

Corporate Governance Statement 2010

This is Itella's Corporate Governance Statement referred to in Recommendation 54 of the Finnish Corporate Governance Code issued by the Securities Market Association on June 15, 2010. It was reviewed by the Audit Committee of the Corporation's Board of Directors on February 9, 2011. The Corporate Governance Statement is published as a separate, unaudited report in connection with the Financial Statement Bulletin.

The remuneration statement and other information complying with the Corporate Governance Code are available at www.itella.com/corporategovernance. The management's CV information is available at www.itella.com/management.

1 Compliance with the Corporate Governance Code

The duties and responsibilities of Itella's executive bodies are defined according to Finnish law. In its decision-making and corporate governance, Itella complies with the Finnish Limited Liability Companies Act, Itella Corporation's Articles of Association, and the Corporate Governance Code for listed companies issued by the Securities Market Association (www.cgfinland.fi).

Departures from the Corporate Governance Code recommendations:

- Notice of general meeting and appendices thereto are not published on the company website because a state-owned company has only one shareholder.
- Itella has neither a public register of insiders nor any persons subject to the disclosure obligation because the company shares are not publicly listed.

2 Supervisory Board

The Supervisory Board's duties include the following:

- ensuring that Itella Corporation is managed according to sound business practices and on a profitable basis
- providing guidance to the Board of Directors on issues with broad implications or those deemed important in principle
- providing the AGM with a statement on the company's financial statements and the auditors' report
- monitoring the functioning of postal services and consideration of proposals for changes thereto

The Supervisory Board has adopted written rules and procedures which lay out the Board's key responsibilities and working principles.

Itella Corporation's AGM appoints the members of the Supervisory Board and elects the Chairperson and Vice Chairperson. The Supervisory Board has between six and twelve members. Persons aged 68 and above are not eligible for election to the Board. The members' terms of office are one year and end at the close of the AGM following their election.

Supervisory Board members 2010

Member	Born	Education	Occupation	Attendance at meetings
Eero Lehti (Chairman)	1944	M.Soc. Sc.	Member of Parliament	3/4
Antti Rantakangas (Vice Chairman)	1964	Agrology	Member of Parliament	4/4
Paavo Arhinmäki **)	1976	-	Member of Parliament	3/4 **)
Birgitta Gran *)	1953	B.Soc. Sc.	Social Ombudsman	1/4 *)
Sirpa Hertell *)	1955	Liberal Arts undergraduate	General Secretary	1/4 *)
Susanna Huovinen	1972	M.Soc. Sc.	Member of Parliament	3/4
Harri Jaskari	1964	Lic.Sc. (Admin)	Member of Parliament	2/4
Bjarne Kallis	1945	M.Soc. Sc.	Member of Parliament	3/4
Johanna Karimäki **)	1973	M.Sc. (Tech)	Member of Parliament	3/4 **)
Lauri Kähkönen	1947	B.A.	Member of Parliament	3/4
Outi Mäkelä	1974	M.Sc. (Econ.)	Member of Parliament	3/4
Reijo Ojennus	1947	Trade Technician	Entrepreneur	4/4
Pertti Salovaara	1970	-	Member of Parliament	2/4
Harry Wallin	1953	-	Engine Driver	4/4

*) until March 23, 2010

***) starting March 23, 2010

3 Board of Directors

The duties of Itella Corporation's Board of Directors are specified in the Companies Act, the Articles of Association, and the Guidelines for Decision Making approved by the Board of Directors. According to these documents, the Board is responsible for controlling and supervising senior management, appointing and dismissing the CEO, approving the company's strategic goals and risk management principles, and ensuring the performance of the company's management system. The Board has adopted written rules and procedures which lay out the Board's key responsibilities and working principles.

Itella Corporation's Annual General Meeting appoints the members of the Board of Directors and elects the Chairperson and Vice Chairperson. However, the personnel representative is appointed from among the personnel groups, according to what has been set out in the agreement concerning administrative representation. The Board has between five and nine members. Persons aged 68 or above are not eligible for election to the Board. The members are elected for a one-year period at a time. The terms of office end at the close of the AGM following their election.

The Board of Directors evaluates its performance and working methods on an annual basis. It also assesses the performance and working methods of the CEO.

Itella's Board of Directors 2010

Member	Born	Education	Occupation
Eero Kasanen (Chairman)	1952	D.Sc. (Econ. & Bus. Adm.)	Executive Dean
Arto Hiltunen (Vice Chairman)**)	1958	M.Sc. (Econ.)	-
Kalevi Alestalo	1947	M.Soc. Sc.	Financial Counselor
Hele-Hannele Aminoff	1960	MBA	Managing Director
Erkki Helaniemi	1962	LL.M.	Partner
Mikko Kosonen (Vice Chairman)*)	1957	D.Sc. (Econ. & Bus. Adm.)	President
Päivi Pesola	1956	M.Sc. (Econ.)	Vice President
Riitta Savonlahti	1964	M.Sc. (Econ.)	Executive Vice President, HR
Maarit Toivanen-Koivisto	1954	M.Sc. (Econ.)	President and CEO
Antero Palmolahti	1952	-	National Chief Shop Steward

*) until March 23, 2010

***) starting March 23, 2010

All board members are independent of the company except for the personnel representative, Antero Palmolahti. All Board members are independent of the shareholder except for Kalevi Alestalo, the representative of the Ownership Steering Department of the Prime Minister's Office.

