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Board of Directors' Report for the Financial Period 15 April-31 December 2016

The new Act on Metsähallitus entered into force on 15 April 2016. As a result, the former enterprise was terminated on 14 April 2016 and the new Metsähallitus enterprise, in compliance with the new Act, began operating on 15 April 2016. Due to the structural change resulting from the reform, the financial statements do not include comparative information on the previous year.

The financial period of Forestry Ltd, established in the process, was the same as that of the enterprise. All other subsidiaries provide financial statements for the period 1 January-31 December. These subsidiaries are included in the consolidated financial statements for the period 15 April-31 December 2016.

The key changes resulting from the new Act

Based on the new Act on Metsähallitus, Metsähallitus' enterprise manages state-owned land and water property, which comprises about one third of Finland's total surface area. The Ministry of Agriculture and Forestry is responsible for the related ownership steering. In matters related to public duties, Metsähallitus is also steered by the Ministry of the Environment.

The enterprise engages in market-based business operations through its subsidiaries. Metsähallitus Group comprises the enterprise and subsidiaries. Property development, public administrative duties and Group operations are organised as part of the enterprise. Group operations and shared service units also form part of the enterprise. Public administrative duties form a separate unit within the enterprise.

The business was incorporated in order to ensure its competitive neutrality. The Forestry business was incorporated into Metsähallitus Forestry Ltd. This company does not own forests, but it has the right to engage in forestry in state-owned commercial and multiple-use forests, for an access right fee. Laatumaa, the property business unit within Metsähallitus, remains part of the enterprise. Laatumaa is responsible for property leasing, development, sales and purchases.

The state-owned land and water areas managed by Metsähallitus form an entity which is best managed within a single organisation. Metsähallitus' public administrative duties are also related to managing state-owned land and water assets. In the organisational reform, national parks, wilderness areas and other protected areas remained the responsibility of the unit in charge of public administrative duties. Game and fisheries management and the Director, Game and Fisheries, now play a stronger role in terms of their public administrative duties.

The organisational reform strengthened the Board of Directors' role in the management of the enterprise. The Board of Directors' duties include steering and supervising Metsähallitus' operations, and the strategic management, administration and appropriate organisation of Metsähallitus' operations. In addition, in accordance with the new Act on Metsähallitus, natural resources plans are subject to approval by the Board. The coordination of land use objectives now plays a more prominent role in the work of the Board.

It has become increasingly important to manage Metsähallitus as a group and coordination is emphasised in the operational steering of all units. Activities supporting core activities, including systems, are implemented at Group level in order to improve the efficiency and quality of operations.

The opening balance sheet of the new enterprise was confirmed by the Finnish Parliament. Equity in the enterprise's balance sheet consists of basic capital and other equity.

The business is practised on the basis of the assets included in the basic equity, EUR 2,601.5 million in total.

Other equity is divided into two parts. For the management of its public administrative duties, Metsähallitus administers state-owned protected areas and wilderness areas, other areas assigned or acquired for conservation purposes, as well as other property necessary to executing its public administrative duties. This property is worth a total of EUR 977.0 million and is included in Metsähallitus' other equity. In addition, other equity includes land and water areas which are not protected or exploited economically. They are recorded in the enterprise's other equity, at a value of EUR 224.8 million. This part of other equity includes public water areas, among others.

The property was revalued in the opening balance sheet. The land and water property used by the business, i.e. basic equity, was valued at fair value. This raised the value of the land and water areas by EUR 90.1 million. The Government sets a yield requirement on basic equity used for business purposes. The annual dividend payment target is determined on the basis of this yield requirement. The dividend is paid from the operating profit.

Property included in other equity, used for the purposes of executing public administrative duties, was transferred to the new enterprise at book value.

The working capital of forestry operations, EUR 78.3 million in total, was transferred to the new Forestry company as a capital contribution. Related items were valued at book value. During the set up phase, the new company's equity ratio was 50 per cent.

Operations During the Financial Period 15 April-31 December 2016

On 25 October, the Ministerial Committee on Economic Policy confirmed the ownership policy guidelines (prepared by the Ministry of Agriculture and Forestry and the Ministry of the Environment) for Metsähallitus for the period 2016-2020.

