes. In contrast, e-commerce grew throughout the year, culminating in record-high Christmas sales. This was evident in the increased parcel volumes of Itella Mail Communications.

The new Postal Act entered into force on June 1, 2011. In the new Act, universal service products are specified more clearly than before, and they are now exempt from VAT. The main principles of the universal service obligation remained basically the same. The Finnish Ministry of Transport and Communication established a working group to solve questions relating to the financing of universal services. The group's work will continue until the spring of 2012. The new Act requires the infrastructure of postal operations – including the postal code and the address register – to be opened to competing postal service companies. Currently, Itella Posti Oy is the sole operator in Finland with a universal service obligation.

Uncertainty returned to the logistics market. The short-term growth expectations of national economies and the logistics market alike are uncertain. The significance of transparent supply chains continues to grow, and IT solutions constitute an increasingly integral element of the management of the overall logistics and supply chains offered to customers. From the perspective of a logistics partner, this demands an ability to integrate the partner's systems and customers' ERP systems. The significance of value-added services in the outsourcing of logistics services has increased. In practice, this translates into the pre-delivery assembly, supplementation, and localization of products. At the same time, solutions designed for specific customer industries are increasing.

Itella Information's market in the printing business is shrinking in all countries of operation. Excess capacity and a decline in volumes have resulted in tough price competition. In contrast, the market for electronic business is growing, as paper flows are converted into electronic transactions. The outsourcing market for financial services is in its infancy. In addition to major IT companies with global resources, the market operatives include local and regional organizations that offer financial services. The objective of organizations interested in outsourced services is the possibility to focus on their core business and to accumulate direct cost savings.

Change program

In August, Itella initiated a large-scale cost cutting program with the objective of saving more than EUR 100 million over the next three years. Measures concerning the Lappeenranta mail center, Itella Customer Relationship Marketing, Posti's own shops, Itella's administrative functions, and Itella Information were carried out during the autumn. The change program's impact on the performance of each business group is presented in the results for the period.

October–December 2011

Itella Group's net sales in the fourth quarter amounted to EUR 518.1 million (EUR 508.9 million). The operating result was EUR 19.8 (15.9) million, or 3.8% (3.1%) of net sales. The period's performance was weighed down by non-recurring items to the amount of EUR 3.8 (1.8) million. Operating profit before non-recurring items amounted to EUR 23.5 million (EUR 17.7 million), representing 4.5% (3.5%) of net sales.
The operating result before taxes was EUR 16.7 (11.4) million.

Profit performance and net sales

Itella Group's net sales in 2011 totaled EUR 1,900.1 million (EUR 1,841.6 million), representing growth of 3.2%. In local currencies, the increase in net sales was 2.9%. Acquisitions did not have a significant impact on net sales performance. The Group's net sales increased in all business groups. The increase was 1.6% in Finland and 6.7% in other countries. International operations accounted for 33% (32%) of net sales.

The Group's operating profit before non-recurring items amounted to EUR 30.5 million (EUR 49.6 million), or 1.6% (2.7%) of net sales. The operating profit before non-recurring items decreased in Itella Mail Communications and Itella Information. The operating loss of Itella Logistics decreased from the previous year.

Financial performance in 2011 was clearly taxed by non-recurring items to the amount of EUR 36.4 (17.3) million, of which EUR 27.0 million related to personnel and the cost cutting program initiated by Itella in August 2011, EUR 16.6 million to a write-down of goodwill, and EUR -7.2 million to other items. The Group posted an operating loss of EUR 5.9 million (a profit of EUR 32.4 million), representing -0.3% (1.8%) of net sales. Operating profit decreased slightly in all business groups.

The Group's net financing costs came to EUR 10.6 (7.1) million. Net financing costs in 2010 were improved by a EUR 1.9 million revaluation gain from an interest rate swap. From the beginning of 2011, Itella has been applying fair value hedge accounting to this interest rate swap, which means that changes in fair value have no material effect on net financing costs.

The Group's performance after financing costs showed a loss of EUR 16.4 million (operating profit EUR 25.3 million). Income tax totaled EUR 14.2 (16.0) million.

The Group recorded a net loss of EUR 30.7 million for the period (net profit of EUR 9.3 million).
Return on equity stood at -4.5% (1.4%).

Key figures of Itella Group	2011	2010	2009
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Operating result (Non-IFRS), MEUR *)	30.5	49.6	86.3
EBIT margin (Non-IFRS), % *)	1.6	2.7	4.7
Operating result (EBIT), MEUR	-5.9	32.4	46.7
EBIT margin, %	-0.3	1.8	2.6
Result before tax, MEUR	-16.4	25.3	19.6
Return on equity (12 months), %	-4.5	1.4	-0.7
Return on investment (12 months), %	-0.2	4.2	5.8
Equity ratio, %	46.1	50.5	48.5
Gearing, %	22.1	18.4	19.7
Gross capital expenditure, MEUR	102.9	89.5	144.9
Personnel on average	28,493	28,916	30,217
Dividends, MEUR	-	4.4	-

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Itella Mail Communications

Itella Mail Communications' net sales increased by 0.9% to EUR 1,151.7 (1,141.8) million. The increase in net sales during the final quarter was largely attributable to the positive development in parcel volumes. The portion of Mail Communications' operations subject to the universal service obligation accounted for 10.9% (11.6%) of net sales, or EUR 125.1 (126.3) million.

