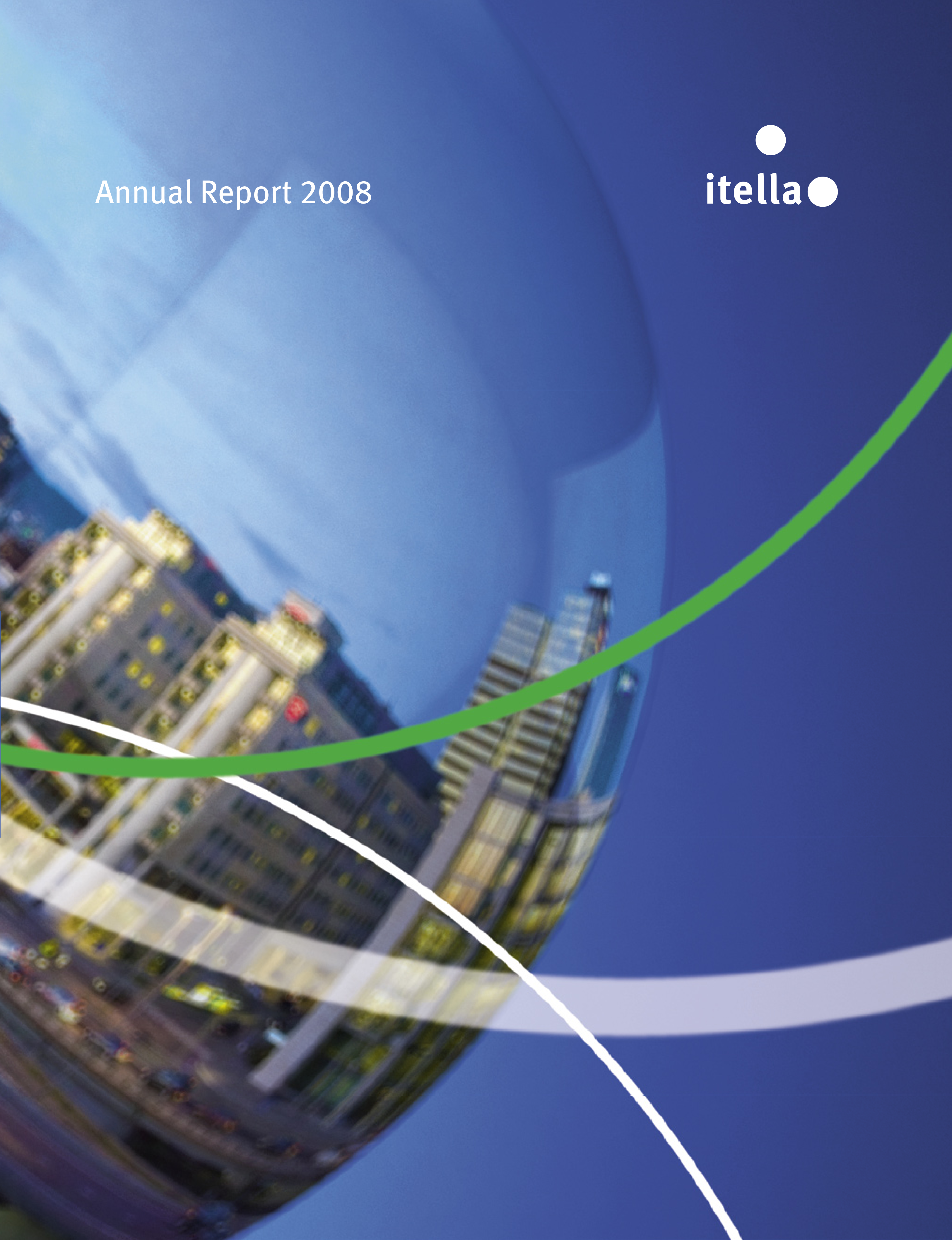
Annual Report 2008

itella



Growth continued, slight decline in operational profitability

Itella Group's consolidated net sales grew in 2008 considerably due to acquisitions. Operational profitability was weakened by a rise in labour and fuel costs. International operations accounted for 31% of net sales.

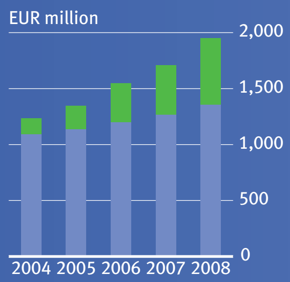
Exchange rate fluctuations at the end of the year resulted in substantial financial expenses. The company's solidity remained stable.

Itella Mail Communication launched major investments in mail sorting and delivery in Finland. The profitability of Finnish postal operations declined slightly.

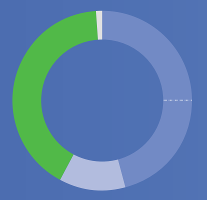
Itella Information improved its profitability while continuing to expand in Central Europe.

Itella Logistics' Russian operations performed favourably. Due to the global financial crisis, a goodwill impairment loss of EUR 26.1 million was recorded for the IttellaNLC subsidiary. The economic downturn affected freight operations. Operating profit (EBIT) decreased significantly.

Net sales



Breakdown of net sales



Key figures of Itella Group

	2008	2007	Change
Net sales, MEUR	**1,952.9**	1,710.6	14.2%
Operating profit (EBIT) excl. impairment loss, MEUR	**95.1**	101.8	-6.6%
EBIT margin excl. impairment loss, %	**4.9**	6.0	
Operating profit (EBIT), MEUR	**69.0**	101.8	-32.2%
EBIT margin, %	**3.5**	6.0	
Profit before tax, MEUR	**46.6**	109.5	-57.4%
Return on equity, %	**2.6**	11.1	
Return on investment, %	**12.4**	15.6	
Equity ratio, %	**51.1**	65.9	
Gearing, %	**14.8**	-36.4	
Personnel on average	**28,163**	25,623	9.9%
Capital expenditure, MEUR	**351.5**	94.2	273.1%
Dividends, MEUR	**10.0** *)	39.0	-74.4%
**) Board of Director's Proposal*			

Key events 2008

- **Itella Mail Communication acquired** the Finnish DH Tools Oy and the Russian OOO Connexions, both providing services and solutions for customer relationship management.
- **An investment program** worth EUR 160 million for mail sorting and delivery gained momentum in Itella Mail Communication.
- **Itella Information launched** operations in Poland, Slovakia, and Russia. A joint venture, Itella Information AS, was established with Norway Post.
- **Itella Information acquired** the Finnish Tuottotieto Oy and expanded into financial management outsourcing services (Itella Alligator).
- **Itella Logistics acquired** the Finnish Kauko Group Oy and the Swedish Hansar Logistics AB, which provide international air and sea transportation services.
- **Itella Logistics became** the Russian market leader in warehousing services through the acquisition of the logistics corporation NLC (National Logistic Company).
- **The number of employees** within the Group rose by 26% to nearly 31,700 at the end of the year.
- **Itella's carbon-dioxide emissions** were reduced by 10% in relation to net sales.

Three business groups

Itella Mail Communication offers multi-channel delivery services and customer relationship marketing solutions which enable organisations to effectively reach their customers. It also provides daily postal services essential to Finnish society. Most of the direct customers are businesses and other organisations, while the majority of message recipients are individual consumers.

Itella Information is a leading provider of solutions for efficient financial information flows in Europe. It offers organisations outsourcing solutions for invoicing, financial management, and digitization. The customers are typically senders of large volumes of invoices in industries such as banking, insurance, telecommunications, media, energy and the public sector.

Itella Logistics supports and improves its customers' business operations by providing service logistics solutions for land, sea and air freight, parcel deliveries, and warehousing and other contract logistics. Its customers are growth businesses whose needs are often related to the global management of long supply chains.

Key Figures of Business Groups

	2008	2007	Change
Itella Mail Communication			
Net sales	**918.1**	893.8	2.7%
Operating profit (EBIT)	**86.2**	88.9	-3.0%
EBIT margin, %	**9.4%**	9.9%	
Itella Information			
Net sales	**247.1**	223.4	10.6%
Operating profit (EBIT)	**9.6**	5.4	77.8%
EBIT margin, %	**3.9%**	2.4%	
Itella Logistics			
Operating profit excl. impairment loss			
Net sales	**813.2**	619.8	31.2%
Operating profit (EBIT)	**16.0**	22.2	-27.9%
EBIT margin, %	**2.0%**	3.6%	
Operating profit incl. impairment loss			
Net sales	**813.2**	619.8	31.2%
Operating profit/loss (EBIT)	**-10.1**	22.2	..
EBIT margin,%	**-1.2%**	3.6%	

Group companies 13 February 2009

Itella Mail Communication

FINLAND	Itella Corporation (parent company) Itella Customer Relationship Marketing Ltd
RUSSIA	OOO Itella Connexions

Itella Information

FINLAND	Itella Information Oy Itella Tuottotieto Oy
SWEDEN	Itella Information AB
NORWAY	Itella Information AS
DENMARK	Itella Information A/S
GERMANY	Itella Information GmbH
ESTONIA	Itella Information AS
LATVIA	A/S Itella Information
LITHUANIA	UAB Itella Information
POLAND	Itella Information sp. z o.o
SLOVAKIA	Itella Information s.r.o
CZECH	Itella Information s.r.o.
HUNGARY	Itella Information kft.
RUSSIA	OOO Itella Information

Itella Logistics

FINLAND	Itella Corporation (parent company) Itella Logistics Oy Logia Software Oy AW-Store Oy Oy Confidea Business Consulting Ltd SHW Logistiikka Oy Kauko Group
SWEDEN	Itella Logistics AB
NORWAY	Itella Logistics AS
DENMARK	Itella Logistics A/S
ESTONIA	Itella Logistics OÜ Logia Estonia OÜ
LATVIA	Itella Logistics SIA
LITHUANIA	UAB Itella Logistics
RUSSIA	OOO ItellaNLC

See page 67 for a comprehensive list of Group companies.

Contents

Itella in Brief

Itella is a service business whose core competency lies in information and product flow management for its customers. It is a trusted partner assisting organizations in selling and marketing, delivery, and invoicing activities.

In Finland, Itella's key mission is to provide daily mail services for all throughout the country. High consumer satisfaction forms the basis of Itella's ability to serve its business customers successfully. Consumer services are delivered under the Posti brand.

Itella operates in Northern and Central Europe, and in Russia. Correspondingly, international activities account for 31% of its net sales. Itella's key customer industries include the retail and wholesale trades, media, the finance, and telecommunications industries, and the public sector.

Itella provides work for around 31,700 professionals. The corporation is wholly owned by the Finnish State.

Itella Group comprises three business groups: Itella Mail Communication, Itella Information, and Itella Logistics.

New paths

The year 2008 will go down in history due to the global financial crisis. Corporate finance is not, unfortunately, the only area affected by these dramatic events. There will also be implications for ordinary consumers and corporate employees. Prevailing economic conditions are increasingly being felt in Itella's operations, as well.

The first half of 2008 went largely as planned for the Group, with the uncertain economic climate only beginning to be reflected in our operations after the summer. However, the greatest factor affecting profitability was an increase in labor costs in addition to rising fuel prices. Our financial performance for the year fell short of the previous year, although our operating profit was fairly close to expectations.

Focusing on three customer processes

2008 was a significant year for Itella's strategic trajectory. We clarified our strategy by refocusing our operations on three processes that are vitally important both to our private and public sector customers: 1) customer relationship and sales processes, 2) supply chain and logistics processes, and 3) invoicing and financial management processes. Itella's operations and future prospects for growth will focus on these areas.

We strengthened our position in Russia, where we made a major service logistics acquisition. Growth in Central Europe was more moderate, with Itella Information expanding organically into new countries through the iPost printing solution.

Itella Information's financial performance continued to improve. It has become a business group with unified operations and high-quality products in all countries. The acquisition of the Finnish company Tuottotieto extended the value chain considerably: Itella Information can now provide comprehensive services in support of financial transaction processes. This outsourcing concept—"Itella Alligator"—is mainly targeted at mid-sized and large organizations which need to harmonize and optimize their financial management routines.

Itella Logistics' service network now extends widely, reaching Russia's largest cities. A new subsidiary, ItellaNLC, is included in the consolidated financial statements since August. Its performance was as expected, actually slightly better. The economic downturn did not reduce demand for logistics services last year. Furthermore, we still have confidence in the long-term growth potential of the Russian logistics market, although we must be prepared for general economic difficulties in the near term. Changes in exchange rates now have a much more pronounced effect on Itella, and the weakening of the ruble has resulted in a clear increase in financial expenses. In Finland we launched an extensive investment project for the construction of a new logistics center near Lahti.

Transformation of mail delivery a priority

Itella Mail Communication's performance was weakened by rising salaries and other costs. However, mail volumes remained at a good level in Finland. Other countries, many of which have already seen a drastic drop in volumes, are providing a taste of things to come. Itella is preparing for future challenges—a decline in volumes and increased competition—by investing heavily in the domestic delivery network. We have initiated an extensive three-year investment program to renovate four sorting centers, which means making considerable investments in IT systems, equipment, and buildings.

Itella Mail Communication bears primary responsibility for the provision of the postal services essential to all citizens in Finland. Because approximately 96% of postal service revenues are generated by businesses and other organizations, we must constantly find new ways of meeting both the needs of consumer customers and mail-sending businesses. Various customer satisfaction surveys and international comparisons indicate that we have been succeeding in this.

Itella's high levels of customer satisfaction are attributable to our employees, who serve our customers in a wide range of roles. Itella has a sound reputation as a company that invests in both the development of its personnel and the improvement of well-being in the workplace. This is reflected, for example, in the decreasing number of occupational accidents at Itella.

I wish to thank all of our customers for their patronage and partnership. We at Itella believe in the productivity of long-term, confidential cooperation. We are proud of being able to serve demanding, yet open-minded and innovation-focused customers over an ever expanding area.

Jukka Alho
President and CEO

Increased pressures for efficiency

The year 2008 marked the turning point in the global economy: a long bull market was followed by an international financial crisis, preceding a severe recession in the real economy. Itella will continue to prepare for long-term changes such as digital substitution, the new EU Postal Directive, and environmental requirements.

Itella operates in the information and material logistics markets in Northern and Central Europe and in Russia, as well as offering mail services in Finland.

Global economic conditions have an impact on Itella through its customers. The effects may vary greatly, depending on the geographical area. While Denmark and the Baltic countries have entered a recession ahead of Finland, in Sweden the downturn has also weakened the krona (SEK). For Russia, oil price trends are having the greatest impact.

In tough economic times, customers cut back on investments and reduce spending in, for example, marketing communications. On the other hand, due to increased pressures for efficiency, there is demand for ever more extensive outsourcing solutions, which Itella offers in areas such as warehouse management and invoicing.

Major mailers set the pace

The quest for efficiency is speeding up the transition to electronic communications in companies, reducing the number of letters delivered by postal operators. Digital substitution is moving forward as banks, telecom and energy companies, and other major mailers convert their consumer letters to digital format. The internet is also impacting the delivery of printed newspapers, with media companies investing in online papers while social media fulfill new communication needs.

Electronic transactions are gaining ground in the private and public sectors alike, resulting in increased demand for information logistics services. In Finland, the state is launching major projects such as eGovernment services.

Postal Directive to take effect in 2011

Economic uncertainty is also affecting Itella's competitive environment. Dwindling investment funds are particularly hampering small players. However, state-owned and well-established organizations have more leeway during economic downturns. Postal and logistics companies have the option of expanding into new markets if their home markets begin to wane.

Itella is continuing to prepare itself to meet the intensifying competition in letter delivery heralded by the EU Postal Directive, which will enter into force in 2011. In Finland, the nationwide five-day delivery obligation will most likely only apply to Itella, while its competitors will be able to choose to deliver mail less frequently and concentrate on larger cities. In light of this, a solution must be found for securing and financing the universal postal service for all areas in Finland.

Environmental efficiency also reduces costs

While economic conditions are worsening, companies are facing higher demands for good corporate citizenship. Moreover, environmental factors are having an increasingly direct impact on consumer purchasing decisions. In meeting customer requirements, companies must also ensure that all levels of the supply chain are green.

In Itella's line of business, economic and environmental efficiency are complementary goals. For example, through more efficient use of the transportation network, we can reduce both fuel costs and carbon emissions. Consequently, a general economic downturn may also give much-needed momentum to environmental initiatives.

Looking ahead to 2013

Mission

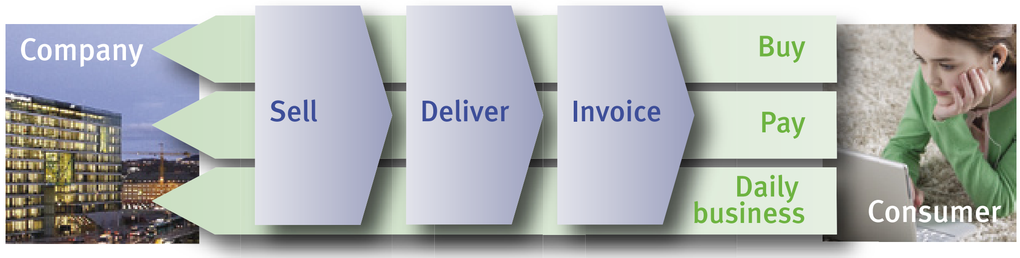
Itella's main mission has remained the same for 370 years: taking care of the product and information flows of its customers. We support businesses in marketing, selling, delivering, and invoicing processes.

In Finland, our key mission is to provide daily mail services throughout the country. High consumer satisfaction forms the basis of Itella's ability to serve its business customers successfully.

Vision

Itella's target is to be a leading company in information and service logistics in Northern Europe. Information logistics services—which are related to the management of information flows through multiple channels—are provided by both Itella Mail Communication and Itella Information. Service logistics—which refers to managing product availability through freight, warehousing, and delivery services—are offered by Itella Logistics.

Itella's Solutions for Customers' Needs



Key goals

By 2013, we aim to:

– Improve net sales, boosting our compound annual growth rate to at least 10% (CAGR)
– Achieve an EBIT margin of 8% of net sales (EBIT).

Itella is committed to reducing its carbon-dioxide emissions by 10% by 2012 (in relation to net sales, compared to the year 2007).

Focus areas for 2009

Our strategy will be executed through the following project areas:

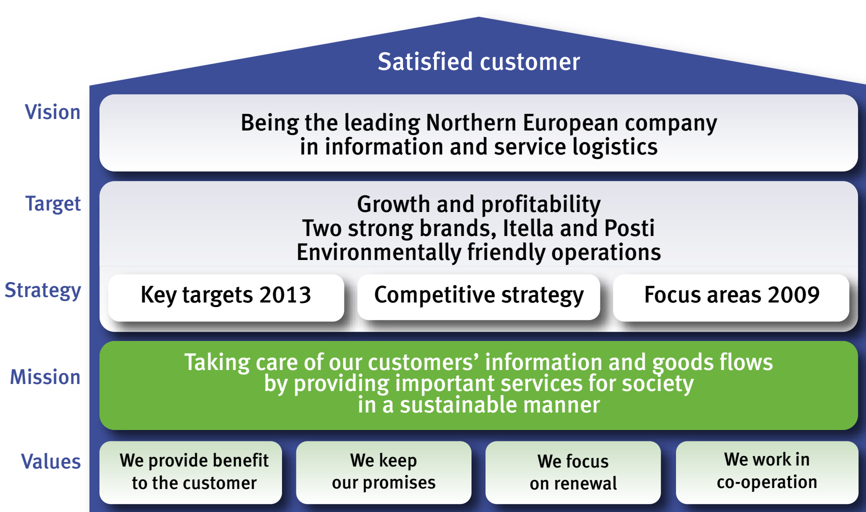
– Skilled and motivated personnel
– Innovative services and customer know-how
– Development of operational models and productivity
– International management system
– Environmental approach to all operations

Geographical markets

In the Finnish market, Itella offers a uniquely broad range of services. We are the market leader in selected areas of information and service logistics.

In the other Nordic countries, Itella operates by carefully segmenting its markets and differentiating itself through innovative, technology-based services. In the growth market of Russia, Itella may even achieve market leadership, as has happened in warehouse logistics. In Hungary, Slovakia, and other Central European countries, Itella is expanding through organic growth.

Itella's Group strategy 2009–2013



Vuokatti slopes, Sotkamo, Finland

Kesko Group reaches its customers via Itella's customer relationship marketing solutions. K-Plussa loyalty bonus can be gained through sports equipment purchases and downhill services.

Itella Mail Communication

Itella Mail Communication provides both business customers and consumers with high-quality delivery services. New multi-channel solutions for customer relationship services range from analytics to campaign management and delivery of orders.

Services

- Delivery services for letters, advertisements, newspapers, and magazines
- Customer relationship marketing services
- Postal services for consumers in Finland

Geographic presence

Finland and Russia

Key figures for 2008

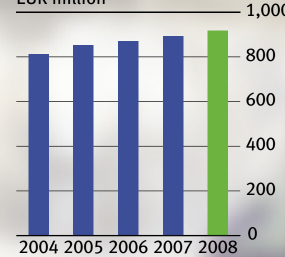
- **Net sales** EUR 918.1 million
- **Operating profit** (EBIT) EUR 86.2 million
- **Employees** 19,094 (as of Dec. 31)

Year 2008

- **Five-day delivery** service for all of Finland's 2.5 million households and 250,000 businesses.
- **A total of 3 billion** letters, newspapers, magazines, and items of direct mail delivered during the year, i.e. 12 million items per workday.
- **Letter mail delivery volumes** remained level.
- **Invest program** of mail processing infrastructure proceeding in Finland.
- **Itella acquired** DH Tools Oy, a Finnish company specializing in marketing management systems.
- **Itella acquired** Connexions, a Moscow-based pioneer in Russian direct marketing services.

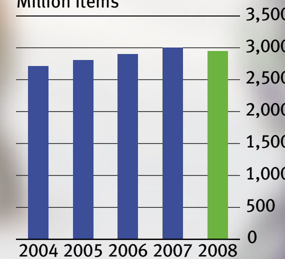
Net sales

EUR million



Total delivery volume

Million items



Superior service for senders and receivers

Itella Mail Communication provides corporate customers with the solutions required for well-directed, successful communications with their own customers. It also provides the daily postal services for the Finnish society.

Itella Mail Communication provides a five-day-a-week, nationwide delivery service, supplemented by a seven-day-a-week early-morning newspaper delivery service in which Itella has a 73% market share. In unaddressed direct mail deliveries, its market share is 40%.

Direct customers are businesses and other organizations, while consumers make up the majority of end users. The aim is to deliver a superior customer experience at every step of the service chain.

Key customer segments include the retail trade, newspaper and magazine publishers, energy companies, telecom companies, banks, and insurance companies, as well as mailing, direct marketing, and distance selling firms. Itella Mail Communication operates in Finland and, as of fall 2008, in Russia, where it provides customer relationship marketing services.

Extensive service portfolio

In Finland, Itella's nationwide five-day delivery service is supplemented by early-morning newspaper delivery seven days a week. Their The competitiveness of Itella's delivery services is based on the comprehensive management of contact information, as well as cost-effective and flexible sorting and delivery processes.

In recent years, Itella has diversified its direct marketing services into multi-channel customer relationship marketing, campaign management, and related planning services. In this area, the company's competitiveness is based on solid expertise in target group analytics, the utilization of research data, and advanced software and tools.

Heavy investments in mail handling

Itella Mail Communication's current Development Program has gained momentum. Launched in 2007, this program will transform the working methods and technology of Itella's entire mail handling process. The aim is to be able to respond to evolving customer needs, react more flexibly to changes in demand, and use production capacity more efficiently. For customers this means more advanced services, for example in the form of real-time delivery tracking.

The development program involves investments totaling EUR 160 million. Work has begun on the construction of new sorting centers in the cities of Kuopio and Oulu, and the centers located in Helsinki and Tampere have been modernized and expanded. Furthermore, installations of new sorting machines and systems have been initiated.

Effectively targeted customer communications

K-Plussa is the customer loyalty program of Kesko Group, a leading provider of retail sector services in Finland. This program offers benefits for nearly two million households in more than 3,500 shopping places.

Itella has developed an integrated solution for customer relationship marketing, enabling Kesko chains and retailers to keep in touch with their customers, build customer loyalty, and increase sales.

According to **Niina Ryynänen**, Managing Director of K-Plus Oy, Itella's strength lies in customer analytics and profiling tools.

– Our communications are now much more effectively targeted, since we can utilize customer data related to purchasing behavior, consumer needs, and phases of life from a variety of sources.

Kesko's sports retail chain Intersport, for example, can now target marketing campaigns at specific customer subgroups, such as urban sports buffs under the age of 40.

Besides accurate targeting, the benefits of direct marketing include measurability.

– Results have been excellent and the role of direct marketing has increased in our marketing communications. Customers also feel that our marketing is meaningful as it is based on a genuine understanding of the customer.

With respect to working practices, the major reform was related to the introduction of a productivity-based pay and working hour model (read more on page 22).

Launch of operations in Russia

In 2008, Itella Mail Communication acquired DH Tools Oy, the largest company in Finland specializing in marketing management systems.

In November, the business group made its first international acquisition. Renamed Itella Connexions, the company is a Russian direct marketing pioneer whose services range from customer data analysis to concept creation, creative design, supplier management, and post-analysis. This has brought Itella Mail Communication important expertise in the growing eastern markets, in addition to creating new markets for CRM solutions developed in Finland.

In Finland, Itella reaches 5.3 million consumers and 250,000 companies, five days a week. Its competitiveness is based on comprehensive contact information management and cost-effective, flexible sorting and delivery processes.

Contrary to the European trend, letter volumes in Finland remained stable in 2008. While direct marketing deliveries saw a fall in the face of continued, stiff price competition, newspaper subscriptions followed the general circulation trends. Magazine volumes remained stable. The profitability of mailing operations fell due to higher fuel and labor costs.

Environmental responsibility to guide operations in 2009

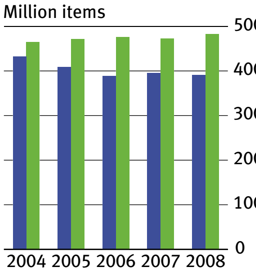
Major investments aimed at improving the competitiveness of delivery services and cutting carbon emissions will continue. New options will be sought for delivery route optimization, vehicle use, and working methods. IT systems will be developed for anticipating delivery volumes, planning production work, and monitoring actual deliveries.

Itella Mail Communication will continue to expand its presence outside of Finland by increasing its high-quality delivery service offerings in the Moscow and St. Petersburg regions.

In customer relationship marketing, a new CEM (Customer Experience Management) service will be introduced, for the automation of marketing campaigns, optimizing the utilization of customer data by businesses, and improved CRM.

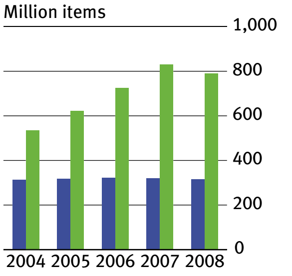
The use of multiple channels and environmental responsibility will be emphasized in all service development efforts.

1st and 2nd class letters



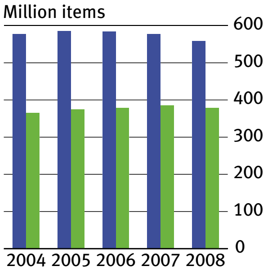
- 1st class letters
- 2nd class letters

Direct mail



- Addressed
- Unaddressed (incl. freesheets)

Subscription newspapers and magazines



- Newspapers
- Magazines

Opera House, Oslo

ISS Facility Services is one of the world's largest real estate service companies. With Itella handling its invoicing processes, ISS can focus on its customers' real estate.

Itella Information

Itella Information provides cost-effective solutions for the processing of incoming and outgoing invoices and other documents. Solutions scale from standard services to extensive outsourcing.

Services

– Invoicing, financial management and digitization outsourcing solutions.

Geographic presence

Finland, Sweden, Norway, Denmark, Germany, Poland, Estonia, Latvia, Lithuania, Russia, Slovakia, Hungary, the Czech Republic, and Austria

Key figures for 2008

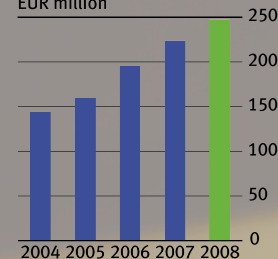
– **Net sales** EUR 247.1 million
– **Operating profit** (EBIT) EUR 9.6 million
– **Employees** 1,923 (as of Dec. 31)

Year 2008

– **Joint venture** between Itella and Norway Post began operating in Norway.
– **Expansion into Poland** with the acquisition of BusinessPoint S.A., a market leader in printing and document management.
– **New subsidiaries** established in Russia and Slovakia.
– **Itella's know-how** in electronic financial management strengthened through the acquisition of the Finnish Tuottotieto Oy.
– **Itella Alligator,** a solution for total financial management, launched in Finland.
– **Progress made in electronic invoicing** of the Swedish and Finnish governments.
– **Itella processed** 40% of all invoices sent in Finland. In Estonia, Itella handles 65% of all electronic B2C invoices through its portal at www.arved.ee.
– **Itella digitized** some 90 million documents during the year, of which slightly under one-fifth were purchase invoices.
– **105 million** iPost letters produced during the year.

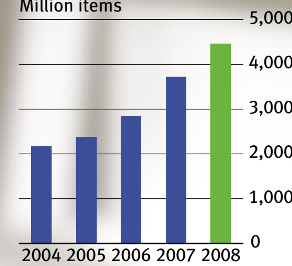
Net sales

EUR million



Physical and electronic transactions

Million items



Number one invoicing partner in Europe

In Europe, Itella Information is a leading optimizer of financial information flows and a trailblazer in e-invoicing. The company offers invoicing, financial management and digitization outsourcing solutions.

