

Tornator Oyj

Financial Statements and Board of Directors' Report
1 January – 31 December 2016



Tornator's forests grow in value, wood in high demand in 2016

Press Release, 7 February 2017 at 9:00

SUMMARY 1 Jan – 31 Dec 2016 (1 Jan – 31 Dec 2015)

- The Group's forest assets grew in value by 20.2%, to €1,256.9 million
- The IFRS profit for the period at fair value was €172.9 million, the effect of the change in the value of growing stock being +€202.6 million and in interest rate instruments -€32.5 million before taxes
- A record was set in the core business, timber sales: €88.1 million and some 3.0 million m³
- Total net sales were €97.0 million, the drop of 14.6% being due to the previous year's exceptionally large forestland sales
- Net profit for the period was strong, €37.2 million
- Cash flow from operations after financial items and taxes was €38.7 million
- In Estonia, Tornator's forestland increased by some 4,000 hectares and all forests were double-certified
- Income taxes for the period totalled €9.3 million

CEO Sixten Sunabacka:

"Tornator's forests generated well-being widely in 2016. The long-term, professional and responsible work in forest asset management again created significant value for shareholders. The company enabled, for its part, an increase in wood consumption in Finland by producing more and more high-quality, certified raw materials for customers. At the same time, the company cared for its corporate responsibility by being a significant corporation tax payer, employer in sparsely populated areas and fighter against climate change. The employees were highly committed to the new strategy and management approach."

"Wood consumption will increase due to global megatrends. Growing demand for wood is expected in the Baltic Sea region, which will improve Tornator's business prospects in Finland and Estonia. Furthermore, Romania's increasing wood demand and Tornator's responsible operations will provide a solid basis for continuing the profitable business."

Net sales and results

The Group's net sales were €97.0 million (113.6), down 14.6%. The drop was due to the previous year's exceptionally large forestland sales in Finland and rearrangement of forest ownership in Estonia. Net sales include proceeds from land and plot sales worth €8.3 million (30.8). Most of the net sales were timber sales income, €88.1 million, 90.9% (€82.1 million, 72%). The total volume of timber deliveries was record-high at 3.05 million m³ (2.65). Other operating income, €3.1 million (3.6), includes €0.8 million (1.2) in compensation for conservation areas. The remainder of other operating income is mainly land lease revenues and soil resource sales.

Operating profit at fair value amounted to €269.8 million (56.4) and profit for the period was €172.9 million (39.1). The change in the fair value of biological assets increased operating

profit by €202.6 million (-18.1), but a negative change in the fair value of financial instruments decreased profit by €32.5 million (+12.4) before deferred taxes. Operating profit without the change in the fair value of biological assets and net profit without one-off land sales increased in all countries: Finland, Estonia and Romania.

The Tornator Timberland Group includes, besides the parent company Tornator Oyj in Finland, Tornator Eesti OÜ (100.0%) in Estonia, and SC Tornator SRL (100.0%) and Oituz Private Forest District SRL (100.0%) in Romania.

Key figures

The official key figures for the Group have been calculated according to the International Financial Reporting Standards (IFRS) and for the parent company according to the Finnish Accounting Standards (FAS).

	2016	2015	2014
Net sales, € million			
The Group	97.0	113.6	90.7
Parent	82.2	77.8	74.9
Operating profit, € million			
The Group	269.8	56.4	65.0
Parent	64.5	70.1	60.5
Operating profit, % of net sales			
The Group	278.1%	49.6%	71.7%
Parent	78.4%	90.1%	80.8%
Profit for the period, € million			
The Group	172.9	39.1	-27.0
Parent	10.5	49.6	-30.2
Return on equity			
The Group	32.8%	8.9%	-5.9%
Parent	7.6%	43.6%	-28.6%
Return on capital employed			
The Group	25.9%	5.8%	6.7%
Equity ratio			
The Group	43.7%	38.8%	36.6%

