

Corporate Governance Statement 2012

This is Itella's Corporate Governance Statement referred to in Recommendation 54 of the Finnish Corporate Governance Code issued by the Securities Market Association on June 15, 2010. It was reviewed by the Audit Committee of the Corporation's Board of Directors on February 11, 2013. The Corporate Governance Statement is published as a separate, unaudited report released in connection with the Financial Statements.

The remuneration statement and other information related to the Corporate Governance Code are available at www.itella.fi/hallinnointi. The management's résumés are available at www.itella.fi/johto.

1 Compliance with the Corporate Governance Code

The duties and responsibilities of Itella's executive bodies are determined according to Finnish law. Itella's decision-making and administration comply with the Finnish Limited Liability Companies Act (624/2006), Itella Corporation's Articles of Association, and the Finnish Corporate Governance Code (www.cgfinland.fi) for listed companies issued by the Securities Market Association.

Departures from the Corporate Governance Code recommendations:

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

2 Supervisory Board

The Supervisory Board's duties include the following:

- Ensuring that the company is managed according to sound business practices and on a profitable basis.
- Providing guidance to the Board of Directors on issues with broad implications or those deemed important in principle.
- Providing the Annual General Meeting of Shareholders (AGM) with an opinion on the company's financial statements and the auditors' report.
- Monitoring the functionality of postal services and the consideration of proposals for changes in the services.

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

Itella Corporation's AGM elects the members of the Supervisory Board and appoints the Board's Chairman and Vice Chairman. The Supervisory Board has six to twelve members. Persons aged 68 and above are not eligible for membership of the Board. The term of office for the members is one year and it ends at the close of the AGM that follows their election.

Itella's Supervisory Board 2012

Member	Born	Education	Occupation	Attendance at meetings
Eero Lehti (Chairman) *	1944	M.Soc.Sc.	Member of Parliament	4/1
Mauri Pekkarinen (Chairman) **)	1947	M.Soc.Sc.	Member of Parliament	4/3
Antti Rantakangas, (Vice Chairman) *)	1964	M.Sc. (Agr.)	Member of Parliament	4/1
Harri Jaskari *)	1964	Lic.Sc. (Admin.)	Member of Parliament	4/1
Bjarne Kallis *)	1945	M.Soc.Sc.		4/1
Lauri Kähkönen *)	1947	B.A.	Kaupunkineuvos	4/1
Markku Pakkanen *)	1960	Agricultural Technician/Marketing (MKT) degree	Entrepreneur	4/1
Harry Wallin *)	1953	Engine Driver		4/1
Ritva Elomaa **)	1955	Radiographer	Member of Parliament	4/3
Lars-Erik Gästgivars **)	1946	Steward's degree	Member of Parliament	4/3
Raimo Piirainen **)	1952	Engine driver's training	Member of Parliament	4/3
Tuomo Puumala **)	1982	M.Soc.Sc.	Member of Parliament	4/3
Teuvo V. Riikonen **)	1960	MA (Theology)	Executive Manager	4/3
Kimmo Sasi **)	1952	D.Soc.Sc.	Member of Parliament	4/3
Susanna Huovinen	1972	M.Soc.Sc.	Member of Parliament	4/2
Johanna Karimäki (Vice Chairman) ***)	1973	M.Sc. (Tech.)	Member of Parliament	4/4
Sari Moisanen	1980	BEng	Student	4/4
Outi Mäkelä	1974	M.Sc.(Econ.)	Member of Parliament	4/3
Reijo Ojennus	1947	Trade	Personal	4/4

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		Technician	Assistant to MP/Entrepreneur	
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*) until March 14, 2012

**) as of March 14, 2012

***) Vice Chairman as of March 14, 2012

3 Board of Directors

The duties of Itella Corporation's Board of Directors are specified in the Limited Liability Companies Act, the Articles of Association, and the Decision-Making Guidelines approved by the Board of Directors. In accordance with these documents, the Board is responsible for controlling and supervising executive management, appointing and, if necessary, dismissing the President and CEO, approving the company's strategic goals and risk management principles, and ensuring the functioning of the company's management system. The Board has adopted written rules and procedures which lay out the Board's key responsibilities and working principles.