Itella Information's customers include banking, insurance, telecom, media, energy and public sector organizations that send out large volumes of invoices. Small companies seeking to streamline their operations by migrating to electronic processes also represent an important customer segment.

From standard services to extensive outsourcing

Itella's invoicing and document management solutions are scalable according to need. In addition, organizations can rapidly boost their efficiency by introducing Itella's easily deployable standard services. These include purchase invoice scanning and the hybrid iPost solution for letter deliveries. These services are used by thousands of Itella's business customers in Europe.

With Itella's comprehensive Invoice Management solution, customers can select the best channels for sending and receiving invoices in order to optimize productivity and ensure an efficient cash flow. Electronic invoicing offers significant cost savings. Moreover, e-invoices can be used to personalize customer communications and automate customer service transactions. As a result, the customer's processing costs of incoming invoices can even be lowered to a fraction of their former level.

Itella Alligator for financial management outsourcing

In 2008, Itella Information made major decisions regarding the direction it would take over the next few years, with an eye on reinforcing its position as a financial management service provider. For some twenty years, Itella has been delivering invoice printing and mailing services. However, in the new millennium it has emerged as a powerful international expert in e-invoicing, and a growing number of customers are now seeking the total outsourcing of their financial management processes.

Itella's impressive pedigree in handling invoice masses and standardizing services now extends to routine financial management processes. Using the new Itella Al-

ISS relies on Itella for invoicing processes

ISS is one of the world's largest commercial providers of facility services. It has more than 100,000 business-to-business customers in 50 countries.

In Oslo, ISS Facility Services required a solution for the efficient management of its invoicing. The answer was found in the form of Itella's printing services for paper invoices and eInvoicing solutions for electronic delivery. Every year, ISS sends 600,000 paper and electronic invoices to its business customers in Norway.

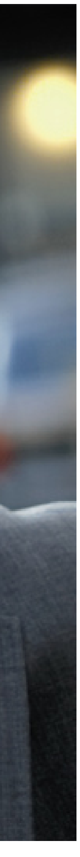
Itella offers solutions for both purchasing and sales invoices. Centralizing these services with one partner streamlines the invoicing process, improves accuracy and diminishes costs significantly.

– It was important to ISS to have a supplier who can offer services for both paper and electronic invoices, and who is large enough to handle our volumes, says **Tom G. Tollefsen**, Credit and Contract Manager of ISS Facility Services AS in Norway.

ligator service, organizations can outsource not only invoice management but also other basic financial processes such as accounts payable and receivable, debt collection, payroll accounting, payment traffic, accounting, financial statements and financial services supporting sales.

Itella Alligator is the answer to the cost-reduction and efficiency-improvement needs of a wide variety of organizations, speeding up cash flows and optimizing working capital. By improving the entire invoicing process, Itella can reduce the financial management costs of customers by up to 30% to 50% in some cases. Alligator also gives organizations the ability to utilise invoices as a marketing and communication channel.

Norway is a trailblazer in e Invoicing. In addition to eInvoicing, Itella Information AS provides document management services such as payroll accounting, customer communication and archiving. The joint venture between Itella and Norway Post began operating in June.



In addition to cost savings, a one-stop shop provides effective process management and increased transparency. Itella Information assumes responsibility for the overall efficiency of the process, the customer's and Itella's interests thereby being aligned. Outsourcing routine processes to Itella leaves financial officers free to focus on operational analysis, planning and strategy.

Expansion into Russia and Central Europe

In the spring, Itella Information entered the Polish market through the acquisition of BusinessPoint S.A., a market leader in printing and document management. Furthermore, a joint venture between Itella and Norway Post began in June, with the transfer of the Norwegian information logistics operations of both owners to Itella Information AS. Itella has a 51% and Norway Post a 49% stake in the joint venture.

Itella strengthened its expertise in electronic financial management by acquiring the Finnish Tuottotieto Oy, whose service portal is Finland's leading web-based financial management tool. Renamed Itella Tuottotieto Oy, the company employs over 100 people and has 300 customers.

Last fall, Itella Information expanded into Russia and Slovakia through the establishment of new corporate entities. During the current, initial stages, most customers are existing ones seeking Itella services across an expanding geographical area.

International expansion to continue in 2009

Itella Information's vision is to be the leading invoicing process partner in Europe. It aims to build its international customer base through standard services, while outsourcing solutions embed the company more deeply in customer processes.

In 2009, Itella Alligator will be launched in the Nordic and Baltic countries. Meanwhile, expansion will continue in new European countries. Heavy investments will be made in international service provision, enabling Itella to serve its customers even more widely and cost-effectively in the European markets.

Stockmann Mega Mall Belaya Dacha, Moscow
On behalf of Procter & Gamble, Itella optimizes the continuous goods flow, stock turnover and high availability of products for end customers.

Itella Logistics

The core competency of Itella Logistics is service logistics, focusing on the customer's strategy and providing solutions in support of effective product and information flow management. Customers can outsource either one part or the overall management and development of their logistics process to Itella.

Services

- Land, sea, and air freight and forwarding
- Parcel and express deliveries
- Warehousing and contract logistics
- Consulting and IT solutions

Geographic presence

Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania, and Russia, as well as global services through partners

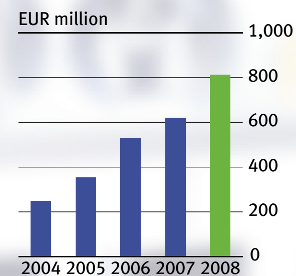
Key figures for 2008

- **Net sales** EUR 813.2 million
- **Operating result** (EBIT)
  EUR -10.1 million
  EUR +16.0 million (excluding non-recurring item)
- **Employees** 10,621 (as of Dec. 31)

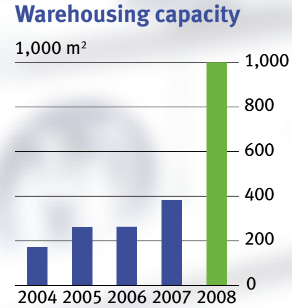
Year 2008

- **Itella became** the Russian market leader in warehousing services through the acquisition of the logistics corporation NLC (National Logistic Company).
- **Itella acquired** the Finnish Kauko Group Oy, which specializes in international air and sea transportation, and the Swedish Hansar Logistics AB.
- **Warehouse capacity** increased by 620 000 square meters.
- **The Finnish company** Rautakesko chose Itella as its international logistics partner for its overall markets in Finland, Norway, Sweden, the Baltic countries, and Russia.
- **Nationwide parcel services** launched for consumers in Estonia.
- **Itella's logistics centers** awarded the highest security certification available, TAPA.

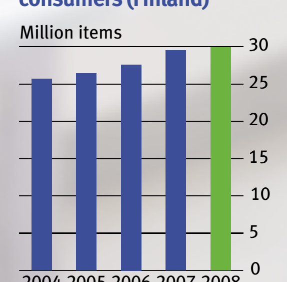
Net sales



Warehousing capacity



Parcels and pallets sent by businesses and consumers (Finland)



Service logistics based on customer's strategy

Itella Logistics supports and improves its customers' business operations by providing solutions for land, sea, and air transportation, parcel delivery, warehousing and comprehensive contract logistics.

Itella's core competency lies in service logistics, which is centered on the customer's strategy and providing supporting solutions for effective product and information flow management. In this respect, Itella Logistics' expertise is based on its thorough understanding of the customer's business, its value-adding range of services, motivated personnel, and the innovative application of information technology.

Itella Logistics concentrates on serving growth businesses, whose needs are often related to the global management of long supply chains. Itella is a trusted partner to which customers can outsource the management and development of their logistics processes, either in part or in full.

In its home markets of Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania, and Russia, Itella Logistics is differentiated by its superior local knowledge. On a global scale, Itella provides freight services through its partnership network. It is the market leader in all of the services it provides in Finland, and in warehousing services in Russia.

All the way to the store shelf

Itella's contract logistics solutions optimize stock rotation and ensure a constant flow of goods and the availability of products to end customers. The most comprehensive solution offered is total supply chain management, from the country of manufacture to transportation to stores in destination markets.

The service warehouse lies at the core of the Itella contract logistics solution, also offering value-added services such as the pre-assembly or packaging of products, localization—e.g. adding instructions or price tags—and shelving. Sector-specific expertise is provided in fashion, service parts, and beverage logistics, for example.

Itella's service warehouse solutions make information about the entire supply chain available to the customer. Furthermore, its IT system integration ensures easy real-time supply chain tracking and rapid reaction to changes in demand.

Comprehensive warehousing services for Procter & Gamble in Russia

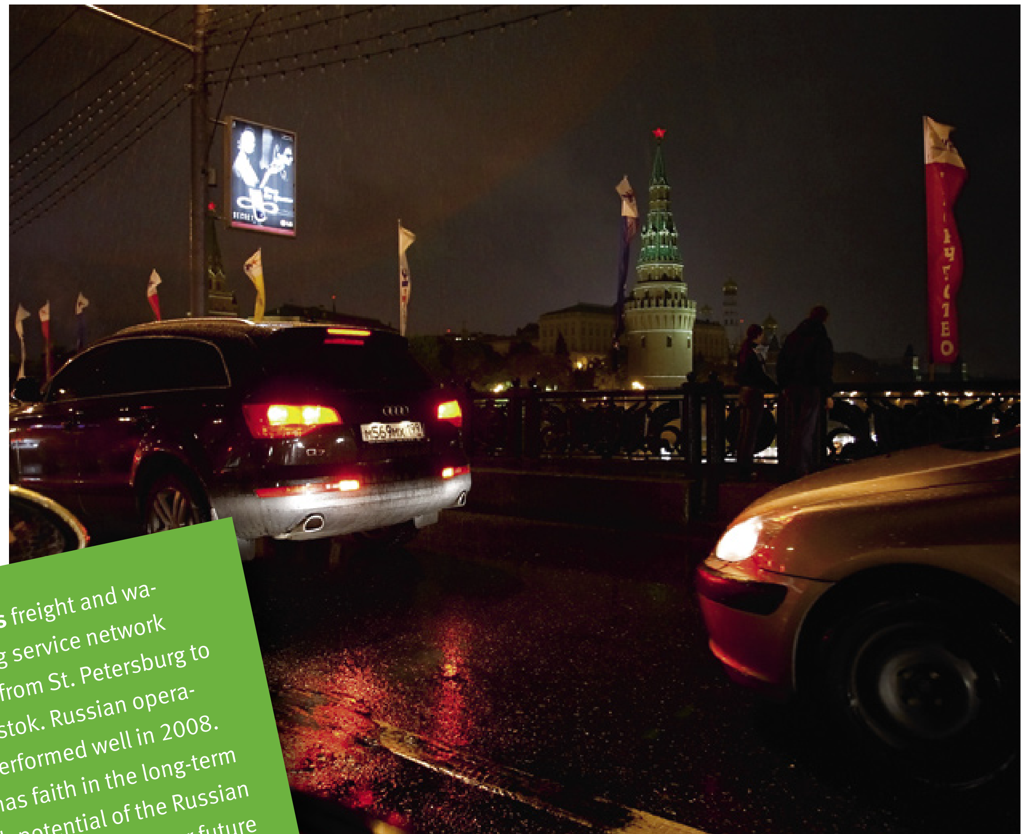
Procter & Gamble is one of the world's leading manufacturers of consumer goods.

Operating since 1991, P&G Russia is now one of the fastest developing subsidiaries of the Group. P&G Russia has a portfolio of over 70 brands, such as Ariel, Fairy, Pampers, Always and Gillette.

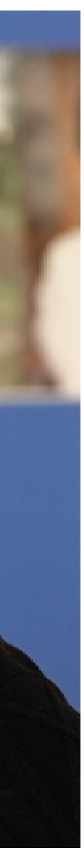
Procter & Gamble and NLC (IttellaNLC since 2008) have been cooperating in Russia since 2002. IttellaNLC provides P&G with a broad range of safe and secure logistics services including warehousing (ca. 47,000 pallet places in Moscow) and value added services such as packaging.

According to **Tatiana Tertichnik**, Logistics Purchasing Manager of Procter & Gamble, outsourcing allows the company to focus on its core business. Reacting to changes in demand or the operating environment is easier, since a partner with sufficient scale is better fit to cover multiple P&G's logistical needs and warehousing processes can be followed transparently.

– IttellaNLC is a highly customer-focused logistics provider which puts a great deal of effort into continuous improvement and identifying and fulfilling our needs. This cooperation gives us access to supply chain information and enables us to improve our efficiency. Most importantly, with IttellaNLC, we can improve service quality for our end customers.



ItellaNLC's freight and warehousing service network extends from St. Petersburg to Vladivostok. Russian operations performed well in 2008. Itella has faith in the long-term growth potential of the Russian markets, even if the near future proves difficult.



Worldwide freight and transportation services

Itella's freight and forwarding services include land, sea, and air transportation as well as terminal and customs clearance services for both import and export worldwide. Its network, built alongside industry leaders, guarantees the seamless movement of freight around the world. Itella also offers special services, such as temperature-controlled and dangerous goods transportation.

Itella Logistics provides a flexible, secure, and comprehensible solution for managing parcel transportation. As the Finnish market leader, Itella is constantly improving its parcel services in order to offer its customers flexible ways of sending and receiving parcels. An example of this is the automated parcel terminal tested in Finland and Estonia.

Leading provider of warehousing services in Russia

Itella Logistics continued its expansion by acquiring the Russian logistics group NLC (National Logistic Company) in April. The newly named ItellaNLC's logistics centers and transportation connections now extend from St. Petersburg to Vladivostok.

Itella strengthened its local knowledge by purchasing the Finnish Kauko Group Oy, which specializes in international air and sea transportation, and the Swedish Hansar Logistics AB. New service warehouses were opened in St. Petersburg and Moscow, covering a total area of 28,000 square meters. The business group also decided to invest in building service warehouses in the area of Lahti, Finland (60,000 square meters) and Borås, Sweden (8,000 square meters).

In November 2008, Rautakesko (a Finnish company trading in construction and home improvement products) chose Itella as its international logistics partner in Finland, Norway, Sweden, the Baltic countries, and Russia.

The Itella parcel business was expanded to cover major Estonian cities. Estonian consumers now have access to a service network of 50 R-Kiosks and, under the SmartPost partnership, 20 automated parcel terminals for parcel collection.

Standardization of operating models to continue in 2009

Itella Logistics is aiming at continued growth and improved productivity, in order to become the leading service logistics provider in the Nordic and Baltic countries, and Russia within five years.

Itella will further strengthen its local knowledge wherever it operates, and focus on tapping into the Russian market through ItellaNLC. It will also enhance the international presence of its parcel business, primarily in the Baltic countries and Sweden.

The main area of focus for 2009 will be the standardization of products, operating models, and processes. Moreover, Itella will continue improving its quality and environmental practices. Over the next few years, it aims to achieve ISO 9001 and ISO 14001 certification, as well as TAPA certification—testifying to the highest level of warehouse security—in all countries.

Junior Soccer School, Hämeenlinna, Finland

Thousands of boys and girls learn team skills and fair play in soccer schools, organized by the Football Association of Finland in cooperation with Itella.

Itella and society

Itella's primary mission in Finland is to provide mail delivery and other postal services throughout the country. The company is one of Finland's largest employers and a trailblazer in developing occupational well-being. Itella's main environmental efficiency goal is a 10% reduction in carbon-dioxide emissions by 2012.

Social responsibility

– Postal services for all in Finland
– Work for 31,700 Itella employees

Financial responsibility

– Healthy finances
– Services for industry and commerce

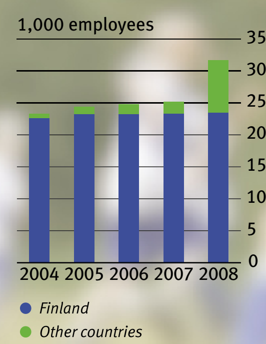
Environmental responsibility

– More effective use of energy in deliveries and transportation
– Provision of electronic services

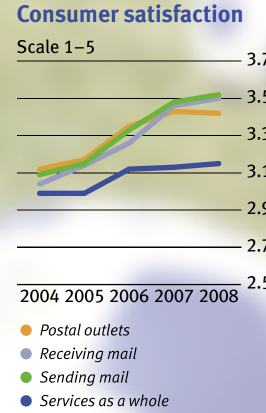
Year 2008

– **Five-day mail delivery** for 5.3 million consumers and 250,000 organizations.
– **Over 2 million** letters sent through NetPosti during the year. There were around 3,000 sending companies and 150,000 consumer recipients.
– **Nearly 6,000** new employees joined the Group as the result of an acquisition made by Itella Logistics in Russia.
– **Itella's Foundation** for Well-being at Work launched "VAUTSI", one of the largest employee well-being projects in the Nordic countries.
– **Itella's growth** in net sales continued, while profitability fell slightly. Solvency remained good.
– **The personnel was rewarded** with a profit bonus of EUR 2.9 million.
– **Board of Directors** dividend proposal of EUR 10.0 million.
– During the year, Itella's carbon-dioxide emissions fell by 10% in terms of net sales.
– **The European Parliament** adopted the new Postal Directive, which will open up standard letter delivery to full competition across the EU between 2011 and 2013. Preparations for a new Postal Services Act began in Finland under the leadership of the Ministry of Transport and Communications.

Personnel



Consumer satisfaction



Postal Services for Consumers

Sending

- Posti shop or postal agency shop (around 1,150)
- Collection box (around 8,000)
- In rural areas, collection sign placed on mailbox

Receiving

- Mailbox
- Posti shop or postal agency shop
- Home delivery
- NetPosti mailbox for electronic letters

Special Occasions

- Products available from outlets and online shop
- Mobile Postcards, De Luxe Telegrams, and other online services

Other Services

- Changes of address online, by phone, or at a postal outlet
- NetPosti mailbox for electronic letters

Service network for society

Itella's key mission is to provide mail services throughout Finland on every workday. In order to remain the number one choice for customers in the future, Posti is building closer and more diverse customer relationships with consumers and small businesses.

In 2008, around 22% of Finns used electronic postal services, the most popular of which was the change of address contact information service.

According to Statistics Finland, the average Finnish household spends about EUR 28 per year on postal services. Furthermore, in 2008 consumer customers generated approximately EUR 68 million for Itella in direct net sales. Including net sales to small business customers, postal outlets recorded cash sales of EUR 136 million.

More flexible mail receiving

Postal services are related to everyday mailing needs and special occasions. Posti's competitive advantage is based on a strong brand, an address and contact information register covering the entire population, a nationwide delivery and outlet network, and a solid network of partners.

Posti's mail delivery infrastructure is being improved in order to enable enhanced services. In the future, consumers can for instance direct their incoming mail to various addresses and electronic channels on a more flexible basis and on shorter notice. The first pilot for these services was launched in fall 2008 in cooperation with the Finnish newspaper "Ilkka".

Nationwide coverage through postal agency shops

At the year end, the Posti sales network consisted of around 1,150 outlets, nearly 180 of which were Posti's own shops and the rest privately-run agency shops. The number of customer visits per day was around 100,000. A new concept was introduced for postal outlets, emphasizing active customer service, personal guidance, better product display, and spacious customer service areas.

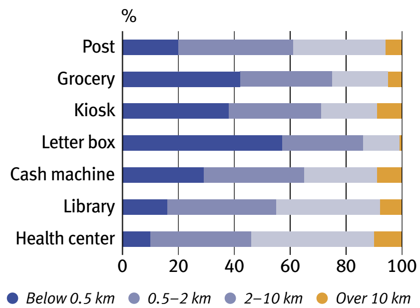
Postal transactions are increasingly handled online or by phone. Visits to pick up a package have been reduced by home delivery as well as growing competition. All this has created the need to enhance Posti's service operations.

During the course of 2008 and 2009, the number of Posti's own shops will decrease by 38. Nationwide coverage of the service network will be secured through improved cooperation with entrepreneurs.

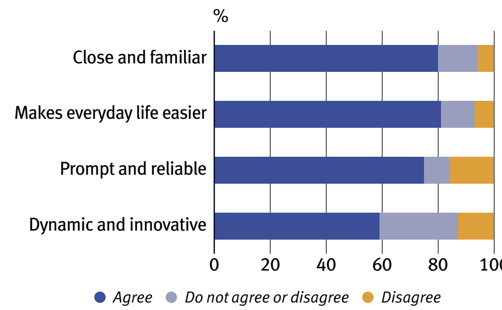
Half of address change notifications made online

According to research conducted by the Ministry of Transport and

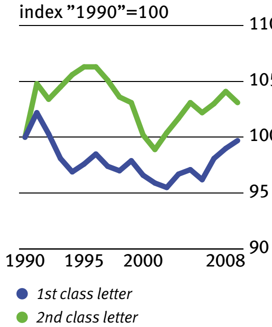
Distance to daily services



Consumers estimate of Posti's image



Real term price development for 1st and 2nd class letters in Finland



Universal Postal Service

In accordance with its license and the Postal Services Act, Itella ensures the nationwide availability of letter and parcel services, as required under the Universal Service Obligation (USO). This obligation applies to the whole of Finland, excluding the Åland Islands. The provision of universal service is supervised by the Finnish Communications Regulatory Authority.

Quality Requirements for Universal Service	Actuals 2008
Delivery speed for First Class letters	
85% delivered on the following workday	Approx. 95%
98% delivered on the subsequent workday	Nearly 100%
Mail delivery	
A maximum of 300 households not covered by five-day delivery	148 households
Sales network	
At least one postal outlet in each municipality	Around 1,150 outlets

Communications Finland, 22% of Finns used digital postal services in 2008.

One of Posti's most popular online services is the contact information service. This allows consumers to change their address, have their mail forwarded, put their mail on hold for the duration of a trip, and manage their contact information. In addition to postal addresses, the service includes one million cell phone numbers and 200,000 e-mail addresses.

Use of the Internet for changing an address has increased dramatically. In 2002, only 2% of all notifications were filed online, while the current proportion is around one half.

Posti also wants to offer more freedom of choice in parcel collection; home deliveries are becoming increasingly popular among customers.

New technology embedded in stamps

The 2008 themes for postage stamps included Nobel Peace Prize winner Martti Ahtisaari, the UNESCO World Heritage Site of Kvarken Archipelago, Finnish author Mika Waltari, and the Helsinki University of Technology. Alpine skiing-themed stamps were made using a novel printing technology that creates an illusion of movement. The first Upcode-coded stamps were issued in 2008.

Posti is boosting its stamp sales through web marketing, while also seeking growth through collaboration with its 4,600 retailers.

Improved customer satisfaction

The scores awarded to Posti's operations by consumer customers have been on the rise for five consecutive years. The greatest improvement has taken place in the

Consumer products are being revamped in cooperation with Finnish designers. Posti's new partner is IVANAhelsinki.

general impression of mail reception: from 3.0 in 2004 to 3.5 in 2008 on a scale of 1–5. 82% of consumer customers were satisfied with Posti's operations. Just under one-fifth (18%) report dissatisfaction.

Posti's services are considered relatively easy to use, and correspond fairly well to customer needs. In addition, Posti is felt to be reliable and familiar, and to make everyday life easier.

Satisfaction with the sending of cards, letters, and parcels remained high. The most positive attitudes were found among those aged 15 to 24. Areas in need of improvement included the clarity of pricing and delivery times.

Customers are satisfied with the services of postal outlets. The scores given for their location have improved. On the other hand, long queues during peak hours have been the subject of criticism.

According to a survey by the Finnish Communications Regulatory Authority, consumers are quite satisfied with Itella's change-of-address services. 94% rated the service as "quite good" or better. After changing their address, however, one in five had encountered some kind of delivery problem.

NetPosti integrated with S-Bank's online bank

S-Bank and Itella signed a cooperation agreement to integrate Itella's electronic transaction service, NetPosti, with S-Bank's online bank. This enables the importing of electronic invoices into the online bank. Using NetPosti, other messages can also be sent to the online bank, e.g. pay slips, official government messages, health-related information, or customer bulletins.

Consumers can still use NetPosti, an electronic alternative to the physical mailbox, independently of the online bank. Letters previously delivered on paper can thus now be sent in electronic format to a NetPosti mailbox. About 150,000 consumers have registered as users of the service, and the number of sending organizations was close to 3,000 at year-end. During the year, these organizations sent over two million letters through NetPosti.

Partnership with Sulake

Itella and the Finnish online entertainment company Sulake entered into a cooperation agreement for sponsored collaboration at IRC-Galleria, the largest social networking site in Finland. The aim is to offer information about Posti's services in a place where young people spend their time and meet one another.

Members of IRC-Galleria are given their own mailboxes, which they can use to send and receive electronic cards and letters. They also have access to a greeting generator, a name day calendar, and services related to changing residence.

Post Museum: 370 years of history

Itella is proud of its roots. It is one of the oldest corporations in Finland: the year 2008 marked the 370th anniversary of Finnish postal operations. To celebrate this milestone, the newly renovated Post Museum located in Helsinki was reopened to the public.

The Museum introduces visitors to centuries of postal operations, from the 1600s to the present day. In addition to the permanent exhibition, there is now more room for thematic exhibitions.

Well-being for employees

Itella is a service business organization whose success is based on skillful and motivated professionals. At the end of 2008, the Group employed 31,700 people in 11 countries, an increase of 26% over the previous year. 74% or 23,400 of the company's personnel work in Finland. Russia ranks second, with around 6,000 Itella employees.

Itella's growth and international expansion are creating increasingly diverse career opportunities for employees. Alongside external recruitment, Itella focuses on its internal job market and job rotation. In 2008, Itella established an operating model to support international career development and help employees transferring from one country to another within the Group.

Itella has been a multicultural workplace ever since the 1980s. Its number of employees with immigrant background has risen to approximately one thousand, representing some 70 nationalities in Finland alone. In 2008, Itella approved an operating model for multiculturalism to support language training, orientation, supervisor training, and recruitment.

New pay and working hour model rewards productivity

In Finland, Itella has developed a new productivity-based pay and working hour model for postal work, in collaboration with the Finnish Post and Logistics Union, PAU. The intention is to reward employees for improved productivity, while reducing physical and mental strain and increasing employees' opportunities to influence their work.

The model enables mail sorters and carriers to participate more flexibly in the organization of work within their own workplaces, so that mail can be processed as efficiently as possible. As productivity increases, employees receive 40% of resulting benefits in the form of monthly bonuses.

In 2008, this model was implemented in roughly 80% of mail sorting and delivery shifts. Experiences have been mainly positive. The biggest change is that responsibility for the organization of work now rests with individual workplaces, and everyone can participate in planning their own work. Employees cope better when their duties are more varied and the working capacity of individuals can better be taken into account. Workloads are now more even, and overtime has been reduced.

Itella invested EUR 4.0 million in human resources development in Finland in 2008. The key training themes were change management, sales and interactive skills, project skills, and values and the code of ethics.

Collaborating on change management

Itella aims to influence how change challenges are met within the company, and this involves active collaboration with the personnel. The Finnish Post and Logistics Union, PAU, is a key partner in this area.

Itella has five years of experience in implementing a change management operating model in Finland. This model is used during restructuring and employee consultation processes in order to find solutions that best serve the interests of both employees and employer. Reassignment has proved effective in relocating employees within the Group if their current jobs are terminated.

In 2008, reassignment was applied to 327 people within the parent company, Itella Information Oy and Itella Customer Relationship Marketing Ltd. Of these, 25 found new positions within the Itella Group, fullretirement was arranged for 36 and semi-retirement for 40, while 103 were made redundant for production and financial reasons. The total number of employees of the Group increased by 6,400 during the year, and roughly 2,000 new permanent employment contracts were established.

Improving well-being in the workplace

Itella's position as a frontrunner in terms of workplace well-being is based on several years of development, during which the focus has been on preventive action in the form of labor protection, healthcare development, and exercise in the workplace.

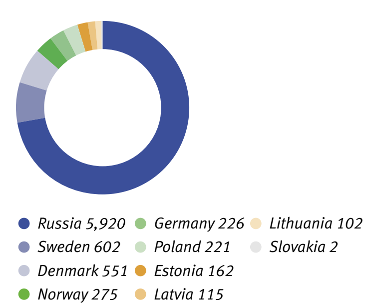
Launched in 2006, Itella's Foundation for Well-being at Work was an industry first in Finland. Its purpose is to promote the physical and mental fitness of employees—both at Itella and more widely in the communications and logistics sector.

In early 2008, the foundation set in motion the three-year "VAUTSI" project, one of the largest development projects for well-being at work in the Nordic countries. This project seeks to create a set of tools for labor-intensive organizations to enable supervisors to support em-

Employees by type of employment in Finland

100%	Permanent	Temporary
Full time	61%	4%
Part time	26%	9%

Geographical breakdown of personnel at year-end (excl. Finland)



ployees in the comprehensive management of their quality of life.

Healthier employees

Itella's direct investments in well-being at work in Finland amounted to approximately EUR 11.6 million in 2008. Moreover, we carried out large-scale planning and training work—aimed at supervisors—in occupational safety, among other areas.

In Finland, Itella uses three key indicators for well-being at work: the sick leave rate, the number of premature disability pensions, and the number of occupational accidents. Contrary to the general trend in the country, Itella's sick leave rate of 6.0% represented no increase compared to the previous year. The number of occupational accidents continued to decline, in this case by around 1%. Full disability pensions fell by 8%, to 112 cases, since more than ever were able to switch to the part-time disability pension. The number of part-time disability pensions rose by 47% to 85 cases. Workplace well-being measures have resulted in annual cost savings of around EUR 6 million.

The focus of workplace well-being measures is on preventive actions, such as labour protection and exercise in the workplace.