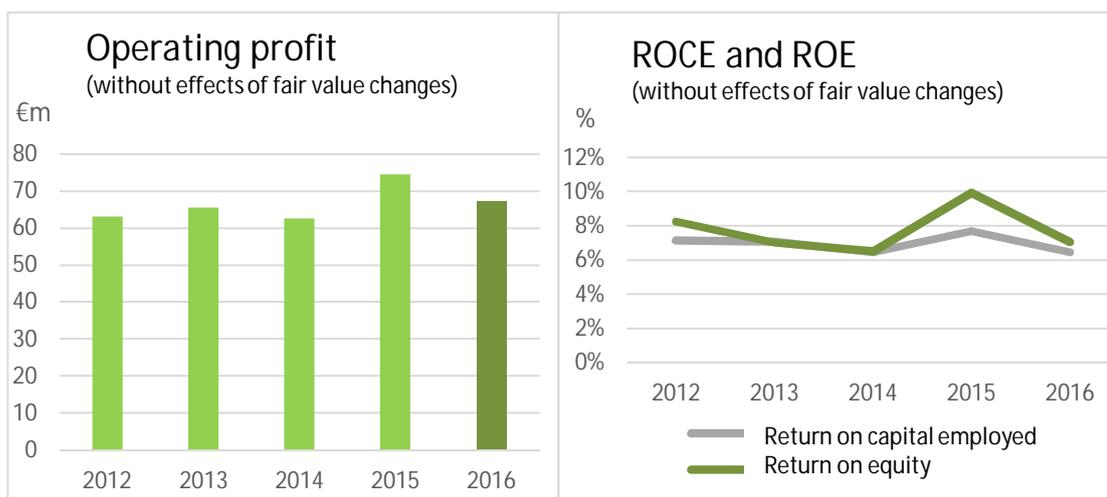
Comparable key figures

In addition to the official figures presented above, the Group uses alternative figures that are comparable between the years, thus better describing the success of operations. The comparable key figures have been calculated without fair value changes and they apply to the whole Group.

	2016	2015	2014
Net sales, € million	97.0	113.6	90.7
Operating profit, € million	67.2	74.5	62.6
Operating profit, % of net sales	69.3%	65.6%	69.0%
Profit for the period, € million	37.3	44.0	29.6
Return on equity	7.1%	10.0%	6.5%
Return on capital employed	6.5%	7.7%	6.5%

The comparable key figures have been obtained by making deductions from the official IFRS figures as follows (€ million):

Operating profit, official	269.8
- Change in fair value of biological assets	-202,6
= Operating profit, comparable	67.2
Profit for the period, official	172.9
- Change in fair value of biological assets	-202,6
- Change in fair value of financial instruments	32,5
- Change in deferred taxes	34,5
= Profit for the period, comparable	37.3



Distribution of revenues and non-current assets by country

	1 Jan – 31 Dec 2016		1 Jan – 31 Dec 2015	
	€000	%	€000	%
Revenues:				
Finland	90,177.5	93.0	98,129.8	86.4
Estonia and Romania	6,818.4	7.0	15,431.0	13.6
Total	96,995.8	100.0	113,560.8	100.0
Biological assets:				
Finland	1,142,689.3	90.9	936,785.0	89.6
Estonia and Romania	114,221.7	9.1	108,637.1	10.4
Total	1,256,910.9	100.0	1,045,422.1	100.0
Non-current assets:				
Finland	1,222,752.5	90.2	1,017,554.1	89.0
Estonia and Romania	132,736.0	9.8	126,104.6	11.0
Total	1,355,488.5	100.0	1,143,658.8	100.0

Notable events during the period

During the period, the fair value of Tornator's forest assets (growing stock) in Finland increased by €211 million. The fair value was calculated by an external evaluator, Indufor Oy, on the basis of the future cash flows of continuing operations, i.e. considering sustainable forest management and the growth potential of the forests. Tornator's long-term

