Tornator Oyj

Financial statements and Board of Directors' report
1 January – 31 December 2019

Tornator Oyj
Company ID: 0162807-8
Domicile: Imatra, Finland

Tornator Oyj Board of Directors' report.

Net sales and results

The Group's net sales were €105.8 million (112.8), a change of -6.2%. Net sales fell from the record year of 2018, because the volume of felling was lower than the exceptional felling that occurred in the previous year because of snow damage. The average price of delivered timber was at a good level, with no significant change from the year before. Most net sales, €101.0 million and 95.4%, consisted of timber sales income (€107.1 million, or 94.9%). Net sales include proceeds from land and plot sales worth €2.7 million (3.5) and forest service sales for €2.1 million (2.2). Other operating income, €5.7 million (6.6), includes land access and lease revenues, compensation for conservation areas and soil resource sales.

Operating profit at fair value amounted to €264.6 million (116.5) and profit for the period was €164.8 million (78.9). The fair value of biological assets increased significantly in Finland and Estonia, which explains the major increase in operating profit. The change in the fair value of biological assets increased operating profit by €189.9 million (32.6), and a negative change in the fair value of financial instruments decreased profit by -€47.0 million (-1.6) before deferred taxes. Adjusted operating profit decreased in Finland and Romania. Because timber prices rose sharply during the previous year in Estonia, the company's operating profit improved again in 2019.

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. In addition, the Group includes (100.0%) the following wind power development companies in Finland: Lavakorven Tuulipuisto Oy, Maaselän Tuulipuisto Oy, Martimon Tuulipuisto Oy, Niinimäen Tuulipuisto Oy and Pahkavaaran Tuulipuisto Oy.

Key figures

The official key figures for the Group and the parent company were calculated according to the International Financial Reporting Standards (IFRS).

	2019	2018	2017
Net sales, € million			
The Group	**105.8**	112.8	101.6
Parent	**93.4**	102.0	93.1
Operating profit, € million			
The Group	**264.6**	116.5	92.4
Parent	**219.3**	80.7	87.0
Operating profit, % of net sales			
The Group	**250.0**	103.2	90.9
Parent	**234.7**	79.1	93.4
Profit for the period, € million			
The Group	**164.8**	78.9	77.9
Parent	**123.5**	43.8	75.0
Return on equity, %			
The Group	**21.5**	11.6	12.4
Parent	**17.3**	6.6	11.9
Return on capital employed, %			
The Group	**13.1**	9.1	7.8
Equity ratio, %			
The Group	**45.5**	44.4	43.3
Average personnel			
The Group	**183**	182	189

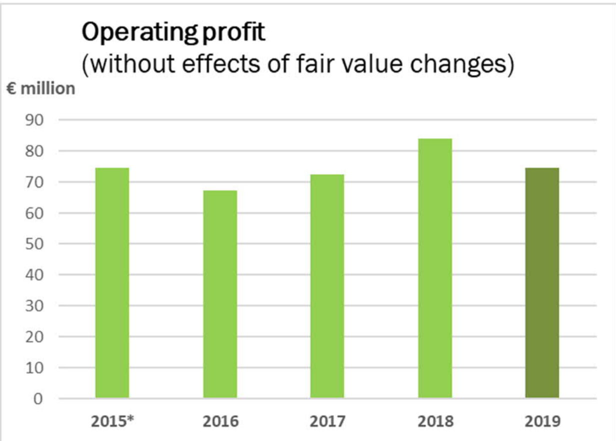
Comparable key figures

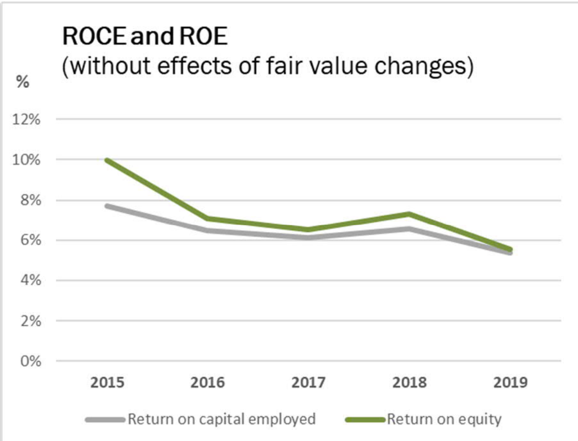
In addition to the official figures presented above, the Tornator Group uses alternative performance measures that are comparable between years, thus better describing the success of operations. The comparable key figures have been calculated without fair value changes and apply to the whole Group.

	2019	2018	2017
Net sales, € million	105.8	112.8	101.6
Operating profit, € million	74.7	83.9	72.4
Operating profit, % of net sales	70.6	74.4	71.2
Profit for the period, € million	42.7	49.7	40.9
Return on equity, %	5.6	7.3	6.5
Return on capital employed, %	5.4	6.6	6.1

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

Operating profit, official	264.6
- Change in fair value of biological assets	-189.9
= Operating profit, comparable	74.7
Profit for the period, official	164.8
- Change in fair value of biological assets	-189.9
- Change in fair value of financial instruments	47.0
- Share of deferred taxes in above items	20.8
= Profit for the period, comparable	42.7





*2015 included exceptionally large land sales

Distribution of revenues and non-current assets by country

	1 Jan–31 Dec 2019		1 Jan–31 Dec 2018	
Revenues:	€1,000	%	€1,000	%
Finland	93,437.4	88.3	101,989.6	90.4
Estonia and Romania	12,386.0	11.7	10,835.5	9.6
Total	105,823.4	100.0	112,825.1	100.0

	31 Dec 2019		31 Dec 2018	
Biological assets:	€1,000	%	€1,000	%
Finland	1,480,319.2	88.0	1,288,617.8	88.8
Estonia and Romania	202,311.8	12.0	162,342.0	11.2
Total	1,682,631.0	100.0	1,450,959.9	100.0

Non-current assets	€1,000	%	€1,000	%
Finland	1,572,127.2	87.5	1,373,783.0	88.2
Estonia and Romania	224,096.7	12.5	182,966.5	11.8
Total	1,796,223.8	100.0	1,556,749.5	100.0

Notable events during the period

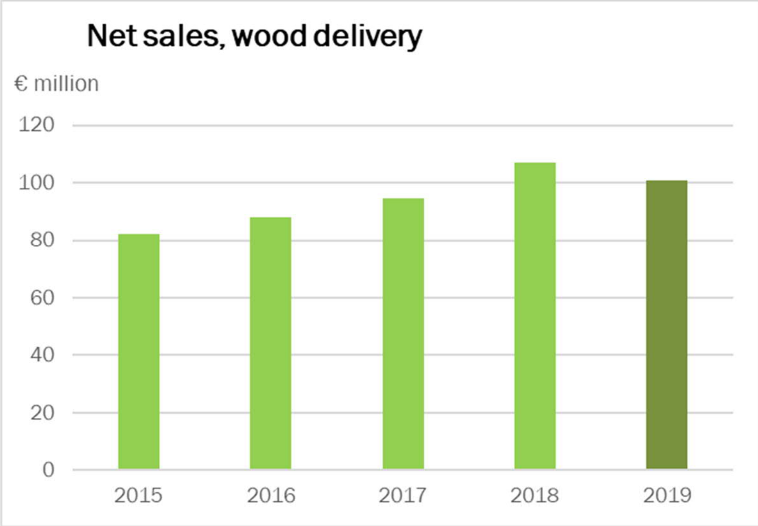
Tornator's year was fairly neatly divided into two halves: after a challenging first half, the company's operating profit improved sharply, and significant forest value increases were recorded in the second half of the year.

Tornator continued to purchase new forestland. The company bought some 13,000 hectares of forest in Finland. Contrary to previous years, only 1,000 hectares were bought in Estonia, due to overheating in the country's forestland market. In Romania, Tornator continued to manage its forests responsibly, and to develop its sustainable business. Tornator's forests in Finland and Estonia are double-certified (PEFC, FSC®), and its forests in Romania hold the FSC® certificate. With regard to Tornator's forests in Finland, the company renewed its FSC certificate successfully; this has to be done every five years.

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

In its core business, that is, timber sales and delivery, Tornator had a normal year, following the record-high previous year. Timber demand and prices fell somewhat from the year before. Most of the timber resulting from felling caused by the 2018 snow damage was sold to our main customer, Stora Enso, and the timber delivery volumes were exceptionally high the year before. Timber deliveries in 2019 to the main customer totalled some €66.6 million (79.5), or some 66.0% (74.2%) of the Group's net timber sales. Timber sales to the main customer are based on a long-term framework agreement conforming with the market. Tornator also has other long-term timber sales agreements in Finland and Estonia.

During the previous year in Finland, Tornator's forests were affected by major snow damage, which are reflected in the 2019 financial statements. The timber delivery net sales includes €1.3 million in insurance compensation, in addition to the €2.5 million recorded in the previous year. So in total the damage exceeded the forest insurance deductible limit (€5 million).



An update of the fair value of Tornator's forest assets (growing stock) resulted in significant positive effects in Finland and Estonia. An increase in sustainable havesting opportunities, a decrease in discount rate and a new price estimate for timber increased the fair value of forests on the balance sheet by a total of €231.7 million. An annual fair value update, consisting of a number of valuation factors, improved operating profit by €189.9 million. In Finland, the fair value was calculated by an external evaluator, Indufor Oy, on the basis of future cash flows, i.e. considering sustainable forest management and the growth potential of forests.

The total value of the Group's forests in the financial statements was some €1,776 million (1,539), including growing stock and land. The figures include the effects of harvesting as well as the purchases and sales of forestland. Tornator owns a total of more than 700,000 hectares of forest in Finland, Estonia and Romania.

On the other side of the balance sheet, the fair values of the company's long-term interest rate hedges decreased due to the fall in market interest rates. This created a negative entry of €47.0 million in financial items in the income statement (-1.6). The above fair value changes had no effects on cash flow.

For forestland investments, Tornator utilised competitive bank loan funding. In December 2019, Tornator took out a bank loan to pay back a €250-million secured bond-loan. In addition to the bank and commercial paper funding, totalling some €582 million, Tornator has an unsecured debenture loan of €65 million. All company loans will mature in late 2020, so they will be recorded in the financial statements under short-term bonds. Loan refinancing will be secured sufficiently early before the due date; a more detailed description of this will be found in the notes to the financial statements. Achievements during the period under review also include the creation and implementation of the Green Finance Framework. An independent auditor, the Norwegian Centre for International Climate and Environmental Research (CICERO), gave Tornator the highest responsibility rating, 'dark green' on the climate-friendliness of the company's operations. The potential for green financing and a solid, steady operating history provide the company with a strong basis for refinancing the loan portfolio in 2020.

Tornator's equity ratio was 45% (44%) and liquidity remained strong throughout the year. The company met its loan covenants within safe margins.

As a new business activity, Tornator offers forest owners the opportunity to rent out forest to Tornator on the basis of long-term lease contracts. This is a new way of maintaining contact with inherited assets without needing to engage in forest management, while gaining an easy and reliable source of steady rental income.

In line with our responsibility programme, we engaged in mire restoration, prescribed burning and the establishment of conservation areas on more than 800 hectares of our land.

Tornator Oyj's Annual General Meeting of 7 March 2019 decided to pay dividend, as proposed by the Board of Directors, for a total of €35 million.

Henrik Nieminen, the Deputy CEO of Tornator Oyj, was appointed as the new CEO as of 17 June 2019. The previous CEO, Sixten Sunabacka, acted as a senior advisor until the end of 2019.

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 the 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. Demand risk has decreased as the use of wood has increased and diversified, and many new innovations have yet to see the light of day. The company has also secured high demand for wood by certifying all of its forests. With new investments by the forest industry, wood demand has increased in all countries in which Tornator operates.

The volatility of wood prices is a significant risk factor in terms of Tornator's results. If prices fall, Tornator can temporarily increase the volume of cutting right sales or plot and forestland sales or both. However, the goal is to follow a sustainable felling plan in order to optimise annual cash flows in the long run.

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 this to prepare a long-term cutting plan (more than 30 years). The latest forest inventory by the Natural Resources Institute Finland and the cutting plan 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 is redefining its national criteria and Tornator is closely involved in the process.

Forestland purchasing includes risks, and the success of investment is often discovered after a long time. The forest resources and structure of the estate to be purchased are determined using highly advanced technology, but some decisions must still be based on estimates. The pricing of estates is based on clear criteria, but pricing and the underlying appraisals may have an effect on the success of purchases in terms of returns.

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

The risk involved in investments made in wind power project development is managed by preparing accurate feasibility studies before launching such projects, by selecting partners among significant players in the sector, by dispersing the projects around Finland, and by planning them carefully. Tornator does not participate in wind power construction or ownership of production, but sells its shares in 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 through the careful planning of operations and a high standard of implementation.

Significant new statutes or other factors impeding operations can be regarded as political risks. An example of this is the debate in Finland on the acceptability of forest use, or EU-level discussions on regulation that would restrict forestry. Acquiring forest assets as a foreign company may also subject the company to political risks in the target countries in question. In managing risks, it is important to cooperate with authorities, educational institutions and various NGOs as well as actively participating in societal debate. Proactive risk management also involves participation in research in the field and the preparation of various carbon calculations. Tornator pursues open communication with an emphasis on responsibility and other corporate values.

Tornator also aims to continue expanding its operations outside Finland, in countries where the related growth potential is considered profitable. Geographic expansion is both a way to manage risks and a risk in itself. With regard to Tornator's operations, Romania and Estonia score relatively poorly in corruption statistics. 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. Furthermore, the risks associated with expansion are managed by selecting competent partners and reliable customers, and by balancing out long and short-term timber sales agreements. The company performs internal control in all countries, and the Group has a whistleblower system in place.

Attracting and retaining skilled employees is a risk in forestry as well. Tornator has prepared for rising numbers of retirements among forest workers by signing on new contractors and increasing mechanised work. With regard to salaried employees, the company collaborates with educational institutions and recruits proactively. The risk is also managed with active HR management and development.

Operational risks

To manage internal business risks, Tornator has operational processes that are approved by the Board of Directors and senior management. Operational work is increasingly carried out with entrepreneur resources, which poses challenges in terms of control over issues such as environmental damage. We are trying to improve this control by means of both education and information technology.

Greater frequency of natural disasters due to climate change pose an ever-greater risk to forest assets. For Tornator, the size and geographic extent of its holdings, the good health and growth of its forests, and the measures required by the Act on Prevention of Forest Damage form an intrinsic risk management tool. In addition, Tornator has a Finnish forest insurance policy that covers damage in the case of a major disaster. However, the company regards the insurance of its forest holdings abroad as unprofitable, because the target countries lack an operational forest insurance market. The threat of a cyber attack on corporate information systems may also be considered a 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 loans. The company adjusts its loan portfolio depending on the financial market situation, so that loans mature over several years and as far into the future as possible. The company has 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, for which reason it is 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, liquid and highly rated funds.

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

Notable events after the end of the period

No notable events after the end of the period.

An estimate of future development

The global megatrends, such as climate change and population growth, are further expected to increase demand for sustainably produced renewable wood raw material in the long term. Owing to the prevailing uncertainty (such as trade war and Brexit), temporary pressure may be placed on timber demand and felling. If the global economy slows down more than expected, forest industry production may contract, with potential negative impacts on timber delivery volumes and the company's net sales.

The situation in the forestland market is expected to remain similar to the previous year. Silvicultural work will be continued according to the normal annual cycle and the fertilisation programme will be carried out as planned.

The company estimates that its financial performance and debt service capacity will remain stable.

Research and development

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

Personnel, wages and salaries

The average number of personnel was at the same level as the year before. In addition to normal pay, the company uses a reward system based on performance targets. In 2019, an average of 6.4% of normal pay was given as performance-based bonuses for 2018 (in 2018, 6.5% was paid for 2017).

The Group has about 180 employees. Its forests directly provide various types of forestry work for people, mainly in sparsely populated areas, with an estimated equivalent of some 1,000 full time employees per year

	2019	2018	2017
Average number of personnel during the period	183	182	189
Remuneration for the period, € million	9.1	8.4	8.3

Environment

The company has an environmental programme whose objectives and outcomes 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. A more extensive FSC recertification takes place every five years, and Tornator did this successfully in 2019.

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

Company organisation, management and auditors

Until 7 March 2019, Tornator's Board of Directors included Chairman Mikko Koivusalo, Deputy Chairman Mikko Mursula and members Erkko Ryynänen and Jari Suominen.

At the Annual General Meeting of 7 March 2019, 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 member
Mikko Koivusalo	Markus Aho
Erkko Ryynänen	Ari Mäkinen
Jari Suominen	Jari Suvanto
Mikko Mursula	Ilja Ripatti

In its organising meeting of 7 March 2019, the company's Board of Directors elected Mikko Koivusalo as Chairman of the Board and Mikko Mursula as Deputy Chairman. On the Oversight Committee that oversees significant agreements between the company and the shareholders, the Board elected Mikko Mursula as Chairman, Mikko Koivusalo and Erkko Ryynänen as members and Jari Suominen as a deputy member. Mikko Koivusalo, Mikko Mursula and Erkko Ryynänen were elected as members of the Remuneration Committee.

