

Itella Corporation
 Corporate Governance Report for 2009
 February 11, 2010

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1 Corporate Governance Code observed by Itella

The duties and responsibilities of Itella’s executive bodies are defined according to Finnish law. Itella’s decision-making and administration comply with the Finnish Limited Liability Companies Act, Itella Corporation’s Articles of Association and the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association.

2 Composition and duties of the Supervisory Board, the Board of Directors, and the Board Committees

2.1 Supervisory Board

The Supervisory Board’s duties include the following:

- Ensuring that the company 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 an opinion on the company’s financial statements and the auditors’ report
- Monitoring the functioning of postal services and the 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.

The Chairman, Vice Chairman, and members of the Supervisory Board are elected by Itella Corporation’s Annual General Meeting. Members’ terms of office end at the close of the next AGM

following their election. The AGM held on March 27, 2009, decided to set the number of Supervisory Board members at 12 and not to change its composition.

Chairman: Eero Lehti, MP, National Coalition Party

Vice Chairman: Antti Rantakangas, MP, Centre Party

Members:

Birgitta Gran, Social Ombudsman, Left Alliance

Sirpa Hertell, Secretary General, Green League

Susanna Huovinen, MP, Social Democratic Party

Harri Jaskari, MP, 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 Party

Pertti Salovaara, MP, Centre Party

Harry Wallin, engine driver, Social Democratic Party

Supervisory Board members	Attendance at meetings
Eero Lehti, Chairman	4/4
Antti Rantakangas, Vice Chairman	4/4
Birgitta Gran	4/4
Sirpa Hertell	4/4
Susanna Huovinen	4/4
Harri Jaskari	4/4
Bjarne Kallis	4/4
Lauri Kähkönen	4/4
Outi Mäkelä	3/4
Reijo Ojennus	4/4
Pertti Salovaara	3/4
Harry Wallin	4/4

2.2 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. 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.

The AGM elects the Chairman, Vice Chairman, and members of Itella Corporation's Board of Directors. Members' terms of office end at the close of the next AGM following their election. The AGM held on March 27, 2009, decided to set the number of Board members at 9 and to change its composition as follows:

Chairman of the Board of Directors: Eero Kasanen, b. 1952, D.Sc. (Econ. & Bus. Adm.); Executive Dean, Dr.

Vice Chairman: Mikko Kosonen, b. 1957, D.Sc. (Econ. & Bus. Adm.)

Members:

Kalevi Alestalo, b. 1947, M.Pol.Sc.

Hele-Hannele Aminoff, b. 1960, MBA

Erkki Helaniemi, b. 1962, LL.M.

Päivi Pesola, b. 1956, M.Sc. (Econ.)

Riitta Savonlahti, b. 1964, M.Sc. (Econ.)

Maarit Toivanen-Koivisto, b. 1954, M.Sc. (Econ.)

Antero Palmolahti, b. 1952, National Chief Shop Steward (employee representative)

Board members' attendance at meetings in 2009

Member	Committee membership	Board of Directors	Committee
Eero Kasanen, Chairman	Remuneration and Nomination Committee, Chairman	11/12	6/7
Mikko Kosonen, Vice Chairman	Audit Committee	12/12	4/5
Kalevi Alestalo	Remuneration and Nomination Committee	12/12	7/7
Hele-Hannele Aminoff	Audit Committee	11/12	5/5
Erkki Helaniemi	Audit Committee (Chairman until August 22, 2009)	12/12	5/5
Antero Palmolahti	-	12/12	-
Päivi Pesola *)	Audit Committee (Chairman as of September 22, 2009)	9/9	4/4
Mirja Sandberg **)	-	3/3	-
Riitta Savonlahti	Remuneration and Nomination Committee	11/12	6/7
Maarit Toivanen- Koivisto	Audit Committee until March 27, 2009/Remuneration and Nomination Committee	11/12	1/1 and 4/5

*) A Board member since March 27, 2009

**) A Board member until March 27, 2009

All Board members except for employee representatives Antero Palmolahti and Mirja Sandberg were independent of the company. All members other than Kalevi Alestalo, a representative of the Ownership Steering Department of the Government Office, are independent of the shareholders.

2.3 Board Committees

The Audit Committee's duties include preparing, controlling, and assessing risk management policies, internal control systems, as well as the organization of financial reporting, auditing, and internal audit, and annually examining financial statements with the auditors before submitting them to the Board of Directors. The Committee prepares matters entrusted to it for decision-making by the Board of Directors.

