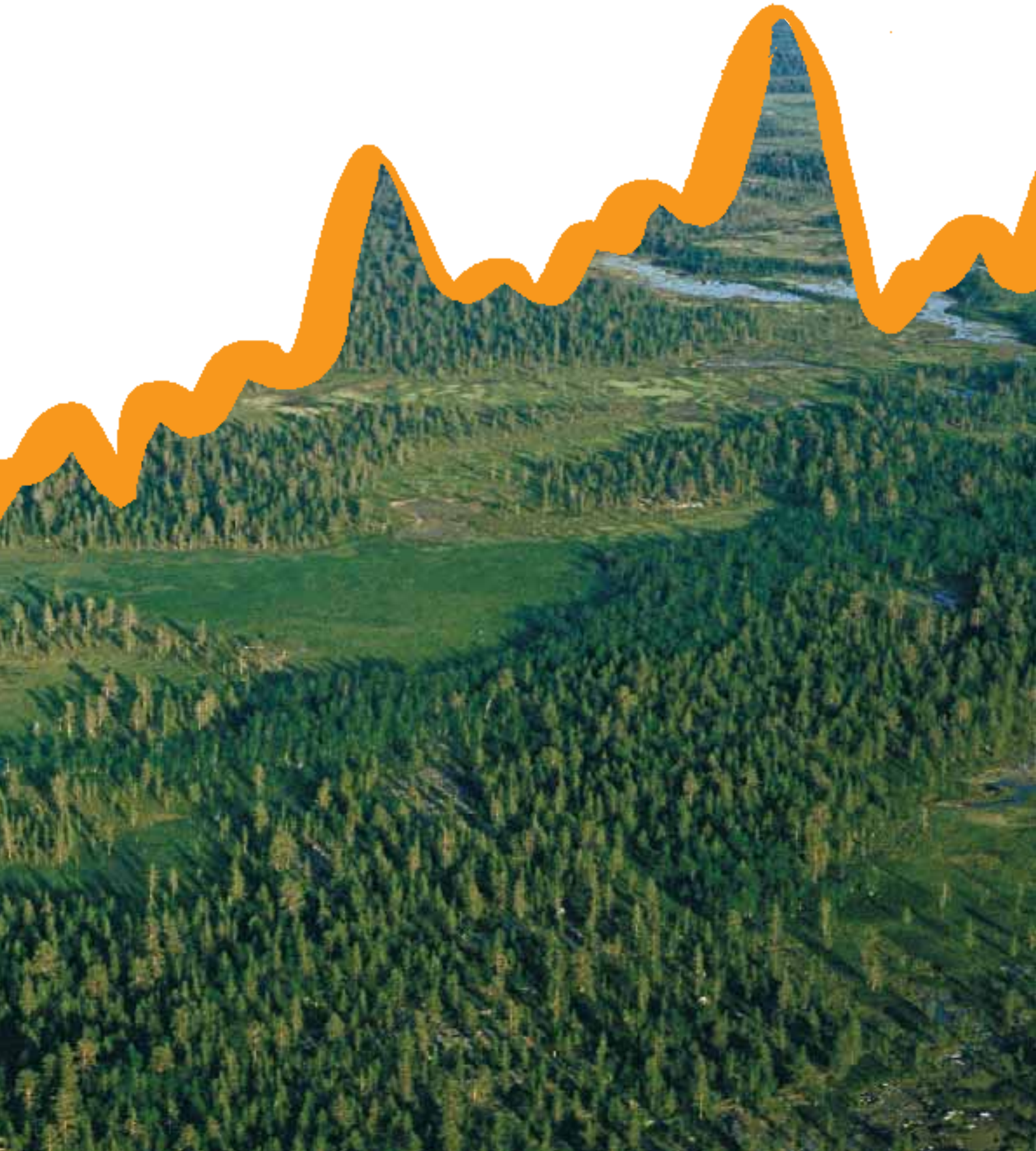




METSÄHALLITUS

ANNUAL REPORT 2006



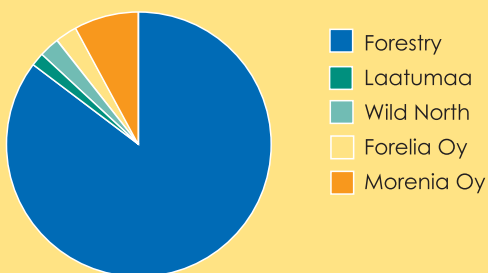
Key financial figures of the Metsähallitus Group

	2006	2005
Turnover, EUR million	268	229
Operating profit, EUR million	81	56
Percentage of turnover, %	30	24
Profit, EUR million	72	52*
Contribution to state revenue, EUR million	65	51
Return on investment, %	3.2	2.2
Investment, % of turnover	4	10
Solvency ratio, %	98	97
Person years	2,003	2,053

Return on investment (%) = $\frac{\text{Net result} + \text{financing expense} + \text{taxes (12 months)}}{\text{Invested assets on average during the financial year}}$

*) Profits for 2005 were exceptionally low due to a seven-week-long paper industry dispute and resulting halt in timber sales. The Ministry of Agriculture and Forestry lowered Metsähallitus's profit target as a result of the dispute.

Distribution of turnover by business area



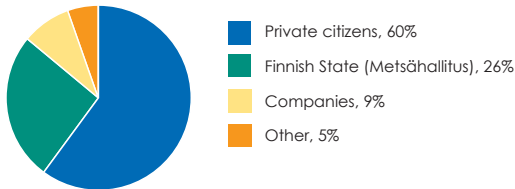
ONE THIRD OF FINLAND	3
DIRECTOR GENERAL'S REVIEW	4
QUALITY AND MOMENTUM IN FORESTRY	6
LAATUMAA – TRUE TO NATURE	11
WILDERNESS EXPERIENCES FROM WILD NORTH	12
MORENIA – SOLID GROUND	15
FORELIA – PLANTING FORESTS	16
METSÄHALLITUS HOLDING OY AND FORIA GMBH	16
NATURAL HERITAGE SERVICES – NATURE CONSERVATION, RECREATION, HUNTING & FISHING ...	19
SOCIAL RESPONSIBILITY REVIEW	22
CORPORATE GOVERNANCE	28
ANNUAL REPORT ON BUSINESS OPERATIONS JAN.1–DEC.31, 2006	30



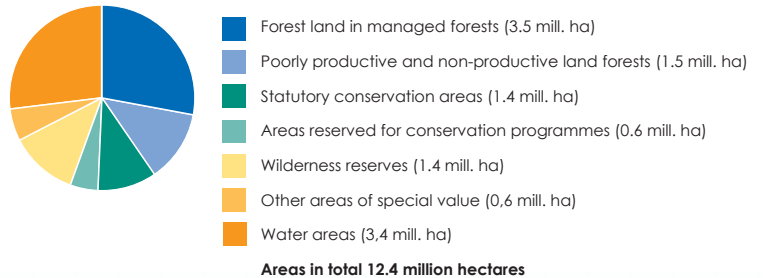
2006

ONE THIRD OF FINLAND

Ownership of forest land in Finland in 2006, %

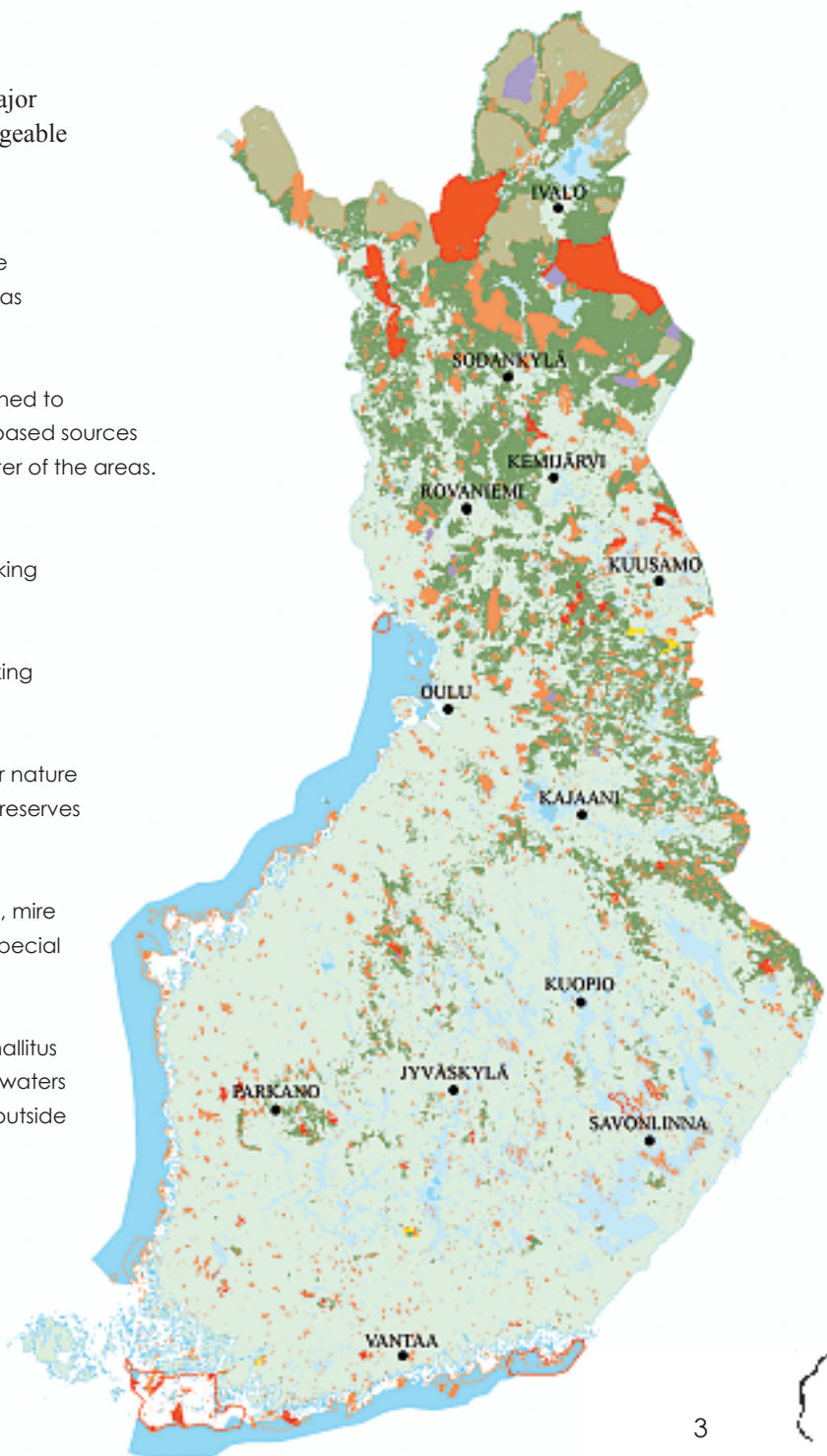


Land and water areas administered by Metsähallitus in 2006



Metsähallitus provides natural resource services to a diverse customer base, from private individuals to major companies. Our operations are based on the knowledgeable and co-operative use of state land and water areas.

- **Managed forests** are multiple use forests which serve the needs of forestry and timber production as well as recreation.
- **The wilderness areas of Lapland** have been established to secure the position of the Sámi culture and nature-based sources of livelihood and to preserve the wilderness character of the areas.
- **National hiking areas** are areas reserved especially for recreational use and provide a wide range of hiking services.
- **National parks** are protected areas and popular hiking destinations which are open to the public.
- **Strict nature reserves** are areas reserved primarily for nature conservation and scientific research. Access to the reserves is usually subject to permit.
- **Other conservation areas** include old-growth forests, mire and herb-rich forest conservation areas and other special areas established for nature conservation.
- The majority of water areas administered by Metsähallitus are **public waters**, which include Finland's territorial waters in sea areas and the open parts of the major lakes outside village boundaries.



■ DIRECTOR GENERAL'S REVIEW

2006 was a good year for Metsähallitus. A number of business units achieved excellent financial results, with Metsähallitus's profits clearly exceeding the budget as a result. Natural Heritage Services clearly reached its targets as well.

The profits of the Metsähallitus Group's business operations for 2006 increased to EUR 72.1 million, a EUR 20 million improvement on the previous year, which was dominated by the several-week-long labour dispute in the paper industry. Turnover amounted to EUR 268 million. All business units – Forestry, Laatumaa and Wild North – achieved excellent results in terms of their targets. In Forestry, for example, both the sales volume and prices increased from the previous year. The result was also facilitated by the excellent work contribution of the unit's personnel and effective control of costs.