Henrik Nieminen has acted as Chief Executive Officer. His deputy is Forestry Director Ari Karhapää.

The Management Group was made up by CEO Henrik Nieminen, CFO Antti Siirtola, Forestry Director Ari Karhapää, Director of Development Heikki Penttinen and Head of HR Outi Nevalainen.

At the Annual General Meeting of 7 March 2019, Deloitte Oy were elected auditors with Marika Nevalainen, 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. The parent company shares are subject to a redemption clause specified in the Articles of Association, according to which other shareholders have a redemption right if company shares change hands.

Handling of profit

The parent company's distributable profit amounted to €706,146,206.16, of which the profit for the period was €123,518,240.67.

The Board of Directors of Tornator Oyj proposes to the Annual General Meeting that a dividend of €6.00 per share, or €30,000,000.00, be paid. The remaining part will be carried over in the shareholders' equity. The provisional dividend payment date is 23 April 2020; record date 17 April 2020.

The Board expects the refinancing to go ahead as planned, meaning that dividend payment will not endanger the company's solvency.

Major shareholders, 31 December 2019

Shareholder	%
Stora Enso Oyj	41.00%
Ilmarinen Mutual Pension Insurance Company	23.13%
Varma Mutual Pension Insurance Company	15.33%
OP Henkivakuutus Oy	5.21%
OP-Forest Owner Fund	5.00%
OP-Eläkesäätiö	4.16%
Veritas Pension Insurance	2.50%
Finnair Pension Foundation	2.18%
Riffu Oy	0.75%
Danilostock Oy	0.75%
Total	**100.00%**

Votes carried by shares

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

Contents

A. Board of Directors' Report and Consolidated Financial Statements 1

1 Notes to the consolidated financial statements 17
General information 17
2 Summary of the most important accounting principles 17
Application of the new and amended IFRS standards 18
3 Accounting principles of the consolidated financial statements 21
Subsidiaries 21
Segment reporting 22
Conversion of line items denominated in foreign currencies 22
Property, plant & equipment 22
Intangible assets 23
Impairment of tangible and intangible assets 23
Biological assets 23
Leases 24
Inventories 24
Accounts receivable 24
Financial assets and financial liabilities 25
Borrowing costs 25
Impairment of financial assets 25
Derivatives contracts and hedge accounting 26
Cash and cash equivalents 26
Share capital 26
Dividends 26
Income taxes 27
Employment benefits 27
Pension liabilities 27
Accounts payable 28
Revenue recognition 28
Operating profit 28
Interest and dividends 28
Application of new and revised IFRSs in issue but not yet effective 28
4 Financial risk management 29
5 Critical accounting estimates & judgements 32
6 Operating segments 33
7 Intangible assets 34
8 Property, plant & equipment 34
9 Right-of-use assets 35
10 Biological assets 36
11 Derivatives 36
12 Inventories 37
13 Trade and other receivables 37
14 Investments 38
15 Cash and cash equivalents 39
16 Share capital and share premium fund 39
17 Deferred tax assets and deferred tax liabilities 40
18 Financial liabilities 42
19 Lease liabilities 43
20 Pension obligations 44
21 Trade and other payables 46
22 Breakdown of net sales 47
23 Other operating income 47
24 Materials and services 47

25	Personnel expenses	47
26	Depreciation and amortisation expense and impairments	47
27	Other operating expenses	48
28	Financial income and expenses	48
29	Income taxes	48
30	Dividends	49
31	Related party transactions	49
32	Auditors' fees	50
33	Subsidiaries and business combinations	50
34	Other collateral granted for own account	50
35	Judicial proceedings	50
36	Classification of financial assets and financial liabilities	50
37	Fair value hierarchy of financial assets and liabilities at fair value	52
38	Essential post-balance sheet date events	53

B. Parent company financial statements 54

Consolidated Income Statement

EUR thousand	Note	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Net sales	6,22	**105,823.4**	**112,825.1**
Other operating income	23	5,717.5	6,567.4
Change in inventories of finished goods and work in progress	12	-1,427.6	-998.0
Materials and services	24	-17,216.8	-16,975.1
Personnel expenses	25	-9,064.5	-8,447.0
Depreciation and amortisation	26	-3,182.5	-3,093.5
Other operating expenses	27	-5,961.0	-5,979.3
Change in fair value of biological assets and harvesting	10	189,910.1	32,575.8
Operating profit		**264,598.6**	**116,475.5**
Financial income	28	199.0	180.5
Financial expenses	28	-22,559.1	-22,726.1
Change in fair value of financial instruments	11	-46,993.4	-1,613.2
Financial items (net)		**-69,353.5**	**-24,158.8**
Profit/loss before tax		**195,245.1**	**92,316.6**
Income taxes	29	373.4	-3,062.5
Change in deferred taxes	17	-30,846.4	-10,373.1
Profit/loss for the financial period		**164,772.0**	**78,881.1**
Distribution:			
To owners of the parent company		**164,772.0**	**78,881.1**

Consolidated statement of comprehensive income

Profit for the financial period		**164,772.0**	**78,881.1**
Other comprehensive income for the period after taxes:			
Items not recognised later through profit and loss			
Items derived from the re-definition of net defined benefit costs (or asset items)		28.8	20.8
Items that may later be recognised through profit and loss			
Translation difference	16,29	-979.8	-49.3
Investments in unlisted securities	14,28	0.0	0.6
Comprehensive income for the period total		**163,821.0**	**78,853.2**
Distribution:			
To shareholders of the parent company		**163,821.0**	**78,853.2**

The notes on pages 17–53 are an essential part of these financial statements.

Consolidated Balance Sheet

EUR thousand	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	7	1,799.5	1,943.9
Property, plant & equipment	8	109,398.0	103,734.4
Right-of-use assets	9	2,284.2	
Biological assets	10	1,682,631.0	1,450,959.9
Other investments	14	111.2	111.2
Non-current assets total		**1,796,223.8**	**1,556,749.5**
Current assets			
Inventories	12	51.4	436.1
Trade and other receivables	13	21,912.5	15,534.3
Derivatives	11	0.0	3,284.8
Investments	14	2,160.8	1,042.3
Cash and cash equivalents	15	18,650.7	13,957.4
Current assets total		**42,775.3**	**34,254.9**
Total assets		**1,838,999.1**	**1,591,004.4**
EQUITY AND LIABILITIES			
Equity belonging to shareholders of the parent company			
Share capital	16	50,000.0	50,000.0
Other equity	16	781,295.6	652,474.6
Shareholders' equity total		**831,295.6**	**702,474.6**
Non-current liabilities			
Deferred tax liabilities	17	192,040.6	161,187.0
Financial liabilities	18	1,003.1	258,130.0
Derivatives	11	141,058.5	93,013.9
Lease liabilities	19	1,964.8	0.0
Pension liabilities	20	183.0	229.0
Non-current liabilities total		**336,250.1**	**512,559.9**
Current liabilities			
Financial liabilities	18	647,180.6	352,861.9
Trade and other payables	21	23,933.2	21,981.3
Derivatives	11	0.0	1,126.7
Lease liabilities	19	339.6	0.0
Current liabilities total		**671,453.4**	**375,969.9**
Total liabilities		**1,007,703.5**	**888,529.8**
Total equity and liabilities		**1,838,999.1**	**1,591,004.4**

The notes on pages 17–53 are an essential part of these financial statements.

Statement of changes in equity

1 000 euro	Share capital	Share premium	Translation difference	Fair value reserve	Retained earnings	Shareholders' equity total
Equity on 1 Jan 2018	50,000.0	29,995.2	-8,547.2	-156.8	580,830.3	652,121.4
Comprehensive income						
Profit/loss for the financial period					78,881.1	78,881.1
Transfers between items				156.2	-156.2	0.0
Other items of comprehensive income (after taxes)						
Items derived from the re-definition of net defined benefit costs (or asset items)					20.8	20.8
Translation difference			-49.3			-49.3
Investments in unlisted securities				0.6		0.6
Comprehensive income for the period	0.0	0.0	-49.3	156.8	78,745.7	78,853.2
Transactions with shareholders						
Dividends paid					-28,500.0	-28,500.0
Total transactions with shareholders					-28,500.0	-28,500.0
Equity on 31 Dec 2018	50,000.0	29,995.2	-8,596.5	0.0	631,075.9	702,474.6
Equity on 1 Jan 2019	50,000.0	29,995.2	-8,596.5	0.0	631,075.9	702,474.6
Comprehensive income						
Profit/loss for the financial period					164,772.0	164,772.0
Other items of comprehensive income (after taxes)						
Items derived from the re-definition of net defined benefit costs (or asset items)					28.8	28.8
Translation difference			-979.8			-979.8
Comprehensive income for the period	0.0	0.0	-979.8	0.0	164,800.8	163,821.0
Transactions with shareholders						
Dividends paid					-35,000.0	-35,000.0
Total transactions with shareholders					-35,000.0	-35,000.0
Equity on 31 Dec 2019	50,000.0	29,995.2	-9,576.3	0.0	760,876.8	831,295.6

The notes on pages 17–53 are an essential part of these financial statements.

Consolidated cash flow statement

EUR thousand	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Cash flow from operating activities		
Cash receipts from customers	107,720.0	102,689.9
Proceeds from sale of tangible assets	2,743.7	3,546.6
Cash receipts from other operating income	5,719.0	6,753.3
Cash paid to suppliers and employees	-31,785.5	-30,646.3
Cash flow from operating activities before financial items and taxes	**84,397.3**	**82,343.5**
Interest paid and other financial expenses	-22,728.3	-21,902.6
Interest received	199.0	180.5
Income taxes	-8,983.5	7,470.2
Net cash flow from operating activities	**52,884.5**	**68,091.6**
Cash flow from investing activities		
Investments in biological assets	-43,560.7	-47,881.7
Investments in tangible assets, forestland	-5,383.9	-5,918.0
Investments in other tangible and intangible assets	-3,237.8	-2,051.3
Investments in associates and other investments	0.0	-3.0
Investments in money market funds	-1,116.9	0.0
Proceeds from sale of unlisted securities	0.0	895.8
Net cash flow from investing activities	**-53,299.4**	**-54,958.2**
Cash flow from financing activities		
Withdrawal of long-term loans	0.0	25,000.0
Repayment of long-term loans	-51.9	-4,574.9
Withdrawal of short-term loans	295,000.0	0.0
Repayment of short-term loans	-254,500.0	-5,000.0
Repayment of leasing liabilities	-305.0	0.0
Dividends paid	-35,000.0	-28,500.0
Net cash flow from financing activities	**5,143.1**	**-13,074.9**
Net increase/decrease in cash and cash equivalents	**4,728.2**	**58.5**
Cash and cash equivalents at beginning of period	13,957.4	13,900.6
Effect of exchange rate changes on cash and cash equivalents	-34.7	-1.7
Cash and cash equivalents at end of period	**18,651.0**	**13,957.4**

The notes on pages 17–53 are an essential part of these financial statements.

1 Notes to the consolidated financial statements

General information

Tornator Oyj is a Finnish limited liability company (business ID 0162807-8) that operates under the jurisdiction of the legislation of the State of Finland. The Group's registered office is in Imatra and the address of its headquarters is Napinkuja 3 C, 55100 Imatra, Finland. A copy of the consolidated financial statements is available at the company website www.tornator.fi/en

Tornator Oyj ('Tornator' or 'the company') together with its subsidiaries (together 'Tornator Group') is Europe's leading company specialised in sustainable forestry. The Group's core business is wood production and selling of cutting rights. The Group provides also forest management services, sells land and buys forest properties. The Group's main market is in Finland but it owns forest properties also in Estonia and Romania. At the end of 2019, the Group owned about 629,000 (2018: 616,000) hectares of forest properties in Finland; 66,000 (65,500) hectares in Estonia and 12,000 (12,000) hectares in Romania. Average number of personnel during the financial period was 183 (182).

Tornator's Board of Directors have approved these financial statements for issue on 10 February 2020. According to the Finnish Limited Liability Companies Act, the Annual General Meeting has the option to approve or reject or change the financial statements.

Figures presented in these Financial statements are rounded and thus total sums may differ from sums of individual figures presented.

2 Summary of the most important accounting principles

The most important accounting principles followed in the preparation of the financial information on the Group are explained below and in the note 3. These accounting principles have been applied in all the presented years, unless otherwise noted.

Accounting basis

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2019 have been applied in preparing them. "International Financial Reporting Standards" refers to the standards defined in the Finnish Accounting Act and related regulations approved for application in the EU and their interpretations in accordance with EU regulation (EC) 1606/2002. The notes to the consolidated financial statements also comply with the requirements of the Finnish accounting and corporate legislation that supplements the IFRS regulations.

The consolidated financial statements have been prepared using the historical cost basis, except for financial assets and liabilities recognised at fair value through profit and loss, biological assets and items under hedging of fair value, which are measured at fair value. The financial statements are presented in thousands of euros unless otherwise noted. The company's functional currency is the euro.

The preparation of the consolidated financial statements according to the IFRS standards requires making of certain estimates and assumptions. Making of these assumptions and estimates has an impact on the assets and liabilities reported on the balance sheet date, the presentation of contingent assets and liabilities in the notes and the income and expenses reported for the financial year. These estimates are based on the management's best knowledge of the events; thus the final actual results may differ from the estimates made. Areas that have required greater judgement and areas in which the judgement has had the greatest impact on the figures presented in the financial statements are presented in Note 5.

Application of the new and amended IFRS standards

The consolidated financial statements have been prepared in accordance with the same accounting principles as in 2018, except for the following new or amended standards and interpretations. The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting of future transactions and events.

- IFRS 16 Leases

  IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

  The date of initial application of IFRS 16 for the Group is 1 January 2019.

  The Group has applied IFRS 16 using the cumulative catch-up approach which:

  - Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
  - Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

  Impact of the new definition of a lease

  The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

  The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether a customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

  The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

  Impact on Lessee Accounting

  Former operating leases

  IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments,with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘Other operating expenses’ in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Former finance leases
For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except as described below and except in cases where the Group has elected to apply the low-value lease recognition exemption.

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect of the Group’s consolidated financial statements.

Impact on Lessor Accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). The Group did not have such leases.

Financial impact of the initial application of IFRS 16

The Group's right-of-use assets consist of leased office space and cars. Office space lease contracts that are valid for now have been evaluated case-by-case. Evaluation has included the term and probability of continuance of the contract.

At 31 December 2018, the Group had non-cancellable lease and rent payment commitments worth approximately EUR 738 thousand. Adopting IFRS 16 as of 1 January 2019 increased the Group's assets (right-of-use assets) and liabilities (lease liability) by EUR 2.1 million. The difference is attributable to the afore mentioned evaluation of lease contracts that are valid for now. Right-of-use assets aree depreciated during the lease term and lease payments will be accounted for as interest expense and repayment of lease liability. Income statement effects of adopting the standard were limited: lease payments recognised under IFRS 16 amounted to EUR 393 thousand, depreciation amounted to EUR 327 thousand and financial expenses totalled EUR 88 thousand. As a result, the net effect on the Group's operating profit was EUR 66 thousand positive and net effect on the Group's net income before taxes was EUR 22 thousand negative.

- The following standards, which were effective for annual periods beginning on 1 January 2019, were not applicable to the Group:

  - Amendments to IFRS 9 Prepayment Features with Negative Compensation
  - Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
  - Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
  - Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
  - IFRIC 23 Uncertainty over Income Tax Treatments

3 Accounting principles of the consolidated financial statements

Subsidiaries

The consolidated financial statements include the companies of which the Group controls over half of the votes or over which it exercises control in some other way. The Group's mutual shareholding has been eliminated by means of the acquisition cost method. Subsidiaries are included in the consolidated financial statements starting from the date on which the Group assumes control over them, and they are removed from the financial statements on the date on which control is relinquished. The amount by which the acquisition cost exceeds the Group's share of the fair value of the itemisable net assets is entered as goodwill. If the acquisition cost is smaller than the net assets of the acquired subsidiary, the difference will be entered directly in the income statement. Intra-group transactions, receivables, liabilities and unrealised profits are eliminated when the consolidated financial statements are prepared. Unrealised losses are not eliminated if the loss is incurred due to impairment. When necessary, the accounting principles of the financial statements of subsidiaries have been amended to correspond to the consolidated accounting principles. Since the acquisitions of subsidiaries have not satisfied the definition of a business, they have been handled as acquisitions of asset items.

The consolidated financial statements contain the financial information of the parent company Tornator Oyj and its 100% owned subsidiaries. Following companies are included in the consolidated financial statements:

- Tornator Eesti Oü
- SC Tornator SRL
- Oituz Private Forest District SRL

- Lavakorven Tuulipuisto Oy
- Maaselän Tuulipuisto Oy
- Martimon Tuulipuisto Oy
- Niinimäen Tuulipuisto Oy
- Pahkavaaran Tuulipuisto Oy

Associated companies

During 2017 financial period, the Group acquired 100 % ownership in 5 wind power project development companies which were earlier accounted for as associated companies. As a result, the Group did not have associated companies during 2019 and 2018 financial periods.

Associated companies (associates) are entities over which the Group has significant influence. Significant influence arises normally when the Group owns over 20 % of votes or when the Group otherwise has significant influence but not control.