A clear shift from first class letters to second class letters was evident during the period, and the total volume of addressed letters fell by 2% due to electronic substitution. The volume of electronic letters transmitted via NetPosti increased by 63% in comparison to the previous year. Direct marketing decreased due to increased competition. The decline in the delivery volumes of newspapers and magazines serves as an example of the change affecting the structure of communications in our society. Parcel services saw continued growth attributable to general market trends and particularly the popularity of online commerce. Simultaneously, Itella's market share in parcel services targeted at consumers grew during the second half of the year.

In 2011, the delivery volumes of mail items developed as follows in comparison with 2010:

- The total volume of addressed letter deliveries decreased by 2%
- Unaddressed direct marketing decreased by 11%
- Newspaper delivery volumes fell by 4%
- Magazine delivery volumes fell by 5%
- Parcel services increased by 7%
- Electronic letters increased by 63%

The operating result of Itella Mail Communications fell by -33.9% to EUR 31.4 (47.5) million. The operating result percentage was 2.7% (4.2%). The result of the review period was burdened by a total of EUR 18.4 (15.9) million of non-recurring items, the majority of which related to personnel adjustment measures EUR 16.1 (15.9) million.

Addressed letter communications constitute the most significant component of profitability in Mail Communications. Although the total volume of addressed letter communications fell only slightly (by -2%), profitability decreased due to a decline in average prices and the rigidity of the cost structure. Postal operations are largely based on fixed costs, which are not very flexible and do not respond rapidly to changes in demand. Performance in the first part of the year was also weakened by the postponement of increases in postage fees. This, in turn, was partly due to the fact that the new Postal Act entered into force later than planned.

The company's management expects the 9 percent value added tax imposed on newspapers and magazines as of the beginning of 2012 to have a negative impact on both the company's net sales and future performance.

Itella Posti Oy and Sanoma News have concluded an agreement concerning newspaper deliveries that ensures the continuance of early morning delivery work in the Helsinki metropolitan area and the Uusimaa region for a long time to come.

Itella Mail Communications' investments totaled EUR 33.3 (51.8) million. The largest single investment, EUR 19.3 million, involved delivery vehicles.

Itella Information

Itella Information's net sales grew by 5.4%, to EUR 273.7 million (EUR 259.7 million). The fourth-quarter increase in net sales amounted to 6.1%. Net sales increased primarily in Finland and the other Nordic countries as well as in central Eastern Europe. Net sales fell in the Baltic countries and Germany, mostly due to the decline in printing volumes. Net sales picked up in all product lines, particularly in the outsourcing services for financial management and due to the OpusCapita acquisition.

The business group's operating result before non-recurring items fell to EUR 3.2 (14.0) million. The profitability of the printing business decreased largely due to increased competition. The growth of financial management outsourcing services in Finland and the entry into new markets in Germany, Sweden, and Norway caused an additional burden on profitability during the growth phase. The profitability of German operations attests to a substantial need to improve performance, attributable to declining printing volumes. Remedial measures are under way. The period's performance was weighed down by non-recurring items to the amount of EUR 7.3 (1.2) million, primarily related to the large-scale cost cutting program initiated by Itella in August which, in the case of Itella Information, focused on Finland and Sweden. Furthermore, the Munich office in Germany was closed, resulting in a restructuring provision of EUR 3.5 million. The business group recorded an operating loss of EUR 4.1 million (a profit of EUR 12.8 million), representing -1.5% (4.9%) of net sales.

Itella Information's business structure and management models were reformed during the fall of 2011. The essential objective of the changes was to reinforce the company's growth, profitability, and market position, improve customer satisfaction, simplify the organizational structure, and increase transparency. The new organizational structure entered into force on January 1, 2012.

Itella Information's investments totaled EUR 30.0 (12.5) million, of which EUR 25.4 (6.5) million were attributable to acquisitions and EUR 4.6 (6.0) million to additions in production capacity.

During 2011, Itella Information expanded by acquiring the entire share capital of both the German company NewSource GmbH and OpusCapita Group Oy. The OpusCapita acquisition allows Itella to broaden its service offering to cover the automation of cash flows, a move that supports Itella's competitiveness as an innovative outsourcing partner creating added value for customers in the financial management sector. OpusCapita's net sales in 2010 were nearly EUR 17.5 million, and it has 134 employees. At the turn of June – July, Itella Information signed two important financial management outsourcing agreements in Sweden and Norway. At the end of the year, the business group sold its Danish subsidiary, Itella Information A/S, which produces printing and digitization services. The transaction did not have a significant impact on Itella Information's financial performance or personnel. The business group's operations in Russia were also discontinued during the fourth quarter of the year. The divestments will not have an effect on the overall service offering of Itella Information.

Itella Logistics

Itella Logistics' net sales grew by 8.0%, to EUR 731.6 million (EUR 677.3 million). Net sales developed positively in the units of Road Transport and Contract Logistics and in almost all countries of operation, especially in Finland, Russia, the Baltic countries, and Norway. The rate of growth slowed down during the fourth quarter of the year, when it stood at 2.5%.