Itella's Corporation's AGM elects the members of Itella Corporation's Board of Directors and appoints the Board's Chairman and Vice Chairman. The Board of Directors has between five and nine members. Persons aged 68 and above are not eligible for membership of the Board. The members are elected for a one-year term at a time and their terms of office end at the close of the AGM following their election.

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

Itella's Board of Directors 2012

Member	Born	Education	Occupation
Arto Hiltunen (Chairman)	1958	M.Sc.(Econ.)	-
Kalevi Alestalo **)	1947	M.Sc.(Econ.)	Senior Financial Counsellor
Ilpo Nuutinen *)	1964	M.Sc.Econ. (licentiate in laws)	Senior Government Counsellor
Hele-Hannele Aminoff	1960	MBA	CEO
Päivi Pesola	1956	M.Sc.(Econ.)	CFO
Jussi Kuutsa	1964	M.Sc.(Econ.)	Country Manager
Timo Löyttyniemi ***)	1961	D.Sc. (Econ. & Bus.)	CEO

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		Admin.)	
Riitta Savonlahti	1964	M.Sc.(Econ.)	Executive Vice President, HR
Maarit Toivanen-Koivisto	1954	M.Sc.(Econ.)	CEO

*) as of March 14, 2012

**) 14.3.2012 asti

**) Member of Itella Bank's Board of Directors in 2012 All Board members other than Ilpo Nuutinen, who is in an employment relationship with the Ownership Steering Department of the Prime Minister's Office, are independent of the shareholder.

3.1 Audit Committee

The Board of Directors elects a maximum of four of its members to the Audit Committee, the duties of which include:

- preparation, control, review, and assessment of risk management policies, internal control systems and internal audit reports, organizing financial reporting and auditing;
- examining financial statements with the auditors before submitting them for review by the Board of Directors;
- submitting a proposal concerning the appointment of the auditor;
- assessing the independence of the auditor and the additional services offered by the auditor.

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

On March 14, 2012, the Board of Directors elected the following members to the Audit Committee: Päivi Pesola (Chairman), Hele-Hannele Aminoff, Jussi Kuutsa, and Timo Löyttyniemi.

3.2 Remuneration and Nomination Committee

The Board of Directors elects a maximum of four of its members to the Remuneration and Nomination Committee, the duties of which include:

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

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

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On March 14, 2012, the Board of Directors elected the following members to the Remuneration and Nomination Committee: Arto Hiltunen (Chairman), Ilpo Nuutinen, Riitta Savonlahti, and Maarit Toivanen-Koivisto.

The Board of Directors' attendance at meetings

Member	Committee membership	Board of Directors	Committee
Arto Hiltunen (Chairman)	Remuneration and Nomination Committee	13/13	6/6
Kalevi Alestalo *)	Remuneration and Nomination Committee	13/2	6/1
Ilpo Nuutinen	Remuneration and Nomination Committee	13/10	6/5
Hele-Hannele Aminoff	Audit Committee	13/11	7/6
Jussi Kuutsa	Audit Committee	13/12	7/5
Timo Löyttyniemi	Audit Committee	13/13	7/7
Päivi Pesola	Audit Committee (Chairman)	13/12	7/7
Riitta Savonlahti	Remuneration and Nomination Committee	13/13	6/6
Maarit Toivanen-Koivisto	Remuneration and Nomination Committee	13/11	6/6

*) until March 14, 2012

4 President and CEO

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

Jukka Alho, M.Sc. (Tech.), served as President and CEO of Itella Corporation from 2000 to December 10, 2012. He was succeeded as President and CEO by Heikki Malinen, M.Sc. (Econ.), MBA, on December 11, 2012.