Associates are consolidated using the equity method. If the Group's share of the net loss of an associate exceeds its book value, investment is recognized in the balance sheet at zero value and the excess loss is not consolidated, unless the Group is committed to fulfilling the obligations of the associates. Investments in associates include the implicit goodwill of the acquisition. Unrealized gains and losses on transactions between the Group and associates are eliminated according to the Group's ownership. Unrealised losses are not eliminated if the transaction provides evidence of an impairment of the asset. Group's share of the net profit or loss of associates is shown before operating profit. Similarly, the Group's share of associates' other comprehensive income is recognized in the Group's other comprehensive income. The Group's associates have not had any such items for financial periods 2018 and 2019.

Segment reporting

Operating segments are determined and reported in a manner which is consistent with internal reporting to the highest operational decision-maker. According to the internal reports, the Group has one operating segment and, thus, separate segment notes are not presented.

Conversion of line items denominated in foreign currencies

(a) Functional and presentational currencies

Items included in the financial statements of the Group companies are valued in the currency of the operational environment in which the company primarily operates (the "functional currency"). The consolidated financial statements are presented in euro, which is the company's functional and presentational currency.

(b) Business transactions and balances

Transactions denominated in foreign currencies are converted into the functional currency using the exchange rates on the date of the transactions or, if the items have been revalued, using the exchange rates on the valuation dates. Exchange gains and losses from payments related to business transactions and converting assets and liabilities denominated in a foreign currency into the exchange rate on the date of the financial statements are entered in the income statement, except for hedges complying with the terms and conditions of cash flow or net investment hedging, which are entered into equity.

Exchange gains and losses related to debts and cash and cash equivalents are presented in the income statement item "financial income or expenses". All other exchange gains and losses are presented in the income statement item "Other operating income or expenses".

(c) Group companies

The income statements and balance sheets of Group companies (none of which operate in a hyperinflation country) using a functional currency different from the presentation currency of the Group are converted to the presentation currency as follows:

a) the assets and liabilities of each balance sheet to be presented are converted using the exchange rate of the balance sheet date;
b) the income and expense items of each income statement are converted using average exchange rates of the period (or the rates on the transaction dates if using the average rate does not produce a reasonably similar rate);
c) all exchange rate differences generated by this are entered in the translation differences of equity.

Exchange rate differences arising from hedges of net foreign investment and from loans and other currency instruments defined to hedge such net investments are recognised in the translation differences in equity when preparing the consolidated financial statements. When a foreign unit is partly transferred or when it is sold, exchange rate differences entered in equity are recognised in the income statement as part of capital gain/loss.

Property, plant & equipment

Property, plant and equipment are measured at the initial acquisition cost, less deduction for depreciation and impairment. The acquisition cost contains costs immediately resulting from the acquisition. Costs arising later are only included in the asset's book value or recognised as a separate asset if it is probable that the future economic benefit associated with the asset will benefit the Group and the asset's acquisition cost can be reliably determined. Other repair and maintenance costs are recognised through profit and loss for the period in which they were realised. The residual values of assets and useful lives are verified at a minimum annually on the date of the financial statements.

Assets are subjected to straight-line depreciation over the following estimated useful lives:

Buildings	7–20 years
Machinery and equipment	3–5 years
Land areas	No depreciation
Roads and ditches	10 years

Intangible assets

The Group's intangible assets are computer software and other intangible assets. Computer software is measured at acquisition cost, less deduction for recognised depreciation and amortisation expenses and impairment. They are depreciated over the estimated useful life of 3–10 years. Other intangible assets are measured at acquisition cost, less amortisations.

Impairment of tangible and intangible assets

The Group assesses whether there is any indication that an asset has been impaired at each financial statements date. If any such indication exists, the recoverable amount of the said asset is estimated. The recoverable amount is also estimated annually for the following assets, regardless of whether or not there are signs of impairment: goodwill, intangible assets with an unlimited useful life, and unfinished intangible assets. The need for impairment is assessed at the level of cash-generating units, i.e. the lowest individual unit level that is mainly independent of the other units and whose cash flows can be separated from other cash flows.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the estimated future net cash flows, discounted to their present value, expected to be derived from the said asset or cash-generating unit. The discount rate used is the interest rate before tax that represents the market's view of the time value of money and special risks associated with the asset.

An impairment loss is recognised if the carrying amount of the asset is higher than its recoverable amount. The impairment loss is immediately recognised in the income statement. In connection with the recognition of the impairment loss, the useful life of the depreciated asset is re-evaluated. An impairment loss recognised for an asset is reversed if a change has taken place in the estimates used to determine the recoverable amount of the asset. However, the maximum reversal of an impairment loss amounts to the carrying amount of the asset had no impairment loss been recognised.

Biological assets

Biological assets, such as, in the Group's case, growing stock, are recorded on the balance sheet at their market value. Group forests are thus measured at fair value less estimated point-of-sale costs at harvest, there being a presumption that fair values can be reliably measured for these assets. The value of the Group's forest property is based on the discounted cash flow model. The fair value of biological assets is calculated on the basis of future cash flows from continuing operations, i.e. based on sustainable forest management and taking growth potential into consideration. The Group estimates that the turnover cycle of forest is 70 years in Finland, 75 in Estonia and 120 in Romania, and these figures are used as the bases for the cash flows. To calculate the income cash flows, the long-term felling plan, based on forecasted tree growth, is multiplied by the prices forecasted by an external assessor for each wood type and felling method for the corresponding period. The long-term felling plan in Finland is based on forest inventories prepared by the Natural Resources Institute Finland and revised at regular intervals. The development of real wood prices after the prediction period given by an external assessor (10 years) is assumed to be ±0. The fair value of the biological asset is measured as the present value of the harvest from one growth cycle based on the productive forest land, taking into consideration environmental restrictions and other reservations.

The discount rate used in the valuation is determined using the weighted average cost of capital (WACC), in which case the required rate of return on equity is based on the use of the capital asset pricing model. The

Group verifies its discount rate in accordance with a pre-defined calculation template, but the discount rate is modified only when an essential change that is classified as long-term takes place in an individual interest rate component. Biological assets that are physically attached to soil are recognised and measured at their fair value separately from the land. When acquiring biological assets, they are valued at the acquisition cost corresponding to the fair value.

Leases

Group as the leaseholder

The Group recognizes lease contracts as follows:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Group as the lessor

Assets leased with agreements other than finance leases are included in the property, plant and equipment in the balance sheet. The property items leased out by the company are land areas and are not subject to depreciation. Lease income is recognised in the income statement as equal instalments over the term of the lease.

Inventories

Inventories are measured at the acquisition cost or the lower net realisable value. Acquisition cost is determined using the weighted average price method. The acquisition cost includes the immediate purchasing costs less VAT. Net realisable value is the estimated selling price obtained in the ordinary course of business, from which the cost of the sale is deducted.

Inventories include the wood raw material, seedlings, seeds and fertilizers. In addition, to-be-sold land areas are transferred to inventories.

Accounts receivable

Accounts receivable are initially recognised at fair value and later measured at amortised cost using the effective interest rate method less any impairment. Impairment loss is recognised according to expected credit losses.

Financial assets and financial liabilities

Financial assets

The Group's financial assets are divided into the following categories: financial assets recognised at fair value through profit and loss and financial assets recognised at amortised cost. The classification is carried out based on the purpose of use and characteristics of the contractual cash flows. Financial assets are classified at initial recognition.

Financial assets recognised at fair value through profit and loss include unlisted securities and derivatives. Asset items belonging to this group are current assets, unless they mature more than 12 months after the end of the reporting period. These asset items are measured at fair value. Realised and unrealised profits and losses resulting from changes in fair value are recognised in the income statement for the accounting period during which they have occurred.

Loans and other receivables are non-derivative assets that are connected to fixed or determinable payments and are not quoted on a functioning market. In the balance sheet, they are included in the trade and other receivables under current or non-current assets according to their nature. They are placed in the latter category if they mature in more than 12 months.

Transaction costs are included in the initial book value of financial assets when an item is not measured at fair value through profit and loss. All purchases and sales of financial assets are recognised on the trade date.

De-recognition of financial assets from the balance sheet occurs when the Group has lost its contractual right to cash flows or when it has transferred risks and income outside the Group to a significant degree.

Financial liabilities

Financial liabilities are initially recognised in accounting at fair value. Transaction costs are included in the initial book value of financial liabilities. Financial liabilities which are hedged items in a fair value hedging are recognised based on the change in the fair value of the hedged item. Other financial liabilities are recognised at amortised cost using the effective interest rate method. Financial liabilities are included in current and non-current liabilities.

Borrowing costs

Borrowing costs are recognised as expenses for the accounting period during which they were incurred.

Impairment of financial assets

On every financial statement date the Group evaluates whether there is objective evidence of the impairment of a single financial asset line item or the impairment of a financial asset category. If the fair value of share investments falls short of acquisition cost to a significant degree and for a period of time defined by the Group, this is an indication of the impairment of the share. Impairment losses are recognised through profit and loss.

The Group recognises an impairment loss on accounts receivable when there is objective evidence that the receivables cannot be collected in full. Significant financial problems by the debtor, the likelihood of bankruptcy or neglect of payments are evidence of the impairment of accounts receivable. The size of the impairment loss recognised in the income statement is determined by the difference between the book value of the receivables and the present value of estimated deferred cash flows discounted by the effective interest rate. If the size of the impairment loss decreases during a later accounting period and the reduction can be objectively considered to be connected to an event after the recognition of the impairment, the recognised loss is reversed through profit or loss.

Derivatives contracts and hedge accounting

The Group had no hedge accounting relationships in force at 31 December 2019.

Derivatives contracts are initially recognised in accounting at fair value on the date on which the Group becomes a contracting party, and later they are also measured at fair value. Profits and losses that result from measurement at fair value are handled in accounting in a way determined by the purpose of the derivatives contract. Changes in the value of derivatives contracts to which hedge accounting is applied, and that are effective hedging instruments, are presented congruently with the hedged line item in the income statement. When derivatives contracts are signed, the Group treats them as hedges of the estimated highly probable cash flow from operations, fair value hedges or derivatives contracts that do not satisfy the criteria of hedge accounting.

The Group documents hedge accounting when it initiates the relationship between the target to be hedged and the hedging instruments, together with the Group's risk management objectives and the hedging strategy. When starting hedging, and at least at the time of the release of each set of financial statements, the Group documents and evaluates the effectiveness of the hedging relations by examining the ability of the hedging instrument to protect against changes in cash flow or the fair value of the line item being hedged.

Changes in the fair value of derivatives that meet the terms of fair value hedge are recognised through profit and loss to adjust interest and financing costs in the income statement. Respectively, the change in the fair value of the hedged item is entered in the income statement.

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised directly in the hedging fund contained in the equity revaluation reserve. Profits and losses recognised in equity are transferred to the income statement in the accounting period for which the hedged line item is recognised in the income statement. When the Group applies cash flow hedging to hedge against the interest risk of floating rate loans, the ineffective portion of the hedging relationship is entered to adjust the interest expenses of the income statement.

When a hedging instrument acquired to hedge cash flow matures or is sold, or when the criteria of hedging accounting are no longer satisfied, the profit or loss accrued from the hedging instrument remains in equity until the forecast interest cash flow is realised. Nevertheless, if the forecast hedged transaction is no longer expected to be implemented, the profit or loss accrued in equity is immediately recognised in the income statement.

If the maturity of derivative contract is more than 12 months, the fair values of derivatives are presented in non-current assets or liabilities in the balance sheet; otherwise, they are included in current assets or liabilities.

Cash and cash equivalents

Cash is recognised at fair value in the balance sheet. Cash and cash equivalents in the cash flow statement consists of cash, cash in bank accounts and bank deposits that can be withdrawn on demand.

Share capital

Share capital consists solely of ordinary shares. Direct costs of issuing new shares, less deduction for taxes, are recognised in equity to reduce the payment received from the issuance.

Dividends

Dividend debt to Group shareholders is recognised for the period in which the Annual General Meeting has approved the dividend.

Income taxes

Tax expenses in the income statement consists of taxes based on taxable profit for the period and deferred taxes. The tax effect associated with items recognised directly in equity is correspondingly recognised as a part of shareholders' equity. Tax based on the period's taxable income is calculated on the basis of taxable profit for the period at domestic rates applicable to profits in the country concerned. The deferred tax balance is adjusted using any taxes associated for previous periods.

Deferred taxes are calculated for all temporary differences between the book value and taxable value. Deferred taxes are calculated by using the tax rate that has been stipulated by the financial statements date or the approved amount of which has been announced. Deferred tax assets are recognised up to the amount that it is probable that taxable income will be generated in the future, against which a temporary difference can be utilised.

The deferred tax liability is, nevertheless, not recognised when it is an asset item or liability initially to be entered in accounting and it is not a question of business combination and the recognition of this kind of asset or liability item does not affect the result of accounting nor taxable income at the time the transaction is realised. Deferred tax is not recognised for undistributed earnings of subsidiaries to the extent that the difference is not likely to dissolve in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when the group has the legal right to set off the deferred tax assets and liabilities based on the taxable income for the period and when the deferred tax assets and liabilities are related to income taxes collected by the same tax recipient either from the same party liable to pay taxes or different parties liable to pay taxes, when the asset and liability are to be realised in full.

Employment benefits

Pension liabilities

The Group's pension arrangements are generally classified as defined contribution plans. In a defined contribution plan, a company pays fixed payments into the arrangement. The company has no legal or actual obligation to make additional payments if the party receiving payments does not have sufficient funds to pay pension benefits earned by employees during current or previous periods. Payments made under a defined contribution plan are recognised in the income statement for the period the payment concerns.

The Group's defined benefit plan obligations have been calculated for each plan separately, using the projected unit credit method. Pension expenses are recognised as expenses over the service lives of employees based on calculations made by authorised actuaries. When calculating the current value of the pension obligation, the discount interest rate is the market yield of high-quality bonds issued by companies or the interest rate of government securities. The maturity of bonds and securities substantially corresponds to the maturity of the calculated pension obligation. The assets included in the pension arrangement at fair value on the closing date are deducted from the current value of the pension obligation to be recognised in the balance sheet. The defined benefit pension arrangement's net liabilities (or asset items) are entered in the balance sheet.

Current service costs (pension costs) and the net interest on a defined benefit arrangement are recognised through profit and loss and presented in costs arising from employment benefits. Any items arising from the re-definition of net defined benefit liabilities (or asset items) (e.g. actuarial gains and losses, and income from assets included in the arrangement) are recognised as other items of comprehensive income over the financial period when they were created.

Prior service costs are recognised as expenses through profit and loss on the earliest of the following dates: either when the arrangement is changed or reduced, or when the Group recognises the related reorganisation costs or benefits related to the termination of employment.

Accounts payable

Accounts payable are initially recognised at fair value and subsequently at amortised acquisition cost using the effective interest method.

Revenue recognition

The Group’s net sales consist of the sale of cutting rights, land sales and forest management services. Revenue is recognised in a way that depicts the amount of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Sale of cutting rights:
Income is recognised for a cutting right sold once the customer has cut the trees from the purchased cutting right area. Usually this is verified by signing the measurement certificate for the cutting carried out.

Sale of holiday plots and forest properties:
Income from the sale of plots and forest properties is recognised when the Group has irrevocably delivered the rights to the customer, the collection of receivables has been reliably verified and the seller no longer has any material risks or advantages connected to the ownership of the rights or plots, or a managerial role or actual control over the sold goods.

Other services:
The sale of services is recognised as income for the period during which the service is provided.

Operating profit

The IAS 1 Presentation of Financial Statements standard does not define the concept of operating profit. The Group has defined it as follows: Operating profit is the net amount arrived at when other income from operations is added to net sales, from which is deducted purchase costs adjusted for changes in inventories of finished and unfinished products and costs resulting from manufacturing for own use, from which is deducted the costs of employment benefits, depreciation and amortisation expenses, any impairment losses and other operating expenses, as well as income or expenses arising from tree felling and changes in the fair value of biological assets. All other income statement items not mentioned above are presented below operating profit. Foreign exchange differences and changes in the fair value of derivatives are included in operating profit if they arise for reasons connected to business; otherwise they are recorded as financial items.

Interest and dividends

Interest income is recognised using the effective interest method and dividend income when the right to a dividend has arisen.

Application of new and revised IFRSs in issue but not yet effective

IASB has published the following new or revised standards and interpretations which the Group has not yet adopted but which may have an impact on the consolidated financial statements. The Group will adopt each standard and interpretation as from the effective date, or if the effective date is other than the first day of the reporting period, from the beginning of the next reporting period after the effective date.

- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
  The amendments are effective for annual periods beginning on or after 1 January 2020.

