



ANNUAL AND CORPORATE
RESPONSIBILITY REPORT
2011

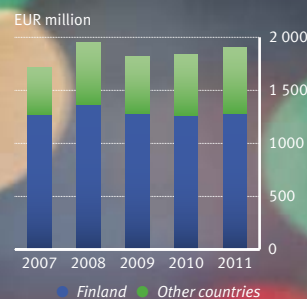
itella

Financial performance in 2011

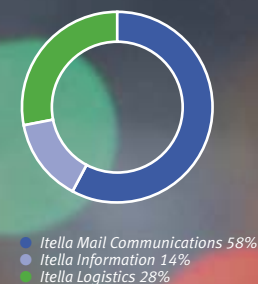
Itella's year was financially challenging, and profitability decreased. However, Itella did well on the market, and net sales slightly increased from the previous year. International business accounted for a third of all net sales.

The Group's operating profit before non-recurring items amounted to EUR 30.5 million, but with non-recurring items, the operating profit for the whole year showed a loss of EUR 5.9 million. The financial performance was burdened by non-recurring items, of which EUR 27.0 million is related to personnel and the cost cutting program initiated by Itella in August 2011.

Net sales



Net sales by business group 2011



Itella's consolidated key figures

	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

Key events during the year

- The deposit bank license obtained by Itella Bank Ltd. expands Itella's service range in online commerce, parcel services and other mail business, and in financial administration services.
- OpusCapita, acquired by Itella Information, expanded services to cash flow automation.
- The parcel volumes started to increase. SmartPOST automatic parcel terminals were introduced.
- The new Postal Act took effect on June 1, 2011.
- Notable customer agreements: Sanoma News, Mekonomen, Edda Media, and Electrolux.
- The three-year cost cutting program of EUR 100 million was launched.
- Itella received the Environmental Achievement of the Year 2011 award.

Key figures of business groups

	2011	2010	Muutos
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

Three business groups

Itella Mail Communications provides daily postal services throughout Finland via Itella Posti Oy. Multi-channel services and electronic ways of doing business are our response to changing customer needs. For companies in Finland and Russia, we provide targeted marketing solutions with which they can reach their customers with success.

Itella Information provides financial processes as a service. We improve the profitability of all of financial administration. Our solutions are based on productized, modular best practices. Itella Information operates in 11 European countries. In the Nordic countries, we are the leading operator in the field.

Itella Logistics supports and develops the business of its customer companies by providing them with service logistics solutions for road, sea and air freight, warehousing and other contract logistics. We provide logistics solutions in Northern Europe and Russia in eight countries. Through our partners, we offer logistics solutions throughout the world.

Corporate Responsibility

Responsibility has been an integral part of Itella throughout the history of the company. Itella's corporate responsibility is part of our strategy and is based on shared values and a code of conduct for employees.

Itella is committed to the UN Global Compact principles. Corporate responsibility is reported in accordance with GRI guidelines.

Itella divides corporate responsibility into four sub-categories: financial, social, people, and environmental.

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Itella in Brief

Itella is an international service company specializing in customers' important information and product flow management.

We provide corporate customers with solutions they can use to make their business more effective and improve their competitiveness. Our key mission in Finland is to provide premium mail services to all consumers and companies throughout the country. Itella Group provides services in 12 countries in Europe and Russia.

Businesses and organizations generate 96 percent of its total net sales. Itella's key customer industries include the media as well as the trade and services industries. International business accounts for a third of all net sales.

In 2011, Itella's net sales totaled EUR 1,900 million, and the corporation employs approximately 27,500 professionals. Itella has a solid background: the State of Finland owns all shares of the company.

CEO's Review

The instability of the business environment continues

The year 2011 will be recorded in history as a year of exceptional international volatility. Even though turbulent financial times are by no means a novelty, the events and phenomena seen in the euro zone during the past year were quite unprecedented.

Itella's finances and business operations faced extremely conflicting trends and pressures. While there was a substantial amount of solid and healthy growth in the business, there were also signs of negative trends as we prepared ourselves for an increasingly tough competitive environment. Financial performance was exceptionally weak, weighed down significantly by non-recurring items in all of our business operations. These were the result of a need to increase efficiency, related to future market development. In addition, they include measures that shed operations which have failed to meet our expectations. A focus on the productive core of all of our business operations will also be necessary in the coming years. The company's solvency remains strong.

Magazine volumes decline, parcel volumes increase

The trend with the strongest impact on future operations in 2011 was the influence that electronic communications has had on print media's delivery volumes. Although this trend in itself is hardly a surprise, the simultaneous drop in the volumes of both newspapers and magazines was significant enough to attract attention. Despite the fact that the parcel volumes grew splendidly and that total net sales remained stable, profitability declined significantly.

Seemingly unavoidable trends prompted us to initiate large-scale efforts to increase efficiency. These efforts also entailed substantial reductions in the workforce and, consequentially, the non-recurring cost items that dragged profits down. It is reasonable to expect the share of business related to online commerce and the transport of small items to grow significantly in relation to letter deliveries.

An assessment of the effects of the Postal Services Act that took effect in June is still difficult since issues related to it, such as the funding of the universal service obligation, remain unresolved. From the perspective of business operations, there is the threat that legislation and political deliberations will not be able to keep up with the pace of changes in customers' behavior. In terms of public discussion, we can expect a difficult phase since, while the

majority of customers are using electronic services to an increasing degree, segments of the population still prefer to take care of their errands in the traditional way.

Net sales of Logistics increased in Finland and Russia

Volumes in our Logistics business group continued recovery to pre-financial crisis levels and, correspondingly, net sales developed favorably. This was particularly evident in Finland and Russia. In this respect, the positive trends continued until the end of the year, without any significant impact attributable to market fluctuations. Itella's role as a consolidator between Finland and the other Nordic countries and, on the other hand, of Russian logistics services, plays an important role in the company's strategy.

The greatest challenges for the Logistics business group involve the Swedish and Danish markets, where large-scale measures are still required. Not taking into account the related non-recurring items, profitability improved, but a lot remains to be done. The year saw us concluding a number of important deals, particularly in Finland and Russia. This is a crucial signal for us, indicating that our range of services and strategy are on the right track.

Ready for a new generation of financial management services

Itella Information's transformation into a supplier of diverse and comprehensive financial management solutions continued. Important events related to business development and renewal included the acquisition of OpusCapita, a company specialized in the automation of cash flows. In terms of our international network, Poland's role as a major center of service production grew. Because Itella Bank was granted a deposit bank license during the past year, we can say that Itella now has a unique ability to produce and develop a new generation of financial management services.

Itella Information's net sales declined markedly due to the business group's restructuring and the related non-recurring items as well as due to a rapid drop in the volumes of traditional business, which corresponded to the changes in the market. The brisk growth of new business operations had a negative impact on the results of Itella Information in 2011.



Responsible business operations, sound management culture

Responsibility lies at the very core of our strategy. Itella's mission is to produce services required by society by securing its customers' important information and product flows. Our responsibility lies in carrying out this task with as little environmental impact as possible, in a way that also supports the well-being of our personnel and good leadership.

Now and in the future, climate change requires us to invest in the continuous improvement of the energy efficiency of our transport operations and properties and in the increasing utilization of renewable energy sources. Our goal is to reduce carbon dioxide emissions by 30% by 2020.

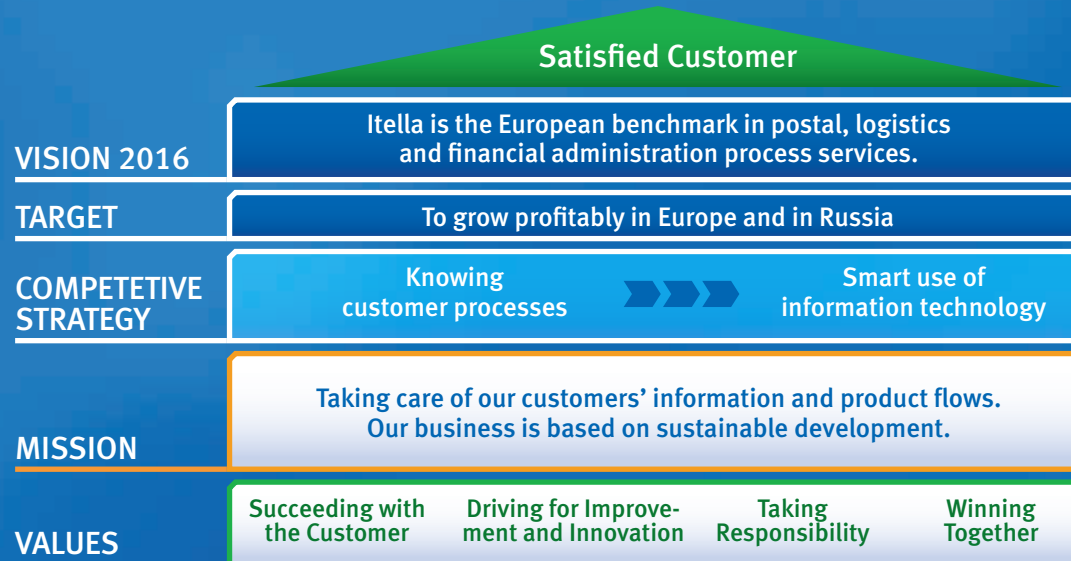
Initiatives related to enhanced efficiency reduced our personnel by 740 people in Finland. Thanks to voluntary severance packages, pension schemes, and organizational restructuring, we were able to reduce the number of layoffs to 460.

The past year saw us focusing heavily on values and the leadership. Judging by the improvements in the results of our personnel survey (in spite of a difficult year), this seems to have paid off. We will continue to emphasize leadership and management during the year ahead. Itella is a pioneer in measuring leadership. We have adopted a personal leadership index developed for the purposes of management. This index also functions as a basis for awarding bonuses. Already, this has resulted in leadership having claimed its place among issues considered important by the management and on the management's daily agenda.

Itella's desire for profitable growth will continue to characterize its operations. Only a financially sound company can realize its responsibility towards society, its personnel, the environment, all stakeholder groups, and, in particular, its customers, with an eye to their needs.

Jukka Alho
President and CEO

Our strategy



Itella has summarized the essential components of its strategy in a strategy house.

The strategy is based on Itella's four values, which were updated in 2011 in all of the company's countries of operation on the basis of value discussions conducted among personnel.

Itella's mission has remained largely unchanged throughout its history. Itella wants to manage its customers' information and product flows by producing basic services that are important for the whole of society. While the ways of accomplishing the mission have changed over time, especially with digitization, the core mission has remained unchanged.

We seek to differentiate ourselves from other operators in the field by acquiring a deeper knowledge of all of the central selected processes and needs of customer groups better than competitors. To

meet the identified needs of companies, organizations, and consumers, we develop customer-focused solutions. All these solutions are based on the innovative exploitation of skills in information technology and programming.

Our most crucial goal in the near future is to restore profitability to a healthy level. Profitability is approached critically, from the perspective of geographical areas and business groups alike.

In line with its vision, Itella aspires to be a leading European company in all of its core sectors. In some markets, Itella is already the industry market leader; in other markets, Itella is the most innovative reformer in the industry.

The fundamental goal of everything that Itella does is satisfied customers, who are confident to leave their information and product flows in Itella's care.

Putting the customer first

The customer comes first at Itella. Therefore, we base our strategy and service offering on customer needs.

In the case of our corporate customers, we help companies sell, deliver, invoice, and manage their financial affairs. Consumers benefit when we assist them in buying, paying, completing transactions, and receiving mail.

The starting point of a customer-focused strategy is having a better understanding than your competitors of companies' selected processes, and being able to provide your customers with precisely the solutions they need.

A clarification of business strategies

Throughout the 2000s, Itella has focused on the systematic improvement of the same Group-wide strategy.