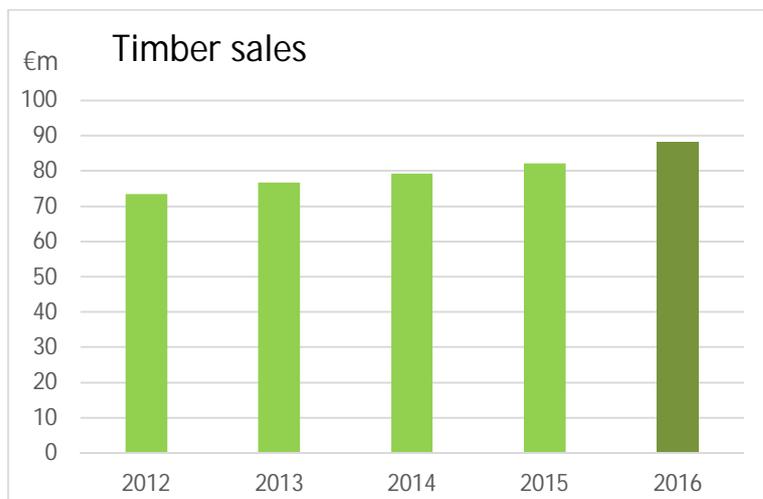
efforts in sustainable forestry and high-quality forest management are reflected in good growth of the forests, both in volume and diameter. This enabled raising the sustainable annual cut. Another significant factor to the value increase was a reduction of the discount rate used in valuing the forests. The company reduced the nominal discount rate by 0.5 percentage points to 5.5% after taxes. The fair value is calculated using a real discount rate where the expected inflation rate is equal to EU's official long-term target rate of 2.0%. In general, interest rates have decreased significantly and the new discount rate reflects better the capital costs of the company.

The total value of the Group's forests in the financial statements was some €1,328 million (1,115), including growing stock and land. The figures include the effects of harvesting as well as the purchases and sales of forestland.

On the other side of the balance sheet, the fair values of the company's long-term interest rate hedges decreased respectively due to the decline in market rates. This caused a negative entry of €32.5 million in financial items in the income statement (+12.4). The above fair value changes had no effects on cash flow.

Tornator set a record in its core business, i.e. timber sales and delivery, in all three operating countries in 2016. The new investments of the forest industry already started to reflect in wood demand. However, the Group's total net sales decreased, because in the previous year net sales had been increased by exceptionally large forestland sales in Finland and Estonia.

Tornator's timber sales to the main customer were some €63.0 million (59.9), or some 71.5% (73.0%) of the Group's net timber sales. Timber sales to the main customer are based on a long-term, market-conform framework agreement.



In Estonia, Tornator continued forestland purchasing with an increase of some 4,000 hectares and a total area of some 57,000 hectares at the end of the period. The company is Estonia's largest forest owner after the state. In Romania, there was no increase in Tornator's forestland area (12,000 ha), but the company's efforts in the development of responsible business, combined with a high demand for wood and increasing prices, improved the results from the previous year. In Estonia, Tornator received both the PEFC and FSC® certificates for its forests, i.e. both the Finnish and Estonian forests are now double-certified. In Romania, too, the company's forests were audited during the period, and awarded an FSC® certificate in January 2017. Thanks to the certifications, Tornator can respond better to customers' needs and secure a good demand for wood also in the future.

Finland FSC-C123368
Estonia FSC-C132610
Romania FSC-C132426

Improvement of competitiveness was continued within a productivity programme started in the previous year. The programme is targeted to improve productivity by €5 million by the end of 2018. With the actions taken in 2016, the programme progressed as planned.

Tornator's equity ratio increased to 44% (39%) and liquidity remained strong throughout the year. The company met its loan covenants within safe margins.

Tornator Oyj's Annual General Meeting of 8 March 2016 decided to pay dividend, as proposed by the Board of Directors, for a total of €30 million.

Sixten Sunabacka, MSc (Agr & For), EMBA, started as Tornator Oyj's new CEO on 1 January 2016. The company's long-time CEO Arto Huurinainen retired at the end of February 2016.

Risk management

Tornator's risk management is aimed at securing profitable business in the long term and to create opportunities for well-managed risk taking using the selected strategy. It is based on systematic identification and analysis of all significant risks to the company.