Slight increase in employee satisfaction

A Group-wide personnel survey revealed a slight improvement in employee satisfaction, although there was great variation between countries and units. On a scale of 1 to 5, the aggregate index for the Group was 3.49 (3.45 the year before). The response rate was 56%.

Satisfaction increased in assessments related to pay level, pace of work, well-being at work, opportunities to influence decisions, tools, and competence development. A decrease occurred in grades used to measure confidence in the continuity of employment, mutual trust, and helping others.

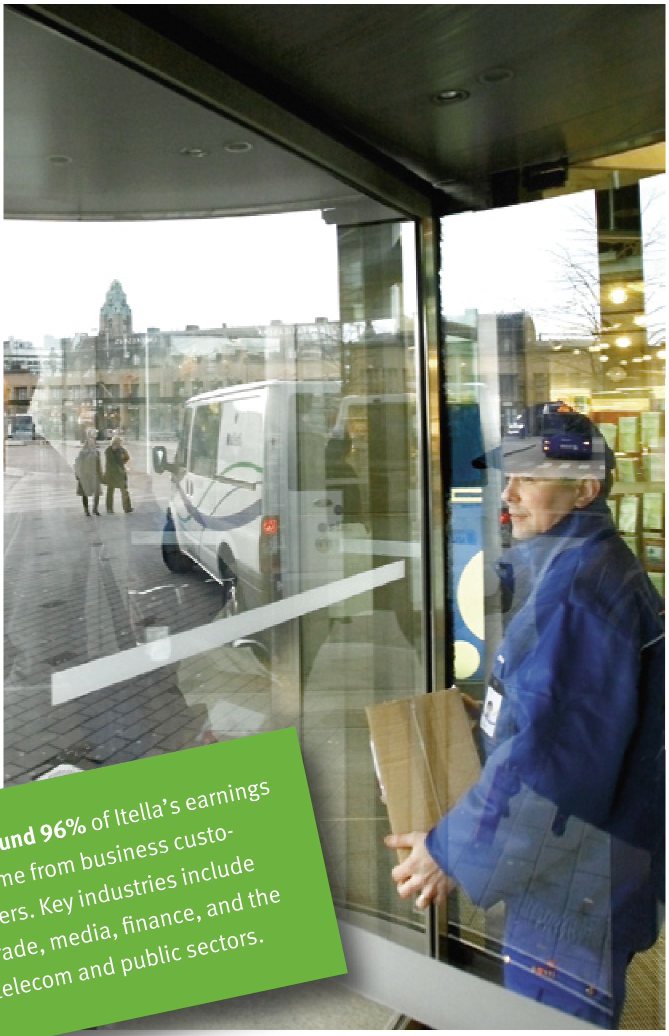
Major changes ahead

There are major pressures for change on the horizon over the next few years related to mail delivery and sorting in Finland. Itella will organize its production network to maintain profitable operations in the face of EU-wide competition and changing demand. Reforms related to working methods and the organization of work will affect several thousand Itella employees.

These challenges further underline the importance of responsible and consistent change management.

Logistics infrastructure for society

For Itella, economic responsibility means ensuring the sustainable and profitable growth of its business. Healthy financial performance is the best guarantee of high-quality services.



Around 96% of Itella's earnings come from business customers. Key industries include trade, media, finance, and the telecom and public sectors.

Itella is an incorporated company operating in the free market and owned by the Finnish state. Its operations are financed solely by revenues from customers; in Finland, the state does not subsidize postal operations.

In 2008, Itella paid out EUR EUR 10.0 million (Board's proposal) in dividends and EUR 35.4 million in taxes. In addition, postal services in Finland are subject to VAT at 22%.

Enabling enterprise and public services

Itella supports its customers' daily processes by securing the functioning of supply chains, invoicing, communications, and services. Itella's financial impact can be compared to the banking and telecom sectors, since it facilitates the operation of hundreds of thousands of businesses and public sector services. Its activities are also important regionally, ensuring favorable business and living conditions across Finland.

The growing international presence of Itella's customers has driven the company to expand its services in Northern and Central Europe and Russia.

Roughly 96% of Itella's sales revenue comes from organizations. Itella's key customer industries include the retail and wholesale trades, the media, finance, telecommunications industries, and the public sector. International operations accounted for some 31% of net sales in 2008.

Delivery business at a turning point

Currently, nearly half of Itella's net sales are generated by letter, direct mail, and press distribution services, but over the next few years, the delivery business will be greatly affected by digital substitution. The most radical change will occur as letter mail related to consumer invoices and other financial matters goes online.

In recent years, the total volume of physical mail items has remained stable in Finland. However, demand has shifted to lower-priced products, such as Second Class Letters and unaddressed deliveries, while delivery costs have risen. Daily fluctuation in mail volumes has increased and their predictability has decreased.

In order to adapt to these changes, Itella must dramatically improve its productivity. In this, its key goal is to make its mail sorting and delivery system more flexible, in order to make efficient use of production capacity. This is the only way of providing high-quality service at reasonable prices, including in rural areas. The Development Program for Itella Mail Communication, which includes EUR 160 million worth of investments in sorting machines, delivery systems, and real estate in Finland, provides an answer to the question of how to meet these challenges. (Read more on page 6.)

Research and development on a broad scale

In 2008, Itella Group spent EUR 26.6 million on research and development (R&D).

In addition to annual analyses, the research themes for 2008 included electronic invoicing, the e-commerce needs of consumers, the future of mass communication channels and the development of customer magazines. In terms of Group-wide innovation activities, the focus was on the development of new business models associated with mobile, positioning, sorting automation, and tracking technologies, as well as social media.

Alongside actual R&D activities, Itella carries out development work closely related to products, services, processes, infrastructure and the integration of acquisitions. We have major projects underway in areas such as infrastructure for multi-channel delivery and contact information management, the new Customer Experience Management (CEM) business, and supply chain tracking technology.

In 2008, these development investments represented an estimated total of EUR 120–160 million.

Work for 31,700 Itella employees

At the end of the year, Itella Group employed 31,672 people, representing growth of 26% on the year before. 74% of these staff members worked in Finland, where the Group is the largest private-sector employer.

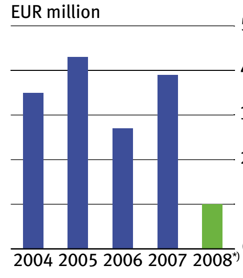
Labor costs rose due to acquisitions, as well as the two-year collective agreement signed in Finland in 2007.

Closer procurement collaboration with key suppliers

During the year, Itella spent approximately EUR 700 million on products and services purchased from outside the Group. A development project was launched in 2008 to redesign the procurement management model, streamline supply chain processes, and generate savings by leveraging Group-wide purchasing volumes. Itella will intensify cooperation with key suppliers, while reducing the total number of partners.

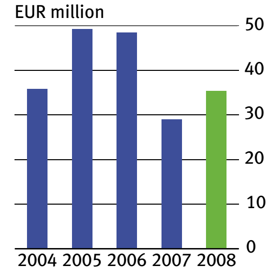
The Finnish Act on Public Contracts, which is in compliance with the corresponding EU Directive, took effect at the beginning of 2008. At Itella, it applies to all purchasing that falls within the scope of the Universal Service Obligation.

Dividends



*) Board's proposal

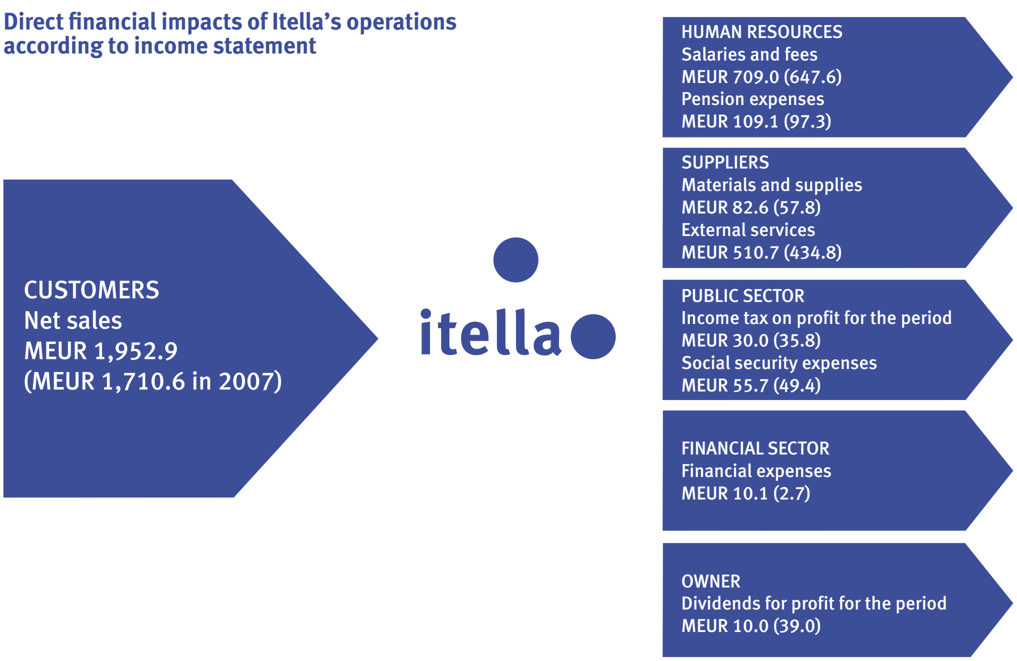
Income taxes paid



Sponsoring sports and culture

Itella is doing its share to support top professionals and enthusiasts in sports and culture. Its longest-standing partner is the Finnish national men's soccer team. In the field of music, Itella sponsors the Sibelius Academy. In addition, the company funds the Post Museum.

Direct financial impacts of Itella's operations according to income statement



Green solutions for customer needs

Itella has two ways of taking responsibility for the environment: reducing the environmental impact of sorting and delivery operations and developing new electronic services. This also enables the company to fulfill the ecological expectations of its customers and other stakeholders and ensure business continuity.

The most significant environmental impacts of Itella and other transportation and logistics companies are related to greenhouse gases. This is why Itella has chosen carbon-dioxide (CO_2) emissions as its key indicator of environmental efficiency, pledging to cut its CO_2 emissions by 10% by 2012 (compared to 2007, in relation to net sales).

Itella has been involved in the creation of a joint measurement and reporting system for CO_2 emissions for national postal operators. In fall 2008, an agreement was made on the implementation of this system between the postal operators of 23 countries, under the leadership of the IPC (International Post Corporation).

Itella's CO_2 emissions for 2008 amounted to 96,000 tons in Finland. In relation to net sales, its emissions were reduced by 10% compared to the previous year. These calculations cover 89% of Itella's Finnish operations, or 62% of all operations. International freight operations are not included.

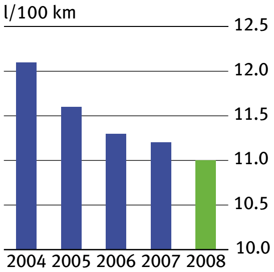
Environmental management guided by ISO standard

Itella's environmental management system is in compliance with the ISO 14001 standard. By integrating environmental issues into its management system, Itella can improve and monitor environmental quality more systematically, as well as identify environmental risks and opportunities.

Three of Itella's logistics centers in Finland earned ISO 14001 certification in February 2009; it is also

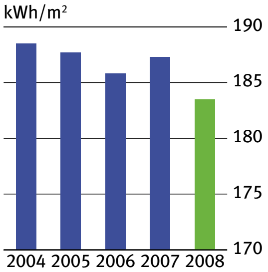
According to a study by Natural Interest, electronic messaging can reduce carbon-dioxide emissions by as much as nearly 90% compared to paper.

Fuel consumption in mail delivery

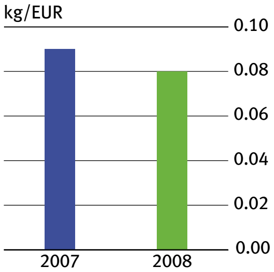


1,734 vehicles

Electricity consumption in sorting centers



CO_2 emissions compared to net sales



building similar, externally audited environmental management systems in its other business areas.

Test vehicles powered by electricity and natural gas

In 2008, Itella began testing electric mopeds, using ten vehicles specially designed for mail delivery. The CO_2 emissions of these vehicles are 70% lower than those of mopeds with a combustion engine. Other benefits include lower operating costs and quieter engines.

Itella has had good experience with vehicles running on natural gas, which it began testing in 2006. Compared to diesel vehicles, their CO_2 emissions are 10% lower and their harmful fine particle emissions have been reduced to zero. In 2009, Itella will purchase five new natural gas vehicles.

Taking account of the entire value chain

Since Itella's operations are strongly networked, environmental impacts must be minimized at all levels of the subcontracting chain. In 2008, Itella signed an energy efficiency agreement under which Finnish transportation and logistics companies pledged to improve their energy efficiency by 9% by 2016. This agreement also imposes stricter requirements on Itella's subcontractors and suppliers. In the selection of transportation partners, preference is given to companies that are committed to the energy efficiency agreement.

Green solutions for customer needs

Itella's core competency lies in improving the efficiency of information and product flows, enabling it to provide both economic and environmental efficiencies for its customers.

In the area of logistics and delivery services, Itella has reduced its environmental impacts by optimizing production processes and applying advanced technology in areas such as automation. This decreases the number of processing stages, increases vehicle utilization rates, and improves delivery reliability.

Itella's information logistics services considerably lighten environmental loads, since digital information flows reduce paper consumption, printing, and transportation. According to a study by Natural Interest, an electronic message has the maximum potential of a nearly 90% reduction in CO_2 emissions compared to its printed equivalent. By using digital services, Itella's customers receive environmental benefits in meeting their electronic invoicing, document management, commerce, and transaction needs.

Board of Directors

February 13, 2009

Chairman
Eero Kasanen
Rector, Helsinki School of Economics
b. 1952, D.Sc. (Econ. & Bus. Adm.)
Board member since 2004

- *Main employment history:* University of Oulu 1987–1989: Assistant Professor; University of Massachusetts, USA 1988–1989: Professor; Helsinki School of Economics 1989– : Rector, Professor.
- *Board memberships:* Board Chairman: Helsinki School of Economics Holding Oy
  Board member: Emil Aaltonen Foundation, Osuuspankki Foundation, Helsinki School of Economics Foundation, Foundation for Economic Education, Kaleva Mutual Insurance Company, Elcoteq Network Corporation, Elcoteq SE, Suomen Kansallisteatterin osakeyhtiö (Finnish National Theatre Ltd.), CEMS (Community of European Management Schools), EFMD (European Foundation for Management Development)
  Member: Finnish Academy of Science and Letters.

Vice Chairman
Mikko Kosonen
President, Finnish Innovation Fund Sitra
b. 1957, D.Sc. (Econ. & Bus. Adm.)
Board member since 2003

- *Main employment history:* Nokia Group 1984–2007: Senior Vice President of corporate planning and data administration, Executive Consultant; Sitra 2008– : President.
- *Board memberships:* Board member: Finnish Association of Business Administration, Fifth Element Ltd.
  Advisory Board: Center for Knowledge and Innovation Research (CKIR).

Kalevi Alestalo
Financial Counselor, Ownership Steering Department, Government Office
b. 1947, M.Pol.Sc.
Board member since 2005

- *Main employment history:* Ministry of Transport and Communications 1988–2007: Financial Counselor, Head of Ownership Steering Unit; Ownership Steering Department, Government Office 2007– : Financial Counselor.
- *Board memberships:* Vice Chairman: Raskone Ltd.

Hele-Hannele Aminoff
Managing Director, Oy Leiras Ab
b. 1960
Board member since 2006

- *Main employment history:* Pharmacia Oy 1989–1992: Marketing Manager; Roche Oy 1992–1996: Marketing Manager, Executive Team member, OTC Group member; Smith & Nephew Oy 1996–2006: Managing Director, Board member; Oy Leiras Ab 2006– : Managing Director, Board member.
- *Board memberships:* Board member: BSN Oy

Erkki Helaniemi
Partner, Alexander Group
b. 1962, LL.M.
Board member since 2003

- *Main employment history:* Kansallis-Osake-Pankki 1986–1988: Finance Manager; Alexander Corporate Finance 1988– : Partner
- *Board memberships:* Board Chairman: Alexander Group companies, Finnish Foundation for Share Promotion.
  Board member: Kansallissäätiö (National Foundation), The Alma and K.A. Snellman Foundation, Helsinki Theatre Foundation (Helsinki City Theatre).

Antero Palmolahti
National Chief Shop Steward, Itella Corporation, Finnish Post and Logistics Union, PAU (employee representative)
b. 1952
Board member since 1999

- *Main employment history:* Itella Corporation 1971– : postal worker, Regional Chief Shop Steward, National Chief Shop Steward.
- *Board memberships:* Board Chairman: Itella Personnel Fund
  Board member: Fundservice RP Ltd.
  Vice Chairman and Board member: Finnish Post and Logistics Union, PAU.

Mirja Sandberg
National Chief Shop Steward, Itella Corporation, Finnish Post and Logistics Union, PAU (employee representative)
b. 1956
Board member since 2004

- *Main employment history:* Itella Corporation 1974–: clerical employee, Regional Chief Shop Steward and Safety Representative, National Chief Shop Steward of clerical employees.
- *Board memberships:* Board member: Finnish Post and Logistics Union, PAU
  Member: SAK General Council.

Riitta Savonlahti
Executive Vice President, Human Resources, UPM-Kymmene Corporation
b. 1964, M.Sc. (Econ.)
Board member since 2008

- *Main employment history:*
  ABB Oy 1990–1994: Human Resources Specialist posts; Nokia Corporation 1995–2000: Human Resources Manager; Raisio Group plc 2000–2001: Senior Vice President, Human Resources; Elcoteq Network Corporation 2001–2004: Senior Vice President, Human Resources; UPM-Kymmene Corporation 2004–: Executive Vice President, Human Resources.
- *Board memberships:*
  Supervisory Board member: POHTO – The Institute for Management and Technological Training.

Maarit Toivanen-Koivisto
President, Onvest Oy
b. 1954, M.Sc. (Econ.)
Board member since 2007

- *Main employment history:*
  Onninen Oy 1984–1997: Product Manager, Purchasing Manager, Quality Manager; Onvest Oy 1997–: Development Manager, Finance Manager, CFO, CEO.
- *Board memberships:*
  Board Chairman: Onninen Oy, Onvest Oy, Are Oy.
  Board member: Neste Oil Corporation, Foundation for Economic Education, FBN International.
  Vice Chairman: Central Chamber of Commerce, Board of the Helsinki Region Chamber of Commerce.

Supervisory Board

Chairman
Eero Lehti, MP (National Coalition Party)

Vice Chairman
Antti Rantakangas, MP (Centre Party)

Birgitta Gran, Social Services Ombudsman (Left Alliance)
Sirpa Hertell, Secretary General (Green League)
Susanna Huovinen, MP (Social Democratic Party)
Harri Jaskari, MP (National Coalition Party)
Bjarne Kallis, MP (Christian Democrats)
Lauri Kähkönen, MP (Social Democratic Party)
Outi Mäkelä, MP (National Coalition Party)
Reijo Ojennus, entrepreneur (True Finns Party)
Pertti Salovaara, MP (Centre Party)
Harry Wallin, engine driver (Social Democratic Party)

Itella's Board of Directors, from the left: Eero Kasanen, Mikko Kosonen, Kalevi Alestalo, Hele-Hannele Aminoff, Erkki Helaniemi, Antero Palmolahti, Mirja Sandberg, Riitta Savonlahti and Maarit Toivanen-Koivisto

Management

February 13, 2009

Executive Board

Jukka Alho, President and CEO
b. 1952, M.Sc. (Tech.)
Joined Itella Group in 2000

- *Main employment history:*
  Telenokia Oy 1976–1981: Project Manager; Elisa Corporation 1981–2000: Technical Director, Executive Vice President; Itella Corporation 2000– : President and CEO.
- *Board memberships:*
  Board member: Ilmarinen Mutual Pension Insurance Company, The Employers' Association TIKLI, Finnish Federation for Communications and Teleinformatics FiCom, Kirkkopalvelut ry (Church Resources Agency), International Post Corporation.
  Supervisory Board member: Luottokunta.
  Committee member: Central Chamber of Commerce, Helsinki Region Chamber of Commerce, International Chamber of Commerce (ICC) Finland.

Kari Kivikoski, Senior Vice President, Itella Mail Communication
b. 1959, M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2005

- *Main employment history:*
  Kesko Corporation 1985–1988: Profit Center Manager; Jukaflex Oy 1988–1990: Executive Vice President; McDonald's Finland Oy 1990–1994: Director of Operations; Sentra Oy 1994–1996: Head of Division; Tunturi Oy 1996–1997: Head of Division; Carrols Oy 1997–2002: Managing Director; Citymarket Oy 2003–2005: Managing Director; Itella Corporation 2005– : Senior Vice President, Itella Mail Communication.
- *Board memberships:*
  Board member: The Finnish Direct Marketing Association.

Heikki Länsisyrjä, Senior Vice President, Itella Information
b. 1960, M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2007

- *Main employment history:*
  Fujitsu Services Oy 1987–2006: Director, Infrastructure; Itella Corporation 2007–: Senior Vice President, Itella Information.

Tarja Pääkkönen, Senior Vice President, Sales and Marketing
b. 1962, Ph.D. (Tech.)
Joined Itella Group in 2005

- *Main employment history:*
  BE&K Group, USA 1986–1987: Marketing Manager; Futum Oy 1987–1991: Managing Director and Partner; Kienbaum and Partners GmbH, Germany 1991–1993: Management Consultant; Mecrastor Oy 1993–1995: Management Consultant; Nokia Head Office 1995–2001: Head of Business Development; Nokia Mobile Phones 2001–2004: Head of Global Services, Strategy Director, member of the Executive Board; Nokia Multimedia 2004–2005: Head of NMedia Business, member of the Executive Board; Itella Corporation 2005– : Senior Vice President, Sales and Marketing.
- *Board memberships:*
  Board member: Marimekko Corporation, HYY Group, Markkinointijohdon ryhmä ry (Marketing Executives Group).
  Member: Advisory Board of General Executive MBA program.

Tuija Soanjärvi, Senior Vice President, CFO, Group Administration
b. 1955, M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2005

- *Main employment history:*
  Kesko Oy 1981–1986: Controller, Internal Auditor; TietoEnator Corporation 1986–2003: Internal Auditor, Financial Manager, CFO; Elisa Corporation 2003–2005: CFO; Itella Corporation 2005– : CFO.
- *Board memberships:*
  Board and Audit Committee member: Vattenfall AB.

Juhani Strömberg, Senior Vice President, Group Strategy.
b. 1953, Ph.D. (Tech.)
Joined Itella Group in 2006

- *Main employment history:*
  TietoEnator Corporation 1976–2006: Vice President, Electronic Business Services, Senior Vice President, Corporate Development; Itella Corporation 2006– : Vice President, Business Development, Senior Vice President, Group Strategy.
- *Board memberships:*
  Member: Consultative Committee of Logistics and Services at VTT (Technical Research Centre of Finland).

Vesa Vertanen, Senior Vice President, Itella Logistics
b. 1956, M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2001

- *Main employment history:*
  KPMG Wideri Oy Ab 1983–1986: Accountant; Länsi-Uusimaa Oy 1987–1988: Financial Director; Oy Wulff Ab 1988–1991: Financial Director; Sponsor Group 1991–1995: Business Controller; Starckjohann Group 1995–2000: CFO, CEO; Addtek Group 2000–2001: CFO; Itella Corporation 2001– : CFO, Senior Vice President, Itella Logistics.

Management Board (in addition to those on the left)

Tuike Karppinen, Vice President, Human Resources
b. 1949, MBA
Joined Itella Group in 2001

- *Main employment history:*
  Valtion ravitsemiskeskus 1980–1983: Regional Manager; Fazer Catering 1983–1989: Regional Manager; Amica Ravintolat 1990–2001: Regional Director, HR and Development Director, Business Unit Director; Itella Corporation 2001–: Vice President, Human Resources.
- *Board memberships:*
  Board member: The Employers' Association TIKLI, Helsinki Region Chamber of Commerce.
  Chair: Education and Labour Committee of the Helsinki Region Chamber of Commerce.
  Member: Education and Labor Committee of the Confederation of Finnish Industries, Consultative Committee for Polytechnics in the Uusimaa Region, Business Consultative Committee of the City of Helsinki.

Antero Sarèn, Vice President, NetPosti Services
b. 1959, M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2003

- *Main employment history:*
  Compaq Computer Corporation Oy 1994–1998: Key Account Manager; Compaq Computer BDG GmbH, Germany 1998–2000: Area Sales Manager (Central and Eastern Europe); Hewlett Packard, Germany 2000–2003: General Manager, European Emerging Markets; Itella Corporation 2003– : Senior Vice President, Itella Information, Vice President, NetPosti Services.

Tomi Pienimäki, Vice President, CIO, ICT Services
b. 1973, Ph.D. (Tech.), M.Sc. (Econ. & Bus. Adm.)
Joined Itella Group in 2005

- *Main employment history:*
  John Crane Ltd, UK 1999–2000: Project Director; Hackman Metos Oy 2000–2005: CIO; Itella Oyj 2005 –: Technology Director, CIO.

Itella's Management Board, from the left: Jukka Alho, Kari Kivikoski, Heikki Länsisyrjä, Tarja Pääkkönen, Tuija Soanjärvi, Juhani Strömberg, Vesa Vertanen, Tuike Karppinen, Antero Sarèn and Tomi Pienimäki

Transparent governance

At Itella Corporation, responsibility for corporate governance and operations is divided between the shareholders' meeting, Supervisory Board, Board of Directors, and the President and CEO. Itella Group is comprised of the parent company, Itella Corporation, and its subsidiaries. Its operations are organized into three business groups—Itella Mail Communication, Itella Information, and Itella Logistics. Itella complies with the Finnish Corporate Governance Code for listed companies.

Owner

Itella Corporation is wholly owned by the Finnish State. The ownership policy of Itella and other state-owned companies is managed by the Ownership Steering Department of the Government Office, whose responsibilities include the preparation and execution of ownership strategy and the development of sound corporate governance.

Itella Corporation is classified as a company with market-based operations, and the aim of the owner is to achieve the best financial results possible at any given time. The attainment of this objective is assessed on the basis of profitability and long-term growth in shareholder value.

Annual General Meeting

Itella Corporation's highest decision-making body is the Annual General Meeting (AGM), through which the shareholder participates in the company's governance and supervision. As specified by the Finnish Companies Act and the Articles of Association, the AGM's main responsibilities are related to the election of the members of the Supervisory Board, the Board of Directors, and the auditors, the adoption of financial statements, the discharge from liability of all those accountable, and profit distribution. The AGM was held on March 18, 2008.

Supervisory Board

The Supervisory Board attends to the following issues:

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

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

The Chairman and Vice Chairman of the Supervisory Board are elected by Itella Corporation's AGM. In 2008, it decided to set the number of Board members at 12. Members' terms of office end at the close of the AGM following their election. Persons aged 68 and above are ineligible for election to the Board.

The Supervisory Board met four times in 2008, with an attendance rate of 80%. Monthly remuneration paid to Board members in 2008 was as follows: Chairman EUR 460, Vice Chairman EUR 340, and other members EUR 260. Each member also received a fee of EUR 500 per meeting.

Board of Directors

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

The AGM elects the Chairman and Vice Chairman of Itella Corporation's Board of Directors. In 2008, the AGM decided to set the number of Board members at nine. Members' terms of office end at the close of the AGM following their election. Persons aged 68 and older are ineligible for election to the Board.

In its assessment of the independence of its members, the Board of Directors found all members other than Mirja Sandberg and Antero Palmolahti, the employee representatives, to be independent. All members other than Kalevi Alestalo, a representative of the Ownership Steering Department of the Government Office, are independent of the shareholder.

The Board of Directors evaluates its performance and working methods on an annual basis.It also assesses the performance and working methods of the CEO. The Board of Directors met 14 times in 2008, with an attendance rate of 93%.

Monthly remuneration paid to the members of the Board of Directors in 2008 was as follows: Chairman EUR 3,650, Vice Chairman EUR 2,350, and other members EUR 2,100. In addition, each Board member and/or Board Committee member received a fee of EUR 600 per meeting. Board members received remuneration on the basis of their Board membership only.

Board Committees

Audit Committee

The Board of Directors elected five of its members to the Audit Committee. The committee has the following duties:

– Preparing, controlling, and assessing risk management policies, internal control systems, the organization of financial reporting, auditing, and internal audit;
– Annually examining financial statements with the auditors before submitting them to the Board of Directors.

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

The following were elected to the Audit Committee on March 25, 2008: Erkki Helaniemi (Chairman), Hele-Hannele Aminoff, Mikko Kosonen, and Maarit Toivanen-Koivisto. The committee met seven times in 2008, with an attendance rate of 93%.

Remuneration and Nomination Committee

The Board Remuneration and Nomination Committee is comprised of three members, appointed on March 25, 2008: Eero Kasanen (Chairman), Kalevi Alestalo, and Riitta Savonlahti. The committee is responsible for preparing proposals and general guidelines for management remuneration and appointments, and for the Group's remuneration, bonus, and incentive schemes, for consideration by the Board of Directors. Moreover, the committee ensures that the Group's remuneration schemes are fair and competitive. The committee met five times in 2008, with an attendance rate of 100%.

President and CEO

Jukka Alho, M.Sc. (Tech.), has acted as President and CEO of Itella Corporation since 2000. The CEO is responsible for the Group's operational management in accordance with the Companies Act and instructions and directions issued by the Board of Directors.