As regards Metsähallitus's subsidiaries, Morenia Oy was established during the year under review and achieved a strong growth in turnover of the Group's soil resources operations and also reached its profit target, while the seedling producer Forelia Oy and Metsähallitus Holding Oy made a loss. A decision was made last year to terminate operations of Metsähallitus Holding's associated company Foria GmbH. Regarding Forelia, avenues are presently being investigated to fundamentally improve the company's profitability.

Natural Heritage Services used EUR 54 million to accomplish its public administration duties in 2006. The year's highlights were the completion of the extensive habitat inventories in the Forest Biodiversity Programme for Southern Finland (METSO) conservation areas and the inclusion of the Kvarken Archipelago on the UNESCO World Natural Heritage List as Finland's first Natural Heritage Site. Financing was also secured for the establishment at the Nuuksio National Park of a visitor centre tailored to the Helsinki area. The number of visitors to national parks continued to increase. The administration

of game and fisheries, now in its second year as a public administration duty, is operating well and the new requirements introduced by the Act on Metsähallitus have been excellently met.

Support by new state policies

Metsähallitus started out last year with the support of the new policies approved by the Finnish Cabinet Committee on Economic Policy in November 2005. Based on these guidelines, Metsähallitus launched a programme aimed at increasing profitability and efficiency of operations. Metsähallitus's goal is to expand its operating profit by EUR 10 million by the year 2010. We also aim to achieve good results in future in terms of other performance indicators.

95 per cent of the profits from our growing business operations is transferred directly to the state budget in order to contribute to the many needs of society. This ownership policy is important to us. It shows that the importance of Metsähallitus's different operations has increased, whether in regard to our different business operations targets or the public administration duties managed by Natural Heritage Services.

As a counterbalance to the tight objectives, the state is providing us with new tasks and resources: the transfer of possession of Finnish Forest Research Institute (Metla) lands to Metsähallitus got well underway last year and Metsähallitus has also been presented with new tasks in the nature conservation administration's ongoing productivity project. The transfer of possession of Metla research forests and protected areas will probably be implemented at the beginning of 2008.

High investment in public services

We also made conclusive headway with the general social obligations development project. According to the government's guidelines, "Metsähallitus shall systematically monitor the benefits and costs resulting from observing its social obligations in its business activities and report on them to the Ministry of Agriculture and Forestry and, in connection with confirmation of the financial statements, to the government". The project reached completion during the past winter period.

The project has enabled Metsähallitus to report its results more comprehensively and thus provide more precise information as the basis for the formulation of parliament and government decisions. Metsähallitus spent EUR 38 million on fulfilling its social obligations in its business operations in 2006. This figure clearly exceeds the EUR 27 million estimation we formerly pledged to the government.

The bulk of that sum we use to support biodiversity, by leaving retention trees and valuable habitats in managed forests far above the level required by forest legislation. Other obligations separately laid down by law, i.e. recreational use of natural areas, reindeer husbandry, Sámi culture and employment also receive a significant share of our investment. Investment in forest biodiversity at the same time also promotes the creation of recreational, reindeer husbandry and cultural benefits.

We firmly believe that society receives major benefits in return for these significant investments. The benefits in terms of biodiversity or recreational use are, however, difficult to measure and quantify. Yet, it is precisely this kind of information that the Parliament and ministries, as well as Metsähallitus, need. After all, balancing the financial profit target and our social obligations is largely a political decision. To this end we need more research data from universities and research institutions, effective evaluation methods and new ways of combining benefit assessments with natural resource use planning.

Metsähallitus is an excellent partner to the tourism industry. Its versatile use of natural resources, and the economical and other results that this brings, serves tourism in a variety of ways. Tourism benefits substantially from Laatumaa's tourist centre based land use projects, Wild North's nature tourism development work and Finland's national parks with their service facilities, which are major drawcards for tourism, as well as the numerous visitor centres and nature cabins dotted throughout the country.

Hikers also utilise the extensive network of forest roads which are a central aspect of the multiple use of forests and would not exist without forestry activity. Forestry is a cornerstone of society throughout the country, and especially in Eastern and Northern Finland. Against this background, criticisms of Forestry's operations made by certain tourism industry quarters have been given disproportionate weight.



Metsähallitus remains active on the international front

The termination of Foria's operations is a reflection of Metsähallitus's move to concentrate operations on the domestic front in the near future. Internationality will, however, retain its central position, for example in Metsähallitus' active role in the European State Forest Association EUSTAFOR established last spring and in several influential international bodies involved in the management of nature reserves, such as the IUCN and EUROPARC. We must be prepared for further participation in international projects in the future – also in our business activities.

In 2006, the Metsähallitus directorship baton was passed on from Managing Director Jan Heino when he accepted the international post as Director of the FAO's Forestry Department. Heino's appointment to the prestigious post is an accolade both to Finnish forest expertise and to Metsähallitus. After Heino's move to the FAO in June, Metsähallitus was headed until the end of the year by interim Managing Director Hannu Jokinen.

I would like to express my deepest gratitude to Jan Heino, Hannu Jokinen and all Metsähallitus personnel for the extremely good results in 2006. Due to your combined efforts, I carry forward the baton as Director General from the beginning of this year for a Metsähallitus that is truly fit for action.

This is an excellent position from which to set our sights towards new challenges, to develop Metsähallitus to better meet the challenges frequently encountered in today's changing times and in our changing operating environment, and to embrace new opportunities.

JYRKI KANGAS
Director General

■ QUALITY AND MOMENTUM IN FORESTRY

Hannu Jokinen, Director, Forestry
www.metsa.fi/forestry

Forestry is Metsähallitus's biggest business unit in terms of turnover. Forestry sells and markets timber to the forest industry to around a hundred delivery points throughout Finland. Timber is delivered from the forest directly to the mill on a full-service basis in co-operation with contractors. Forestry is also responsible for managing all state-owned managed forests, totalling around 3.5 million hectares of forest land. Of all raw material supplied to Finnish wood-based industry, around 6–8 per cent originates from Metsähallitus's forests.

2006 was a year of significant change within the forest sector. The forest industry adapted its production capacity to correspond to market changes and investments were mainly focussed abroad. Competition for wood raw materials tightened throughout Europe. Wood is used more than ever for paper and sawn timber production as well as energy production. Domestic timber sales initially started out slow due to the new forest taxation system which came into force at the beginning of the year. Timber prices rose for all roundwood assortments throughout the year. The nominal stumpage price rose 7.7 per cent on the previous year. The year was clearly a time of improved market and price development, especially in the mechanical forest industry sector.

The good outlook of the forest sector was also reflected in Metsähallitus's operations. The past year was the first whole financial year with the new Forestry organisation divided into its forest use and timber delivery processes. The new organisation operated well and the volume and turnover of Forestry operations increased. Forestry posted an extremely good result and exceeded its target due to the good work contribution of its personnel and a tight cost clampdown. Metsähallitus's timber sales totalled around 5.0 million cubic metres. In addition to traditional sawlogs and pulpwood, fuelwood deliveries were also expanded and volumes increased to correspond to demand on the market.

Innovatively towards the future

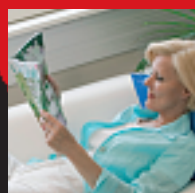
The market outlook for the forest industry is bright. Opportunities are open to expand and invest in wood-based industry throughout Finland. Demand for forest energy is also rising along with research and investments in the field. The key challenge for the Finnish forest sector as a whole is the securing of business opportunities for forestry and the forest industry amid a climate of tightening competition and wood supply. As demand for domestic wood increases, an attempt must be made to ensure effective wood supply and to secure sufficient raw material supply for the future.

As the biggest forest owner in Finland, Metsähallitus has always been a forestry pioneer. Continuous development of operations is now an even more critical success factor in the changing operating environment. Of all Forestry business unit projects, one in particular has been established to support innovativeness. The project aims, for example, to identify innovativeness factors within the organisation and to test creative approaches with the goal of finding new ideas and opportunities.

Spearheading environmental management

Metsähallitus's managed forests have been repeatedly inventoried to identify valuable habitats. Impartial evaluations have been made of the landscape ecological planning of the 1990's and of the inventories of METSO conservation sites in Southern Finland and the decisions on conservation made on the basis of these. Both evaluations reveal that thorough and high-quality work has been carried out. A total of 310,000 hectares of different valuable habitats have been delineated in Metsähallitus's managed forests for permanent exclusion from forestry operations. Areas subject to restricted silvicultural use total 241,000 hectares.

2006

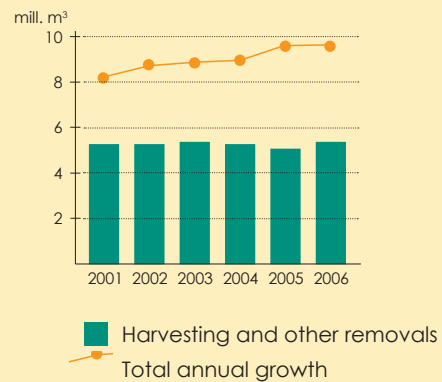


Forestry unit key figures

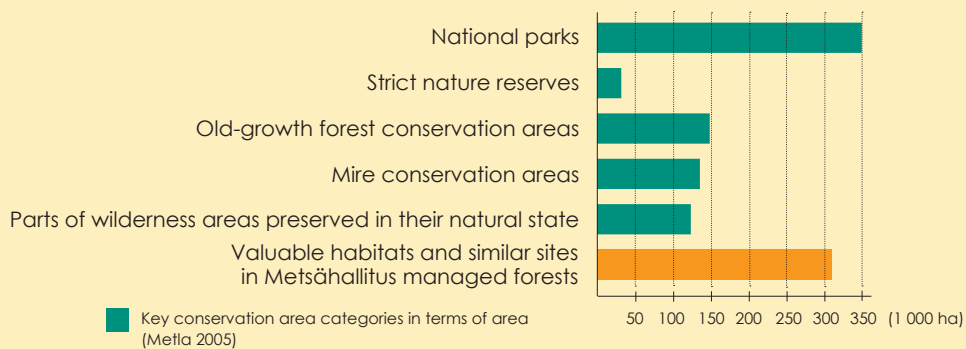
	2004	2005	2006
Turnover*, EUR mill.	209.0	192.9	225.1
Person years			
- salaried employees	398	392	316
- forestry workers	813	749	709
- contractors with employees	800	800	800

*) Outside the Group

Growth of stock in managed forests and total timber drain



Forest land excluded from forestry operations



Habitat management measures in accordance with the instructions of the Environmental Guidelines to Practical Forest Management published by Metsähallitus are monitored in the annual environmental monitoring. On average, 5.9 cubic metres of wood is left per hectare at final felling sites. New types of small-scale regeneration and selective cutting were implemented in 2006. The methods are set to develop and improve in future years as monitoring data and experience is gained. Ditch cleaning and supplementary ditching sites were predominantly well planned and ditching, hummocking and stump removal was largely successful in avoiding soil and nutrient erosion. Identified targets for development included, e.g., the size of ditches and sediment basins and the use of surface drainage basins.

Metsähallitus forests are certified under the Finnish Forest Certification System (FFCS), which has been accepted as part of the international PEFC system. In addition to the sound forest management criteria required for forest certification, Metsähallitus is committed to complying with the requirements of wood chain-of-custody management, which makes it possible to reliably trace the wood raw material coming from certified forests all the way back to the source forest. The chain-of-custody management certificate granted to Metsähallitus complies with the standard PEFC Technical Documentation 2004, Annex 4.

Much managed forest is used under the Finnish statutory right of common access for its wild mushroom and berry grounds and hunting and fishing grounds. Managed forests also host a highly versatile and, from the point of

view of use, flexible network of access routes: Forestry administered areas contain in total over 6,700 kilometres of different types of access routes which are used, for example, by tourism entrepreneurs.

Discussion on the acceptability of forestry continues

As an extension of the so-called dialogue process between the WWF and Metsähallitus, a supplementary settlement was reached in February 2006 regarding old-growth forest protection. Metsähallitus's June 2005 decision on conservation was defined and specified using additional information provided from inventories by environmental organisations. The areas jointly designated by the WWF and Metsähallitus in the regions of Kainuu, Ostrobothnia, Koillismaa and Lapland south of Inari contain 55,000 hectares of old-growth forest property. Metsähallitus has permanently excluded these areas from its felling operations.