The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the reform. The changes will mandatorily apply to all hedging relationships that are directly affected by the reform. The amendments are not intended to provide relief from any other consequences arising from the reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended Standards, then discontinuation of hedge accounting is still required. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

- The below presented new or revised standards and interpretations not yet effective are not expected to have an effect on Group reporting (*marked are not yet endorsed by the EU):
    - IFRS 17 Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2021)*
    - IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not yet set)
    - Amendments to IFRS 3 Definition of a Business (effective for annual reporting periods beginning on or after 1 January 2020)
    - Amendments to IAS 1 and IAS 8 Definition of Material (effective for annual reporting periods beginning on or after 1 January 2020)

4 Financial risk management

Risk management principles and process

In its operations, the Group is exposed to various kinds of financial risk, including the effects of fluctuations in exchange rates and interest rates. The key principle of the Group's risk management is the unpredictability of the financial markets and the attempt to minimise possible adverse effects on the Group's result. Risk management is carried out by the finance management in line with general principles approved by the Board of Directors.

The Group's financial policy guides all financing transactions in the Group. The policy and potential future amendments and additions will come into force when the Board of Directors has approved it. The operating instructions regarding the use of all financial instruments should be consistent with the general financial policy. The risk management policy of the Group's financial services contains more detailed instructions that will enter into force by the signature of the head of the Group's Financial operations. The most important financial market risks are listed below.

Exchange rate risk

The Group also operates outside the Euro area and is thus exposed to risks arising from the currency positions that emerge from the translation of investments in different currencies to the parent company's functional currency. Currency risks emerge from commercial transactions, monetary items in the balance sheet and net investments in foreign subsidiaries.

The Group has foreign net investments and is thus exposed to risks emerging from the translation of investments in foreign currency to the parent company's functional currency. Currently, the Group does not hedge against exchange rate risk. A sensitivity analysis is provided in Note 15.

Interest rate risk

The long-term objective of Tornator's interest rate risk management is to hedge the company's balance sheet against adverse effects caused by changes in market interest rates. In practice this means balancing the fair value changes of forest assets and loan related obligations in a way that the net equity effect of the fair value changes in within the limits determined in the Financial risk management and hedging policy.

The Group's interest rate risk from loan related obligations is attributable to interest-bearing debt. The Group has bank loans at a nominal value of EUR 477.5 million, a debenture loan at a nominal value of EUR 65 million and issued commercial paper amounting to nominal value of EUR 105 million.

Interest rate risk related to forest assets is attributable to the valuation model of forests where long-term cash flows are discounted to present value. Changes in discount rate (WACC) has a considerable effect on the fair value of forests. See also note 10 Biological assets.

The Group has hedged its exposure to interest rate risk by signing interest rate swap and interest rate option agreements with financial institutions that have a high credit rating. The interest rate hedging strategy is approved by the Group's Board of Directors and implemented by the Group's finance management.

The Group's short-term money market investments expose it to cash flow interest rate risks, but their effect is not significant. The Group's proceeds and operational cash flows are for the most part independent of fluctuations in market interest rates. The Group is mainly exposed to interest rate risk related to variable interests, which is considered to be mainly connected to the loan portfolio. According to the principles of risk management, the Group must hedge at least 50% of the loan portfolio from fluctuation in market interest rates. On the balance sheet date, 52% of the nominal value of interest-bearing debt has been converted into fixed rate loans by using interest rate swaps. The average maturity of the loans drawn was 0.7 years on the closing date. The Group can withdraw loans with either a fixed rate of interest or a variable rate of interest and use interest rate swaps or ordinary interest rate options to achieve the objective of its financing principles.

Group has prepared for future refinancing of loans and hedging the associated interest risk by entering into long-term interest rate swap contracts with financial institutions. In these contracts Tornator receives 1-month Euribor rate. These strategic hedges stabilise also the discount rate used in forest valuation, i.e. they are used to execute the above-mentioned long-term balance sheet stabilisation. Nominal value of swap contracts ending in 2047 is EUR 164 million and fixed interest rate paid by Tornator is approximately 3,0 %. Nominal value of swap contracts ending in 2031 is EUR 174 million and fixed interest rate paid by Tornator is approximately 2,1 %.

On the basis of loans and interest derivatives, the Group paid a fixed rate of 3.3% (3.6%) as net interest.

EUR thousand	2019	2018
Gains (+) and losses (-) recognised through profit or loss from changes in the fair value of interest rate derivatives	-50,803.5	-5,581.9

A change up or down of 1 percentage point in the interest curve would affect the fair value of the interest derivatives on the company's balance sheet on 31 December by about EUR +49 / -64 million. Changes would be recognised in the income statement as shown in the table below:

EUR thousand	+1%	-1%
To income statement	49,343	-63,567
To shareholders' equity	0	0
Total	**49,343**	**-63,567**

Taking the deferred tax into account:		
To income statement	39,474	-50,854
To shareholders' equity	0	0
Total	**39,474**	**-50,854**

Liquidity risk

The Group continuously aims to assess and monitor the amount of financing required by business operations so that the Group would have sufficient liquid assets for financing its operations and paying back maturing loans. The Group's financing guidelines define the optimum size of the liquidity reserves for cash as well as the amount of liquid investments. Furthermore, the guidelines define that a liquid investment refers to a money market fund investing in EU banks and companies with a credit rating from which the assets can be redeemed within 24 hours. The availability and flexibility of financing is guaranteed with the terms of the long-term timber trade agreement on the timing of timber transactions and preliminary payments during the year.

The following table presents a maturity analysis. A negative figure refers to incoming cash. For items other than derivatives, the figures are undiscounted and include interest payments, paying off capital and repayments. For derivatives, the division of the balance sheet value has been presented on the basis of their maturity.

Due to the ongoing financing negotiations on the balance sheet date, all interest-bearing liabilities are short term. However, after one year the situation will be completely different. Before taking new loans, Tornator will modify the security structure of the forests that are collateral for the debt. This, together with the company's Green Finance Framework, will provide Tornator with more options and flexibility in executing future finance transactions. The new security structure and refinancing of the debt portfolio has already been agreed with financial institutions and new debt transactions will be made during 2020.

31 December 2019

EUR million	Note	Balance sheet value	Cash flow	2020	2021	2022	2023	2024	2025+
Financial liabilities	18	648.2	654.4	654.4	0.0	0.0	0.0	0.0	0.0
Trade and other payables	21	23.9	23.9	23.9					
Derivative instruments									
Interest rate derivatives	11	141.1	141.1	7.3	7.3	7.3	7.3	7.3	104.4

31 December 2018

EUR million	Note	Balance sheet value	Cash flow	2019	2020	2021	2022	2023	2024+
Financial liabilities	18	611.0	625.2	362.2	262.9	0.0	0.0	0.0	0.0
Trade and other payables	21	22.0	22.0	22.0					
Derivative instruments									
Interest rate derivatives	11	90.9	90.9	2.4	4.6	4.6	4.6	4.6	70.1

Credit risk

The Group's method of operation determines the creditworthiness requirements and investment principles of customers, investment transactions and derivative financial instruments. Credit risk management and credit control are centralised on the Group's finance management. Credit is only granted to customers with an impeccable credit history. In individual significant transactions, the Group always requires the counterparty to set a sufficient guarantee. The Group only signs derivative agreements and makes investment transactions with counterparties with a minimum credit rating of A.

The Group does not have a significant concentration of credit risk associated with receivables as the receivables are made up of several items. The Group had no material credit losses recognised through profit and loss during the accounting period.

Capital management

The purpose of the Group's capital management (equity vs. liabilities) is to support business operations through the optimum capital structure by ensuring normal conditions and increasing shareholder value with the aim of best possible profits. An optimal capital structure also guarantees the lowest capital costs.

The Group's gearing was as follows:

EUR million	2019	2018
Interest-bearing debt	648.2	611.0
Interest-bearing receivables	2.2	1.0
Cash and cash equivalents	18.7	14.0
Net debt	**627.4**	**596.0**
Shareholders' equity total	**831.3**	**702.5**
Gearing	**75.5 %**	**84.8 %**

The company has complied with the terms and conditions of its loans.

5 Critical accounting estimates & judgements

The most important item that requires the judgement of management is connected to the assumptions used in measuring the value of forests, such as the real price of wood, the discount rate and the growth period. The development of wood prices after the prediction period given by an external assessor (10 years) is assumed to be ±0. The value of the Group's biological assets (excluding bare land value) on the balance sheet date amounted to EUR 1,682.6 million (EUR 1,451.0 million). The effect of forest land acquired or sold during the financial year is taken into account in the change of value.

The discount rate after taxes used in the valuation of parent company's forests in Finland was 3.25% (2018: 3.50 %). Discount rate includes equity and debt interest rate components. Effect of inflation (assumption 2.0%) is included in cash flows. In calculating the discount rate, the equity interest component has a weight of 40% (2018: 35%), and the 5-year sliding average of the 50-year euro swap interest rate is used as the risk-free interest rate of 1.3 % (1.6 %). The equity risk premium calculated by an external assessor was at 2.75% in 2019 and 2018. In calculating the discount rate, the liability interest rate component has a weight of 60% (65%) on the basis of the targeted financing structure as determined in the strategy. This corresponds with the hedged interest rate of the non-current liabilities (estimated 5.00% over time). Fluctuation range of +/- 0.25%-point is applied to discount rate, i.e. it will be changed only if the change is outside the +/- 0.25%-point range.

The wood price estimate and the risk-free interest rate are updated annually. A change of ±1% in the discount rate will change the valuation of forest assets by EUR -250/+350 million (Finland, 70-year cash flows). A change of ±10% in the estimate of wood prices will change the valuation of forest assets by EUR ±175 million.

The valuation principles applied to forests are presented in the accounting principles concerning biological assets, and valuation during the financial year is presented in Note 10.

6 Operating segments

The Group's core business consists of timber production and the sale of cutting rights to stands marked for harvesting. The stands include regular cutting methods and timber types. The Group manages and monitors its business as a single entity, and thus the Group only has one operating segment. Therefore, segment-specific information is not presented, as this would be a repetition of the figures presented on the income statement and balance sheet.

In addition to the figures presented on the income statement, reporting to the highest operational decision-maker also includes the operating profit excluding changes in the fair value of biological assets and harvesting, which amounted to EUR 74,688 thousand in 2019 (EUR 83,900 thousand in 2018).

The sale of cutting rights represented 95.4% of net sales (94.9% in 2018).

The geographical distribution of income and non-current assets is presented in the tables below. Net sales are allocated to the operating countries based on the geographical location of the forest.

	1 January – 31 December 2019		1 January – 31 December 2018	
Income:	EUR thousand	%	EUR thousand	%
Finland	93,437.4	88.3	101,989.6	90.4
Romania and Estonia	12,386.0	11.7	10,835.5	9.6
Total	**105,823.4**	**100.0**	**112,825.1**	**100.0**
Biological assets:	**31 December 2019**		**31 December 2018**	
Finland	1,480,319.2	88.0	1,288,617.8	88.8
Romania and Estonia	202,311.8	12.0	162,342.0	11.2
Total	**1,682,631.0**	**100.0**	**1,450,959.9**	**100.0**
Non-current Assets:				
Finland	1,572,127.2	87.5	1,373,783.0	88.2
Romania and Estonia	224,096.7	12.5	182,966.5	11.8
Total	**1,796,223.8**	**100.0**	**1,556,749.5**	**100.0**

The above non-current assets include all of the Group's non-current assets except financial instruments, deferred tax assets and assets related to post-employment benefit plans.

7 Intangible assets

31 December 2019 EUR thousand	Computer software	Other intangible rights	Total
Acquisition cost on 1 January 2019	**8,018.6**	**992.7**	**9,011.3**
Translation difference	-4.8		-4.8
Increases	449.5		449.5
Decreases			0.0
Acquisition cost on 31 December 2019	**8,463.2**	**992.7**	**9,455.9**
Accrued depreciation and impairment			
Accrued depreciation and impairment on 1 January 2019	-7,067.4	0.0	-7,067.4
Depreciation and amortisation expense and impairments	-507.0	-82.1	-589.1
Accrued depreciation and impairment on 31 Dec 2019	**-7,574.4**	**-82.1**	**-7,656.5**
Book value on 31 December 2019	**888.8**	**910.6**	**1,799.5**
Book value on 1 January 2019	951.2	992.7	1,943.9

31 December 2018 EUR thousand	Computer software	Other intangible rights	Total
Acquisition cost on 1 January 2018	**7,629.4**	**987.4**	**8,616.8**
Translation difference			0.0
Increases	389.1	5.4	394.5
Decreases			0.0
Acquisition cost on 31 December 2018	**8,018.6**	**992.7**	**9,011.3**
Accrued depreciation and impairment			
Accrued depreciation and impairment on 1 January 2018	-6,188.9	0.0	-6,188.9
Depreciation and amortisation expense and impairments	-878.4		-878.4
Accrued depreciation and impairment on 31 Dec 2018	**-7,067.4**	**0.0**	**-7,067.4**
Book value on 31 December 2018	**951.2**	**992.7**	**1,943.9**
Book value on 1 January 2018	1,440.5	987.4	2,427.9

8 Property, plant & equipment

31 December 2019 EUR thousand	Land areas	Buildings	Machinery and equipment	Roads and ditches	Purchases in progress	Total
Acquisition cost on 1 January 2019	**88,535.0**	**1,215.6**	**2,278.6**	**32,084.6**	**1,450.2**	**125,563.9**
Adoption of IFRS 16			-34.6			-34.6
Translation difference	-100.4	-10.9	-2.0	-39.5	-12.5	-165.2
Increases	5,383.9	63.6	343.7	1,079.4	2,764.9	9,635.4
Decreases	-122.1				-1,383.0	-1,505.1
Acquisition cost on 31 December 2019	**93,696.4**	**1,268.4**	**2,585.7**	**33,124.5**	**2,819.5**	**133,494.5**
Accrued depreciation and impairment						
Accrued depreciation and impairment on 1 January 2019	0.0	-473.0	-2,039.7	-19,316.8	0.0	-21,829.5
Depreciation expense and impairment		-61.4	-113.9	-2,091.6		-2,267.0
Accrued depreciation and impairment on 31 December 2019	**0.0**	**-534.5**	**-2,153.6**	**-21,408.5**	**0.0**	**-24,096.5**
Book value on 31 December 2019	**93,696.4**	**733.9**	**432.1**	**11,716.1**	**2,819.5**	**109,398.0**
Book value on 1 January 2019	88,535.0	742.6	238.9	12,767.8	1,450.2	103,734.4

31 December 2018

EUR thousand	Land areas	Buildings	Machinery and equipment	Roads and ditches	Purchases in progress	Total
Acquisition cost on 1 January 2018	82,708.8	1,123.1	2,210.7	28,959.2	3,082.1	118,084.0
Translation difference	-4.3	-0.3	-0.1	-1.7	-0.4	-6.8
Increases	5,918.0	92.8	67.9	3,129.4	1,710.3	10,918.4
Decreases	-87.5			-2.4	-3,341.7	-3,431.7
Acquisition cost on 31 December 2018	**88,535.0**	**1,215.6**	**2,278.6**	**32,084.6**	**1,450.2**	**125,563.9**
Accrued depreciation and impairment						
Accrued depreciation and impairment on 1 January 2018	0.0	-375.7	-1,877.9	-17,360.7	0.0	-19,614.4
Depreciation expense and impairment		-97.3	-161.8	-1,956.1		-2,215.2
Accrued depreciation and impairment on 31 December 2018	**0.0**	**-473.0**	**-2,039.7**	**-19,316.8**	**0.0**	**-21,829.5**
Book value on 31 December 2018	**88,535.0**	**742.6**	**238.9**	**12,767.8**	**1,450.2**	**103,734.4**
Book value on 1 January 2018	82,708.8	747.4	332.8	11,598.5	3,082.1	98,469.6

9 Right-of-use assets

31 December 2019

EUR thousand	Office space	Machinery and equipment	Right-of-use assets, total
Acquisition cost on 1 January 2019	**0.0**	**0.0**	**0.0**
Adoption of IFRS 16	1,916.2	186.8	2,103.0
Increases	200.8	330.1	530.9
Decreases		-23.2	-23.2
Acquisition cost on 31 December 2019	**2,117.0**	**493.6**	**2,610.6**
Accrued depreciation and impairment			
Accrued depreciation and impairment on 1 January 2019	0.0	0.0	0.0
Depreciation expense and impairment	-194.9	-131.6	-326.5
Accrued depreciation and impairment on 31 December 2019	**-194.9**	**-131.6**	**-326.5**
Book value on 31 December 2019	**1,922.1**	**362.1**	**2,284.2**

The Group's right-of-use assets include leased office space and leased cars. Office space lease contracts that are valid for now have been evaluated case-by-case. Evaluation has included the term and probability of continuance of the contract. Evaluation of renewal of maturing leased car contracts is made case-by-case.

Income statement items from right-of-use assets:

Income statement items	2019
Depreciation	-326.5
Financial expenses	-87.8
Expenses from short-term and low value lease contracts	-142.7

10 Biological assets

EUR thousand	31 December 2019	31 December 2018
Biological assets at the beginning of the period	**1,450,959.9**	**1,371,245.3**
Harvesting	-5,238.6	-19,869.4
Valuation difference	195,148.6	52,445.2
Change in Income statement	**189,909.9**	**32,575.8**
Increases	43,560.7	47,881.7
Decreases	-987.8	-708.4
Translation difference	-811.8	-34.5
Biological assets at the end of the period	**1,682,631.0**	**1,450,959.9**

In 2019 the Group acquired more forest in Finland and Estonia (2018: Finland and Estonia) and sold forest in Finland and Estonia (2018: Finland and Estonia).