Business group strategies ensure Itella Group's long-term success in a changing market place. The fall of 2011 saw us update our strategies, particularly with regard to Logistics and Mail Communications. Logistics will continue to reinforce its strong market areas and invest in growing customer segments. Mail Communications will improve profitability and continue to develop the multi-channel service. In line with its strategy, Information will continue to strengthen its comprehensive service range in the field of financial management.

All of these business group strategies support the overall Group strategy, which aims to increase the Group's synergy benefits. Group synergies are the result of interconnected business operations and shared customer accounts. Consolidated and shared management systems and support functions also produce significant benefits for the Group.

Group synergy is also created by Itella Bank Ltd. In the future, its services will be employed in the offerings of all business groups.

Increasing efficiency in 2012

In 2012, the implementation of the strategy will focus specifically on the continuous improvement of efficiency and cost-cutting measures, both of which will help Itella to adapt to the vast transition taking place within the industry. Other important focal points in the near future include the production of increased customer benefit, leadership development, and the increasingly efficient utilization of information technology.

Profitable growth is also a central goal of Itella's long-term strategy. To achieve this goal, Itella will reinforce its competitive standing and re-position itself on the market as a producer of services with higher added value. This allows us to offer our customers comprehensive solutions with a broader scope and increase their benefits. At the same time, we will improve profitability by reducing operations with low added value by disposing of some business operations.

Itella seeks growth in parcel services, made more popular by online commerce, and the forwarding of digital information. Simultaneously, we aim to secure the profitability of the traditional postal business.

Itella continues to develop a consolidated procedure for different business operations and countries of operation. There are processes shared by the entire Group in HR and information management as well as financial management.

Corporate responsibility is also promoted with the help of consolidated steering and goals. The four aspects that constitute Itella's corporate responsibility relate to finances, society, our personnel, and the environment. Our strong brands, Itella and Posti, underline the reliability and responsibility of Itella Group.

The market leader in Finland and Russia

From a geographical point of view, Itella's strongest market position is in Finland, where it executes its statutory duty of offering universal postal services. To Itella Group, Finland represents a dynamic and technologically advanced home market, providing the Group with a sound basis for innovations in other countries, too.

Russia is a rapidly developing market area that provides Itella with an excellent opportunity for long-term growth. Goal-oriented operations have made Itella Logistics the market leader in Russia's warehousing services sector.

In mature markets, such as the Nordic countries and Germany, competition is tough in the sector of services offered by both Logistics and Information. Success in these markets requires precise specialization and targeted services that match customer needs.

Recent years have seen Itella expand its operations into Central Europe by acquiring existing companies and also establishing new ones. Itella Information, for instance, has centralized financial management in competence centers that operate from Latvia and Poland.



*Itella's strategy online:
www.itella.com/strategy*



Itella Bank Ltd's range of services will be utilized by all business groups in the future.

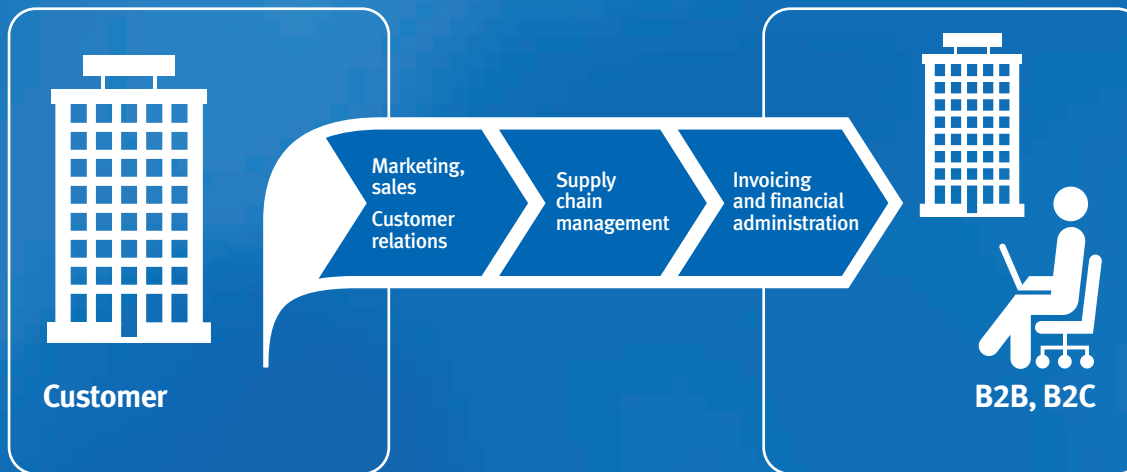
A busy city street scene with pedestrians and a tram. The text 'Itella makes your business flow' is overlaid in large white font. The background shows a tram, cars, and people walking on a sidewalk.

Itella makes your business flow



We provide solutions for information and product flow management

At Itella, we focus on our customer's needs and their key business processes. We help companies every step of the way, providing solutions for selling and marketing, delivery and invoicing, and financial management.



Our complete service chain, from sender to recipient, ensures customer satisfaction when they use business services and handle their mailing needs.

Our customer-oriented mindset is based on extensive experience with our customers' business processes. This means we at Itella are capable of offering tailored, comprehensive solutions for our customers' information and product flow management.

Itella's three business groups offer a uniquely extensive service selection. Our services cover all the main processes that customers need for business success.

Itella helps companies reach all consumers in Finland, on every business day. Posti and its services play a pivotal role in the lives of consumers in Finland. Posti offers diverse service locations and several electronic channels for doing business.

Marketing,
sales
Customer
relations

We help corporate customers find the right target groups for their products and tailor effective messages for those groups. Companies can choose physical and digital delivery options, or combine the two. We even help keep customer registers up to date. Our customer marketing solutions create additional sales in a cost-effective way.

EFFICIENT DIRECTION OF MARKETING

Berner, a Finnish conglomerate, employs the Itella Media Bank, where it stores and maintains all of its marketing materials concerning various brands. When all the material is found in one place, projects can be carried out faster, even among several partners. Feedback, editing, and other work on the marketing material can be carried out quickly and efficiently.

BERNER

MAILING AND MESSAGE HANDLING FOR THE ENTIRE COUNTRY

Itella and the private health care service provider Terveystalo concluded a deal on comprehensive communications handling solutions that comprise pricing, pickup and delivery services, address updating service, iPost printouts, invoice scanning, and the transmission of e-invoices. Letters are picked up daily from the 150 Terveystalo offices across the country and priced according to the service process. The constantly updated invoicing data and joint invoicing enhance and improve Terveystalo's invoicing processes.

Terveystalo

PRECISE TARGETING AND EFFECTIVE CAMPAIGNS

Kitchen and bathroom fixtures provider Kymen Keittiötukku Oy targets its direct mailing campaigns with the Itella aTarget service, designed for the efficient segmentation of potential customers in any given area. As a registered user of the service, the customer can select the desired target groups on the basis of selected criteria and the desired postal code. The service facilitates the planning of direct marketing and improves cost-effectiveness. Keittiöpiste carried out a successful campaign and achieved the goals set for the campaign.

KEITTIÖpiste

COMPREHENSIVE SERVICES FOR A FAST-PACED PRODUCT STORE

Itella provides a Finnish media company MTV MEDIA with storage, warehouse management, and logistics for the official products of the Finnish national ice hockey team, Leijonat. Itella receives product deliveries at its warehouse, picks and packs the products according to orders, and delivers them to recipients with delivery times ranging from one to three days. Itella also takes care of customer returns and handles returned products at its warehouse. With Itella running the day-to-day processes of its online store, MTV MEDIA can focus on marketing the brand.

MTV MEDIA



Supply chain management

Itella specializes in customer information and product flows. All our products and services utilize our modern supply chain, supported with advanced information technology. Our innovative solutions and services provide customers with added value and a competitive edge.

ITELLA AS AN INTERNATIONAL WAREHOUSE AND TRANSPORT PARTNER

Itella takes care of the warehousing of Rautakesko's goods in Finland, the Baltic countries, Russia, Sweden and Norway. The agreement covering the entire operating area of Rautakesko provides well-defined, straightforward and effective logistics processes and responsibilities. The partnership covers the warehousing, terminal functions and store transport of hardware and agricultural products. In 2013, Rautakesko will centralize its Finnish warehouse operations to Itella's new logistics center in Pennala.

FAST AND COST-EFFECTIVE REFRIGERATED TRANSPORTS

Itella manages the country-wide transportation of Ilmajoen Makkaramestarit's meat products. A shipment picked up in the afternoon is delivered in less than 24 hours to any domestic location. An online service even allows the customer to monitor the temperatures of the food stuffs during transit. The products are transported in a vacuum-packed crate, the top part of which is cooled with the help of a gel element. Itella's service allows Ilmajoen Makkaramestarit to provide its customers with faster and increasingly cost-effective services.

ELECTROLUX FINLAND ASSIGNS ITS LOGISTICS TO ITELLA

Starting from April 2012, Itella will provide Electrolux Finland with comprehensive logistics services that includes warehousing services, domestic freight deliveries to retailers and construction companies. In addition, the agreement covers all home deliveries and installation services for consumer deliveries. Electrolux appreciates Itella's comprehensive service range, extensive national transport network and cost-effective total solution.

ITELLA'S FASHION LOGISTICS SERVICES VIA FINLAND TO RUSSIA

Itella is the logistics partner of children's clothing manufacturer Reima in Finland and Russia. Reima products manufactured in Asia are delivered via Finland to Russian retailers. Itella stocks the goods that arrive from Asia and processes them further (when necessary) at its fashion logistics unit. Examples of value-added services include combining shipments, re-packing, product labeling, repair, and ironing. If needed, Itella will take care of customs documents and transport to Russia, as well as warehousing in the country. The customer may also use Itella's international transports and delivery services in Russia.

Invoicing and financial administration

At Itella, we provide value for our customers by developing financial administration processes as a service. At their most extensive, our services cover the company's entire accounting and payroll administration. Large volumes, automatic processes, and the best practices in the sector ensure cost-effective financial administration solutions.

HSB ENHANCES ITS PURCHASE AND SALES INVOICING

Itella Information undertook the management of the purchase invoice processing and printing of outgoing materials of HSB, a Swedish building and loan association with 500,000 members. As a service provider specialized in electronic operations, Itella has the capacity to offer HSB an efficient solution whose results have clearly surpassed the customer's expectations.

TOYOTA RAHOITUS CHOOSES ALLIGATOR

Toyota Rahoitus (Financial Services) bought Itella Alligator's comprehensive service package that covers the processing of purchase and sales invoices, ledger management, payroll accounting, and reporting. The consolidated invoicing environment improves process management and cost control, while the automated operations reduce lead times and accelerate cash flow.

NOKIAN TYRES OUTSOURCES PAYROLL AND TRAVEL MANAGEMENT

Nokian Tyres outsourced its entire payroll and travel management to Itella. The outsourcing modernized the former system solutions and simplified the processes of payroll and travel management. The outsourcing has increased the amount of accurate data and supervisors can now access personnel files through a single, clear system.

ITELLA AND DNA PARTNER UP IN THE TRANSMISSION OF INVOICES

In March, Itella Information concluded an agreement on the processing of sales invoices with cell phone operator DNA. In line with the agreement, Itella receives the invoice data, prints, and envelopes paper invoices and formats electronic invoices to suit different channels. A personalized service integrated to invoicing improves DNA's customer communications and increases sales. The solution also includes the archiving of invoices. DNA and Itella actively steer customers towards electronic invoicing, a measure projected to yield 30 percent savings in costs.



HSB – där möjligheterna bor



A nighttime photograph of a city street. The scene is dominated by light trails from moving vehicles, creating long, horizontal streaks of white and red light in the foreground. In the background, a large, multi-story building is illuminated with blue and white lights, and other city lights and signs are visible. The sky is dark blue. The text 'Three strong business groups' is overlaid in large, white, sans-serif font on the left side of the image.

