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Financial statements for Itella Corporation and the Board of Directors' report for 2010: A difficult year, reforms continued

Year 2010

- The Itella Group's net sales totaled EUR 1,841.6 million (EUR 1,819.7 million in 2009), showing an increase of 1.2% from the previous year. In local currencies, the decline in net sales was 0.4%. International operations accounted for 32% (30%) of net sales.
- Operating profit including non-recurring items was EUR 38.1 million (EUR 46.7 million), or 2.1% (2.6%) of net sales. Operating profit before non-recurring items amounted to EUR 55.3 million (EUR 86.3 million), representing 3.0% (4.7%) of net sales. The equity ratio was on healthy level and improved further.
- Financial performance was taxed by non-recurring costs of EUR 17.3 million relating to personnel restructuring (personnel restructuring EUR 29.0 million and write-down of goodwill EUR 10.6 million).
- Itella Mail Communication saw its letter volumes decrease but no major slump was experienced yet. Net sales and profitability declined.
- Itella Information was able to grow its net sales. The non-recurring business efficiency enhancement costs excluding, profitability remained stable.
- In Itella Logistics, volume took an upward turn at the end of the year. Net sales were up and operating loss decreased.
- The Board of Directors proposes a dividend of EUR 4.4 million.
- The legal structure of Finnish operations changed on January 1, 2011 when Finnish postal operations were transferred to a new subsidiary, Itella Posti Oy, a part of the Itella Mail Communication business group. This was also the launch date for the operations of Itella Real Estate Oy, which will take over all property ownership in Finland during the first half of the year 2011.

October–December 2010

- The Itella Group recorded net sales of EUR 508.9 million (EUR 491.0 million).
- Operating profit before non-recurring items amounted to EUR 23.4 million (EUR 39.4 million), or 4.6% (8.0%) of net sales. The Group's operating profit including non-recurring items was EUR 21.6 million (EUR 24.6 million), or 4.2% (5.0%) of net sales. Profit before taxes was EUR 17.1 million (EUR 22.2 million).

Key figures of Itella Group

	2010	2009	2008
Net sales, MEUR	1,841.6	1,819.7	1,952.9
Operating profit (EBIT), MEUR	38.1	46.7	69.0
EBIT margin, %	2.1	2.6	3.5
Operating profit (EBIT), MEUR *)	55.3	86.3	95.1
EBIT margin, % *)	3.0	4.7	4.9
Profit before tax, MEUR **)	31.0	19.6	46.6

Return on equity (12 months), %	1.4	-0.7	2.6
Return on investment (12 months), %	4.2	5.8	12.4
Equity ratio, %	50.5	48.5	51.1
Gearing, %	18.4	19.7	14.8
Gross capital expenditure, MEUR	81.9	144.9	351.5
Personnel on average	28,916	30,217	28,163
Dividends, MEUR	4.4 ***)	-	10.0

*) Excl. non-recurring items
**) Continuing operations
***) Board of Director's proposal

Jukka Alho, President and CEO:
"The upturn in the economy affected Itella's business with a delay and only in certain areas of our business. Although our financial performance did not meet the targeted level, our already healthy solvency strengthened further.

Itella Mail Communication's profitability declined due to falling volumes and rising production costs, as well as extremely moderate price development. Personnel reductions and other efficiency improvement measures were not sufficient to compensate for these. Considering the decline in net sales from postal operations and the long-term volume development, the less than one per cent price increase in letter postage fees proved to be inadequate. Consequently, we begin a new year with strong price pressures.

Itella Information, our business group specializing in invoicing and financial management services, developed as outlined in our strategy. Progress was made in the solutions business and major deals were closed.

Itella Logistics performed well in the second half, leading to overall net sales growth. This strengthened the business group's profitability even though its result was still in the red. Financial performance in the logistics business will continue to be materially affected by not only the development of Finnish and Scandinavian operations, but Russian operations as well. Demand for ItellaNLC's services has been growing; and particularly in Moscow, the service warehouse utilization rate reached a promising level in view of 2011.

The new EU Postal Services Directive compliant Postal Services Act is scheduled to enter into force in Finland in spring 2011. Its objective is to promote competition. From Itella's perspective, it is vitally important that the scope of universal service (USO) is clearly and unambiguously defined. However, issues that continue to be unresolved in Finland include the financing of postal services in sparsely populated areas, which is included in the universal service obligation but does not permit operations on a market basis.

Itella and the Finnish supervisory authority have had very dissimilar views on the rules to be applied to cost accounting in postal services, and thereby to pricing. Inconsistencies between the interpretation of the Finnish authorities and the mainstream interpretation in other EU countries will have detrimental repercussions. Clarity is needed on several fundamental issues, for instance on ways of covering the costs of the postal outlet network. Otherwise, we may have to trim the costs arising from the postal outlet network in a way that does not meet the expectations of Finnish citizens. Another potential risk is that we may have to allocate costs to the press and other users of the delivery network in a way that might eventually cause problems to the financing of the universal service."