Fair value of biological assets is calculated based on discounted future cash flows of continuing operations. Discounted cash flow method requires estimation of growth, harvesting, wood price and expenses related to wood sales. In 2019 the Group's sustainable annual cut was increased mainly by new acquisitions of forestland. In addition, wood prices used in valuation models had a positive effect on fair value of forests both in Finland and in Estonia. Sensitivity analysis of factors used in the valuation model of Finnish forests is presented below.

+/- 1 % -point change in discount rate changes fair value of forests by -250 / +350 million euros (Finland, 70 year cash flows). +/- 10 % change in wood price changes fair value of forests by +/- 175 million euros.

11 Derivatives

The Group uses interest rate swaps for hedging its cash flows. The majority of the interest rate derivatives will mature in more than 3 years.

Fair values of interest derivatives on 31 December.

EUR thousand	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps	0.0	-141,058.5	-141,058.5	3,284.8	-94,140.6	-90,855.8
Total fair values of derivatives	**0.0**	**-141,058.5**	**-141,058.5**	**3,284.8**	**-94,140.6**	**-90,855.8**

The fair value of derivatives has changed as follows:

EUR thousand	2019			2018
	Income	Expenses	Net	Net
Recognised under financial items in the income statement *	**404.7**	**-51,208.2**	**-50,803.5**	**-5,582.1**
Interest rate swaps	404.7	-51,208.2	-50,803.5	-5,582.1
Portion of the change of accrued interest**	**0.0**	**600.8**	**600.8**	**-16.6**
Change in the fair value of derivatives on the balance sheet	**404.7**	**-50,607.4**	**-50,202.7**	**-5,598.7**

* Income statement includes also a booking of EUR +3,969.0 thousand (EUR +3,969.0 thousand) which represents the fair value change of the hedged item in an ended fair value hedging relationship.
** Included in financial expenses in the income statement

Nominal values of interest derivatives

EUR thousand	31 December 2019	31 December 2018
Interest rate swaps	338,625	653,625
Total nominal values of derivatives	**338,625**	**653,625**

Interest rate swaps are intended as protection against market rate fluctuations. Currently, all contracts are recognised at fair value through income statement. In cash flow hedging, changes in fair value have been recognised on the basis of efficiency testing partly through profit and loss and partly at equity through other comprehensive income. The ineffective part of cash flow hedges and changes in the value of fair value hedges and derivatives not included in hedge accounting are recognised at financial items through profit and loss.

The share recognised in the income statement has had a profit/loss effect of EUR -50,803.5 thousand (EUR -5,582.1 thousand). Profits and losses that have been transferred to fair value reserve (reconciliation of shareholders' equity) are systematically recognised in the income statement until the loans have been paid back in full. In addition, EUR +3,808.5 thousand (EUR +3,969.0 thousand) has been entered in financial items in the income statement as a change in fair value of the hedged item in an ended fair value hedging relationship.

Derivatives are classified under non-current assets or liabilities if the contract matures in more than 12 months; otherwise, derivatives are presented under current assets or liabilities.

A summary of profits and losses from cash flow hedging recognised in equity during the accounting period, the amount derecognised from equity and presented in the adjustments of net sales for the accounting period, and the hedging result recognised to adjust the acquisition costs of the balance sheet item are presented in the calculation in the changes of the Group's equity.

For the interest rates of interest derivatives, see Financial risks (Note 4).

12 Inventories

EUR thousand	2019	2018
Inventories	51.4	436.1
Total	**51.4**	**436.1**

Inventories consist mainly of the wood raw material and fertilizer stock. The Group did not recognise any impairment on inventories in 2019 or 2018. Change in inventories recognised in the income statement EUR -1,427.6 thousand (EUR -998.0 thousand) consists of changes in fertilizer and wood raw material stock and acquisition cost of sold land properties.

13 Trade and other receivables

Accounts receivable

EUR thousand	2019	2018
Accounts receivable	**12,774.1**	**12,829.6**
Maturity breakdown of accounts receivable:		
Not matured	12,272.0	12,027.9
matured for less than 3 months	500.1	801.5
matured for over 3 months – less than 6 months	0.9	0.0
matured for over 6 months	1.1	0.2

Other receivables

EUR thousand	2019	2018
Accrued income	216.1	105.5
Other receivables	8,922.3	2,599.2
Total other receivables	**9,138.4**	**2,704.7**
Trade and other receivables total	**21,912.5**	**15,534.3**

The book value of accounts receivable and other receivables corresponds to their fair value. Receivables are not associated with significant concentrations of credit risk. The balance sheet values best correspond to the amount that is the maximum amount of credit risk in cases where the other contracting parties cannot fulfil their liabilities connected to the receivables. The fair values of receivables are presented in Note 36.

14 Investments

Currently, all investments are classified as financial assets at fair value through income statement.

Investments, non-current:

EUR thousand	2019	2018
Value at beginning of financial period	111.2	108.2
+Increases / -Decreases	0.0	3.0
Value at the end of financial period	**111.2**	**111.2**

Non-current investments include shares and other investments which are not expected to be sold in near future.

Investments, current:

EUR thousand	2019	2018
Value at beginning of financial period	1,042.3	1,938.1
+Increases/-Decreases	1,116.9	-896.4
Changes in fair value	1.6	0.6
Value at end of financial period	**2,160.8**	**1,042.3**

Current investments mainly include investments in money market funds. Fund investments were sold and purchased during the 2019 financial period. Investments in money market funds are measured at fair value.

The fair values of financial assets are presented in Note 36. Financial assets have not expired and no impairment was recognised on them.

15 Cash and cash equivalents

EUR thousand	2019	2018
Cash and bank accounts (Cash and cash equivalents in the cash flow statement)	18,650.7	13,957.4
Total	**18,650.7**	**13,957.4**

Cash and cash equivalents are not associated with significant concentrations of credit risk. The balance sheet values best correspond to the amount that is the maximum amount of credit risk in cases where the other contracting parties cannot fulfil their liabilities connected to the receivables. The fair values of cash and cash equivalents are presented in Note 36.

In addition to cash and cash equivalents, Tornator Oyj has a bank loan facility of EUR 100 million, which is completely available for withdrawal. The facility, including drawn amounts, will mature in 2020.

16 Share capital and share premium fund

Tornator Oyj has one series of shares in which all shares entitle the owner to the same dividend. The company's shares are subject to the redemption clause of the Articles of Association according to which other shareholders have a redemption right if there is a change in the ownership of the company’s share. The shares have no nominal value. Tornator Oyj has 5 million shares.

	2019		2018	
	Group	Parent	Group	Parent
Number of shares on 1 Jan	5,000,000	5,000,000	5,000,000	5,000,000
Number of shares on 31 Dec	5,000,000	5,000,000	5,000,000	5,000,000
Share capital (EUR thousand) on 1 Jan	50,000.00	51,836.20	50,000.00	51,836.20
Share capital (EUR thousand) on 31 Dec	50,000.00	51,836.20	50,000.00	51,836.20
Share premium fund (EUR thousand) on 1 Jan	29,995.20	0	29,995.20	0
Share premium fund (EUR thousand) on 31 Dec	29,995.20	0	29,995.20	0

All issued shares are fully paid.

An amount corresponding to the nominal value of the company’s shares was recognised under share capital when the parent company was established.

Share premium

The difference between the issue price of shares and the nominal value of shares is recognised in the share premium fund in cases in which a decision on the subscriptions shares was made pursuant to the old Finnish Companies Act (29 September 1978/734).

Fair value reserve

The fair value reserve includes the fair values deducted by deferred taxes of derivative instruments used to hedge cash flows and fair value amortisations from ended cash flow hedge relationships. Transfer from fair value reserve to retained earnings is related to actuarial changes caused by changes in the financial assumptions of pension obligations, which have previously been presented in fair value reserve.

EUR thousand	2019	2018
Value at beginning of financial period	0.0	-156.8
Fair value reserve, changes during the financial period	0.0	0.6
Hedging reserve, changes during the financial period	0.0	0.0
Transfer to retained earnings	0.0	156.2
Value at the end of financial period	**0.0**	**0.0**

Translation differences

The Group has subsidiaries in Estonia and Romania. The Romanian share capital is presented in the local currency (RON), so the Group's euro-denominated equity is exposed to foreign currency fluctuations. The foreign currency fluctuation in the Group is recognised in the translation differences in equity.

A currency fluctuation against the euro of ±20% affects the Group's equity (EUR million):

+20%	-20%
9.9	-6.6

17 Deferred tax assets and deferred tax liabilities

The deferred taxes have been recognised for all temporary differences. Changes in deferred taxes during 2019:

EUR thousand	Note	1 January 2019	Recognised through profit or loss	Recognised in other comprehensive income	31 December 2019
Deferred tax assets:					
Temporary differences					
Measurement of financial instruments at fair value	11	480.6	-480.6	0.0	0.0
Investments in unlisted securities	14	0.0	0.0	0.0	0.0
Deferred tax assets from subsidiaries' accrued losses		182.1	0.0	0.0	182.1
Recognition of defined benefit pension plans	20	45.8	-2.0	-7.2	36.6
Total deferred tax assets		**708.6**	**-482.6**	**-7.2**	**218.8**
Deferred tax liabilities:					
Temporary differences:					
Measurement of financial liabilities at amortised cost	18	156.5	-108.6	0.0	47.9
Measurement of financial instruments at fair value	11	0.0	281.1	0.0	281.1
Intangible assets	7	182.1	0.0	0.0	182.1
Measurement of biological assets at fair value	10	161,557.0	30,191.3	0.0	191,748.3
Total deferred tax liabilities		**161,895.6**	**30,363.8**	**0.0**	**192,259.4**

EUR thousand	Note	1 January 2018	Recognised through profit or loss	Recognised in other compre-hensive income	31 December 2018
Deferred tax assets:					
Temporary differences					
Measurement of financial instruments at fair value	11	8,674.9	-8,194.2	0.0	480.6
Investments in unlisted securities	14	0.1	0.0	-0.1	0.0
Deferred tax assets from subsidiaries' accrued losses		445.2	-263.1	0.0	182.1
Recognition of defined benefit pension plans	20	53.0	-2.0	-5.2	45.8
Total deferred tax assets		**9,173.2**	**-8,459.3**	**-5.3**	**708.6**
Deferred tax liabilities:					
Temporary differences:					
Measurement of financial liabilities at amortised cost	18	301.2	-144.7		156.5
Intangible assets	7	182.1	0.0	0.0	182.1
Measurement of biological assets at fair value	10	159,498.6	2,058.4		161,557.0
Total deferred tax liabilities		**159,981.9**	**1,913.7**	**0.0**	**161,895.6**

Deferred tax assets and deferred tax liabilities are offset when the corporation has the legal right to set off the recognised items against each other and the deferred taxes concern the same tax recipient.

EUR thousand	2019	2018
Total deferred tax assets	218.8	708.6
Offset against deferred tax liability	218.8	708.6
Deferred tax assets on the balance sheet	**0**	**0**
Total deferred tax liabilities	192,259.4	161,895.6
Offset against deferred tax assets	-218.8	-708.6
Deferred tax liabilities on the balance sheet	**192,040.6**	**161,187.0**

Deferred tax assets

EUR thousand	2019	2018
Deferred tax liabilities that expire after 12 months	218.8	708.6
Deferred tax liabilities that expire within 12 months	0	0

Deferred tax liabilities

EUR thousand	2019	2018
Deferred tax liabilities that expire after 12 months	192,259.4	161,895.6
Deferred tax liabilities that expire within 12 months	0	0

Deferred tax liability is not recognised for undistributed profit funds of subsidiaries.

18 Financial liabilities

EUR thousand	2019	2018
Non-current financial liabilities		
Bonds	0.0	65,000.0
Loans from financial institutions, non-current portion	1,003.1	193,130.0
Loans from financial institutions, current portion	0.0	4,522.6
Total non-current financial liabilities	**1,003.1**	**262,652.6**
Current financial liabilities		
Bonds	65,000.0	253,420.0
Loans from financial institutions	477,283.3	0.0
Commercial paper	104,897.3	94,919.3
Total current financial liabilities	**647,180.6**	**348,339.3**
Total financial liabilities	**648,183.7**	**610,991.9**

Loans from financial institutions include arrangement fee amortisations totalling EUR -0.2 million (EUR -0.4 million). In 2019 bonds included amortisations of fair value of the hedged item in an ended fair value hedging relationship and arrangement fee amortisations totalling EUR +3.4 million.

Current financial liabilities will be renewed at each maturity, i.e. they will not have any impact on the Group's current cash flows.

Due to the ongoing financing negotiations on the balance sheet date, all interest-bearing liabilities are short term. However, after one year the situation will be completely different. Before taking new loans, Tornator will modify the security structure of the forests that are collateral for the debt. This, together with the company's Green Finance Framework, will provide Tornator with more options and flexibility in executing future finance transactions. The new security structure and refinancing of the debt portfolio has already been agreed with financial institutions and new debt transactions will be made during 2020.

Maturity of current and non-current financial liabilities 31 December 2019

EUR thousand	2019
2020	647,180.6
2021+	1,003.1
Yhteensä	**648,183.7**

Maturity of current and non-current financial liabilities 31 December 2018

EUR thousand	2018
2019	352,861.9
2020	258,130.0
2021+	0.0
Total	**610,991.9**

Reconciliation of changes in liabilities arising from financing activities

EUR thousand	1 January 2019	Cash flow from financing activities	Financial expenses	Fair value changes	31 December 2019
Bonds	318,420.0	-250,000.0	388.5	-3,808.5	65,000.0
Loans from financial institutions	197,652.6	280,479.3	154.5	-	478,286.4
Commercial paper	94,919.3	10,000.0	-22.0	-	104,897.3
Total	**610,991.9**	**40,479.3**	**521.0**	**-3,808.5**	**648,183.7**

EUR thousand	1 January 2018	Cash flow from financing activities	Financial expenses	Fair value changes	31 December 2018
Bonds	322,000.5	-	388.5	-3,969.0	318,420.0
Loans from financial institutions	176,900.0	20,425.1	327.5	-	197,652.6
Commercial paper	99,918.7	-5,000.0	0.6	-	94,919.3
Total	**598,819.2**	**15,425.1**	**716.6**	**-3,969.0**	**610,991.9**

The Group's financial liabilities are variable interest rate loans and the repricing takes place once every 1–6 months.

The weighted average interest rates of financial liabilities are:

EUR thousand	2019	2018
Loans from financial institutions	3.3 %	3.6 %

19 Lease liabilities

EUR thousand	2019
Non-current	1,964.8
Current	339.6
Total	**2,304.4**

Maturity of lease payments 31 December 2019

EUR thousand

Year	Total payments
2020	441.45
2021	373.62
2022	311.14
2023	260.78
2024	248.43
2025+	1,143.95
Total	2,779.36

At 31 December 2019 Tornator's lease liabilities from short-term lease contracts amount to EUR 32 thousand.
At 31 December 2019 Tornator's lease liabilities from low-value lease contracts amount to EUR 30 thousand.

20 Pension obligations

Pension plans are classified as defined benefit and defined contribution plans. Payments made under a defined contribution arrangement are recognised in the income statement for the period the payment concerns.

The Group has additional defined benefit pension plans in Finland. The plans are based on the average final salary and those taking part in them receive an additional pension in addition to their retirement pension. The amount of the pension benefit upon retirement is defined on the basis of certain factors, such as the salary and service years. Pensions are adjusted according to the minimum price index. The pension plans have been taken out from a life insurance company. The Group has partially funded plans. The assets included in these plans are managed by a life insurance company according to local legislation and practices.

Net defined benefit liabilities on the balance sheet are defined as follows:

EUR thousand	2019	2018
Present value of funded obligations	1,425	1,548
Fair value of plan assets	-1,242	-1,319
Net balance sheet liability	**183**	**229**

Net defined benefit liabilities were changed as follows during the financial period:

EUR thousand	Present value of liability	Fair value of plan assets	Total
1 January 2019	**1,548**	**1,319**	**229**
Current service costs	-	-	0
Interest loss or gain	23	19	4
Previous service costs and losses from fulfilled obligations	-	-	-
Amount booked in personnel costs of the income statement	23	19	4
Re-defined items:			
Profit from assets included in the plan, apart from items included in interest loss or gain (±)	-	-21	21
Actuarial profit (-) or loss (+) from changes in financial assumptions	-	-	-
Actuarial profit (-) or loss (+) from changes in financial assumptions	-36	-	-36
Experience-based profit (-) or loss (+)	-85	-	-85
Changes in the maximum amount of an asset item, apart from the amount included in interest losses (±)	-	-	-
Total amount of re-defined items	-57	-21	-36
Payments:			
From employers (+)		14	-14
From plan members (+)	-	-	-
Payments from plans:			
Benefits paid (-)	-89	-89	0
31 December 2019	**1,425**	**1,242**	**183**

1 January 2018	**1,691**	**1,426**	**265**
Current service costs	-	-	-
Interest loss or gain	25	21	4
Previous service costs and losses from fulfilled obligations	-	-	-
	25	**21**	**4**
Re-defined items:			
Profit from assets included in the plan, apart from items included in interest loss or gain (±)	-	-81	81
Actuarial profit (-) or loss (+) from changes in financial assumptions	-	-	-
Actuarial profit (-) or loss (+) from changes in financial assumptions	-22	-	-22
Experience-based profit (-) or loss (+)	-85	-	-85
Changes in the maximum amount of an asset item, apart from the amount included in interest losses (±)	-	-	-
	-107	**-81**	**-26**
Payments:			
From employers (+)		11	-11
From plan members (+)	-	-	-
Payments from plans:			
Benefits paid (-)	-61	-61	0
31 December 2018	**1,548**	**1,319**	**229**

Sensitivity analysis for defined benefit pension obligations

The following table illustrates the impact of various factors on defined benefit obligations, the fair value of assets, net liabilities and pension costs over the 2018 financial period. The analysis has been conducted following the same accounting principles as those applied to pension calculations.