Three strong business groups



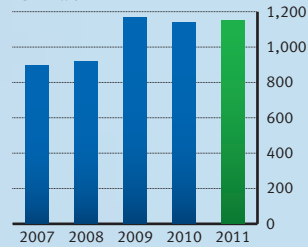
Itella business groups in brief

Key figures for 2011

Itella Mail Communications

Net sales

EUR million



- **Turnover**
€1,151.7 million
- **Operating result (Non-IFRS*)**
€49.8 million
- **Operating result**
€31.4 million
- **Number of staff:**
17,883 (31 December)

Services

- Letter, publication, and direct mail delivery solutions
- Domestic and international parcel services
- Posti shops, postal agency shops, pickup outlets, and SmartPOST automatic parcel terminals
- Comprehensive solutions for online commerce
- Electronic postal services, NetPosti
- Online tools for marketing communication
- Analysis, target group, and register correction services

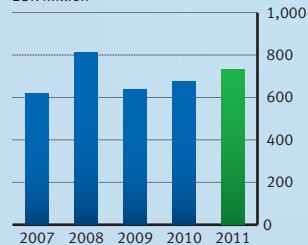
Countries of operation

- Finland, Estonia, and Russia

Itella Logistics

Net sales

EUR million



- **Turnover**
€731.6 million
- **Operating result (Non-IFRS*)**
€-6.4 million
- **Operating result**
€-15.7 million
- **Number of staff:** 7,088 (31 December)

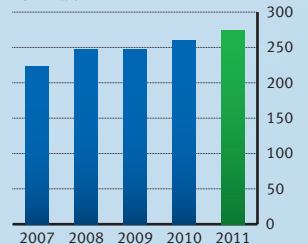
- Global road, air, and sea freight
- Domestic freight
- Warehousing services
- Logistics information systems

- Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania, and Russia
- Global road transport and sea and air freight services provided with partners worldwide

Itella Information

Net sales

EUR million



- **Turnover**
€273.7 million
- **Operating result (Non-IFRS*)**
€3.2 million
- **Operating result**
€-4.1 million
- **Number of staff:** 2,259 (31 December)

- Outbound services
- E-invoice operator
- Finance and accounting services
- Outsourcing
- OpusCapita Cash Flow Automation
- Electronic order-supply chain

- Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Rumania, Slovakia, and Sweden
- Presence almost everywhere in Europe and North America through the partnership network

* Non-IFRS = excluding non-recurring items

Vision and mission	Year 2011	
<p>Vision The market's leading multi-channel forwarder of goods and information, as required by the customer's recipients</p> <p>Mission The multi-channel distribution of society's goods and information</p>	<p>01/11 Itella centralized its domestic postal services into a new subsidiary, Itella Posti Oy. The structural change aims to streamline Group management and increase the transparency of operations in terms of the Group's owner and stakeholders.</p> <p>01/11 Jukka Rosenberg, M.Sc. (Econ.), was appointed Head of Mail Communications.</p> <p>02/11 The speed with which 2nd class letters are delivered was increased and sending restrictions were lifted. The new practice provides consumers and small and medium-sized companies with an easy and inexpensive way to send letters.</p>	<p>02/11 Itella completed the transition to the entirely carbon-neutral delivery of letters, publications, parcels, and direct advertisements. Delivery emissions are offset by participation in climate projects that favor renewable energy sources.</p> <p>10/11 Itella Posti deployed 35 new SmartPOST automatic parcel terminals. The network, which is comprised in total of 50 terminals, covers nearly all of Finland's major cities.</p> <p>12/11 The popularity of online shopping was evident in the number of Christmas parcels, which grew in volume by 15 percent in comparison to year 2010.</p>
<p>Vision Regional top performer in service logistics</p> <p>Mission We offer logistics to create customer, personnel and shareholder value</p>	<p>03/11 Lauri Vesalainen was appointed Head of Itella Logistics.</p> <p>09/11 Itella Logistics and Mainfreight USA agreed on cooperation that reinforces Itella's standing as a road, sea, and air freight service provider that also offers customs declaration and forwarding services in the United States.</p> <p>09/11 Itella Logistics centralized its Asian operations in eight countries to a new partner, On Time Express (OTEL). The cooperation expands Itella's transport networks in Asia and increases transport volumes and capacity.</p>	<p>10/11 The foundation stone of Itella's new logistics center in Pennala was laid. The 77,000-square meter energy-efficient logistics center, set for completion in 2013, will house, among other things, domestic warehousing operations for Rautakesko .</p> <p>10/11 VR Group and Itella studied the cooperation and synergy benefits of their transport businesses in Finland's groupage sector and Russian operations.</p> <p>12/11 Itella Logistics received its first environmental certification in Russia. The business group's quality and environmental certificates cover more than 30 offices in seven countries.</p>
<p>Vision #1 value provider in financial processes in Europe</p> <p>Mission Optimization of financial transactional processes</p>	<p>03/11 Itella and cell phone operator DNA concluded an agreement on the processing, transmission, and archiving of sales invoices and the promotion of electronic invoicing.</p> <p>04/11 Itella strengthened its standing as a European financial and payroll administration partner by acquiring the German business NewSource GmbH.</p> <p>06/11 Itella's acquisition of OpusCapita allowed it to solidify its competence in financial management and the automation of cash flows.</p>	<p>06/11 Itella acquired the service center of the Norwegian media corporation Edda Media Company and began to manage the corporation's payroll, bookkeeping, and invoice administration.</p> <p>07/11 Mekonomen – the leading spare-parts chain in Sweden – outsourced its entire financial management to Itella.</p> <p>09/11 OpusCapita provided its customers with direct links to Central European banks through the Electronic Banking Internet Communication Standard (EBICS).</p>



Mail Communication
online:
[www.itella.com/
mailcommunication](http://www.itella.com/mailcommunication)



For businesses, Itella
develops new solutions
for successful customer
outreach through ad-
dressed and unaddressed
deliveries.

Mail Communications Towards multi-channel services

Mail Communications' multi-channel services – physical services and outlets, electronic services, or a combination of the two (sometimes referred to as hybrid services) – are Itella's response to the changing needs of the information society and today's customers. All of the services mentioned are produced by Itella Posti Oy and are available to both consumer and business customers. Itella Posti Oy is responsible for providing the services.

Itella Mail Communications' most important mission is to provide postal services for all Finns. In fact, Itella is the only operator in the country capable of offering five-day delivery services to every address in Finland. Our services also include a network of Posti outlets that covers the entire country, as well as electronic services, including the electronic mailbox NetPosti. Services

offered to consumers are marketed under the Posti brand.

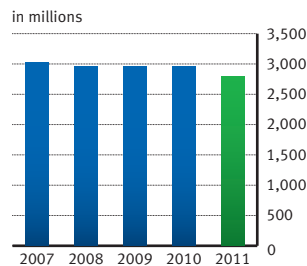
For businesses, Itella develops new solutions for successful customer outreach through addressed and unaddressed deliveries.

Increased growth in electronic service

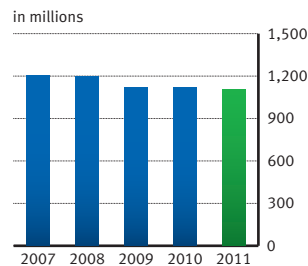
The most fundamental change seen in Mail Communications' business environment is the decline of traditional communications that rely on paper and the robust increase of electronic communications. In 2011, the fall in delivery volumes attributable to electronic substitution was evident in nearly all of Mail Communications' delivery products – letters, direct advertisements, and magazines.

Parcel volumes have been the only exception to the trend of declining volumes, and increased online commerce is the primary reason behind the growing volumes of parcel deliveries. In 2011, the volume of delivered parcels grew by 7 percent in comparison to the previous year.

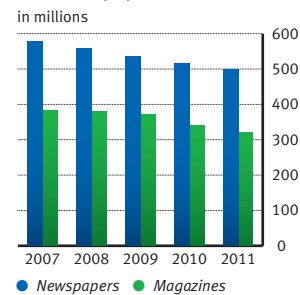
Deliveries in total



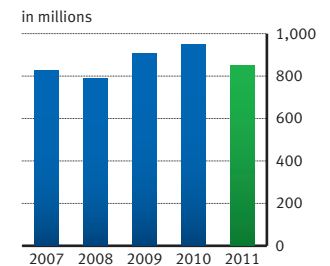
Addressed letters



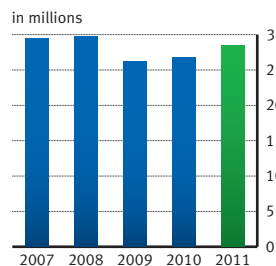
Subscription magazines and newspapers



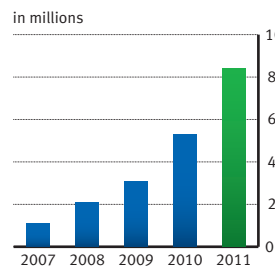
Unaddressed direct marketing



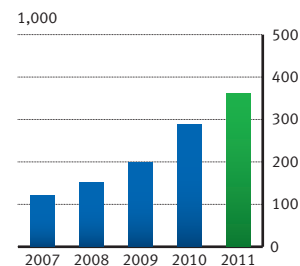
Parcels and transport units



NetPosti's electronic letters



Consumers registered in NetPosti



The vast majority of postal shipments is carried from business enterprises to consumers

Mail Communications' goal is to increase the ability of recipients of mail to influence the kind of content and the format of content they receive, as well as where and when they want to receive it. The goal is to produce and provide services of such quality and added value that the recipient of any letter, electronic message, or parcel insists that the sender employs Itella's services.

The vast majority of postal shipments is carried from business enterprises to consumers. As much as 96 percent of outbound dispatches are sent by companies. In contrast, 90 percent of recipients of postal shipments are consumers.

Major customers who send shipments using Mail Communications' services include media houses, telecommunications operators, operators in the banking and insurance sectors as well as public administration. In addition to its major key customers,

Itella's customers also include small domestic enterprises, which are also offered products and services to serve their needs.

The goal of Itella Mail Communications is to make the purchasing of its services as easy as possible. From the customers' perspective, products are developed so that they form simply-priced and clear offerings. At the same time, we pay close attention to factors such as cost-effectiveness.



96% mail shipments are sent by companies.
90% of mail shipment recipients are consumers.

Electronic services for consumers and businesses

Itella's electronic NetPosti service had 370,000 users by the end of 2011. Established in 2001, NetPosti's popularity has grown in step with the growth of electronic transactions among consumers. Our goal is to make NetPosti the nation's preferred electronic postal service.

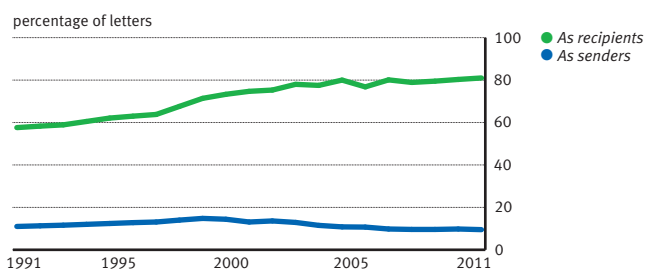
Itella also helps smaller companies to complete the transition to the world of e-business. Companies seeking to launch or expand into online commerce are offered the SmartShop service – available since June – which allows customers to outsource their online store's entire order and supply chain to Itella.

In March, Itella opened up a version of NetPosti tailored specifically for companies and organizations. NetPosti helps companies to overcome, for example, the challenges of digitization and also provides them with a convenient channel for sending e-invoices.