In 2008, the CEO received approximately EUR 474,000 (EUR 433,000 in 2007) in salary and bonuses entered under expenses. In addition, he was paid EUR 186,000 in bonuses due from previous years. The period of notice for the CEO is three months. Upon the termination of his contract, he will receive, as severance pay, an amount equivalent to nine months' salary in addition to pay for the notice period. This severance pay is subject to a fixed-term non-competition clause. The CEO's pension arrangements are the same as those of Executive Board members.

Executive Board

Itella Corporation's Executive Board assists the CEO in business management and development and coordinates Group management. In addition, it discusses and prepares matters for the Board of Directors.

Key issues discussed by the Executive Board include the Group strategy and annual business plans, financial and sales planning and monitoring, acquisitions, and other business-related investments.

The Executive Board is not a formal decision-making body: the issues it discusses and the ensuing recommendations are submitted to Itella Corporation's Board of Directors or executed under the authorization of the CEO.

The Executive Board comprised six members in 2008. The Board was chaired by the CEO, and the other members comprised the Senior Vice Presidents of the six following areas: the three business groups, Financials and Administration, Sales and Marketing and Group Strategy. The Executive Board met approximately twice per month.

The retirement age of Executive Board members is 60 years, but the employer may postpone retirement until the age of 62. Their pension is comprised of 60% of the salary in question, and the period of notice of Board members is three to six months. Upon the termination of their executive contracts, Board members receive an amount equivalent to six to nine months' salary as severance pay. This severance pay is subject to a non-competition clause.

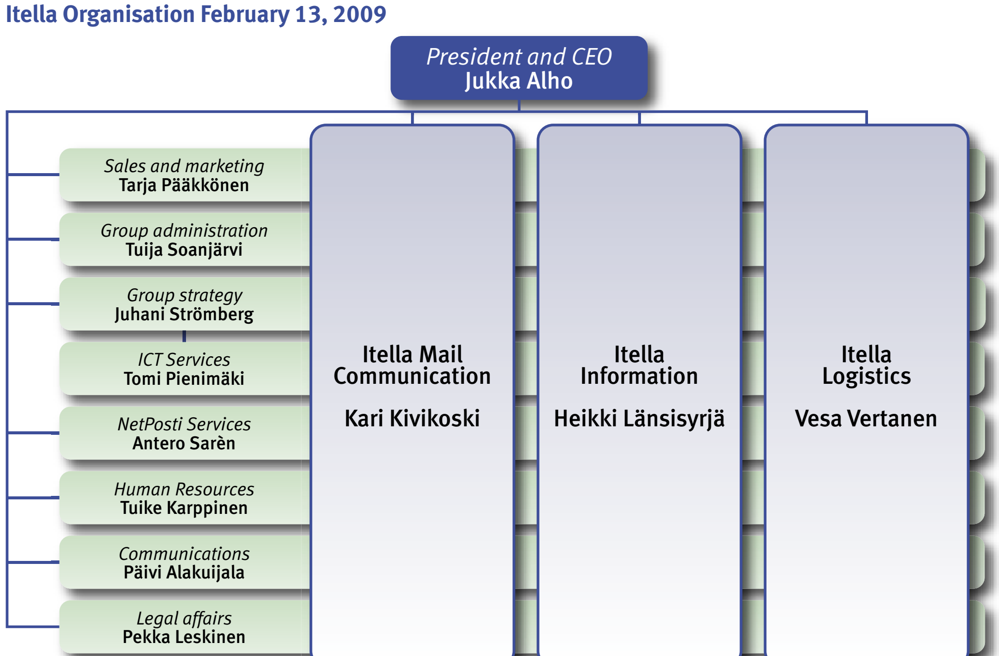
Management Board

The Management Board's duties are related to the management, development, and monitoring of Group functions. Moreover, the Management Board is not a formal decision-making body: the issues it discusses and the ensuing recommendations are submitted to Itella Corporation's Board of Directors or executed under the authorization of the CEO.

In 2008, in addition to the Executive Board members presented above, the Management Board was comprised of the Vice Presidents of Human Resources, ICT Services, and NetPosti Services. The Vice President of Corporate Communications also had the right to attend the meetings. In 2008, the Management Board met approximately once per month.

The retirement age of Management Board members is 63 to 65 years, and their pensions are determined in accordance with

Itella Organisation February 13, 2009



the TEL (Employees' Pensions Act). A supplementary pension applies to some members. The period of notice of Board members is three to six months. Upon the termination of their executive contract, as severance pay they receive an amount equivalent to three to six months' salary. This severance pay is subject to a non-competition clause.

No members of the Management Board and their related parties have significant business relationships with Itella.

Business organization

Itella Group's operations are organized into three business groups (Itella Mail Communication, Itella Information, and Itella Logistics) and supporting Group functions. In addition to three business groups, Itella has a unit in charge of electronic consumer services, Netposti Services. Each of the business groups has an internal Board chaired by the CEO.

Reward policy

Itella Group's reward policy supports the achievement of strategic goals and values at all organizational levels. Rewards form part of the Group's strategic process, its annual business plans, and its performance management process. On an annual basis, the Board of Directors specifies the criteria for senior management bonuses and the related minimum target levels.

All employees are covered by a profit-sharing scheme. The profit bonus total is a percentage share–specified annually by Itella's Board of Directors–of Itella Group's operating profit. In 2008, the profit bonuses amounted to EUR 2.9 million, or 3.0% of the operating profit.

In Finland, the profit bonus is transferred to the Personnel Fund. As of the beginning of 2008, the profit-sharing scheme was extended to cover the employees of subsidiaries not included in the Personnel Fund, i.e. subsidiaries operating outside Finland. Their bonuses will be paid in cash.

Experts and supervisors receive performance-based bonuses, the criteria for which are agreed during performance reviews. These bonuses vary according to the employee's role: an assisting expert may receive a maximum of 7% of his/her annual pay in bonuses and a manager 20% to 25%. Performance-based bonuses are paid in all countries.

Senior management receives performance-based bonuses on the basis of performance targets met. In 2008, the bonuses payable to the President and CEO, to Executive Board members, and to other Management Board members amounted to 35%, 30%, and 26% of their respective annual salaries.

The Group has a long-term incentive scheme for 2005–2007, designed for senior management and key personnel. This scheme is based on economic value added (EVA), while the bonus payable for this three-year period may account for a maximum of 44% to 70% of the employee's annual salary. The bonuses were paid in 2008 and amounted to 13-32%.

The long-term incentive scheme for 2007–2009 is based on growth and economic value added (EVA). This scheme covers senior management with major responsibilities in business groups or Group functions, and those holding individual key positions. The bonus payable for this three-year period may account for a maximum of 85% to 140% of the employee's annual salary.

The partial overlapping of the incentive schemes will be taken into account when awarding bonuses.

Internal control

Internal control is embedded in Itella's management system, with the aim of supporting execution of the Group's strategy and ensuring regulatory compliance. It forms part of Itella's corporate culture and applies to all organizational levels and processes.

Overall responsibility for the organization of internal control lies with Itella Corporation's Board of Directors. However, responsibility for establishing the control environment, and monitoring internal control across the board, lies with the CEO. The management of Group companies and business units is responsible for the implementation of internal control principles and procedures. In addition, it oversees the utilization, within individual organizations, of information generated by the control system. Internal auditing is the responsibility of the Business Audit unit and statutory auditing that of the auditors appointed by the shareholders' meeting.

On the Group level, internal control is based on Itella's values and Code of Ethics, the Group's guidelines and principles, and a functioning organization, which collectively enable effective monitoring across the Group. The management of Group companies and

Remuneration and fees

	2008
Board of Directors	
Chairman's monthly remuneration	EUR 3,650
Vice Chairman's monthly remuneration	EUR 2,350
Members' monthly remuneration	EUR 2,100
Meeting fee	EUR 600
Auditing Committee's Meeting fee	EUR 600
Reward and Appointment Committee's meeting fee	EUR 600
Supervisory Board	
Chairman's monthly remuneration	EUR 460
Vice Chairman's monthly remuneration	EUR 340
Members' monthly remuneration	EUR 260
Meeting fee	EUR 500
President and CEO	
Salary and bonuses entered for the accounting period	EUR 474,000
Bonuses paid for previous years	EUR 186,000

business units is responsible for the definition of controls and assignment of responsibilities.

The monitoring of financial goals and financial control are based on monthly reporting, which includes actuals as well as updated forecasts for the entire fiscal year, and for the following 12 months on a rolling basis.

Risk management

Group-wide risk management based on Enterprise Risk Management (ERM) principles forms an integral part of Itella's management and strategy processes. The aim of risk management activities is to secure and boost business profitability and the achievement of strategic goals by reducing the likelihood of the risks occurring and minimizing their impact, and by supporting the seizing of business opportunities. A 'risk' is defined as any uncertainty that may prevent or hamper the Group from achieving its objectives or which may keep it from taking advantage of business opportunities.

In 2008, Itella continued to systematize and expand its risk management process. These activities were extended to cover not only the business groups but also group functions regarded as critical. The Group introduced a model for calculating its risk-bearing capacity.

Risk identification, assessment, and the planning of management activities are carried out once a year as part of the Group's strategy process. The reporting cycle was revised in 2008, so that key risks and related management activities are reported quarterly to the Management Board and biannually to the Audit Committee.

Risk management responsibilities

GROUP MANAGEMENT

Itella's Board of Directors approves the Group's risk management policy and principles, while the risk management approach to be taken is approved by the Management Board. On a regular basis the Management Board and the Board Audit Committee monitor the development and effectiveness of risk management processes as well as the Group's risk portfolio in relation to its risk-bearing capacity. The Audit Committee evaluates the scope and adequacy of risk management.

The Group's risk management steering group is the Itella Strategy Forum, which controls risk management methods, processes, and reporting.

The Business Audit unit evaluates the scope of risk management within the Group and provides support for risk identification.

RISK OWNERS

Risks are managed where they originate. The management of the business groups and units, and of critical Group functions, is responsible for risk management as part of strategic and operational management. They also ensure that the risk portfolio remains within the risk-bearing capacity. All business groups, business units, and key group functions, have designated Risk Champions. In addition, all Itella employees must take account of any risks in their own work.

SUPPORT FOR RISK MANAGEMENT

Group financing manages currency and other financial risks in accordance with financial guidelines approved by the Board of Directors, and secures the availability of equity and debt capital on competitive terms. It supports the business groups in arrangements related to financing and centrally manages external funding. It is also responsible for managing financial assets and for ensuring appropriate hedging measures.

The Group's Chief Risk and Security Officer supports the implementation of the risk management policy, coordinates the consolidation of key risks, and develops risk management procedures and tools.

The Corporate Security unit supports Group units in the management of operational risks related to corporate security.

Internal audit

Internal audit provides assessment, assurance, and consulting services, as required under good corporate governance principles, for analyzing the Group's businesses and their processes and the efficiency of the Group's management, risk management, control, reporting, and corporate governance. Its purpose is to assist the Group in identifying areas requiring improvement which might serve to enhance the efficiency, predictability, profitability, and compliance of its operations.

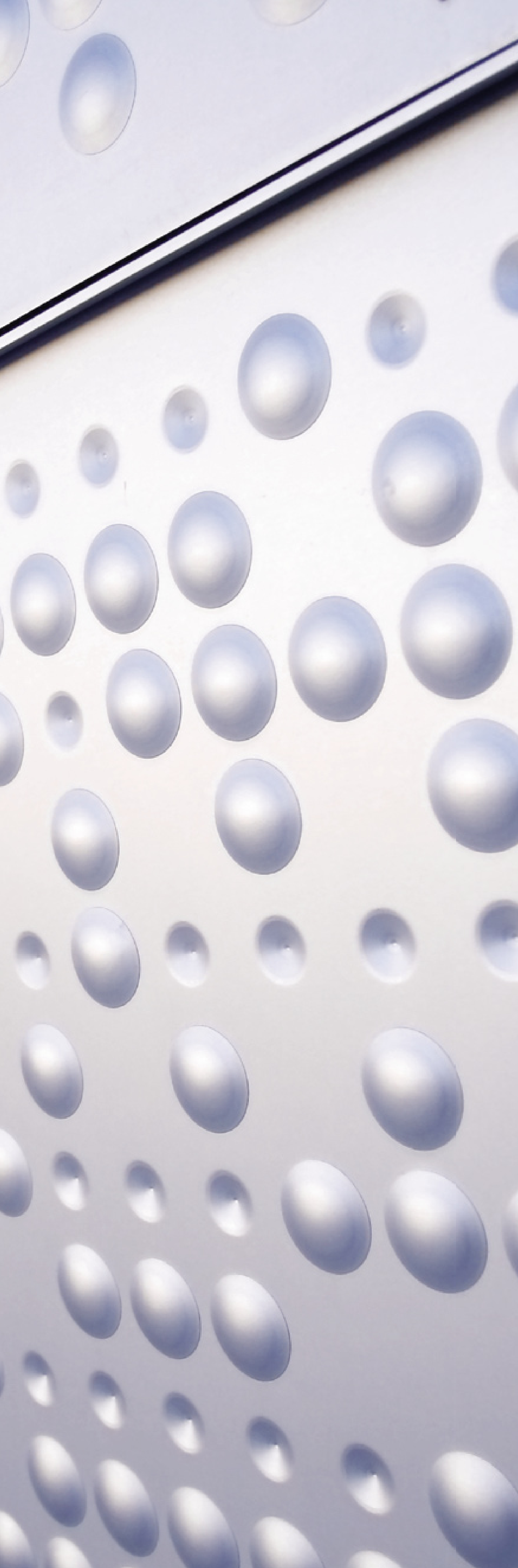
Internal audit supports the Board of Directors and Group management, which are responsible for organizing internal control, in their supervisory obligations. It also assists management and the organization in planning and improving internal control.

Internal audit is the responsibility of the Business Audit unit, which reports to the Board Audit Committee and the CEO. The planning, coordination, and reporting of audits is carried out by the unit, while actual audits are performed mainly by an external partner.

In 2008, Itella introduced a new rolling planning framework, under which all of the Group's businesses in all countries are subjected to internal audit at least every three years. The purpose of these audits is to evaluate the effectiveness of the business management system.

Auditors

According to its Articles of Association, Itella Corporation has 1–3 auditors the AGM of 2008 having decided to set this number at one. The auditor must be an authorized public accountant or a firm of authorized public accountants certified by the Finnish Central Chamber of Commerce. In 2008, the auditor was KPMG Oy Ab, with Pauli Salminen, Authorized Public Accountant, acting as Itella's chief auditor. Firms belonging to KPMG's global network in Finland and other countries were remunerated a total of EUR 0.7 million (EUR 0.4 million in 2007) for auditing services and EUR 0.4 million (EUR 0.2 million) for consulting services rendered to companies belonging to Itella Corporation.



Financial Statements

Board of Directors’ Report

Business environment

The key factors affecting Itella’s business environment are the development of electronic communications and the implementation of the Postal Services Directive in EU countries. While the behavior and needs of corporate customers and consumers are evolving, new players and operating models are entering the industry, intensifying competition further. Furthermore, national borders are waning in significance.

In 2008, the economic downturn was first reflected in demand for freight services in Denmark and the Baltic countries. However, by the last quarter, the dramatic change in economic trends was already affecting demand for all services in all countries, except Russia. Other consequences of the recession include excess capacity and fierce price competition. On the other hand, Itella recognizes the opportunities created by the downturn, as the Group’s extensive integrated solutions can provide customers with effective means of improving their efficiency while generating cost savings.

Itella’s geographical coverage strengthened and expanded during the year, Russia’s share increasing in particular. Since most of Itella’s international operations are outside the euro zone, the impact of exchange rate fluctuations on Itella is much greater than before—especially in the current financial climate.

Net sales and profit performance

Itella Group’s consolidated net sales rose by 14.2% in 2008, to EUR 1,952.9 million (EUR 1,710.6 million in 2007), with acquisitions accounting for 9.6 percentage points of this growth. Finland represented 7.1% and other countries 34.1% of Group growth. Of consolidated net sales, 31% (26%) was generated outside Finland. Net sales increased in all three business groups.

Consolidated EBIT excluding a non-recurring item decreased by 6.6% to EUR 95.1 million (EUR 101.8 million), representing 4.9 % (6.0%) of consolidated net sales. EBIT improved in Itella Information but declined in Itella Mail Communication and Itella Logistics, primarily due to the sharp rise in labor costs as a result of the collective agreement signed in fall 2007, as well as increased fuel costs.

Impairment testing of the goodwill of Itella Logistics’ Russian operations resulted in an impairment of EUR 26.1 million. This was mainly due to a rise in the discount rate as well as the estimated effects of the global financial crisis and economic downturn—which began after the signing of the NLC deal—on demand for logistics services over the next few years. These effects did not, however, show in the 2008 EBIT, and the Russian operations fulfilled expectations in this respect. Consolidated EBIT including a non-recurring impairment loss of EUR 26.1 million came in at EUR 69.0 million (EUR 101.8) million, representing 3.5% (6.0%) of consolidated net sales. Following the recording of the impairment loss, goodwill on the consolidated balance sheet was EUR 174.9 million (EUR 150.7 million).

The profit for the period includes EUR 5.3 million in write-downs on real estate shares and a one-time capital gain of EUR 5.4 million. Moreover, the carrying amount of the Group’s real property was EUR 445.9 million (EUR 245.7 million) at the end of the fiscal year. The expense provision for the employee profit-sharing scheme totaled EUR 2.9 million (EUR 6.0 million).

The Group’s net financing cost was EUR -22.4 million (EUR +7.7 million). In addition, the consolidated income statement includes EUR 21.5 million net in exchange rate losses related to the NLC subgroup. Consolidated profit after financial items amounted to EUR 46.6 million (EUR 109.5 million). Income tax totaled EUR 27.9 million (EUR 31.0 million) and consolidated net profit EUR 18.6 million (EUR 78.5 million). Return on equity stood at 2.6% (11.1%).

Key figures of Itella Group

	2008	2007	2006
Net sales, MEUR	1,952.9	1,710.6	1,574.5
Operating profit (EBIT) excl. impairment loss, MEUR	95.1	101.8	90.9
EBIT margin excl. impairment loss, %	4.9	6.0	5.8
Operating profit (EBIT), MEUR	69.0	101.8	89.0
EBIT margin, %	3.5	6.0	5.7
Profit before tax, MEUR	46.6	109.5	94.4
Return on equity, %	2.6	11.1	10.1
Return on investment, %	12.4	15.6	14.1
Equity ratio,%	51.1	65.9	65.1
Gearing, %	14.8	-36.4	-32.1
Personnel on average	28,163	25,623	25,294
Capital expenditure, MEUR	351.5	94.2	69.5
Dividends, MEUR	10.0 *)	39.0	27.0

**) Board of Director’s Proposal*

Itella Mail Communication

Itella Mail Communication improved its net sales by 2.7% to EUR 918.1 million (EUR 893.8 million), with acquisitions accounting for 0.2 percentage points of this growth.

Letter mail volumes increased slightly over the previous year, with the First Class letter volume declining by about 1% and the Second Class letter volume rising by 2%.

Addressed and unaddressed direct mail were down 2% and 5% respectively. Price competition in direct mail deliveries remained intense.

Magazine delivery volumes were almost unchanged. Deliveries of subscription newspapers were in line with general circulation trends, falling by over 3%. Newspapers accounted for 7% of Itella Group’s consolidated net sales. The volume of local freesheets decreased markedly year-on-year.

Itella Mail Communication posted an EBIT of EUR 86.2 million (EUR 88.9 million), representing 9.4% (9.9%) of net sales. This performance was undermined by a significant rise in labor costs as well as the high fuel costs of the first half of the year.

The Customer Relationship Marketing unit was reinforced through two acquisitions: Finnish DH Tools Oy, which specializes in marketing management systems, early in the year and the Russian OOO Connexions, which offers consulting and campaign management services for customer relationship marketing, at the end of the year.

The four-year development project launched in 2007 to transform mail sorting and delivery continued in Finland. In conjunction with this project, investments of around EUR 160 million will be made in sorting and delivery network equipment, systems, and buildings between 2007 and 2010.

Itella Information

Itella Information reported net sales of EUR 247.1 million (EUR 223.4 million), up 10.6%, with acquisitions accounting for 7.7 percentage points of this growth. Net sales improved for all product lines, with the exception of Transactional Messaging (multi-channel invoicing services). Geographically speaking, net sales increased in all countries apart from Germany.

Itella Information posted EBIT of EUR 9.6 million (EUR 5.4 million), or 3.9% (2.4%) of net sales. This improved profitability was a result of streamlining measures performed in all product lines.

A joint venture established by Norway Post and Itella Information began operating in Norway in June, while a new subsidiary established in Poland, Itella Information sp. z o.o, did the same in May. The Finnish Tuottotieto Oy, a provider of expert services, operating models, and system solutions related to the outsourcing of financial management processes and business development, was acquired in October.

Itella Logistics

Itella Logistics increased its net sales by 31.2% to EUR 813.2 million (EUR 619.8 million), with acquisitions accounting for 24.4 percentage points of this growth. Demand for freight and forwarding services began to wane in the first half of the year, first in Denmark and the Baltic countries, then in other countries in the latter part of the year. Growth in demand for parcel and transport services subsided towards the end of the year, while demand for contract logistics remained stable, or strong in the case of Russia.

Itella Logistics' EBIT excluding a non-recurring item was EUR 16.0 million (EUR 22.2 million), representing 2.0% (3.6%) of net sales. This decrease was due to higher production costs and a decline in road traffic volumes. As a result of the NLC acquisition, the Russian operations recorded a profit for the first time in their history. Itella's performance was negatively affected by exchange rate losses (netto) of EUR 21.5 million related to the NLC subgroup.

Due to a rise in the discount rate and the uncertain economic outlook, a goodwill impairment loss was recorded for the Russian operations. As a result, EBIT including this non-recurring item was negative at EUR 10.1 million (positive at EUR 22.2 million), accounting for -1.2% (3.6%) of net sales.

Itella Logistics acquired the Finnish Kauko Group Oy, which specializes in international transport services, and the Swedish Hansar Logistics AB in the first half of the year. In the summer, the company's 50% stake in the Norwegian Universal Spedisjon Bergen AS, a provider of transport and contract logistics services, was raised to 100%.

The acquisition of the Russian logistics corporation NLC (National Logistic Company) was completed in early August. The selling parties in the deal were RosEvroGroup and the capital investment funds administered by Citi Venture Capital International (CVCI). RosEvroGroup will continue to operate as a minority shareholder with a share of 10% until the end of 2010, the customs clearance operations of NLC being transferred to it in full as part of the deal. Real estate owned by the NLC Group formed a significant proportion of the total value of the acquisition.

Itella Logistics made a decision to invest in a logistics centre to be built in the city of Lahti in Finland, worth in the region of EUR 40 million.

Key Figures of Business Groups

MEUR	2008	2007	Change
Itella Mail Communication			
Net sales	918.1	893.8	2.7%
Operating profit (EBIT)	86.2	88.9	-3.0%
EBIT margin,%	9.4%	9.9%	
Itella Information			
Net sales	247.1	223.4	10.6%
Operating profit (EBIT)	9.6	5.4	77.8%
EBIT margin,%	3.9%	2.4%	
Itella Logistics			
Operating profit excl. impairment loss			
Net sales	813.2	619.8	31.2%
Operating profit (EBIT)	16.0	22.2	-27.9%
EBIT margin,%	2.0%	3.6%	
Operating profit incl. impairment loss			
Net sales	813.2	619.8	31.2%
Operating profit/loss (EBIT)	-10.1	22.2	..
EBIT margin,%	-1.2%	3.6%	
Other activities			
Net sales	20.5	16.8	22.0%
Operating profit/loss (EBIT)	-16.7	-14.7	..
EBIT margin,%	-81.5%	-87.5%	
Intra-Group sales	-46.0	-43.2	..
ITELLA GROUP			
Operating profit excl. impairment loss			
Net sales	1,952.9	1,710.6	14.2%
Operating profit (EBIT)	95.1	101.8	-6.6%
EBIT margin,%	4.9%	6.0%	
Operating profit incl. impairment loss			
Net sales	1,952.9	1,710.6	14.2%
Operating profit (EBIT)	69.0	101.8	-32.2%
EBIT margin,%	3.5%	6.0%	

Business risks

In 2008, Itella continued to systematize and expand its risk management process. In addition to the business groups, these activities were extended to critical support functions. A risk tolerance model was implemented within the Group.

Strategic risks

Itella's key strategic risk lies in the speed of digital substitution, although this has not lived up to forecasts so far. Itella is preparing for this change by improving the productivity of its physical delivery network. In the area of digital and multi-channel operations, digital substitution also represents an opportunity for Itella. The company has responded to evolving customer needs by launching new information logistics products and solutions.

Successful management of acquisitions continues to play a pivotal role, and Itella is constantly developing its acquisition and integration expertise and the related processes. The management of risks associated with the sale and delivery of more extensive integrated solutions (outsourcing solutions) is also gaining in importance.

Risks related to Russia's economic development will also be reflected in Itella in the future.

Human resources and competencies involve significant risks. Over the next few years, Itella will need to adjust its labor costs flexibly to changes in letter volumes. The company aims to manage risks associated with workforce availability and stability as well as ensuring sufficient training and rewards for key persons, and appropriate resource allocation in critical projects. Measures related to occupational safety and workplace well-being are also of key importance in managing HR risks.

The EU Postal Services Directive, which will take effect in 2011, will probably impact on industry regulations and competition. Itella is preparing for changes by, for example, boosting productivity.

Financial risks

The focus in financial risk management is on mitigating variations in financial performance, the balance sheet, and cash flow while seeking to secure the Group's effective capital structure and sound financial position. To this effect, the Group aims to identify risk concentrations and hedge against them to the necessary extent. The Group's operations involve currency, interest rate, liquidity, credit, and counterparty risks. Credit risks are managed by the sales organizations of business areas. Group Treasury is responsible for the centralized management of financial risks in line with the financing guidelines approved by the Board of Directors.

A more detailed account of financial risks and their management can be found in the Notes to the Consolidated Financial Statements, page 65.

Operational risks

Itella's products, services, and processes are based on a well-functioning ICT infrastructure and data communications whose continuity must be secured using all available means. Interruption risks arising from ICT failures constitute the key operational risk for Itella. These risks are primarily managed through efficient supplier network management and by ensuring the operation of critical applications through comprehensive continuity planning and information security management.

The Group aims to take out insurance against all risks that it deems reasonably insurable for financial or other reasons. Insurance covering employees, business continuity, assets, and liabilities is managed by the Group on a centralized basis. Liability risks include risks caused by operations and products, as well as corporate management liabilities. In determining the related deductibles, the Group takes account of its risk tolerance.

Changes in corporate structure

Itella Information:

- The business group acquired the operations of the Polish BusinessPoint S.A., which specializes in printing and document management. This company posted net sales of EUR 10 million in 2007, and the number of transferred employees was 221. The new company began operating in May.
- A joint venture, Itella Information AS, was established with Norway Post. Itella's stake is 51%. The company's annual net sales were estimated at around EUR 25 million, and it employed a staff of 136 at the end of the year. It began operating in June.
- In October, the business group acquired the Finnish Tuottotieto Oy, which reported net sales of just under EUR 5 million in 2008 and employed 102 persons.
- New corporate entities were established in Slovakia and Russia.

Itella Logistics:

- The business group acquired the Finnish Kauko Group Oy and the Swedish Hansar Logistics AB. Their combined net sales for 2007 totaled EUR 60 million, and the number of employees transferred was 118. The companies were consolidated into Itella Group as of April.
- The business group purchased the entire stock of the Norwegian Universal Spedisjon Bergen AS, raising its previous share of 50% ownership.
- The business group purchased 90% of the Russian logistics group NLC's (National Logistic Company) stock. NLC had net sales of approximately EUR 180 million, and employed some 6,000 persons. NLC was consolidated into Itella Group as of August.

Itella Mail Communication:

- The business group acquired the Finnish DH Tools Oy, which employed a staff of 16.
- In Russia, the business group acquired OOO Connexions, which employed some 30 persons and reported net sales of around EUR 3 million. The company was consolidated into Itella's accounts as of November.

Other functions:

The parent company established Itella IPS Oy (Itella Payment Services), which applies for authorization as a payment institution, as per the Finnish Act on Credit Institutions. The aim is to become part of the Finvoice electronic invoice system developed by the Finnish banking sector.

Capital expenditure

Itella Group's capital expenditure totaled EUR 110.4 million (EUR 71.9 million), the most significant investments being in machines, equipment, and buildings. The three-year investment program related to mail sorting, launched in 2007, continued in Itella Mail Communication. It is one of the company's most extensive investments for decades. Acquisitions amounted to EUR 241.1 million (EUR 22.3). The most significant acquisition was the Russian NLC, Itella purchasing 90% of its stock for a cost of EUR 203.0 million. Of consolidated capital expenditure, EUR 129.4 million was targeted at Finland and EUR 222.1 million at international operations.

Research and development

Itella Group's research and development expenditure for 2008 came to EUR 26.6 million, or 1.4% of the Group's total operating expenses. The 2007 and 2006 comparatives were EUR 30.5 million (1.9%) and EUR 32.8 million (2.2 %) respectively.

In addition to annual analyses, research themes for 2008 included electronic invoicing, the e-commerce needs of consumers, the future of mass communication channels, customer magazines, and experiences in combining standard and early deliveries. In terms of Group-wide innovation activities, the focus was on the development of new business models associated with mobile, positioning, sorting automation, and tracking technologies, as well as social media.

Alongside actual R&D activities, Itella carries out development work closely related to products, services, processes, and infrastructure. It has major projects underway in areas such as infrastructure for multi-channel delivery and contact information management, the new Customer Experience Management (CEM) business, and supply chain tracking technology.