EUR thousand	**Defined benefit obligation**	**Fair value of plan assets**	**Net liabilities**	**Service costs**	**Net interest**
Discount rate 1.50%	1,425	1,242	183	0	2
Discount rate 0.50%	1,342	1,175	167	0	3
Discount rate -0.50%	1,516	1,316	200	0	1
Change %					
Discount rate 1.50%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Discount rate 0.50%	-5.8 %	-5.4 %	-8.6 %	0.0 %	27.6 %
Discount rate -0.50%	6.4 %	5.9 %	9.6 %	0.0 %	-34.0 %
EUR thousand					
Change in pension benefit 2.10%	1,425	1,242	183	0	2
Change in pension benefit 0.50%	1,508	1,242	266	0	3
Change in pension benefit -0.50%	1,348	1,242	106	0	1
Change %					
Change in pension benefit 2.10%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Change in pension benefit 0.50%	5.8 %	0.0 %	45.4 %	0.0 %	47.2 %
Change in pension benefit -0.50%	-5.4 %	0.0 %	-41.8 %	0.0 %	-43.4 %

A change in mortality which would increase life expectancy by one year would increase net liabilities by EUR 12.0 thousand (6.3 %).

Fair value of plan assets

Contributions paid to the insurance company and accumulated by the date of the financial statements are considered plan assets. The assets are included in the insurance company's investment assets and the insurance company is liable for their management. Therefore, it is not possible to present the breakdown of plan assets by asset category. The realised yield of the plan assets was EUR -2.0 thousand in 2019 (EUR -60.0 thousand in 2018).

Key actuarial assumptions:

	2019	2018
Discount rate %	1.25 %	1.50 %
Future employee pension increases %	1.50 %	2.00 %
Inflation	1.20 %	1.70 %
Average remaining service years	2	2
Obligation duration	12	13
Mortality table	Gompertz	Gompertz

The Group predicts that it will pay EUR 14 thousand in defined benefit pension plans during the 2020 financial period.

Weighted average duration of pension liability is 12 years. Maturity analysis of undiscounted pension liabilities as of 31 December 2019 is assumed to be as follows:

EUR thousand	Less than a year	1-5 years	6-10 years	11-15 years	More than 15 years	Total
Pension liabilities	91	283	320	310	664	**1,668**

21 Trade and other payables

EUR thousand	2019	2018
Accounts payable	1,136.3	1,274.6
Advance payments received	11,501.3	9,405.3
Accrued liabilities:		
Personnel related accruals	2,334.2	1,984.1
Interest accruals	1,609.6	1,752.8
Income tax accrual	0.0	533.2
Other accruals	282.5	219.8
Accrued liabilities and deferred income total	**4,226.3**	**4,490.0**
Other liabilities	**7,069.3**	**6,811.4**
Trade and other payables total	**23,933.2**	**21,981.2**

The fair values of trade and other payables are presented in Note 36.

22 Breakdown of net sales

EUR thousand	2019	2018
Sale of cutting rights	100,983.4	107,105.0
Sale of holiday plots and forest plots	2,743.7	3,546.6
Sale of forestry services	2,096.3	2,173.5
Total	**105,823.4**	**112,825.1**

23 Other operating income

EUR thousand	2019	2018
Sale of soil resources	998.0	865.0
Land area rents	1,454.0	1,275.2
Compensation for nature conservation	1,570.0	3,269.0
Other*	1,695.5	1,158.2
Total	**5,717.5**	**6,567.4**

24 Materials and services

EUR thousand	2019	2018
Products and services		
Purchases	4,156.0	3,386.5
External services*	13,060.8	13,588.6
Total	**17,216.8**	**16,975.1**

Purchases mainly consist of seeds, seedlings and fertilizers.
External services mainly consist of services by forest machine contractors.

25 Personnel expenses

EUR thousand	Note	2019	2018
Wages		7,536.7	6,954.0
Pension costs – defined contribution arrangements		1,136.6	1,073.8
Pension costs – defined benefit arrangements	19	4.0	4.0
Social security costs		387.2	415.2
Total		**9,064.5**	**8,447.0**

26 Depreciation and amortisation expense and impairments

EUR thousand	Note	2019	2018
Depreciation on fixed assets			
Buildings	8	61.4	97.3
Machinery and equipment	8	113.9	161.8
Roads and ditches	8	2,091.6	1,956.1
Right-of-use assets	9	326.5	0.0
Computer software	7	589.1	878.4
Total depreciation		**3,182.5**	**3,093.5**

27 Other operating expenses

EUR thousand	2019	2018
ICT expenses	1,447.8	1,251.3
Travel expenses	780.7	729.0
Other services	705.0	665.2
Rental expenses (other lease contracts)	142.7	474.2
Other expenses*	2,884.8	2,859.7
Total	**5,961.0**	**5,979.3**

* Other expenses include various items that are not individually material.

28 Financial income and expenses

EUR thousand	Note	2019	2018
Financial income from bank deposits and gains from interest funds		199.0	180.5
Net interest expenses from loans and derivatives		-22,559.1	-22,726.1
Change in fair value of financial instruments	11	-46,993.4	-1,613.2
Financial items – net		**-69,353.5**	**-24,158.8**

29 Income taxes

The Group's income taxes for the financial period were generated as follows:

EUR thousand	2019	2018
Tax based on the period's taxable income	373.4	-3,062.5

Reconciliation of tax expenses:

EUR thousand	2019	2018
Profit/loss before tax	195,245.1	92,316.6
Deferred items in the income statement	-189,910.1	-32,575.8
Taxable income	**5,335.0**	**59,740.8**
Tax calculated at 20% tax rate	-1,067.0	-11,948.2
Taxable income impact of parent company's transition to IFRS reporting in local reporting	0.0	7,380.0
Different tax rates of foreign companies and other tax-exempt and non-deductible expenses	1,440.3	1,505.6
Tax based on the period's taxable income	**373.4**	**-3,062.5**

The change in the Group's deferred taxes for the 2019 financial period was EUR -30,846.4 thousand (EUR -10,373.1 thousand, of which EUR -7,380.0 thousand was the impact of parent company's 2017 transition to IFRS reporting in local reporting). Deferred tax assets and tax liabilities are calculated using a tax rate of 20% in Finland, and 16% in Romania, while in Estonia the tax rate is 0%. Deferred taxes and any changes therein are presented in Note 17. In 2019, the Group's average tax rate was 15.6% (14.6%).

Taxes related to other comprehensive income items:

EUR thousand	2019			2018		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
Items derived from the re-definition of net defined benefit liabilities	36.0	-7.2	28.8	26.0	-5.2	20.8
Translation difference	-979.8	0.0	-979.8	-49.3	0.0	-49.3
Investments in unlisted securities	0.0	0.0	0.0	0.7	-0.1	0.6

30 Dividends

In 2019, EUR 35.0 million was paid in dividends (EUR 7.00 per share).

The Board of Directors has proposed that, on the basis of the 2019 result, a maximum dividend of EUR 30.0 million (EUR 6.00 per share) to be paid. The debt resulting from the proposed dividend has not been recognised in these Financial Statements.

31 Related party transactions

The following transactions were carried out with related parties:

Employment benefits of management:

EUR thousand	2019	2018
Wages of the Management team (including the CEO) with indirect costs and other short-term employment benefits	1,161.9	1,214.3
Board remuneration	51.8	52.8

Stora Enso owns 41% of the parent company's shares, which gives Stora Enso significant influence within the Group. The following transactions were carried out with Stora Enso:

EUR thousand	Sales	Purchases	Receivables	Liabilities
31 December 2019	**71,125.9**	**31.0**	**7,654.7**	**9,912.9**
31 December 2018	81,285.3	45.0	9,171.6	8,103.2

Related party transactions occurred under the same terms and conditions as transactions between unrelated parties.

32 Auditors’ fees

Fees paid to Deloitte, Audit firm, in 2019 (EUR thousand):

1) auditing 270.7 (164.6)

2) assignments referred to in section 1 (1) subsection 2 of the Auditing Act 0.0 (0.0)

3) tax guidance 12.6 (40.7)

4) other services 14.6 (38.2)

33 Subsidiaries and business combinations

Subsidiaries 31 December 2019:

Company name	Group shareholding	Domicile
SC Tornator SRL	100%	Romania
Tornator Eesti Oü	100%	Estonia
Oituz Private Forest District SRL	100%	Romania
Lavakorven Tuulipuisto Oy	100%	Finland
Maaselän Tuulipuisto Oy	100%	Finland
Pahkavaaran Tuulipuisto Oy	100%	Finland
Martimon Tuulipuisto Oy	100%	Finland
Niinimäen Tuulipuisto Oy	100%	Finland

34 Other collateral granted for own account

The Group has pledged forest property as collateral for debt (Note 18). As collateral for debts, land areas and biological assets have been pledged at a total value of EUR 1,576.4 million (EUR 1,355.4 million). In addition, the Group has agreed upon a limit of EUR 500 thousand with a financial institution to verify soil remediation. Of this limit, EUR 210.1 thousand has been used (EUR 272.1 thousand).

35 Judicial proceedings

The Group had no judicial proceedings pending during the financial period.

36 Classification of financial assets and financial liabilities

31 December 2019

Financial assets
EUR thousand

	Amortised cost	Fair value through income statement	Book value	Fair value
Current				
Unlisted securities		2,161	2,161	2,161
Trade and other receivables	21,913		21,913	21,913
Cash and cash equivalents	18,651		18,651	18,651
Total	40,563	2,161	42,724	42,724

Financial liabilities
EUR thousand

	Amortised cost	Fair value through income statement	Book value	Fair value
Non-current				
Derivatives		141,059	141,059	141,059
Total	**0**	**141,059**	**141,059**	**141,059**
Current				
Interest-bearing debt	648,184		648,184	650,032
Trade and other payables	23,933		23,933	23,933
Total	**672,117**	**0**	**672,117**	**673,965**

The following price quotes, assumptions and measurement models have been used to determine the fair values of the financial assets and financial liabilities presented in the table.

Derivatives

The fair values of interest rate swaps are based on the counterparty's price quote, which has been compared to the balance sheet date's market rates and other market information. Fair values correspond to the prices the Group would have to pay or would receive if it cancelled the derivative financial instrument.

The fair values of interest derivatives correspond to the current value of their cash flows.

Investments in unlisted securities

Investments in unlisted securities mainly consist of shares in Finnish money market funds and Finnish unlisted shares. Unlisted share investments are measured at acquisition cost because their measurement at fair value using measurement methods is not possible. The fair values of investments could not be reliably determined and the estimate varies significantly, or the probabilities of various estimates located in the range could not be reasonably determined and used to evaluate fair value. Financial assets recognised at fair value are either eligible for secondary markets or the purchase rate of the counterparty on the balance sheet date was used in their measurement, and the rate was also tested using generally applicable measurement methods and available market quotes.

Trade and other receivables

The initial book value of receivables not based on derivative financial instruments corresponds to their book value because the effect of discounting is not material when taking the maturity of the receivables into account.

Interest-bearing debt

The fair values of debts are based on discounted cash flows. The discount rate used is the interest rate the Group would have to pay to withdraw a corresponding external loan on the balance sheet date. The total interest rate consists of risk-free interest and the company-specific risk premium.

Trade and other payables

The initial book value of trade and other payables corresponds to their book value because the effect of discounting is not material when taking the maturity of the payables into account.

37 Fair value hierarchy of financial assets and liabilities at fair value

31 December 2019				
EUR thousand	Level 1	Level 2	Level 3	Total
Assets				
Biological assets			1,682,631.0	1,682,631.0
Investments in unlisted securities:				
- equity investments			111.2	111.2
- debt investments	2,160.8			2,160.8
Total assets	**2,160.8**	**0.0**	**1,682,742.2**	**1,684,903.0**
Liabilities				
Derivatives		141,058.5		141,058.5
Total liabilities	**0.0**	**141,058.5**	**0.0**	**141,058.5**

31 December 2018				
EUR thousand	Level 1	Level 2	Level 3	Total
Assets				
Biological assets			1,450,959.9	1,450,959.9
Derivatives		3,284.8		3,284.8
Available-for-sale financial assets:				
- equity investments			111.2	111.2
- debt investments	1,938.1			1,938.1
Total assets	**1,938.1**	**3,284.8**	**1,451,071.1**	**1,456,294.0**
Liabilities				
Derivatives		94,140.6		94,140.6
Total liabilities	**0.0**	**94,140.6**	**0.0**	**94,140.6**

No transfers between fair value hierarchy levels 1 and 2 took place during the ended financial period.

Hierarchy level 1 fair values are based on the quoted prices for similar assets or liabilities on a functioning market.

The fair values of level 2 instruments are to a significant extent based on input data other than quoted prices included in level 1 but nevertheless on data (i.e. prices) or indirectly (i.e. derived from prices). In determining the fair value of these instruments, the Group uses generally accepted valuation models whose input data is, nevertheless to a significant extent, based on verifiable market data.

The fair values of level 3 instruments are based on input data concerning the asset or liability which are not based on verifiable market data but to a significant extent on estimates by the management or their use in generally accepted valuation models.

38 Essential post-balance sheet date events

In addition to dividend payment proposal (see Note 30), the Group did not have other essential post-balance sheet date events.

Contents

B Parent company Financial Statements 54

1 Notes to the financial statements 60
2 Summary of the most important accounting principles 60
3 Accounting principles of the financial statements 63
Segment reporting 63
Conversion of line items denominated in foreign currencies 64
Property, plant & equipment 64
Intangible assets 64
Impairment of tangible and intangible assets 64
Biological assets 65
Leases 65
Inventories 66
Accounts receivable 66
Financial assets and financial liabilities 66
Borrowing costs 67
Impairment of financial assets 67
Derivatives contracts and hedge accounting 67
Cash and cash equivalents 68
Share capital 68
Dividends 68
Income taxes 68
Employment benefits 68
Pension liabilities 68
Accounts payable 69
Revenue recognition 69
Operating profit 69
Interest and dividends 70
Application of new and revised IFRSs in issue but not yet effective 70
4 Financial risk management 71
5 Critical accounting estimates & judgements 74
6 Operating segments 74
7 Intangible assets 75
8 Property, plant & equipment 75
9 Right-of-use assets 76
10 Biological assets 77
11 Derivatives 77
12 Inventories 78
13 Trade and other receivables 79
14 Investments 79
15 Cash and cash equivalents 80
16 Share capital and share premium fund 80
17 Deferred tax assets and deferred tax liabilities 81
18 Financial liabilities 83
19 Lease liabilities 84
20 Pension obligations 85
21 Trade and other payables 87
22 Breakdown of net sales 88
23 Other operating income 88
24 Materials and services 88
25 Personnel expenses 88
26 Depreciation and amortisation expense and impairments 88
27 Other operating costs 89

28 Financial income and expenses ... 89
29 Income taxes ... 89
30 Dividends ... 90
31 Related party transactions ... 90
32 Auditors' fees ... 90
33 Subsidiaries and associated companies ... 91
34 Other collateral granted for own account ... 91
35 Judicial proceedings ... 91
36 Classification of financial assets and financial liabilities ... 91
37 Fair value hierarchy of financial assets and liabilities at fair value ... 93
38 Essential post-balance sheet date events ... 94

Signatures ... 95

Income Statement

EUR thousand	Note	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Net sales	**6,22**	**93,437.40**	**101,989.6**
Other operating income	23	5,408.10	6,284.6
Change in inventories of finished goods and work in progress	12	-615.80	-845.8
Materials and services	24	-14,214.80	-14,255.6
Personnel expenses	25	-78,732.00	-7,413.8
Depreciation and amortisation	26	-2,632.40	-2,671.2
Other operating expenses	27	-4,882.40	-4,379.5
Change in fair value of biological assets and harvesting	10	150,637.30	1,996.2
Operating profit		**219,264.00**	**80,704.6**
Financial income	28	3,906.50	1,203.4
Financial expenses	28	-22,498.00	-22,716.9
Change in fair value of financial instruments	11	-46,993.40	-1,613.2
Financial items (net)		**-65,584.90**	**-23,126.7**
Group contribution		0.00	-2,510.0
Profit/loss before tax		**153,679.10**	**55,067.9**
Income taxes	29	614.60	-2,790.2
Change in deferred taxes	17	-30,775.50	-8,432.0
Profit/loss for the financial period		**123,518.20**	**43,845.7**
Distribution:			
To owners of the parent company		**123,518.20**	**43,845.7**

Statement of comprehensive income

Profit for the financial period		**123,518.20**	**43,845.7**
Other comprehensive income for the period after taxes:			
Items not recognised later through profit and loss			
Items derived from the re-definition of net defined benefit costs (or asset items)		28.8	20.8
Items that may later be recognised through profit and loss			
Investments in unlisted securities	14,29	0.0	0.6
Comprehensive income for the period total		**123,547.00**	**43,867.0**
Distribution:			
To shareholders of the parent company		123,547.00	43,867.0

The notes on pages 60-94 are an essential part of these financial statements.

