A challenging year

Financial Statements in Brief

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www.itella.com/annualreport2011

Board of Directors' Report 2011

Business environment

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.

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
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*

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

	2011	2010	Change
Net sales			
Itella Mail Communications	1,151.7	1,141.8	0.9%
Itella Information	273.7	259.7	5.4%
Itella Logistics	731.6	677.3	8.0%
Other activities	55.8	55.0	1.4%
Intra-Group sales	-312.7	-292.2	7.0%
Itella Group	**1,900.1**	1,841.6	3.2%
Operating result (Non-IFRS) *)			
Itella Mail Communications	49.8	63.5	-21.5%
Itella Information	3.2	14.0	-77.0%
Itella Logistics	-6.4	-10.6	..
Other activities	-16.1	-17.2	6.5%
Itella Group	**30.5**	49.6	-38.5%
Operating result			
Itella Mail Communications	31.4	47.5	-33.9%
Itella Information	-4.1	12.8	neg
Itella Logistics	-15.7	-10.7	-46.4%
Other activities	-17.5	-17.2	-1.4%
Itella Group	**-5.9**	32.4	neg
Operating result (Non-IFRS), % *)			
Itella Mail Communications	4.3%	5.6%	
Itella Information	1.2%	5.4%	
Itella Logistics	-0.9%	-1.6%	
Itella Group	**1.6%**	2.7%	
Operating result, %			
Itella Mail Communications	2.7%	4.2%	
Itella Information	-1.5%	4.9%	
Itella Logistics	-2.1%	-1.6%	
Itella Group	**-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 automatic parcel 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 Oy 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 Group'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 automatic parcel 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

Comprehensive Consolidated Income Statement

EUR million	Note	2011	2010
Net sales	1,3	**1,900.1**	**1,841.6**
Other operating income	4	25.5	14.5
Share of associated companies' results		0.1	0.1
Materials and services	5	549.2	504.9
Employee benefits	7	910.7	877.9
Depreciation and amortisation	9	88.7	85.4
Impairment losses	9	18.3	5.7*)
Other operating expenses	10	364.7	349.8
Operating profit (EBIT)		**-5.9**	**32.4**
Financial income	11	25.1	24.4
Financial expenses	11	-35.7	-31.4
Profit before income tax		**-16.4**	**25.3**
Income tax	12	-14.2	-16.0*)
Profit/loss for the financial period		**-30.7**	**9.3**
Result for the financial period attributable to			
Parent company shareholders		-30.7	9.3
Non-controlling interest		0.0	0.0
Comprehensive consolidated income			
Profit/loss for the financial period		**-30.7**	**9.3**
Other items of comprehensive income			
Available-for-sale financial assets		0.1	0.0
Translation diffrences		-3.4	20.0
Comprehensive income		**-34.0**	**29.3**
Comprehensive income attributable to			
Parent company shareholders		-34.0	29.3
Non-controlling interest		0.0	0.0

**) 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	Note	31 Dec 2011	31 Dec 2010
Non-current assets			
Goodwill	13	171.7	170.9
Other intangible assets	13	77.5	73.5
Investment property	14	3.8	4.1
Property, plant and equipment	15	664.1	684.6
Investments in associated companies	16	0.8	0.7
Other non-current investments	19	6.4	1.4
Non-current receivables	20	12.1	9.7
Deferred tax assets	21	12.0	14.8
Total non-current assets		**948.5**	**959.8**
Current assets			
Inventories	22	5.8	5.9
Trade receivables and other receivables	23	299.1	290.0
Current tax assets		7.3	5.2
Financial assets available-for-sale	24	1.5	2.2
Financial assets at fair value through profit or loss	25	58.7	58.5
Cash and cash equivalents	26	132.0	75.6
Total current assets		**504.4**	**437.4**
Non-current assets classified as held for sale	27	**12.4**	**14.9**
Total assets		**1,465.3**	**1,412.1**
Equity			
Share capital	28	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 non-controlling interest		0.0	0.0
Total equity		**664.9**	**704.2**
Non-current liabilities			
Deferred tax liabilities	21	53.1	50.4
Non-current interest-bearing liabilities	31	304.9	214.2
Other non-current liabilities	32	4.0	17.7
Non-current provisions	30	20.3	15.7
Defined benefit pension plan obligations	29	7.5	6.6
Total non-current liabilities		**389.8**	**304.7**
Current liabilities			
Current interest-bearing liabilities	31	30.5	49.4
Trade payables and other liabilities	32	372.1	351.2
Current tax liabilities		3.0	0.3
Current provisions	30	4.5	1.6
Total current liabilities		**410.1**	**402.6**
Liabilities associated with non-current assets classified as held for sale	27	**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	Note	2011	2010
Result for the financial period		-30.7	9.3
Adjustments:			
Depreciation and amortisation	9	88.7	85.4
Impairment losses	9	18.3	5.7
Gains on sale of intangible assets and PPE	4	-2.6	-1.3
Losses on sale of intangible assets and PPE	10	2.6	0.9
Financial income	11	-25.1	-24.4
Financial expenses	11	35.7	31.4
Income tax	12	14.2	16.0
Other adjustments		-8.2	-0.1
Cash flow before change in net working capital		**92.9**	**122.9**
Change in trade and other receivables		-6.4	-19.0
Change in inventories		0.0	0.6
Change in trade payables and other liabilities		12.7	16.1
Change in provisions		8.4	-5.3
Change in net working capital		**14.6**	**-7.6**
Cash flow from operating activities before financial items and income tax		**107.5**	**115.4**
Interests paid		-17.0	-13.8
Interests received		6.9	6.0
Other financial items		0.1	-0.6
Income tax paid		-11.7	-25.1
Cash flow from financial items and income tax		**-21.8**	**-33.4**
Cash flow from operating activities (net)		**85.7**	**81.9**
Purchase of intangible assets and property, plant and equipment (PPE)		-52.6	-80.3
Proceeds from sale of intangible assets and PPE		6.5	4.2
Acquisition of subsidiaries less cash and cash equivalents at acquisition date	2	-23.7	-1.4
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**
Repayment of current loans	31	-21.4	-22.6
Drawings of non-current loans	31	99.5	-
Repayment of non-current loans	31	-25.0	-
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 of cash and cash equivalents		**60.4**	**-7.9**
Cash and cash equivalents at period-start	26	**75.6**	**82.3**
Effect of change in exchange rates		-4.1	1.2
Change of fair value of cash and cash equivalents		0.0	0.0
Cash and cash equivalents at period-end	26	**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**	**704.1**	**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**