The guidelines emphasise Metsähallitus' role in managing the land and water property it administers as a single entity in line with the Government's real-estate strategy. The use of areas is planned in accordance with the natural resource plans, aiming for the highest possible social benefit and cost efficiency. Metsähallitus' common processes and systems are managed and developed as cost-effective systems.

The profit target for operations remains ambitious. The intention is to raise the return on investment to 4.6 per cent by 2020. This corresponds to a new balance sheet structure, with a level of income of around EUR 120 million. This will require a profitability improvement in Metsähallitus' business operations and the utilisation of sustainable felling potential.

Biodiversity and the recreational use of nature are an important part of Metsähallitus' operations. The level of social obligations will remain high in Metsähallitus business operations. Various degrees of use restrictions currently apply to approximately 530,000 hectares of Metsähallitus' forests in commercial use, due to biodiversity, recreational use and reindeer husbandry requirements. The overall social benefit is even taken into account in Metsähallitus' property business, creating the preconditions for the related business activities.

The unit managing public administrative duties is responsible for the use and management of Finland's network of protected areas on state-owned land and water areas in Metsähallitus' possession, and in private Nature Reserves in cooperation with the owners and Centres for Economic Development, Transport and the Environment. The same unit is responsible for hunting, fishing and off-road traffic, collecting fishing management fees, providing social nature and hiking services, and managing species protection duties in all state-owned land and water areas.

The ownership policy guidelines aim to improve the productivity of Parks & Wildlife Finland and to increase its impact. The conservation status of habitats will be improved in areas used by Parks & Wildlife Finland. Use for the purposes of tourism, recreation, hunting and fishing will be developed on the basis of demand, in order to enhance the well-being effects of various areas and create business opportunities for entrepreneurs.

The Board of Directors confirmed Metsähallitus' strategy for 2017-2020, on the basis of the ownership policy guidelines.

The main strategic guidelines describe Metsähallitus' new intent: We guarantee the best possible return on state-owned land across generations; We enhance the vitality of regions; We lead the way in responsible operations and halt the loss of biodiversity on state-owned lands; We operate uniformly and efficiently, making use of the opportunities afforded by digitalisation.

During the financial period, demand for services provided by Metsähallitus was strengthened by the general economic situation, which showed signs of recovery in the fourth quarter of the year. Growth in tourism and interest in outdoor activities were reflected both in the higher demand for services provided by Parks & Wildlife Finland and Game and Fisheries, and in property development.

The legal reform and its implementation did not affect demand for Metsähallitus' services and the provision of such services.

The group turnover totalled EUR 246.4 million and the group profit EUR 55.9 million. Other operating income amounted to EUR 13.3 million and fixed asset transfer profits to EUR 10.3 million. Funding received from State budget funds for public administrative duties totalled EUR 33.8 million. During the financial period, the total number of person-years was 1,027, of which the enterprise accounted for 497.

The enterprise's balance sheet includes one item in other equity, EUR 224.8 million in total, which is not used for public administrative duties. The annual dividend payment target does not apply to this balance sheet item. This asset item was not subject to income or expenses during the financial period.

Business Performance

The Group's business consists of subsidiaries and the business operations of Laatumaa, the enterprise's property development unit.

Turnover, EUR million	238.2
Operating profit, EUR million	64.4
Share of turnover, %	27
Result, EUR million	57.1
Dividend paid to the state, EUR million	116.7
Return on investment (%)	2.4
Investment (% of turnover)	5
Solvency ratio (%)	97
Number of person-years in business operations	639

Profit and balance sheet

Metsähallitus Group's operating profit totalled EUR 57.1 million and its turnover EUR 238.2 million. It mainly consisted of timber sales and rental income. Turnover from forestry totalled EUR 218.5 million, and the rest comprised rental income, sales of seeds, seedlings and soil and rock resources. Other operating income amounted to EUR 16.2 million, of which property sales revenue accounted for EUR 10.3 million.

The largest expense item, external services, coming to EUR 106.6 million in total, mainly consisted of services purchased from forest service and transport companies. These expenses were directly linked to the harvest volumes.

Staff expenses amounted to EUR 41.6 million and included EUR 9.6 million of additional pension contributions. This was paid in connection with the incorporation of Forestry, as staff pension liabilities transferred from the state system to a private insurance company. In addition, employee costs included a non-recurring item worth EUR 1.1 million.