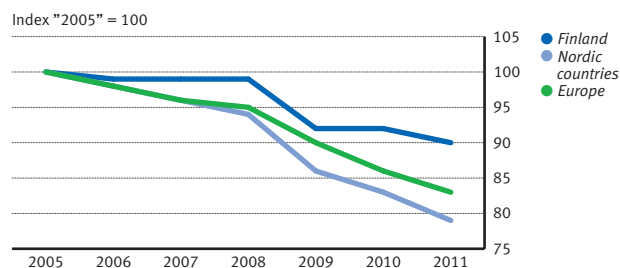
In April, Posti established a Facebook service accessible to all customers with questions and comments.

In January, the NetPosti service became available for iPhones and Android phones, as well as for tablet devices. Smart phones and other mobile devices have made it possible for customers to take care of their business and run errands, regardless of time or place.

Consumers as senders and receivers of addressed letters



Development of addressed letter volume in Europe



The recipient chooses the channel

Itella Mail Communications' business takes advantage of the constantly expanding potential of parcel and online business. The Parcel Services reform clarified our product range and facilitated the sending and reception of parcels.

The SmartPOST automated parcel terminals – designed for the purposes of online commerce – allow customers to pick up and send parcels according to the self-service principle. Fifty terminals were deployed in 2011, and the network of terminals now covers all of Finland's major cities.



Get to know the SmartPOST automatic parcel terminal: www.posti.fi/aboutsmartpost

INFO

NetPosti services are also available for smart phones and tablets.

From now on, the multi-channel approach provides customers with the opportunity to decide for themselves where they wish to receive parcels. This means that parcel delivery is no longer determined by the customer's home address postal code. Parcels can now be delivered to a shopping mall or a service outlet close to, for instance, the customer's workplace, if this is the more convenient option.

The multi-channel service was made possible by advanced information technology and a new network of sorting machines which, in the future, will allow recipients themselves to direct all their mail to any address they choose, whether that is their home or summer cottage. In the future, customers can also choose whether they prefer to receive their mail in electronic format or on paper.

Customers can pick up parcels from and send parcels via SmartPOST automatic parcel terminals according to the self-service principle.



Itella Information The best value provider of financial processes in Europe

Itella Information is the leading Nordic operator in products and services related to financial transactions and processes. Its service offering covers the entire spectrum of financial management: from purchase orders to payment, from sales orders to the control of incoming cash flow, and, at its full extent, accounting and payroll services in addition to the automation of cash flows.

As a supplier of financial management processes, Itella Information's advantages include solid European, local know-how, and the most modern technology on the market. Many of Itella Information's customers operate on the global markets and need global solutions combined with local know-how.

Information's skills involve the industrialization of financial processes. It is capable of both identifying and conceptualizing solutions based on customer needs. Its objective is to engage in the proactive development of services that support companies and CFOs operating in Europe in all issues related to financial management.

Benefits to be obtained through high volumes, automated processes, and the industry's best practices guarantee that Itella Information attends to its customers' financial processes efficiently and flexibly.

The outsourcing of financial management is on the rise

Outsourcing the processes of financial and payroll management is a clearly growing trend in Europe, and one that allows comparison to the outsourcing of companies' IT operations in the 1990s. Outsourced financial management automates processes, increases cash flow, and improves cost-effectiveness.

At the moment, the outsourcing market for financial management in Europe is growing at an annual rate of 40 percent, and companies in the business are struggling to keep up with demand. The biggest growth opportunities lie in the markets of Central Europe and Germany.

Price competition in the shrinking market for information logistics based on traditional printed and scanned documents is tough, and the market in nearly all European countries is saturated.

Growth through active sales

The primary goal of Itella Information is to grow both organically as well as through acquisitions. In selected business areas, the business group invests in active sales and the acquisition of new customers.

Itella Information wants to locate and identify customer needs involving financial management and answer such needs with solutions that produce clearly measurable added value for the customer. The goal is to produce new service and product concepts for customers and to substantially increase the level of automation in services.

With regard to improving profitability, Information draws upon the resources of its European organization and locates the most competent resources in all countries for each requirement. In certain tasks, the intelligent exploitation of offshore services, for instance, clearly improves profitability and cost-effectiveness.

Clear responsibilities, networked practices

In 2011, Itella Information streamlined its organizational structure and defined its area of responsibility. Operations are now divided into four well-defined business units: Finance & Accounting, E-Services, Outbound Services, and Cash Flow Automation. In

addition to these new units, in the future, each country will have a country manager and customer unit responsible for the business areas, marketing, sales, and customer service as well as the satisfaction of various customer segments.

In April, Itella Information reorganized the processing services of purchase and sales invoices. Digitization production entered the era of networked operations with the objective of forming a functional and efficient whole out of the competence centers located in different countries. Increasingly, digitization is carried out in Estonia and Poland alongside Finland.

Itella Alligator for comprehensive outsourcing

Itella Alligator is a comprehensive outsourcing solution that covers all transactions in the financial process: the processing of purchase and sales invoices, general ledger accounting, payroll accounting, bookkeeping, and reports. In Finland, approximately 300 organizations have outsourced their financial management operations to Itella.

The development of financial management as a comprehensive entity at Itella allows customers to maximize the benefits of outsourcing. As the invoicing environment consolidates, the manageability and cost control of the process improves. Lead times are reduced and cash flows accelerated as operations are automated and digitized.

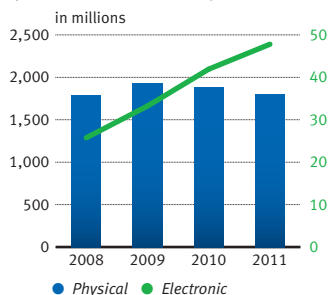


More about Itella Information:
www.itella.com/information

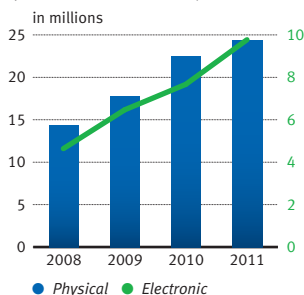


Itella Information utilizes its European organization in providing services.

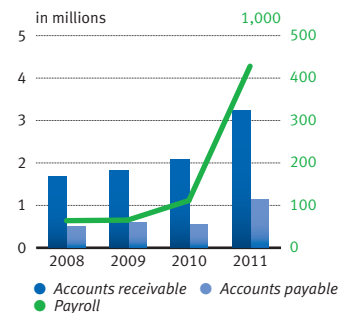
Sales invoices (outbound documents)



Purchase invoices (inbound documents)



Alligator transactions





Get to know the services of
OpusCapita:
[www.opuscapita.com/
solutions](http://www.opuscapita.com/solutions)



Through the
NewSource GmbH
transaction, Itella became
a leading financial
administration service
provider in Germany.

Alligator has enabled Itella Information to reduce the total costs of customers' invoicing processes by as much as 30 percent or even 50 percent.

Thorough expertise in financial management

Itella Information's strategic decision is to expand its operations from information logistics based on printing and scanning to its customers' overall financial and payroll management. Through the processing of purchase and sales invoices, competence has been diversified to cover other aspects of financial management.

Whether dealing with document or cash flows or the comprehensive outsourcing of financial management, Itella wants to manage its customers' financial processes as a whole.

With its range of services, Information strives to solve the problems of the CFOs of large and medium-sized European companies. It builds functional overall solutions on the basis of a customer's financial transactions and core processes.

OpusCapita masters the automation of cash flows

Itella's business operations experienced a major expansion in July 2011 when the Finnish OpusCapita Group Oy was incorporated into Itella Information. With this corporate acquisition, Itella has expanded its service offering to include cash flow automation.

OpusCapita's core competence lies in centralized liquidity management systems as well as in financing and electronic invoice processing solutions. The company invests in product development and develops the most user-friendly financial programs in the world.

OpusCapita's clientele includes more than half of Finland's TOP 200 companies as well as almost 2,000 companies and organizations in the Nordic countries.

SEPA opens up business opportunities

The introduction of the Single European Payments Area (SEPA) provides Itella Information with a good opportunity to acquire more customers in Europe.

The majority of Finnish companies have already implemented SEPA, whereas elsewhere in Europe, transition is only in its preparatory stages. OpusCapita is a European pioneer in SEPA affairs.

The potential market is large because the SEPA zone includes 32 countries.

Major new outsourcing agreements in Europe

In 2011, Itella Information concluded a number of major outsourcing agreements concerning financial management in the Nordic countries and Germany. The new customers gave Itella's reputation as an innovative industry operator a significant boost.

In Sweden, Itella Information began to manage the financial department of the spare-parts chain Mekonomen in July – a move that greatly improves Itella's standing as a partner in financial processes. Mekonomen is the leading Swedish spare-parts wholesaler in terms of the Nordic countries. The outsourcing allows Mekonomen to increase the efficiency of its financial management and give future growth its undivided attention.

In Norway, Itella strengthened its standing as a supplier of financial processes with a full range of services when it acquired the service center (SSM) of the media corporation Edda Media Company in Tønsberg in June. The service center is responsible for the payrolls, bookkeeping, and invoice management of several different media houses, in addition to which it offers its services to other individual customers. The transaction provides Edda Media with cheaper and more efficient financial management services.

In Germany, Itella Information supplemented its services by acquiring the financial management operator NewSource GmbH in April. The transaction provided Itella with major new customers while it became one of the leading service providers in financial management. The German market for outsourced financial and payroll management is in its infancy and growing at a robust rate.

In the future, Itella Information wants to increase investment in the countries where it already holds a good market position. Countries central to the business operations of Itella Information include Nordic countries, Germany, Poland, and the Baltic countries.

Itella Logistics Service logistics on a large scale

Itella service logistics covers warehousing, international freight, customs clearance and forwarding, domestic transport, and logistics data systems. Our customers can choose to outsource either an individual element of their logistics process or their entire supply chain to us.

The Logistics business group offers logistics solutions in Northern Europe and Russia. We have operations in eight countries. Global logistics services are provided through our network of partners.

Itella Logistics can supply its customers with comprehensive management of their logistics chains, from the other side of the globe right to the doorsteps of their end customers. Itella develops innovative solutions that create added value and competitive advantages for customers. Itella Logistics aims to be a fast, flexible, reliable, and solution-focused partner.

Itella provides global freight and forwarding services through an extensive network of representatives.



The increasing importance of delivery speed

Faster delivery speed is a trend that concerns all product groups in the field of logistics. In the consumer business, the flow of logistics – for instance in relation to various campaigns – is dictated by the end customers. Online commerce has also increased the demand for speedy delivery in the logistics supply chains.

The outsourcing of warehousing services is a continuing development trend. Customers wish to focus on their core business and invest their capital in the development of their business operations instead of warehousing facilities. Outsourced warehousing operations often include value-added services such as pre-packaging and localization of products. Logistics solutions designed for specific customer sectors are on the increase.

IT solutions are an increasingly crucial element integrated in the comprehensive logistics and supply chain management offered to customers. From the perspective of a logistics partner, this demands an ability to integrate the partner's systems and customers' ERP systems.

Environmental impact assessment is an important aspect of modern logistics. Customers with their own certified quality and environmental systems are particularly committed to cooperation with operators which take such aspects into account.

Profitable growth in cooperation with customers

Itella Logistics seeks growth and opportunities for business expansion in cooperation with its key customers. Customer accounts are developed with new cost-effective services with capacity to generate added value.

Geographically speaking, the markets offering the best growth opportunities are in Finland and Russia. Efforts aiming to increase business profitability are particularly vigorous in Sweden and Denmark.

Itella Logistics wishes to understand its customers' service needs and to provide them with clearly measurable cost-effectiveness and added value. The service logistics is based on Itella Logistics' professionals an in-depth understanding of the customers' supply chains – a familiarity that allows it to identify and pinpoint opportunities for development.