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

Itella Corporation has defined internal control principles based on the generally accepted framework for internal control systems (COSO). Internal control has been defined as a process effected by Itella's Board of Directors, management, and other personnel, the purpose of which is to provide reasonable assurance on achieving the following objectives:

a) the effectiveness and efficiency of operations

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- b) the reliability of financial reporting
- c) compliance with laws and regulations

The following sections describe the main characteristics of Itella's internal control based on the five essential aspects thereof: the control environment, risk assessment, control measures, information and communications, and monitoring.

5.1 Control environment

5.1.1 Roles and responsibilities

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

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

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

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

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

5.1.2 Group policies and instructions

Itella Group's general internal control policies and responsibilities regarding financial reporting are specified in a separate operating model (*Itella Group Policy on Control over Financial Reporting*) approved by the Board of

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Directors. This policy is also employed to increase the personnel's awareness of internal control and to influence attitudes towards internal control.

Itella Group follows responsible and ethical procedures which are described on a general level in Itella's Corporate Responsibility Principles and, more specifically, in Itella's Employee Code of Conduct, drawn up for the personnel. Each Group company must ensure that its personnel are familiar with these ethical principles and that they comply with them in all activities. The Group has a feedback channel for reporting actions that are in conflict with the ethical principles.

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

The guidelines and Group-wide policies issued by the Group's Finance unit hold a key position in ensuring the accuracy of financial reporting. Financial control and reporting instructions are explained in the *Controller's Manual* available on the company's intranet. The manual contains the common accounting and reporting principles and practices as well as the roles and responsibilities of the finance functions. Financial statements are subject to Group-wide accounting principles and Group reporting employs a common chart of accounts.

5.1.3 Key improvement measures in 2012

The internal control reports concerning the financial reporting process were established and solidified in 2012. Units updated their descriptions on the targets and processes of internal control. The measures were based on the general key control requirements, divided into four categories: operations, reports, compliance, and abuse. The requirements concern the five principal finance processes as well as IT systems. To improve the ability to identify the impact of the changes that the control measures brought about, the control requirements remained unchanged throughout 2012.

The efficacy of the internal control system was assessed by monitoring the extent and efficiency of units' control measures in respect of the key control measures as well as in respect of control measures in which shortcomings had been detected. The assessment was performed internally, by interviewing the people responsible for carrying out control measures. In addition, the internal audit function carried out an assessment drawn up by an external party that concerned the internal control of the Group's financial reporting in terms of selected units and processes.

The main results in 2012 were the following:

- The control measures of the Groups' Finance Shared Service Centers (or FSSCs) were harmonized and the descriptions of control requirements were updated.
- Key Group companies each established the post of a financial manager, responsible for monitoring the accuracy of financial reporting

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and for ensuring that the control measures related to financial reporting are implemented.

- Group-level documents were updated to reflect the changed processes.
- The internal audit function carried out an external assessment of the implementation of control measures within selected units. The results of the assessments are used in reporting control measures to management and in the coordination of development measures.
- The Groups' entire personnel was given the opportunity to complete web-based training on the Group's ethical principles (Code of Conduct).
- The FSSCs took over a significant portion of Group companies' financial reporting—a step that improves the efficiency of control measures. Group-level controls paid special attention to control measures related to invoicing.
- Regarding the biggest Group companies, monitoring focused on the processes most significant in terms of financial reporting. No noteworthy shortcomings in the effectiveness or efficiency of control measures were detected in connection with monitoring. However, individual control measures were found to have room for improvement.

For further information on the results, see section 5.3. In 2013, the Group will focus on the further development of the control system, so that it supports the deployment of common practices and policies, more efficient reporting of observations, and the adoption of best practices in all Group units.

5.2 Risk assessment

The internal control system does not provide full guarantees for the absence of material errors or the occurrence of financial losses. The system allows the management of risks associated with the accuracy of financial reporting but does not eliminate such risks.