Depreciation totalled EUR 2.7 million. The majority of property used in business operations consists of land and water areas, which are not subject to depreciation. Depreciation was mainly related to buildings, forest roads, property development and information systems.

Other operating costs, EUR 29.2 million in total, include EUR 8.5 million of expenses related to the cartel trial. Helsinki District Court issued its decision on the raw timber cartel case in June. The District Court dismissed the claims for damages made by Metsähallitus and ordered Metsähallitus to pay the opposing party's legal costs. Processing of the case continues in higher court instances.

In December, the Board decided to initiate a reorganisation of its seedling business, which has shown a loss for several years. The enterprise wrote down the value of the subordinated loan it had made based on the precautionary principle. The Group recorded a provision of EUR 3 million, related to the restructuring.

The cost-effectiveness of the various business operations has been systematically improved. Staff expenses, excluding non-recurring items, totalled EUR 31.0 million and accounted for 13 per cent of turnover during the financial period. Other expenses, excluding the non-recurring item relating to the court proceedings, totalled EUR 20.7 million, or 8.6 per cent of turnover.

The balance sheet total for business operations was EUR 3,017.0 million, of which the enterprise accounted for EUR 2,997.5 million. During the financial period, business operations received land areas from the State through transfer of possession and inheritance, at a total value of EUR 1.1 million.

Investments and sale of assets

Investments totalling EUR 6.9 million were covered by cash-flow financing. The largest investments were related to property development.

Since the beginning of the financial period, costs incurred from the construction of forest roads have no longer been treated as investments. Forestry Ltd is responsible for building and maintaining the forest roads required for its operations. The company builds these roads on state-owned land and does not have right of ownership to the roads. Road construction expenditure is classified as other long-term expenses, allocated over a period of 10 years. During the financial period, the costs incurred from the construction and renovation of forest roads totalled EUR 5.1 million.

The transfer price from the sale of fixed assets totalled EUR 7.7 million and EUR 4.5 million in profits were recorded for sales. Losses recorded for sales amounted to EUR 13.8 thousand.

Business operations	No.	Book value	Transfer price	Profits	Losses
Sales - land and water areas	427	1,156,304.22	5,518,532.18	4,376,054.96	13,827.00
Sales – buildings	5	13,510.64	134,018.00	120,507.36	0.00
Change in land use for public administration duties	94	2,020,890.83	2,020,890.83	0.00	0.00
Other - land areas	7	4,002.56	4,002.56	0.00	0.00
Total	533	3,194,708.25	7,677,443.57	4,496,562.32	13,827.00

Financing

According to the new law, Group financing can be managed by the Group's internal bank, which means that the enterprise and companies may lend money to each other on market terms. For reasons of competition neutrality, the enterprise cannot guarantee the loans of its subsidiaries. These guarantee arrangements were revoked at the beginning of the financial period.

The enterprise and subsidiaries have no long-term loans. The enterprise gave Fin Forelia Ltd a loan of EUR 5 million on subordinated loan terms. At the end of the financial period, leasing liabilities totalled EUR 4.6 million, mainly related to automotive and ICT equipment.

The Enterprise secures liquidity with a committed loan agreement of EUR 20 million and a commercial paper programme of EUR 50 million. Some of the subsidiaries have lines of credit.

Metsähallitus does not engage in investment activities. Its cash surplus is invested in accordance with the financial guidelines approved by the Board of Directors.

Cash flow from business operations totalled EUR 35.9 million. Investments amounted to EUR 6.9 million. The sale of assets for EUR 13.9 million increased the cash flow.

During the financial period, EUR 106.7 million relating to the profit for 2015 and EUR 10 million for the financial period 1 January to 14 April 2016 were paid in dividends to the state. The cash flow from financing activities showed a deficit of EUR 60.0 million.

The Group's liquid funds totalled EUR 33.4 million at the beginning of the financial period and EUR 3.9 million at the end. At the end of the financial period, the Group's short-term interest-bearing loans totalled EUR 59.9 million.

Financial performance by business

The enterprise's operating profit was 51.0 million euros. The largest source of income was the EUR 57 million in compensation paid by the Forestry company for the right to use state-owned forests.

Laatumaa is engaged in the property development business, responsible for property leasing, development, sales and purchases. Laatumaa's operating profit amounted to EUR 21.7 million.