The business group's operating loss before non-recurring items decreased from the year before, and stood at EUR 6.4 (10.6) million. Itella Logistics recorded a loss of EUR 15.7 million (operating loss of EUR 10.7 million), representing -2.1% (-1.6%) of net sales. Net sales before non-recurring items developed positively, particularly in Finland and Russia. Profitability remained in the black in the Air & Sea business line and improved in the Contract Logistics business line. Warehouse fill rate in the Moscow area is on a good level, but elsewhere in Russia, the economy is only beginning to recover from the financial crisis. The net sales of the Road Transport business line in Finland and Russia have increased and profitability has improved. Profitability in Sweden and Denmark is still in need of improvement, however, and remedial measures have been initiated.

Performance was weakened by non-recurring items totaling EUR 9.3 (0.1) million, the most significant of which was the EUR 15.4 million write-down of goodwill carried out in the Freight and Forwarding unit of Logistics. By the end of the year, Itella Logistics furthermore centralized its Danish warehousing operations to Kolding and Hvidovre, due to a tough competitive environment. During the final quarter of the period, non-recurring items included an accrual of valuation in respect of the contract price of the Russian logistics corporation NLC, acquired by Itella in 2008. The final contract price will be confirmed in March 2012. In addition, Itella Logistics began to unify its brand towards the end of the year. In the future, its operations in Russia will operate under the brand of Itella.

The business group's investments amounted to EUR 31.0 (11.4) million. In the second quarter, Itella started to build a new service warehouse in Orimattila. The total investment in the project, set for completion in June 2013, amounts to more than EUR 60 million, of which nearly EUR 20.8 million has been invested in projects already completed. A new service warehouse was taken into use in Yekaterinburg, Russia, during the final quarter. This warehouse accounted for approximately EUR 9.2 million of investments.

In October, Itella and VR Group announced the establishment of a joint study aiming to map possibilities for increasingly close cooperation in the sector of domestic groupage logistics. The study will also investigate the chances for deeper collaboration in Russian operations.

Key Figures of Business Groups

MEUR	10-12/2011	10-12/2010	Change	1-12/2011	1-12/2010	Change
Net sales						
Itella Mail Communications	323.1	320.5	0.8 %	1,151.7	1,141.8	0.9 %
Itella Information	71.3	67.2	6.1 %	273.7	259.7	5.4 %
Itella Logistics	189.9	185.3	2.5 %	731.6	677.3	8.0 %
Other activities	11.5	13.5	-14.8 %	55.8	55.0	1.4 %
Intra-Group sales	-77.7	-77.6	0.1 %	-312.7	-292.2	7.0 %
Itella Group	518.1	508.9	1.8 %	1,900.1	1,841.6	3.2 %
Operating result (Non-IFRS) *)						
Itella Mail Communications	32.8	20.6	59.5 %	49.8	63.5	-21.5 %
Itella Information	-0.9	3.5	neg	3.2	14.0	-77.0 %
Itella Logistics	-1.3	0.9	neg	-6.4	-10.6	-
Other activities	-7.0	-7.3	3.3 %	-16.1	-17.2	6.5 %
Itella Group	23.5	17.7	33.1 %	30.5	49.6	-38.5 %
Operating result						
Itella Mail Communications	28.2	19.9	41.4 %	31.4	47.5	-33.9 %
Itella Information	-6.4	2.3	neg	-4.1	12.8	neg
Itella Logistics	5.8	0.9	566.1 %	-15.7	-10.7	-46.4 %
Other activities	-7.8	-7.3	-8.1 %	-17.5	-17.2	-1.4 %
Itella Group	19.8	15.9	24.6 %	-5.9	32.4	neg
Operating result (Non-IFRS), % *)						
Itella Mail Communications	10.1 %	6.4 %		4.3 %	5.6 %	
Itella Information	-1.2 %	5.3 %		1.2 %	5.4 %	
Itella Logistics	-0.7 %	0.5 %		-0.9 %	-1.6 %	
Itella Group	4.5 %	3.5 %		1.6 %	2.7 %	
Operating result, %						
Itella Mail Communications	8.7 %	6.2 %		2.7 %	4.2 %	
Itella Information	-9.0 %	3.5 %		-1.5 %	4.9 %	
Itella Logistics	3.1 %	0.5 %		-2.1 %	-1.6 %	
Itella Group	3.8 %	3.1 %		-0.3 %	1.8 %	

*) Non-IFRS = excluding non-recurring items

Other activities of the Group

In August 2011, Itella's subsidiary Itella Bank Ltd. was granted a deposit bank license pursuant to the Finnish Credit Institution Act by the Financial Supervisory Authority. Itella Bank specializes in the transmission of payments and invoice data, particularly in relation to online commerce, parcel services, and other mail business. The starting point is extensive cooperation with both commercial operators and the banking sector. Customers can use the services of Itella Bank as a fixed feature of the other service offerings of Itella and its partners.

Itella Real Estate Oy began operations on January 1, 2011. The subsidiary manages all properties in Finland owned by Itella Group. In the autumn, company also initiated preparations to take over the management of the Group's properties abroad.

Business risks

The Group's risk management is based on the principles of Enterprise Risk Management (ERM), and covers all Group operations and forms an integral element of Itella's management and strategy processes. Risk identification, analysis, and management planning is carried out once a year as part of the Group's strategy process. The status of the risk profile and management measures are updated regularly once a year and whenever significant risks are identified or the profiles of major risks undergo material changes. The Group's risk portfolio is compared against the risk-bearing capacity based on a financial model developed within the Group. In 2011, the focus lay particularly on the increased improvement of the quality and the extent of the risk management process.