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

In 2010, Itella analyzed the key risks related to the financial reporting process as part of the internal control's assessment process and, on the basis of these risk assessments, identified key factors with an influence on financial reporting processes. The analysis was conducted at Group level and the results were also used at unit level to support their control assessment work. Risk assessments were employed in monitoring by focusing the monitoring measures on processes identified as the most significant. Monitoring was also

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accompanied with an assessment of the likelihood of error and risk management related to an individual control measure.

5.3 Control measures

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

A Group-wide assessment of the current status of controls concerning the financial reporting process was carried out in all parts of Itella's organization in 2010. All units assessed their internal controls on the basis of Group-level control requirements, documented their financial reporting processes, and prepared detailed improvement plans. In 2012, units updated the assessments concerning the current status and the descriptions of control processes. Monitoring was carried out in selected units. The purpose of the monitoring was to ensure the efficient implementation of control measures meant to secure the reliability of financial reporting.

The most significant observation yielded by the external assessment was that some units needed to improve the contents of the descriptions they had drawn up, so that the descriptions would better describe the control measures being employed. In addition, there was room for improvement in how control measures were reported to unit or Group management.

The general results of the monitoring confirmed that key control measures are, for the most part, performed appropriately. However, not all units have made control measures a fixed part of business processes—a fact that may weaken their effectiveness. Furthermore, the processes of some units were found to have shortcomings in the extent of control measures. Tasks related to Group companies' financial reporting were transferred to the Group's FSSCs, to enable the harmonization of the Group's financial policies. The control of access rights was developed by the documentation of operational processes and by the deployment of an application that reports dangerous work combinations and access rights. Development measures in 2013 will focus on improving the incorporation of control measures into all business processes. Special attention will also be paid to the regular reporting of control measures and their results to Group and unit management.

5.4 Information and communications

Itella's financial reporting principles and guidelines are maintained centrally by the Group's Finance unit. The Group's finance personnel have been informed of these principles and guidelines over the intranet. Throughout the year, Group management and unit managers inform all organizational levels of the Group's financial performance, taking into account the constraints of the Disclosure Policy. Business units regularly prepare financial and management

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reports for the units' and the Group's management. The reports analyze and discuss matters related to the business units' profitability and risks.

The Group's profitability is reported in each meeting of the Board of Directors, and the Board reviews all interim and annual reports before they are published. Itella complies with the reporting standards specified for listed companies and publishes stock exchange releases on its interim and annual reports. Itella also reports to the Finnish Communications Regulatory Authority on operations related to its universal service obligation.

Itella's consolidation process relies on the global Hyperion system. Consolidation data is transmitted to Hyperion automatically or through manual input. The reported figures are reviewed in subsidiaries and business groups alike. The Group's Finance unit also validates the reported figures before the release of financial statements.

Key improvement measures in 2012 involved the Group-wide program aiming to harmonize financial processes. Most Group companies started using the services offered by the FSSCs in terms of financial reporting and implemented standard IT systems for the purposes of financial reporting. Group Finance updated the Group-wide guidelines and instructions as necessary throughout the year. In addition, the personnel of Group Finance were provided with training on topical changes, such as the content of the International Financial Reporting Standards. The program's implementation progressed according to plan.

5.5 Monitoring

Itella Group has a financial reporting system for the purposes of monitoring business operations. The system applies to the entire Group and allows for the identification of any deviations from reporting policies. External and internal reports are based on the same information, and they are processed in the same system. This allows for the monitoring of financial data at all levels: the Group level, business group and Group function levels, business unit level, and individual reporting unit level.

The Group's Finance unit and business groups follow the correctness and accuracy of external and internal reporting and ensure that external reporting complies with regulations. Local management and controllers furthermore ensure that external reporting complies with local regulations. The Group's Finance Management Team—composed of representatives of the Group, Group functions, and business groups—convenes monthly to assess financial reports and analyze any possible deviations.

The observations and results of 2012 were reported to the management of business groups and the Audit Committee. The objective in 2013 is to improve the monitoring of management to enable the monitoring and steering of the implementation of development measures and the development of control measures as scheduled. Development measures and observation results will be reported to Group management and the Audit Committee on a regular basis.