



## Green Finance Framework

29 August 2019

## 1. BACKGROUND AND INTRODUCTION

Tornator is a leading sustainable forest management company with operations in Finland, Estonia and Romania. Our operating model is based on responsible use of forests as well as strong environmental expertise and utilisation of digital technologies. The core business includes sustainable forestry, forestland purchasing and silvicultural services. We also lease our land for various uses, develop wind power projects with partners, and sell high-quality waterfront building plots and soil resources.

Tornator was established in 2002 when Stora Enso, one of the leading global bioproducts companies, decided to spin-off its Finnish forest assets. During the past 17 years Tornator has been able to substantially increase the growth of its forests, thanks to its highly skilled and motivated forestry professionals and a clear purpose to always leave the forests in a better shape to the next generation.

Tornator's vision "Tornator - the forerunner in responsible use of forests" and mission "Generating sustainable well-being from the forest" show well the company's commitment to sustainable forestry. Alongside Stora Enso, Tornator's largest shareholders are the Finnish pension insurance companies who by nature have a very long planning horizon. They will expect nothing less than the following of a business plan of 100 years and above. Therefore, sustainability is part of Tornator's DNA.

Tornator's responsibility work is based on the corporate values, which are reflected in the business strategy. By acting in a socially, economically and ecologically sustainable manner, Tornator also secures the continuity of profitable business for itself, its partners and society alike.

At the Group level, the co-ordination and guidance of corporate responsibility is the job of the CEO, assisted by the Management Group and the Corporate Social Responsibility Manager. The implementation of corporate responsibility is ensured by internal control of the various functions as well as through external and internal auditing.

Tornator's main business is the production and sale of timber. We manage our forests sustainably with the aim of a good and steady yield, which enables us to provide customers with responsibly produced, certified wood. We manage the forests with full respect for nature, using the right treatments at the right time. In this way, we can ensure that our forest assets remain diverse and in good condition.

Vigorous forests also effectively capture carbon dioxide (CO<sub>2</sub>) from the atmosphere. Through good forest management and sustainable forest utilisation, we can achieve significant positive climate impacts. After final felling, the logging areas are always regenerated according to national regulations for sustainable forest management. . That is why our forests can provide a sustainable solution in the fight against climate change: responsible forestry does not cause deforestation, the raw material is truly renewable and can replace non-renewable, harmful materials. Tornator is also committed to reforest treeless areas, like old peatlands, lands below electricity lines, non-productive fields, etc. This way we create new carbon sinks which again help to absorb more CO<sub>2</sub> from the atmosphere.

We have calculated that the carbon sequestration capacity of our forests is about 4 million tonnes of CO<sub>2</sub> per year. The carbon sequestration capacity of one hectare of forest is about 6 tonnes of CO<sub>2</sub> per year. The positive climate impacts of our forests surpass the emissions from our own operations by a thousand times. By fully utilising our forest resources, we can produce more and more wood products and bioenergy that replace fossil raw materials to prevent the release of additional CO<sub>2</sub> into the atmosphere. Through forest utilisation, we can effectively mitigate global warming.

Tornator is also actively involved in wind power development in co-operation with partners. Wind power and wood production can easily be combined in practice, thereby mitigating climate change simultaneously in two ways in the same forests. Tornator Oyj is the sole owner of five wind power development companies in Finland. The calculated substitution effect of fossil fuels by all Tornator's renewable wind power development projects is 0,5 - 0,8 million tonnes of CO<sub>2</sub> per year (when completed), compared to coal-fired power plants.

Tornator's forests are compliant with both FSC® and PEFC™ certification criteria (Romania only FSC). Double certification is an indication of Tornator's commitment to responsible forestry, and it helps secure a sustainable level of annual cut. When acquiring additional forest land Tornator will, if not already FSC or PEFC certified, take action to have the forest land FSC and PEFC certified in accordance to the latest standards.

Nature conservation is important in generating well-being. Tornator's forests are home to threatened species which are taken into consideration according to their respective conservation requirements and management recommendations. Tornator also actively

promotes forest biodiversity by establishing new conservation areas and performing nature management in its commercial forests. In 2018, Tornator established 540 hectares of new conservation areas. Tornator has in total 17 000 hectares of private nature conservation areas and 47 000 pieces of protected valuable habitats in commercial forest.

This Green Finance Framework is developed to be in alignment with the [Green Bond Principles 2018](#). It is our intention to follow best practices in the market as the standards develop.

Tornator supports the United Nations Sustainable Development Goals (SDGs) and has identified six key goals regarding its own business and stakeholders. The selected SDGs are based on the materiality analysis prepared from stakeholder interviews as well as the company's core business and its impacts on the world around it. Tornator's mission, strategy and views of management were also taken into consideration when selecting the SDGs goals suitable for Tornator. The selected key Sustainable Development Goals are as follows:

- 6. Clean water and sanitation
- 8. Decent work and economic growth
- 13. Climate action
- 15. Life on land
- 16. Peace, justice and strong institutions
- 17. Partnerships for the goals

## TORNATOR – THE FORERUNNER IN RESPONSIBLE USE OF FORESTS



**AN EXPERT  
IN SUSTAINABLE  
FORESTRY**

- We work sustainably, considering the ecological values of commercial forests
- We protect valuable habitats and promote biodiversity, minimising the environmental impacts of our operations
- We improve water quality by ensuring water protection and by restoring small waters
- We demonstrate sustainability through independently verified forest certification
- We maintain the carbon sequestration capacity of forests with good forest management and sustainable harvest planning