Environmental impacts

Most of Itella's environmental impacts are related to greenhouse gas emissions. In spring 2007, Itella pledged to cut its carbon-dioxide emissions by 10% by 2012 (in relation to net sales, compared to 2007). More information on environmental issues can be found in Itella's Annual Report on page 26. The Group has not published an environmental report assured by an independent third party.

Financial position

Consolidated net cash flow from operating activities totaled EUR 130.8 million (EUR 153.3 million) before investment activities.

Capital expenditure amounted to EUR 351.5 million (EUR 94.2 million), with acquisitions accounting for EUR 241.1 million (EUR 22.3 million).

The Group's financial position remained stable. At the end of the year, liquid assets were EUR 129.4 million (EUR 297.6 million) and undrawn committed credit facilities EUR 175.0 million (EUR 200.0 million). Commercial papers issued amounted to EUR 82.4 million at the end of the period. The Group's interest-bearing liabilities were EUR 232.3 million (EUR 31.2 million), of which ItellaNLC's interest-bearing liabilities made up EUR 101.8 million. Equity ratio stood at 51.1% (65.9%) and gearing was 14.8% (-36.4%).

Share capital and shareholding

Itella Corporation is wholly owned by the Finnish State, its share capital consisting of 40,000,000 shares of equal per-share value. The company holds no treasury shares, nor has it subordinated loans. It has neither granted loans to related parties nor given commitments on their behalf. Furthermore, the company has not issued shares, stock options, or other rights entitling to holdings in company shares. Its Board of Directors has no authorization to issue shares or stock options or other special rights entitling to holdings in company shares.

Administration and auditors

On March 18, 2008, Itella Corporation's Annual General Meeting elected the following members to the Board of Directors: Eero Kasanen (Chairman), Rector; Mikko Kosonen (Vice Chairman), President; Kalevi Alestalo, Financial Counselor; Hele-Hannele Aminoff, Managing Director; Erkki Helaniemi, Partner; Riitta Savonlahti, Executive Vice President, Human Resources; and Maarit Toivanen-Koivisto, President. The AGM re-elected Antero Palmolahti, National Chief Shop Steward, and Mirja Sandberg, National Chief Shop Steward, as employee representatives to the Board.

Itella Corporation's auditor was KPMG OY AB (a firm of Authorized Public Accountants).

The Chairman of the Supervisory Board was Eero Lehti, Member of Parliament, and the Vice Chairman was Antti Rantakangas, Member of Parliament.

Jukka Alho, M.Sc. (Tech.), acted as Itella Corporation's President and CEO in 2008.

Human resources

At the end of 2008, Itella Group employed a staff of 31,672 (25,211), the average number being 28,163 (25,623). This corresponds to 22,129 person-years if part-time employees are converted to full-time equivalents.

The parent company had 21,602 (21,585) employees at the year-end, the average number being 22,007 (21,597).

As a result of acquisitions, the number of employees working outside Finland increased to 8,176 (1,918) at the year-end. The number of employees based in Finland was 23,496 (23,293).

Group personnel

	2008	2007	2006
Wages and salaries, MEUR	709.0	647.6	604.5
Employees 31 Dec.	31,672	25,211	24,806
Employees on average	28,163	25,623	25,294

The profit for the period included EUR 2.9 million (EUR 6.0 million in 2007) in expense provision for the employee profit-sharing scheme.

Additional information on human resources is available on page 22.

Events after 2008

The Group decided to strengthen its financial position by drawing a EUR 100 million TyEL (Employees Pensions Act) loan.

The unrealized exchange rate losses on the Russian operations in January 2009 are equivalent to the amount of exchange rate losses in 2008 that weighed down the results.

Outlook for 2009

Demand for Itella's services is now more dependent on economic cycles than before. Moreover, the current recession may rapidly speed up the digital substitution process with a major impact on changes in long-term demand for Itella's services. In some business areas, excess capacity in the market may lead to more aggressive price competition. On the other hand, Itella also sees the downturn as an opportunity to offer extensive integrated solutions to customers.

Technically, the Group's net sales for 2009 will be boosted by the previous year's acquisitions, which were not included in the consolidated accounts for the entire 2008 fiscal year. Exchange rate fluctuations may have a greater impact on Itella's figures than in previous years. Nevertheless, the fundamental earning power of Itella's operations is relatively stable.

Measures and projects aimed at improving work productivity will be the focus in Itella Mail Communication in particular. The Group aims to cut overheads across the organization and to render the management and control of discretionary costs more efficient. Savings achieved by adjusting the number of employees will not yet show in 2009.

The timing and number of acquisitions and other investments will be considered carefully. However, the level of capital expenditure will remain above the long-term average, due to the ongoing projects in Finland.

Board of directors' proposal to the AGM

According to the financial statements, the parent company's distributable profits total EUR 697,283, 704.81, of which net profit for 2008 accounts for EUR 57,165,342.61.

No material changes have taken place in the Group's financial standing since the end of the fiscal year, nor does the solvency test, as specified in section 13, subsection 2 of the Finnish Companies Act, affect the proposed distributable profits.

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

- Paying a dividend of EUR 0.25 per share, or a total of EUR 10,000,000.00.
- Retaining EUR 47,165,342.61 under shareholders' equity.

Consolidated Income Statement, IFRS

EUR million	Note	2008	2007
Net sales	1,3	**1,952.9**	1,710.6
Other operating income	4	**13.9**	10.4
Share of associated companies' results		**0.2**	0.3
Materials and services	5	**594.1**	492.9
Employee benefits	6	**873.8**	794.2
Depreciation and amortisation	8	**68.9**	61.5
Impairment losses	8	**31.4**	-
Other operating expenses	9	**329.8**	270.9
Operating profit (EBIT)		**69.0**	101.8
Financial income	10	**58.0**	13.5
Financial expenses	10	**-80.4**	-5.8
Profit before income tax		**46.6**	109.5
Income tax	11	**-27.9**	-31.0
Profit for the financial period		**18.6**	78.5
Profit attributable to			
Parent company shareholders		**19.7**	78.2
Minority interest		**-1,1**	0.3
Profit for the financial period		**18.6**	78.5

Consolidated Balance Sheet, IFRS

EUR million	Note	31 Dec 2008	31 Dec 2007
Non-current assets			
Goodwill	12	**174.9**	150.7
Other intangible assets	12	**85.2**	43.4
Investment property	13	**4.7**	2.1
Property, plant and equipment	14	**655.3**	361.6
Investments in associated companies	15	**0.6**	1.9
Other non-current investments	17	**0.6**	0.1
Non-current receivables	18	**7.4**	3.7
Deferred tax assets	19	**7.4**	6.8
Total non-current assets		**936.1**	570.4
Current assets			
Inventories	20	**7.1**	6.3
Current receivables	21	**285.4**	238.5
Current tax assets		**8.7**	1.1
Available-for-sale financial assets	22	**3.8**	5.3
Cash and cash equivalents	22	**129.4**	297.6
Total current assets		**434.4**	548.7
Total assets		**1,370.5**	1,119.1
Equity attributable to equity holders of the parent company			
Share capital	23	**70.0**	70.0
Other reserves		**143.0**	144.0
Retained earnings		**481.8**	517.5
		694.8	731.5
Minority interest		**1.5**	0.9
Total equity		**696.3**	732.4
Non-current liabilities			
Deferred tax liabilities	19	**50.5**	17.7
Non-current interest-bearing liabilities	26	**85.9**	22.4
Other non-current liabilities	27	**35.5**	3.6
Defined benefit pension plan obligations	24	**7.4**	8.3
Total non-current liabilities		**179.3**	51.9
Current liabilities			
Current interest-bearing liabilities	26	**146.4**	8.8
Trade payables and other liabilities	27	**347.3**	317.8
Current tax liabilities		**0.2**	3.8
Provisions	25	**1.0**	4.4
Total current liabilities		**494.9**	334.8
Total liabilities		**674.2**	386.7
Total equity and liabilities		**1,370.5**	1,119.1

Consolidated Cash Flow Statement, IFRS

EUR million	Note	2008	2007
Profit for the financial period		**18.6**	78.5
Adjustments			
Depreciation and amortisation		**68.9**	61.5
Impairment losses		**31.4**	-
Gains on sale of intangible assets and PPE		**-6.2**	-2.7
Losses on sale of intangible assets and PPE		**1.5**	1.8
Financial income		**-58.0**	-13.5
Financial expenses		**80.4**	5.8
Income tax		**27.9**	31.0
Other adjustments		**-0.2**	0.8
Cash flow before change in net working capital		**164.3**	163.1
Change in trade and other receivables		**103.7**	-9.2
Change in inventories		**0.2**	0.0
Change in trade payables and other liabilities		**-96.5**	18.5
Change in provisions		**-4.5**	2.2
Change in net working capital		**2.9**	11.5
Cash flow from operating activities before financial items and income tax		**167.2**	174.6
Interests paid		**-8.7**	-3.2
Interests received		**14.6**	11.3
Other financial items		**-6.9**	-0.4
Income tax paid		**-35.4**	-29.0
Cash flow from financial items and income tax		**-36.4**	-21.3
Cash flow from operating activities (net)		**130.8**	153.3
Purchase of intangible assets and property, plant and equipment (PPE)		**-109.7**	-67.1
Proceeds from sale of intangible assets and PPE		**1.4**	14.0
Acquisition of subsidiaries less cash and cash equivalents at acquisition date	2	**-228.9**	-20.8
Proceeds from sale of businesses		**0.8**	0.8
Proceeds from sale of investments		**6.8**	1.4
Repayment of non-current loan receivables		**2.5**	0.0
Repayment of available-for-sale financial assets		**0.9**	2.2
Cash flow from investing activities (net)		**-326.3**	-69.4
Drawings of current loans		**93.1**	-
Repayment of current loans		**-**	-0.9
Finance lease principal payments		**-9.4**	-11.9
Drawings of non-current loans		**15.4**	-
Repayment of non-current loans		**-31.8**	-0.3
Minority capital investment		**2.3**	-
Dividends paid		**-39.0**	-27.0
Cash flow from financing activities (net)		**30.6**	-40.1
Change of cash and cash equivalents		**-164.9**	43.8
Cash and cash equivalents at period-start		**297.6**	253.7
Effect of change in exchange rates		**2.3**	-0.6
Change in fair value of cash and cash equivalents		**-5.6**	0.7
Cash and cash equivalents at period-end		**129.4**	297.6

Changes in Consolidated Equity, IFRS

EUR million	Share capital	Other reserves	Fair value reserve	Translation difference	Retained earnings	Total	Minority interest	Total equity
	Equity attributable to equity holders of the parent company							
Equity 1 Jan 2007	**70.0**	**142.7**	**0.6**	**-0.2**	**466.3**	**679.5**	**0.5**	**680.0**
Change of translation difference				0.1		0.1		0.1
Change of fair value			0.7			0.7		0.7
Items recognised directly in equity			0.7	0.1		0.8		0.8
Profit for the period					78.2	78.2	0.3	78.5
Total recognised income and expenses			0.7	0.1	78.2	79.0	0.3	79.3
Dividends paid					-27.0	-27.0		-27.0
Equity 31 Dec 2007	**70.0**	**142.7**	**1.3**	**0.0**	**517.5**	**731.5**	**0.9**	**732.4**
Equity 1 Jan 2008	**70.0**	**142.7**	**1.3**	**0.0**	**517.5**	**731.5**	**0.9**	**732.4**
Change of translation difference				-16.4		-16.4		-16.4
Available-for-sale financial assets			-1.0			-1.0		-1.0
Items recognised directly in equity			-1.0	-16.4		-17.4		-17.4
Profit for the period					19.7	19.7	-1.1	18.6
Total recognised income and expenses			-1.0	-16.4	19.7	2.3	-1.1	1.2
Disposal of subsidiaries							2.5	2.5
Other change							-0.8	-0.8
Dividends paid					-39.0	-39.0		-39.0
Equity 31 Dec 2008	**70.0**	**142.7**	**0.3**	**-16.4**	**498.2**	**694.8**	**1.5**	**696.3**

Notes to the Consolidated Financial Statements, IFRS

Basic company data

Itella Group provides mail communication, information logistics and logistics services and operates in eleven countries. Its Parent Company, Itella Corporation, is domiciled in Helsinki, the address of its registered office being Postintaival 7 A, FI-00230 Helsinki.

ACCOUNTING POLICIES

Itella Corporation has prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), adopted by the European Union, while adhering to the related IFRS/IAS standards, effective on 31 December 2008, and their SIC and IFRIC interpretations.

On 1 January 2006, Itella Group began to prepare its consolidated financial statements under IFRS. The notes to the consolidated financial statements are also in compliance with Finnish Accounting legislation and Community legislation.

The consolidated financial statements are prepared at historical cost, with the exception of financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets. The consolidated financial statements are presented in millions of euros in the Annual Report. Single digits have been rounded to the nearest decimal. Calculations were performed before rounding.

Consolidation principles

Subsidiaries

The consolidated financial statements include the accounts of the Parent Company, Itella Corporation, and those of all of its subsidiaries. Subsidiaries refer to companies over which the Parent Company exercises control, directly or indirectly, arising from the Group holding more than half of the entity's voting rights or in other respects having the power to govern its financial and operating policies for the purpose of profiting from its operations.

Subsidiaries are consolidated from the date on which control is transferred to the Group until the date on which said control ceases. Intra-group shareholdings are eliminated using the purchase method and the resulting residual is allocated to the acquiree's assets and liabilities measured at fair value. Any excess of the cost of acquisition over the Group's interest in the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities are recognised as goodwill.

Intra-group transactions, receivables, liabilities and distribution of profits are eliminated in the consolidated financial statements. Profit for the financial year attributable to the Parent Company's shareholder and minority interest is presented in the consolidated income statement. Minority interest is presented as a separate item within equity in the consolidated balance sheet.

Associated companies

An associated company refers to an entity in which the Group holds more than 20 per cent of its shares and votes or, in other respects, over which the Group exercises significant influence, but not control. Holdings in associated companies are consolidated using the equity method. Investments in associated companies are recognised at cost as adjusted by post-acquisition changes in the Group's share of the associated company's net assets. The Group's share of associates company's results, based on the Group's interest in the associated company, is shown as a separate item before operating profit in the income statement.

Mutual property companies

Itella Group has holdings in property companies over which it exercises control jointly with other shareholders. These mutual property companies' controlled assets are consolidated as required under IAS 31 Interests in Joint Ventures, whereby the consolidated financial statements include the Group's share of assets, liabilities, income and expenses.

Foreign currency translation

The Consolidated Financial Statements are presented in euros, which is the functional currency of the Group's Parent Company.

Transactions denominated in foreign currencies are translated into euros at the exchange rate quoted on the transaction date. While monetary items in the balance sheet are translated into euros using the exchange rate quoted on the balance sheet date, non-monetary items are translated using the exchange rate quoted on the transaction date, excluding items carried at fair value translated using the exchange rate quoted on the date when the fair value was determined. Any exchange gains or losses arising from business operations are included in respective items before operating profit and those arising from financial instruments are included in financial income and expenses.

If the subsidiaries' functional currency differs from the Group's presentation currency, their income statements will be converted into euros using the average exchange rate quoted for the financial year, and their balance sheets into the exchange rate on the balance sheet date. Differences resulting from these exchange rates are recognised in translation differences under equity. When the subsidiary is disposed of, any accumulated translation differences are recognised as part of capital gain or loss in the income statement.

Goodwill resulting from the acquisition of foreign entities and the fair value adjustments of the carrying amounts of these entities' assets and liabilities made during the acquisition have been treated as the entity's assets and liabilities and translated into euros quoted on the balance sheet date.

Segment reporting

Disclosing segment information is based on the Group's business segment and geographic segment, the former serving as the primary reporting format and the latter as the secondary reporting format. The primary, business segment reporting format is based on the Group's internal organisational structure and internal financial reporting.

Revenue recognition

Revenue from the sale of goods (incl. postage stamps) is recognised when the goods have been delivered to the customer and significant risks and rewards of ownership have transferred to the buyer. The provision of services of short duration generates a major part of Itella Group's revenues. Such revenues are recognised when the service is rendered as agreed.

Net sales derive from revenue based on the sale of goods and services net of indirect taxes, discounts and exchange rate differences.

Government grants

Government grants mainly refer to product and business development grants and low-wage support, which are recognised in other operating income.

Other operating income

Other operating income includes capital gains on the sale of assets and income other than that based on the sale of goods and services, such as rental income.

Employee benefits

Pensions

The majority of the Group's pension plans have fallen under defined contribution plans. Contributions under defined contribution pension plans are recognised in the income statement for the period during which such contributions are made. Following the payment of such contributions, the Group has no pension obligations left. Expenses under both the defined benefit and contribution plans are included in employee benefit expenses.

For defined benefit plans, the pension liability recognised in the balance sheet equals the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets on the balance sheet date. The Group applies the IAS 19 corridor approach to actuarial gains and losses, whereby these gains and losses outside certain limits are divided by the average remaining working lives of employees within the plan. Actuarial gains or losses are recognised if they exceed 10 per cent of the greater of the fair value of the defined benefit plan assets or the present value of the defined benefit obligation.

Expenses under both the defined contribution and defined benefit plans are included in employee benefit expenses.

Other operating expenses

Other operating expenses include lease expenses, voluntary personnel expenses, maintenance expenses related to premises and vehicles, expenses related to fuels and lubricants, as well as other production expenses. In addition, commissions paid to non-employees and other sales costs and marketing, entertainment, office and IT expenses are included in other operating expenses.

Operating profit

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. The Group applies the following definition: an operating profit is a net amount derived from net sales plus other operating income, less purchase expenses from which any change in the finished goods inventory and work in progress is subtracted, adjusted for expenses from production for own use, less employee benefit expenses, depreciation, amortisation and any impairment losses, other operating expenses and the share of associated company's results. All other items in the income statement are shown below the operating profit. Exchange rate differences are included in the operating profit if they arise from items related to operations. Otherwise, they are recognised in financial items.

Borrowing costs

Borrowing costs are expensed as incurred. Loan-related transaction expenses clearly associated with a specific loan are included in the loan's original amortised cost and recognised as interest expenses using the effective interest method.

Income taxes

Income tax expense shown in the consolidated income statement includes Group companies' current income tax calculated on their profit for the financial year using the tax rate effective on the balance sheet date based on local tax regulations, as well as any tax adjustments for previous financial years and changes in deferred tax.

Deferred taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases, with certain exceptions such as consolidated goodwill. The largest temporary differences arise from depreciation of property, plant and equipment, defined benefit pension plans, unused tax losses and fair value adjustments related to acquisitions.

The tax rate enacted by the balance sheet date is used to determine deferred tax. A deferred tax asset is recognised to the extent that it appears probable that future taxable profit will be available against which the temporary difference can be utilised.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree on the date of acquisition.

Instead of amortisation, goodwill is annually tested for impairment. For this purpose, goodwill is allocated to cash generating units (CGUs), or in the case of an associated company goodwill is included in the associated company's carrying amount. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Research and development expenditure

Research and development costs are primarily expensed as incurred. Only development costs arising from new significant or substantially improved products and enterprise resource planning systems will be capitalised as intangible assets, and only if they are technically and commercially feasible and the Group has sufficient resources to complete the intangible asset and it is probable that the created asset will generate future economic benefits. The majority of Group development costs do not fulfil the criteria set for IAS 38 Intangible Assets.

Group enterprise resource planning costs are capitalised under development projects. Capitalised development costs are recognised as intangible assets and amortised over the assets' useful lives, not exceeding five years.

Other intangible assets

A purchased intangible asset is initially recognised at cost. Intangible assets purchased through business combinations, such as intangible assets related to customers, marketing and technology, are carried at fair value on the date of acquisition. Intangible rights mainly comprise software licences and customer portfolios, trademarks and leases acquired through business combinations. The Group's other intangible assets have definite economic lives, over which period they are amortised. The expected useful lives are below:

Software licences	3–5 years
Customer portfolios	5–10 years
Trademarks	5 years
Leases	4 years

Property, plant and equipment

Following initial recognition, property, plant and equipment (PPE) are carried at cost less any accumulated depreciation and impairment losses.

PPE are depreciated on a straight-line basis over their expected useful lives. Land and water are not subject to depreciation. The expected useful lives of PPE are as follows:

Production buildings	8–25 years
Office buildings	25–40 years
Structures	15 years
Machinery and equipment	3–13 years
Other tangible assets	3–10 years

If an asset under PPE constitutes several items with differing useful lives, each of them is accounted for as a separate asset. In such a case, the cost of replacing the item is recognised as an asset. Otherwise, costs arising at a later date, such as modernisation and renovation project costs, are capitalised if it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Normal repair, maintenance and servicing costs are expensed as incurred. Assets' useful lives are reassessed on the balance sheet date and, if necessary, adjusted to meet the requirements of changed circumstances.

When an asset's carrying amount is expected to be recovered principally through a sale rather than through continuing use, it is classified as held for sale. An asset is classified as held for sale if its sale is highly probable and it is available and ready for immediate sale. Furthermore, the company's management must be committed to a plan to sell the asset within 12 months of classification as held for sale. Assets classified as held for sale are not subject to depreciation.

Investment property

Investment property refers to land or buildings, or part thereof, held for rental income or capital appreciation. It is measured at cost less accumulated depreciation and impairment losses. Buildings under investment property are depreciated on a straight-line basis over their expected useful lives, 30–40 years. Land included in investment property is not depreciated.

Leases

Leases on property, plant and equipment, in which substantially all risks and rewards of ownership transfer to the lessee, are classified as finance leases. Leases in which risks and rewards remain with the lessor are classified as operating leases.

The Group as lessee

Assets under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Lease obligations are included in interest-bearing liabilities. Leased assets are depreciated over their useful lives or shorter lease term. Finance lease payments are apportioned between interest expenses and reduction of the lease liability.

Operating lease payments are expensed in the income statement on a straight-line basis over the lease term.

The Group as lessor

Leases, for which the Group acts as a lessor and substantially all risks and rewards of ownership have transferred to the lessee, are accounted for as finance leases and recognised as receivables at the present value of investment. Finance lease income is recognised in such a way that the residual net investment generates the same return over the lease term.

Assets leased under the operating lease are included in property, plant and equipment and depreciated over their useful lives in the same way as for similar assets in own use. Lease income is recorded on a straight-line basis in the income statement over the lease term.

Inventories

Subsequent to initial recognition, inventories are measured at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets and liabilities

Financial assets are initially recognised at fair value. Their subsequent measurement depends on their classification. The Group's financial assets are classified according to IAS 39: financial assets recognised at fair value through profit or loss held-for-trading and financial assets measured at fair value (fair value option), held-to-maturity investments, loans and receivables and available-for-sale financial assets.

Classification of a financial asset is determined by the purpose for which the asset is purchased at the time of its original purchase. Transaction costs are included in the financial asset's original carrying amount, in the case of the financial asset is not measured at fair value through profit of loss. Purchases and sales of financial assets are recognised or derecognised using trade date accounting,

The Group derecognises a financial asset when its contractual right to the cash flows from the asset has expired or is forfeited, or it has transferred substantially all risks and rewards outside the Group.

Financial assets recognised through profit or loss include held-for-trading financial assets. Bonds and money-market instruments are measured at fair value on the balance sheet date, based on price quotes on the market, or bid quotes on the balance sheet date. Held-for-trading financial assets are included in current assets. Any unrealised and realised gains or losses resulting from fair value changes are recognised in the income statement during the period in which they occur.

Financial assets recognised at fair value through profit or loss include derivative contracts to which hedge accounting under IAS 39 does not apply. The fair value of derivatives is determined on the basis of the market value of similar derivatives or generally accepted valuation models. Since the Group does not apply hedge accounting, any change in the derivative contracts' fair value is recognised under financial items in the income statement. The fair value of currency forward contracts equals the market quote on the balance sheet date while that of interest-rate swaps equals the present value of future interest cash flows.

Held-to-maturity investments are financial assets with fixed payments and fixed maturity, which an entity intends to hold to maturity. Included in non-current assets, held-to-maturity investments are measured at amortised cost using the effective interest-rate method. The Group has no held-to-maturity investments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for trading. Included in both current and non-current assets, loans and receivables are measured at amortised cost using the effective interest-rate method. Trade and other receivables are recognised at cost, corresponding to their fair value and recorded under current assets.

Available-for-sale financial assets are non-derivatives designated in this asset category or not classified in any of the other asset categories. They are measured at fair value on the balance sheet date. Changes in the available-for-sale financial assets' fair value are recognised in the fair value reserve under equity, taking account of the related tax effect. Changes in the fair value will be transferred from equity to the income statement if the investment is sold or its value has fallen in such a way that an impairment loss must be recognised on it. Available-for-sale investments include equity fund investments measured at fair value on the balance sheet date notified by the fund manager.

Non-derivative financial liabilities are initially recognised based on the consideration received. Transaction costs are included in the initial carrying amount of financial liabilities. Subsequently, financial liabilities are measured at amortised cost using the effective interest-rate method. The initial carrying amount of trade and other current liabilities equals their fair value, since the effect of discounting is not substantial in view of the maturity of liabilities. Financial liabilities are included in both non-current and current liabilities.

Provisions

A provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made. Provisions for restructuring are recognised when the related, detailed and official plan has been approved and disclosed.

Critical accounting estimates and judgements in applying accounting policies

Preparing the consolidated financial statements in compliance with IFRS requires that Group management make certain estimates and judgements in applying the accounting policies. These estimates and assumptions are based on the management's best knowledge of current events and actions, but the actuals may differ from these estimates and assumptions as stated in the financial statements.

Goodwill is annually tested for any impairment. The recoverable amounts of cash-generating units (CGUs) are based on calculations of value in use, whose preparation requires estimates and assumptions. During the year, the management also assesses whether there is an indication of an impaired asset.

In the context of business combinations, the acquired entity's assets are measured at fair value. Allocating the total purchase cost to intangible assets and goodwill is partly based on an estimate. Determining assets' depreciation/amortisation periods is based on estimates of the assets' useful lives.

The carrying amounts of property, plant and equipment are based on the cost of acquisition and the related asset depreciation according to the asset's useful life. The assets' useful lives and their adjustment to meet the requirements of changed circumstances are based on estimates and assumptions.

Impairment test

An impairment test will be performed on capital which is removed during its economic lifetime, if there is any indication that its balance sheet value exceeds the recoverable amount. However, goodwill is subject to an annual impairment test and factors which have an effect on testing are reviewed during the financial period. For this purpose, goodwill is allocated to cash generating units (CGUs), i.e. to the lowest level for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets. Itella Group's CGUs are listed in Note 12.

The recoverable amount of CGUs is based on calculations on value in use. Value in use refers to estimated future net cash flows from an asset or a CGU, discounted to their present value. Any resulting impairment loss is recognised in the income statement if the asset's carrying amount exceeds its estimated recoverable amount. The impairment loss of a CGU is first allocated in order to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the unit's other assets on a pro rata basis.

Impairment losses of tangible assets previously charged to expenses may be reversed only if circumstances have changed and the asset's recoverable amount has changed from the date of impairment loss recognition. An impairment loss may only be reversed to the extent the reversal does not increase the asset's carrying amount above the carrying amount that would have been determined for the asset had no impairment loss been recognised. Impairment losses for goodwill may not be reversed.

Applying new or amended IFRSs

IFRS 8 Operating Segments (effective for financial periods beginning on or after 1 January 2009).

IFRS 8 will replace IAS 14 Segment Reporting. According to this new standard, segment information must be reported on the same basis as used internally for evaluating operating segment performance and deciding on how to allocate resources to operating segments. The Group expects that the adoption of IFRS 8 will not fundamentally change its current reported segment information, since the Group applies the same principles in external and internal reporting when disclosing segment information.

IFRS 3 Business Combinations (effective for financial periods beginning on or after 1 July 2009).

The revised IFRS 3 will change, accounting for goodwill in the context of acquisitions. The Group expects that these changes will have no material effect on the consolidated financial statements. The revised standard has not yet been accepted for application in the EU.

IAS 27 Consolidated and Separate Financial Statements (effective for financial periods beginning on or after 1 July 2009).

This standard has been altered to correspond to the amended IFRS 3. The revised standard has not yet been accepted for application in the EU.

IAS 1 Presentation of Financial Statements (effective for financial periods beginning on or after 1 January 2009).

In accordance with the amended standard, the financial statements will include 'Comprehensive Statement of Income', presenting all non-owner changes in equity. The Group expects that these changes will have no material effect on the consolidated financial statements.

IAS 23 Current liabilities (in force 1 January 2009 or thereafter from the start of a relevant fiscal period).

According to the new standards, the current liabilities expenditure forms part of the acquisition cost of the concerned capital. The Group is of the view that these changes will not have any significant effects on the Group financial statement.

The Group is of the view that the new or amended standards taking effect in 2009 will have no material effect on the consolidated financial statements. The Group will apply all of the above mentioned standards when they entered into effect.

Notes to the Consolidated Financial Statements

1. Segment information

Business segments
Itella Group uses business segments as its primary segment reporting format comprising the following three business groups: Itella Mail Communication, Itella Information and Itella Logistics and other operations. Other operations include centralised Group functions supporting the business and investment properties. Inter-segment sales are based on market prices. Segment assets and liabilities include operating items, which , on a reasonable basis, can be allocated to the segment. Unallocated items include tax and financial items, among others, as well as corporate items.

Itella Mail Communication offers multi-channel delivery services and customer relationship marketing solutions which enable organisations to reach their customers. It also provides the daily mail services essential to Finnish society. Itella Mail Communication mainly operates in Finland.