Group operations and shared service units form part of the parent enterprise. Income from the services provided by the Group to various units and companies totalled EUR 10.5 million.

Metsähallitus Forestry Ltd manages state-owned multiple-use or commercial forests, and harvests and sells timber. As previously, Metsähallitus Forestry takes account of social impacts such as preserving biodiversity, ensuring recreational access to forests, promoting employment, and securing favourable preconditions for the Sámi culture and reindeer husbandry.

The company's turnover totalled EUR 219.4 million and its profit EUR 3.2 million. The company's operations commenced at a challenging time of the year regarding profit performance: just after the spring timber deliveries were completed and the summer, a quiet season for sales, lay ahead with costs related to forest management work. The result includes EUR 9.6 million of non-recurring pension expenses and EUR 1.2 million of other items, both relating to the incorporation.

The company's balance sheet, which mainly consisted of working capital items, totalled EUR 71.5 million. The company's solvency ratio was 75.5 per cent. Return on equity was 6.0 per cent.

Forestry Ltd's first financial period was from 15 April to 31 December 2016. Separate financial statements were prepared for this period. Other subsidiaries of Metsähallitus prepared separate financial statements for the period 1 January-31 December 2016. The results of these subsidiaries are consolidated in the Group's result for the financial period of the enterprise, that is for the period 15 April-31 December 2016.

Siemen Forelia Oy specialises in the production and sales of cultivated forest tree seeds, plus diverse services related to the harvesting and processing of seeds. The company cultivates seeds on special sites across the country. In order to develop its operations, it has formed networks with research institutions and customers. The company's profit for the financial period 15 April-31 December totalled EUR 163 thousand. Profit for the full year was EUR 360 thousand.

MH-Kivi Oy is a subsidiary of Metsähallitus, engaged in the rock material business. Metsähallitus sold most of its earth material business in 2013. The civil action between the parties to the transaction was processed through arbitration in February 2016. The claims made by MH-Kivi and Metsähallitus were accepted. The opposing party has taken legal action to overrule the decision made through arbitration. Processing of the matter continues. The other party to the civil action, the largest customer of the company, engaged in a reorganisation and MH-Kivi Oy recorded all receivables from them as a credit loss. As a consequence, the company's profit for the period 15 April-31 December 2016 turned negative, totalling EUR 323 thousand. The company's result for the full year showed a loss of EUR 288.

Fin Forelia Oy produces forest tree saplings. The company's operations have shown a loss in recent years. The sector has suffered from excess production. Due to cuts in production volumes and growth in the bioeconomy sector, market expectations for the future are brighter. During the year under review, the planned cuts to the company's production capacity were implemented and activities were concentrated in three nurseries. The company's profit for the financial period 15 April-31 December was EUR 895 thousand. The company's result for the full year showed a loss of EUR 121 thousand.

Evaluation of financial performance and comparable profit for the calendar year 2016

The structure, implemented on 15 April 2016, compliant with the new Act on Metsähallitus and the related non-recurring items and the non-standard financial period do not enable the direct comparison of the financial performance with previous financial years.

The enterprise prepared financial statements for the financial period 1 January to 14 April 2016. The comparable result for 2016 was prepared by combining the two financial periods of 2016 and taking account of the costs resulting from the restructuring.

Profit and Loss Account, Business Operations

EUR million	Year 2016	Year 2015
TURNOVER	332.9	337.2
Other operating income	26.4	28.5
External services	162.5	164.1
Staff expenses	52.7	46.2
Depreciation, amortisation and impairment	3.8	3.9
Other operating costs	37.3	32.9
OPERATING PROFIT	103.3	116.2
Operating profit %	31%	34%
Income taxes	6.5	8.8
PROFIT DURING THE FINANCIAL YEAR	93.7	107.9

The 2016 result includes costs associated with the restructuring under the new Act on Metsähallitus in the Group, amounting to EUR 11.7 million in total, of which the additional pension costs of employees accounted for EUR 9.6 million.

In addition, the result for 2016 includes EUR 12.6 million in non-recurring items. These include compensation for the legal costs of the opposing party in the legal proceedings concerning a cartel in raw timber sales, and a provision related to corporate restructuring. The operating profit, adjusted for restructuring expenses and non-recurring items, totalled EUR 127.6 million.