At the end of 2006 a dispute arose in Ylimuonio in Lapland regarding the logging of forests that are of importance from the point of view of tourism. Local tourism entrepreneurs offered to reimburse the losses in felling revenues if the planned fellings on state land were not carried out. The land use solution for the area had been laid down in the reformed natural resource plan for Western Lapland, according to which forestry operations are permitted over a 2,500 hectare area within a forest area of 8,900 hectares. Negotiations were concluded in February 2007 with the decision to restrict forestry operations in certain areas and, in exceptional cases, to refrain from felling in return for financial compensation.



2006



LAATUMAA – TRUE TO NATURE

Antero Luhtio, Director, Laatumaa
www.laatumaa.com

Laatumaa key figures

	2004	2005	2006
Turnover*, EUR mill.	3.4	5.1	4.9
Plot sales proceeds, EUR mill.	9.8**	8.5	8.7
Person years	55	54	46

*) Outside the Group

**) Old balance sheet values



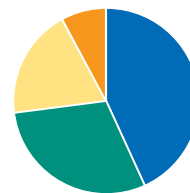
Metsähallitus's Laatumaa business unit specialises in the preparation, sale and leasing of plots and forest land. Laatumaa also acquires forest land and conservation areas for the state. Laatumaa is Finland's leading actor in the market for holiday home plots and forest land, concluding around 1,000 forest and holiday home real estate transactions each year. Laatumaa LKV also offers real estate brokerage services outside Metsähallitus.

2006 was a successful year for Laatumaa, and an extremely good financial result was achieved. Demand for holiday home plots continued to be good due to the ongoing economic boom. Land sales reached a total of around EUR 17 million, of which sales the share of holiday home plots was some EUR 12 million. The biggest individual transaction was the sale of formerly leased peat production sites to VAPO Oy. Laatumaa's external turnover, which consists mainly of plot leasing revenue, totalled around EUR 3.5 million. Proceeds from real estate sales were clearly higher than budgeted, at close to EUR 9 million.

Land acquisition for nature conservation programmes went according to plan and the METSO programme also came close to meeting its land acquisition target. Land acquisition for the old conservation programmes will be phased out significantly in 2007, ceasing almost completely by the end of 2008. METSO acquisitions will continue at their current levels over the coming years. Due to the market situation and tight acquisition criteria, managed forest acquisitions in 2006 remained below half the planned level. Acquisition of managed forests will continue in 2007.

Laatumaa's development target is the improvement of state land revenues in accordance with the Metsähallitus development strategy. Focus will be placed in future on, for example, the marketing of weakerselling plots and the promotion of leasing. Laatumaa also aims to offer

Sales 2006



- Lakeside plots EUR 7.3 million
- Tourist centre plots EUR 5.0 million
- Forest land EUR 3.2 million
- Other (e.g. buildings) EUR 1.3 million

more complete packages to its customers by networking with other actors in the industry. In this way, Laatumaa can offer, for example, builders full service including municipal engineering and, by agreement, even the building in addition to the plot itself.

In addition to plot sales Laatumaa also aims, together with the Forestry unit, to improve return on capital through other land use development projects. Laatumaa will also draw up an incorporation report as required by the Cabinet Committee on Economic Policy regarding functions that have no significant need of public steering.

WILDERNESS EXPERIENCES FROM WILD NORTH

Johanna Tolonen, Director, Wild North
 (as of 1 January 2006).
www.villipohjola.fi

Wild North key figures

	2004	2005	2006
Turnover* EUR million	5.5	4.7	5.5
Person years	37	35	33

*) Outside the Group



The Wild North business unit of Metsähallitus is responsible for nature tourism operations. Wild North markets, sells and provides nature tourism services for private and corporate customers. In addition, Wild North manages the marketing and sales of Metsähallitus's chargeable fishing, hunting and snowmobile route permits in the manner agreed with the Natural Heritage Services. Wild North is one of Finland's leading nature tourism operators.

Wild North's service supply in Finland included around 300 rental cabins, 4 campsites and 14 sites suitable for groups. Wild North also acts as an agent for privately owned holiday cottages and continuously seeks new sites in beautiful natural locations. Wild North also offers fishing and hunting grounds through its partners in Sweden, Norway and Russia. Use of Wild North's tourism services is on the increase. In 2006, Wild North's services were used by more than 100,000 Finnish customers.

Wild North posted an extremely good result in 2006. International group tours accounted for a record 40 per cent of net sales. The most popular international product is Christmas adventure trips to different Lapland destinations – in particular from the UK, but to an increasing extent also from other countries. Wild North's holiday destinations have also made breakthroughs in brand new market areas, such as Spain. Wild North launched a new campaign, offering conference trips, recreational trips, nature trips and incentive trips to Finnish corporate customers. The biggest demand for business tourism was in Lapland and Southern Finland.

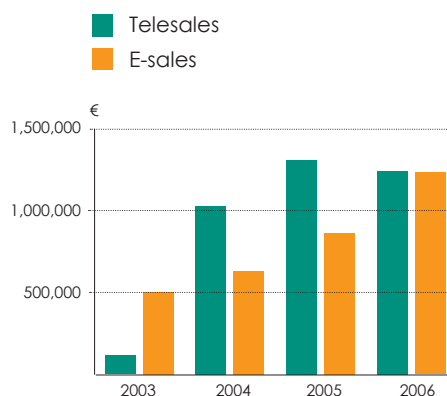
2006 also saw investment in the development of permit sales. The start of hunting permit sales was further staggered and the sales systems developed to operate faster. The Internet sales service displayed the remaining hunting permit quota so that sold-out areas would not be requested in vain. The new mobile fishing licence was also piloted. These improvements enabled permit sales to be carried out

more smoothly, which was reflected in the increased hunting customer satisfaction indicated by the results of a customer opinion survey.

The amount of sales concluded last year via the online service exceeded the telesales service for the first time. The goal of further expanding the share of electronic sales will require continuous development of our Internet sales services.

The objective of Wild North is to offer recreational diversions from everyday life to clientele who are in search of the peace and outdoor experiences offered by nature. Active networking with different small enterprises enables a versatile service supply. Wild North is a reliable and desirable partner for the expansion and internationalisation of small enterprise operations. Together with its partners, Wild North also seeks and tests out new tourism products. Current projects include, for example, the development of wellness tourism services related to summer tourism and nature.

Internet sales and telesales of private customer products





2006

2006



MORENIA – SOLID GROUND ■

Pertti Oikarinen, Managing Director, Morenia Oy
www.morenia.fi

Morenia Oy key figures

	2004	2005	2006**
Turnover*, EUR million	14.8	19.6	20.8
Person years	19	23	24

*) Outside the Group

**) Morenia operated as a Metsähallitus business unit until 28 February 2006.



Morenia Oy is a subsidiary owned by the Metsähallitus Group. Morenia's main area of activity is the processing and sale of soil and rock resources and products made from them. In addition, the company conducts earth and water construction and earthmoving and sells consultation and developer services related to the sector. Morenia is the second biggest supplier of soil resources and aggregates in Finland.

Morenia served as a business unit of Metsähallitus until 28 February 2006 and began operations from 1 March 2006 as an independent limited company. The biggest reasons for incorporation were a desire to make operations more transparent and to promote impartial competition within the sector.

Morenia's leading products are soil resources and aggregates for infrastructure construction. The biggest customer groups are the concrete industry, asphalt industry and road and railway builders. Some 8.9 million tonnes of soil resources and aggregates were sold in total in 2006. From the start of 2006, Morenia has also sold OKTO building products*. Morenia's result for 2006 met its target.

Morenia began export operations in 2006, and agencies were established in Estonia, Latvia and St. Petersburg, Russia. Asphalt aggregate exports to the Baltic countries

included both rock aggregate and OKTO crushed aggregate. Morenia aims to further expand its export operations in Europe, extending as far as Hungary.

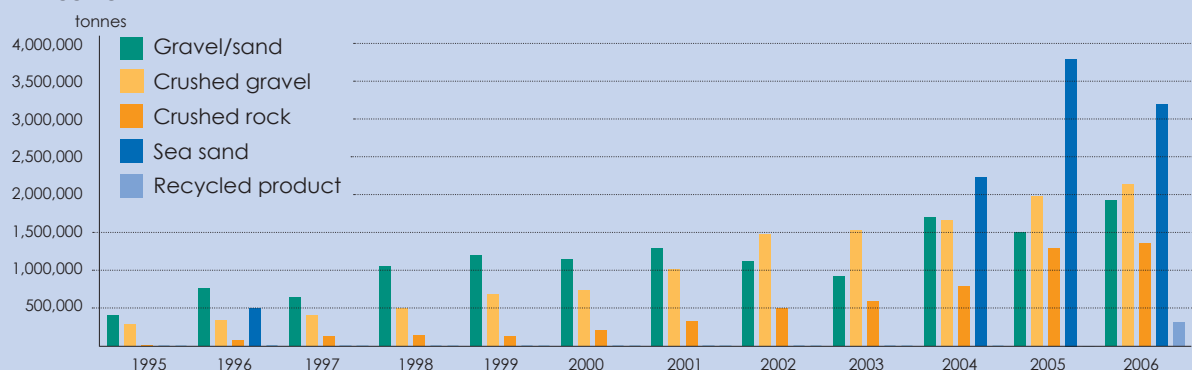
At the beginning of 2007 an agreement was made with Kemira GrowHow Oyj, according to which Kemira GrowHow sells and markets stone chips produced by Morenia to consumers as part of its own product family, and Morenia concentrates on the delivery of stone chips to the concrete industry.

The refining of building stone products is currently being launched and the first schist quarrying began in spring 2006 at the Lokka Sodankylä quarry in Lapland. Alongside Lokka schist, quarrying of mica schist will also be started at the Paljakka quarry in Puolanka, northern Finland.

Responsible and innovative use of natural resources is one of Morenia's core values. In the future, other recycled products in addition to OKTO products will also be sought to replace natural soil and stone products currently used in construction. Marine soil resources will also be utilised more in future to replace terrestrial sand and gravel extracted from esker formations.

*OKTO building products consist of aggregates produced as a by-product of ferrochromium production and steelmaking at Outokumpu's Tornio plants. OKTO building products are used by builders and the asphalt industry mainly as insulation layers for roads and building foundations and as asphalt aggregate.

Aggregate sales



■ FORELIA – PLANTING FORESTS

Managing Director, Forelia

- until 23 March 2006, Päivi Hänninen
- until 31 July 2006, Tapani Relander (pro tem)
- from 1 August 2006, Timo Tavailla

www.forelia.fi

Forelia Oy key figures

	2004	2005	2006
Turnover*, EUR million	6.2	6.7	8.0
Person years	135	138	136

*) Outside the Group



ment programme aimed at efficient mass production was completed at the Saarijärvi nursery. The purpose of these measures is to return the company's operations to profitability; however, the targeted benefits of the changes were not realised during the accounting period. The company's financial result for 2006 was clearly negative.

Forelia produces on average over 50 million seedlings per year. Forelia's sales volumes increased successfully in 2006. The price level for seedlings remained at the same level as previous years, but costs, especially of packing materials and transport, increased.

Forelia Oy's high quality production facilities ensure the preconditions for improvement in profitability are in place. Forelia Oy expects its seed and seedling sales turnover to fall during the current financial year and financial results to remain negative, although the result is forecast to be better than 2006. The development process begun by the company will continue during the current financial year.

Forelia has an associated company, AS Eesti Metsataim, in Estonia. The company, which was established in 2001, sells container seedlings to all forest owner groups in the Estonian market. Operations have proceeded extremely well.

Forelia Oy is a subsidiary owned by Metsähallitus Group which specialises in the production of forest tree seeds and seedlings. The company also provides forest tree breeding services. Forelia's customers include private forest owners, forest management associations, the forest industry and public bodies. Forelia is the market leader in its field.

Forelia has invested significantly during previous financial years in developing seedling production. Its operational structure has been improved by concentrating production at three tree nurseries. During the past financial year, the company began the development of its manufacturing, sales and administrative processes, and an invest-

■ METSÄHALLITUS HOLDING OY AND FORIA GMBH

The aim of Metsähallitus Holding Oy is to own and develop investments in Metsähallitus's core business areas and in closely related sectors. Metsähallitus Holding's turnover in 2006 was EUR 0.3 million.