APPENDICES
Itella's financial statements release and the Board of Directors' report
Corporate Governance Report for 2010

FURTHER INFORMATION
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NEXT FINANCIAL DISCLOSURE
Q1 interim report will be published on April 29, 2011.

PHOTOGRAPHS AND LOGOS
www.itella.com/media

Itella Group provides solutions for managing information and product flows. Itella operates in mail communications, information logistics, and logistics in Europe and Russia. The Group reported net sales of EUR 1,842 million in 2010 and provided work for around 29,000 professionals. Corporate services are delivered under the Itella brand, while the Posti brand is used for services targeted at consumers in Finland. More information on the Group is available at www.itella.com/group.

Itella Corporation

Board of Directors' Report 2010

Business Environment

In Itella Mail Communication's business environment, the new Postal Services Act will promote competition in the delivery market in Finland. The authorities have increased their regulatory and supervisory role in the postal market. The development of production costs and volumes have contributed to an upward pressure on prices.

Communications are increasingly multi-channel, interactive and engaging in nature. The majority of letters are delivered to consumers. For 80 percent of the consumers it is sufficient that letters reach the recipient within two days after posting. The volumes of first-class letters delivered overnight have not yet declined significantly, however. Economic recovery is not visible in the volume of letter deliveries. Digitization has progressed rapidly within the past 12 months, especially in consumer invoicing. The steady volumes of conventional paper letters are in part supported by the strong growth in hybrid letters; delivery volumes will be concentrated in a smaller number of printing service operators. Competition in unaddressed deliveries continues to be tight. While parcel deliveries reflect the strong growth of distance selling, increasing competition has put pressure on prices, while the customers' increased environmental awareness requires the provision of responsibly produced services.

Itella Logistics' markets have picked up with the upswing. The price levels of logistics services continue to be extremely challenging due to competition. The speed of economic recovery varies in Itella's operating countries, and there are major uncertainties. The customers' expectations focus on prices, quality, and service availability. Increasing emphasis is based on sector-specific value-added services and IT-based services. Companies need to be able to differentiate from competitors by means such as geographic presence.

Itella Information's customers expect to see an immediate cost reduction in volume products. Electronic invoicing and e-services progress at an accelerating pace. Outsourcing of financial management, a key area for Itella Information, is increasing. Some of the competition comes from operators based in low-cost countries.

October–December 2010

Itella Group recorded net sales of EUR 508.9 million (EUR 491.0 million). Operating profit before non-recurring items amounted to EUR 23.4 million (EUR 39.4 million), or 4.6% (8.0%) of net sales. The Group's operating profit including non-recurring items was EUR 21.6 million (EUR 24.6 million), or 4.2% (5.0%) of net sales. Profit before taxes was EUR 17.1 million (EUR 22.2 million).

Net sales and profit performance

Itella Group's net sales in 2010 grew by 1.2% to EUR 1,841.6 million (EUR 1,819.7 million in 2009). In local currencies, the change in net sales was -0.4%. The Group's net sales were down 1.6% in Finland and up 7.7%

in other countries. 32% of total net sales (30%) were generated outside Finland. Itella Logistics and Itella Information increased their net sales, while Itella Mail Communication saw its net sales decline.

Consolidated operating profit before non-recurring items amounted to EUR 55.3 million (EUR 86.3 million), representing 3.0% (4.7%) of net sales. Consolidated operating profit including non-recurring items fell by 18.4% to EUR 38.1 million (EUR 46.7 million), representing 2.1% (2.6%) of net sales. Financial performance was taxed by non-recurring costs of EUR 17.3 million relating to personnel restructuring (personnel restructuring EUR 29.0 million and write-down of goodwill EUR 10.6 million).

Operating profit decreased in Itella Mail Communication and in Itella Information. Itella Logistics was able to clearly reduce its operating loss from the previous year. Operating loss not allocated to business groups increased due to investments in new business and joint development projects.

The Group's net financing costs were EUR -7.1 million (EUR -27.1 million). The net financing costs were reduced by EUR 1.9 million arising from the unrealized change of value of an interest rate swap. In 2009, net financing costs were increased by hedging costs of ruble receivables, as well as the considerable exchange rate losses generated by the weakening of the Russian ruble.

Profit from continuing operations after financial items was EUR 31.0 million (EUR 19.6 million). Income tax on continuing operations totaled EUR 17.5 million (EUR 24.2 million). The Group's high tax rate was affected by losses from international operations. Net profit for the period from discontinued operations includes a depreciation of EUR -5.7 million on property shares classified as available for sale and a change of EUR 1.5 million in deferred tax assets. The Group recorded a net profit of EUR 9.3 million for the financial period (net loss of EUR 4.6 million).

Return on equity stood at 1.4% (-0.7%).