In the result for 2015, the negative impact of non-recurring items was EUR 5.6 million. The operating profit, adjusted for non-recurring items for the year 2015, amounted to EUR 121.8 million. In terms of operating profit, there was an improvement of 4.8 per cent from 2015 to 2016.

Goals Set for the Business

The service and other operational goals set for Metsähallitus' business and the profit and dividend payment goals for the financial period 15 April-31 December 2016, and the attainment of those goals.

The goals set by Parliament

When processing the Government proposal for a supplementary budget for 2016, Parliament defined the following objectives for Metsähallitus' business for the period 15 April-31 December 2016.

1. Key service targets of business operations and other operational goals

In its business operations, and in providing guidance to its subsidiaries, Metsähallitus has taken account of its general social obligations, in accordance with the legislation on Metsähallitus.

The impact of taking these general social obligations into account was EUR 56.1 million on the direct operating profit during the calendar year 2016 (EUR 55.6 million in 2015).

Metsähallitus releases a follow-up report, General social obligations, as part of the financial statements. The report includes a more detailed account of the content, measurement and monitoring of these obligations, alongside the benefits obtained.

2. Number of investments and investment commitments

Realised investments totalled EUR 6.9 million, falling below the maximum sum of EUR 20 million defined by Parliament. Investment commitments given totalled EUR 5.9 million of the maximum sum of EUR 20 million defined by Parliament.

3. Maximum amount for business loans

The maximum amount for business loans set by Parliament was EUR 80 million. Metsähallitus has no long-term loans. Metsähallitus secures its liquidity with a committed loan agreement of EUR 20 million and a commercial paper programme of EUR 50 million. At the end of the financial period, Metsähallitus' business had EUR 59.9 million in short-term interest-bearing debt.

4. Maximum amount for business guarantees

Metsähallitus provided EUR 0.7 million in collateral for its operations to parties outside the Group. The authorisation granted by Parliament was EUR 2.5 million.

The goals set by the Ministry of Agriculture and Forestry and their attainment

In addition to the aforementioned objectives, the Ministry of Agriculture and Forestry defined the following service and other objectives for Metsähallitus' business for the period 15 April-31 December 2016.

The objectives were based on the Ownership Policy relating to Metsähallitus, confirmed on 31 January 2012.

1. Service targets and other operational goals

Natural resource planning for southern Finland was launched in the summer of 2016. Natural resource planning refers to long-term planning of the sustainable use of state-owned land and water areas. It involves the preparation, in collaboration with stakeholders, of a plan for the period 2017-2022, guiding the use of state-owned land and water areas and exploiting new opportunities. The aim of natural resource planning is to coordinate the various requirements for use, so as to achieve the maximum overall benefit for society. The plan will be completed in the spring of 2017.

A multiple-use solution for state-owned land areas protects and enhances biodiversity, including outside protected areas, in multiple-use forests. Metsähallitus' multiple-use forests include around 80,000 sites of high natural value, and some 40,000 habitats of threatened species that secure biodiversity. Sites of high natural value were successfully taken into account and their characteristics preserved in all lines of work monitored in 2016. The characteristics of valuable habitats were completely preserved on 98.6% of their total area on regeneration sites.

Retention trees are important to many species dependent on decaying wood. An average of 11.7 retention trees, compliant with the target level specified in Metsähallitus' Environmental Guidelines for Practical Forest Management, were left on each hectare managed through regeneration felling. The result meets the target level specified by Metsähallitus - 10 trees per hectare.

The number of retention trees compliant with the requirements of forest certification, 21 trees per hectare, clearly exceeded the requirements specifying 10 trees per hectare.

Special fellings accounted for 12.7 per cent of regeneration felling in 2016. This can be considered appropriate in terms of the recreational use of forests. Metsähallitus engages in close cooperation with reindeer husbandry. All felling, soil preparation and road construction plans, as well as tourism trail agreements, were sent to reindeer herding cooperatives, discussed when appropriate and amended. Regular co-operation negotiations were conducted both with the Reindeer Herders' Association and the reindeer herding cooperatives. According to the feedback received, cooperation between reindeer herding cooperatives and Metsähallitus has functioned as agreed.