**A PROGRESSIVE  
AND SAFE  
WORKPLACE**

- We care for the safety and well-being of employees and contractors
- We keep employee satisfaction high
- We strive for good leadership and transparent decision making
- We invest in the training and development of employees and contractors



**A PRODUCTIVE  
PROMOTER OF  
WELL-BEING**

- We grow profitably, improve our efficiency and ensure excellent governance
- We generate well-being through taxes and jobs all over our operating area
- We are a responsible and long-term partner and help our partners to develop their business
- We collaborate locally, nationally and internationally with an extensive group of stakeholders

**6** CLEAN WATER AND SANITATION

**13** CLIMATE ACTION

**15** LIFE ON LAND

**8** DECENT WORK AND ECONOMIC GROWTH

**16** PEACE, JUSTICE AND STRONG INSTITUTIONS

**8** DECENT WORK AND ECONOMIC GROWTH

**16** PEACE, JUSTICE AND STRONG INSTITUTIONS

**17** PARTNERSHIPS FOR THE GOALS

**Ethical principles, good governance, open communication and dialogue with stakeholders**

## 2. USE OF PROCEEDS

Tornator will exclusively apply the net proceeds from the issuance of Green Finance instruments to finance a portfolio of “**Eligible Assets**”. “**Eligible Assets**” means a selected pool of assets that are funded, in whole or in part, by Tornator and that promote the transition to low carbon and climate resilient growth as determined by Tornator and in line with Tornators Sustainability policy and strategy.

### Eligible Asset Categories:

- New or existing investments in sustainable forestry:
  - FSC or PEFC certified sustainable forests
  - Investments in infrastructure needed for sustainable silviculture
  - Research and development projects with a positive environmental impact
- Environmental preservation of nature:
  - Biodiversity, eg. drained mire restoration back to carbon storage
  - Investments in processes that improve resource efficiency
  - Reforestation (eg. disused peat production areas, agricultural lands or power lines)

Tornator's Green Financing will not finance fossil fuel generation projects. Some 800 hectares of Tornator forest holdings is leased for energy peat production, comprising ~ 0,1% of Tornator's forest land. In international classifications peat is often classified as fossil fuel, although it is a clearly younger fuel than coal, lignite, natural gas and fuel oils refined from crude oil and not classified as fossil fuel in Finland (VTT, Statistics Finland). However, Tornator will not use the proceeds for energy peat production but for example, reforestation of disused peat production areas back to carbon sinks.

Tornator's Green Financing can be used to finance new Eligible Assets and to refinance existing Eligible Assets in accordance with the Green Finance Framework<sup>1</sup>. The division of the allocation of Green Finance proceeds between new projects and refinancing will be included in Tornator's annual Green Finance Investor Letter (see section 5).

### **3. PROCESS FOR PROJECT EVALUATION AND SELECTION**

Eligible Assets are evaluated and selected by Tornator's Green Finance Committee. The Green Finance Committee consists of the Chief Financial Officer, the Environmental Manager and the Head of Corporate and Social Responsibility. The Green Finance Committee approves Eligible Assets in consensus (i.e. all members have a veto). The Green Finance Committee will keep record of meetings held and decision made.

### **4. MANAGEMENT OF PROCEEDS**

Tornator has established this Green Finance Framework to issue sustainable debt instruments, i.e. Green Bonds, Green Commercial Papers and to take up Green Loans, for which the proceeds will be entirely allocated to Eligible Assets that promote the transition to low carbon and climate resilient growth. The legal documentations for each Green Financing shall make reference to this Green Finance Framework.

An amount equal to the net proceeds of the issue of Green Financing will be credited to a Special Account that will support Tornator's Eligible Assets as defined above. As long as Green Financing remains outstanding and the Special Account has a positive balance, at

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<sup>1</sup> New projects are defined as projects that have been finalized or acquired within one year before the time of approval by Tornator's Green Finance Committee and forward.

the end of every fiscal quarter, funds will be deducted from the Special Account and added to Tornator's lending pool in an amount equal to all disbursements from that pool made during such quarter in respect of Eligible Assets. Until disbursement to Eligible Assets, the Special Account balance will be placed in liquidity reserves and managed accordingly.

If, for any reason, a financed Eligible Asset no longer meets the eligibility criteria, it will be removed from the pool of projects financed with proceeds from Tornator's Green Finance sources.

## **5. REPORTING**

To enable investors to follow the development and provide insight to prioritised areas, Tornator will provide an annual Green Finance Investor Letter to investors including:

- a) a list of all the projects financed including allocated amount, a brief description and expected impact;
- b) information about the division of the allocation of Green Finance proceeds between new projects and refinancing;

Tornator recognises the importance of transparency and impact reporting. The ambition is to include information in the Green Finance Investor Letter about the land area certified by FSC and PEFC, established conservation areas, forest growth, as well as other environmental benefits when available.

## **6. EXTERNAL REVIEWS**

The internal tracking method, the allocation of funds from the Green Finance proceeds and the Green Finance Investor Letter will be reviewed annually by Tornator's external auditor. The Investor Letter and the opinion of the external auditor will be made publicly available on Tornator's web page.

Tornator will have its Green Finance Framework reviewed by the Centre for International Climate Research (CICERO) who will issue a Second Opinion. The Second Opinion as well as the Green Finance Framework will be made publicly available on Tornator's web page.