Tornator's risks are divided into three main categories: strategic risks, operational risks and financial risks. Examples of each category are described below.

Strategic risks

Fluctuation in wood demand is naturally a risk for a forestry company. To manage the risk, Tornator has dispersed its forest ownership into three countries, and the range of customers has significantly increased since the early years of business. The company has also secured a high demand for wood by certifying all of its forests. With the new investments of the forest industry, wood demand is on the rise in all countries of operation.

Volatility of wood prices is a significant risk factor in terms of Tornator's results. If prices go down, Tornator can temporarily increase the volume of cutting right sales or plot and forestland sales or both. However, the company aims to follow the sustainable annual cut, thereby trying to optimise annual cash flows in the long term. In recent years, price volatility has decreased considerably in Finland.

Risks concerning roundwood quantity and quality are controlled through long-term forest resource management planning and focusing operations according to the structure and age-class distribution of the forests. To support planning, Tornator regularly commissions an independent study on the structure of company forests, using it to prepare a long-term cutting plan (more than 30 years). The latest forest inventory by the Natural Resources Institute Finland and the cutting budget based on it are from 2016.

Changes in current certification criteria may affect opportunities for forest utilisation and cause a loss of income for Tornator, unless there is an agreement on full compensation. FSC® Finland has started to revise the national criteria, and Tornator is closely involved in the process.

Tornator monitors the current economic trend when planning plot sales. A poorer trend may decrease the demand for holiday home plots and temporarily reduce profits. In fact, this has already happened, and therefore investments in land development have been adapted to the volume of plot sales. During the reporting year, the demand for plots revived somewhat from the previous year.

The risk with investments made in wind power project development is managed by preparing accurate feasibility studies before launching the projects, by selecting partners among significant players in the sector, by dispersing the projects around Finland, and by planning the projects carefully. Tornator does not participate in wind power construction or ownership of production, but sells its shares in the projects before construction and remains the lessor of land.

When utilising forest resources Tornator manages risks to the environment by complying with environmental legislation and certification criteria. Risks are discussed in employee training and induction, and minimised with careful planning of operations and a high standard of implementation.

What may also be considered a risk are significant new statutes or other factors impeding operations. In managing risks, it is important to co-operate with authorities and various NGOs as well as to participate, for example, in regional planning. Tornator implements an open communication policy with an emphasis on sustainable operations and corporate social responsibility.

Attracting and retaining skilled employees is a risk in forestry as well. Tornator is prepared for the increasing retirement of forest workers by signing on new contractors and increasing mechanised work. For salaried employees, there has been proactive recruiting, which allows experienced employees to pass on their know-how before retiring. The risk is also managed with an active human resource policy.

Tornator's goal is to continue expanding its operations outside Finland in countries where the growth potential is considered profitable. Geographic expansion is both a positive method of risk management and a risk. The risks of expansion are managed by selecting competent partners and reliable customers, and by balancing out long and short-term timber sales agreements. Tornator makes economic, social and environmental responsibility an integral part of its business, guided by a Code of Conduct that is common to all countries of operation.

Operational risks

Tornator manages internal business risks with processes that are approved by the Board of Directors and senior management, and inspected by external auditors.

International expansion disperses risks to property and operations. Natural disasters pose a risk to forest assets. For Tornator, the size of its holdings on the one hand, and their geographic extent on the other, intrinsically work as a risk management tool. In addition, Tornator has a Finnish forest insurance policy that covers damage in case of a major disaster. However, the company has deemed it unprofitable to insure its forest holdings abroad, because the target countries presently lack an operational forest insurance market. The threat of a cyber attack on corporate information systems may be considered a new risk. Tornator is prepared for this by utilising advanced security technology and by providing instructions and training to users.