The most important strategic risks involve the markets, the business environment, business operations' ability to develop, and regulation. The principal operational risks, on the other hand, involve the profitability of business as well as business interruptions and other disruptive risks.

Strategic risks

Major market risks consist of the faster-than-expected rate with which traditional letters and print products have been substituted with electronic formats and any further unanticipated changes on this front. For several years now, Itella has prepared for this risk by systematically improving the productivity of its physical delivery network. During 2011, electronic substitution progressed at a slightly faster rate than anticipated.

This trend has also provided Itella with growth opportunities, which have been exploited in the multi-channel business of both Itella Information and Mail Communications. NetPosti and Itella Bank Ltd. have also introduced new solutions for electronic transactions, invoicing, and payment.

The past year also saw the considerable volatility of the financial markets becoming a strategic market risk. This turbulence and related serious disturbances could have an impact on the implementation of Itella's business plans.

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. 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.

Itella Information's ability to increase its market share in the market for outsourced financial processes involves a material strategic risk.

A possible failure in the management of corporate acquisitions and in the integration of the acquired companies and their operations to the Group would constitute both direct financial losses as well as a strategic risk that would constrain business development.

Another significant risk associated with Itella's business environment is the competition in addressed deliveries – set to increase as a result of the new Postal Services Act – which may lead to unexpectedly steep falls in prices. Itella's readiness to respond to changes in the competitive situation is maintained through the continuous development of the delivery network's quality and productivity. With regard to parcel deliveries, the company monitors competitors' activities and prepares for changes in the competitive situation by continually developing its own delivery network; the SmartPOST terminals deployed in Finland during 2011 being the most recent example of such measures.

The most significant business development risks are related to how well the standardization of IT systems and common practices progresses, particularly in Itella Logistics and Itella Information. The further development of the Group-wide IT infrastructure and the schedule of its international deployment also involves risks, as do IT resources and competence in general.

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 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 in various court instances. Should the courts not find in favor of Itella, the financial repercussions for the company will be considerable.

Operational risks

The rigidity of cost structures slows the improvement of profitability, especially in Finland; the universal service obligation presents a further constraint on the potential for increasing efficiency. As volumes decline, a new economic recession would further complicate the efforts to maintain profitability. The continuing decline in volumes in 2011 has made risks related to business profitability an increasingly important focus of attention for Itella's executive management.

The most significant business disruption risks involve the vulnerability of information security, networks, and the production infrastructure. In nature, these risks are operational and image-related.

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 personnel, business continuity, property, and liabilities are managed centrally. 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

The legal structure of Finnish operations changed on January 1, 2011, when postal operations in Finland were transferred under the new subsidiary, Itella Posti Oy, part of Itella Mail Communications. The operations of another subsidiary, Itella Real Estate Oy, began at the same time. This subsidiary is responsible for the Group's property management in Finland.

Itella Information grew with the acquisition of the entire share capital of the German company NewSource GmbH on April 1, 2011, and OpusCapita Group Oy, on July 1, 2011. The OpusCapita acquisition allows Itella to 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. On December 30, 2011, Itella Information sold the entire share capital of the Danish Information A/S.

On August 18, 2011, Itella Corporation acquired a minority interest (5.88%) in Oy Samlink Ab. Oy Samlink Ab is the banking system supplier of Itella's subsidiary, Itella Bank Ltd.

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 sold the entire share capital of Kiinteistöosakeyhtiö Tampereen Kuoppamäentie 3 a.

Kymppiposti Oy merged with its parent company Itella Corporation on April 1, 2011. A similar step was carried out in Poland on March 1, 2011, when Outsourcing Solutions Sp. z o.o. merged with its parent company, Itella Information Sp. z o.o.

On November 22, 2011, the sub-group NLC – a part of the business group of Itella Logistics – carried out the merger of OOO NLC companies OOO NSC and OOO NLC-SPb. On November 10, 2011, the sub-group sold its companies OOO Complex Logistics Service and OOO Logistics Service Center.

In accordance with an agreement signed on October 3, 2011, the printing and mailing services of Itella Mail Communications were sold to Mailhouse Oy and TP-Avuksenne Oy as a transfer of business on November 1, 2011.

Capital expenditure

Itella Group's capital expenditure totaled EUR 72.5 million (EUR 80.5 million). Acquisitions accounted for EUR 30.4 (9.0) million of the total expenditure. A total of 82% of capital expenditure was allocated to Finland. A more detailed account of capital expenditure is available in the financial reports of each business group.

Research and development

Itella's research and development expenditure in 2011 totaled EUR 14.0 million, or 0.7% of the Group's total operating expenses. The corresponding figures in 2010 and 2009 were EUR 9.5 million (0.5%) and EUR 8.1 million (0.5%), respectively.

The research themes in 2011 focused on the profitability of postal operations and the analysis of factors that influence it. Further activities included a survey of expectations concerning delivery services, the use of targeted and mass communications, the digitization of consumer invoicing, and the development of e-commerce.

The focal points of Group-level R&D work included multi-channel mail delivery and the large-scale deployment of various tools that promote innovation. Business group-specific development projects involved, among other initiatives, the development of deposit bank operations, electronic consumer services, the transportation order system, and service concepts for financial management.