Itella Information provides organisations with outsourcing solutions for invoicing, financial mangement and digitisation. Itella Information operates in eleven countries.

Itella Information provides solutions for land, sea, and air transportation, parcel and express delivery, warehousing and other contract logistics. It operates in eight countries.

Geographical segments:
Itella Group's secondary reporting format applies to the following four geographical segments: Finland, Rest of Scandinavia, Baltic Countries and Russia and Other countries. Segment net sales are determined by the geographical location of the Group's customer. Assets and capital expenditure are presented according to the assets' geographical location.

EUR million	Itella Mail Communication	Itella Information	Itella Logistics	Other operations	Unallocated	Eliminations	Group total
2008							
External sales	889.6	240.0	809.3	14.0			1,952.9
Inter-segment sales	28.5	7.1	4.0	6.5		-46.0	-
Net sales	918.1	247.1	813.2	20.6		-46.0	1,952.9
Share of associated companies' results	-	0.0	0.0	0.2			0.2
Operating profit (EBIT)	86.2	9.6	-10.1	-16.6			69.0
Shares in associated companies	-	0.2	0.2	0.2	-		0.6
Other assets	345.9	208.2	689.9	25.8	332.4	-232.3	1,369.8
Total assets	345.9	208.4	690.1	26.0	332.4	-232.3	1,370.5
Total liabilities	122.7	166.2	284.5	7.4	209.4	-116.0	674.2
Capital expenditure	30.4	8.4	35.0	36.6			110.4
Depreciation and amortisation	14.1	9.8	26.0	19.0			68.9
Impairment losses on goodwill and buildings	-	-	26.1	5.3			31.4
Personnel on average	19,491	1,781	6,860	31			28,163
2007							
External sales	867.0	216.6	613.3	13.8			1,710.6
Inter-segment sales	26.7	6.9	6.6	3.0		-43.2	-
Net sales	893.8	223.5	619.8	16.8		-43.2	1,710.6
Share of associated companies' results	-	0.1	-	0.2			0.3
Operating profit (EBIT)	88.9	5.4	22.2	-14.7			101.8
Shares in associated companies	-	0.1	0.1	1.7	-		1.9
Other assets	252.9	192.1	339.3	63.7	333.9	-64.7	1,117.2
Total assets	252.9	192.2	339.4	65.4	333.9	-64.7	1,119.1
Total liabilities	159.5	91.3	137.0	23.6	50.3	-74.9	386.7
Capital expenditure	19.6	8.7	34.0	9.7			71.9
Depreciation and amortisation	16.8	8.9	13.8	22.0			61.5
Personnel on average	19,745	1,658	4,185	35			25,623

Geographical segments

EUR million	Finland	Scandinavia	Baltic and Russia	Other countries	Unallocated items* and eliminations	Group total
2008						
Net sales	1,354.9	312.9	133.5	151.6		1,952.9
Total assets	1,260.5	94.9	304.1	79.6	-368.6	1,370.5
Capital expenditure	87.6	5.2	17.2	0.5		110.4
2007						
Net sales	1,264.8	298.9	11.6	135.3		1,710.6
Total assets	864.2	112.9	11.0	42.9	88.1	1,119.1
Capital expenditure	47.0	16.5	6.2	2.2		71.9

**) The unallocated items of geographical segments include consolidated goodwill, cash and cash equivalents and available-for-sale financial assets.*

2. Acquisitions and divestments

Acquired business activities and reorganisations in 2008

The Russian logistics group NLC (National Logistic Company) was acquired on 1 August 2008. The NLC subgroup includes 18 companies which employ about 6,000 employees. Itella acquired 90% of the shares of the NLC subgroup. Minority shareholders will operate until the end of 2010, holding 10% of the shares. The acquisition of the 10 per cent minority share will increase the total purchase price by about EUR 30 million. The group is obligated to acquire the minority shares, and for this reason the shares have not been separated in the consolidated balance.

The purchase price of NLC was paid in cash. The goodwill resulting from the combination of business activites lies in synergies based on the activities of the Russian logistics and those of Itella in other countries i.e. freight traffic.

The acquirees recorded net sales of EUR 83.7 million and profit of EUR -51.7 million during the period as a group company (including a EUR 26.1 million impairment loss). Itella's consolidated net sales would have been EUR 2,075.2 million and profit EUR 19.1 million if these acquirees' accounts had been included in the consolidated accounts since the beginning of the year.

Analysis of net assets acquired

EUR million	Carrying amounts before consolidation	Allocation of fair value	Fair value total
Effect on assets			
Intangible assets	2.0	44.3	46.3
Property, plant and equipment	137.8	134.4	272.3
Inventory	1.0	-	1.0
Deferred tax assets	2.8	-	2.8
Receivables	155.8	-	155.8
Cash and cash equivalents	2.3	-	2.3
Effect on assets	301.8	178.7	480.5

EUR million	Carrying amounts before consolidation	Allocation of fair value	Fair value total
Effect on liabilities			
Deferred tax liability	1.9	35.7	37.6
Non-current interest-bearing liabilities	66.7	-	66.7
Current interest-bearing liabilities	43.4	-	43.4
Trade payables and other liabilities	134.3	-	134.3
Effect on liabilities	246.4	35.7	282.1
Net assets acquired	55.4	143.0	198.4

Components of acquisition cost

EUR million	
Purchase price paid in cash	199.7
Purchase price owed	30.7
Direct costs of acquisition	3.3
Total cost of acquisition	233.7
Fair value of net assets acquired	198.4
Goodwill	35.3

Effect of acquisition on cash flow

EUR million	
Purchase price paid in cash	-199.7
Direct costs of acquisition	-3.3
Cash and cash equivalents of the acquired subsidiary	2.3
Cash flow	-200.7

In addition, the Group acquired the following: on 1 February 2008 Itella Corporation purchased DH Tools Oy which is specialised in marketing services and has 16 employees. Itella Information in Poland established a new subsidiary Itella Information sp. z o.o which began operations on 1 May 2008. The business activities the Group acquired from BusinessPoint S.A. were initiated in January. On 1 April 2008 Itella Corporation acquired the international transport company Kauko Group Oy which employs 110 employees.

At the same time, the Swedish Hansar Logistics AB which is part of the Kauko Group was wholly acquired. It has 35 employees. On 1 October 2008 Itella Information acquired Tuottotieto Oy which specialices in financial management outsourcing, and offers expertise, operational models and organisational solutions for developing business activity. The company has about 100 employees. On 1 November Itella Mail Communication acquired a Russian customer relationship marketing and consulting company called Connexions which employs 30 people. On 17 December 2008 Itella Logistics AB acquired the real estate company Vindtunneln Holding AB.

The Norwegian Post and Itella Information established a joint venture in Norway combining the operations of Itella Information's Norwegian branch with the Norwegian Post's information logistics services. After the organisation of operations on 1 May 2008, Itella acquired 51% of Itella Information AS and 49% of the Norwegian Post.

The acquired businesses are shown as consolidated figures since none of them alone has relevance if treated as separate entities. All of the acquisitions were paid in cash. Share transactions resulted in 100 per cent share holdings and votes. Goodwill which arose from business combinations consists of combination-related synergies in the field of, for example, joint management and customer relationship management. In addition, the acquired business supplements Itella's existing range of products and services, generating value for both customers and shareholders.

The acquirees recorded net sales of EUR 64.6 million and profit of EUR -0.3 million during the period as a Group company. Itella's consolidated net sales would have been EUR 1,975.7 million and profit EUR 18.3 million if these acquirees' accounts had been included in the consolidated accounts from the beginning of the year.

Analysis of net assets acquired

EUR million	Carrying amounts before consolidation	Allocation of fair value	Fair value total
Effect on assets			
Intangible assets	1.0	10.6	11.6
Property, plant and equipment	11.4	5.7	17.1
Investments	0.1	-	0.1
Receivables	15.5	-	15.5
Cash and cash equivalents	1.3	-	1.3
Effect on assets	29.2	16.3	45.6
Effect on liabilities			
Deferred tax liability	0.0	3.6	3.6
Non-current interest-bearing liabilities	7.9	-	7.9
Current interest-bearing liabilities	1.9	-	1.9
Trade payables and other liabilities	12.4	-	12.4
Effect on liabilities	22.2	3.6	25.8
Net assets acquired	7.0	12.7	19.7

Components of acquisition cost

EUR million	
Purchase price paid in cash	36.3
Purchase price owed	0.1
Direct costs of acquisition	1.7
Total costs of acquisition	38.1
Fair value of net assets acquired	19.7
Goodwill	18.3

Effect of acquisition on cash flow

EUR million	
Purchase price paid in cash	-36.3
Direct costs of acquisition	-1.7
Cash and cash equivalents of the acquired subsidiaries	1.3
Cash flow	-36.7

Divestments in 2008

On June 1, 2008 Itella sold the 51% it owned of Danish CF Geologistics A/S. On December 17, 2008 Itella sold all of its capital stock in the Estonian subsidiary Scanrapid Eesti OÜ that forms part of the Kauko Group.

Acquisitions in 2007

During 2007, the Group acquired the following companies and businesses: on 1 January, Itella Information AB, a subsidiary within Information Logistics, acquired Infologistics Scandinavia AB; on 1 June, Itella Logistics acquired SHW Logistiikka Oy based in Finland. On 1 August, the parent company acquired PS Logistics AB based in Sweden. In addition, the parent company acquired Elisa's material transfer business on 1 July.

The acquired businesses are shown as consolidated figures, since none of them alone has relevance if treated as separate entities. All of the acquisitions were paid in cash. Share transactions resulted in 100 per cent shareholdings and votes. Goodwill which arose from business combinations consists of combination-related synergies in the field of, for example, joint management and customer relationship management. In addition, the acquired businesses supplement the existing range of products and services, generating added value for both customers and shareholders.

The acquirees recorded net sales of EUR 21.9 million and profit of EUR 0.4 million during the period as a Group company. Itella's consolidated net sales for 2007 would have been EUR 1,721.3 million and profit EUR 78.5 million, if these acquirees' accounts had been included in the consolidated accounts from early 2007.

Analysis of net assets acquired

EUR million	Carrying amounts before consolidation	Allocation of fair value	Fair value total
Effect on assets			
Intangible assets	0.5	6.5	7.0
Property, plant and equipment	1.2	0.4	1.6
Investments	0.2	0.0	0.2
Receivables	3.8	-	3.8
Cash and cash equivalents	0.6	-	0.6
Effect on assets	6.2	6.9	13.1

EUR million	Carrying amounts before consolidation	Allocation of fair value	Fair value total
Effect on liabilities			
Deferred tax liability	-	1.3	1.3
Non-current interest-bearing liabilities	0.4	-	0.4
Current interest-bearing liabilities	1.0	-	1.0
Trade payables and other liabilities	2.7	-	2.7
Effect on liabilities	4.2	1.3	5.5
Net assets acquired	2.0	5.6	7.6

Components of acquisition cost

EUR million	
Purchase price paid in cash	19.8
Purchase price owed	2.1
Direct costs of acquisition	0.4
Total costs of acquisition	22.3
Fair value of net assets acquired	7.6
Goodwill	14.7

Effect of acquisition on cash flow

EUR million	
Purchase price paid in cash	-19.8
Direct costs of acquisition	-0.4
Cash and cash equivalents of the acquired subsidiaries	0.6
Cash flow	-19.6

Divestments in 2007

On 1 September, Itella Mail Communication sold its Inhouse business to ISS Palvelut Oy.

3. Net sales

EUR million	2008	2007
Sales of services	1,924.9	1,681.9
Sales of goods	28.1	28.7
Net sales total	1,952.9	1,710.6

Sales of goods are mainly based on packaging materials and stationery and office supplies sold by post outlets.

4. Other operating income

EUR million	2008	2007
Gains on sale of property, plant and equipment	6.2	2.7
Rental income	5.1	3.2
Rents from investment property	0.2	0.7
Government grants	0.9	1.3
Other operating income	1.5	2.4
Total	13.9	10.4

The capital gain on the sale of the associated company was recorded as a EUR 5.4 million non-recurring performance. Rental income consists mainly of rents for the Group's buildings and flats received from external parties.

5. Materials and services

EUR million	2008	2007
Purchases during the financial period	82.6	57.8
Change in inventories	0.8	0.4
External services	510.7	434.8
Total	594.1	492.9

6. Employee benefits

EUR million	2008	2007
Wages and salaries	709.0	647.6
Pensions - defined contribution plans	109.5	97.0
Pensions - defined benefit plans	-0.4	0.3
Other social security expenses	55.7	49.4
Total	873.8	794.2

Employee benefits

More detailed information on pensions can be found in Note 24.

Employee incentive scheme:

All employees are involved in the Group's bonus scheme. Aimed at motivating employees to meet long-term targets and enhancing interest in the Group's financial success, in Finland bonuses, which are determined by Itella's profit, are annually transferred to the Employee Fund. On the basis of its 2008 profits, Itella earmarked EUR 2.9 million (EUR 6.0 million in 2007) in bonuses payable into its Employee Fund.

The Group's experts and supervisors/managers are involved in the performance-based bonus scheme, based on financial indicators specific to the Group, the unit and the team and on personal or team-specific performance indicators. Itella annually confirms threshold values for these indicators used to determine bonus payments.

7. Research and development costs

EUR million	2008	2007
Research and development costs charged to expenses	22.6	22.8
Amortisation on development costs	3.9	7.8
Total	26.6	30.5

8. Depreciation, amortisation and impairment losses

EUR million	2008	2007
Amortisation on intangible assets		
Development costs	3.9	7.8
Intangible rights	14.2	10.0
Total	18.1	17.8
Impairment losses on intangible assets		
Impairment losses on goodwill	26.1	-
Amortisation on tangible assets		
Buildings and structures	13.5	10.0
Investment properties	0.1	0.1
Machinery and equipment	27.0	21.8
Assets leased under finance lease	9.5	10.9
Other tangible assets	0.7	0.8
Total	50.7	43.7
Impairment losses on tangible assets		
Impairment losses on buildings	5.3	-
Total depreciation, amortisation and impairment losses	100.3	61.5

9. Other operating expenses

EUR million	2008	2007
Lease expenses	93.1	69.0
Voluntary employee expenses	20.6	19.2
Losses on sale of property, plant and equipment	1.5	1.8
Other expenses	214.6	180.9
Total	329.8	270.9
Auditors' remuneration		
Audit	0.7	0.4
Reports and statements	0.0	0.0
Tax counseling	0.1	0.1
Other services	0.2	0.1
Total	1.1	0.6

10. Financial income and expenses

EUR million	2008	2007
Financial income		
Dividend income	0.0	-
Interest income, financial assets held-for-trading	10.7	8.9
Interest income from loans and other receivables	1.9	1.4
Interest income from available-for-sale financial assets	0.7	0.9
Interest income from subordinated loan receivables from associated companies	1.2	0.1
Other interest income	-	0.1
Other financial income	0.7	0.1
Exchange rate gains	38.0	0.8
Fair value changes of currency forward contracts	4.9	0.2
Unrealised gains from measurement at fair value	-	1.1
Total	58.0	13.5

EUR million	2008	2007
Financial expenses		
Interest expenses from financial liabilities at amortised cost	10.1	2.7
Other financial expenses	0.7	0.4
Exchange rate losses	63.7	1.6
Capital losses on sale of financial assets at fair value through profit or loss	0.3	0.7
Fair value changes of currency forward contracts	0.1	0.0
Unrealised losses on measurement at fair value	5.6	0.4
Total	80.4	5.8

11. Income tax expense

EUR million	2008	2007
Current tax	30.0	35.8
Tax from previous years	0.1	-0.9
Deferred tax	-2.2	-3.9
Total tax charge	27.9	31.0
Reconciliation of tax charge at Finnish tax rate (26%)		
Profit or loss before tax and associate's results	46.3	109.2
Income tax at Parent Company's tax rate	12.0	28.4
Effect of foreign subsidiaries' deviating tax rates	1.6	-0.5
Effect of non-deductible impairment losses	8.2	-
Non-deductible expenses and other differences	2.7	0.4
Tax-exempt income	-2.4	-
Tax from previous years	0.1	-0.9
Effect of changes of tax rates on deferred tax	-0.5	-
Unrecognised deferred tax asset on losses	3.4	4.0
Changes in deferred tax receivables accrued in previous years	2.9	-
Other adjustments	-	-0.4
Tax charge in the consolidated income statement	27.9	31.0
Effective tax rate	60.0%	28.3%

12. Intangible assets

EUR million	Goodwill	Development costs	Intangible rights	Advances paid and constr. in progress	Total
2008					
Cost on 1 Jan	152.7	27.9	100.6	0.2	281.3
Translation differences	-3.7	-	-1.9	-	-5.5
Company acquisitions	54.9	0.0	52.3	0.1	107.4
Additions	-	-	7.5	2.9	10.4
Disposals	-1.0	-	-5.9	-0.8	-7.7
Transfers between items	-	-	0.4	-	0.4
Cost on 31 Dec	203.0	27.9	153.1	2.4	386.4
Accumulated amortisation and impairment losses 1 Jan	-1.9	-21.4	-63.8	-	-87.2
Translation differences	-	-	1.1	-	1.1
Amortisation for the financial period	-	-3.9	-14.2	-	-18.1
Impairment losses	-26.1	-	-	-	-26.1
Accumulated amortisation and impairment losses on disposals and transfers	-	-	4.2	-	4.2
Accumulated amortisation and impairment losses 31 Dec	-28.1	-25.4	-72.8	-	-126.2
Carrying amount on 1 Jan 2008	150.7	6.4	36.8	0.2	194.2
Carrying amount on 31 Dec 2008	174.9	2.5	80.3	2.4	260.2
2007					
Cost on 1 Jan	141.9	27.9	92.5	1.1	263.3
Translation differences	-0.5	-	-0.3	-	-0.7
Company acquisitions	14.6	-	5.1	-	19.7
Additions	-	-	4.2	0.2	4.4
Disposals	-3.4	-	-0.9	-1.1	-5.3
Cost on 31 Dec	152.7	27.9	100.6	0.2	281.3
Accumulated amortisation and impairment losses 1 Jan	-1.9	-13.7	-54.6	-	-70.2
Translation differences	-	-	0.3	-	0.3
Amortisation for the financial period	-	-7.8	-10.0	-	-17.8
Accumulated amortisation on disposals and transfers	-	-	0.5	-	0.5
Accumulated amortisation and impairment losses 31 Dec	-1.9	-21.4	-63.8	-	-87.2
Carrying amount on 1 Jan 2007	140.0	14.2	37.8	1.1	193.1
Carrying amount on 31 Dec 2007	150.7	6.4	36.8	0.2	194.2

Impairment test on goodwill

The following is a representation of goodwill which is focused on units that produce cash flow (after the recognition of depreciation):

EUR million	2 008	2 007
Itella Mail Communication:		
Customer Relationship Marketing business unit	2.4	0.7
Delivery Services business unit	6.6	6.6
Itella Information	80.8	76.9
Itella Logistics:		
Freight and Forwarding business unit	58.8	50.8
Contract Logistics business unit in Finland	15.7	15.8
Russian business activities (NLC group)	10.7	-
Total	174.9	150.7

During the fourth quarter, the Group tested each of its cash generating units with goodwill. Itella group does not possess other intangible assets that have an unlimited useful life.

Itella Information units were tested as a whole in 2008 instead of by geographical area. This is due to a change in 2007 in the guiding principles for business activities and the organisation.

The impairment test is performed on a cash flow basis by determining the present value of the projected cash flows for each cash generating unit specified for the Group. The value-in-use is calculated according to the projected discount cash flow. Value-in-use projections are performed for a five-year period. Cash flow projections are based on strategic plans, in line with the current business structure, approved by the management, and assumptions applied in the plans about the development of the business environment. Estimates of total market growth in the long term, market positions and the level of profitability affect five-year cash flow projections as key assumptions. These assumptions are consistent with external sources of information. Investments are expected to be ordinary replacement investments. The exchange rates used were euros quoted on the date of the related tests.

Terminal value beyond five years was based on a moderate growth rate of -1%-+4.75%. Each cash generating unit's features have been taken into account in assessment.

The discount rate used in the calculation is based on the Group's weighted average capital cost, in view of the risks associated with each operating country and business. In the case of tested units whose purchase price was largely made up of real estate, as in the acquisition of the NLC group, the discount rate used for the real estate business transaction is the return yield of real estate investors. In 2008 the discount rate before taxes used ranged in cash generating units between 9.1%-15.3%.

As a result of the impairment test, the Russian Logistics (NLC group) value-in-use fell below the carrying amount at the time of testing which resulted in an impairment loss of EUR 26.1 million. The impairment loss is the result of a change in the discount rate after the spot date and the projected negative effect of the global economic crisis on demand for logistics services in Russia over the next 3 years.

The other cash generating units value-in-use exceeded the carrying amount. The chart below displays the central outcomes and parameters used in testing.

		Value-in-use exceeds carrying amount	EBIT margin average 5 year %	Terminal growth percentage per year	Discount rate %
Itella Mail Communication: Customer Relationship Marketing business unit		over 50%	15.5	0.0	9.1
Itella Mail Communication: Delivery Services business unit		over 50%	7.0	-1.0	9.1
Itella Information		over 50%	5.9	3.0	10.6
Itella Logistics: Freight and Forwarding business unit		20-50%	2.5	2.0	9.8
Itella Logistics: Contract Logistics business unit:					
In Finland		over 50%	7.2	2.0	9.8
NLC group	Logistics business operations	does not exceed	13.1*	4.75	15.3
	Real estate business operations			4.0	10.4

reflects logistic operations in their entirety

According to management estimates, the possible change in key assumptions in Customer Relationship Marketing, Delivery Services, Itella Information and Contract Logistics units will not lead to a situation in which the carrying amount exceeds the value in use.

A sensitivity analysis was performed on Freight and Forwarding to determine the key parameters that within which the carrying amount would equal the accumulated cash flow (value-in-use). The parameters of the analysis were EBIT margin, discount rate and terminal growth. The analysis was carried out by changing the values of single parameters while leaving the others constant. The chart below displays the limiting values of the parameters within which the carrying amount and value-in-use values are equal.

	EBIT margin average 5 year %	Terminal growth percentage per year	Discount rate %
Itella Logistics: Freight and Forwarding business unit	1.7	-3.5	13.0

Should the discount rate rise by one percentage point, an impairment loss of EUR 67.2 million on the part of NLC Group should be recorded. If profitability in the Russian business activities weakens from the forecast so that the profitability margin declines by one percentage point, an impairment loss of EUR 57.8 million should be recorded.

13. Investment property

EUR million	2008	2007
Cost 1 Jan	2.1	7.6
Additions	-	1.2
Disposals	-	-6.7
Transfers between items	5.6	-
Cost on 31 Dec	7.8	2.1
Accumulated deprec. and impairment losses 1 Jan	0.0	-3.8
Accumulated depreciation on disposals	-	3.9
Depreciation for the financial period	-0.1	-0.1
Transfers between items	-3,0	-
Accumulated depreciation and impairment losses 31 Dec	-3.1	0.0
Carrying amount on 1 Jan	2.1	3.9
Carrying amount on 31 Dec	4.7	2.1

In 2008, one property that had been used in-house use became an investment property as its use changed.

On 31 December 2008, the fair value of investment property totalled EUR 5.2 million (EUR 2.6 million on 31 December 2007). Fair values are primarily measured based on an external estate agent's appraisal or, if this appraisal is not available, using the discounted cash flow method. In 2008, rental income from investment property totalled

EUR 0.2 million (EUR 0.8 million in 2007) and maintenance charges EUR 0.0 million (EUR 0.3 million in 2007).

The cadastral authority determines the maximum value of the landed property of Kiinteistö Oy Kirjekyyhky under investment property. Its carrying amount does not exceed the maximum.

14. Property, plant and equipment

EUR million	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and constr. in progress	Total
2008						
Cost on 1 Jan	46.0	297.5	321.9	10.9	23.2	699.6
Translation differences	-	-1.5	-2.1	-1.0	-0.1	-4.7
Company acquisitions	35.7	176.8	57.0	0.6	15.4	285.4
Additions	1.6	19.7	29.6	0.9	82.3	134.2
Disposals	-0.5	-9.3	-19.9	-0.5	-33.4	-63.5
Transfers between items	-	-6.3	2.4	-2.0	-	-6.0
Cost on 31 Dec	82.8	476.9	388.8	9.0	87.5	1,045.0
Accumulated depreciation and impairment losses 1 Jan	-	-97.7	-233.9	-6.2	-	-337.9
Translation differences	-	0.0	2.0	1.0	-	3.0
Accumulated depreciation on company acquisitions	-	-7.7	-21.0	0.0	-	-28.7
Depreciation for the financial period	-	-13.5	-36.5	-0.7	-	-50.7
Accumulated depreciation on disposals and transfers	-	5.0	17.8	1.7	-	24.6
Accumulated depreciation and impairment losses on 31 Dec	-	-113.8	-271.6	-4.3	-	-389.7
Carrying amount on 1 Jan 2008	46.0	199.8	88.0	4.7	23.2	361.6
Carrying amount on 31 Dec 2008	82.8	363.1	117.2	4.7	87.5	655.3
2007						
Cost on 1 Jan	42.0	298.4	311.9	10.5	5.4	668.3
Translation differences	-	0.1	-1.6	0.1	0.0	-1.4
Company acquisitions	-	-	1.6	0.6	-	2.2
Additions	5.7	10.8	32.2	0.8	28.6	78.0
Disposals	-1.8	-10.7	-21.9	-1.0	-10.0	-45.4
Transfers between items	0.0	-1.2	-0.2	0.0	-0.7	-2.1
Cost on 31 Dec	46.0	297.5	321.9	10.9	23.2	699.6
Accumulated depreciation and impairment losses 1 Jan	-	-92.8	-222.3	-6.2	-	-321.3
Translation differences	-	0.0	1.7	-0.1	-	1.6
Accumulated depreciation on company acquisitions	-	-	-	-0.1	-	-0.1
Depreciation for the financial period	-	-10.0	-32.8	-0.8	-	-43.6
Accumulated depreciation on disposals and transfers	-	5.1	19.5	1.0	-	25.5
Accumulated depreciation and impairment losses on 31 Dec	-	-97.7	-233.9	-6.2	-	-337.9
Carrying amount on Jan 2007	42.0	205.6	89.6	4.4	5.4	347.0
Carrying amount on 31 Dec 2007	46.0	199.8	88.0	4.7	23.2	361.6

Property, plant and equipment include the following assets leased under finance lease:

EUR million	Machinery and equipment
2008	
Cost on 31 Dec	76.0
Accumulated depreciation 31 Dec	-51.0
Carrying amount on 31 Dec	24.9
2007	
Cost 31 Dec	68.9
Accumulated depreciation 31 Dec	-42.4
Carrying amount on 31 Dec	26.5

In 2008, additions to assets leased under finance leases totalled EUR 0.6 million (EUR 6.3 million in 2007).

15. Associated companies

EUR million	2008	2007
Carrying amount on 1 Jan	1.9	1.3
Company acquisitions	0.2	-
Additions	-	1.3
Disposals	-1.7	-0.9
Share of associated companies' results	0.2	0.3
Shares in associated companies on 31 Dec	0.6	1.9

The associated companies' balance sheet value does not include goodwill.

The Group had no major associated companies in 2008.
Itella Corporation sold its take in Eliel Pysäköinti Oy on 1 July 2008.

EUR million	2008	2007
Receivables from associated companies		
Subordinated loan receivables	0.1	0.4
Non-current loan receivables	-	0.7
Trade receivables	0.7	0.3
Receivables from associated companies	0.8	1.4
Amounts owed to associated companies		
Trade payables	0.0	0.0
Transactions with associated companies		
Sales to associated companies	-	0.3
Interest income from loan receivables of associated companies	0.0	0.1
Purchases from associated companies	0.1	0.1

16. Carrying amounts of financial assets and liabilities by valuation category

EUR million	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying amounts of balance sheet items	Fair value	Note
2008							
Non-current financial assets							
Non-current receivables	-	1.5	-	-	1.5	1.5	18
Current financial assets							
Current receivables	5.2	208.9	-	-	214.1	214.1	21
Other financial assets	89.4	40.0	3.8	-	133.2	133.2	22
Carrying amount by valuation category	94.6	250.4	3.8	-	348.7	348.7	
Non-current financial liabilities							
Non-current interest-bearing liabilities	-	-	-	85.9	85.9	85.9	26
Current financial liabilities							
Current interest-bearing liabilities	-	-	-	146.4	146.4	146.4	26
Trade payables and other liabilities	0.2	-	-	74.4	74.7	74.7	27
Carrying amount by valuation category	0.2	-	-	306.7	306.9	306.9	

EUR million	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying amounts of balance sheet items	Fair value	Note
2007							
Non-current financial assets							
Non-current receivables	-	2.3	-	-	2.3	2.3	18
Current financial assets							
Current receivables	0.3	183.3	-	-	183.6	183.6	21
Other financial assets	268.4	29.2	5.3	-	302.9	302.9	22
Carrying amount by valuation category	268.7	214.8	5.3	-	488.8	488.8	
Non-current financial liabilities							
Non-current interest-bearing liabilities	-	-	-	22.4	22.4	22.4	26
Current financial liabilities							
Current interest-bearing liabilities	-	-	-	8.8	8.8	8.8	26
Trade payables and other liabilities	0.1	-	-	82.1	82.3	82.3	27
Carrying amount by valuation category	0.1	-	-	113.3	113.4	113.4	

17. Other non-current investments

EUR million	2008	2007
Cost on 1 Jan	1.4	1.8
Acquisition of subsidiaries	0.0	0.2
Additions	0.0	0.0
Disposals	-0.4	-0.5
Transfers between items	0.9	-0.1
Cost on 31 Dec	1.9	1.4
Accumulated impairment losses on 1 Jan	-1.3	-1.3
Impairment losses of financial period	-	-
Accumulated impairment losses 31 Dec	-1.3	-1.3
Carrying amount on 1 Jan	0.1	0.5
Carrying amount on 31 Dec	0.6	0.1

18. Non-current receivables

EUR million	2008	2007
Loans and other receivables		
Finance lease receivables	0.6	0.6
Loan receivables from associated companies	-	0.7
Loan receivables from others	0.9	0.9
Total	1.5	2.3
Subordinated loan receivables from associated companies	0.1	0.4
Other receivables	5.8	1.0
Non-current receivables, total	7.4	3.7

Other receivables include receivables from housing corporations. The interest rate stood at 8 per cent.