Key figures of Itella Group	2010	2009	2008
Net sales, MEUR	1,841.6	1,819.7	1,952.9
Operating profit (EBIT), MEUR	38.1	46.7	69.0
EBIT margin, %	2.1	2.6	3.5
Operating profit (EBIT), MEUR *)	55.3	86.3	95.1
EBIT margin, % *)	3.0	4.7	4.9
Profit before tax, MEUR **)	31.0	19.6	46.6
Return on equity (12 months), %	1.4	-0.7	2.6
Return on investment (12 months), %	4.2	5.8	12.4
Equity ratio, %	50.5	48.5	51.1
Gearing, %	18.4	19.7	14.8
Gross capital expenditure, MEUR	81.9	144.9	351.5
Personnel on average	28,916	30,217	28,163
Dividends, MEUR	4.4***)	-	10.0

*) Excluding non-recurring items
**) Continuing operations
***) Board of Directors' proposal

Itella Mail Communication

Itella Mail Communication's net sales decreased by 2.3% to EUR 1,141.6 million (EUR 1,168.1 million).

Mail delivery volumes changes in 2010 as follows compared with the corresponding period in 2009:

- First class letters decreased by 3%.
- Second class letters and addressed direct mail deliveries remained stable.
- The total volume of addressed letter deliveries remained on the previous year’s level.

- Unaddressed direct mail deliveries increased by 5%.

- Newspaper delivery volumes fell by 4%.
- Magazine deliveries dropped by 8%.

- Parcel deliveries were up 2%.

Itella Mail Communication posted an operating profit of EUR 58.1 million (EUR 82.0 million), representing 5.1% (7.0%) of net sales. The result included EUR 15.9 million (EUR 21.1 million) of restructuring costs. Profitability was negatively affected by the decrease in net sales, particularly in main products, as well as the reduction of universal service product prices implemented in the second half of the year at the Finnish Communications Regulatory Authority’s demand.

The deployment of Itella’s new sorting technology was completed by the end of 2010. Four sorting centers running as a single integrated unit now serve as the hubs of the nationwide mail processing network. The almost four-year investment project worth EUR 160 million will improve the flexibility and cost-efficiency of mail processing and ensure that new services will be available for senders as well as recipients in the future, too. The elements are in place to upgrade the mail processing automation and thereby to improve productivity. A continuing decrease in delivery volumes will require further efficiency enhancement measures, which will reduce the need for personnel.

Itella Information

Itella Information recorded net sales of EUR 259.7 million (EUR 247.2 million), showing an increase of 5.1%. Net sales picked up in all product lines except in multi-channel invoicing services, and in all operating countries except for Germany and Estonia. Economic recovery increased the volumes of existing customers everywhere except in the Baltic countries.

The business group posted an operating profit of EUR 12.8 million (EUR 15.3 million), representing 4.9% (6.2%) of net sales. The efficiency of product lines and companies was enhanced using a wide range of methods, the cost of which burdened the operating profit. Further measures to improve efficiency will still be necessary, particularly outside the Nordic countries.

In the last quarter, Itella acquired the Polish company Outsourcing Solutions sp. z o.o. for the Alligator business, and signed a significant financial and payroll outsourcing agreement with Suomen Lähikauppa Oy. As a result of these arrangements, the business group’s personnel increased by 111.

Itella Logistics

Itella Logistics recorded net sales of EUR 677.3 million (EUR 637.3 million), showing an increase of 6.3%. Net sales picked up in all product lines and operating countries. While volumes started to grow in the second quarter and growth increased towards the year end, service price levels did not yet fully reflect the development of costs.

Itella Logistics posted an operating loss of EUR 10.7 million (a loss of EUR 31.2 million), representing -1.6% (-4.9%) of net sales. Efficiency enhancement measures were implemented in all product lines and operating countries during the year as well as the previous year, which contributed to reduce the operating loss. The business group's operating result swung to profit in the fourth quarter.

Key Figures of Business Groups, MEUR	2010	2009	Change
Net sales			
Itella Mail Communication	1,141.6	1,168.1	-2.3 %
Itella Information	259.7	247.2	5.1 %
Itella Logistics	677.3	637.3	6.3 %
Other activities	8.9	6.2	43.4 %
Intra-Group sales	-245.9	-239.1	
Itella Group	1,841.6	1,819.7	1.2 %
Operating profit (EBIT)			
Itella Mail Communication	58.1	82.0	-29.1 %
Itella Information	12.8	15.3	-16.4 %
Itella Logistics	-10.7	-31.2	65.7 %
Other activities	-22.1	-19.4	-13.8 %
Itella Group	38.1	46.7	-18.4 %
Operating profit (EBIT) excl.non-recurring items			
Itella Mail Communication	74.0	103.1	-28.2 %
Itella Information	14.0	16.8	-16.7 %
Itella Logistics	-10.6	-14.4	26.3 %
Other activities	-22.1	-19.2	-15.1 %
Itella Group	55.3	86.3	-35.9 %
EBIT margin,%			
Itella Mail Communication	5.1 %	7.0 %	
Itella Information	4.9 %	6.2 %	

Itella Logistics	-1.6 %	-4.9 %	
Itella Group	2.1 %	2.6 %	
Itella Group excl.non-recurring items	3.0 %	4.7 %	

Business risks

Group-wide risk management based on Enterprise Risk Management (ERM) principles forms an integral part of Itella's management and strategy processes. The annual Group strategy process includes extensive risk identification, assessment and risk management planning. The risk profile and the status of risk management are updated once a year as a rule, as well as whenever significant risks are identified or changes occur in the major risks. In 2010, Itella's Board of Directors approved an enterprise risk management policy for the Group. In addition, the Group's Internal Audit audited the functionality and scope of the risk management system and recommended related development measures.