Environmental impacts

The vast majority of 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% by the year 2020 (in proportion to net sales, reference year 2007). This target and the reporting system that supports it encompass all of Itella's business operations and countries of operation. The special focus of measures in 2011 was the improvement of properties' energy efficiency. The environmental management system has been certified in compliance with the ISO 14001 standard in 70% of the business (in proportion to the number of personnel).

Itella will publish a corporate responsibility report in pursuance of an annual report from the year 2011. Report contains a more detailed account also of environmental issues. The Group does not publish an environmental report certified by an independent third party.

Financial position

The consolidated net cash flow from operating activities increased and totaled EUR 85.7 (81.9) million before investments. Capital expenditure amounted to EUR 76.3 (81.7) million, of which acquisitions accounted for EUR 23.7 (1.4) million.

In December, Itella Corporation issued a domestic bond for EUR 100 million. The loan period is for six years and its fixed rate of interest is 4.625 percent. The bond was listed on the Helsinki Stock Exchange maintained by NASDAQ OMX Helsinki Ltd on January 16, 2012.

At the end of 2011, liquid assets amounted to EUR 190.7 (134.1) million, and undrawn committed credit facilities totaled EUR 120.0 (120.0) million. No commercial papers were in circulation at the end of the period (EUR 19.0 million). The Group's interest-bearing liabilities were EUR 335.4 (263.6) million. The equity ratio stood at 46.1% (50.5%) and gearing was 22.1% (18.4%).

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 on March 9, 2011, decided that the Board of Directors will be composed of 8 members and elected the following members: Arto Hiltunen, Economist (Chairperson), Päivi Pesola, Vice President (Vice Chairperson), Kalevi Alestalo, Financial Counselor, Hele-Hannele Aminoff, Managing Director, Jussi Kuutsa, Country Manager, Timo Löyttyniemi, Managing Director, Riitta Savonlahti, Executive Vice President, and Maarit Toivanen-Koivisto, President and CEO.

The AGM decided to set the number of Supervisory Board members at 12. MP Markku Pakkanen (Centre Party) was elected as a new member. Eero Lehti, MP (National Coalition Party) was re-elected as Chairperson of the Supervisory Board and Antti Rantakangas, MP (Centre party), as Vice Chairperson. The following Supervisory Board members were re-elected: Paavo Arhinmäki, MP (Left Alliance), Susanna Huovinen, MP (Social Democratic Party), Harri Jaskari, MP (National Coalition Party), Bjarne Kallis, MP (Christian Democrats), Johanna Karimäki, MP (National Coalition Party), Lauri Kähkönen, MP (Social Democratic Party), Outi Mäkelä, MP (National Coalition Party), Reijo Ojennus, Entrepreneur (True Finns), and Harry Wallin, Engine Driver (Social Democratic Party).

The Extraordinary General Meeting stated that Minister Paavo Arhinmäki (Left Alliance) had resigned from the Supervisory Board and appointed Sari Moisanen (Left Alliance) as a new member.

The authorized public accountants firm KPMG Oy was elected as Itella Corporation's auditor, with Authorized Public Accountant Pauli Salminen acting as the principal auditor.

Jukka Alho, M.Sc. (Tech.) acted as Itella Corporation's President and CEO in 2011.

Human Resources

At the end of 2011, Itella Group employed a staff of 27,585 (29,022), the average number being 28,493 (28,916). This corresponds to 21,736 (21,534) man-years if part-time employees are converted to full-time equivalents.

Personnel distribution was as follows:

Itella Mail Communications	17,883
Itella Logistics	7,088
Itella Information	2,259
Group and other activities	355

The number of employees working outside Finland at the end of the year was 6,462 (6,696), and the corresponding number of employees working in Finland was 21,123 (22,326). At the end of 2011, the parent company had 336 (20,511) employees. The parent company's average number of employees was 350 (20,269). The reason behind the major change in the parent company's number of personnel was that, on January 1, 2011, the majority of Itella Mail Communications' domestic operations, personnel included, transferred into Itella Posti Oy, the new subsidiary.

Group personnel	2011	2010	2009
Wages and salaries, MEUR	731.8	706.3	716.3
Employees on Dec. 31	27,585	29,022	29,568
Employees on average	28,493	28,916	30,217

The Group's personnel expenses increased by EUR 25.5 million, or by approximately 3.6% in comparison to the previous year. Personnel expenses included restructuring costs in the amount of EUR 27.0 (17.3) million.

At the end of the review period, the number of employees in Finland had decreased by 1,203 in comparison to the previous year. In Finland, the reductions in the number of personnel were attributable to the reductions in workforce related to the cost cutting program. In total, the reductions amounted to 740 man-years. Of this total, 460 man-years were reduced due to production-related and financial reasons, 166 through voluntary severance packages and pension schemes, and 69 through corporate transactions. The company also signed 645 new permanent employment contracts in Finland in 2011.

The profit for the period in 2011 and 2010 did not include an expense provision for the employee profit-sharing scheme.

Events after the reporting period

In January, Itella filed its report concerning the closure of postal outlets to the Finnish Communications Regulatory Authority. The report also included an account on the plans to increase the number of service points by 500 over a period of five years, in the form of SmartPOST terminals for example.