3.1 Audit Committee

The Board of Directors elects not more than four of its members to the Audit Committee, whose duties include:

- preparing, controlling, reviewing and assessing risk management policies, internal control systems and reports, the organization of financial reporting and auditing
- annually examining financial statements with the auditors before submitting them to the Board of Directors
- submitting proposals concerning the appointment of the auditor.
- assessing the independence of the auditor and the additional services offered by the auditor

The committee prepares matters entrusted to it for the Board of Directors.

On April 29, 2010, the Board of Directors elected the following members to the Audit Committee: Päivi Pesola (Chairperson), Hele-Hannele Aminoff, Erkki Helaniemi and Arto Hiltunen.

3.2 Remuneration and Nomination Committee

The Board of Directors elects not more than four of its members to the Remuneration and Nomination Committee, whose duties include:

- preparing decisions concerning the appointments and remuneration of executive management
- preparing the outlines for the remuneration, bonus and incentive schemes and ensuring that they are fair and competitive

The Committee prepares matters entrusted to it for the Board of Directors.

On April 29, 2010, the Board of Directors elected the following members to the Remuneration and Nomination Committee: Eero Kasanen (Chairman), Kalevi Alestalo, Riitta Savonlahti and Maarit Toivanen-Koivisto.

Attendance in meetings 2010

Board member	Committee membership	Board meetings	Committee meetings
Eero Kasanen (Board Chairman)	Remuneration and Nomination Committee (Chairman)	10/12	5/5
Arto Hiltunen (Vice Chairman) **)	Audit Committee	9/12	5/6 **)
Kalevi Alestalo	Remuneration and Nomination Committee	12/12	5/5
Hele-Hannele Aminoff	Audit Committee	10/12	6/6
Erkki Helaniemi	Audit Committee	11/12	5/6
Mikko Kosonen (Vice Chairman) *)	Audit Committee	3/12	1/6 *)
Antero Palmolahti	-	11/12	-
Päivi Pesola	Audit Committee (Chairman)	11/12	6/6
Riitta Savonlahti	Remuneration and Nomination Committee	9/12	4/5
Maarit Toivanen-Koivisto	Remuneration and Nomination Committee	9/12	5/5

*) until March 23, 2010

***) starting March 23, 2010

4 President and CEO

The CEO is responsible for Itella Group's operational management in accordance with the Companies Act and instructions and directions issued by the Board of Directors. The President and CEO is appointed and, if necessary, dismissed by the Board of Directors, which also determines the terms and conditions of his employment relationship.

Jukka Alho, M.Sc. (Tech.), has acted as President and CEO of Itella Corporation since 2000.

5 Internal control and risk management systems associated with the financial reporting process

Itella Corporation has defined internal control principles based on the generally accepted framework for internal control systems (COSO). Internal controls have been defined as a process, effected by Itella's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a) effectiveness and efficiency of operations
- b) reliability of financial reporting
- c) compliance with laws and regulations

The main characteristics of Itella's internal controls are described below based on these five components of internal controls: control environment, risk assessment, control activities, information and communication, and monitoring.

4.1 Control environment

4.1.1 Roles and responsibilities

Itella's *Board of Directors* is responsible for the company's internal control, and it has approved the corporate policies on which the control environment is based. In addition, the Board of Directors approves policies for risk management and corporate governance.

The financial reporting process is monitored by the *Board's Audit Committee*. The *internal control function* independently monitors the effectiveness of the internal control system on financial reporting in accordance with the Audit Committee's instructions. These duties are accomplished by an audit of the financial statements to ensure the quality and integrity of the financial statements and related disclosures.

The President and CEO is responsible for maintaining an efficient control environment. The Group's business operations are divided into three business groups and Group functions. Their management is responsible for internal control in their respective areas.

Management responsibilities are specified in the Group management system, which is described in the Itella Way Handbook guidelines. The business groups' management systems are described in each business group's own Business Way Handbook. In general, managers have responsibility for implementing more specific internal control policies and procedures. Both management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control in financial reporting.

The Group's *Chief Financial Officer* is responsible for developing and maintaining procedures and tools that support the management of business groups and Group functions in the consistent execution and maintenance of an internal control system for financial reporting. This allows for consistent Group-wide monitoring.

4.1.2 Group policies and instructions

Itella Group's general internal control principles and responsibilities regarding financial reporting are specified in a separate operating model (*Itella Group Policy on Control over Financial Reporting*) which has been approved by Board of Directors. This policy is also used to increase the awareness of the personnel and to influence attitudes towards internal control.