Financial risks

A substantial proportion of loan capital in the company's balance sheet constitutes a risk which Tornator manages with special attention. Ready access to the capital markets will enable the successful refinancing of the loans in the future. The company has dispersed the risks related to funding by issuing a 7-year bond besides a 5-year bank loan. The company is prepared for market rate changes with derivative contracts. Hedging is applied to mitigate the interest rate risk on the loans and to reduce the volatility of the discount rate used in calculating the fair value of forests, and therefore it will be easier to predict the development of the company's value in the long term. Liquidity management is based on advance payments and up-to-date cash management. The company also has a commercial paper

programme to optimise the need for cash. Cash reserves are invested in bank deposits and short-term, highly rated funds.

Tornator manages customer risks by advance payments based on sales agreements.

Notable events after the end of the period

Tornator's forestlands Romania were awarded an FSC® certificate in January 2017.

An estimate of future development

The company estimates that its debt service capacity will remain stable in 2017.

Research and development

To improve efficiency and to deepen competence, Tornator transformed from a geographic team organisation into a process organisation. At the same time, co-operation with customers was enhanced.

In addition, the company put a lot of emphasis on improving the availability and quality of forest stand data. The development of harvesting and nature management quality as well as information systems was also continued.

Personnel, wages and salaries

The average number of personnel remained nearly unchanged. In addition to normal pay, the company uses a reward system based on performance targets. For 2016, an average of 6.3% of normal pay (6.2%) was given as performance-based bonuses.

The Group has about 200 employees. Its forests directly provide various types of forestry work for people, mainly in sparsely populated areas, with an estimated worth of some 900 person-years.

	2016	2015	2014
Average number of personnel during the period	200	213	217
Remuneration for the period, €million	8.4	8.6	9.4

Environment

The company has an environmental programme whose objectives and realisation are reviewed annually. The framework for the company's environmental management is set by forest and environmental legislation as well as the PEFC and FSC certification systems. Compliance with the certification criteria is audited annually by an external evaluator.

In its forestry operations, the company complies with the Best Practice Guidelines for Sustainable Forest Management published by the Forestry Development Centre Tapio.

Company organisation, management and auditors

At the Annual General Meeting of 8 March 2016, the following were elected as ordinary members of the Board of Directors and their personal deputies until the next Annual General Meeting:

Ordinary member	Deputy
Mikko Koivusalo	Risto Autio
Jari Puhakka	Jukka Reijonen
Erkko Ryytänen	Jari Pussinen
Jari Suominen	Jari Suvanto
Matti Rusanen	Timo Kärkkäinen

Mikko Koivusalo has acted as the Chairman of the Board with Matti Rusanen as Vice Chairman. These persons have also acted as the members of the Remuneration Committee which works under the Board of Directors. Matti Rusanen has acted as the Chairman of the Oversight Committee that oversees significant agreements between the company and the shareholders.

Sixten Sunabacka has acted as Chief Executive Officer. Chief Financial Officer Henrik Nieminen is his deputy.

The Management Group was made up by Chief Executive Officer Sixten Sunabacka, Chief Financial Officer Henrik Nieminen, Forestry Director Ari Karhapää and Real Estate Director Antero Luhtio.

At the Annual General Meeting of 8 March 2016, Deloitte & Touche Oy were elected auditors with Jukka Vattulainen, APA, as principal auditor.

Number of shares

The parent company's share capital of €51,836,213.00 is divided into 5,000,000 shares, and all shares carry equal rights.

Handling of profit

The parent company's distributable profit amounted to €36,927,046.74, of which the profit for the period was €10,492,350.29.

The Board of Directors of Tornator Oyj proposes to the Annual General Meeting that a dividend of €5.20 per share or €26,000,000.00 be paid. The remaining part will be carried over in the shareholders' equity. The Board proposes the dividend payment date as 23 March 2017 and the record date as 17 March 2017.

Major shareholders, 31 December 2016

Stora Enso Oyj	41.0%
Ilmarinen Mutual Pension Insurance Company	16.9%
OP Financial Group, insurance and pension institutions	14.4%
Varma Mutual Pension Insurance Company	13.1%
Etera Mutual Pension Insurance Company	6.3%
Other shareholders	8.3%
Total	100.0%

Voting rights

According to Tornator Oyj's Articles of Association, the votes of a shareholder at the Shareholders' General Meeting may not exceed twenty (20) percent of the total number of votes carried by all shares in the company, including the voting rights of all companies and their pension funds and foundations belonging to the same group as the shareholder.