Outlook for 2012

Itella expects the Group's net sales to remain on the 2011 level, but development may suffer from a stronger reflection of economic uncertainty on consumer demand and due to tougher competition. In Finland, the net sales of Mail Communications are expected to experience a modest fall. The development is affected by customers' increasing use of electronic services. This reduces the delivery volumes of addressed items, first class letters in particular. The 9 percent value added tax, which entered into force at the beginning of 2012, is further expected to have a negative effect on net sales and financial performance. The competition enabled by the new Postal Services Act may also have an impact on both net sales and performance.

The conditions for improved performance do exist. Measures that increase productivity and efficiency, including the Group's three-year cost cutting program initiated in August, are expected to create the conditions needed to improve profitability. To secure profitability in the long term, the Group will continue to implement measures which may have non-recurring effects on the Group's financial performance.

The level of capital expenditure is expected to remain on the same level as in 2011. The volume and timing of investments and acquisitions will still remain under careful consideration.
Net cash flow from operating activities is expected to remain on the level of the past year.

Board of Directors' proposal to the AGM

According to the financial statements, the parent company's distributable funds total EUR 636,898,299.92, of which loss for 2011 accounts for EUR 43,520,092.45.

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 proposes to the Annual General Meeting that dividend not be paid and that the profit for the period be transferred to deductions from retained earnings.

Helsinki, February 16, 2012

Itella Corporation
Board of Directors

APPENDIX
Key figures of Itella Group
Comprehensive consolidated income statement
Consolidated balance sheet
Consolidated cash flow statement
Statement of changes in shareholders' equity
Notes to the consolidated financial statements

Key figures of Itella Group

	10-12 2011	10-12 2010	1-12 2011	1-12 2010
Net sales, MEUR	518.1	508.9	1,900.1	1,841.6
Operating result (Non-IFRS), MEUR *)	23.5	17.7	30.5	49.6
EBIT margin (Non-IFRS), % *)	4.5	3.5	1.6	2.7
Operating result (EBIT), MEUR	19.8	15.9	-5.9	32.4
EBIT margin, %	3.8	3.1	-0.3	1.8
Result before tax, MEUR	16.7	11.4	-16.4	25.3
Return on equity (12 months), %			-4.5	1.4
Return on investment (12 months), %			-0.2	4.2
Equity ratio, %			46.1	50.5
Gearing, %			22.1	18.4
Gross capital expenditure, MEUR	36.0	17.9	102.9	89.5
Personnel on average		28,603	28,493	28,916
Dividends, MEUR			-	4.4

*) Non-IFRS = excluding non-recurring items, see notes 2.

Consolidated Income Statement

EUR million	10-12 2011	10-12 2010	1-12 2011	1-12 2010	
Net sales	**518.1**	**508.9**	**1,900.1**	**1,841.6**	
Other operating income	14.2	3.9	25.5	14.5	
Share of associated companies' results	0.0	-0.1	0.1	0.1	
Materials and services	144.6	137.4	549.2	504.9	
Employee benefits	241.9	231.0	910.7	877.9	
Depreciation and amortisation	24.0	21.1	88.7	85.4	
Impairment losses	1.0	5.7	18.3	5.7	*)
Other operating expenses	101.1	101.6	364.7	349.8	
Operating result (EBIT)	**19.8**	**15.9**	**-5.9**	**32.4**	
% of net sales	3.8 %	3.1 %	-0.3 %	1.8 %	
Financial income and expenses	-3.1	-4.5	-10.6	-7.1	
Result before income tax	**16.7**	**11.4**	**-16.4**	**25.3**	
% of net sales	3.2 %	2.2 %	-0.9 %	1.4 %	
Income tax	-10.3	-3.9	-14.2	-16.0	
Result for the financial period	**6.4**	**7.5**	**-30.7**	**9.3**	
% of net sales	1.2 %	1.5 %	-1.6 %	0.5 %	
Result for the financial period attributable to					
Parent company shareholders	6.4	7.5	-30.7	9.3	
Non-controlling interest	0.0	0.0	0.0	0.0	
	6.4	**7.5**	**-30.7**	**9.3**	
Comprehensive Consolidated Income Statement					
Result for the financial period	**6.4**	**7.5**	**-30.7**	**9.3**	
Other items of comprehensive income					
Available-for-sale financial assets	0.0	0.0	0.1	0.0	
Translation differences	11.4	7.2	-3.4	20.0	
Comprehensive income for the financial period	**17.8**	**14.7**	**-34.0**	**29.3**	
Comprehensive income attributable to					
Parent company shareholders	17.8	14.7	-34.0	29.3	
Non-controlling interest	0.0	0.0	0.0	0.0	
	17.8	**14.7**	**-34.0**	**29.3**	

*) The non-current assets classified as held for sale in 2010 were shown in that year's income statement incorrectly as a discontinued operation. This method of presentation has been corrected in the financial statements for 2011 by transferring the impairment of EUR 5.7 million and the deferred tax asset of EUR 1.5 million recognized from the item on the correct rows of the income statement."