Metsähallitus' operations in the Sámi Homeland has complied with the Natural Resource Plan. The agreement between Metsähallitus, the Sámi Parliament, Skolt Village Meetings and the reindeer herding cooperatives in the Sámi Homeland, on cooperation procedures and the consideration of reindeer herding, was complied with. A special area plan was under preparation for the Juutua-Tuulispää recreational forest, in cooperation with local users in the area and the Akwé: Kon working group, appointed by the Sámi Parliament. The plan will be completed in 2017.

Metsähallitus' compliance with its general social obligations resulted in an estimated EUR 56.1 million decrease in operating profit (calculated) (2015: EUR 55.6 million).

In order to preserve biodiversity, promote the use of nature for recreational purposes and secure favourable conditions for the practice of reindeer husbandry and Sámi traditions, restrictions were placed on 524,000 (15.0%) hectares of forested land with a yield requirement (2015: 528,000 hectares and 15.1%). A total of 285,000 hectares (8.2%) were fully excluded from commercial use and 239,000 hectares (6.8 %) were in limited use. These factors reduced Metsähallitus' calculated operating profit by EUR 50.7 million. In addition, other factors related to the promotion of reindeer husbandry and Sámi culture, the promotion of employment, and an increase in planning costs decreased the operating profit by EUR 5.5 million.

2. Operating profit and dividend payment goal for the financial period 15 April to 31 December 2016

Metsähallitus' operating profit totalled EUR 57.1 million. The result fell short of the target, set at EUR 63.7. The enterprise's operating profit was EUR 51.0 million.

Return on investment for the basic equity of the enterprise was 2.4 per cent, below the defined key figure of 3.5 per cent. This key figure is not comparable with the figures previously presented for the 12-month accounting period.

The Ministry set EUR 86 million as the target for dividend paid to the state on the profit for the period and retained earnings, to be paid during the year 2017. When adopting the financial statements, Parliament will make its final decision on the sum to be paid to the state as dividend.

The retained earnings from business operations entered in the balance sheet of the enterprise totalled EUR 89.0 million at the end of the financial period, of which profit for the period was EUR 51.0 million. Retained earnings facilitate the payment of the target dividend to the state.

The long-term objective set by the Ministry is to improve the profitability of the businesses. Forestry Ltd and Siemen Forelia Oy made a profit during the financial period. Fin Forelia and MH-Kivi Oy both had positive operating profits but, due to the restructuring of Fin Forelia and the prolonged civil action of MH-Kivi, the overall result showed a loss. The comparable profitability of Metsähallitus' business for 12 months in 2016 remained at the 2015 level.

Public Administrative Duties

The unit in charge of public administrative duties is responsible for managing the public administrative duties of Metsähallitus. These duties form part of the enterprise.

Separate financial statements are prepared for the public administrative duties, as part of the Group's financial statements. The steering ministries defined goals for the public administrative duties for the entire budgetary year of 2016. Separate financial statements have been prepared for the full year, 1 January to 31 December 2016.

Information on the business accounting relating to public administrative duties for the period 15 April to 31 December 2016 is consolidated with the Group's and the enterprise's financial statements.

Profit and Loss Account, Public Administrative Duties

EUR million	15 Apr–31 Dec 2016
Turnover	9.0
Other income	2.3
Raw materials and services	6.9
Staff expenses	19.8
Depreciation	1.3
Other operating costs	18.2
Operating profit	-34.8
Financing for other operations from the Budget	33.8
Profit/loss for financial period	-0.9

Turnover consists of the income from operations related to public administrative duties which are subject to a charge. Fishing and hunting licences account for most such income. Funding received from state budgets amounted to EUR 33.8 million.

The value of land and water areas used for public administrative duties was EUR 941.6 million. The value of built property, including the buildings and service structures in national parks and protected areas, and buildings in cultural heritage sites, was EUR 19.9 million. Other equity related to public administrative duties increased during the financial period. Transfers of possession added EUR 13.5 million to the balance sheet.

The funding of public administrative duties is managed separately from the Group's other funding. Cash flow from operations during the period showed a deficit of EUR 6.9 million. Liquid funds at the beginning of the financial period totalled EUR 14.2 million and EUR 7.8 million at the end of the financial period.

Metsähallitus owns two subsidiaries for the management of public administrative duties. The results of these companies are taken into account in the consolidated financial statements for the period 15 April-31 December. Nuuksiokeskus Ltd showed a loss of EUR 503 thousand for the financial period, and EUR 327 thousand for the full year. Kiinteistöosakeyhtiö Järviluonnon keskus was inactive during the financial period.