In the assessment of risks by the executive management, strategic risks are associated with the markets, business environment, business development and regulation. Operational risks are primarily associated with business profitability as well as the risk of business interruptions and other disruptions.

Strategic risks:

The faster than expected pace of digital substitution in letter deliveries and printing as well as unanticipated changes in this area are regarded as a key market risk. In order to prepare for this risk, Itella has systematically improved the profitability of the physical delivery network over several years.

Digital substitution has also offered opportunities for growth, which have been utilized in the multi-channel business of Itella Information and Itella Mail Communication. NetPosti and Itella IPS Ltd (Itella Payment Services) have also launched new digital solutions for invoicing, payments and other daily services.

In Russia, social and legislative trends and the overall development of the business environment may constitute a significant strategic market risk for Itella. All of Itella's business groups are present in Russia, and Itella Logistics in particular has invested considerable resources in the region. Risk management methods include continuous monitoring of developments as well as establishing a strong position in the Russian market with the help of Group companies and personnel and an efficient networking strategy.

The development of the financial process outsourcing market is an essential strategic risk associated with Itella Information's Alligator business. Risk management is part of regular business management.

Competition in the area of addressed deliveries is expected to increase following the entry into force of the new Postal Services Act in Finland. This risk associated with the business environment has significant implications for Itella as it may lead into unexpectedly heavy price competition. Itella continuously develops the quality and profitability of the delivery network to maintain its capacities. In parcel deliveries, Itella monitors the strategies of its competitors and prepares for changes in the competitive landscape by continuously developing its own delivery network, for example. The latest measure concerns the SmartPOST delivery terminals.

The most significant business development risks are associated with the progress of the system and policy harmonization, particularly in Itella Logistics. The schedule for the further development of the Group-wide IT infrastructure and its global deployment also involves challenges.

Uncertainties arising from government regulation are particularly associated with the implementation of Itella Posti's product reform as regards letters and parcels. The interpretation of the current Postal Services Act has been problematic in Finland. As required under its business license and the Postal Services Act, Itella has ensured the availability of letter and parcel services as well as the nationwide postal outlet network according to the universal service obligation (USO). Because of difficulties in the interpretation of the Postal Services Act, the dispute between the Finnish Communications Regulatory Authority and Itella is still pending in a court of law. If the outcome of the legal process is unfavorable to Itella, this will have significant financial consequences to Itella.

Operational risks:

Rigid cost structures present an obstacle to improving profitability, particularly in Finland. Universal service obligations also limit the opportunities for efficiency enhancement. As volumes are declining, a new recession would further complicate the struggle to maintain profitability.

The most significant business disruption risks are associated with the vulnerability of information security, networks and production infrastructure. These risks affect Itella's image as well as operations.

Other risks:

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

Insurance has been taken out to cover risks for which insurance is the best alternative for financial or other reasons. Insurance covering personnel, business continuity, assets and liabilities are centrally managed at the Group level. Liability risks include risks arising from operations and products, as well as corporate management liabilities. The Group's risk tolerance is taken into account when determining the related deductibles.

Changes in corporate structure

The legal structure of Finnish operations changed on January 1, 2011: all Finnish postal operations were transferred to a new subsidiary, Itella Posti Oy, a part of the Itella Mail Communication business group. A corresponding reform of the operational structure was already implemented at the beginning of the second quarter of 2010. This involved transferring parcel services from Itella Logistics and domestic sales operations, mail and customer service from Group functions to Itella Mail Communication The change affected the content of reported segments, and the realized and reference figures for segments were converted to correspond to the new structure.

Itella's real estate ownership in Finland will be centralized in a new subsidiary, Itella Real Estate Oy, as of January 1, 2011 (real estate owned by Itella Logistics Oy will only be transferred as of April 1, 2011). The real estate transfers will not have an effect on the reported segments.

In July, Itella Corporation acquired the parcel terminal business of SmartPOST OÜ, based in Estonia, and made it part of Itella Mail Communication.

In August, Itella Corporation acquired the non-controlling interest in Itella Information AS from Norway Post. In November, Itella acquired Outsourcing Solutions sp. z o.o. in Poland and made it part of Itella Information.

Capital expenditure

Itella Group's capital expenditure totaled EUR 80.5 million (EUR 122.1 million). The four-year sorting technology reform worth EUR 160 million was completed during the financial period. Acquisitions amounted to EUR 1.4 million (EUR 22.8 million). A total of 72.9% of the Group's capital expenditure was allocated to Finland.

Research and development

In addition to annual analyses, research themes for 2010 included the digitization of consumer and corporate invoicing in 16 countries, the functionality of order and delivery processes in e-commerce, the future of the media industry and the delivery of consumer parcels in Finland and Estonia. In addition, factors affecting the profitability of postal services were analyzed, and profitability development in the 2010s was forecasted on the basis of volume forecasts. Key priority areas in Group-level innovation activities included multi-channel delivery and the Group's innovation system.