*More information about
Itella Logistics:
www.itella.com/logistics*



*Online commerce has
increased the demand
for speedy delivery in the
logistics supply chains.*

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The service network of Itella Logistics covers all of Russia.

Mainfreight USA is Itella Logistics' trusted partner in the United States, Australia, China, and New Zealand.

Itella Logistics serves companies, ranging from small local operators to major international groups, for which Northern Europe or Russia represent merely one market among others.

Itella Logistics' expertise in customer industries is particularly strong in the sectors of electronics, fast moving consumer goods, and fashion. In the future, Itella intends to reinforce its standing and reputation as a logistics expert especially in these sectors. The demand for sector-specific solutions among customers is clear.

Outsourcing potential in logistics

The logistics market holds potential for increasing the amount of outsourcing. Itella Logistics aims to distinguish itself from competitors by understanding its customers' needs and demands and by its fast and flexible responses to those needs and demands.

Logistics management requires an effective ERP system that handles the coordination of orders, stock status, and transports and produces up-to-date data on product flows.

Itella Logistics' near-term plans include the harmonization of its IT systems. Both transportation and warehousing operations will be provided with a single system that increases the synergy and efficiency of operations. Itella optimizes customers' logistics and stock rotation and integrates its own information technology with customer ERP systems.

Itella Logistics adapts to a customer's scheduled order process, whilst ensuring its capacity to respond to sudden peaks in loads in accordance with agreements. Campaigns involving consumer

products sometimes require thousands of units of goods to be deployed into delivery channels very rapidly.

To improve quality and cut unnecessary costs, Itella Logistics has adopted the Lean model, which it has piloted in the service warehouse of Pennala, Orimattila. The Lean model will initially be applied to Itella's own operations, but will later become available in services offered to customers. The model provides customers with clearly measurable added value.

The market leader in Russia

Itella Logistics' home market comprises Northern Europe and Russia. We are very familiar with the local conditions and have the resources to locate solutions for the needs of any given customer. Itella Logistics' market position is strongest in Finland and Russia.

For customers seeking to tap the growth potential in the Russian market, Itella Logistics' knowledge of the Russian market represents a great asset. Indeed, for many a company, Itella plays the part of an important and trusted partner when entering the Russian market. When we manage the logistics, our customers can concentrate on business.

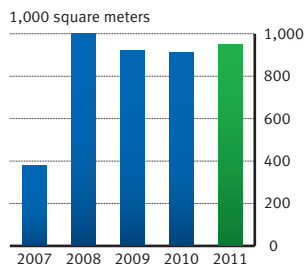
In Russia Itella has service warehouses in St. Petersburg, Moscow, Rostov-on-Don, Samara, Yekateringburg, Novosibirsk, and Vladivostok. Our service warehouse cities have connections to 160 other Russian cities. We also have an extensive partnership network for the purposes of road and rail transport as well as air freight in Russia.

Itella's state-ownership is appreciated in Russia, where it is considered a factor that promotes continuity and stability. Companies in the logistics industry are sensitive to economic fluctuations and the sector has seen its fair share of bankruptcies and large-scale restructurings. As a state-owned company, we operate according to long-term objectives and have the resources to withstand depressions and slumps – a fact held in great regard in Russia.

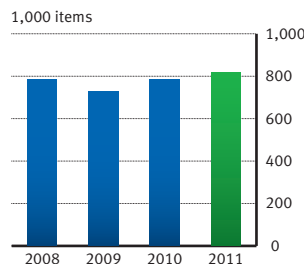
The best partners for global service

Outside the homeland market, Itella Logistics has allied itself with the best possible partners, professional operators with excellent knowledge of their respective market areas. Through its network of

Service warehouse capacity



International freight



partners – upgraded in 2011 – Itella Logistics has the capacity to offer cost-effective logistical solutions around the world.

In October, Itella centralized its sea and air freight services in Asia to On Time Express, which possesses solid knowledge of Asian markets. The cooperation expands the area's transport networks, increases transport frequency, and improves capacity to a substantial degree.

Logistics services in the United States were reinforced with a cooperation deal made with Mainfreight USA in September. Mainfreight USA gives Itella Logistics the possibility to provide land, sea, and air freight services as well as customs clearance and forwarding services in the United States. In addition to a delivery network that spans the entire United States, the company has a strong foothold in Australia, China, and New Zealand.

Warehouse floor area nearly one million square meters

Itella Logistics has 45 service warehouses in eight countries. The combined floor area of these warehouses amounts to 950,000 square meters. The warehouses hold 1,400,000 pallet places.

New warehousing space is also under construction. In April, Itella Logistics and Rautakesko concluded an agreement on centralizing Rautakesko's domestic warehousing in Pennala, Orimattila, the site for a forthcoming 77,000-square meter energy-efficient logistics center. Following a further expansion, the warehouse space in Pennala will exceed 100,000 square meters. The construction of the logistics center began in May 2011, and it will be fully operational in the summer of 2013.

Certification in progress

Quality and environmental systems form an essential part of Itella Logistics' operations. The business group's quality and environmental certificates (ISO 9001 and ISO 14001) already cover more than 30 offices.

Customers in Russia are increasingly interested in the environmental responsibility policies of their logistics partners. In 2011, Itella Logistics obtained its first environmental certification in the Moscow area.



Itella has 45 service warehouses in eight countries. Itella Logistics is the market leader in service warehousing in Finland and Russia.



Read more about warehousing services: www.itella.com/logistics



Itella Logistics has environmental certificate in more than 30 locations already.



Responsible way to operate



Corporate Responsibility

We are a reliable and open bearer of responsibility

Itella's principal mission is to produce services required by society by securing its customers' important information and product flows. Responsibility has been the cornerstone of Itella Group's activities throughout our long history.

We divide our corporate responsibility into four areas.



Social responsibility

Itella's well-functioning, effective infrastructure provides all customer groups with reliable services and enables the implementation of social responsibility.



Financial responsibility

Itella wants to grow profitably because only a financially sound company can realize its responsibility towards society, its personnel and the environment and all the stakeholders.



People responsibility

Itella wants to be the best employer in its sector and to follow shared values in all of its operations.



Environmental responsibility

Itella helps its customers and society at large to reduce environmental loads. Itella is world's first carbon neutral mail service provider.



Reporting based on GRI guidelines

Itella's annual corporate responsibility reports are available on its website and in its Corporate Responsibility Report. In accordance with the financial period, the reporting period extends from January 1 to December 31, 2011.

Reporting is based on the GRI guidelines (Global Reporting Initiative), designed for the purposes of the corporate responsibility reports of companies and organizations. According to its own assessment, Itella has applied the GRI reporting guidelines according to B Application Level. The application level has been audited by a third party, PwC.

The reporting focuses on aspects essential from the perspective of stakeholder expectations and the business impact. The essential aspects subject to reporting were determined on the basis of an extensive stakeholder survey conducted in 2010 and were considered as having remained unchanged in 2011.

The intended scope of corporate responsibility reporting covers the entire Group. The reporting of the various sub-categories of responsibility in the Group progresses at different paces. Environmental reporting has advanced farthest, having covered all countries of operation since 2009.

In respect of social responsibility, Finland's role is underscored due to the provision of universal postal services.

Principles and Code of Conduct

Itella defined the fundamental principles of its responsibility activities in the Corporate Responsibility Principles adopted in June 2011. In 2011, Itella also updated the Employee Code of Conduct.

In June 2011, Itella signed the UN's Global Compact initiative, with which it reinforces its commitment to sustainable business practices and commits to the initiative's basic principles concerning workforce, the environment, the prevention of corruption, and human rights. The UN's Global Compact is the most extensive global initiative related to the corporate responsibility of corporations, with more than 8,500 corporate members from 135 countries.

Itella also requires the Group's partners to comply with equivalent, ethically sustainable principles.

Part of everyday management

Itella manages corporate responsibility affairs as part of its normal management and leadership activities, based on the Group's common values.

On the Group's Management Board, corporate responsibility matters are the responsibility of Itella's director in charge of communications and corporate responsibility. Activities are steered and coordinated by the Corporate Responsibility Steering Group, which has representatives from all business groups and Group functions central to the issue.

Itella's corporate responsibility in 2011

- 02/11** All letters, publications, parcels, and direct advertisements delivered by Posti became carbon neutral, the first deliveries in the world to accomplish this. The feature will be included in all products automatically without any extra charges for customers.
- 03/11** Itella Information investigated: The carbon footprint of e-invoices is now ten times smaller than that of printed ones.
- 03/11** The NetPosti service achieved zero-level emissions. The 3-gram carbon footprint is offset with participation in climate projects.
- 03/11** The global climate event Earth Hour switched off lights at Itella's headquarters and other premises.
- 08/11** Itella concluded an agreement on the delivery of work and protective clothing with the Finnish Image Wear Oy. The agreement emphasized the ethical manufacturing of clothes.
- 08/11** The three-year cost-cutting program was launched.
- 09/11** Itella was recognized for its environmental work at the Post-Expo fair held in Stuttgart, Germany.
- 10/11** The foundation stone of the logistics center under construction in Pennala, Orimattila was laid. The building's environmentally friendly hybrid heating system uses both geothermal energy and natural gas.
- 10/11** Itella's natural gas vehicles switched to a domestic brand of renewable biogas, free of particulate emissions and the most eco-friendly ground transport fuel on the market.
- 10/11** The trial involving electronic mail delivery achieved good results in the village of Anttila, Porvoo.



*Itella's responsibility matters online:
www.itella.com/sustainability*

*Check out our GRI Content Index:
www.itella.com/sustainability*



Get to know Itella's disclosure policy: www.itella.com/financials



In its procurement, Itella optimizes the cost-efficiency and functionality of the supply chain.

Financial responsibility Services on a sustainable basis

Itella bears financial responsibility by renewing its business and reinforcing its profitability in compliance with its strategy. A financially sound company can realize its responsibility towards society, its personnel and the environment and all the stakeholders.

Itella proactively makes long-term financial plans, anticipating changes in the market, customer needs and risks in Finland and internationally. Managing the major transition in the postal business creates challenges for future development.

In 2011, the European financial outlook involved major uncertainty, which was also reflected in Itella's business. The threat of a new downturn started to cast a shadow on the Finnish national economy.

A market-based state-owned company

Itella is a market-based state-owned company whose operations are fully funded by revenues derived from customers. About half of the operations are related to postal services, while the other half comprises service logistics and financial process management for companies. The share of services related to the universal service obligation in Itella Mail Communication's net sales is 10.9 percent.

The share of corporate customers in net sales is about 96 percent. Key customer industries include the media, trade and services. International business accounts for a third of all net sales.

Changes in the sector bring challenges

Traditional postal services have had to relinquish their role as a means of communication for Finns, due to the breakthrough of electronic communication channels. The major transition in the postal sector creates challenges for the profitability of Itella.

The Postal Act, amended in the beginning of June, will result in more intense competition in the sector and is likely to make the market-based funding of mail delivery in sparsely populated areas more difficult in the future. Postal services are currently provided fully without tax money in Finland, only using income obtained from customers.

In recent years, Itella has continuously improved its efficiency to prepare for a decline in delivery volumes and tighter competition. As the changes accelerated, the adjustment measures continued via the cost-cutting program. The goal of the program, launched in August, is to cut costs by over EUR 100 million over the next three years.

The objective of the cost-cutting program is to review all of the Group's business and support functions in order to secure continued financial stability. These measures include re-organization of operations and giving up of some business functions. Productivity is improved in a variety of ways, and investments are reviewed critically.

Research and product development

Itella Group develops innovative, effective solutions for physical and digital services. In 2011, Itella spent about EUR 14 million on research and product development.

The research themes focused on the profitability of postal operations and the analysis of factors that influence it. Many studies focused on how consumer behaviour relates to the digitization of traditional postal services.