Finance lease receivables: minimum lease income

EUR million	2008	2007
Not later than year	0.1	0.1
Later than 1 year and not later than 5 years	0.4	0.4
Later than 5 years	0.4	0.5
Minimum lease income	0.8	0.9
Unearned income	-0.2	-0.2
Total	0.6	0.7

Maturity of finance lease receivables:

EUR million	2008	2007
Not later than 1 year	0.1	0.1
Later than 1 year and not later than 5 years	0.3	0.2
Later than 5 years	0.3	0.4
Total	0.6	0.7

The Group has leased out one property classified as a finance lease. On 31 December, finance lease receivables totalled EUR 0.6 million (EUR 0.7 million on 31 Dec 2007) and the interest rate 6 per cent. The property has been classified as finance lease, because the lease period is twenty years and the lease will expire in 2017. The lessee may terminate the lease only by paying the amount of the the remaining rents adjusted by the cost-of-living index.

19. Deferred tax assets and liabilities

Changes in deferred tax assets and liabilities in 2008 are as follows:

EUR million	1 Jan 2008	Translation difference	Acquired/ Divested subsidiaries	Recognised into income statement	Recognised into equity	31 Dec 2008
Deferred tax assets 2008						
Pension obligations	1.8	-	-	-0.1	-	1.7
Unused tax losses	3.1	-	-	-2.8	-	0.3
Finance leases	0.3	0.0	-	0.0	-	0.3
Other temporary differences	1.6	-0.6	2.5	1.6	-	5.1
Total	6.8	-0.6	2.5	-1.2	-	7.4
Deferred tax liabilities 2008						
Fair value measurement of PPE and						
intangible assets in acquisition	10.1	-	35.1	-2.6	-	42.5
Available-for-sale financial assets	0.5	-	-	-	-0.4	0.1
Accumulated depreciation in excess of plan	5.1	0.0	-	-0.7	-	4.4
Other temporary differences	2.1	-0.4	1.9	-0.1	-	3.5
Total	17.7	-0.4	37.0	-3.4	-0.4	50.5

Changes in deferred tax assets and liabilities in 2007 are as follows:

EUR million	1 Jan 2007	Translation difference	Acquired/ Divested subsidiaries	Recognised into income statement	Recognised into equity	31 Dec 2007
Deferred tax assets 2007						
Pension obligations	1.9	-	-	-0.1	-	1.8
Unused tax losses	2.9	-	-	0.1	-	3.1
Finance leases	0.3	-	-	0.0	-	0.3
Other temporary differences	1.1	-	-	0.5	-	1.6
Total	6.3	-	-	0.5	-	6.8
Deferred tax liabilities 2007						
Fair value measurement of PPE and						
intangible assets in acquisition	11.1	-0.2	1.5	-2.4	-	10.1
Available-for-sale financial assets	0.2	-	-	-	0.3	0.5
Accumulated depreciation in excess of plan	6.4	-	-	-1.3	-	5.1
Other temporary differences	1.8	-	-	0.3	-	2.1
Total	19.5	-0.2	1.5	-3.4	0.3	17.7

On 31 December 2008, the Group had unused tax losses for which it has not recognised deferred taxes of EUR 22.9 million (EUR 13.4 million in 2007), mainly arising from German businesses. The Group also had other temporary differences for which it has not recognised deferred tax assets of EUR 7.7 million (EUR 6.1 million in 2007).

20. Inventories

EUR million	2008	2007
Materials and supplies	1.3	0.9
Goods	5.6	5.0
Prepayments for inventories	0.2	0.4
Total	7.1	6.3

21. Current receivables

EUR million	2008	2007
Receivables recognised into alternative to fair value		
Receivables from derivative contracts	5.2	0.3
Loans and other receivables		
Finance lease receivables	0.1	0.1
Loan receivables	0.0	0.0
Trade receivables	208.8	183.3
Total	208.9	183.3
Other receivables	14.2	7.3
Accrued income and prepayments	57.2	47.6
Current receivables, total	285.4	238.5

The largest item under accrued income and prepayments includes EUR 29.3 million (EUR 25.7 million on 31 Dec 2007) in accrued terminal rate receivables from other Postal administrations. Items under other receivables include ordinary accruals of sales and prepaid expenses.

22. Oher financial assets

EUR million	2008	2007
Available-for-sale financial assets		
Other securities	3.8	5.3
Financial assets recognised at fair value through profit or loss		
Money market investments	9.5	167.3
Bonds	79.9	101.1
Total	89.4	268.4
Cash and bank	40.0	29.2
Cash and cash equivalents, total	129.4	297.6

Cash and bank comprise cash in hand held by Posti Shops and assets in the bank accounts of Group companies.

Cash and cash equivalents under the cash flow statement

EUR million	2008	2007
Cash and bank	40.0	29.2
Financial assets recognised at fair value through profit or loss	89.4	268.4
Total	129.4	297.6

23. Equity

Shares and shareholders

Itella Corporation's share capital on 31 Dec, EUR million	2008	2007
Total share capital	70	70

The Finnish State holds all of the shares totalling 40,000,000. Other reserves: based on the AGM's decision, assets were transferred from the share premium under restricted equity to an other reserve (contingency reserve) in 1998, when Finland PT Group demerged. This is a distributable reserve, in accordance with the Articles of Association. The change of fair value of available-for-sale financial assets is recognised in the fair value reserve.

24. Pension obligations

The Group applies several pension plans in different countries, managed according to the local regulations and practice effective in each country. Significant defined benefit pension plans comprise supplementary pension insurance in Finland and the German subsidiary's pension plan.

Defined benefit pension liabilities in the balance sheet:

EUR million	2008	2007
Present value of unfunded obligations	2.5	2.6
Present value of funded obligations	9.6	10.0
Fair value of plan assets	-8.3	-8.7
Deficit/Surplus	3.8	3.9
Unrecognised actuarial gains (+) / losses (-)	3.5	4.2
Unrecognised gains (+) / losses(-) resulting from past services	0.1	0.1
Net liability in the balance sheet	7.4	8.3

Defined benefit pension expenses in the income statement:

EUR million	2008	2007
Current service costs	0.4	0.8
Interest costs	0.6	0.6
Expected return on plan assets	-0.4	-0.4
Actuarial gains and losses	-0.7	-0.4
Past service costs	0.0	0.0
Losses (-)/gains (+) on curtailments	-0.2	-0.2
Total	-0.3	0.3

Return on the plan assets totalled EUR -0.3 million (EUR 0.9 million in 2007).

Changes in the pension obligation's present value

EUR million	2008	2007
Obligation at period-start	12.9	14.0
Current service costs	0.5	0.8
Interest costs	0.5	0.6
Past service costs	-	-
Curtailment	-0.5	-0.7
Paid benefits	-0.1	0.0
Actuarial gains and losses	-1.2	-1.7
Obligation at period-end	12.1	12.9

Changes in the plan assets' fair value

EUR million	2008	2007
Plan assets' fair value at period-start	8.7	8.2
Return on plan assets	0.4	0.4
Employer contributions	0.4	0.4
Curtailment	-0.5	-0.8
Actuarial gains and losses	-0.8	0.5
Plan assets' fair value at period-end	8.3	8.7

Figures on the pension plan

EUR million	2008	2007
Pension obligation's present value	12.1	12.9
Plan assets' fair value	8.3	8.7
Surplus (+)/ Deficit (–)	-3.8	-4.2
Experience adjustments arising on the plan liabilities	-0.6	-0.9
Experience adjustments arising on the plan assets	-0.8	0.5

Estimated contributions payable to the defined benefit plans will total EUR -0.5 million during the next financial period.

Material actuarial assumptions on the defined benefit plans:

	2008	2007
Discount rate	5.25-5.75	5.0-5.75
Expected return on plan assets	4.5-5.0	4.5-5.0
Future salary increase assumption	2.75-5.0	2.75-5.0
Future pension increase expectation	1.5-2.1	1.5-2.1

25. Provisions

EUR million	Restructuring provision	Other	Total
1 Jan 2008	3.4	1.0	4.4
Increase in provisions	0.7	0.0	0.7
Used provisions	-3.1	-1.0	-4.1
31 Dec 2008	1.0	0.0	1.0
1 Jan 2007	2.0	0.1	2.1
Increase in provisions	1.9	1.0	2.9
Used provisions	-0.4	-0.1	-0.5
31 Dec 2007	3.4	1.0	4.4

In 2008, restructuring provisions related to the reorganisation of the German and Swedish operations.

26. Interest-bearing liabilities

EUR million	Balance sheet values 2008	Fair values 2008	Balance sheet values 2007	Fair values 2007
Non-current				
Financial liabilities at amortised cost:				
Finance lease liabilities	15.7	15.7	19.0	19.0
Loans from financial institutions	70.2	70.2	3.3	3.3
Total	85,9	85.9	22.4	22.4
Current				
Financial liabilities at amortised cost:				
Finance lease liabilities	9.4	9.4	8.6	8.6
Commercial papers	82.9	82.9	-	-
Loans from financial institutions	54.1	54.1	0.2	0.2
Total	146,4	146.4	8.8	8.8

Finance lease liabilities: minimum lease payments

EUR million	2008	2007
Not later than 1 year	11.1	9.6
Later than 1 year and		
not later than 5 years	16.9	20.0
Later than 5 years	-	0.3
Minimum lease payments	28.0	30.0
Future accrued financial expenses	-2.9	-2.3
Total	25.1	27.6

Present value of minimum lease payments

EUR million	2008	2007
Not later than 1 year	9.4	8.6
Later than 1 year and		
not later than 5 years	15.7	18.7
Later than 5 years	-	0.3
Total	25.1	27.6

Itella Group has mainly leased transport equipment, IT equipment and franking machines under finance leases concluded on market terms and valid from 3–10 years.

27. Trade payables and other non-interest-bearing liabilities

Other non-current liabilities

EUR million	2008	2007
Other liabilities	32.9	1.7
Other accrued expenses and deferred income	2.6	1.9
Total	35.5	3.6

Other non-current, non-interest-bearing liabilities consist of estimated additional prices paid for corporate acquisition.

Current trade payables and other liabilities

EUR million	2008	2007
Financial liabilities alternative to fair value:		
Derivative contracts	0.2	0.1
Financial liabilities at amortised cost:		
Trade payables to others	74.4	82.1
Advances received	8.6	7.2
Accrued personnel expenses	155.2	130.5
Other accrued expenses and deferred income	40.1	44.3
Other liabilities	68.8	53.4
Current non-interest-bearing liabilities	347.3	317.8

The most significant item within other accrued expenses and deferred income includes estimated payables for terminal payments to other Postal administrations, totalling EUR 20.0 million on 31 December 2008 (EUR 22.8 million on 31 December 2007). The remaining items comprise accruals of ordinary expenses.

28. Operating leases

Maturity of minimum lease payments:

EUR million	2008	2007
Not later than 1 year	91.6	60.1
Later than 1 year and		
not later than 5 years	128.7	118.5
Later than 5 years	31.7	20.8
Total	252.0	199.4

Itella Group has leased e.g. premises, office equipment and vehicles. The lease period for office equipment and vehicles varies between 2 and 5 years and that for premises until 9 years.

Minimum lease payments :

EUR million	2008	2007
Not later than 1 year	2.1	2.0
Later than 1 year and		
not later than 5 years	3.5	2.1
Later than 5 years	3.1	2.1
Total	8.7	6.2

Itella Group leases out premises in its possession. The notice period of leases generally varies between 1 and 12 months. The lease of As Oy Kirjekyyhky's site will expire in 2050.

29. Pledges, commitments and other liabilities

EUR million	2008	2007
Pledges given on own behalf:		
Floating charges	0.2	0.3
Real estate mortgage	75.2	-
Chattel mortgage	18.1	-
Pledges	8.3	4.9
Total	101.8	5.2

The Group carries an environmental liability for cleaning a land area valued at EUR 18.6 million which will gradually be realised as the zoning plan is ratified.

30. Financial risk management

Since the 90% acquisition of the Russian parent company of NLC companies, NLC International Corporation, in August 2008 Itella Group's capital structure has changed. Simultaneously, interest and currency position increased significantly. NLC companies' currency and interest rate risk management has significantly differed with the financial risk management principles of Itella Group. IFRS 7 notes on 31 December 2008 are based on the situation when the balance sheets of NLC companies include USD, RUB and EUR denominated loans from financial institutions. During the integration process the financing and financial risk management of NLC companies will be integrated in line with the financial management principles of Itella Group.

Principles of risk management

The aim of financial risk management is to secure an adequate and competitive financial position for executing the Group's operative businesses and strategy and to mitigate the effects of market risks in Group's financial results, the balance sheet and cash flows. The Group aims to identify risk concentrations and hedge against them to the extent necessary. The Group's business involves financial risks, such as market, liquidity, credit and counterparty risks. For commodity risks there is no active tracing or use of derivative instruments.

Risk management organisation

As a general rule of thumb, risks are managed within the entities in which they arise. Business areas' sales organisations manage credit risks related to customer receivables. Group Treasury is responsible for the centralised management of financial risks in line with the financing guidelines approved by the Board of Directors. The aim is to maintain financial flexibility, identify risks and reduce financial risks involved in daily operations.

Market risks

Currency risk

The goal of currency risk management is to reduce the Group's currency risk to an optimal level as well as improve the transparency of profitability, controlling and predictability of financial results. The Group's balance is exposed to a translation risk in connection with the investments outside the eurozone. On the balance sheet date, the Group has not hedged against translation differences resulting from foreign subsidiaries' equity. The Group is exposed to currency risk in the shape of currency denominated loans, commitments, receivables and liabilities. At the balance sheet date, Itella Corporation's external currency forward contracts totaled EUR 102.7 million their nominal value, of which EUR 77.2 million is used to hedge the translation risk associated with foreign currency loans granted to Group companies. Loans granted by the parent company to Group companies are mainly denominated in subsidiaries' local currency. Therefore, subsidiaries do not carry a currency risk related to financing agreements. An exception to this is the external USD denominated loans of NLC companies acquired in the Autumn of 2008. The total amount of NLC companies' USD denominated loans on the balance sheet date was EUR 94.0 million. In addition, NLC Group companies had unhedged internal liabilities totaling EUR 62.2 million.

Derivative contracts are included in the currency position calculation, but hedge accounting under IFRS is not in use.

Major transaction positions on the balance sheet date

EUR million	NOK	SEK	RUB	EEK	USD
2008					
Trade receivables	1.0	0.2	-	-	10.8
Trade payables	-0.5	-0.4	-	-	-3.1
Loans to Group companies	15.5	-	31.4	2.0	22.2
Loans from Group companies	-	-	-	-	-59.0
Loans from financial institutions	-	28.8	-	-	-94.0
Derivatives	-12.8	-22.8	-17.8	-11.6	23.7
Open position	3.2	5.8	13.6	-9.6	-99.5
2007					
Trade receivables	-	-	-	-	-
Trade payables	-0.5	-0.4	-	-	
Loans to Group companies	20.3	16.1	-	4.1	-
Loans from Group companies	-	-	-	-4.0	-
Loans from financial institutions	-	-	-	-	-
Derivatives	-14.9	-14.1	-	-	-
Open position	4.9	1.6	-	0.1	-

The currency sensitivity analysis is based on the balance sheet items denominated in foreign currency other than each Group company's own functional currencies on the balance sheet date. The analysis includes only currency risks related to financial instruments. Calculated in this way, if the euro strengthens by ten per cent against all currencies on the balance sheet date, profit and equity before taxes will decrease by EUR -0.8 million (2007: EUR -0.1 million). In addition, separately calculated, the ten per cent strengthening of the US Dollar against the Russian Ruble on the balance sheet date would affect profit and equity before taxes by EUR -10.8 million (2007: EUR 0.0 million).

Derivative contracts

EUR million	2008	2007
Currency forward exchange contracts:		
Nominal value of underlying assets	102.7	81.2
Fair value	4.9	0.2

Interest rate risk

The Group is exposed to interest rate risks through its investments and interest bearing liabilities. The goal of interest rate risk management is to minimise financing costs and moderate the uncertainty that interest rate movements cause in the Group's profit and loss statement. On the other hand, the goal of interest rate risk management related to liquid funds is to minimise the effect of interest rate movements on the fair value of the funds. In addition to diversification, interest rate risks associated with interest-bearing receivables and liabilities can be hedged through interest rate swaps, interest rate options and forward rate agreements.

On the balance sheet date, the Group had interest-bearing liabilities of EUR 232.3 million (EUR 31.2 million in 2007) and interest-bearing receivables of EUR 129.4 (EUR 297.6 million in 2007). During the financial year, the Group did not use interest-rate derivative contracts.

Net debt according to interest rate fixing:

EUR million	under 1 year	1-5 years	over 5 years	Total
2008				
Interest-bearing receivables	-118.0	-9.9	-1.4	-129.4
Loans from financial institutions	124.1	0.2	-	124.3
Other interest-bearing liabilities	82.9	-	-	82.9
Finance lease liabilities	10.7	14.4	-	25.1
Total	99.7	4.7	-1.4	102.9
2007				
Interest-bearing receivables	-258.2	-38.0	-1.4	-297.6
Loans from financial institutions	0.2	3.4	-	3.6
Finance lease liabilities	8.6	18.7	0.3	27.6
Total	-249.4	-15.9	-1.1	-266.4

A one per cent change in interest rates at the end of the financial period would affect net financial items for the next 12 months EUR 1.4 million (EUR 1.7 million in 2007).

Liquidity risk

The liquidity and refinancing risk means that the Group's liquidity reserve is insufficient to cover the Group's commitments and investment possibilities or that the cost of the refinancing or additional financing need is exceptionally high. The Group places a considerable emphasis on accurate cash management and liquidity planning in order to minimise liquidity risks generated by large daily fluctuations in the Group's cash flows. In addition to cash and cash equivalents, the Group aims to secure sufficient financing in all circumstances using the following financial reserves:

- syndicated credit facility (committed) of EUR 200 million maturing in 2011
- commercial paper programs (non-committed) of EUR 100 million

On the balance sheet date, the Group had liquid funds and an unused committed credit facility of EUR 304.4 million (2007: EUR 497.6 million).

Maturity of liabilities

EUR million	2009	2010	2011	2012-	Total
2008					
Trade payables	7.4	-	-	-	74.4
Commercial papers	82.9	-	-	-	82.9
Loans from financial institutions	54.1	16.9	4.5	48.8	124.3
Finance lease liabilities	11.1	9.6	5.4	1.9	28.0
Total	222.5	26.5	9.9	50.7	309.6

EUR million	2008	2009	2010	2011	Total
2007					
Trade payables	82.1	-	-	-	82.1
Loans from financial institutions	0.2	1.7	0.5	1.1	3.6
Finance lease liabilities	8.6	7.5	6.0	5.5	27.6
Total	90.9	9.2	6.6	6.6	113.3

The NLC Group's loans from financial institutions amounting to EUR 96.7 million are secured liabilities. Real estate and property have been used to securitise. Finance lease liabilities are in fact secured liabilities since, in default of payment, rights to leased property transfer back to the lessor.

Credit and counterparty risk

Pursuant to authorisations given by the Board of Directors, the Group invests its liquid funds in debt instruments and bonds issued by companies, banks and states with a high credit rating, as well as bank deposits. Itella concludes derivative contracts only with banks and credit institutions with high capital adequacy. The financial year saw no financing-related credit losses.

Trade receivables are subject to only minor credit risk concentrations due to the Group's extensive customer base. The balance sheet value of trade receivables corresponds to the maximum amount of the credit risk associated with them. Credit losses recognised for 2008 came to EUR 0.9 million (EUR 1.5 million in 2007). The following table shows the breakdown of trade receivables.

Trade receivables by maturity

EUR million	2008	2007
Non-matured trade receivables	169.8	145.8
Trade receivables matured within 1-30 days	26.5	23.7
Trade receivables matured within 31-60 days	4.8	3.8
Trade receivables matured within 61-90 days	2.6	2.2
Trade receivables beyond 90 days	5.1	7.7
Total	208.8	183.3

Equity structure management

Group equity structure management aims to safeguard financing required by businesses and the Group's operating conditions in capital markets under all circumstances. Although the Group has no public credit rating issued by a credit rating agency, it seeks to maintain a capital structure that would justify a high credit rating (investment grade). The Board of Directors assesses the equity structure regularly while discussing strategic plans.

The Group monitors developments in its capital structure by measuring equity ratio and net gearing.

Equity	2008	2007
Interest-bearing liabilities	232.3	31.2
./. Cash and cash equivalents	129.4	297.6
= Net interest-bearing debt	102.9	-266.4
Interest-bearing liabilities and equity total	696.3	732.4
Equity ratio, %	51.1	65.9
Net gearing, %	14.8	-36.4

31. Related party transactions

Related parties comprise the Board of Directors, President & CEO and Itella Corporation's Management Board, mutual property companies and associated companies, as well as the Finnish State holding 100 per cent of Itella Corporation shares. Related party transactions refer to transactions conducted with the Finnish State's agencies or organisations with over 50 per cent holdings, applying to the ten largest customers or suppliers.

The Group's parent-company and subsidiary holdings are as follows:
The Parent company is Itella Corporation and the subsidiaries are presented on the list below:

Subsidiaries 31 Dec 2008	Group holdings, %	Country	Business Group
Asiakkuusmarkkinointi Oy	100	Finland	Itella Mail Communication
Jakelumarkkinat Oy	100	Finland	Itella Mail Communication
OOO Itella Connexions	100	Russia	Itella Mail Communication
Itella Information Oy	100	Finland	Itella Information
KOY Tampereen Kuoppamäentie 3 a	100	Finland	Itella Information
Capella AB	100	Sweden	Itella Information
Itella Information AB	100	Sweden	Itella Information
Itella Produktion AB	100	Sweden	Itella Information
Itella Information A/S	100	Denmark	Itella Information
Itella Information AS	51	Norway	Itella Information
Itella Holding GmbH	100	Germany	Itella Information
Itella Information GmbH	100	Germany	Itella Information
Itella Information AS	100	Estonia	Itella Information
A/S Itella Information	100	Latvia	Itella Information
UAB Itella Information	100	Lithuania	Itella Information
Itella Information sp. z.o.o.	100	Poland	Itella Information
Itella Information s.r.o.	100	Slovakia	Itella Information

Subsidiaries 31 Dec 2008	Group holdings, %	Country	Business Group
Tuottotieto Oy	100	Finland	Itella Information
TTI Partners Oy	100	Finland	Itella Information
Normittari Oy	100	Finland	Itella Information
AW-Store Oy	100	Finland	Itella Logistics
Oy Confidea Business Consulting Ltd	69.9	Finland	Itella Logistics
Global Mail FP Oy	100	Finland	Itella Logistics
Itella Logistics Oy	100	Finland	Itella Logistics
Logia Estonia OÜ	100	Estonia	Itella Logistics
Logia Software Oy	100	Finland	Itella Logistics
SHW Logistiikka Oy	100	Finland	Itella Logistics
Itella Logistics AB	100	Sweden	Itella Logistics
Itella Logistics Holding A/S	100	Denmark	Itella Logistics
Itella Logistics A/S	100	Denmark	Itella Logistics
Itella Logistics OÜ	100	Estonia	Itella Logistics
Itella Logistics SIA	100	Latvia	Itella Logistics
Itella Logistics UAB	100	Lithuania	Itella Logistics
Honold A/S	51	Denmark	Itella Logistics
KEC A/S	100	Denmark	Itella Logistics
KEC GmbH	100	Germany	Itella Logistics
KEC UAB	100	Lithuania	Itella Logistics
Mayfair Scandinavia ApS	100	Denmark	Itella Logistics
Spedition Dyhr Eftf A/S	60	Denmark	Itella Logistics
V.J. Brammer A/S	100	Denmark	Itella Logistics
Itella Logistics AS	100	Norway	Itella Logistics
Kauko Group Oy	100	Finland	Itella Logistics
Gateway Overseas Oy	100	Finland	Itella Logistics
Kauko Fur Oy	100	Finland	Itella Logistics
Kauko Latvia SIA	100	Latvia	Itella Logistics
OOO Itella	100	Russia	Itella Logistics
OOO Itella Logistics St.Petersburg	100	Russia	Itella Logistics
NLC International Corporation	90	British Virgin Islands	Itella Logistics
NLC Development Ltd	90	Cyprus	Itella Logistics
GSB Logistics Ltd	90	Cyprus	Itella Logistics
Centerfin Ltd	90	Cyprus	Itella Logistics
OOO LLC Rent-Center	90	Russia	Itella Logistics
OOO Terminal Lesnoy	90	Russia	Itella Logistics
OOO Kapstroimontazh	90	Russia	Itella Logistics
ZAO RED-Krekshino	90	Russia	Itella Logistics
OOO Terminal Sibir	90	Russia	Itella Logistics
OOO NLC Ekaterinburg	90	Russia	Itella Logistics
OOO NLC Samara	90	Russia	Itella Logistics
OOO NLC-Bataisk	90	Russia	Itella Logistics
OOO National Logistic Company	90	Russia	Itella Logistics
OOO NSC	90	Russia	Itella Logistics
OOO NLC-SPb	90	Russia	Itella Logistics
OOO NLC-Trans	90	Russia	Itella Logistics
OOO Complex Logistics Service	90	Russia	Itella Logistics
OOO Logistics Service Center	90	Russia	Itella Logistics
Vindtunneln Holding AB	100	Sweden	Itella Logistics
Itella IPS Oy	100	Finland	Other operations
KOY Kulmakeskus	100	Finland	Other operations
KOY Laitilan Postinkulma	100	Finland	Other operations
KOY Saarijärven Postitalo	100	Finland	Other operations
KOY Sahronmaa	55.8	Finland	Other operations
KOY Säästösaku	58.5	Finland	Other operations

Actual control over Honold A/S is based on equal representation on the Board in such a way that the Group's representative chairs the Board. In addition, the company is managed and administered through Itella Logistics Holding A/S.

Associated companies 31 Dec 2008	Group holdings , %	Country
Offentliga Dokument	50	Sweden
AS Eesti Elektron Post	49.14	Estonia
Porlogis-Transitos e Logistika Lda	35	Portugal

EUR million	2008	2007
Sales to related parties		
Associated companies	-	0.3
Owner	57.8	49.8
Purchases from related parties		
Associated companies	0.1	0.1
Owner	39.4	52.5
Trade receivables from related parties		
Associated companies	0.7	0.3
Owner	6.7	3.5
Trade payables to related parties		
Associated companies	0.0	0.0
Owner	1.0	5.7
Management remuneration		
Wages and salaries		
and other employee benefits	7.1	5.4
Pension defined benefit plans	0.5	0.4
Wages and salaries of management		
President and CEO	0.7	0.5
Executive Board	2.4	1.8
CEO's of subsidiaries	3.4	2.3
Board of Directors	0.5	0.7
Supervisory Board	0.1	0.1
Total	7.1	5.4

Management pension obligations: the pension arrangements of the President and CEO of the Parent Company are the same as those of Executive Board members. The retirement age of the members of Itella Corporation's Executive Board is 60, but the employer may postpone retirement until the age of 62. The agreed retirement age of Group companies' CEOs is 60-65.