Key Figures of Itella Group

	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
Operations					
Net sales, MEUR	1,900.1	1,841.6	1,819.7	1,952.9	1,710.6
Personnel 31 Dec.	27,585	29,022	29,568	31,672	25,211
Personnel on average	28,493	28,916	30,217	28,163	25,623
Capital expenditure, MEUR	102.9	89,5	144.9	351.5	94.2
% of net sales	5.4	4.9	8.0	18.0	5.5
Profitability					
Operating result (Non-IFRS), MEUR *)	30.5	49.6	86.3	95.1	101.8
% of net sales	1.6	2.7	4.7	4.9	6.0
Operating result (EBIT), MEUR	-5.9	32.4	46.7	69.0	101.8
% of net sales	-0.3	1.8	2.6	3.5	6.0
Result before tax, MEUR	-16.4	25.3	19.6	46.6	109.5
% of net sales	-0.9	1.4	1.1	2.4	6.4
Result for the financial period, MEUR	-30.7	9.3	-4.6	18.6	78.5
% of net sales	-1.6	0.5	-0.3	1.0	4.6
Balance sheet and key ratios					
Equity, MEUR	664.9	704.2	677.2	696.3	732.4
Total assets, MEUR	1,465.3	1,412.1	1,408.1	1,370.5	1,119.1
Return on equity, %	-4.5	1.4	-0.7	2.6	11.1
Return on investment, %	-0.2	4.2	5.8	12.4	15.6
Equity ratio, %	46.1	50.5	48.5	51.1	65.9
Gearing, %	22.1	18.4	19.7	14.8	-36.4

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

Formulas for key figures (IFRS)

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

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

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

Gearing, % $= 100 \times \dfrac{\text{interest-bearing liabilities - cash and cash equivalents - financial assets at fair value through profit or loss}}{\text{total equity}}$

Corporate history

1638 Governor-General Per Brahe establishes postal services in Finland, then part of the Kingdom of Sweden.

1811 A central postal administration is established for the postal services of autonomous Finland.

1927 The Telegraph is merged with the Finnish Post to form Post and Telegraph.

1990 Posts and Telecommunications of Finland becomes a state-owned enterprise known as Posti-Tele.

1998 Postal and telecom services are demerged into separate companies (Finland Post Group Ltd and Telecom Finland Group Ltd), which are wholly-owned by the State of Finland.

2001 Finland Post becomes a public limited company. Information logistics operations are expanded through corporate acquisitions in Finland (Atkos) as well as Sweden, Norway and Denmark (Capella Group).

2002 Information logistics operations expand to Germany through corporate acquisitions (Eurocom Depora and Data Informatic). The Logistics business group launches operations in Estonia.

2003 The early morning newspaper delivery business acquired from Sanoma Osakeyhtiö as part of Mail Communications.

2004 Information logistics operations expand through the corporate acquisition of the subsidiaries of Swedish Post in Estonia, Latvia, and Lithuania. Further expansion in Finland through the corporate acquisition of Elma Oyj Electronic Trading.

2005 Finland's largest personnel fund established. Logistics operations expand to Denmark, Latvia, and Lithuania by acquiring Combifragt Group.

2006 Logistics operations expand through corporate acquisitions in Sweden (Roadlink Spedition) and Norway (Universal Spedisjon). Foundation for Well-being at Work established.

2007 The parent company's name is changed to Itella Corporation. Itella Mail Communications launches an investment and development program of EUR 160 million focusing on postal infrastructure. Sweden-based PS Logistics is acquired as part of Itella Logistics.

2008 Acquisitions in Itella Logistics: NLC Group (National Logistic Company) in Russia and Kauko Group in Finland. First international corporate acquisition in Itella Mail Communications: Connexions in Russia, a company specializing in direct marketing services. Itella Information expands to Poland through the corporate acquisition of BusinessPoint.

2009 Itella Information expands into financial management through a corporate acquisition (Tuottotieto) and launches business in Russia and new countries in Central Europe. Culmination of the investments of Itella Mail Communications. Launch of climate-friendly Itella Green delivery services.

2010 New sorting technology successfully deployed by Itella Mail Communications. The mail process is awarded the ISO 14001 environmental certificate. The parcel terminal business of SmartPOST is acquired in Estonia. Itella Logistics reinforces its position in Russia in transport services. Itella Information concludes the first major customer deals on the Alligator solution for financial management outsourcing. In Poland, Outsourcing Solutions is acquired as part of Itella Information.

2011 Itella Bank Ltd is granted a deposit bank license per the Act on Credit Institutions. OpusCapita is acquired by Itella Information, expanding services to cash flow automation. The number of distance-sales parcels starts to increase. SmartPOST automatic parcel terminals introduced. In February, Itella becomes the first postal company in the world to offer entirely carbon-neutral delivery services. The new Postal Act takes effect in June.

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