In addition to research, Itella also conducts development work that supports the business functions and is related to products, services, processes, and infrastructure. Examples of development project themes were new payment solutions, automatic parcel terminals, NetPosti, the transport ordering system, and financial administration service concepts.

A significant service purchaser

Itella is a major service purchaser in Finland at both the nationwide and local level. In its procurement, Itella's goal is to optimize the cost-efficiency and functionality of the supply chain. Aspects related to sustainable development are also important procurement criteria. Itella's goal for all procurement is open competitive tendering and the fair treatment of suppliers.

Most procurement is related to service purchases in delivery and transport operations. Line hauls are purchased from large

Financially significant subcontracting and outsourcing (EUR million) in 2011

	EUR million
Transports	308
IT procurement	80
Warehouses	72

entrepreneurs, and regional transports are also purchased from small regional entrepreneurs. Itella has about 4,700 vehicles for which fuel as well as maintenance and repair services are procured. All transport subcontracting in Finland is subject to Itella's environmental accounting.

Being a major property owner, Itella requires different real estate services throughout Finland, such as maintenance, repair, waste management, safety and cleaning services which are also procured from local small-scale service suppliers.

IT application and IT infrastructure development, and maintenance of computer centers are mainly carried out in cooperation with partners.

Itella has a large number of staff, and it procures a large quantity of tools, work clothing and protective clothing as well as services related to workplace meals and occupational healthcare.

Comprehensive risk management

Itella Group abides by comprehensive risk management. Risks are mapped comprehensively during the strategy process once a year. In 2011, the focus lay particularly on improving the quality and extent of the risk management process.

The most important strategic risks involve the markets, the business environment, business operations' sufficient development and regulation. Operative risks are mainly related to business productivity, integration capabilities or other disruptions.

Principles of financial communication

Itella Group's financial reporting complies with the International Financial Reporting Standards (IFRS). The Disclosure Policy describes how Itella meets its duty of disclosure concerning financial reporting. Administrative transparency is ensured by a Corporate Governance code for Finnish listed companies, which Itella abides by.

INFO

Business risks are discussed more extensively in the Board of Directors' Report on page 45.

All transport subcontracting in Finland is included in Itella's environmental accounting.

Financial impact in accordance with the income statement

EUR million	2011	2010
FROM CUSTOMERS		
Net sales:	1,900.1	1,841.6

itella

EUR million	2011	2010
TO PERSONNEL		
Salaries and fees	731.8	706.3
Social security expenses	70.6	65.0
Pension expenses	108.3	106.5
TO SUPPLIERS		
Materials and services	549.2	504.9
Other operating expenses	364.7	349.8
TO PUBLIC SECTOR		
Income tax on profit for the period	12.2	18.3
TO FINANCIAL SECTOR		
Interest expenses	16.3	14.3
TO OWNER		
Dividends for profit for the period	0.0	4.4

INFO

Itella promotes sport and culture.

Itella has been the partner of the Football Association of Finland since 1994.

Sponsorship deals indicate the set of values

Itella has selected sponsorships that are suitable for the Itella set of values. Itella promotes sport and culture.

The Football Association of Finland is Itella's most long-term sponsorship partner, with cooperation that dates to 1994. Through the partnership, Itella supports the Finnish national teams for men and women, the under-21 national team, and junior football.

In the cultural sector, Itella is in partnership with the Sibelius Academy, a leading European music university. Through the cooperation, Itella promotes music culture and promotes the training of Finnish musicians into leading professionals in Finland and internationally.

Itella also participates in charities. In Estonia, SmartPOST organized a campaign with the Uuskasutuskeskus to raise funds for the residents of the SOS Village for Children.

In a NetPosti campaign, one euro per each NetPosti registration was donated to the charity selected by the customer. The funds were allocated to welfare for intoxicant abusers, the protection of the Baltic Sea, and to the physical education of children at day care centers.



Itella promotes Finnish football at the national team and junior level.

Social responsibility Postal services throughout Finland

Itella provides its customers throughout Finland with services that help them manage information and product flows. Itella's functional and efficient infrastructure, coupled with its reliable services, form a part of the company's social responsibility.

Across the country, Itella Posti is responsible for both the distribution of mail and the maintenance of the network of postal outlets. In Finland, Itella Posti Oy is the sole provider of the universal services referred to in the Postal Services Act. The operations cover the entire country, with the exception of the Åland Islands.

Securing efficient and economically viable postal operations requires postal services to be adjusted to meet modern customer behavior and needs.

The changes in the service needs of Posti's customers and in the way they conduct business are rooted in the general digitization of communications and the booming growth in consumer-driven online commerce. People's mobility and the ways in which they use their time are changing. Mail recipients seek multi-channel services and the opportunity to influence on how they receive their mail.

Approximately 80 percent of visits to postal outlets today involve picking up parcels. In contrast, the consumers' need for the universal services defined in the Postal Services Act – requiring regular visits to postal outlets – is, in Finland, rather rare; according to estimates based on the volumes of dispatches, people need to make a stop at a postal outlet on average about once every two years. The universal services mentioned include the dispatch and reception of regular parcels, registered letters, and postal insurance shipments.

New service channels in Posti's network of outlets

According to the Government Decree, the nearest postal outlet or service point network may be located up to three kilometers from the majority of service users, that is, at least 82 percent. Reasonable distances are promoted by a policy where the distance for up

to 3 percent of people is allowed to exceed ten kilometers from their permanent residence.

Posti's nation-wide network of outlets – comprising a total of more than 1,000 outlets – now includes about 120 Posti shops, nearly 850 postal agency shops attached to Posti's service providers, 50 SmartPOST terminals, and 11 Posti pickup outlets. Stamps are sold by almost 3,500 resellers. There are more than 7,000 yellow and blue Posti letterboxes. The network's services also include home delivery and the so-called pickup-sign service.

Our plans include increasing the number (currently 1,000) of the different kinds of service outlets by about 500 by 2016, when Posti's outlets would number 1,500.

Automated parcel terminals and pickup outlets alongside postal outlets

The past year saw the introduction of the self-service SmartPOST terminals and Posti's pickup outlets, meant to supplement the network of postal outlets with a full range of services.

SmartPOST automatic parcel terminals are located in busy business locations, such as shopping malls, so that customers can simultaneously take care of many tasks. They may pick up parcels from the terminals but also return parcels they have purchased from an online store, and send parcels to any postal outlet or another automatic parcel terminal. The network of 50 automatic parcel terminals, introduced in 2011, covers almost all of the largest cities in

Finland. The goal is to open another 50 automatic parcel terminals across Finland during 2012.

Posti's pickup outlets are operated in conjunction with partner enterprises. They serve as outlets for collecting online store ordered parcels, buying stamps, and sending customer return parcels to online sellers. The number of pickup outlets currently operating is 11. Our goal is to open another 30 pickup outlets across Finland during 2012.

Changes in letter sending

In February 2011, Itella carried out a change regarding the sending of 2nd class letters, and accelerated their delivery by a workday. At the same time, the approximately 300 blue Posti letterboxes meant for 1st class letters appeared on the streets in the busiest mailing locations.

The change also entailed discontinuing the minimum shipment lot (20 letters) concerning 2nd class letters. Neither letters nor cards have to be taken to a postal outlet anymore, but can instead be left in a yellow letterbox. As a rule, 2nd class items are delivered to recipients over two nights, that is, on the third working day on weekdays.

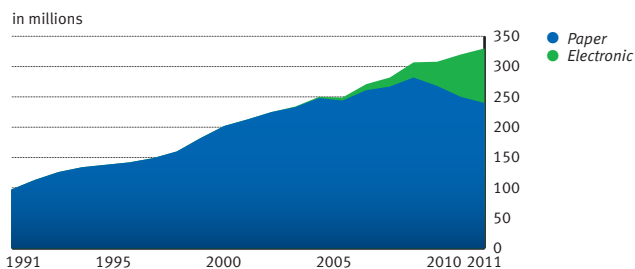
The change was based on a customer survey concerning preferred and desired methods of dispatch and delivery speeds. The results indicated that, for 80 percent of the respondents, it is sufficient that the deliveries reach the recipients over two nights.



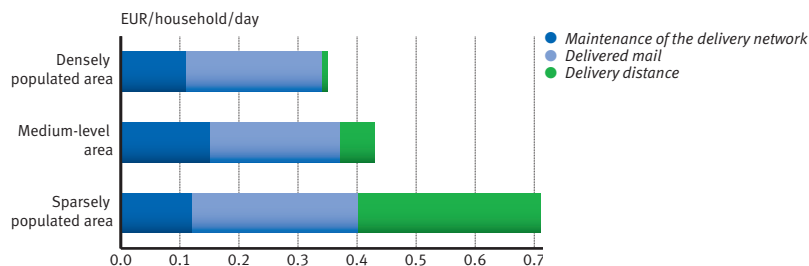
Itella delivers about 11 million postal shipments to recipients every weekday.

Our plans include increasing the number (currently 1,000) of the different kinds of service outlets by about 500 by 2016.

Number of consumer invoices in Finland 1991–2011



Unit costs of mail delivery by type of population center





Get to know Netposti:
[www.posti.fi/
aboutnetposti](http://www.posti.fi/aboutnetposti)

INFO

There is a network of more than 7,000 letterboxes in Finland for sending cards and letters.

The new 2nd class letter – always cheaper than the 1st class letter – is well suited for such a purpose.

Electronic transactions and services to increase

Itella Posti also provides its customers with convenient electronic channels for doing business. In the next few years, the goal is that most Finns use electronic services.

Customers may already – and more extensively in the future select their desired Posti services by using online and mobile services. Examples include the electronic NetPosti mailbox, routing services related to the flow of physical letter mail and parcels, contact details of your circle of acquaintances updated automatically via Posti, and hybrid products that are ordered electronically and supplied to the recipient as a physical product.

New uses for the delivery network

Basic mail delivery takes place on business days. The combined length of daily delivery routes is 270,000 kilometers. Nearly 11 million shipments are delivered every weekday.

Itella Posti's delivery and transport network covers the entire country. Therefore, it is sensible to load vehicles making regular rounds with items other than mail. In June 2011, Itella launched Itella Thermo transports, a frozen and refrigerated product transport service.

It is Itella Posti's intention to increase the volume of home-delivery services in rural and sparsely populated areas. This is proving to be a good solution particularly for senior citizens – Itella Posti already handles the home delivery of the meals-on-wheels services of several municipalities.

Declining volumes have made the costs of the transport network an important topic. While five-day postal delivery is considered important, support for allocating tax revenue to its maintenance seems to be scarce. In order to overcome this challenge, the owner and other decision-makers require both insight and courage.

Alternatives for the delivery of mail

Itella Posti is actively exploring various ways of providing its services through means suitable to the modern consumer.

In 2010–2011, Itella conducted a voluntary delivery experiment in the village of Anttila, Porvoo. A total of slightly more than 140 households and businesses participated in the pilot test.

The pilot served as a platform for developing and testing alternatives for mail delivery in future decades in cooperation with customers. The pilot was a combination of traditional mail delivery and new electronic means of receiving daily mail. The Technical Research Centre of Finland (VTT) also participated in the cooperation.

Many of those involved in the pilot study found traditional postal delivery only twice a week quite sufficient. Receiving newspapers to NetPosti and reading them by means of an electronic device met with very positive feedback. Some of the participants were already willing to receive all of their mail in electronic format through NetPosti.

Among other developmental measures, the trial developed the delivery of newspapers and magazines intended for e-readers and tablets. The Anttila trials made Itella the first postal company in the world to offer a channel for receiving, reading, and archiving electronic publications, irrespective of the brand of the e-reader or tablet.

The Post Museum records history

Itella's long history is on display in the Post Museum, which collects and stores objects and material related to the history of the postal industry for future generations and puts them on display for the public. The Post Museum also provides services for researchers and arranges guided museum tours for visitors.