Itella Group's *Code of Ethics* sets out the Group's generally accepted policies and principles, and the Group's commitment to compliance with laws, standards, and regulations. Each Group company must ensure that its personnel are familiar with the Code of Ethics and that they comply with it in all activities. The Group has a feedback channel for reporting actions that conflict with the Code of Ethics.

The principles applied to financial communications are described in a separate document (*Disclosure Policy* at www.itella.com/financials).

The main features of ensuring correctness of financial reporting are various instructions given by Group Finance (Group Business Control and Finance unit). Financial control and reporting instructions are explained in the *Controller's Manual* published on the intranet. They feature common accounting and reporting principles and practices, as well as the roles and responsibilities of finance functions. Group-wide accounting principles are applied to financial statements. A common chart of accounts is used in Group reporting.

4.1.3 Key improvement actions during 2010

The major accomplishment of the year 2010 was the assessment and documentation of internal controls related to financial reporting processes. The work was based on generic key control requirements identified in four categories: operational, reporting, compliance and fraud. The requirements were defined for five main finance processes, as well as for IT systems. Training and support was provided to personnel involved in the project.

The main focus was on the assessment of reporting processes. Relevant operational processes, such as credit management, were observed as well.

The main results in 2010 were:

- All assessment and documentation work done at every level of the organization was consolidated and analyzed in a systematic manner.
- Deficiencies and improvement actions were identified for further development. Immediate improvements were made in areas such as access rights and the reporting process.

Read more about the operative level results in 4.3. In 2011, the focus of improvements will be on the Group-wide monitoring process.

4.2 Risk assessment

The internal control system cannot fully guarantee the absence of material errors or losses. The system can help manage risks associated with the correctness of financial reporting but not eliminate them.

Itella has identified and investigated risks associated with the correctness of financial reporting in its processes and, on the basis of its findings, taken the necessary development measures. Operational risks of the financial reporting process are assessed as part of Itella's enterprise risk management.

During 2010, Itella analyzed its main financial risks as part of the control assessment process and identified the main areas of impact on financial processes. This analysis was made at Group level and the results were also used at unit level to support their control assessment work. Risk assessment evaluation will support improvement actions in 2011.

4.3 Control activities

The purpose of control activities is to ensure the quality of financial reporting and to secure the company's assets. Control activities include the inspection and approval of various business transactions, principles for the segregation of duties and for approval authorizations, the inspection of basic data and system registers, reconciliation of bank balances and accounts, checklists, and various IT and systems controls linked with financial reporting.

During 2010, Group-wide assessment of the current status of controls was carried out in all parts of Itella's organization. All units assessed their internal controls based on Group-level control requirements, documented their financial reporting processes and prepared detailed improvement plans. Support, instructions and tools were provided to ensure smooth progress and consistency of documentation.

In many areas, immediate improvements were made. The general assessment results confirmed that key control activities are performed appropriately. Several development areas were identified, such as authorization of access rights and harmonization of instructions. Development plans were prepared at unit and Group level. Key improvement areas are coordinated at Group level. During 2011, key improvement actions include enhancements in access controls, as well as harmonization of Group-wide operating practices and process documentation.

4.4 Information and communication

The Group Finance function is responsible for maintaining Itella's financial reporting principles and guidelines. The Group's finance personnel have been informed of these principles and guidelines over the intranet. Throughout the year, Group management and unit managers inform all organizational levels of the Group's financial performance, taking into account the constraints of the Disclosure Policy. Business units regularly prepare financial and management reports for the units' and the Group's management, analyzing and discussing matters related to the business units' profitability and risks.

The Group's profitability is reported to the Board of Directors at every meeting. The Board reviews all interim reports and annual financial statements before they are disclosed. Itella complies with the reporting standards specified for listed

companies and publishes stock exchange releases on its interim reports and annual financial statements. Itella also reports to the Finnish Communications Regulatory Agency on operations related to its universal service obligation.

Itella uses the Group-wide Hyperion system for consolidation process. Consolidation data is transmitted to Hyperion automatically or through manual input. The reported figures are reviewed in subsidiaries, as well as in business groups. Group Finance also validates reported figures before publishing financial statements.

Key improvement actions in 2010 concerned the Group-wide program which was launched in order to harmonize financial processes. The key targets of this three-year program are to ensure the efficiency and effectiveness of the financial reporting process.

4.5 Monitoring

Itella Group has a financial reporting system applied Group wide for monitoring business operations. This system allows for the identification of any reporting non-conformities. External and internal reports are based on the same information and they are processed in the same system. This allows financial data to be monitored at all levels: the Group level, business group (or Group function) level, business unit level, and individual reporting entity level.

Group Finance and Business Groups follow the correctness of external and internal reporting ensuring that external reporting is in compliance with regulations. Local managers and controllers also ensure that external reporting is in compliance with local regulations. Group Financial Management Board (representatives of Group, Group Functions and Business Groups) meets monthly to review financial reports and to analyze possible deviations.

The Itella Group's objective in 2011 is to continue with the implementation of a monitoring system for the internal control on financial reporting based on assessment work in 2010. The results of the assessment of this system are reported to Group management and the Audit Committee a minimum of once a year.