Operations of the associated company Foria GmbH, which was jointly owned by Metsähallitus Holding Oy (50%) and the Austrian State company ÖBf Beteiligung GmbH (50%), were terminated at the end of 2006. The associated company was founded in 2002 at a time of growing demand for forestry actors operating independently of the forest industry. On the other hand, the domestic growth potential in forestry was limited for both Metsähallitus and ÖBf. For these reasons, growth potential was sought in the growing markets of Eastern Europe. The company's most important units were located in Kostroma in Russia and in Romania. Other, operations were based in the Ukraine, Slovakia and the Czech

Metsähallitus Holding Oy Managing Director

- Until 15 September 2006, Esko Nenola
- From 16 September 2006, Harri Saxlund (pro tem)

Johann Mattes, Managing Director, Foria GmbH

Republic. The clientele included forest owner companies, institutions and private citizens and the forest industry.

Russia's forestry legislation changed essentially last year, effectively eliminating opportunities for foreign forestry actors operating independently of the forest industry to develop their operations in, for example, forest leasing. The outlook for the Romania project was also negative. Foria's operations were unprofitable, and as the new climate offered no preconditions for improvement in profitability, it was decided to discontinue the company's operations.

2006





2006

NATURAL HERITAGE SERVICES ■ – NATURE CONSERVATION, RECREATION, HUNTING & FISHING

The Natural Heritage Services business unit is a service company type of public administration actor within Metsähallitus. Natural Heritage Services manages all of Metsähallitus's public administration duties, such as those related to protected areas and wilderness areas and other duties laid down in acts on hunting, fishing, off-road traffic and certain other legislation. Natural Heritage Services is also responsible for the control of fishing and hunting rights and promoting the general recreational use of state-owned lands.

Decisions on public administration duties and their targets and financing are made annually with the Ministry of the Environment and the Ministry of Agriculture and Forestry. Although the financial targets for 2006 were well achieved overall, improved productivity remains a key development target. Natural Heritage Services' total expenditure in 2006 was EUR 54 million. The Ministry of the Environment and the Ministry of Agriculture and Forestry financed EUR 40 million of these expenses, EUR 7 million were derived from income from chargeable operations and a further EUR 7 million from co-financed operations.

Organisational reform successfully carried out

In order to rationalise operations, an extensive organisational reform was implemented within Natural Heritage Services in 2006. The former regional units were discontinued and the broader regional units of Southern Finland, Ostrobothnia and Lapland were established in their place. Operations were divided into four main processes: nature conservation, recreational use of natural areas, area management and hunting and fishing. At the same time, the Natural Heritage Services support service related tasks were outsourced to the Metsähallitus Service Centre.

Rauno Väisänen, Director, Natural Heritage Services
www.metsa.fi/naturalheritage

Natural Heritage Services key figures

	2005	2006
Total expenditure of operations, EUR million	54.1	54.0
Person years	579	587

The objective of Natural Heritage Services is the protection of biodiversity and cultural values on the basis of the best information available. The extensive habitat inventories completed in 2006 in the Forest Biodiversity Programme for Southern Finland (METSÖ) conservation areas considerably improved the knowledge base for Natural Heritage Services' operations. Natural Heritage Services provides its customers with opportunities for recreation and learning in the natural environment and creates opportunities for nature tourism and sustainable area development. Natural Heritage Services builds structures and routes to facilitate and guide, for example, hiking and recreation activities in the natural environment and provides advice and guidance on natural and cultural heritage matters. Regarding hunting and fishing, Natural Heritage Services aims to secure ecological and social sustainability and foster the Finnish hunting and fishing culture.



Jubilee year and other highlights

The 2006 highlights included, for example, the inclusion of the Kvarken Archipelago on the UNESCO World Natural Heritage List as Finland's first Natural Heritage Site. Natural Heritage Services actively participated in the preparations for the listing and will play a central role in the management of the World Heritage Site.

Natural Heritage Services also worked actively with Helsinki area municipalities and other actors to set up a visitor centre tailored to the metropolitan area at the Nuuksio National Park. Agreement was reached regarding the principles for implementation and financing of the visitor centre, and Metsähallitus's state supplementary budget proposal regarding the construction of the centre was approved. This gave the green light to move forward with the ownership, construction and operations planning of the Nuuksio centre.

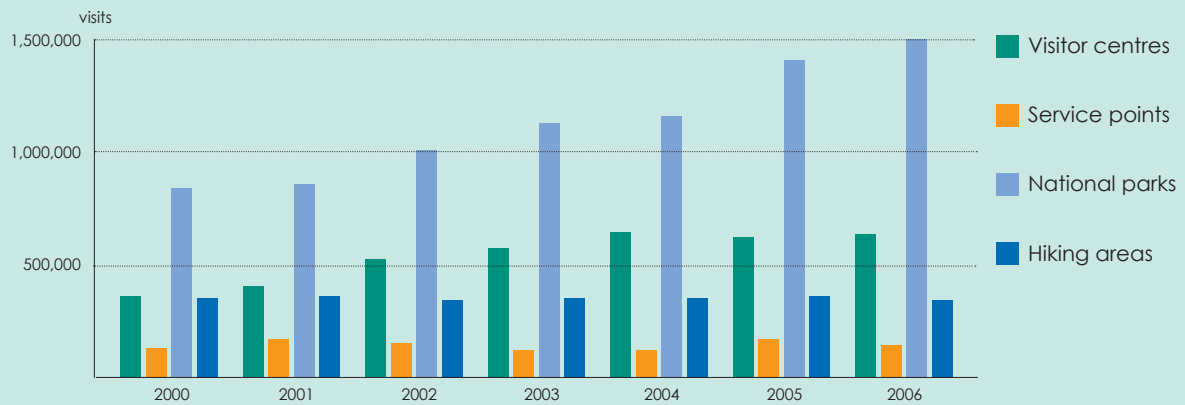
2006 was a national park jubilee year. The 50th anniversaries of the Lemmenjoki, Liesjärvi, Linnansaari, Oulanka, Petkeljärvi, Pyhä-Häkki and Rokua national parks were marked in a number of different ways. Visitor numbers to national parks have increased year on year, with 2006 posting yet another record: visits to national parks totalled close to 1.5 million.

Natural Heritage Services actively undertakes international co-operation with Finland's neighbouring countries in the field of nature conservation. Co-operation was deepened in particular with Estonia. 2006 saw the signing of co-operation agreements with the newly established Estonian State Nature Conservation Centre (LKK) and the Estonian State Forest Management Centre (RMK).

Expansion of Natural Heritage Services' sphere of responsibilities

The vision of the Natural Heritage Services unit is to safeguard a favourable level of species and habitat protection in state-owned areas and to produce services that are valued and that promote wellbeing for humans and nature. In addition, a preliminary study on the productivity of nature conservation administration carried out in 2006 also proposed responsibility for Metsähallitus's Natural Heritage Services unit in the management of nature conservation areas on private lands and the building of facilities to promote the recreational use of natural areas. The study also proposed the transfer of Finnish Forest Research Institute (Metla) protected areas to Metsähallitus.

Visits to Metsähallitus sites



Metsähallitus Service Facilities for Nature Conservation and Outdoor Recreation in 2006

Visitor centres and other customer service points	26
Guidance installations and constructions	2,470
Wilderness huts and rental cabins	400
Rest point facilities and constructions	2,820
Boating facilities and constructions	330
Firewood supply facilities	1,640
Hiking and nature trails	5,490 km
Skiing routes and tracks	1,870 km
Boating and water recreation routes	630 km
Snowmobile routes and tracks	7,110 km
Hunting permits sold	37,800
Fishing licences sold	61,700

■ SOCIAL RESPONSIBILITY REVIEW

For further information on Metsähallitus's social responsibility, please contact:

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Tel. (+358) 205 64 4442
- Juha Mäkinen, Director of Communications,
Tel. (+358) 205 64 4224
- E-mail: firstname.surname@metsa.fi
- Social Responsibility Report 2002 and Social Responsibility Reviews are available on the Internet at: www.metsa.fi

Since 2002, Metsähallitus has observed the recommendations of, for example, the Global Reporting Initiative (GRI) in its choice of criteria and indicators for measuring its commitment to social responsibility. The obligation to report on social responsibility indicators applies to all Metsähallitus business units. The subsidiaries Forelia and Morenia and associated company Foria, which operated principally abroad, are not included in the reporting. The majority of indicator data is derived from Metsähallitus's planning and monitoring systems, its ISO 14001 certified environmental management system and from audited bookkeeping and financial statements. In 2006, Metsähallitus initiated a project aimed at measuring in detail the cost and benefit effects on Metsähallitus of fulfilling its general social obligations laid down by law.

A year of change for Metsähallitus personnel

2006 has been a time of rapid organisational changes, including implementation of the Kymppin Savotta programme, Metsähallitus's own profitability improvement agenda. Employment of salaried employees and forestry workers by Metsähallitus totalled 1,846 person years. When all Metsähallitus Group employees, external contractors and machine operators are taken into consideration, Metsähallitus's total employment effect exceeds 3,000 person years.

At the end of 2006, the share of temporary employees of the entire workforce was 14 per cent. Although Metsähallitus favours permanent employment contracts, EU projects, for example, are usually carried out by predominantly temporary employees. The number of temporary employees rises sharply during the summer

season from May to August when Metsähallitus employs hundreds of people in different types of seasonal field-work and visitor guidance work.

Metsähallitus's workforce is evenly divided among different workplaces throughout Finland. Most of the salaries and wages (58%) paid by Metsähallitus are paid to employees in the provinces of Oulu and Lapland.

Strong mechanisms for effective interaction

The Ministry of Agriculture and Forestry appoints advisory committees to operate for three years consecutively in the regions of Lapland, North Ostrobothnia and Kainuu and North Karelia. The 11-strong advisory committees should comprehensively represent the region's residents, forestry, economic life, environmental protection and non-governmental organisations. The task of the advisory committees is to assist Metsähallitus in its decision-making regarding issues relating to the use of state-owned land and water areas of regional-political significance and, during the planning stage of Metsähallitus operations, to submit initiatives to Metsähallitus aimed at safeguarding the interests of local residents. The operating period for the current advisory committees, complete with new members, began on 1 August 2006.

Metsähallitus's open and interactive operating philosophy is also applied in its natural resource planning, in which the principles and scale of use of the natural resources under Metsähallitus's stewardship are defined for the next ten years. Local municipalities and residents are also given the opportunity to state their opinions regarding Metsähallitus's policies before any final decisions are made. 2006 saw the completion of the natural resource plans for Eastern and Western Lapland. The plans were drawn up in co-operation with interest group representatives. Drawing up of a reformed natural resource plan for Ostrobothnia also got underway in 2006.



2006

The interim review of the natural resource plan for Northern Lapland commissioned by the Ministry of Agriculture and Forestry was also completed. The aim of the review was to reconcile forestry and reindeer husbandry in the region. The plan review was based on the cutting budget calculations made during the planning process, the expert opinion of the Game and Fisheries Research Institute on the ecological and financial impact of forestry on reindeer husbandry, and on surveys of local sources of livelihood and employment conducted by the Finnish Forest Research Institute's research project "Sustainable Use of the Forests in Northernmost Lapland". The review permanently excluded some 20,000 hectares of forest from forestry operations. If scarcely forested areas are included, this figure rises to some 40,000 hectares. The areas are located in the Hammastunturi and Vätsäri wilderness reserves, where felling in areas under nature-based forest management was formerly possible.

Another important co-operation mechanism is the agreement between Metsähallitus and the Finnish Reindeer Owners' Association regarding the reconciliation of reindeer husbandry and forestry. The objective is to jointly develop forest management practices that take the needs for reindeer husbandry into consideration and to establish local level co-operation between both parties as part of everyday operations. The practical implementation of agreement was assessed in August 2006, upon which it was mutually stated that the agreement has met the relevant needs and the co-operation can be continued on the same basis.

Environmental management system facilitates continuous improvement

Metsähallitus's environmental and quality management system is based on the ISO 14 001 standard. Its environmental management system has been certified since 1998. Management and monitoring of environmental matters and continuous improvement of practices are essential aspects of the everyday activities of Metsähallitus's business units and subsidiaries. Metsähallitus has some thirty active and trained auditors, conducting around a hundred internal audits annually. The efficiency of the audits is improved, for example, through cross-auditing in which experts from different business units audit the operations of units other than their own.

More details of the environmental activities of the Forestry unit are presented on pages 6-9.

Land rights dispute in Upper Lapland continues

The lengthy dispute over land rights in Upper Lapland is also being addressed. According to a study on land rights in Lapland submitted to the Minister of Justice at the end

of the year, the State has treated the inhabitants of Lapland equally especially in regard to its land policy and has made no distinctions on the basis of ethnicity. The several proposals to resolve the land rights issue that have been made will be addressed during the term of the recently elected Parliament.