Itella is planning to relocate the Post Museum, located in the Helsinki General Post Office, to Museum Center Vapriikki in Tampere during 2014.

People responsibility A challenging business environment

Itella provides work for approximately 27,500 professionals in Europe and Russia. In Finland, Itella is the country's largest corporate employer and offers its personnel a wide range of diverse tasks. Itella is an equal-opportunity, multicultural, and tolerant employer. The transition that the postal industry is experiencing and the efforts aimed at increasing the efficiency of business operations have highlighted the significance of good HR policies at Itella.

Reductions in workforce and new employment relationships

In August, Itella initiated a three-year, EUR 100 million cost-cutting program due to a downturn in performance trends. As part of the cost-cutting program, Itella's companies in Finland conducted statutory labor negotiations during the autumn of 2011, in which the number of personnel was adjusted to meet the prevailing situation. The efficiency of operations abroad was also increased, but without any sizable reductions in the workforce.

In Finland, the need for layoffs was reduced with the help of voluntary severance packages, taken up by 157 employees. The employment of 460 people was terminated due to production and financial reasons. The majority of these persons worked in administrative positions. All in all, the amount of work reduced through

severance packages, layoffs, retirement and other arrangements came to a total of 740 man-years. The people whose employment relationships were terminated were offered more generous unemployment security terms than required by law.

In 2011, Itella signed 645 new permanent employment contracts. These employment contracts were concluded particularly in the sector of early-morning delivery, which has high turnover rates. In addition, new areas in Itella's business operations have generated the need for wholly new specialists in different fields, such as professionals in the banking sector.

In 2011, Itella provided summer jobs for some 2,500 people and, during the Christmas season, we provided temporary work for approximately 3,000 seasonal workers. The majority of these jobs involved delivery, sorting, and transportation.

Customer needs steer HR activities

Itella's HR activities are determined primarily on the basis of customer needs and customer satisfaction. Changes occurring in customer behavior are reflected directly in the services we offer.

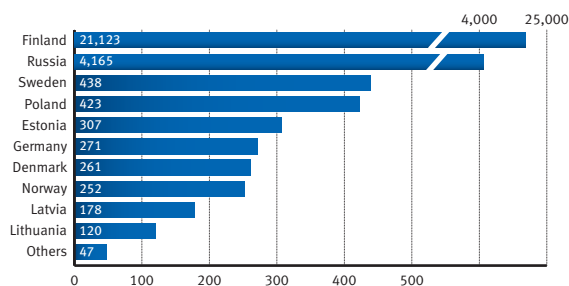
Our industry is in the midst of a transition that requires us to re-examine our traditional postal duties. The economic situation is also challenging and demands the continuous monitoring of our cost structure and increasingly efficient operations. The declining volumes of deliverable mail pose challenges for managing the tasks related to the transportation of mail, sorting, and delivery.



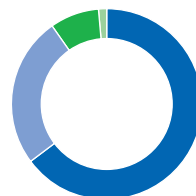
Itella provided 5,500 seasonal workers with jobs in 2011.

In 2011, Itella signed 645 new permanent employment contracts.

Number of personnel (December 31, 2011)

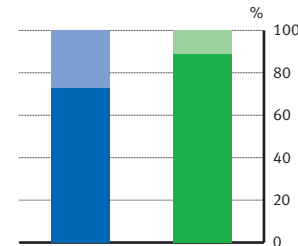


Personnel by business group (December 31, 2011)



- Itella Mail Communications 17,883
- Itella Logistics 7,088
- Itella Information 2,259
- Others 355

Breakdown of employment contracts in 2011



- 20,077 full-time employees (71%)
- 7,508 part-time employees (27%)
- 24,428 permanent employees (89%)
- 3,157 fixed-term employees (11%)

INFO

Itella's values are

- *Succeeding with the Customer*
- *Driving for Improvement and Innovation*
- *Taking Responsibility*
- *Winning Together*

Itella won the HR Deed of the Year competition for 2011 in Finland.

The changes affecting traditional business models and globalization require efficient operations and rapid responses to changes in the business environment.

Traditionally, Itella has offered the best possible terms of employment, competitive wages, and secure jobs for people working in the delivery sector. While we still wish to remain the best employer in the industry for mail carriers, the current changes in the business also demand a capacity for change and a degree of situational flexibility from our personnel.

For a long time, Itella has had good relations with trade unions. The imminent business challenges ahead require active dialog and finding common ways forward in cooperation with the unions and personnel representatives. In the fall of 2011, the Service Sector Employers and the Finnish Post and Logistics Union concluded a two-year agreement.

One Itella ensures common processes

Itella's Human Resources department supports the implementation of the Group-wide strategy with the One Itella model. The objective of the model is to ensure shared procedures and processes in our different business operations and countries of operation. Business groups are supported by dedicated HR teams in each group.

In terms of Itella's success, it is crucially important to define the kind of competence that is needed to carry out our business strategies in the short and the long term.

In a service sector company such as Itella, the personnel play a decisive and critically important role in the company's competitiveness. The digitizing world demands a different kind of competence than the older business model, based on physical delivery, transportation, and sorting.

Itella intends to train its present personnel who have the potential for new tasks, but the requisite new skills are also being sought and recruited from external sources. In business areas such as information and logistics, for instance, experience in international business is demanded.

Guidelines for leadership and supervisory work

Leadership was selected as one of Itella's strategic focal points in 2011. People management was stressed alongside performance management. The guiding principles of this approach were summarized in the Leadership Cornerstones, which serve as the foundation of a shared management culture in all of our units.

The cornerstones, based on Itella's values, provide supervisory work with guidelines and practical instructions that support all Itella supervisors in their day-to-day management tasks. They also function as a basis for the further development of supervisory work. This promotion and advancement of a culture of leadership derives directly from our company's executive management, which has made a commitment to promote operations in accordance with the Leadership Cornerstones.

In 2011, Itella included a leadership indicator in its array of measurements related to supervisor performance rewards.

In the future, we will also pay increased attention to supervisors' communication skills and their aptitude for their tasks. A supervisor's role as a messenger and motivator will continue to play an increasingly important role.

The leading company when it comes to well-being at work

Itella actively promotes its personnel's well-being and quality of life. Well-being at work is invested in at every stage of a career. Indeed, Itella has been one of Finland's leading companies in terms of well-being at work for several years.

Itella was granted the HR Deed of the Year competition for 2011 with its project aiming to provide more well-being through interactive and participatory leadership. The purpose of the competition, annually organized by HENRY ry and Ilmarinen, is to encourage companies to develop their workplaces and improve the well-being of the staff.

The indicators of well-being at work include the number of absences due to sickness, occupational accidents, and disability pensions, the reduction of which is a target of systematic effort.

In 2011, we focused especially on the safety of working environ-

ments, the further development of well-being at work indicators, and supervisory work.

Itella Group's Foundation for Well-Being at Work continued the VAUTSI program, which develops new sets of tools and practices for supervisors. The program incorporates well-being at work in business planning and improves the quality of working life.

Itella's investment in employees' well-being at work in 2011 was EUR 9.6 million.

We also revised our job satisfaction survey in 2011 so that the questions focused, in particular, on supervisory work and leadership assessments. According to the results, Itella employees' job satisfaction averaged at 3.66, on a scale of 1 to 5. The average was higher than last year, but due to the changes in the formulation of the survey's questions, the results are not entirely comparable.

This was the first time that the survey was conducted through entirely electronic means. The response rate rose to 57.9 percent, increasing by 3.9 percent in comparison to the previous year.

Core values updated on the basis of discussions

Itella's values were updated on the basis of large-scale value discussions held in 2011. More than 1,000 Itella employees from all countries of operation took part in the discussions. The discussions served as a platform for building a mutual understanding among people working in different types of positions and with various job descriptions.

In addition to the company values, we also revised our Employees' Code of Conduct during 2011. The Code of Conduct contains instructions on ethical and responsible operations for Itella's entire personnel.

All Itella employees treat each other with respect and will not tolerate discrimination based on gender, age, origin, cultural or ethnic background, religion, or any other similar reason.

Itella employees comprise more than 70 nationalities. The atmosphere of tolerance and multi-cultural working environment is supported through the development of supervisory work, recruitment, and employee orientation.

Environmental responsibility Carbon-neutral delivery and energy-efficiency

Itella takes environmental aspects into account in all of its operations. Particular consideration is given to the environmental impact of transportation and facilities. Itella's environmental program aims to reduce carbon dioxide emissions by 30 percent by 2020 (relative to turnover, with 2007 as the comparison year).

Itella's carbon-neutral delivery service also helps its customers to improve their environmental performance. Studies have shown that the new digital services developed by Itella reduce environmental loads.

An increasing number of corporate customers take into account the environmental impact of the services they use. In such comparisons, Itella's services related to information and product flows are clearly superior in their field.

Transports to reduce carbon dioxide emissions

Transport and vehicle emissions are the greatest sources of Itella's environmental impact. Vehicles account for 70 percent of Itella's carbon dioxide emissions in Finland. Being the largest transport and delivery company in Finland, Itella plays a major role in the development of eco-friendly transportation systems.

Itella employs about 4,700 vehicles for deliveries and transport within Finland, and these vehicles cover about 190 million kilom-

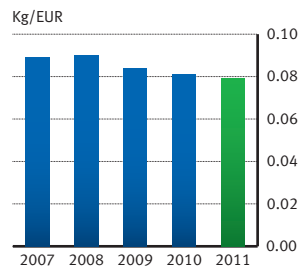


More about environmental matters here: www.itella.com/sustainability

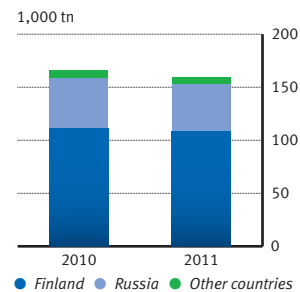


Itella's goal is to reduce its carbon dioxide emissions by 30% by 2020.

Carbon dioxide emissions relative to turnover



Itella's carbon dioxide emissions



INFO

Itella is the first company in the world to offer entirely carbon-neutral delivery

The carbon footprint of an e-invoice is 10 times smaller than that of a printed one.

eters a year. Efficient route planning, the combining of transports, and training focused on economical driving may reduce fuel consumption and emissions by as much as 20 percent.

Low emissions and energy efficiency are factored in alongside costs whenever the fleet is in need of replacements. We are replacing gasoline-powered delivery vehicles with diesel-powered alternatives, and shifting to cleaner Euro standards in terms of heavy-duty vehicles.

In October 2011, Itella's natural gas vehicles switched to a domestic brand of renewable biogas, with exceptionally low carbon dioxide and other greenhouse gas emissions as well as low particulate emissions in comparison to conventional fuels.

The ecological approach is also applied to company cars, whose maximum carbon dioxide emission limit is 180 g CO₂/km, and especially to new company cars with maximum emissions of 120 g CO₂/km, the attractiveness of which will be increased by way of their taxable value.

Itella is reviewing competing offers of telematics devices applicable to an economical way of driving and, in 2012, will make decisions on how to continue training focused on the theme.

In terms of transport service procurement, Itella favors transportation companies who, like Itella, have signed the transportation industry's energy efficiency agreement and implemented its measures.

Carbon-neutral products to customers free of extra charge

In February 2011, Itella became the first postal company in the world to offer entirely carbon-neutral delivery services. In practice, this means that every letter, publication, direct advertisement,

and parcel delivered by Itella in Finland is carbon neutral, without any extra charges for customers.

Itella reduces its product emissions primarily by developing its own processes. Mail delivery emissions arise from sorting, transportation, and delivery. According to calculations, the delivery of a single letter produces an average of 21 grams of carbon dioxide emissions, which equals a 140-meter drive by a car with a carbon dioxide emission level of 150 grams per kilometer.