As required by the Finnish Financial Supervisory Authority, a Corporate Governance Statement is presented as a separate report on the company's website at www.tornator.fi/en/investors.

The key figures of the consolidated financial statements are presented below. The financial statements and their notes are found on the company's website at www.tornator.fi/en/investors.

Appendices: [Financial Statements 2016](#)

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www.tornator.fi

Tornator is a leading company specialised in sustainable forest management in Europe. It owns forests in Finland, Estonia and Romania. In 2016, the Group's net sales were some €97 million and the balance sheet value was about €1.4 billion. The Group has about 200 employees. In total, its forests directly provide work for the company's employees as well as contractors and their staff worth some 900 person-years. Tornator is among the 50 largest corporation tax payers in Finland. The company's shareholders are Finnish investors, mostly institutions. Tornator's mission is "generating sustainable well-being from the forest".

Consolidated income statement

€000	Note	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Net sales	6, 20	96,995.8	113,560.8
Other operating income	21	3,124.2	3,586.7
Change in inventories of finished goods and work in progress	11	-3,405.5	-13,774.1
Materials and services	22	-12,421.3	-11,615.4
Personnel expenses	23	-8,439.3	-8,603.5
Depreciation and amortisation	24	-3,075.4	-2,836.9
Other operating expenses	25	-5,133.5	-5,170.8
Share of profit or loss in associates	31	-400.0	-625.0
Change in fair value of biological assets and harvesting	9	202,562.1	-18,101.8
Operating profit		269,807.1	56,419.9
Financial income	26	158.9	123.9
Financial expenses	26	-20,749.9	-20,722.4
Change in fair value of financial instruments	10	-32,527.2	12,414.6
Financial expenses (net)		-53,118.2	-8,183.9
Profit before tax		216,688.9	48,236.0
Income taxes	27	-9,331.0	-9,880.8
Change in deferred taxes	16	-34,475.4	778.3
Profit for the period		172,882.5	39,133.5
Distribution: To shareholders of the parent company		172,882.5	39,133.5

Consolidated statement of comprehensive income

Profit for the period		172,882.5	39,133.5
Other comprehensive income for the period after taxes:			
<i>Items not recognised later through profit and loss</i>			
Items derived from the redefinition of net defined benefit costs (or asset items)		-34.4	60
<i>Items that may later be recognised through profit and loss</i>			
Translation difference	15, 27	-139.2	-386.8
Available-for-sale financial assets	13, 27	3.6	26.0
Cash flow hedging	10, 27	5,095.4	4,489.9
Comprehensive income for the period total		177,807.9	43,322.7
Distribution: To shareholders of the parent company		177,807.9	43,322.7

Consolidated balance sheet

€000	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	7	2,602.9	3,274.7
Property, plant and equipment	8	86,857.5	85,854.8
Biological assets	9	1,256,910.9	1,045,422.1
Derivatives	10	8,920.6	8,885.6
Investments in associates	31	103.8	128.8
Other investments	13	92.8	92.8
Non-current assets total		1,355,488.5	1,143,658.8
Current assets			
Inventories	11	2,331.1	3,296.7
Trade and other receivables	12	5,560.6	4,892.3
Available-for-sale financial assets	13	7,564.1	8,057.0
Cash and cash equivalents	14	10,150.9	20,869.6
Current assets total		25,606.6	37,115.6
Total assets		1,381,095.2	1,180,774.4
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company			
Share capital	15	50,000.0	50,000.0
Other equity		551,146.5	403,338.7
Total equity		601,146.5	453,338.7
Non-current liabilities			
Deferred tax liabilities	16	132,149.8	96,408.3
Financial liabilities	17	462,734.9	466,787.9
Derivatives	10	116,422.1	86,169.6
Pension obligations	18	295.0	251.0
Non-current liabilities total		711,601.8	649,616.8
Current liabilities			
Financial liabilities	17	51,470.3	51,467.0
Trade and other payables	19	16,876.5	22,346.1
Derivatives	10	0.0	4,005.7
Current liabilities total		68,346.9	77,818.9
Total liabilities		779,948.7	727,435.7
Total equity and liabilities		1,381,095.2	1,180,774.4