Itella Group's research and development expenditure for 2010 came to EUR 9.5 million, or 0.5% of the Group's total operating expenses. The 2009 and 2008 comparative figures were EUR 8.1 million (0.5%) and EUR 10.6 million (0.6%).

Besides the actual R&D work, Itella also conducted business-related development work concerning products, services, processes, and infrastructure. Projects underway involve the improvement of payment institution services, parcel pickup network, supply chain monitoring and new customer services.

Environmental impacts

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 supporting it cover all of Itella's business operations and operating countries. The environmental management system has been certified in compliance with the ISO 14001 standard in 55% of the business.

More information on environmental issues is available in Itella's Annual Report. The Group has not published an environmental report certified by an independent third party.

Financial position

Consolidated net cash flow from operating activities before investment activities totaled EUR 81.9 million (EUR 110.7 million).

Capital expenditure amounted to EUR 81.7 million (EUR 144.5 million), with acquisitions accounting for EUR 1.4 million (EUR 22.8 million).

Itella Corporation's syndicated credit facility agreement was renewed in the amount of EUR 120.0 million. The TyEL loan was amortized by EUR 12.5 million. The commercial paper program was actively used to secure the short-term liquidity.

At the end of the year, liquid assets amounted to EUR 134.1 million (EUR 161.0 million), and undrawn committed credit facilities totaled EUR 120.0 million (EUR 175.0 million). Commercial papers issued amounted to EUR 19.0 million at the end of the period (EUR 27.0 million). The Group's interest-bearing liabilities were EUR 263.6 million (EUR 294.1 million). Equity ratio stood at 50.5% (48.5%) and net gearing was 18.4% (19.7%).

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 it has no 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 entitling to company shares. The Board of Directors has no authorizations to issue shares or stock options, or other special rights entitling to company shares.

Administration and auditors

At Itella Corporation's Annual General Meeting on March 24, 2010, the number of Board members was set at 9, and the following members were elected: Eero Kasanen, Executive Dean (Chairman); Arto Hiltunen (Vice Chairman); Kalevi Alestalo, Financial Councellor; Hele-Hannele Aminoff, Managing Director; Erkki Helaniemi, Partner; Päivi Pesola, Vice President; Riitta Savonlahti, Executive Vice President; and Maarit Toivanen-Koivisto, President. The AGM elected Antero Palmolahti, National Chief Shop Steward, as employee representative to the Board.

The AGM decided to set the number of Supervisory Board members at 12. Paavo Arhinmäki (Left Alliance) and Johanna Karimäki (Green League) were elected as new members. Eero Lehti, MP (National Coalition Party) was re-elected as Supervisory Board Chairman, and Antti Rantakangas, MP (Centre Party) as Vice Chairman. The following Supervisory Board members were re-elected: Susanna Huovinen, MP (Social Democratic Party); Harri Jaskari, PM (National Coalition Party); Bjarne Kallis, MP (Christian Democrats); Lauri Kähkönen, MP (Social Democratic Party); Outi Mäkelä, MP (National Coalition Party); Reijo Ojennus, entrepreneur (True Finns); Pertti Salovaara, MP (Centre Party); and Harry Wallin, engine driver (Social Democratic Party).

The AGM elected KPMG Oy Ab firm of authorized public accountants to be Itella Corporation's auditor. Pauli Salminen, Authorized Public Accountant, acted as the principal auditor.

Jukka Alho, M.Sc. (Tech), acted as Itella Corporation's President and CEO in 2010.

Human resources

At the end of 2010, Itella Group employed a staff of 29,022 (29,568), the average number being 28,916 (30,217). This corresponds to 21,534 man-years if part-time employees are converted to full-time equivalents.

At the end of 2010, the parent company had 20,511 (20,293) employees, the average number being 20,253 (20,809).

The number of employees working outside Finland was 6,696 (7,536), and the number of employees working in Finland was 22,326 (22,032).

Group personnel	2010	2009	2008
Wages and salaries, MEUR	706.3	716.3	709.0
Employees on Dec. 31	29,022	29,568	31,672
Employees on average	28,916	30,217	28,163

The profit for the period in 2010 and in 2009 did not include an expense provision for the employee profit-sharing scheme.

More information on human resources is available in Itella's Annual Report.

Events after the reporting period

Itella IPS Ltd has resolved to file an application for a license pursuant to the Finnish Act on Credit Institutions with the Financial Supervisory Authority. An extended business license will offer Itella further opportunities to transmit messages relating to financial management and to develop payment solutions for postal services.

Outlook for 2011

Itella expects net sales to grow in 2011 from the previous year, particularly outside Finland. National economies in Itella's operating countries are expected to grow, and thus the prerequisites for positive volume development exist, even though the economic cycle still involves uncertainties. In Finland, the development of net sales will be affected by the increased popularity of electronic services, which will reduce the delivery volumes of addressed letters. It is as yet difficult to estimate the impact of the Postal Services Act reform on the competitive environment and Itella's net sales in Finland.