The remaining emissions are compensated for by funding international climate projects so that a corresponding quantity of carbon dioxide is saved elsewhere.

Compensating for emissions takes place in reliable and certified (Gold Standard) climate projects that include sites reviewed by an independent environmental certifier. For Itella, the fact that emissions are subject to payment constitutes a further incentive to reduce continuously the level of emissions and energy consumption attributable to its own operations.

In 2011, Itella compensated for 80,000 tonnes of carbon dioxide emissions, which is almost double the quantity in the previous year.

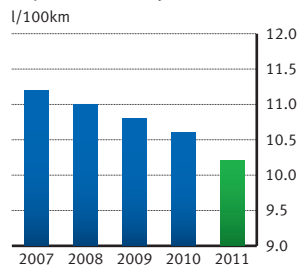
Electronic services protect the environment

Itella's financial management services, such as electronic invoicing, payroll administration, and document processing clearly reduce the consumption of paper, the volume of printing, and transportation. Efficiently produced electronic services constitute an environmentally sustainable solution.

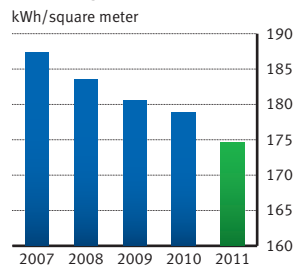
We have increased the environmental performance of e-invoices even further by enhancing our electronic processes and optimizing our server capacity. According to research conducted by Itella, the carbon footprint of one e-invoice – 5 grams – is ten times smaller than the carbon footprint of an equivalent paper invoice.

Our customers' electronic interface service, NetPosti, has also improved its environmental performance. Between the years 2008 and 2010, Itella reduced NetPosti's carbon footprint from 28 grams to 3 grams. This was achieved by considering the environmental efficiency of the equipment and methods deployed in the provision of the service.

Fuel consumption in postal delivery



Electricity consumption in sorting centers





The remaining minor emissions generated by e-invoices and Net-Posti are offset by Itella's participation in various climate projects.

The energy consumption of facilities declined

In 2011, Itella also took a special interest in the energy efficiency of its properties in Finland. The energy consumption of premises was reduced through means such as improving heat recovery and the timing of lighting as well as by adjusting the temperatures of production facilities. User guidance and the development of monitoring practices also produced good results.

Thanks to such measures, the electricity consumption of Itella's properties decreased by 7 percent and normalized heating energy consumption by 11 percent. The figures clearly surpassed the targeted savings of 5 percent.

More than 80 percent of all electricity consumed by Itella in Finland was green.

In 2011, Itella improved the energy-efficiency of its property by improving heat recovery and the timing of lighting, and by adjusting the temperatures in production facilities.



Environmental considerations are also integrated into plans concerning new buildings. In October, Itella initiated the sizable logistics center construction project in Pennala, Orimattila. The 77,000-square meter building, set to be completed in 2013, will employ a cost-efficient and environmentally friendly hybrid heating system, which draws on both ground heating and natural gas. The construction materials selected for the project also reduce the consumption of energy.

The spot lights in Posti shops will all soon be fitted with LED lights. The light sources of logos and advertisements on facades will also be switched to LED lights when they are next in need of maintenance. LED lights use less electricity and require less maintenance than traditional lighting solutions.

More quality and environmental certificates

The year 2011 saw us expanding our environmental systems into several new Itella offices. Itella Logistics received its first ISO 14100 environmental certificate in Russia. Customers in Russia are increasingly interested in the environmental responsibility policies of their partners. Itella Logistics now has more than 30 offices with quality and environmental certificates in seven countries of operation.

An international award for environmental work

Itella was recognised for its environmental work at the international postal industry fair, Post-Expo, held in Stuttgart in September 2011. The criteria for the Environmental Achievement of the Year award were Itella's long-term investment in environmental issues as well as its carbon-neutral delivery services, which Itella provides for its customers free of extra charge.



In 2011, Itella reduced electricity consumption by 7% and heat consumption by 11% compared to 2010.

Itella was recognized for its long-term environmental work at the Post-Expo held in Stuttgart in September 2011.

Itella's Board of Directors 2011



Detailed information on CVs: www.itella.com/management

Remuneration statement and other information on the corporate governance codes: www.itella.com/corporategovernance

Arto Hiltunen

*Chairman of the Board
Member of the Audit Committee*

b. 1958, M.Sc.
Board member since 2010.
Employed by S Group 1980–2009, most recently as CEO and Chairman of the Board of Directors. He holds Board memberships in the Foundation for Economic Education and forest and paper industry and many funds.

Päivi Pesola

*Vice Chairman
Chairman of the Audit Committee*
Vice President, Business Control, Heat Division, Fortum Power and Heat Oy
b. 1956, M.Sc. (Econ.)
Board member since 2009.
She has worked in the Fortum Group since 1978 in executive positions in internal auditing and financial administration.

Kalevi Alestalo

Member of the Remuneration and Nomination Committee
Financial Counsellor, Ownership Steering Department, Government Office
b. 1947, M.Pol.Sc.
Board member since 2005.
He has previously worked as the Head of the Ownership Steering Department in the Ministry of Transport and Communications (1988–2007). Vice Chairman: Raskone Oy

Hele-Hannele Aminoff

Member of the Audit Committee
b. 1960, MBA
Board member since 2006.
She has worked in executive positions in the pharmaceutical industry, being the managing director of Bob Helsinki (2011) and Oy Leiras Ab (2006–2009) and the director at Specsavers Finland Oy (2010–2011). Board member of BSN Oy and The Association of Finnish Advertisers.

Jussi Kuutsa

Country Director, SRV Group
b. 1964
Board member since 2011.
Previously he has held executive positions in foreign operations at Stockmann Group (2000–2010) and at SRV Group (2010–), being the Country Director of Russia.

Timo Löyttyniemi

Managing Director, State Pensionfund
b. 1961, D.Sc. (Econ. & Bus. Adm)
Board member since 2011.
Previously he has worked in several executive positions in finance sector (1994–1996) and in the State Pension Fund (2003–), being the Managing Director. Board member of Itella Bank Ltd (Itella IPS).

Riitta Savonlahti

Member of the Remuneration and Nomination Committee
Executive Vice President, Human Resources, UPM-Kymmene Corporation
b. 1964, M.Sc. (Econ.)
Board member since 2008.
She has worked at UPM since 2004, and previously as Senior Vice President of Human Resources at Elcoteq Network Corporation (2001–2004). Board member of JTO

Maarit Toivanen-Koivisto

Member of the Remuneration and Nomination Committee
Honorary Mining Councillor, President, Onvest Oy
b. 1954, M.Sc. (Econ.)
Board member since 2007.
She has worked in Onvest Group companies since 1984 where she is currently the Board Chairman. Board member of Tulikivi Corporation. Vice chairman of Federation of Finnish Commerce. Positions of trust in Chambers of Commerce.

Itella's Supervisory Board 2011

Chairman

Eero Lehti, MP, National Coalition Party, 2008–
Vice Chairman

Antti Rantakangas, MP, Centre Party, 2008–

Susanna Huovinen, MP, Social Democratic Party, 2008–

Harri Jaskari, MP, National Coalition Party, 2008–

Bjarne Kallis, MP, Christian Democrats, 2004–

Johanna Karimäki, MP, Green League, 2010–

Lauri Kähkönen, MP, Social Democratic Party, 2008–

Sari Moisanen, town council member, Left Alliance, 2011–

Outi Mäkelä, MP, National Coalition Party, 2008–

Reijo Ojennus, True Finns Party, 2008–

Markku Pakkanen, MP, Centre Party, 2011–

Harry Wallin, engine driver, Social Democratic Party, 2005–

Itella's Executive Board 2011

Jukka Alho

President and CEO
b. 1952, M.Sc. (Tech.)
Joined Itella Group in 2000.
He has previously worked at Elisa Corporation (1981–2000) in executive positions. Board member of Service Sector Employers PALTA, Ilmarinen Mutual Pension Insurance Company and Oriola-KD.

Jaana Jokinen

Senior Vice President, Human Resources
b. 1957, M.Sc.
Joined Itella Group in 2009.
Previous employer Nokia Corporation (2004–2009) and Nokia Networks (2001–2003) where she held executive HR positions.

Heikki Länsisyrjä

Senior Vice President, Itella Information
b. 1960, M.Sc. (Econ.)
Joined Itella Group in 2007.
His previous employer was Fujitsu Services Oy (1987–2006) where he worked as the Director of Infrastructure Services.

Jukka Rosenberg

Senior Vice President, Itella Mail Communication
b. 1962, M.Sc. (Econ.)
Joined Itella Group in 2011.
Previous employers include IBM Global Services (2006–2011) and TietoEnator Corporation (1997–2006), where he held executive positions.

Sari Helander

CFO of Itella Group
b. 1967, M.Sc. (Econ.)
Joined Itella Group in 2011.
She has previously worked in controller and financial management functions at Nokia Corporation (2001–2011).

Juhani Strömberg

Senior Vice President, Strategy and Development
b. 1953, Ph.D. (Tech.)
Joined Itella Group in 2006.
His previous employer was TietoEnator Corporation (1976–2006), where he worked as Senior Vice President of Corporate Development. Member of Ubiquitous Information Society Advisory Board and Consultative Committee of Logistics at VTT (Technical Research Centre of Finland).

Lauri Vesalainen

Vice President, Itella Logistics
b. 1956, eng.
Joined Itella Group in 2011.
He has previously served in international and global sourcing, manufacturing and logistics fields at Nokia Corporation (1995–2011).

Management Board

Päivi Alakujala

Vice President, Communications, Corporate Responsibility
b. 1967, M.Sc. (Agr. & For.)
Joined Itella Group in 2004.
Her previous employer was the PR company CW Works Oy (1998–2004), where she worked as the Senior Communications Consultant.

Hannu Lanteri

Managing Director, Itella Bank Ltd (Itella IPS)
b. 1955, MBA
Joined Itella Group in 2009.
He has previously worked in development and bank manager tasks at savings banks, SKOP and Samlink (1985–1996). He was the Deputy CEO of Säästöpankkiliitto (1996–2009).

Ari Ollila

Vice President, Major Accounts
b. 1961, LL.M, MBA
Joined Itella Group in 2008.
His previous employer was Oy International Business Machines Ab, where he worked in sales, sales management and service development. He also held the membership of the Management Team of IBM Finland (1991–2008).

Antero Palmolahti

Strategic Chief Shop Steward of Itella Group, Finnish Post and Logistics Union PAU (employee representative)
b. 1952
Joined Itella Group in 1971.
He has worked at Itella Group as postal worker, safety representative and chief shop steward. He is the Board Chairman of Itella Personnel Fund.

Tomi Pienimäki

Vice President, CIO
b. 1973, Ph.D. (Tech.), M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2005.
His previous employers were Hackman Metos Oy (2000–2005), where he worked as a CIO, and John Crane Ltd in the UK (1999–2000).

Iiro Wester

Vice President, Brand & Marketing
b. 1963, Student of Economics
Joined Itella Group in 2006.
His previous employers were Cloetta Fazer Ab (2000–2006) and Fazer Confectionery Ltd (1997–2000), where he worked in brand and marketing management.



A challenging year

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Read Itella's 2011 Financial
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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 organiza-

tions 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 Net-Posti 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 Kiinteistösaakeyhtiö 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-Avukseenne 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 Fin-

land 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 devel-

opment 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 differences		-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					Total	Non-controlling interest	Total equity
	Share capital	Contingency reserve	Fair value reserve	Translation differences	Retained earnings			
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)

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

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

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

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

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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Financial information, annual reports, interim reports: www.itella.com/financials

Corporate Governance: www.itella.com/corporategovernance

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