Consolidated Balance Sheet

EUR million	31 Dec 2011	31 Dec 2010
Non-current assets		
Goodwill	171.7	170.9
Other intangible assets	77.5	73.5
Investment property	3.8	4.1
Property, plant and equipment	664.1	684.6
Investments in associated companies	0.8	0.7
Other non-current investments	6.4	1.4
Non-current receivables	12.1	9.7
Deferred tax assets	12.0	14.8
Total non-current assets	**948.5**	**959.8**
Current assets		
Inventories	5.8	5.9
Trade and other receivables	299.1	290.0
Current tax assets	7.3	5.2
Financial assets available-for-sale	1.5	2.2
Financial assets at fair value through profit or loss	58.7	58.5
Cash and cash equivalents	132.0	75.6
Total current assets	**504.4**	**437.4**
Non-current assets classified as held for sale	**12.4**	**14.9**
Total assets	**1,465.3**	**1,412.1**
Equity		
Share capital	70.0	70.0
Contingency reserve	142.7	142.7
Fair value reserve	0.1	0.0
Translation differences	-4.2	-0.8
Retained earnings	456.3	492.2
Equity attributable to equity holders of the parent company	**664.9**	**704.1**
Equity attributable to equity holders of the non-controlling interest	0.0	0.0
Total equity	**664.9**	**704.2**
Non-current liabilities		
Deferred tax liabilities	53.1	50.4
Non-current interest-bearing liabilities	304.9	214.2
Other non-current liabilities	4.0	17.7
Non-current provisions	20.3	15.7
Defined benefit pension plan obligations	7.5	6.6
Total non-current liabilities	**389.8**	**304.7**
Current liabilities		
Current interest-bearing liabilities	30.5	49.4
Trade payables and other liabilities	372.1	351.2
Current tax liabilities	3.0	0.3
Current provisions	4.5	1.6
Total current liabilities	**410.1**	**402.6**
Liabilities associated with non-current assets classified as held for sale	**0.5**	**0.6**
Total liabilities	**800.4**	**707.9**
Total equity and liabilities	**1,465.3**	**1,412.1**

Consolidated Cash Flow Statement

EUR million	1-12 2011	1-12 2010
Result for the financial period	**-30.7**	**9.3**
Total adjustments	123.6	113.6
Change in net working capital	14.6	-7.6
Cash flow before financial items and income tax	**107.5**	**115.4**
Financial items (net)	-10.1	-8.3
Tax paid	-11.7	-25.1
Cash flow from operating activities (net)	**85.7**	**81.9**
Acquisition of subsidiaries less cash and cash equivalents	-23.7	-1.4
Purchase of intangible assets and property, plant and equipment	-52.6	-80.3
Proceeds from sale of intangible and tangible assets	6.5	4.2
Change in financial assets at fair value through profit or loss	1.9	20.2
Cash flow from other investments	1.1	1.2
Cash flow from investing activities (net)	**-66.8**	**-56.1**
Change in loans (net)	53.1	-22.6
Finance lease principal payments	-7.1	-8.3
Acquisition of non-controlling interest	-	-2.7
Dividends paid	-4.4	-0.1
Cash flow from financing activities (net)	**41.6**	**-33.7**
Change in cash and cash equivalents	**60.4**	**-7.9**
Cash and cash equivalents at period-start	**75.6**	**82.3**
Effect of changes in exchange rates	-4.1	1.2
Change in fair value of cash and cash equivalents	0.0	0.0
Cash and cash equivalents at period-end	**132.0**	**75.6**

Statement of Changes in Shareholders' Equity

EUR million	Equity attributable to equity holders of the parent company							
	Share capital	Contingency reserve	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 Jan 2010	**70.0**	**142.7**	**0.0**	**-20.7**	**483.6**	**675.6**	**1.6**	**677.2**
Dividends paid					-	-	-0.1	-0.1
Acquisition of non-controlling interest					-0.7	-0.7	-1.5	-2.2
Result for the financial period					9.3	9.3	0.0	9.3
Other items for the Comprehensive income								
Change in fair value reserve			0.0			0.0		0.0
Change in translation differences				20.0		20.0		20.0
Equity 31 Dec 2010	**70.0**	**142.7**	**0.0**	**-0.8**	**492.2**	**704.1**	**0.0**	**704.2**
Equity 1 Jan 2011	**70.0**	**142.7**	**0.0**	**-0.8**	**492.2**	**704.2**	**0.0**	**704.2**
Dividends paid					-4.4	-4.4		-4.4
Non-controlling interest						0.0	0.0	0.0
Result for the financial period					-30.7	-30.7		-30.7
Other change					-0.7	-0.7		-0.7
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
Equity 31 Dec 2011	**70.0**	**142.7**	**0.1**	**-4.2**	**456.3**	**664.9**	**0.0**	**664.9**

Notes

1. Accounting Principles

The Financial statements review was prepared in accordance with IAS 34 'Interim Financial Reporting' and in line with the same accounting principles as those used in Itella's financial statements for 2010. Itella has applied the currently valid IFRS standards and interpretations in the preparation of this interim report. The figures shown have been rounded, which is why the sum total of individual figures may differ from that shown here.

From January 1, 2011 Itella Group's accounting principles of certain financial instruments has been changed and Itella has started to apply fair value hedge accounting according to the IAS 39 for the interest rate swap hedging the fixed rate loan. The hedged item is Itella's fixed rate EUR 150 million bond of which EUR 70 million amount is in hedging relationship and the hedging instrument is the interest rate swap of EUR 70 million. The hedge is effective and it meets the IAS 39 criteria for fair value hedge accounting.

The information presented in this report is based on the audited Itella 2011 Financial Statements.