The elements to improve the operating profit in 2011 are in place. The productivity and efficiency-enhancing measures implemented within the past few years provide the framework for improving profit. Volumes will grow as markets recover, although prices are not yet anticipated to return to pre-recession levels, for example in the logistics business. Improving the efficiency and profitability of operations continues to be the key focus area.

The level of capital expenditure is expected to remain at the same level as in 2010 or to grow slightly. Cash flow from operating activities after investments is expected to improve from the previous year. The volume and timing of investments and acquisitions will be considered carefully.

Board of Directors' proposal to the AGM

According to the financial statements, the parent company's distributable profit funds total EUR 685,920,742.37, of which net profit for 2010 accounts for EUR 27,141,654.49.

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 specified in section 13, subsection 2 of the Finnish Limited Liability Companies Act, affect the proposed distributable profits.

The Board proposes to the Annual General Meeting that the distributable profits be allocated as follows:

- Paying a dividend of EUR 0.11 per share, or a total of EUR 4,400,000.00.
- Retaining EUR 681,520.742.37 under shareholders' equity.

Helsinki, February 15, 2011
Itella Corporation
Board of Directors

APPENDICES:
Key figures of Itella Group
Consolidated Income Statement
Consolidated Balance Sheet
Consolidated Cash Flow Statement
Statement of Changes in Shareholders' Equity
Notes

Key figures of Itella Group

	10-12 2010	10-12 2009	1-12 2010	1-12 2009
Net sales, MEUR	508.9	491.0	1,841.6	1,819.7
Operating profit (EBIT), MEUR	21.6	24.6	38.1	46.7
EBIT margin, %	4.2	5.0	2.1	2.6
*Operating profit (EBIT), MEUR *)*	*23.4*	*39.4*	*55.3*	*86.3*
*EBIT margin, % *)*	*4.6*	*8.0*	*3.0*	*4.7*
Profit before tax, MEUR **)	17.1	22.2	31.0	19.6
Return on equity (12 months), %			1.4	-0.7
Return on investment (12 months), %			4.2	5.8
Equity ratio, %			50.5	48.5
Gearing, %			18.4	19.7
Gross capital expenditure, MEUR	17.9	50.2	81.9	144.9
Personnel on average	28,603	29,527	28,916	30,217
Dividends, MEUR ***)			4.4	-

**) Excl. non-recurring items, see notes 2*

**) Continuing operations

***) Board of Director's proposal

Consolidated Income Statement

EUR million	10-12 2010	10-12 2009	1-12 2010	1-12 2009
Net sales	**508.9**	**491.0**	**1,841.6**	**1,819.7**
Other operating income	3.9	3.7	14.5	14.3
Share of associated companies' results	-0.1	0.0	0.1	0.1
Materials and services	137.4	120.2	504.9	474.9
Employee benefits	231.0	235.7	877.9	888.0
Depreciation and amortisation	21.1	19.8	85.4	77.8
Impairment losses	0.0	2.9	0.0	13.5
Other operating expenses	101.6	91.5	349.8	333.2
Operating profit (EBIT)	**21.6**	**24.6**	**38.1**	**46.7**
% of net sales	4.2 %	5.0 %	2.1 %	2.6 %
Financial income and expenses	-4.5	-2.4	-7.1	-27.1
Profit/loss before income tax	**17.1**	**22.2**	**31.0**	**19.6**
% of net sales	3.4 %	4.5 %	1.7 %	1.1 %
Income tax	-5.3	-15.8	-17.5	-24.2
Profit/loss for the financial period from continuing operations	**11.7**	**6.4**	**13.6**	**-4.6**
% of net sales	2.3 %	1.3 %	0.7 %	-0.3 %
Impairment losses from discontinued operations	-5.7	-	-5.7	-
Income tax	1.5	-	1.5	-
Profit/loss for the financial period from discontinued operations	**-4.2**	-	**-4.2**	-
Profit/loss for the financial period	**7.5**	**6.4**	**9.3**	**-4.6**
% of net sales	1.5 %	1.3 %	0.5 %	-0.3 %
Profit/loss for the financial period attributable to				
Parent company shareholders	7.5	6.2	9.3	-4.6
Non-controlling intrest	0.0	0.2	0.0	0.0
	7.5	**6.4**	**9.3**	**-4.6**

Comprehensive Consolidated Income Statement

Profit/loss for the financial period	**7.5**	**6.4**	**9.3**	**-4.6**
Other items of comprehensive income				
Available-for-sale financial assets	0.0	0.0	0.0	-0.3
Translation differences	7.2	9.3	20.0	-4.3
Comprehensive income for the financial period	**14.7**	**15.7**	**29.3**	**-9.2**
Comprehensive income attributable to				
Parent company shareholders	14.7	15.5	29.3	-9.2
Non-controlling intrest	0.0	0.2	0.0	0.0
	14.7	**15.7**	**29.3**	**-9.2**