Metsähallitus Employees

Business operations, person-years	15 April-31 December 2016
Laatumaa	33.0
Group operations	31.7
Shared service units	43.5
Forestry Ltd	470.5
Fin Forelia Oy	49.6
MH Stone Ltd.	1.4
Siemen Forelia Oy	8.9
Total	638.6
Parks & Wildlife Finland	388.5
Group total	1,027.0

During the period under review, the total number of person-years worked in the group was 1,027. At the beginning of the financial period, all staff members of the enterprise's Forestry unit transferred to the new company. Forestry Ltd is the largest employer within the Group. During the financial period, the total number of person-years worked amounted to 470.5. Of this total, office employees accounted for 208.2 and other employees for 262.3 person-years.

The total number of person-years in the enterprise's business was 108.2 and 388.5 in Parks & Wildlife Finland. The total for the enterprise was 496.7 person-years. Wages and salaries paid by the Group totalled EUR 42.3 million. The parent enterprise's share of this was EUR 22.5 million. The Group has no employees abroad.

All of Metsähallitus employees have been included in a profit sharing system since the beginning of 2008. The bonus criteria are linked to objectives set for the financial result and the quality and impacts of operations. The maximum bonus is 8 per cent of the total payroll. No payable bonuses accrued for the year under review.

In the autumn, Metsähallitus conducted an employee survey. Positive factors included the equal treatment of men and women, commendable occupational safety activities and the high rating given for the work of immediate supervisors. The staff's enthusiasm and high energy affect the performance of the organisation as a whole, and this aspect of working capacity was examined using an emotional indicator. On a scale of 1 to 5, Metsähallitus' working capacity was rated at 3.86, which is good. The various components of this aspect include the clarity of responsibilities, the experience of being appreciated within the working community, opportunities to influence one's own work and learning new things. Factors threatening occupational well-being included greater hurry and the feeling that working hours are inadequate for the tasks in hand.

The implementation of the new strategy and definition of the values of the new Metsähallitus began in December, by involving the employees in the restructuring effort.

Administration and management

The Board of Directors appointed for Metsähallitus on 26 March 2015, served as the Board of Directors of the new Metsähallitus during the period 15 April-30 May 2016. Arto Tiitinen was the Chairman of the Board and Kai Kaatra the Vice Chairman. The Board members were Anne Ilola, Janne Seurujärvi, Tuija Soanjärvi and Helena Säteri, and Pertti Itkonen as the employee representative.

On 26 May 2016, the Government appointed the first Board of Directors for Metsähallitus for the period 1 June 2016-31 March 2019 in accordance with the new legislation.

Timo Laitinen was appointed Chairman of the Board, Kai Kaatra Vice Chairman and the members of the Board as follows: Johanna Ikäheimo, Simo Rundgren, Tuija Soanjärvi, Liisa Tyrväinen, Helena Säteri and Pertti Itkonen as the employee representative.

The auditor of the enterprise is Authorised Public Accountants KMPG, the responsible auditors are Jorma Nurkkala, Authorised Public Accountant, Chartered Public Finance Auditor and Leif-Erik Forsberg, Authorised Public Accountant, Chartered Public Finance Auditor.

Until 31 August, Metsähallitus' Director General was Esa Härmälä. Pentti Hyttinen was appointed Director General from 1 September.

Metsähallitus' Management Group members are Jussi Kumpula, CEO, Forestry Ltd; Thomas Hallenberg, Director; Rauno Väisänen, Executive Director, Parks & Wildlife Finland until 31 August and, from 1 September, Timo Tanninen; Jukka Bisi, Director, Game and Fisheries; Kirsti Lehtovaara, Director of Finance; Juha Mäkinen, Director of Communications; Susanna Oikarinen, General Counsel; and Tapio Pouta, Director, Human Resources and Development.

The wages and salaries paid to the Board and Managing Director totalled EUR 347,515 during the period.

Corporate Governance of Metsähallitus

Metsähallitus has posted a description, approved by the Board of Directors, of its corporate governance on its website. The description outlines matters such as Metsähallitus' legal status, the Group's basic structure, ownership steering, the steering of public administration duties, the Board of Directors, the Management Group, remuneration, internal supervision, auditing and external audit functions, and communications.