Members of the Audit Committee were Erkki Helaniemi (as Chairman until September 22, 2009), Päivi Pesola (Chairman as of September 22, 2009), Hele-Hannele Aminoff, Mikko Kosonen and Maarit Toivanen-Koivisto until March 27, 2009.

The Remuneration and Nomination Committee is responsible for preparing proposals and general guidelines for management remuneration and appointments, and for the Group's remuneration, bonus, and incentive schemes, for consideration by the Board of Directors. Moreover, the committee ensures that the Group's remuneration schemes are fair and competitive.

Members of the Remuneration and Nomination Committee were Eero Kasanen (Chairman), Kalevi Alestalo, Riitta Savonlahti, and Maarit Toivanen-Koivisto.

3 President and CEO

The CEO is responsible for the Group's operational management in accordance with the Companies Act and instructions and directions issued by the Board of Directors, and for informing the Board of Directors of the company's business and financial performance. The President and CEO is also responsible for organizing the company's administration and for ensuring reliable management of the company's assets.

Itella Corporation's President and CEO:

Jukka Alho, b. 1952, M.Sc. (Tech.)

President and CEO of Itella Corporation since 2000

Positions of trust:

- Chairman of the Board of Directors: The Employers' Association TIKLI
- Board member: Ilmarinen Mutual Pension Insurance Company, Finnish Federation for Communications and Teleinformatics FiCom, Kirkkopalvelut ry (Church Services Association)
- Supervisory Board member: Luottokunta credit institute, The Finnish Fair Corporation
- Delegate: Central Chamber of Commerce, Helsinki Region Chamber of Commerce, the Finnish Section of the International Chamber of Commerce

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

This section contains a description of the key features of the internal control and risk management systems associated with financial reporting. It explains how Itella's internal control has been organized to ensure that the financial reports published by the company offer materially correct information about

the company's financial performance. The purpose of the description is not to assess the effectiveness of the internal control associated with financial reporting, and it is not included in Itella's audited financial statements.

In 2009, Itella launched a project with the objective of developing an internal control system on financial reporting. It is based on the generally accepted framework for internal control systems monitoring published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The model comprises five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring.

4.1 Control environment

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. The policies are also used to increase personnel awareness and to influence attitudes towards internal control. 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).

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 the Code in all activities. The Group has a feedback channel for reporting actions that conflict with the Code of Ethics.

The financial statement 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.

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 Handbooks.

The Group's Chief Financial Officer is responsible for developing and maintaining procedures and tools that support business group management and Group functions in the consistent execution and maintenance of an internal control system for financial reporting. This allows for consistent Group-wide monitoring. Financial control and reporting instructions are explained in the Controller's Manual published in the intranet. They feature common accounting and reporting principles and practices as well as the roles and responsibilities of finance functions.

4.2 Risk assessment

The objective of Itella's financial reporting is to offer reliable, timely, correct, and appropriate information for external and internal purposes, and to do this in compliance with the legislation and regulations in effect at the time.

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.

4.3 Control activities

The purpose of control activities is to ensure the quality of financial reporting and to secure the company's assets. In 2009, Itella devised a new internal control system for the key processes associated with the correctness of the Group's financial information. During 2010, the objective in the parent company and in subsidiaries is to assess the current status of control measures against the new system and to develop them on the basis of the needs identified. The common control requirements of the system allow the fulfillment of the basic requirements on financial statements (existence, rights and obligations, verifiability, coverage, valuation, measurement, presentation, and disclosure). The control requirements contain both general and detailed control measures designed to prevent, detect, and correct errors and non-conformities.

The control system also features instructions and tools for the purposeful description and testing of the financial reporting control measures. The objective in 2010 is to perform testing measures to ensure the control measures referred to above work properly. Corrective action will be taken if necessary.

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 associated with financial reporting.

4.4 Information and communication

The Group's profitability is assessed in each Board of Directors' meeting, and the Board reviews all interim and annual reports before they are published. Itella complies with the reporting standards specified for listed companies and publishes stock exchange releases on its interim and annual reports. The principles applied to financial communications are described in a separate document (Disclosure Policy). Itella also reports to the Finnish Communications Regulatory Agency on operations related to its universal service obligation.

In 2009, Itella extended its monthly internal financial reporting to cover financial indicators for actual and anticipated tied-up capital and for unit-specific cash flows. 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.

4.5 Monitoring

The 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.

Similarly, external and internal audit functions report regularly to the Audit Committee. An external auditor and the director of Itella's Business Audit unit attend each Audit Committee meeting. The internal audit function reports to the Audit Committee. In its meetings the Audit Committee discusses matters related to the control environment, impairments, and internal and external audit reports and reviews.

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