Consolidated Balance Sheet

EUR million	31 Dec 2010	31 Dec 2009
Non-current assets		
Goodwill	170.9	165.2
Other intangible assets	73.5	80.1
Investment property	4.1	4.4
Property, plant and equipment	684.6	688.3
Investments in associated companies	0.7	0.6
Other non-current investments	1.4	2.4
Non-current receivables	9.7	8.4
Deferred tax assets	14.8	12.7
Total non-current assets	**959.8**	**962.1**
Current assets		
Inventories	5.9	6.5
Trade and other receivables	290.0	271.9
Current tax assets	5.2	4.0
Financial assets available-for-sale	2.2	2.4
Financial assets at fair value through profit or loss	58.5	78.9
Cash and cash equivalents	75.6	82.3
Total current assets	**437.4**	**446.0**
Non-current assets classified as held for sale	**14.9**	**-**
Total assets	**1,412.1**	**1,408.1**
Equity		
Share capital	70.0	70.0
Contingency reserve	142.7	142.7
Fair value reserve	0.0	0.0
Translation differences	-0.8	-20.7
Retained earnings	492.2	483.6
Equity attributable to equity holders of the parent company	**704.1**	**675.6**
Equity attributable to equity holders of the non-controlling intrest	0.0	1.6
Total equity	**704.2**	**677.2**
Non-current liabilities		
Deferred tax liabilities	50.4	48.3
Non-current interest-bearing liabilities	214.2	246.1
Other non-current liabilities	17.7	15.1
Non-current provisions	15.7	9.2
Defined benefit pension plan obligations	6.6	6.5
Total non-current liabilities	**304.7**	**325.2**
Current liabilities		
Current interest-bearing liabilities	49.4	48.0
Trade payables and other liabilities	351.2	335.1
Current tax liabilities	0.3	9.0
Current provisions	1.6	13.6
Total current liabilities	**402.6**	**405.7**
Liabilities associated with non-current assets classified as held for sale	**0.6**	**-**
Total liabilities	**707.9**	**730.9**
Total equity and liabilities	**1,412.1**	**1,408.1**

Consolidated Cash Flow Statement

EUR million	1-12 2010	1-12 2009
Profit or loss for the financial period	**9.3**	**-4.6**
Total adjustments	113.6	144.4
Change in net working capital	-7.6	16.8
Cash flow before financial items and income tax	**115.4**	**156.6**
Financial items (net)	-8.3	-29.0
Tax paid	-25.1	-16.9
Cash flow from operating activities (net)	**81.9**	**110.7**
Acquisition of subsidiaries less cash and cash equivalents	-1.4	-22.8
Purchase of intangible assets and property, plant and equipment	-80.3	-121.7
Proceeds from sale of intangible and tangible assets	4.2	2.2
Proceeds from sale of businesses	0.0	1.4
Change in financial assets at fair value through profit or loss	20.2	5.4
Cash flow from other investments	1.2	-2.2
Cash flow from investing activities (net)	**-56.1**	**-137.7**
Change in loans (net)	-22.6	71.8
Finance lease principal payments	-8.3	-9.9
Acquisition of non-controlling intrest	-2.7	-
Dividends paid	-0.1	-10.0
Cash flow from financing activities (net)	**-33.7**	**51.9**
Change in cash and cash equivalents	**-7.9**	**24.9**
Cash and cash equivalents at period-start	**82.3**	**49.5**
Effect of changes in exchange rates	1.2	7.9
Change in fair value of cash and cash equivalents	0.0	0.0
Cash and cash equivalents at period-end	**75.6**	**82.3**

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 intrest	Total equity
Equity 1 Jan 2009	**70.0**	**142.7**	**0.3**	**-16.4**	**498.2**	**694.8**	**1.5**	**696.3**
Dividends paid					-10.0	-10.0		-10.0
Other changes							0.1	0.1
Result for the financial period					-4.6	-4.6	0.0	-4.6
Change in fair value reserve			-0.3			-0.3		-0.3
Change in translation differences				-4.3		-4.3		-4.3
Equity 31 Dec 2009	**70.0**	**142.7**	**0.0**	**-20.7**	**483.6**	**675.6**	**1.6**	**677.2**
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 intrest					-0.7	-0.7	-1.5	-2.2
Result for the financial period					9.3	9.3	0.0	9.3
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**

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.

New and revised IFRS standards

As of January 1, 2010 the Group applies the following revised standards:

- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements

These new and revised standards have no material impact on the data disclosed in the financial statements bulletin.
The information presented in this report is based on the audited Itella 2010 Financial Statements.

2. Segment Information

The following changes in Itella Group's business operations took effect on April 1, 2010: Domestic sales operations, mail and customer service from Other operations and Itella Logistics' parcel services were transferred to Itella Mail Communication. This change will improve the financial transparency of operations in anticipation of the postal operations legislative reform at the beginning of next year.

In addition, following the reorganization of the parent company's legal structure to be implemented on January 1, 2011, the freight service 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.

The Group's internal reporting has been changed to reflect the changes referred to above, and the segment division in external accounting will be presented in line with the revised structure.