Balance Sheet

EUR thousand	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	7	574.0	614.4
Property, plant & equipment	8	87,830.0	82,859.9
Right-of-use assets	9	1,624.4	0.0
Biological assets	10	1,480,319.2	1,288,617.8
Investments in Group companies	33	155,867.9	152,777.9
Other investments	14	111.2	111.2
Non-current assets total		**1,726,326.8**	**1,524,981.3**
Current assets			
Inventories	12	0.0	387.8
Trade and other receivables	13	21,415.9	14,650.3
Derivatives	11	0.0	3,284.8
Investments	14	2,160.8	1,042.3
Cash and cash equivalents	15	11,389.7	12,155.8
Current assets total		**34,966.3**	**31,521.0**
Total assets		**1,761,293.1**	**1,556,502.3**
EQUITY AND LIABILITIES			
Equity belonging to shareholders of the parent company			
Share capital	16	51,836.2	51,836.2
Other equity	16	706,146.2	617,599.2
Shareholders' equity total		**757,982.4**	**669,435.4**
Non-current liabilities			
Deferred tax liabilities	17	190,586.7	159,804.0
Financial liabilities	18	0.0	257,106.0
Derivatives	11	141,058.5	93,013.9
Lease liabilities	19	1,486.6	0.0
Pension liabilities	20	183.0	229.0
Non-current liabilities total		**333,314.8**	**510,152.9**
Current liabilities			
Financial liabilities	17	647,157.8	352,839.3
Lease liabilities	18	165.9	0.0
Trade and other payables	21	22,672.2	22,948.0
Derivatives	11	0.0	1,126.7
Current liabilities total		**669,995.9**	**376,914.0**
Total liabilities		**1,003,310.7**	**887,066.9**
Total equity and liabilities		**1,761,293.1**	**1,556,502.3**

The notes on pages 60-94 are an essential part of these financial statements.

Statement of changes in equity

EUR thousand	Share capital	Invested unrestricted equity fund	Fair value reserve	Retained earnings	Shareholders' equity total
Equity 1 January 2018	51,836.2	4,076.1	-156.8	598,312.9	654,068.3
Comprehensive income					
Profit or loss for the period				43,845.7	43,845.7
Transfers between items			156.2	-156.2	0.0
Other items of comprehensive income (after taxes)					
Remeasurement of net defined benefit liability (or asset)				20.8	20.8
Investments in unlisted securities			0.6		0.6
Comprehensive income for the period	0.0	0.0	156.8	43,710.3	43,867.1
Transactions with sharehol-ders					
Dividends paid				-28,500.0	-28,500.0
Total transactions with shareholders				-28,500.0	-28,500.0
Equity 31 December 2018	51,836.2	4,076.1	0.0	613,523.2	669,435.4
Equity 1 January 2019	51,836.2	4,076.1	0.0	613,523.2	669,435.4
Comprehensive income					
Profit or loss for the period				123,518.2	123,518.2
Other items of comprehensive income (after taxes)					
Remeasurement of net defined benefit liability (or asset)				28.8	28.8
Comprehensive income for the period	0.0	0.0	0.0	123,547.0	123,547.0
Transactions with shareholders					
Dividends paid				-35,000.0	-35,000.0
Total transactions with shareholders				-35,000.0	-35,000.0
Equity 31 December 2019	51,836.2	4,076.1	0.0	702,070.2	757,982.4

The notes on pages 60-94 are an essential part of these financial statements.

Cash flow statement

EUR thousand	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Cash flow from operating activities		
Cash receipts from customers	96,573.3	92,204.0
Proceeds from sale of tangible assets	1,243.3	3,234.2
Cash receipts from other operating income	5,400.8	6,510.5
Cash paid to suppliers and employees	-26,285.3	-25,030.1
Cash flow from operating activities before financial items and taxes	**76,932.1**	**76,918.7**
Interest paid and other financial expenses	-22,720.9	-21,887.6
Interest received	196.5	177.8
Income taxes	-8,742.3	7,742.5
Net cash flow from operating activities	**45,665.4**	**62,951.3**
Cash flow from investing activities		
Investments in biological assets	-41,354.0	-39,079.1
Investments in tangible assets, forestland	-5,111.2	-4,830.0
Investments in other tangible and intangible assets	-2,283.8	-1,701.8
Investments in Group companies	-3,090.0	-6,160.0
Investments in associates and other investments	0.0	-3.0
Investments in unlisted securities	-1,116.9	0.0
Proceeds from sale of unlisted securities	0.0	895.8
Dividends from Group companies	3,710.0	1,025.6
Net cash flow from investing activities	**-49,245.8**	**-49,852.6**
Cash flow from financing activities		
Withdrawal of long-term loans	0.0	25,000.0
Repayment of long-term loans	0.0	-4,500.0
Withdrawal of short-term loans	295,000.0	0.0
Repayment of short-term loans	-254,500.0	-5,000.0
Repayment of lease liabilities	-175.4	0.0
Paid Group contribution	-2,510.0	0.0
Dividends paid	-35,000.0	-28,500.0
Net cash flow from financing activities	**2,814.6**	**-13,000.0**
Net increase/decrease in cash and cash equivalents	**-765.8**	**98.7**
Cash and cash equivalents at beginning of period	12,155.8	12,057.1
Cash and cash equivalents at end of period	**11,390.0**	**12,155.8**

The notes on pages 60-94 are an essential part of these financial statements.

1 Notes to the financial statements

General information

Tornator Oyj is a Finnish limited liability company (business ID 0162807-8) that operates under the jurisdiction of the legislation of the State of Finland. The company's registered office is in Imatra and the address of its headquarters is Napinkuja 3 C, 55100 Imatra, Finland. A copy of the financial statements is available at the company website www.tornator.fi/en

Tornator Oyj ('Tornator' or 'the company') is one of Finland's biggest forest owners. Tornator's core business is wood production and selling of cutting rights. The company provides also forest management services, sells land and buys forest properties. At the end of 2019, Tornator owned about 629,000 hectares of forest properties in Finland (2018 616,000). Average number of personnel during the financial period was 132 (136).

Tornator's Board of Directors have approved these financial statements for issue on 10 February 2020 . According to the Finnish Limited Liability Companies Act, the Annual General Meeting has the option to approve or reject or change the financial statements.

Figures presented in these Financial statements are rounded and thus total sums may differ from sums of individual figures presented.

2 Summary of the most important accounting principles

Tornator Oyj started preparing the parent company's separate financial statements in accordance with IFRS for the first time in the financial year 2017. Prior to this, the company prepared the parent company's separate financial statements in accordance with the Finnish Accounting Standards (FAS). The most significant accounting principles in preparing financial information for the company are described below and in Note 3. These accounting principles have been applied in all the years presented, unless otherwise noted.

Tornator Oyj is the parent company of Tornator Group. Tornator Group consolidated financial statements have been prepared in accordance with IFRS since 2007.

Accounting basis

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2019 have been applied in preparing them. "International Financial Reporting Standards" refers to the standards defined in the Finnish Accounting Act and related regulations approved for application in the EU and their interpretations in accordance with EU regulation (EC) 1606/2002. The notes to the financial statements also comply with the requirements of the Finnish accounting and corporate legislation that supplements the IFRS regulations.

The consolidated financial statements have been prepared using the historical cost basis, except for financial assets and liabilities recognised at fair value through profit and loss, biological assets and items under hedging of fair value, which are measured at fair value. The financial statements are presented in thousands of euros unless otherwise noted. The company's functional currency is the euro.

The preparation of the financial statements according to the IFRS standards requires making of certain estimates and assumptions. Making of these assumptions and estimates has an impact on the assets and liabilities reported on the balance sheet date, the presentation of contingent assets and liabilities in the notes and the income and expenses reported for the financial year. These estimates are based on the management's best knowledge of the events; thus the final actual results may differ from the estimates made.

Areas that have required greater judgement and areas in which the judgement has had the greatest impact on the figures presented in the financial statements are presented in Note 5.

Application of the new and amended IFRS standards

The financial statements have been prepared in accordance with the same accounting principles as in 2019, except for the following new or amended standards and interpretations. The following new and revised IFRSs have been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting of future transactions and events.

- IFRS 16 Leases

  IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the financial statements is described below.

  The date of initial application of IFRS 16 for the company is 1 January 2019.

  The company has applied IFRS 16 using the cumulative catch-up approach which:

  - Requires the company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
  - Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

  Impact of the new definition of a lease

  Tornator has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

  The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether a customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on ‘risks and rewards’ in IAS 17 and IFRIC 4.

  The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the company.

  Impact on Lessee Accounting

  Former operating leases

  IFRS 16 changes how the company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the company:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments,with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablets and personal computers, small items of office furniture and telephones), the company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘Other operating expenses’ in profit or loss.

The company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Former finance leases
For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except as described below and except in cases where the company has elected to apply the low-value lease recognition exemption.

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect of the company’s consolidated financial statements.

Impact on Lessor Accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). The company did not have such leases.

Financial impact of the initial application of IFRS 16

The company's right-of-use assets consist of leased office space and cars. Office space lease contracts that are valid for now have been evaluated case-by-case. Evaluation has included the term and probability of continuance of the contract.

At 31 December 2018, the company had non-cancellable lease and rent payment commitments worth approximately EUR 738 thousand. Adopting IFRS 16 as of 1 January 2019 increased the company's assets (right-of-use assets) and liabilities (lease liability) by EUR 2.1 million. The difference is attributable to the afore mentioned evaluation of lease contracts that are valid for now. Right-of-use assets aree depreciated during the lease term and lease payments will be accounted for as interest expense and repayment of lease liability. Income statement effects of adopting the standard were limited: lease payments recognised under IFRS 16 amounted to EUR 239 thousand, depreciation amounted to EUR 203 thousand and financial expenses totalled EUR 64 thousand. As a result, the net effect on the company's operating profit was EUR 36 thousand positive and net effect on the company's net income before taxes was EUR 28 thousand negative.

- The following standards, which were effective for annual periods beginning on 1 January 2019, were not applicable to the company:
  - Amendments to IFRS 9 Prepayment Features with Negative Compensation
  - Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
  - Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
  - Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
  - IFRIC 23 Uncertainty over Income Tax Treatments

3 Accounting principles of the financial statements

Segment reporting

Operating segments are determined and reported in a manner which is consistent with internal reporting to the highest operational decision-maker. According to the internal reports, the company has one operating segment and, thus, separate segment notes are not presented.

Conversion of line items denominated in foreign currencies

(a) Functional and presentational currencies

Financial statements are presented in euro, which is the company's functional and presentational currency.

(b) Business transactions and balances

Transactions denominated in foreign currencies are converted into the functional currency using the exchange rates on the date of the transactions or, if the items have been revalued, using the exchange rates on the valuation dates. Exchange gains and losses from payments related to business transactions and converting assets and liabilities denominated in a foreign currency into the exchange rate on the date of the financial statements are entered in the income statement, except for hedges complying with the terms and conditions of cash flow or net investment hedging, which are entered into equity.

Exchange gains and losses related to debts and cash and cash equivalents are presented in the income statement item "financial income or expenses". All other exchange gains and losses are presented in the income statement item "Other operating income or expenses".

Property, plant & equipment

Property, plant and equipment are measured at the historical acquisition cost, less deduction for depreciation and impairment. The historical acquisition cost contains costs immediately resulting from the acquisition. Costs arising later are only included in the asset's book value or recognised as a separate asset if it is probable that the future economic benefit associated with the asset will benefit the company and the asset's acquisition cost can be reliably determined. Other repair and maintenance costs are recognised through profit and loss for the period in which they are realised. The residual values of assets and useful lives are verified at a minimum annually on the date of the financial statements.

Assets are subjected to straight-line depreciation over the following estimated useful lives:

Buildings	7–20 years
Machinery and equipment	3–5 years
Land areas	No depreciation
Roads and ditches	10 years

Intangible assets

The company's intangible assets are computer software and other intangible assets. Computer software is measured at acquisition cost, less deduction for recognised depreciation and amortisation expenses and impairment. They are depreciated over the estimated useful life of 3–5 years. Other intangible assets are measured at historical acquisition cost, less amortisations.

Impairment of tangible and intangible assets

The company assesses whether there is any indication that an asset has been impaired at each financial statements date. If any such indication exists, the recoverable amount of the said asset is estimated. The recoverable amount is also estimated annually for the following assets, regardless of whether or not there are signs of impairment: goodwill, intangible assets with an unlimited useful life, and unfinished intangible assets. The need for impairment is assessed at the level of cash-generating units, i.e. the lowest individual unit level that is mainly independent of the other units and whose cash flows can be separated from other cash flows.
The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the estimated future net cash flows, discounted to their present value, expected to be derived

from the said asset or cash-generating unit. The discount rate used is the interest rate before tax that represents the market's view of the time value of money and special risks associated with the asset.

An impairment loss is recognised if the carrying amount of the asset is higher than its recoverable amount. The impairment loss is immediately recognised in the income statement. In connection with the recognition of the impairment loss, the useful life of the depreciated asset is re-evaluated. An impairment loss recognised for an asset is reversed if a change has taken place in the estimates used to determine the recoverable amount of the asset. However, the maximum reversal of an impairment loss amounts to the carrying amount of the asset had no impairment loss been recognised.

Biological assets

Biological assets, such as, in the company's case, growing stock, are recorded on the balance sheet at their market value. Company forests are thus measured at fair value less estimated point-of-sale costs at harvest, there being a presumption that fair values can be reliably measured for these assets. The value of the company's forest property is based on the discounted cash flow model. The fair value of biological assets is calculated on the basis of future cash flows from continuing operations, i.e. based on sustainable forest management and taking growth potential into consideration. The company estimates that the turnover cycle of Finnish forest is 70 years, which is used as the basis for the cash flows. To calculate the income cash flows, the long-term felling plan, based on forecasted tree growth, is multiplied by the prices forecasted by an external assessor for each wood type and felling method for the corresponding period. The long-term felling plan in Finland is based on forest inventories prepared by the Natural Resources Institute Finland and revised at regular intervals. The development of real wood prices after the prediction period given by an external assessor (10 years) is assumed to be ±0. The fair value of the biological asset is measured as the present value of the harvest from one growth cycle based on the productive forest land, taking into consideration environmental restrictions and other reservations.

The discount rate used in the valuation is determined using the weighted average cost of capital (WACC), in which case the required rate of return on equity is based on the use of the capital asset pricing model. The company verifies its discount rate in accordance with a pre-defined calculation template, but the discount rate is modified only when an essential change that is classified as long-term takes place in an individual interest rate component. Biological assets that are physically attached to soil are recognised and measured at their fair value separately from the bare land. When acquiring biological assets, they are valued at the acquisition cost corresponding to the fair value.

Leases

Company as the leaseholder

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Company as the lessor

Assets leased with agreements other than finance leases are included in the property, plant and equipment in the balance sheet. The property items leased out by the company are land areas and are not subject to depreciation. Lease income is recognised in the income statement as equal instalments over the term of the lease.

Inventories

Inventories are measured at the acquisition cost or the lower net realisable value. Acquisition cost is determined using the weighted average price method. The acquisition cost includes the immediate purchasing costs less VAT. Net realisable value is the estimated selling price obtained in the ordinary course of business, from which the cost of the sale is deducted.

Inventories include the wood raw material, seedlings, seeds and fertilizers. In addition, to-be-sold land areas are transferred to inventories.

Accounts receivable

Accounts receivable are initially recognised at fair value and later measured at amortised cost using the effective interest rate method less any impairment. Impairment loss is recognised according to expected credit losses.

Financial assets and financial liabilities

Financial assets

Tornator’s financial assets are divided into the following categories: financial assets recognised at fair value through profit and loss and financial assets recognised at amortised cost. The classification is carried out based on the purpose of use and characteristics of the contractual cash flows. Financial assets are classified at initial recognition.

Financial assets recognised at fair value through profit and loss include unlisted securities and derivatives. Asset items belonging to this group are current assets, unless they mature more than 12 months after the end of the reporting period. These asset items are measured at fair value. Realised and unrealised profits and losses resulting from changes in fair value are recognised in the income statement for the accounting period during which they have occurred.

Loans and other receivables are non-derivative assets that are connected to fixed or determinable payments and are not quoted on a functioning market. In the balance sheet, they are included in the trade and other receivables under current or non-current assets according to their nature. They are placed in the latter category if they mature in more than 12 months.

Transaction costs are included in the initial book value of financial assets when an item is not measured at fair value through profit and loss. All purchases and sales of financial assets are recognised on the trade date.