In 2005, three Sámi reindeer herders submitted a complaint to the United Nations Human Rights Council (UNHRC) regarding the felling operations of Metsähallitus. The matter is currently pending review by the UNHRC. In addition, in August 2006 the Sámi reindeer herders litigated against Metsähallitus in the Lapland District Court, referring to Article 27 of the International Covenant on Civil and Political Rights to demand a ban on felling operations. The handling of this matter is also pending.

Unlawful prevention of cuttings

Disputes between Metsähallitus and conservationists sometimes lead to demonstrations at the felling sites themselves. Metsähallitus respects the right of freedom of demonstration. However, repeated close quarter intrusion at the work sites of working forest machines constitutes an illegal act according to Section 18a of the Forest Act regarding the intentional prevention and disruption of forest work. Conservationists' demonstrations against Metsähallitus's felling operations at Virrat, Ikaalinen and Loppi in autumn 2004 led to several court proceedings. The court decisions given in 2006 found the defendants guilty of unlawful prevention of forest felling. The handling of one case is ongoing in the court of appeal.

General social obligations within the sphere of reporting

Metsähallitus's social responsibility is also fundamentally connected with the general social obligations specified in Section 4 of the Act on Metsähallitus, which provide the framework for Metsähallitus business operations. The general social obligations that affect the business operations are:

- protection and appropriate increase of biological diversity
- promotion of recreational use
- promotion of employment
- securing the preconditions for the Sámi people to practice their culture
- fulfilment of the obligations regarding the reindeer herding area laid down in the Reindeer Husbandry Act.

A development project aimed at creating a method for monitoring the costs and benefits resulting from the fulfilling of social obligations was carried out by Metsähallitus in 2006. The sphere of examination included the Forestry and Laatumaa business units, whereas all subsidiary

operations and public administration duties were excluded. In future, Metsähallitus will monitor the implementation of its general social obligations in more detail and report on them to the Ministry of Agriculture and Forestry and, in connection with confirmation of the financial statements, to the Government.

In practice, the obligations are taken into consideration in the treatment of managed forests so that forest sites are either excluded from forestry operations altogether or certain felling restrictions are applied to them. Appropriate scheduling of fellings and the leaving of retention trees also contribute to meeting the obligations. Sites that require special attention include, for example, habitats containing threatened species and other valuable habitats, areas of significant landscape value, areas alongside hiking routes and important winter pastures for reindeer. Furthermore, sites requiring special attention will not be utilised as plot land in Laatumaa's operations. Due to the obligations, the use of natural resources is planned in interactive co-operation with the stakeholders, which ensures the compatibility of different forms of use in managed forests.

In order to promote employment, Metsähallitus also practises a soft human resources policy. Work is not outsourced at a rate exceeding the natural rate of decline of employee numbers and personnel are not laid off or given notice for reasons of improved profitability.

A total of around 573,000 hectares (16% of the total forest land area) of forest with restrictions on forestry activity imposed due to different obligations were determined in Metsähallitus's SutiGis geographical information system, of which some 207,000 hectares constituted areas either totally excluded from forest management or, as in a few cases, subjected only to selective felling. 366,000 hectares are within the scope of restricted forest management. On the basis of the MELA forest management planning system calculations, the land use restrictions equate to a total reduction in the planned cut of 1.3 million cubic metres during the first ten-year period.

When the reduction in the planned cut, together with the cost of additional planning caused by the social obligations and the employment costs and obligations of Laatumaa are taken into account, the calculated total cost of fulfilling Metsähallitus's general social obligations, i.e. Metsähallitus's social contribution, is some EUR 38 million per year.

On the basis of current knowledge, the benefits obtained from this contribution cannot be expressed in financial terms. However, the qualitative benefits of the contributions are significant: for example, biologically diverse managed forests supplement the network of protected areas, while practices that maintain managed forest landscapes in turn improve operational preconditions for nature tourism. Investment in biodiversity and recreational use also, in many cases, improves the operational preconditions for reindeer husbandry.

Taking into account social obligations, the significance to society of Metsähallitus's services can be broadly divided into three aspects:

- EUR 65 million contribution from profits to state revenue
- EUR 38 million investment in general social obligations in connection with business operations
- Natural Heritage Services: investment of EUR 54 million of state budget finance in the provision of public services.



Social responsibility indicators

Value	Parameters	Indicators	Results	
Responsible management and use of natural resources	Area management	Acquired nature conservation programme sites	5,870 ha	
	Forests and other natural resources	Hunting and fishing offences (permit violations/legality)	493	
	Protection of biodiversity	Restored mire areas Restored forest areas Number of golden eagle offspring Number of Saimaa ringed seal pups Valuable habitats preserved and almost fully preserved by Forestry Managed forest excluded from commercial use for ecological reasons: fully excluded restricted use Prescribed burning areas in managed forests Retention trees and other trees excluded from felling (including retention trees, other economically valuable wood and fallen trees, without valuable biotopes) Game habitats in managed forests		1,342 ha
				2,556 ha
				136
				52
				100%
				310,000 ha
				241,000 ha
				581 ha
				5.9 m ³ /ha
				152,072 ha
	Environmental protection and implementation of national forest and environmental policies	Environmental damage: oil and fuel leaks during forestry operations Environmental investments of the Forestry business unit Forestry water conservation quality index (New scale 1–4, target: 3.80, optimum 4.00) Quantity and mode of wood transportation: by truck by water by rail Consumption of fuels and other consumables in the wood harvesting chain: petrol diesel hydraulic oil chainsaw oil Atmospheric emissions from fuels and other consumables in the wood harvesting chain: HC NO _x CO ₂ particles SO ₂ CO Amount of landfill waste (in protected areas, hiking areas and wilderness reserves, 2005 result) Reaching the service and other operational targets, as well as the financial targets set by the Ministry of Agriculture and Forestry Reaching the targets set by the Ministry of the Environment		3
				EUR 21.8 million
				3.77
			3.66 mill.m ³	
			0.09 mill.m ³	
			1.06 mill.m ³	
			0.208 kg/m ³	
			4.432 kg/m ³	
			0.047 kg/m ³	
			0.052 kg/m ³	
			0.034 kg/m ³	
			0.208 kg/m ³	
			14.751 kg/m ³	
			0.008 kg/m ³	
			0.003 kg/m ³	
	0.090 kg/m ³			
	789 m ³			
	p. 4-5, 30-31			
	p. 4-5			
Results through co-operation	Social acceptance and impacts on regional economies	Metsähallitus personnel and contractors by segment:		
		Forestry workers	709 pers. yrs	
		Forestry unit salaried employees	316 pers. yrs	
		Natural Heritage Services	587 pers. yrs	
		Other personnel	256 pers. yrs	
		Forestry contractors, including machine operators	800 pers.yrs	
		Number of tourism entrepreneurs' co-operation agreements:		
		Wild North	175	
		Natural Heritage Services	147	
		Mechanisation level of fellings	96%	
		Use of participatory planning in the planning of Forestry's operations	38%	
		Co-operation procedures in reindeer husbandry	p. 24-25	
		Preservation of culture and maintenance of viability (the Sámi culture, culture related to hunting, fishing, forestry, etc.)	*	
		Sites listed in the register of ancient relics	1,348	
		Remuneration paid by Metsähallitus, by province:	total EUR 53.30 million	
Southern Finland	15.5%.			
Western Finland	12%			
Eastern Finland	15%			
Province of Oulu	25.5%			
Lapland	32%			
Income tax paid by Metsähallitus	EUR 5.255 million			

Value	Parameters	Indicators	Results
Results through co-operation	Management of risks related to social responsibility	Forecasting and resolution of conflicts	p. 9, 24
	National and international co-operation	Participation in national development projects and work groups, and in research and expert co-operation Participation in international development projects and other work groups	* p. 5, 20
Employee well-being	Personnel's confidence in the future	Personnel's belief in Metsähallitus' future success (scale 1–5, 2005 study)	3.7
		Work satisfaction (scale 1–5, 2005 study)	3.9
	Maintenance of capacity to carry out work; competence and training	Meaningfulness of work (scale 1–5, 2005 study)	4.0
		Personnel's assessment of their own competence (scale 1–5, 2005 study)	4.1
		Training	4,038 man days
		Average age of permanent employees:	
		salaried employees	48.4 years
		forest workers	50.9 years
	Management culture and work atmosphere	Possibilities for employment flexibility:	
		job alternation leave	20 persons, 2,425 workdays
study leave		9 persons, 294 workdays	
Sick leave		17,705 workdays	
Equality and fair treatment	Opportunity to influence one's own work (scale 1–5, 2005 study)	3.6	
	Receiving feedback on one's own work (scale 1–5, 2005 study)	3.4	
	Receiving help and support from supervisors (scale 1–5, 2005 study)	4.0	
	Flow of information within Metsähallitus (scale 1–5, 2005 study)	3.3	
Occupational health and safety	Equality in treatment between the sexes, as perceived by personnel (scale 1–5, 2005 study)	3.9	
	Share of temporary staff of whole workforce (on Dec.31, 2006) Share of women of the permanent workforce (on Dec.31, 2006)	14% 18%	
Focus on customers	Customers of business operations (business-to-business and private customers)	Work-related accidents	78
		Absences due to work accidents	843 workdays
	Customers of public services	Customer satisfaction (separately for service and deliveries and quality and sufficiency of communication in wood trade; mechanism for managing customer feedback, feedback and market surveys received)	Information for internal use
		Visitor satisfaction (annual average from visitor surveys at different sites, scale 1–5)	4.2
		No. of customer survey respondents	7,177
	All customers	Number of visits to visitor centres and service points	775,400
		Number of visits to national parks and hiking areas	1,830,000
		Number of visits to Metsähallitus Internet pages:	
		www.metsa.fi	1,231,200
		www.laatumaa.com	330,885
www.luontoon.fi	1,689,000		
www.villipohjola.fi	978,414		
www.morenia.fi	66,155		
Profitability	Financial result	Contribution to state revenue	EUR 65 million

*) Qualitative descriptions of operations are available in earlier social responsibility reports and on the Metsähallitus web site.



CORPORATE GOVERNANCE

Metsähallitus is a state-owned enterprise that runs business activities while also fulfilling many public administration tasks. The Finnish Parliament annually approves Metsähallitus’s main service goals and other operational objectives as part of the state budget. On the basis of the objectives set by Parliament, the Ministry of Agriculture and Forestry decides on the annual profit and revenue contribution targets for Metsähallitus. At the same time, the Ministry decides how the public obligations of Metsähallitus should be taken into account in this context.

Business operations and public administration duties are clearly distinguished from each other in terms of their functions and in budgeting and financial statements.

Natural Heritage Services manages its public administration duties with state budget financing and within the framework laid down by the Ministry of the Environment.

Metsähallitus operates according to management-by-results principles: the targets are agreed on and committed to throughout the chain of result discussions, from the ministry level to individual employees.

The following legislation applies to Metsähallitus as an enterprise:

- State Enterprise Act (1185/2002)
- Act on Metsähallitus (1378/2004)
- Government Decree on Metsähallitus (1380/2004).

Metsähallitus management structure



Organisation of Metsähallitus

The Managing Director of Metsähallitus is appointed by the Finnish Government on the basis of a proposal made by the Ministry of Agriculture and Forestry. The Managing Director is responsible for managing and developing the operations of Metsähallitus, taking care of current matters in the administration of the enterprise and for ensuring that its accounting complies with the legislation and that financial administration is organised reliably. The Managing Director also makes proposals to the Board of Directors regarding the appointment and discharge of directors of business units and Group functions.

The policy for the appointment of directors in the field of public administration duties is somewhat different: the Government appoints the director of Metsähallitus' Natural Heritage Services on the basis of a proposal by the Ministry of the Environment. The Game and Fisheries Manager, responsible for hunting and fishing related decision-making, is appointed by the Ministry of Agriculture and Forestry.

Jyrki Kangas appointed as Director General

Jan Heino, who had served as Managing Director of Metsähallitus since 2000, was appointed to his new post as Director of the FAO's Forestry Department in summer 2006. Up until the appointment of the current new Managing Director, Director of Forestry, Hannu Jokinen, acted as the interim Managing Director with Director of Timber Supply, Jussi Kumpula, as his deputy. The Government appointed Doctor Jyrki Kangas as the new head of Metsähallitus on the basis of Minister of Agriculture and Forestry Juha Korkeaoja's proposal. Kangas took on the role of Director General at the beginning of 2007.

The business unit Wild North has been headed by Johanna Tolonen since the beginning of 2006. The directorship of Metsähallitus's subsidiary Forelia Oy changed last year: the new Managing Director since 1 August 2006 is Timo Tavaila.