Income Statement of the Parent Company, FAS

EUR million	Note	2008	2007
Net sales	1	**1,283.2**	1,224.6
Other operating income	2	**20.9**	20.6
Materials and services		**265.2**	249.7
Materials and consumables		**10.6**	10.2
Purchases during the financial period		**10.6**	10.0
Change in inventories		**0.0**	0.2
External services		**254.6**	239.5
Personnel expenses	3	**679.4**	646.7
Wages and salaries		**546.2**	523.2
Social security expenses		**133.2**	123.5
Pension expenses		**97.2**	85.1
Other social security expenses		**36.0**	38.4
Depreciation, amortisation and impairment losses		**24.5**	27.6
Depreciation and amortisation according to plan		**24.5**	27.6
Other operating expenses	4	**250.5**	230.1
Operating profit		**84.5**	91.1
Financial income and expenses	5	**-27.3**	-19.2
Income from Group companies		**0.0**	-
Income from other non-current investments		**6.2**	5.0
From Group companies		**4.3**	4.8
From others		**1.9**	0.2
Other interest and financial income		**28.8**	13.1
From Group companies		**1.8**	0.6
From others		**27.0**	12.6
Other interest and financial expenses		**-27.0**	-4.5
To Group companies		**-1.5**	-1.4
To others		**-25.5**	-3.1
Impairment losses on non-current assets		**-35.4**	-32.8
Profit before extraordinary items		**57.2**	71.9
Extraordinary items	6	**32.1**	25.9
Extraordinary income		**32.1**	25.9
Profit before appropriations and income tax		**89.2**	97.8
Appropriations		**0.5**	6.4
Increase (-) or decrease (+) in depreciation reserve		**0.5**	6.4
Income tax	7	**-32.6**	-36.2
Profit for the financial period		**57.2**	68.0

Cash Flow Statement of the Parent Company, FAS

EUR million	2008	2007
Cash flow from operations:		
Profit before extraordinary items	**71.3**	71.9
Adjustments:		
Depreciation and amortisation according to plan	**24.5**	27.6
Gains or losses on sale of fixed assets	**-4.7**	-1.1
Financial income (-) and expenses (+)	**-8.0**	-13.6
Impairment losses on non-current investments	**21.2**	32.8
Cash flow before change in working capital	**104.3**	117.6
Change in working capital:		
Non-interest-bearing current receivables, increase (-), decrease (+)	**-12.6**	0.1
Non-interest-bearing non-current receivables, increase (-), decrease (+)	**-1.6**	-
Inventories, increase (-), decrease (+)	**0.3**	-0.1
Non-interest-bearing liabilities, increase (+), decrease (-)	**18.5**	17.4
Non-interest-bearing non-current liabilities, increase (+), decrease (-)	**0.8**	-
Change in provisions	**-1.4**	1.0
Change in working capital	**4.1**	18.4
Cash flow from operating activities before financial items and income tax	**108.4**	136.0
Interests paid	**-4.3**	-1.8
Interests received	**19.8**	15.3
Other financial items	**-6.8**	-0.5
Income taxes paid	**-38.7**	-28.0
Cash flow from financial items and taxes	**-30.1**	-15.0
Cash flow from operating activities (A)	**78.2**	121.0
Cash flow from investing activities:		
Investments in tangible and intangible assets	**-67.0**	-35.8
Proceeds from sale of tangible and intangible assets	**1.6**	12.6
Other investments	**-226.0**	-7.8
Proceeds from sale of other investments	**7.3**	1.2
Loans granted	**-77.4**	-48.3
Repayments of loan receivables	**15.0**	11.5
Dividends received	**0.0**	-
Cash flow from investing activities (B)	**-346.6**	-66.6
Cash flow from financing activities:		
Drawings of current loans	**25.0**	-
Repayment of current loans	**89.9**	-8.5
Dividens paid and other profit distribution	**-39.0**	-27.0
Received and paid group contributions	**25.9**	16.9
Cash flow from financing activities (C)	**101.8**	-18.6
Change in cash and cash equivalents (A+B+C), increase (+), decrease (-)	**-166.6**	35.8
Cash and cash equivalents at the start of financial period	**249.2**	212.7
Change of fair value of cash and cash equivalents	**-5.6**	0.7
Cash and cash equivalents at the end of financial period	**77.0**	249.2

Balance Sheet of the Parent Company, FAS

EUR million	Note	31 Dec 2008	31 Dec 2007
Assets			
NON-CURRENT ASSETS		**761.9**	516.3
Intangible assets	8	**14.7**	12.1
Development costs		**1.6**	2.4
Intangible rights		**6.5**	4.6
Goodwill		**3.5**	4.3
Other capitalised non-current expenses		**0.6**	0.8
Prepayments		**2.4**	-
Tangible assets	9	**258.8**	220.7
Land and water		**39.9**	38.6
Buildings and structures		**141.7**	130.7
Machinery and equipment		**26.3**	28.1
Other tangible assets		**2.2**	1.7
Work in progress		**48.8**	21.6
Investments	10	**488.4**	283.5
Shares in Group companies		**415.1**	220.0
Receivables from Group companies		**47.0**	30.1
Shares in associated companies		**13.6**	18.1
Receivables from associated companies		**0.1**	0.5
Other shares and holdings		**12.5**	14.9
CURRENT ASSETS		**421.6**	535.7
Inventories		**3.6**	3.8
Materials and consumables		**3.6**	3.8
Receivables and other assets		**322.5**	254.5
Non-current	11	**97.0**	60.9
Receivables from Group companies		**94.4**	58.7
Receivables from associated companies		**-**	0.8
Loan receivables		**0.9**	0.9
Other receivables		**1.6**	-
Deferred tax assets		**0.1**	0.5
Current	12	**225.5**	193.6
Trade receivables		**104.1**	103.6
Receivables from Group companies		**72.2**	49.1
Loan receivables		**0.0**	-
Other receivables		**6.8**	0.7
Prepayments and accrued income		**42.3**	40.2
Current investments	13	**93.2**	273.7
Other securities		**93.2**	273.7
Cash and bank		**2.4**	3.7
Total assets		**1,183.5**	1,052.0

EUR million	Note	31 Dec 2008	31 Dec 2007
Equity and liabilities of the parent company			
EQUITY	14	**767.6**	750.5
Share capital		**70.0**	70.0
Fair value reserve		**0.3**	1.3
Other reserves		**142.7**	142.7
Retained earnings		**497.4**	468.4
Profit for the financial period		**57.2**	68.0
APPROPRIATIONS		**15.1**	15.6
Depreciation in excess of plan		**15.1**	15.6
PROVISIONS FOR LIABILITIES AND CHARGES	15	**0.5**	1.9
Pension provisions		**0.5**	-
Other provisions		**0.0**	1.9
LIABILITIES		**400.4**	284.1
Non-current	16	**1.2**	0.8
Deferred tax liability		**0.1**	0.5
Accruals and deferred income		**1.1**	0.3
Current	17	**399.2**	283.4
Loans from financial institutions		**25.1**	-
Advances received		**7.9**	6.8
Trade payables		**30.9**	37.1
Amounts owed to Group companies		**27.6**	17.3
Amounts owed to associated companies		**0.0**	0.0
Other liabilities		**145.5**	68,.6
Accruals and deferred income		**162.1**	153.6
Equity and liabilities, total		**1,183.5**	1,052.0

Notes to the Financial Statements of the Parent Company, FAS

ACCOUNTING POLICIES

Itella Corporation has prepared its financial statement in accordance with Finnish accounting legislation.

Revenue recognition and net sales

Revenue from the sale of goods is recognised when the goods have been delivered to the customer and significant risks and rewards of ownership have transferred to the buyer. The provision of services of short duration generates a major part of Itella Coproration's revenues. Such revenues are recognised when the service is rendered as agreed.

Net sales derive from revenue based on the sale of goods and services net of indirect taxes, discounts and exchange rate differences.

Other operating income

Other operating income includes capital gains on the sale of assets and income other than that based on the sale of goods and services, such as rental income. Government grants mainly refer to product and business development grants and low-wage support, which are recognised as other operating income.

Tangible and intangible assets

The balance sheet value of tangible and intangible assets is the historical acquisition cost less depreciation according to plan.

PPE (property, plant and equipment) are depreciated on a straight-line basis according to plan. Depreciation is based on expected economic useful life. The expected economic useful lives of PPE are as follows in Itella Group's companies:

Intangible rights and other long-term expenses	3-5 years
Buildings and structures	8 - 40 years
Machinery and equipment	3 - 13 years
Other tangible assets	3 - 10 years

Land and water areas are not depreciated.

Non-current investments are valued in the balance sheet at their original acquisition cost. When an investment's probable recoverable amount is permanent less than its acquisition cost, the difference is recognised as impairment loss and expense.

Research and development expenditure

Research and development costs are primarily expensed as incurred. Only development costs arising from significant new or substantially improved products and enterprise resource planning systems will be capitalised as intangible assets if they are technically and commercially feasible, the company has sufficient resources to complete the intangible asset and it is probable that the created asset will generate future economic benefits. Development costs which has been recognised as expense once will not be capitalised later. Amortisations on intangible assets are recognised as of the date asset has been taken in use. Capitalised development costs are recognised as intangible assets and amortised over the assets' useful economic lives which is three to five years. The value of the intangible asset is the original acquisition cost less amortisation and impairment losses. If the previous criterion is not fulfilled, the development cost is recognised as expense at the time of occurrence.

Maintenance and repair expenditure

Normal repair, maintenance and servicing costs are expensed as incurred with the exception of large renovation expenditures which have been capitalised in the acquisition cost. The renovation expenditure of rental real estate is capitalised. They will be depreciated during the rental period or within ten years, whichever is the shorter term.

Leasing

Lease obligations are included in interest-bearing liabilities and are not included in PPE.

Inventory

Inventories are measured at acquisition cost, average acquisition cost or probable realisation price, if it is lower, using the prudence principle.

Cash and bank receivables

Cash and bank receivables include cash fund assets, in Posti Shops, bank accounts and other fund assets equivalent to cash.

Extraordinary income and expenses

Extraordinary income and expenses include business transactions that do not specifically belong within the scope of the business activity of the company and are exceptional and notable in size, incl. group contributions.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made. Provisions for restructuring are recognised when the related, detailed and official plan has been approved and disclosed.

Income taxes

Income tax includes tax calculated on their profit for the current financial year as well as tax adjustments for previous financial years.

Deferred taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax base. A deferred tax asset is recognised to the extent that it appears probable that future taxable profit will be available against which the temporary difference can be utilised.

Foreign currency translation

Foreign business activities are recorded in euros using the exchange rate of the transaction date.

Foreign receivables and liabilities are changed to euros on the balance sheet date according to the average rate of the European Central Bank. The foreign exchange rate gains or losses of business activities are recognised as adjustments of sales and purchases. The exchange rate gains or losses are included in financial income and expenses.

Notes

	EUR million	2008	2007
1.	**Net sales by geographical market**		
	Finland	1,200.6	1,157.6
	Other countries	82.6	67.0
	Total	1,283.2	1,224.6
2.	**Other operating income**		
	Gains on sale of PPE	5.3	2.7
	Rental income	12.2	11.4
	Other operating income	3.3	6.6
	Total	20.9	20.6
3.	**Personnel expenses**		
	Wages, salaries and fees	546.2	523.2
	Pension expenses	97.2	85.1
	Other social security expenses	36.0	38.4
	Total	679.4	646.7
	Management remuneration		
	President and CEO	0.7	0.5
	Executive Board	2.4	1.8
	Board of Directors	0.3	0.2
	Supervisory Board	0.1	0.1
	Total	3.5	2.6
	Average number of personnel during the financial period	22,007	21,597
4.	**Other operating expenses**		
	Lease expenses	61.8	59.8
	Losses on sale of PPE	0.7	1.5
	Other operating expenses	188.1	168.8
	Total	250.5	230.1
5.	**Financial income and expenses**		
	Dividends received		
	From Group companies	0.0	-
	Total	0.0	-
	Interest income from non-current assets		
	From Group companies	4.3	4.8
	From others	1.9	0.2
	Total	6.2	5.0

	EUR million	2008	2007
	Other interest and financial income		
	From Group companies	1.8	0.6
	Gains on currency exchange	11.6	0.8
	Other interest and financial income from others	15.4	11.8
	Total	28.8	13.1
	Interest and financial income, total	**35.0**	**18.1**
	Interest and other financial expenses		
	To Group companies	1.5	1.4
	Losses on currency exchange	17.3	1.4
	Other interest and financial expenses to others	8.1	1.7
	Total	27.0	4.5
	Impairment losses on non-current assets		
	Impairment losses on group interests	30.4	-
	Impairment losses on associated company interests	3.0	-
	Impairment losses on other shares and holdings	2.0	-
	Impairment losses on receivables in group companies	-	32.8
	Total	35.4	32.8
	Interest and financial income and expenses, total	**-27.3**	**-19.2**
	Item interest and financial income incl. gains on currency exchange (net)	-5.7	-0.7
6.	**Extraordinary items**		
	Group contributions received	32.1	25.9
	Total	32.1	25.9
7.	**Income tax**		
	Income tax on business activities	32.1	34.9
	Income tax from previous years	0.1	0.0
	Change in deferred tax assets from temporary differences	0.4	1.3
	Total	32.6	36.2
8.	**Intangible assets**		
	Development costs		
	Cost 1 Jan	7.2	7.2
	Cost 31 Dec	7.2	7.2
	Accumulated amortisation 1 Jan	4.8	1.4
	Amortisation for the financial period	0.8	3.4
	Accumulated amortisation 31 Dec	5.6	4.8
	Book value 31 Dec	1.6	2.4

EUR million	2008	2007
Intangible rights		
Cost 1 Jan	38.7	38.2
Additions	4.5	1.7
Disposals	-5.8	-0.9
Disposals on transfer of business	-	-0.4
Cost 31 Dec	37.4	38.7
Accumulated amortisation 1 Jan	34.1	32.3
Accumulated amortisation on disposals	-5.8	-0.5
Accumulated amortisation on transfers of business	-	-0.1
Amortisation for the financial period	2.5	2.4
Accumulated amortisation 31 Dec	30.8	34.1
Book value 31 Dec	6.5	4.6
Goodwill		
Cost 1 Jan	8.7	8.7
Additions	-0.1	-
Book value 31 Dec	8.6	8.7
Accumulated amortisation 1 Jan	4.4	3.6
Accumulated amortisation on disposals and transfers	-0.1	-
Amortisation for the financial period	0.8	0.8
Accumulated amortisation 31 Dec	5.1	4.4
Book value 31 Dec	3.5	4.3
Other capitalised non-current expenses		
Cost 1 Jan	1.8	2.5
Disposals	-0.3	-0.7
Book value 31 Dec	1.4	1.8
Accumulated depreciation 1 Jan	1.0	1.6
Accumulated amortisation on disposals and transfers	-0.3	-0.7
Depreciation for the financial period	0.1	0.1
Accumulated amortisation 31 Dec	0.8	1.0
Book value 31 Dec	0.6	0.8
Prepayments		
Cost 1 Jan	-	1.1
Additions	2.4	-
Disposals	-	-1.1
Cost 31 Dec	2.4	-
Book value 31 Dec	2.4	-
Intangible assets, total	**14.7**	**12.1**

9. Tangible assets

EUR million	2008	2007
Land and water		
Cost 1 Jan	38.6	37.0
Additions	1.2	3.8
Disposals	-	-2.2
Cost 31 Dec	39.9	38.6
Book value 31 Dec	39.9	38.6
Buildings and structures		
Cost 1 Jan	221.9	237.9
Additions	19.4	0.9
Disposals	-1.3	-17.0
Transfers between items	-3.0	-
Cost 31 Dec	237.0	221.9
Accumulated depreciation 1 Jan	91.2	91.7
Accumulated depreciation on disposals	-4.3	-8.9
Depreciation for the financial period	8.4	8.4
Accumulated depreciation and impairment losses 31 Dec	95.4	91.2
Book value 31 Dec	141.7	130.7
Machinery and equipment		
Cost 1 Jan	164.8	158.6
Additions	10.1	12.7
Disposals	-12.8	-6.7
Additions in transfers of business	-	0.2
Disposals in transfer of business	-	-0.1
Cost 31 Dec	162.1	164.8
Accumulated depreciation 1 Jan	136.7	130.2
Accumulated depreciation on disposals	-12.5	-5.8
Accumulated depreciation in transfers of business	-	0.0
Depreciation for the financial period	11.6	12.3
Accumulated depreciation 31 Dec	135.8	136.7
Book value 31 Dec	26.3	28.1
Balance sheet value of machinery and equipment on 31 Dec	22.6	25.1
Other tangible assets		
Cost 1 Jan	3.5	3.6
Additions	0.6	-
Disposals	-0.1	-0.1
Cost 31 Dec	4.0	3.5
Accumulated depreciation 1 Jan	1.8	1.7
Accumulated depreciation on disposals	-0.1	-0.1
Depreciation for the financial period	0.2	0.2
Accumulated depreciation 31 Dec	1.9	1.8
Book value 31 Dec	2.2	1.7
Work in progress		
Cost 1 Jan	21.6	4.0
Additions	40.2	25.7
Disposals	-13.0	-8.2
Cost 31 Dec	48.8	21.6
Book value 31 Dec	48.8	21.6
Intangible assets , total	**258.8**	**220.7**

EUR million	2008	2007
10. Non-current investments		
Shares in Group companies		
Cost 1 Jan	235.0	186.9
Additions	225.5	47.5
Disposals	0.0	-
Additions in transfer of business	-	1.5
Disposals in transfers of business	-	-0.9
Cost 31 Dec	460.5	235.0
Accumulated impairment losses 1 Jan	15.0	15.0
Impairment losses	30.4	-
Accumulated impairment losses 31 Dec	45.4	15.0
Book value 31 Dec	415.1	220.0
Shares in associated companies		
Cost 1 Jan	19.8	20.7
Additions	0.4	-
Disposals	-1.9	-0.9
Cost 31 Dec	18.3	19.8
Share of profits or losses 1 Jan	1.7	1.7
Impairment losses	3.0	-
Share of profits or losses 31 Dec	4.7	1.7
Book value 31 Dec	13.6	18.1
Other shares and holdings		
Cost 1 Jan	16.2	16.5
Additions	0.0	-
Disposals	-0.4	-0.3
Cost 31 Dec	15.8	16.2
Accumulated impairment losses 1 Jan	1.3	1.3
Impairment losses	2.0	-
Accumulated impairment losses 31 Dec	3.3	1.3
Book value 31 Dec	12.5	14.9
Receivables from Group companies		
Capital loan receivables		
Cost 1 Jan	82.0	72.4
Additions	18.0	9.6
Disposals	-1.1	0.0
Cost 31 Dec	98.9	82.0
Accumulated impairment losses 1 Jan	51.9	19.1
Impairment losses	-	32.8
Accumulated impairment losses 31 Dec	51.9	51.9
Book value 31 Dec	47.0	30.1
Receivables from associated companies		
Capital loan receivables		
Cost 1 Jan	0.5	0.5
Disposals	-0.3	-
Cost 31 Dec	0.1	0.5
Book value 31 Dec	0.1	0.5
Investments, total	**488.4**	**283.5**

EUR million	2008	2007
11. Non-current receivables		
Receivables from associated companies		
Loan receivables	94.4	58.7
Total	94.4	58.7
Receivables from associated companies		
Loan receivables	-	0.8
Total	-	0.8
Deferred tax assets		
From temporary differences	0.1	0.5
Total	0.1	0.5
12. Current receivables		
Receivables from Group companies		
Trade receivables	12.1	5.4
Loan receivables	27.8	16.9
Interest receivables	0.2	0.7
Prepayments and accrued income	32.1	26.1
Total	72.2	49.1
Key items in prepayments and accrued income		
Interest receivables	0.0	0.1
Tax assets	2.9	0.0
Receivables from other postal administrations	29.3	25.7
Other prepayments and accrued income	10.2	14.4
Total	42.3	40.2
Cash and cash equivalents		
The parent company’s accounts form part of the Group’s cash pool.		
13. Fair value and change in fair value by financial instrument		
Investments in bonds and notes	79.9	101.1
Change in fair value recognised in the income statement	-4.4	-0.1
Investments in commercial papers	9.5	167.3
Change in fair value recognised in the income statement	-1.1	0.8
Currency derivatives	4.9	0.2
Change in fair value recognised in the income statement	4.8	0.2
Other investments	3.8	5.3
Change in fair value recognised in the fair value reserve	-1.4	1.0
Deferred tax	0.4	-0.2
	-1.0	0.7

EUR million	2008	2007
14. Equity		
Share capital 1 Jan	70.0	70.0
Share capital 31 Dec	70.0	70.0
Fair value reserve and other reserves		
Fair value reserve and other reserves 1 Jan	1.3	0.6
Profit or loss from measurement at fair value, other current investments	-1.0	0.7
Fair value reserve 31 Dec	0.3	1.3
Other reserves 1 Jan	142.7	142.7
Other reserves 31 Dec	142.7	142.7
Retained earnings 1 Jan	536.4	495.4
Dividend distribution	-39.0	-27.0
Retained earnings 31 Dec	497.4	468.4
Profit for the financial year 31 Dec	57.2	68.0
Equity, total	**767.6**	**750.5**
Calculation of distributable equity 31 Dec		
Other reserves	142.7	142.7
Retained earnings	497.4	468.4
Profit for the financial period	57.2	68.0
Total	697.3	679.1
Appropriations		
Accumulated depreciation in excess of plan	15.1	15.6

15. Provisions for liabilities and charges

Pension provisions	0.5	-
Other provisions	0.0	1.9
Total	0.5	1.9

16. Non-current liabilities

Deferred tax liability		
From measurement at fair value	0.1	0.5
Total	0.1	0.5
Deferred tax liability is only presented in the consolidated balance sheet	3.9	4.0

17. Current liabilities

EUR million	2008	2007
Amounts owed to Group companies		
Advances received	0.0	0.0
Trade payables	8.5	8.3
Interest liabilities	0.1	0.1
Other liabilities	15.7	8.8
Accruals and deferred income	3.4	-
Total	27.6	17.3
Amounts owed to associated companies		
Trade payables	0.0	0.0
Total	0.0	0.0
Key items in other liabilities		
Commercial papers	82.9	-
Liabilities of payroll	18.3	17.9
VAT liabilities	28.3	26.6
Other liabilties	16.0	24.1
Total	145.5	68.6
Key items in accruals and deferred income		
Tax liabilities	-	3.3
Accruals of personnel expenses	130.7	113.9
Amounts owed to other postal administrations	20.0	22.8
Other accruals and deferred income	11.5	13.6
Total	162.1	153.6
Interest-bearing liabilities		
Current liabilities	40.8	8.8
Total	40.8	8.8

18. Assets pledged, commitments and other liabilities

Other pledges for own behalf		
Guarantees	1.4	1.1
Total	1.4	1.1
Pledges given for Group companies		
Guarantees	17.7	13.8
Total	17.7	13.8
Other liabilities		
Supplementary pensions	-	0.6
Total	-	0.6
Leases		
Lease contracts		
Unpaid amounts		
Payable within one year	46.1	15.7
Payable in later years	36.8	34.9
Total	82.9	50.6
Remaining lease commitments	43.6	47.4
Derivative contracts		
Currency forward contracts		
Market value	4.9	0.2
Underlying value	102.7	81.2

Derivative instruments are used for hedging foreign exchange rate risk of the Group and they are valued at the market rates available on the balance sheet date.

Board of Directors' Proposal to the Annual General Meeting

BOARD OF DIRECTORS' PROPOSAL TO THE ANNUAL GENERAL MEETING

According to the financial statements for 2008, the parent company's distributable profits total EUR 697,283,704.81, of which net profit for the financial year accounts for EUR 57,165,342.61.

No material changes in the company's financial standing have taken place since the end of the financial year 2008, neither does the solvency test, as referred to in 13:2§ of the Companies Act, affect the proposed distributable profits.

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

– Paying a per-share dividend of EUR 0.25 or a total of EUR 10,000,000.00.
– Retaining EUR 47,165,342.61 under equity.

Signatures of the Board of Directors' Report and the Financial Statements

Helsinki, 12 February 2009

Eero Kasanen
Chairman

Mikko Kosonen Vice Chairman	Kalevi Alestalo	Hele-Hannele Aminoff
Erkki Helaniemi	Antero Palmolahti	Mirja Sandberg
Riitta Savonlahti	Maarit Toivanen-Koivisto	Jukka Alho President & CEO

Auditor's Report

To the Annual General Meeting of Itella Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Itella Corporation for the financial period 1 January – 31 December 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Supervisory Board, the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Supervisory Board and the Board of Directors are responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance of whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Supervisory Board, the members of the Board of Directors and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 12 February 2009

KPMG OY AB

Pauli Salminen

Authorized Public Accountant

Statement by the Supervisory Board

At its meeting today, the Supervisory Board of Itella Corporation has considered Itella Corporation's Board of Directors' Report , Financial Statements and the Auditors' Report for 2008.

The Supervisory Board proposes to the 2009 Annual General Meeting that the Income Statement and Balance Sheet for 2008 be adopted, and concurs with the proposal made by the Board of Directors on disposal of the profit.

Helsinki, 13 February 2009

Eero Lehti
Chairman of the Supervisory Board

Key Figures

	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	FAS 2004
Operations					
Net sales, MEUR [1]	**1,952.9**	1,710.6	1,574.5	1,348.2	1,235.2
Personnel 31 Dec.	**31,672**	25,211	24,806	24,408	23,297
Personnel on average	**28,163**	25,623	25,294	24,624	23,544
Capital expenditure, MEUR	**351.5**	94.2	69.5	143.0	78.3
% of net sales	**18.0**	5.5	4.4	10.6	6.3
Profitability					
Operating profit (EBIT) excl. impairment losses on goodwill, MEUR	**95.1**	101.8	90.9	130.0 [2]	95.2
% of net sales	**4.9**	6.0	5.8	9.6	7.7
Operating profit (EBIT), MEUR	**69.0**	101.8	89.0	97.8	95.2
% of net sales	**3.5**	6.0	5.7	7.3	7.7
Profit before tax, MEUR	**46.6**	109.5	94.4	103.7	101.1
% of net sales	**2.4**	6.4	6.0	7.7	8.2
Profit for the financial period, MEUR	**18.6**	78.5	67.7	64.0	69.6
% of net sales	**1.0**	4.6	4.3	4.7	5.6
Balance sheet and key ratios					
Equity, MEUR	**696.3**	732.4	680.0	655.1	596.3
Total assets, MEUR	**1,370.5**	1,119.1	1,051.5	1,039.3	918.8
Return on equity, %	**2.6**	11.1	10.1	10.0	12.0
Return on investment, %	**12.4**	15.6	14.1	15.4	16.1
Equity ratio, %	**51.1**	65.9	65.1	63.5	65.6
Net gearing, %	**14.8**	-36.4	-32.1	-34.3	-35.9

1) the net sales for 2007 and 2006 have been adjusted to correspond to the 2008 recognition policy
2) including other non-recurring items net EUR 43.8 million

Calculation of key figures (IFRS)

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

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

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

Net gearing, % $$100\times\frac{\text{interest-bearing liabilities – cash and cash equivalents}}{\text{total equity}}$$

Glossary

Addressed letter mail
A letter, postcard, or direct marketing message bearing the recipient's name and address. The customer selects the required delivery speed for the item.

Alligator
Using the new Itella Alligator service, organizations can outsource all of their key financial processes to Itella Information, i.e. accounts payable and receivable, debt collection, payroll, financial records management, accounting, financial statements, and financial services supporting sales.

CEM (Customer Experience Management)
A new service provided by Itella Mail Communication for automating marketing campaigns, making more efficient use of customer data in business activities, and improving customer relationship management.

Contract logistics
Contract logistics solutions optimize stock turnover and ensure a constant flow of goods and the availability of products to end customers. At the heart of contract logistics lies the service warehouse. It also provides value-added services such as packaging, pre-assembly, and shelving.

Customer Relationship Marketing
Marketing solutions offered by Itella Mail Communication, aimed at increasing the customer company's sales and strengthening customer loyalty. These services are related to target group analysis and selection, planning of marketing actions, selection of delivery channels, sending of customer messages, response collection, and analysis of results.

Digital substitution
A total or partial switch from paper-based to electronic messages, so that messages are transmitted via e-mail, as text messages, via online services, or as EDI messages between organizations. Apart from letter mail, this phenomenon is also affecting mass communication.

eInvoice, electronic invoice
Itella Information offers organizations eInvoice solutions for incoming and outgoing invoice processing. Customers can receive eInvoices through various portals, online banks, or NetPosti, Itella's electronic mailbox.

Express
Express refers to scheduled deliveries. The duration of the delivery and the item's time of arrival depend on the date and time of sending and the service chosen by the customer.

Foundation for Well-being at Work
The Foundation for Well-being at Work established by Itella is an industry first in Finland. It is intended to improve the well-being of employees in the postal and logistics sector, as well as to conduct the related research and development.

Information logistics
Management of information flows associated with an organization's operations: the processing, refining, transfer, and distribution of information. Information is transmitted within an organization, in customer service, between partners, and in marketing communications—electronically and on paper. Information logistics services are provided by both Itella Mail Communication and Itella Information.

Logistics center
Logistics centers store customers' products and provide value-added services related to contract logistics, such as the sorting, pricing, and packaging of products. Logistics centers can also serve as terminals for freight, delivery, and transport services.

Mail communication
The transfer of messages from sender to recipient, irrespective of their content or form. Such messages may be postcards, letters, magazines, newspapers, or direct mail items—paper-based or electronic. The Mail Communication business refers to service activity where customers are provided with communication and delivery services for reaching recipients.

NetPosti
NetPosti is Itella's electronic mailbox service provided free of charge for consumers in Finland since 2001. It is intended for the secure reception and archival of invoices, customer newsletters, and other electronic letters addressed personally to the recipient by a company or other organization. Customers can also access some 1,000 official forms through NetPosti.

Postal Services Directive
In EU countries, postal services are governed by the Postal Services Directive. In Finland, the Directive is enforced through the Postal Services Act. The new, revised directive obliges EU countries to open up all of their postal services to competition by 2011–2013, unless they have already done so, as is the case in Finland. The Directive will apply to the delivery of addressed letters weighing less than 50 grams.

Posti shop, agency shop
A Posti shop is a postal outlet maintained by Itella Corporation. An agency shop is run in connection with a grocery store or another local business. All postal services are available from both.

Universal Service Obligation (USO)
The Postal Services Directive obliges all EU countries to ensure that universal postal services are provided throughout the country. This universal service covers the delivery of letters (max. 2 kg), parcels (max. 10 kg), and registered and insured items. It also includes mail collection and delivery at least five days a week. In Finland, Itella Corporation has been designated as the Universal Service Provider in its license. The provision of universal service is monitored by the Finnish Communications Regulatory Authority (FICORA).

Financial Publications

104379 Itella Annual Report 2008

Itella Corporation publishes its annual reports, interim reports and media bulletins in Finnish, Swedish and English. These are available on the company's website at www.itella.com/group/english or they can be ordered from Corporate Communications:

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Photographs and logos related to Itella are available in the Media section of the Itella website (Image service and logos):
www.itella.fi/group/english/media/

Interim Reports in 2009

Q1 Interim Report 30 April
H1 Interim Report 22 July
Q1–3 Interim Report 22 October

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