Responsibility

Metsähallitus draws up a separate responsibility report as part of its Annual Report.

Risk management and key risks

The goal of Metsähallitus' risk management is to ensure the achievement of set targets, the fulfilment of legal obligations and operational continuity. Metsähallitus takes a moderate stance on risk-taking. The significance of risks is assessed as a combination of the probability and impact of any given incident. Risks are divided into strategic, operational and economic risks, and the risk of damage. Risks are managed using a systematic risk management process. An estimate of the established targets and our own position form the basis of the risk management process. Risks are related to existing objectives and future possibilities.

Metsähallitus' Board of Directors approves the risk management policy and assesses the need to amend the policy on an annual basis. Each year, the Board of Directors receives a progress report on Metsähallitus' risks and their management. The audit committee assists the Board in monitoring risk management. The Managing Director bears overall responsibility for risk management. Risks are managed where they arise. Managers of profit units and subsidiaries are in charge of risk management within their unit/company. The chief financial officer is in charge of the risk management process and control of risk management. The head of risk management at Metsähallitus is in charge of the coordination, development, guidance and reporting models associated with risk management, as well as supporting risk management within the organisation.

Key risks in terms of achieving Metsähallitus' goals include the development of timber and property prices and sales; the quantity and value of land areas in commercial forestry remaining at the level required by the goals set; and the balance of tasks and funding of Parks & Wildlife Finland. The time required for wind power projects permit procedures may delay the progress of such projects. The effectiveness of developing new products and services and maintaining a good reputation influence the attainment of objectives. General appreciation of Metsähallitus' activities has an impact on the operating conditions for recreational activities, conservation efforts and forestry. Further risks that may affect operational activities include natural conditions and uncertainties in the operation of information systems. The success of development projects in progress has an effect on the attainment of objectives.

Metsähallitus manages about a third of Finland's land area. Metsähallitus maintains information on risks related to contaminated sites. These risks are classified as primary and secondary responsibilities in accordance with the related legislation. Metsähallitus mainly bears secondary responsibility. The statement on contaminated soils is updated on a regular basis. The most recent statement was drawn up in 2016.

Key Events After the Financial Period

The operations of Metsähallitus and the Group ran according to plan in the first part of 2017. At the beginning of February, Terhi Vires, M.Sc. (Econ.) took up the position of Director of Human Resources at Metsähallitus. She is a member of the Management Group.

Outlook and goals set by the owner for 2017

The national economic outlook influences the operations of Metsähallitus Group in various ways.

The owner has set targets for Metsähallitus' business-based services and operations, and its profit and dividend payment, for 2017 on the basis of the new ownership policy guidelines. The targets are based on the profitability of the business and its general social benefits.

The profit target set for the Business Operations Group is EUR 100.7 million, corresponding to a 4.0 per cent of return on invested basic equity. The preliminary target for the payment of dividend from the operating profit of the enterprise's business in 2017 is EUR 94.9 million.

Financial performance is largely dependent on the development of timber demand and prices. Metsähallitus' other key business area, the property business, faces a challenging outlook on the demand side, and land-use planning and other permit processes may delay projects.

The targets set for public administrative duties are based on performance agreements concluded with the steering ministries. The performance agreements mainly focus on the same themes as in 2016. The Hossa National Park will be opened in June, in honour of the 100th anniversary of Finland's independence.

Board of directors' proposal for the distribution of retained earnings

Metsähallitus enterprise's retained earnings total EUR 88,091,436.53, of which the profit for the financial period is EUR 50,089,516.01.

The enterprise's retained earnings total EUR 89,001,932.00, of which the profit for the financial period is EUR 51,000,011.48.

The retained earnings of the enterprise's public administrative duties were negative by EUR 910,495.47, which was entirely due to the loss for the financial period.

The Board of Directors proposes that the loss recorded for the public administrative duties, EUR 910,495.47 be entered as a reduction in the other equity related to the enterprise's public administrative duties, and, in accordance with the preliminary profit target set by the Ministry, EUR 86,000,000.00 be paid as a dividend on the operating profit, and the remaining EUR 3,001,932.00 be entered under retained earnings for the business.

The Board of Directors proposes that the dividend be paid in accordance with the plan approved by the Ministry, which is based on the cash flow from Metsähallitus' operations.