The Board of Directors of Metsähallitus supervises and controls the activities of the state enterprise and makes decisions on significant development measures regarding its business operations. The government-appointed Board of Directors comprises five to seven members. One of the Board members must be appointed from Metsähallitus's own personnel, one is appointed from the Ministry of Agriculture and Forestry, one from the Ministry of the Environment and one from the Province of Lapland.

Our mission 2010

We manage state-owned land and water areas according to the goals set by society. We produce a wide range of high quality services in the use and conservation of natural resources in Finland and abroad. Our work combines traditional Finnish forest management expertise with the international operating environment.

Our vision

Our goal is to be a leading operator in the sustainable use and conservation of natural resources in Europe.

Our values

- Results through co-operation
- Employee well-being
- Focus on customers
- Profitability
- Responsible management and use of natural resources

METSÄHALLITUS BOARD OF DIRECTORS April 1, 2005–March 31, 2008

Pentti Lähteenoja , Chairman, Deputy Director General	Ministry of Agriculture and Forestry
Riitta Rainio , Vice Chairman, Director General of Administration	Ministry of the Environment
Aulikki Heinonen , Municipal Manager	Municipality of Muonio (representative of the Province of Lapland)
Jaana Korpi , Managing Director	Weilin+Göös Oy
Timo E. Korva (from 1 August 2006), Town Manager	Town of Kemijärvi
Kalevi Hemilä (until 1 August 2006), Deputy Managing Director	Etera Mutual Pension Insurance Company
Aulis Lyhykäinen , Sales Manager	Metsähallitus (employee representative)
Helena Walldén , Member of the Executive Board	OKO Bank

■ ANNUAL REPORT ON BUSINESS OPERATIONS JAN.1–DEC.31, 2002

*) The financial statements and Annual Report for Metsähallitus's public administration duties are published separately on our web site at www.metsa.fi.

IMPLEMENTATION OF DECISIONS OF PARLIAMENT

Key service targets and other operating targets of business operations

Metsähallitus managed the forests administered by it in an ecologically, economically and socially sustainable manner and took into account the social obligations assigned to it.

Maximum amount of investments and investment commitments in business operations

The realised investments amounted to EUR 11.6 million, while the maximum amount set by Parliament was EUR 30 million. Investment commitments were given for a total of EUR 3.5 million. The maximum limit set by Parliament was EUR 34 million.

Maximum amount of loan for business operations

Metsähallitus had no non-current loans in 2006. The maximum limit set by Parliament was EUR 50 million.

Guarantees for loans of subsidiaries

Metsähallitus provided a guarantee for the loans of Forelia Oy to the value of EUR 4.3 million. The maximum guarantee laid down by Parliament was EUR 9.3 million.

Maximum amount of guarantees for business operations

Metsähallitus did not provide guarantees for its operations. The maximum amount prescribed by Parliament was EUR 2.0 million.

Decrease in basic equity

Metsähallitus's basic equity was decreased by EUR 9.2 million in line with the decisions of the Parliament and the Government. The decrease in basic equity was mainly due to a transfer of real estate property from the administration of the business operations to the balance sheet of the public administration duties. After the decrease, the basic equity amounts to EUR 2,462.4 million.

ACHIEVEMENT OF SERVICE AND OTHER TARGETS SET BY THE MINISTRY OF AGRICULTURE AND FORESTRY

General social obligations

Strategic long-term goals

Metsähallitus's business operations are carried out within the limits of the general social obligations (safeguarding of biodiversity, recreational use of forests, employment, interests of the Sámi and reindeer husbandry) laid down in the law. Encumbrances caused by these restrictions are taken into account as factors that lower earning capability.

Goals for 2006

The estimated theoretical annual cost for taking into account biodiversity, recreation, reindeer husbandry, the Sámi culture and employment in compliance with the Act on Metsähallitus was EUR 38 million in 2006.

Taking into account biodiversity, recreation, reindeer husbandry and the Sámi culture resulted in restrictions on forestry operations in approximately 575,000 hectares (16%) of the forest land used for business operations in 2006. Of these, 207,000 ha (6% of the forest land used for business operations) were predominantly excluded from felling operations, and in 368,000 ha (10%) restrictions were posed on forestry operations.

Metsähallitus promoted employment in 2006 by implementing the policy of refraining from laying off forest management and wood procurement blue-collar personnel during the months of January to March when the profitability of the work is at its lowest. In the three northernmost municipalities employment was promoted by special measures, as a result of which approximately 90 per cent of harvesting was carried out manually.

In the Sámi home district, the management, use and protection of natural resources under Metsähallitus's administration was reconciled with the Sámi culture by land-use decisions as well as by lowering the planned cut, decreasing regeneration fellings and by using forestry methods that cause less harm to reindeer husbandry.

The needs of the Finnish Defence Forces were also taken into account in Metsähallitus's land acquisition operations. During 2006, Metsähallitus acquired land for use by the Defence Forces at a cost of approximately EUR 1.2 million, while the target was EUR 1.7 million.

Metsähallitus's target financial result and contribution to state revenue

Strategic long-term goals

The efficiency of business operations will be increased and profitability improved within the boundaries set by the social obligations.

The target is to increase the return on investment to a level of 3 per cent by 2010. 95 per cent of the annual profit (after taxes) is transferred to the stage budget.

Unprofitable business operations are to be divested of, unless the operation is of particular social importance to the State owner.

Goals for 2006

On 1 February 2006, the Ministry of Agriculture and Forestry set a profit target of EUR 62.3 million for Metsähallitus's business operations, and the targeted contribution to state revenue in 2006 was EUR 59.2 million. This means a 2.6% return on investment. The profit of Metsähallitus's business operations in 2006 was EUR 68.8 million. The return on investment was 3.1%. Forestry, Laatumaa and Wild North all achieved excellent results and exceeded their targets.

Monitoring

Strategic long-term goals

Metsähallitus systematically monitors the benefits and costs incurred as a result of taking social obligations into account in its business operations and reports on them to the Ministry of Agriculture and Forestry and, in connection with confirmation of the financial statements, to the Government.

Metsähallitus separately monitors the development of proceeds from sales of land and water areas and the development of other business operations and reports on these to the Ministry of Agriculture and Forestry and, in connection with confirmation of the financial statements, to the Government.

Goals for 2006

Metsähallitus carried out a development project dealing with the impact on the steering, management, reporting and monitoring systems of the new Act on Metsähallitus and the 2005 approved ownership policies and governmental development strategy that are based on it. In connection with this, Metsähallitus drew up a monitoring system to estimate and monitor the benefits and costs incurred as a result of the consideration of general social obligations in its business operations. The results of the development project will be implemented in 2007. Aspects arising from the auditors' statement and the Finnish Forest Research Institute's (Metla) assessment will be taken into account as much as possible when implementing the new policies.

OTHER CHAPTERS OF THE ANNUAL REPORT

Significant events during and subsequent to the period under review

Due to the changed operating conditions in Russia it was determined that the associated company Foria will not gain profitability within a reasonable time frame and, on the basis of this analysis, it was decided to divest the company. The value of the company's shares, EUR 5.85 million, was entered in the profit and loss account as a cost.

Metsähallitus established an internal Service Centre to provide finance, HR management, IT, office and business premise services to its business units.

The soil resource business area Morenia was incorporated as Morenia Oy in compliance with a government decision on March 1, 2006.

Outlook

A slight increase in profits is anticipated in 2007 despite an expected decrease in turnover.

Risk management and key risks

According to Metsähallitus's risk management policy, a risk can constitute any matter that prevents Metsähallitus from achieving its strategic or operational goals or the profit target

Number of land-release transactions, net realisable values, sales proceeds and losses in 2006

Business operation	Number	Book value	Net realisable value	Sales proceeds	Losses from sales
Non-cash contribution to Morenia Oy	112	5,484,924.43	5,663,791.89	178,867.46	
Transfers	28	260,329.00	260,329.00		
Exchanges	14	424,074.62	524,302.00	173,482.38	73,255.00
Sales, land and water areas	1,001	7,605,104.39	16,636,795.19	9,369,631.87	337,941.07
Sales, buildings	13	471,845.08	716,388.29	281,661.64	37,118.43
Sales to public bodies, land and water areas	76	878,503.63	2,257,562.50	1,424,471.37	45,412.50
Sales to public bodies, buildings	1	46,903.74	10,000.00		36,903.74
Total	1,245	15,171,684.89	26,069,168.87	11,428,114.72	530,630.74

set for it. Risk management is an integral aspect of Metsähallitus's business management, operations and decision making. Risks are divided in two groups: strategic and operative risks. Furthermore, risks are divided into those to be insured and those to be otherwise handled centrally at the Group level. Management of financial risks and some IT related risks is centralised.

The risk management process includes recognition and assessment of risks, risk management practises, monitoring, insurance policies and assigning responsibility. The responsibility for risk management lies with the business units and the relevant units. In addition to the staff in charge of risk management, risk management is also an integral part of the work of all Metsähallitus salaried employees. The Internal Auditing unit assesses how efficiently risk management is implemented.

The most significant risks in Metsähallitus's business operations are related to the development of market prices in forestry.

Management and administration system

Metsähallitus's Board of Directors confirmed Metsähallitus's management and administration system (corporate governance) on 2 November 2005. The management and administration system is based on the recommendations on corporate governance issued by the Helsinki Stock Exchange, the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. However, consideration was given to the fact that in addition to business operations, Metsähallitus also has public administration duties and the legislation on Metsähallitus differs from the law applied to listed companies. Regarding public administration duties, the aim is to safeguard the principles of sound corporate governance by means of the management and administration system.

Metsähallitus's management and administration system is presented in the Social Responsibility Report and available on the Internet at www.metsahallitus.fi.

Personnel on 31 Dec. 2006

The number of personnel in terms of person years was 1,259 (1,335 in 2005).

Of salaried staff, 175 (159) employees were women and 373 (433) men, making a total of 548 (592)

Of blue-collar personnel, 1 (2) employee was a woman and 688 (718) men, totalling 689 (720).

Environmental issues

Metsähallitus has a certified environmental management system according to the ISO 14001 standard. The system covers all business units and subsidiaries. Indicator data related to environmental matters and social responsibility is collected each year using a hundred or so different indicators and the results are reported in the Social Responsibility Report. An extensive report presenting trends in environmental and social responsibility matters is published every three years.

Environmental matters are particularly important in Forestry, but they also receive widespread attention in other operations.

Scope of R&D

A total of EUR 0.2 million was spent on research and development work (EUR 0.3 million in 2005).

Salaries, wages, commissions and other remuneration to executives and other personnel

Salaries, commissions and other remuneration paid to the Board of Directors and the Managing Director totalled EUR 236,000 (EUR 236,000 in 2005). Salaries and wages paid to other personnel amounted to EUR 53.0 million (EUR 54.6 million in 2005).

Board of Directors' proposal for the distribution of profits

The profit of Metsähallitus's business operations for the financial year was EUR 68,839,023.14.

It is proposed that EUR 65,397,000.00 be paid as dividends in four lots during 2007, and EUR 3,442,023.14 be transferred to the retained earnings account.