Statement of changes in equity

€000	Note	Share capital	Share premium	Translation differences	Fair value reserve	Retained earnings	Total equity
Equity at 1 Jan 2015	15	50,000.0	29,995.2	-6,960.4	-9,957.3	367,938.5	431,016.0
Comprehensive income							
Profit for the period						39,133.5	39,133.5
Other items of comprehensive income (after taxes)							
Remeasurement of net defined benefit liability (or asset)	18				60.0		60.0
Translation difference Available-for-sale financial assets	15, 27			-386.8			-386.8
Cash flow hedging	13, 27				26.0		26.0
	10, 27				4,489.9		4,489.9
Comprehensive income for the period		50,000.0	29,995.2	-7,347.2	-5,381.4	407,072.0	474,338.7
Transactions with shareholders							
Dividends paid	28					-21,000.0	-21,000.0
Total transactions with shareholders						-21,000.0	-21,000.0
Equity at 31 Dec 2015		50,000.0	29,995.2	-7,347.2	-5,381.4	386,072.0	453,338.7
Equity at 1 Jan 2016	15	50,000.0	29,995.2	-7,347.2	-5,381.4	386,072.0	453,338.7
Comprehensive income							
Profit for the period						172,882.5	172,882.5
Other items of comprehensive income (after taxes)							
Remeasurement of net defined benefit liability (or asset)	18				-34.4		-34.4
Translation difference Available-for-sale financial assets	15, 27			-139.2			-139.2
Cash flow hedging	13, 27				3.6		3.6
	10, 27				5,095.4		5,095.4
Comprehensive income for the period		50,000.0	29,995.2	-7,486.4	-316.7	558,954.5	631,146.5
Transactions with shareholders							
Dividends paid	28					-30,000.0	-30,000.0
Total transactions with shareholders						-30,000.0	-30,000.0
Equity at 31 Dec 2016		50,000.0	29,995.2	-7,486.4	-316.7	528,954.5	601,146.5

Consolidated cash flow statement

€000	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Cash flow from operating activities		
Cash receipts from customers	82,829.7	81,064.4
Proceeds from sale of tangible assets	8,344.1	30,844.3
Cash receipts from other operating income	3,421.9	3,502.9
Cash paid to suppliers and employees	-25,414.6	-25,628.1
Cash flow from operating activities before financial items and taxes	69,181.1	89,783.5
Interest paid and other financial expenses	-20,147.2	-20,824.2
Interest received	159.6	138.1
Income taxes paid	-10,528.9	-6,804.0
Net cash flow from operating activities	38,664.5	62,293.4
Cash flow from investing activities		
Investments in biological assets	-11,222.0	-28,303.7
Investments in tangible assets, forestland	-1,387.0	-3,498.2
Investments in other tangible and intangible assets	-2,312.4	-3,428.8
Investments in associates and other investments	-375.0	-849.2
Investments in available-for-sale financial assets	0.0	0.0
Proceeds from sale of available-for-sale financial assets	497.4	1,606.4
Net cash flow from investing activities	-14,799.0	-34,473.5
Cash flow from financing activities		
Withdrawal of long-term loans	0.0	0.0
Repayment of long-term loans	-4,570.4	-4,749.4
Withdrawal of short-term loans	0.0	57,000.0
Repayment of short-term loans	0.0	-67,053.9
Dividends paid	-30,000.0	-21,000.0
Net cash flow from financing activities	-34,570.4	-35,803.4
Net increase/decrease in cash and cash equivalents	-10,704.8	-7,983.5
Cash and cash equivalents at beginning of period	20,869.6	28,857.6
Effect of exchange rate changes on cash and cash equivalents	-13.9	-4.5
Cash and cash equivalents at end of period	10,150.9	20,869.6