In addition to the structural changes described above, a larger proportion of the Group's non-allocated assets and liabilities has been allocated to segments as of May 1, 2010, based on their actual use.

Itella Group's segment information is presented according to the new structure and the new allocation principles.The reorganization of the legal structure has also been proactively accounted for in the actual and comparison periods.

EUR million	10-12 2010	10-12 2009	1-12 2010	1-12 2009
Net sales by business segment				
Itella Mail Communication	320.4	321.3	1,141.6	1,168.1
inter-segment sales	-10.7	-11.4	-41.6	-41.4
Itella Information	67.2	64.1	259.7	247.2
inter-segment sales	-3.1	-2.9	-11.2	-11.3
Itella Logistics	185.3	168.0	677.3	637.3
inter-segment sales	-50.4	-48.1	-184.6	-180.3
Other operations	1.9	2.5	8.9	6.2
inter-segment sales	-1.7	-2.5	-8.5	-6.2
Total eliminations (Interim sales)	-65.9	-64.8	-245.9	-239.1
Total	**508.9**	**491.0**	**1,841.6**	**1,819.7**

EUR million	10-12 2010	10-12 2009	1-12 2010	1-12 2009	
Operating profit/loss (EBIT) by business segment					
Itella Mail Communication	27.6	33.2	58.1	82.0	*)
Itella Information	2.3	2.9	12.8	15.3	
Itella Logistics	0.9	-1.2	-10.7	-31.2	*)
Other operations	-9.3	-10.3	-22.1	-19.4	
Total	**21.6**	**24.6**	**38.1**	**46.7**	
Non-recurring items by business segment **)					
Itella Mail Communication	0.6	13.1	15.9	21.1	
Itella Information	1.2	0.9	1.2	1.5	
Itella Logistics	0.0	1.6	0.1	16.8	
Other operations	0.0	-0.8	0.0	0.2	
Total	**1.8**	**14.8**	**17.3**	**39.6**	
Operating profit/loss (EBIT) by business segment excluding non-recurring items					
Itella Mail Communication	28.2	46.3	74.0	103.1	
Itella Information	3.6	3.8	14.0	16.8	
Itella Logistics	0.9	0.4	-10.6	-14.4	
Other operations	-9.3	-11.1	-22.1	-19.2	
Total	**23.4**	**39.5**	**55.3**	**86.3**	
Financial income and expenses	**-4.5**	**-2.4**	**-7.1**	**-27.1**	
Result before income tax	**17.1**	**22.2**	**31.0**	**19.6**	

EUR million	31 Dec 2010	31 Dec 2009
Assets		
Itella Mail Communication	468.8	450.0
Itella Information	168.1	157.8
Itella Logistics	622.8	624.4
Other operations and unallocated	160.7	183.3
Eliminations	-8.3	-7.4
Total	**1,412.1**	**1,408.1**
Liabilities		
Itella Mail Communication	230.1	227.9
Itella Information	41.0	36.5
Itella Logistics	114.7	106.3
Other operations and unallocated	330.3	367.5
Eliminations	-8.3	-7.4
Total	**707.9**	**730.9**
Personnel at period-end		
Itella Mail Communication	19,314	19,168
Itella Information	1,942	1,958
Itella Logistics	7,724	8,403
Other operations	42	39
Total	**29,022**	**29,568**

*) Comparison data has been adjusted to match the new organizational structure. The operating profit shown in the Interim Report on June 30, 2010 has been adjusted from EUR 86.0 million to EUR 82.0 million (1-12/2009) for the Mail Communication business and similarly from EUR -35.2 million to EUR -31.2 million for the Logistics business.

**) Non-recurring items include restructuring costs in 2010 and 2009, and the goodwill impairment on the Logistics business in 2009.

3. Net sales by geographical location

EUR million	10-12 2010	10-12 2009	1-12 2010	1-12 2009
Finland	347.1	338.3	1,255.8	1,275.7
Scandinavia	65.3	90.1	262.2	263.4
Baltic countries and Russia	63.2	48.6	202.0	170.6
Other countries	33.3	14.0	121.6	110.0
Total	**508.9**	**491.0**	**1,841.6**	**1,819.7**

4. Changes in property, plant and equipment

EUR million	31 Dec 2010	31 Dec 2009
Carrying amount on 1 Jan	688.4	655.3
Additions	166.2	107.6
Disposals and transfers between items	-119.1	-2.2
Depreciation and Impairment for the financial period	-65.1	-61.4
Translation differences	14.2	-11.0
Carrying amount at period-end	**684.6**	**688.3**

5. The Group’s contingent liabilities

EUR million	31 Dec 2010	31 Dec 2009
Pledges for own behalf	18.4	14.6
Lease commitments	357.0	365.7

Derivative contracts

EUR million	31 Dec 2010	31 Dec 2009
Currency forward contracts		
Fair value	-2.0	-0.7
Nominal value	105.4	85.9
Interest rate swaps		
Fair value	1.9	0.2
Nominal value	70.0	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.

6. Related party transactions

Related party transactions were insignificant and there have been no material changes since the financial year 2009.