Key financial figures

	BUSINESS OPERATIONS-GROUP			BUSINESS OPERATIONS		
	Budget, 2006	Actual, 2006	Actual, 2005	Budget, 2006	Actual, 2006	Actual, 2005
Turnover, EUR million	248.2	268.3	229.3	240.3	248.6	222.4
Operating profit, EUR million	65.6	80.7	55.7	66.7	79.4	60.0
% of turnover	26%	30%	24%	28%	32%	27%
Result, EUR million	60.9	72.1	51.6	62.3	68.8	53.1
% of turnover	25%	27%	22%	26%	28%	24%
Return on investment, %	2.5%	3.2%	2.2%	2.6%	3.1%	2.4%
Investment, % of turnover	10%	4%	10%	10%	5%	9%
Solvency ratio, %	97%	98%	97%	98%	99%	98%
Personnel, person years	1,500	1,417	1,474	1,370	1,259	1,335

$$\text{Return on investment (\%)} = \frac{\text{Net result} + \text{financing expense} + \text{taxes (12 months)}}{\text{Invested assets on average during the financial year}}$$

PROFIT AND LOSS ACCOUNT (EUR)

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005
NET TURNOVER	268,344,916.60	229,281,160.03	248,622,615.67	222,389,934.87
Other operating income	13,755,220.86	17,137,862.23	13,939,479.38	16,873,338.04
Raw materials and services				
Raw materials and consumables				
Purchases during the financial year	5,759,859.08	6,326,049.33	5,526,098.50	5,042,243.05
Variation in inventories	-1,034,051.53	-3,907,189.28	8,949,605.56	-3,118,752.26
External services	110,583,686.01	99,675,628.03	94,351,788.20	98,279,078.67
Staff expenses				
Wages and salaries	41,193,170.33	41,352,908.60	36,996,736.96	38,401,993.28
Social security expenses				
Pension expenses	6,343,287.79	7,853,999.61	5,616,775.66	7,338,819.18
Other social security expenses	2,828,388.63	2,530,469.99	2,536,384.49	2,339,937.09
Depreciation and reduction in value				
Depreciation according to plan	5,877,281.84	6,084,447.13	4,840,963.60	5,171,215.01
Other operating charges	28,380,579.52	28,113,600.31	24,365,890.14	25,799,974.44
Share of associated undertakings' profit/loss	-1,457,950.47	-2,681,047.71	0.00	0.00
OPERATING PROFIT	80,709,985.32	55,708,060.83	79,377,851.94	60,008,764.45
Financial income and expenses				
Income from other investments under non-current assets	84,984.33	97,568.46	84,984.33	97,568.46
Other interest and financial income	431,217.84	61,667.62	357,917.53	46,128.50
Interest and other financial expenses	1,162,854.73	892,895.65	731,543.63	720,574.95
Reductions in value of investments held as non-current assets	2,679,242.64	0.00	5,850,000.00	3,000,000.00
PROFIT BEFORE FINANCING FOR OTHER OPERATIONS FROM THE STATE BUDGET	77,384,090.12	54,974,401.26	73,239,210.17	56,431,886.46
Income taxes	5,255,408.40	3,395,620.33	4,400,187.03	3,343,033.09
PROFIT FOR THE FINANCIAL YEAR	72,128,681.72	51,578,780.93	68,839,023.14	53,088,853.37

BALANCE SHEET (EUR)

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Intangible rights	145,043.50	123,833.40	63,946.08	52,953.49
Goodwill	0.00	2,803.30	0.00	2,803.30
Other capitalised long-term expenses	19,681.24	0.00	19,681.24	0.00
	164,724.74	126,636.70	83,627.32	55,756.79
Goodwill on consolidation	0.00	0.00	0.00	0.00
Tangible assets				
Land and water areas	2,490,847,748.25	2,501,857,176.82	2,484,823,850.22	2,501,665,025.93
Roads	11,048,917.61	14,781,107.10	11,022,871.80	14,781,107.10
Buildings and constructions	13,975,167.66	14,129,256.48	9,871,607.44	10,418,894.62
Machinery and equipment	1,465,208.31	1,901,039.12	14,269.87	87,794.82
Other tangible assets	650,824.43	362,756.28	10,599.04	10,599.04
Advance payments and construction in progress	2,296,081.49	1,130,270.00	2,173,386.33	619,529.56
	2,520,283,947.75	2,534,161,605.80	2,507,916,584.70	2,527,582,951.07
Investments				
Shares in Group subsidiaries	0.00	0.00	20,402,098.20	13,691,095.48
Holdings in associated undertakings	763,313.52	3,050,506.63	0.00	0.00
Other shares and holdings	2,066,364.60	2,067,526.80	877,193.60	990,366.39
Other receivables	22,300.00	22,300.00	0.00	0.00
	2,851,978.12	5,140,333.43	21,279,291.80	14,681,461.87
NON-CURRENT ASSETS IN TOTAL	2,523,300,650.61	2,539,428,575.93	2,529,279,503.82	2,542,320,169.73
CURRENT ASSETS				
Inventories				
Finished products	21,622,625.03	20,560,102.99	4,473,142.02	13,422,747.58
Work in progress	0.00	28,470.51	0.00	0.00
	21,622,625.03	20,588,573.50	4,473,142.02	13,422,747.58
Receivables				
Non-current				
Other receivables	100,000.00	0.00	0.00	0.00
Current				
Accounts receivable	24,693,416.06	33,785,228.69	22,401,640.68	33,716,049.34
Receivables from public admin. duties	2,884,621.72	1,431,986.02	2,884,621.72	1,524,320.90
Receivable from Group subsidiaries	0.00	0.00	795,995.23	0.00
Receivables from associated undertakings	40,500.00	3,518.32	0.00	3,518.32
Other receivables	29,188.57	30,727.67	29,188.57	30,727.67
Prepayments and accrued income	470,127.88	583,549.39	128,530.58	311,005.10
	28,117,854.23	35,835,010.09	26,239,976.78	35,585,621.33
Securities	0.00	0.00	0.00	0.00
Cash in hand and at banks	12,650,529.15	1,337,252.96	11,859,672.69	47,966.76
CURRENT ASSETS IN TOTAL	62,491,008.41	57,760,836.55	42,572,791.49	49,056,335.67
ASSETS IN TOTAL	2,585,791,659.02	2,597,189,412.48	2,571,852,295.31	2,591,376,505.40

BALANCE SHEET (EUR)

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
EQUITY AND LIABILITIES				
EQUITY				
Basic equity	2,462,385,472.45	2,471,626,797.90	2,462,385,472.45	2,471,626,797.90
Other capital and reserves	0.00	0.00	0.00	0.00
Retained earnings	3,481,064.01	3,002,283.08	8,317,828.06	6,328,974.69
Profit for the financial year	72,128,681.72	51,578,780.93	68,839,023.14	53,088,853.37
EQUITY IN TOTAL	2,537,995,218.18	2,526,207,861.91	2,539,542,323.65	2,531,044,625.96
MINORITY HOLDINGS	0.00	0.00	0.00	0.00
PROVISIONS				
Other provisions	283,967.00	200,500.00	110,000.00	100,000.00
LIABILITIES				
Non-current				
Loans from financial institutions	10,464,398.17	8,239,255.55	0.00	0.00
Other liabilities	1,031,113.60	1,048,590.10	0.00	0.00
Current				
Loans from financial institutions	1,400,000.00	24,602,538.15	0.00	23,702,538.15
Advances received	4,949,627.03	9,958,148.64	4,601,149.01	9,957,627.26
Accounts payable	8,253,224.35	6,921,773.24	6,948,955.66	6,711,925.79
Payables to public admin. duties	183,185.76	772,598.77	79,781.66	768,972.43
Payables to Group subsidiaries	0.00	0.00	1 367 522.84	213 089.62
Payables to associated undertakings	0.00	15 377.49	0.00	15 377.49
Other liabilities	925,603.74	463,420.49	905,013.41	460,228.94
Accruals and deferred income	20,302,960.80	18,759,348.14	18,297,549.08	18,402,119.76
Deferred tax liabilities	2,360.39	0.00		0.00
LIABILITIES IN TOTAL	47,512,473.84	70,781,050.57	32,199,971.66	60,231,879.44
EQUITY AND LIABILITIES IN TOTAL	2,585,791,659.02	2,597,189,412.48	2,571,852,295.31	2,591,376,505.40
	0.00	0.00	0.00	0.00
invested liabilities on average	23,392,947.79		11,851,269.08	
invested equity on average	2,532,101,540.05		2,535,293,474.81	
invested assets on average	2,555,494,487.83		2,547,144,743.88	
Operating profit	80,709,985.32		79,377,851.94	
Return on investment, %	3.16		3.12	
Solvency ratio, %	98.15		98.74	
Quick ratio	0.96	0.61	1.38	0.71



CASH FLOW STATEMENT (EUR)

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	Jan. 1–Dec. 31. 2006	Jan. 1–Dec. 31. 2005	Jan. 1–Dec. 31. 2006	Jan. 1–Dec. 31. 2005
BUSINESS OPERATIONS				
Payments from sales	271,052,011.75	222,533,082.08	248,165,051.88	214,863,176.08
Payments from other operating income	2,814,771.39	8,173,696.46	2,993,218.49	8,079,258.97
Payments for operating charges	-192,855,549.41	-183,947,192.97	-167,990,234.32	-175,166,869.56
Cash flow from business operations before financial items and taxes	81,011,233.73	46,759,585.57	83,168,036.05	47,775,565.49
Interests and other financial expenses	-1,162,854.73	-892,895.65	-731,543.63	-720,574.95
Interest income from business operations	431,217.84	61,667.62	357,917.53	46,128.50
Dividends received	84,984.33	97,568.46	84,984.33	97,568.46
Direct taxes	-5,255,408.40	-3,395,620.33	-4,400,187.03	-3,343,033.09
Cash flow from business operations	75,109,172.77	42,630,305.67	78,479,207.25	43,855,654.41
INVESTMENTS				
Purchase of tangible and intangible assets	-9,553,274.83	-21,917,494.86	-8,590,372.78	-19,962,348.07
Sale of tangible and intangible assets	19,702,250.28	21,293,777.84	19,725,412.33	20,818,553.05
Purchase of subsidiaries' shares	0.00	0.00	-3 000 002.72	-1 000 003.36
Purchase of associated undertakings' shares	-1,850,000.00	-1,500,000.00	0.00	0.00
Total cash used in investments	8,298,975.45	-2,123,717.02	8,135,036.83	-143,798.38
FINANCING				
Financing for other operations from the State budget				
Investment of owners in purchase of protected areas				
Change in current loans from financial institutions	-23,202,538.15	19,203,572.95	-23,702,538.15	18,303,572.95
Change in non-current loans from financial institutions	2,225,142.62	2,377,133.41	0.00	0.00
Change in non-current loans	-17,476.50	1,048,590.10	0.00	0.00
Contribution to state revenue	-51,100,000.00	-63,000,000.00	-51,100,000.00	-63,000,000.00
Total financing	-72,094,872.03	-40,370,703.54	-74,802,538.15	-44,696,427.05
CHANGE IN LIQUID FUNDS				
	11,313,276.19	135,885.11	11,811,705.93	-984,571.02
Liquid funds on Jan. 1	1,337,252.96	1,201,367.85	47,966.76	1,032,537.78
Liquid funds on Dec. 31	12,650,529.15	1,337,252.96	11,859,672.69	47,966.76

Notes to profit and loss account, business operations

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Turnover by division. EUR				
Forestry and related services	225,119,041.95	192,901,852.87	225,620,314.23	192,897,966.87
Nature tourism	5,496,248.59	4,670,937.55	5,501,710.52	4,672,168.11
Seed and seedlings	8,034,553.57	6,737,737.18	0.00	0.00
Land and plot sales	4,893,298.70	5,131,355.97	4,903,170.06	5,131,990.97
Sale of soil resources	20,779,432.70	19,571,336.52	8,656,251.84	19,571,336.52
Consulting	308,122.07	151,467.54	0.00	0.00
Other	3,714,219.02	116,472.40	3,941,169.02	116,472.40
Total	268,344,916.60	229,281,160.03	248,622,615.67	222,389,934.87
of which turnover for public admin. duties	6,875,002.33	4,965,340.01	6,571,590.80	4,666,339.99
Other operating income. EUR				
Gains on the sale of fixed assets	10,761,582.01	12,544,990.61	10,767,393.43	12,375,324.38
Income from services to public admin. duties	2,430,909.33	4,395,536.10	2,430,909.33	4,395,536.10
Income from services to subsidiaries	0.00	0.00	181,457.88	0.00
Other income	562,729.52	197,335.52	559,718.74	102,477.56
Total	13,755,220.86	17,137,862.23	13,939,479.38	16,873,338.04
Depreciation according to plan. EUR				
Intangible assets	48,976.87	98,979.10	21,921.03	88,853.38
Depreciation for decrease of substance	729,390.19	685,937.79	459,813.02	685,937.79
Roads	3,736,294.22	3,736,266.96	3,735,098.52	3,736,266.96
Buildings and constructions	867,030.82	1,048,984.42	616,068.37	637,920.07
Machinery and equipment, other tangible assets	495,589.74	514,278.86	8,062.66	22,236.81
Total	5,877,281.84	6,084,447.13	4,840,963.60	5,171,215.01
Depreciation according to plan. depreciation periods:				
Intangible rights, other long-term expenditure	4–5 years			
Gravel areas	depreciation for decrease of substance			
Roads	mainly 25 years			
Fish structures (e.g. fish ladder)	mainly 10 years			
Log floating structures	25 years			
Buildings	20–40 years			
Constructions	4–10 years			
Machinery and equipment	4–8 years			
Depreciation according to plan has been calculated by fixed asset				
Other interest and financial income. EUR				
	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Dividend income	84,984.33	97,568.46	84,984.33	97,568.46
Interest income	431,217.84	61,667.62	357,917.53	46,128.50
Total	516,202.17	159,236.08	442,901.86	143,696.96
Interest and other financial expenses. EUR				
Interest expenses	1,162,854.73	892,895.65	731,543.63	720,574.95
Reduction in value of subsidiaries' shares	0.00	0.00	5,850,000.00	3,000,000.00
Reduction in value of shares of associated undertakings	2,679,242.64	0.00	0.00	0.00
Total	3,842,097.370	892,895.650	6,581,543.630	3,720,574.950