2. Segment Information

The reorganization of the parent company's legal structure implemented on January 1, 2011, and certain transactions previously handled as internal cost allocation between business operations will now be recorded as net sales charged by one Group company to another. This change will result in an increase in intra-group net sales and eliminations. These transactions are for example group's internal freight service and ICT service.

At the beginning of January 2011 electronic mailbox and archive service (Itella's service offered to consumers called Netposti) and also the payment service center in Kouvola relocated to Itella Mail Communications.

Comparative figures have been adjusted accordingly.

EUR million	**10-12 2011**	**10-12 2010**	**1-12 2011**	**1-12 2010**
Net sales by business segment				
Itella Mail Communications	323.1	320.5	1,151.7	1,141.8
inter-segment sales	-12.2	-10.7	-44.2	-41.6
Itella Information	71.3	67.2	273.7	259.7
inter-segment sales	-2.6	-3.1	-12.1	-11.2
Itella Logistics	189.9	185.3	731.6	677.3
inter-segment sales	-51.5	-50.4	-200.8	-184.6
Other operations	11.5	13.5	55.8	55.0
inter-segment sales	-11.4	-13.4	-55.5	-54.8
Total eliminations (Interim sales)	-77.7	-77.6	-312.7	-292.2
Total	**518.1**	**508.9**	**1,900.1**	**1,841.6**

EUR million	10-12 2011	10-12 2010	1-12 2011	1-12 2010
Operating result (EBIT) by business segment (Non-IFRS) *)				
Itella Mail Communications	32.8	20.6	49.8	63.5
Itella Information	-0.9	3.5	3.2	14.0
Itella Logistics	-1.3	0.9	-6.4	-10.6
Other operations	-7.0	-7.3	-16.1	-17.2
Total	**23.5**	**17.7**	**30.5**	**49.6**
Non recurring items by business segment				
Itella Mail Communications	4.6	0.6	18.4	15.9
Itella Information	5.5	1.2	7.3	1.2
Itella Logistics	-7.2	0.0	9.3	0.1
Other operations	0.8	0.0	1.4	0.0
Total	**3.8**	**1.8**	**36.4**	**17.3**
Operating result (EBIT) by business segment				
Itella Mail Communications	28.2	19.9	31.4	47.5
Itella Information	-6.4	2.3	-4.1	12.8
Itella Logistics	5.8	0.9	-15.7	-10.7
Other operations	-7.8	-7.3	-17.5	-17.2
Total	**19.8**	**15.9**	**-5.9**	**32.4**
Financial income and expenses	**-3.1**	**-4.5**	**-10.6**	**-7.1**
Result before income tax	**16.7**	**11.4**	**-16.4**	**25.3**

EUR million	31 Dec 2011	31 Dec 2010
Assets		
Itella Mail Communications	491.8	464.1
Itella Information	188.3	166.1
Itella Logistics	598.3	620.8
Other operations and unallocated	225.3	169.1
Eliminations	-38.5	-8.1
Total	**1,465.3**	**1,412.1**
Liabilities		
Itella Mail Communications	276.7	255.4
Itella Information	49.6	40.0
Itella Logistics	107.5	101.2
Other operations and unallocated	405.0	319.7
Eliminations	-38.4	-8.2
Total	**800.4**	**707.9**
Personnel at period-end		
Itella Mail Communications	17,883	19,007
Itella Information	2,259	1,879
Itella Logistics	7,088	7,660
Other operations	355	476
Total	**27,585**	**29,022**

*) Non-IFRS = excluding non-recurring items

4. Net Sales by Geographical Location

EUR million	10-12 2011	10-12 2010	1-12 2011	1-12 2010
Finland	350.0	347.1	1,275.3	1,255.8
Scandinavia	73.9	65.3	276.7	262.2
Baltic countries and Russia	61.4	63.2	221.0	202.0
Other countries	32.9	33.3	127.2	121.6
Total	**518.1**	**508.9**	**1,900.1**	**1,841.6**

5. Changes in Property, Plant and Equipment

EUR million	31 Dec 2011	31 Dec 2010
Carrying amount on 1 Jan	684.6	688.4
Additions	63.7	166.2
Disposals and transfers between items	-9.8	-119.1
Depreciation and Impairment	-69.1	-65.1
Translation differences	-5.3	14.2
Carrying amount at period-end	**664.1**	**684.6**

6. Consolidated Contingent Liabilities

EUR million	31 Dec 2011	31 Dec 2010
Securities for own behalf	19.4	18.4
Lease commitments	328.3	357.0

The district court has given its decision on the claim made by some Itella contract customers. According to the claim Itella should refund value added taxes for about 56 million euro. The court decision was positive to Itella but it has been appealed against in the court of appeal, the next court level. This application suggests to cancel the decision and demand the issue to be returned back to the district court process. The decision of the court of appeal is estimated to be given during the springtime 2012.

Derivative Contracts

EUR million	31 Dec 2011	31 Dec 2010
Currency derivatives		
Currency forward contracts, non-hedge accounting		
Fair value	1.3	-2.0
Nominal value	126.8	105.4
Interest rate derivates		
Interest rate swaps, hedge accounting		
Fair value	4.8	-
Nominal value	70.0	-
Interest rate swaps, non-hedge accounting		
Fair value	-	1.9
Nominal value	-	70.0

Derivative contracts were used to hedge against currency and interest rate risks. 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.

7. Related Party Transactions

Related party transactions were insignificant and there have been no material changes since the financial year 2010.