Notes to balance sheet, business operations

Non-current assets, EUR

BUSINESS OPERATIONS-GROUP	Intangible assets	Goodwill on consolidation	Land and water areas	Roads, land and water structures	Buildings and constructions	Machinery and equipment, other tangible assets	Construction in progress	Shares and holdings	Total
Acquisition cost on Jan. 1	2.907	0.868	2 503.025	61.345	34.508	15.241	1.131	5.140	2,624.165
Increases	0.087	0.000	8.807	0.004	1.283	0.351	1.676	1.850	14.058
Decreases	0.000	0.000	19.088	0.000	0.644	0.000	0.511	1.458	21.701
Reduction in value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-2.679	-2.679
Transfers between items	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Acquisition cost on Dec. 31	2.994	0.868	2,492.744	61.349	35.147	15.592	2.296	2.853	2,613.843
Accumulated depreciation and reduction in value on Jan. 1	2.779	0.868	1.167	46.563	20.382	12.980	0.000	0.000	84.739
Accumulated depreciation relating to decreases and transfers	0.000	0.000	0.000	0.000	-0.077	0.000	0.000	0.000	-0.077
Depreciation during the financial year	0.049	0.000	0.729	3.736	0.867	0.496	0.000	0.000	5.877
Reduction in value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Accumulated depreciation on Dec. 31	2.828	0.868	1.896	50.299	21.172	13.476	0.000	0.000	90.539
Book value on Jan. 1	0.128	0.000	2,501.858	14.782	14.126	2.261	1.131	5.140	2,539.426
Book value on Dec. 31	0.166	0.000	2,490.848	11.050	13.975	2.116	2.296	2.853	2,523.304
Production machinery and equipment						2.116			
Book value on Dec. 31						2.116			

BUSINESS OPERATIONS	Intangible assets	Goodwill on consolidation	Land and water areas	Roads, land and water structures	Buildings and constructions	Machinery and equipment, other tangible assets	Construction in progress	Shares and holdings	Total
Acquisition cost on Jan. 1	2.576	0.000	2,502.832	61.345	29.037	9.731	0.620	17.682	2,623.823
Reduction in value on Jan. 1	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-3.000	-3.000
Increases	0.087	0.000	7.910	0.004	0.882	0.013	1.553	12.561	23.010
Decreases *)	0.042	0.000	25.285	0.032	0.891	0.104	0.000	0.113	26.467
Reduction in value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-5.850	-5.850
Transfers between items	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Acquisition cost on Dec. 31	2.621	0.000	2,485.457	61.317	29.028	9.640	2.173	21.280	2,611.516
Accumulated depreciation on Jan. 1	2.519	0.000	1.167	46.563	18.619	9.633	0.000	0.000	78.501
Accumulated depreciation relating to decreases and transfers *)	-0.005	0.000	-0.994	-0.005	-0.078	-0.024	0.000	0.000	-1.106
Depreciation during the financial year	0.022	0.000	0.460	3.735	0.616	0.008	0.000	0.000	4.841
Reduction in value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Accumulated depreciation on Dec. 31	2.536	0.000	0.633	50.293	19.157	9.617	0.000	0.000	82.236
Book value on Jan. 1	0.057	0.000	2,501.665	14.782	10.418	0.098	0.620	14.682	2,542.322
Book value on Dec. 31	0.085	0.000	2,484.824	11.024	9.871	0.023	2.173	21.280	2,529.280
Production machinery and equipment, book value on Dec. 31						0.023			
*) includes a non-cash contribution to Morenia Oy									

Shares and holdings, book value, EUR

BUSINESS OPERATIONS-GROUP

BUSINESS OPERATION

	2006	2005	2006	2005
Shares in subsidiaries	0.00	0.00	20,402,098.20	13,691,095.48
Shares in associated undertakings	763,313.52	3,050,506.63	0.00	0.00
Other shares	2,066,364.60	2,067,526.80	877,193.60	990,366.39
Total	2,829,678.12	5,118,033.43	21,279,291.80	14,681,461.87

Other receivables, EUR

Subscription fee receivables	22,300.00	22,300.00	0.00	0.00
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Shares in subsidiaries

	Holding, %	Book value in parent company, EUR
Metsähallitus		
Forelia Oy, Jyväskylä	100	9,293,330.19
Metsähallitus Holding Oy, Vantaa	100	1,547,768.01
Morenia Oy, Oulu	100	9,561,000.00

Total		20,402,098.20
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Notes to balance sheet, business operations

Shares in associated undertakings

	Holding, %	Book value in the Group, EUR
Forelia Oy		
AS Eesti Metsataim, Estonia	40	730,588.75
Metsähallitus Holding Oy		
Foria-ÖBf Forstmanagement GmbH, Austria	50	0.00
Subsidiaries of an associated undertaking		
Foria-ÖBf Forstmanagement GmbH, Austria		
Foria-ÖBf Ukraina, Ukraine		
Foria-ÖBf Romania, Romania		
Foria-ÖBf Russia, Russia		
Finaut Timber Oy, Vantaa		

Receivables from public administration duties, EUR

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Accounts receivable	200,786.06	1,138,867.01	200,786.06	1,231,201.89
Prepayments and accrued income	2,683,835.66	293,119.01	2,683,835.66	293,119.01
Total	2,884,621.72	1,431,986.02	2,884,621.72	1,524,320.90

External prepayments and accrued income, EUR

Cash at banks	0.00	185,000.00	0.00	185,000.00
Tax receivables	0.00	25,598.61	0.00	0.00
VAT receivables	259,090.10	235,769.93	0.00	0.00
Project receivables—financing from the Ministry of Agr. & For.	30,696.30	50,132.31	30,696.30	50,132.31
Project receivables—financing from the EU	26,439.28	22,344.84	26,439.28	22,344.84
Project receivables—Employment and Economic Development Centres	28,514.00	0.00	28,514.00	0.00
Other prepaid expenses / purchase invoices	14,707.95	12,543.20	14,707.95	12,543.20
Other accrued income	110,680.25	52,160.50	28,173.05	40,984.79
Total	470,127.88	583,549.39	128,530.58	311,005.14

Other receivables

Other advances	29,188.57	30,727.67	29,188.57	30,727.67
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Equity, EUR million

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Basic equity on Jan. 1	2,471,626,797.900	2,471,626,797.90	2,471,626,797.90	2,471,626,797.90
decrease in basic equity during the financial year				
- transfers of possession	7,657.00	0.00	7,657.00	0.00
- inheritance by the State	708,609.00	0.00	708,609.00	0.00
- changes in land use	-7,945,404.17	0.00	-7,945,404.17	0.00
- others	-2,012,187.28	0.00	-2,012,187.28	0.00
Basic equity on Dec. 31	2,462,385,472.45	2,471,626,797.90	2,462,385,472.45	2,471,626,797.90
Retained earnings on Jan. 1	54,581,064.01	66,002,283.08	59,417,828.06	69,328,974.69
Contribution to state revenue	-51,100,000.00	-63,000,000.00	-51,100,000.00	-63,000,000.00
Profit for the financial year	72,128,681.72	51,578,780.93	68,839,023.14	53,088,853.37
Retained earnings and profit for the financial year in total on Dec. 31	75,609,745.73	54,581,064.01	77,156,851.20	59,417,828.06
Equity in total on Dec. 31	2,537,995,218.18	2,526,207,861.91	2,539,542,323.65	2,531,044,625.96

Notes to balance sheet, business operations

	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Provisions, EUR				
Restoration of gravel areas	283,967.000	100,000.00	0.00	100,000.00
Other provisions	0.000	100,500.00	110,000.00	0.00
Total	283,967.000	200,500.000	110,000.000	100,000.000
Amount of debt not paid to the State, EUR				
Debt to the State, withholding tax liabilities, social security contribution liabilities, pension contributions (VEL)	1,596,797.74	1,754,845.66	1,388,074.06	1,619,747.66
	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Payables to public administration duties, EUR				
Accounts payable	58,755.78	379,274.26	58,755.78	379,274.26
Accruals and deferred income	124,429.98	393,324.51	21,025.88	389,698.17
Total	183,185.76	772,598.77	79,781.66	768,972.43
External accruals and deferred income, EUR				
Withholding taxes and social security contributions and other statutory staff expenses	1,596,797.74	1,754,845.66	1,388,074.06	1,619,747.66
Holiday pay liabilities, including social security expenses	7,626,316.90	7,688,168.65	7,255,470.84	7,514,419.35
VAT liabilities	8,313,684.00	8,868,686.05	7,970,332.44	8,864,051.36
Other	2,766,162.16	447,647.78	1,683,671.78	403,901.39
Total	20,302,960.80	18,759,348.14	18,297,549.12	18,402,119.76

Other notes, business operations

Contingent liabilities, EUR million	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Leasing liabilities				
paid during the financial year	1.5	1.3	1.0	0.9
Mortgages given (land areas and buildings)	0.5	0.5		
Business mortgages	3.4	3.4		
Bank guarantee liabilities	1.8	1.8	0.0	1.8
Guarantee for a subsidiary's loan			4.3	4.3

The leasing contracts for business operations include a redemption clause after the residual value reaches the agreed level. The contracts can be terminated with a period of notice of 3 months. The Group also has contracts without a redemption clause, mainly for a duration of five years.

Deferred tax assets and tax liabilities	BUSINESS OPERATIONS-GROUP	
	2006	2005
Deferred tax assets		
from postponed depreciations (not in balance sheet)	0.3	0.2
from loss of a subsidiary (not in balance sheet)	0.9	0.7

Number of personnel, person years	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006	2005	2006	2005
Blue-collar employees	829	871	709	749
Salaried employees	589	603	550	586
Total	1,417	1,474	1,259	1,335

Maximum amount of investments and main investments

According to a decision by the Parliament, the maximum capital expenditure caused by Metsähallitus' investments in business operations may be EUR 30.0 million in 2006.

Investments made were EUR 11.6 million.

Metsähallitus has been authorised to make commitments relating to investments during 2006 which may cause future expenses to a maximum value of EUR 34.0 million.

The investment commitments made during the financial year were EUR 3.5 million.

Self-financed investments, EUR million	BUSINESS OPERATIONS-GROUP		BUSINESS OPERATION	
	2006 Investment plan	2006 Actual	2006 Investment plan	2006 Actual
Land, water and gravel areas, business activities	20.4	8.6	20.4	7.9
Buildings and constructions	0.8	0.9	0.5	0.6
Machinery and equipment	0.1	0.0	0.0	0.0
Other (e.g. shares and holdings)				
Shares in subsidiaries	0.0	0.0	3.0	3.0
Shares in associated undertakings	3.0	1.9	0.0	0.0
Other	0.5	0.1	0.3	0.1
Total	24.7	11.4	24.1	11.6

Authorisations for loans

Metsähallitus has been authorised to take out a loan to a maximum value of EUR 50 million. No loans were raised during the financial year.

Authorisation for giving an absolute guarantee as collateral for loans of a subsidiary

The Finnish Government has authorised Metsähallitus to give absolute guarantees as collateral for loans of subsidiaries, Forelia Oy and Metsähallitus Holding Oy, to a total value of EUR 9.3 million.

A guarantee for loans of Forelia Oy to a value of EUR 4.3 million was granted during the financial year.



Board of Directors' proposal for the distribution of profits from business operations

Profit for the financial year from business operations 68,839,023.14 EUR

It is proposed that EUR 65,397,000.00 of Metsähallitus' profit according to the financial statements be paid as a contribution to state revenue.

Vantaa, 26 March 2007

Aulikki Heinonen	Jaana Korpi	Timo E. Korva	Aulis Lyhykäinen
Pentti Lähteenoja Chairman of the Board of Directors	Riitta Rainio	Helena Walldén	Jyrki Kangas Director General

The above financial statements have been prepared in accordance with good accounting practice.
A report has been given today on the audit conducted.

Vantaa, 29 March 2007

Jorma Nurkkala,
Authorised Public Accountant,
Chartered Public Finance Auditor

Leif-Erik Forsberg,
Authorised Public Accountant,
Chartered Public Finance Auditor

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