De-recognition of financial assets from the balance sheet occurs when the company has lost its contractual right to cash flows or when it has transferred risks and income outside the company to a significant degree.

Financial liabilities

Financial liabilities are initially recognised in accounting at fair value. Transaction costs are included in the initial book value of financial liabilities. Financial liabilities which are hedged items in a fair value hedging are recognised based on the change in the fair value of the hedged item. Other financial liabilities are recognised at amortised cost using the effective interest rate method. Financial liabilities are included in current and non-current liabilities.

Borrowing costs

Borrowing costs are recognised as expenses for the accounting period during which they were incurred.

Impairment of financial assets

On every financial statement date the company evaluates whether there is objective evidence of the impairment of a single financial asset line item or the impairment of a financial asset category. If the fair value of share investments falls short of acquisition cost to a significant degree and for a period of time defined by the company, this is an indication of the impairment of the share. Impairment losses are recognised through profit and loss.

Tornator recognises an impairment loss on accounts receivable when there is objective evidence that the receivables cannot be collected in full. Significant financial problems by the debtor, the likelihood of bankruptcy or neglect of payments are evidence of the impairment of accounts receivable. The size of the impairment loss recognised in the income statement is determined by the difference between the book value of the receivables and the present value of estimated deferred cash flows discounted by the effective interest rate. If the size of the impairment loss decreases during a later accounting period and the reduction can be objectively considered to be connected to an event after the recognition of the impairment, the recognised loss is reversed through profit or loss.

Derivatives contracts and hedge accounting

Company had no hedge accounting relationships in force at 31 December 2019.

Derivatives contracts are initially recognised in accounting at fair value on the date on which the company becomes a contracting party, and later they are also measured at fair value. Profits and losses that result from measurement at fair value are handled in accounting in a way determined by the purpose of the derivatives contract. Changes in the value of derivatives contracts to which hedge accounting is applied, and that are effective hedging instruments, are presented congruently with the hedged line item in the income statement. When derivatives contracts are signed, the company treats them as hedges of the estimated highly probable cash flow from operations, fair value hedges or derivatives contracts that do not satisfy the criteria of hedge accounting.

The company documents hedge accounting when it initiates the relationship between the target to be hedged and the hedging instruments, together with the Group’s risk management objectives and the hedging strategy. When starting hedging, and at least at the time of the release of each set of financial statements, the company documents and evaluates the effectiveness of the hedging relations by examining the ability of the hedging instrument to protect against changes in cash flow or the fair value of the line item being hedged.

Changes in the fair value of derivatives that meet the terms of fair value hedge are recognised through profit and loss to adjust interest and financing costs in the income statement. Respectively, the change in the fair value of the hedged item is entered in the income statement.

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised directly in the hedging fund contained in the equity revaluation reserve. Profits and losses recognised in equity are transferred to the income statement in the accounting period for which the hedged line item is recognised in the income statement. When the company applies cash flow hedging to hedge against the interest risk of floating rate loans, the ineffective portion of the hedging relationship is entered to adjust the interest expenses of the income statement.

When a hedging instrument acquired to hedge cash flow matures or is sold, or when the criteria of hedging accounting are no longer satisfied, the profit or loss accrued from the hedging instrument remains in equity until the forecast interest cash flow is realised. Nevertheless, if the forecast hedged transaction is no longer expected to be implemented, the profit or loss accrued in equity is immediately recognised in the income statement.

If the maturity of the derivatives contract is over 12 months, the fair values of derivatives iare presented in non-current assets or liabilities in the balance sheet; otherwise, they are included in current assets or liabilities.

Cash and cash equivalents

Cash is recognised at fair value in the balance sheet. Cash and cash equivalents in the cash flow statement consists of cash, cash in bank accounts and bank deposits that can be withdrawn on demand.

Share capital

Share capital consists solely of ordinary shares. Direct costs of issuing new shares, less deduction for taxes, are recognised in equity to reduce the payment received from the issuance.

Dividends

Dividend debt to shareholders is recognised for the period in which the Annual General Meeting has approved the dividend.

Income taxes

Tax expenses in the income statement consists of taxes based on taxable profit for the period and deferred taxes. The tax effect associated with items recognised directly in equity is correspondingly recognised as a part of shareholders' equity. Tax based on the period's taxable income is calculated on the basis of taxable profit for the period at domestic tax rate. The deferred tax balance is adjusted using any taxes associated for previous periods.

Deferred taxes are calculated for all temporary differences between the book value and taxable value. Deferred taxes are calculated by using the tax rate that has been stipulated by the financial statements date or the approved amount of which has been announced. Deferred tax assets are recognised up to the amount that it is probable that taxable income will be generated in the future, against which a temporary difference can be utilised.

The deferred tax liability is, nevertheless, not recognised when it is an asset item or liability initially to be entered in accounting and it is not a question of business combination and the recognition of this kind of asset or liability item does not affect the result of accounting nor taxable income at the time the transaction is realised. Deferred tax is not recognised for undistributed earnings of subsidiaries to the extent that the difference is not likely to dissolve in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when the company has the legal right to set off the deferred tax assets and liabilities based on the taxable income for the period and when the deferred tax assets and liabilities are related to income taxes collected by the same tax recipient either from the same party liable to pay taxes or different parties liable to pay taxes, when the asset and liability are to be realised in full.

Employment benefits

Pension liabilities

The company's pension arrangements are generally classified as defined contribution plans. In a defined contribution plan, the company pays fixed payments into the arrangement. The company has no legal or actual obligation to make additional payments if the party receiving payments does not have sufficient funds to pay pension benefits earned by employees during current or previous periods. Payments made under a defined contribution plan are recognised in the income statement for the period the payment concerns.

The company's defined benefit plan obligations have been calculated for each plan separately, using the projected unit credit method. Pension expenses are recognised as expenses over the service lives of employees based on calculations made by authorised actuaries. When calculating the current value of the pension obligation, the discount interest rate is the market yield of high-quality bonds issued by companies or the interest rate of government securities. The maturity of bonds and securities substantially corresponds to the maturity of the calculated pension obligation. The assets included in the pension arrangement at fair value on the closing date are deducted from the current value of the pension obligation to be recognised in the balance sheet. The defined benefit pension arrangement's net liabilities (or asset items) are entered in the balance sheet.

Current service costs (pension costs) and the net interest on a defined benefit arrangement are recognised through profit and loss and presented in costs arising from employment benefits. Any items arising from the re-definition of net defined benefit liabilities (or asset items) (e.g. actuarial gains and losses, and income from assets included in the arrangement) are recognised as other items of comprehensive income over the financial period when they were created.

Prior service costs are recognised as expenses through profit and loss on the earliest of the following dates: either when the arrangement is changed or reduced, or when the company recognises the related reorganisation costs or benefits related to the termination of employment.

Accounts payable

Accounts payable are initially recognised at fair value and subsequently at amortised acquisition cost using the effective interest method.

Revenue recognition

The company's net sales consist of the sale of cutting rights, land sales and forest management services. Revenue is recognised in a way that depicts the amount of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Sale of cutting rights:
Income is recognised for a cutting right sold once the customer has cut the trees from the purchased cutting right area. Usually this is verified by signing the measurement certificate for the cutting carried out.

Sale of holiday plots and forest properties:
Income from the sale of plots and forest properties is recognised when the company has irrevocably delivered the rights to the customer, the collection of receivables has been reliably verified and the seller no longer has any material risks or advantages connected to the ownership of the rights or plots, or a managerial role or actual control over the sold goods.

Other services:
The sale of services is recognised as income for the period during which the service is provided.

Operating profit

The IAS 1 Presentation of Financial Statements standard does not define the concept of operating profit. The company has defined it as follows: Operating profit is the net amount arrived at when other income from operations is added to net sales, from which is deducted purchase costs adjusted for changes in inventories of finished and unfinished products and costs resulting from manufacturing for own use, from which is deducted the costs of employment benefits, depreciation and amortisation expenses, any impairment losses and other operating expenses, as well as income or expenses arising from tree felling and changes in the fair value of biological assets. All other income statement items not mentioned above are presented below operating profit. Foreign exchange differences and changes in the fair value of derivatives are included in operating profit if they arise for reasons connected to business; otherwise they are recorded as financial items.

Interest and dividends

Interest income is recognised using the effective interest method and dividend income when the right to a dividend has arisen.

Application of new and revised IFRSs in issue but not yet effective

IASB has published the following new or revised standards and interpretations which the company has not yet adopted but which may have an impact on the financial statements. The company will adopt each standard and interpretation as from the effective date, or if the effective date is other than the first day of the reporting period, from the beginning of the next reporting period after the effective date.

- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
  The amendments are effective for annual periods beginning on or after 1 January 2020.
  The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the reform. The changes will mandatorily apply to all hedging relationships that are directly affected by the reform. The amendments are not intended to provide relief from any other consequences arising from the reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended Standards, then discontinuation of hedge accounting is still required. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

- The below presented new or revised standards and interpretations not yet effective are not expected to have an effect on Group reporting (*marked are not yet endorsed by the EU):
  - IFRS 17 Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2021)*
  - IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not yet set)
  - Amendments to IFRS 3 Definition of a Business (effective for annual reporting periods beginning on or after 1 January 2020)
  - Amendments to IAS 1 and IAS 8 Definition of Material (effective for annual reporting periods beginning on or after 1 January 2020)

4 Financial risk management

Risk management principles and process

In its operations, Tornator is exposed to various kinds of financial risk, including the effects of fluctuations in exchange rates and interest rates. The key principle of the company's risk management is the unpredictability of the financial markets and the attempt to minimise possible adverse effects on the company's result. Risk management is carried out by the finance management in line with general principles approved by the Board of Directors.

Tornator's financial policy guides all financing transactions in the Company. The policy and potential future amendments and additions will come into force when the Board of Directors has approved it. The operating instructions regarding the use of all financial instruments should be consistent with the general financial policy. The risk management policy of the Company's financial services contains more detailed instructions that will enter into force by the signature of the head of the Company's Financial operations. The most important financial market risks are listed below.

Exchange rate risk

Tornator operates also outside the Euro area through its subsidiaries and is thus exposed to risks arising from the currency positions that emerge from the translation of investments in different currencies to the parent company's functional currency. Currency risks emerge from commercial transactions, monetary items in the balance sheet and net investments in foreign subsidiaries.

The company has foreign net investments and is thus exposed to risks emerging from the translation of investments in foreign currency to the parent company's functional currency. Currently, Tornator does not hedge against exchange rate risk.

Interest rate risk

The long-term objective of Tornator's interest rate risk management is to hedge the company's balance sheet against adverse effects caused by changes in market interest rates. In practice this means balancing the fair value changes of forest assets and loan related obligations in a way that the net equity effect of the fair value changes in within the limits determined in the Financial risk management and hedging policy.

Tornator's interest rate risk from loan related obligations is attributable to interest-bearing debt. The Group has bank loans at a nominal value of EUR 477.5 million, a debenture loan at a nominal value of EUR 65 million and issued commercial paper amounting to nominal value of EUR 105 million.

Interest rate risk related to forest assets is attributable to the valuation model of forests where long-term cash flows are discounted to present value. Changes in discount rate (WACC) has a considerable effect on the fair value of forests. See also note 10 Biological assets.

The Company has hedged its exposure to interest rate risk by signing interest rate swap and interest rate option agreements with financial institutions that have a high credit rating. The interest rate hedging strategy is approved by Tornator's Board of Directors and implemented by the company's finance management.

Tornator's short-term money market investments expose it to cash flow interest rate risks, but their effect is not significant. Tornator's proceeds and operational cash flows are for the most part independent of fluctuations in market interest rates. The company is mainly exposed to interest rate risk related to variable interests, which is considered to be mainly connected to the loan portfolio. According to the principles of risk management, comapny must hedge at least 50% of the loan portfolio from fluctuation in market interest rates. On the balance sheet date, 52% of loans had been converted into fixed rate loans by using interest rate swaps. The average maturity of the loans drawn was 0.7 years on the closing date. The company can withdraw loans with either a fixed rate of interest or a variable rate of interest and use interest rate swaps or ordinary interest rate options to achieve the objective of its financing principles.

Tornator has prepared for future refinancing of loans and hedging the associated interest risk by entering into long-term interest rate swap contracts with financial institutions. In these contracts Tornator receives 1-month Euribor rate. These strategic hedges stabilise also the discount rate used in forest valuation, i.e. they are used to execute the above-mentioned long-term balance sheet stabilisation. Nominal value of swap contracts ending in 2047 is EUR 164 million and fixed interest rate paid by Tornator is approximately 3,0 %. Nominal value of swap contracts ending in 2031 is EUR 174 million and fixed interest rate paid by Tornator is approximately 2,1 %.

On the basis of loans and interest derivatives, Tornator paid a fixed rate of 3.3% (3.6%) as net interest.

EUR thousand	2019	2018
Gains (+) and losses (-) recognised through profit or loss from changes in the fair value of interest rate derivatives	-50,803.5	-5,581.9

A change up or down of 1 percentage point in the interest curve would affect the fair value of the interest derivatives on the company’s balance sheet on 31 December by about EUR +49 / -64 million. Changes would be recognised in the income statement as shown in the table below:

EUR thousand	+1%	-1%
To income statement	49,343	-63,567
To shareholders’ equity	0	0
Total	**49,343**	**-63,567**
Taking the deferred tax into account:		
To income statement	39,474	-50,854
To shareholders’ equity	0	0
Total	**39,474**	**-50,854**

Liquidity risk

Tornator continuously aims to assess and monitor the amount of financing required by business operations so that the company would have sufficient liquid assets for financing its operations and paying back maturing loans. Tornator’s financing guidelines define the optimum size of the liquidity reserves for cash as well as the amount of liquid investments. Furthermore, the guidelines define that a liquid investment refers to a money market fund investing in EU banks and companies with a credit rating from which the assets can be redeemed within 24 hours. The availability and flexibility of financing is guaranteed with the terms of the long-term timber trade agreement on the timing of timber transactions and preliminary payments during the year.

The following table presents a maturity analysis. A negative figure refers to incoming cash. For items other than derivatives, the figures are undiscounted and include interest payments, paying off capital and repayments. For derivatives, the division of the balance sheet value has been presented on the basis of their maturity.

Due to the ongoing financing negotiations on the balance sheet date, all interest-bearing liabilities are short term. However, after one year the situation will be completely different. Before taking new loans, Tornator will modify the security structure of the forests that are collateral for the debt. This, together with the company’s Green Finance Framework, will provide Tornator with more options and flexibility in executing future finance transactions. The new security structure and refinancing of the debt portfolio has already been agreed with financial institutions and new debt transactions will be made during 2020.

31 December 2019 EUR million	Note	Balance sheet value	Cash flow	2020	2021	2022	2023	2024	2025+
Financial liabilities	18	647.2	653.4	653.4	0.0	0.0	0.0	0.0	0.0
Trade and other payables	21	22.7	22.7	22.7					
Derivative instruments									
Interest rate derivatives	11	141.1	141.1	7.3	7.3	7.3	7.3	7.3	104.4

31 December 2018 EUR million	Note	Balance sheet value	Cash flow	2019	2020	2021	2022	2023	2024+
Financial liabilities	18	609.9	624.1	362.2	261.9	0.0	0.0	0.0	0.0
Trade and other payables	21	22.9	22.9	22.9					
Derivative instruments									
Interest rate derivatives	11	90.9	90.9	2.4	4.6	4.6	4.6	4.6	70.1

Credit risk

Tornator's method of operation determines the creditworthiness requirements and investment principles of customers, investment transactions and derivative financial instruments. Credit risk management and credit control are centralised on the Group's finance management. Credit is only granted to customers with an impeccable credit history. In individual significant transactions, the company always requires the counterparty to set a sufficient guarantee. Tornator only signs derivative agreements and makes investment transactions with counterparties with a minimum credit rating of A.

Tornator does not have a significant concentration of credit risk associated with receivables as the receivables are made up of several items. The company had no material credit losses recognised through profit and loss during the accounting period.

Capital management

The purpose of Tornator's capital management (equity vs. liabilities) is to support business operations through the optimum capital structure by ensuring normal conditions and increasing shareholder value with the aim of best possible profits. An optimal capital structure also guarantees the lowest capital costs.

Parent company's gearing was as follows:

EUR million	2019	2018
Interest-bearing debt	647.2	609.9
Interest-bearing receivables	2.2	1.0
Cash and cash equivalents	11.4	12.2
Net debt	**633.6**	**596.7**
Shareholders' equity total	**758.0**	**669.4**
Gearing	**83.6 %**	**89.1 %**

The company has complied with the terms and conditions of its loans.

5 Critical accounting estimates & judgements

The most important item that requires the judgement of management is connected to the assumptions used in measuring the value of forests, such as the price of wood, the discount rate and the growth period. The development of wood prices after the prediction period given by an external assessor (10 years) is assumed to be ±0. The value of the company's biological assets (excluding bare land value) on the balance sheet date amounted to EUR 1,480.3 million (EUR 1,288.6 million). The effect of forest land acquired or sold during the financial year is taken into account in the change of value.

The discount rate after taxes used in the valuation of parent company's forests in Finland was 3.25% (2018: 3.50 %). Discount rate includes equity and debt interest rate components. Effect of inflation (assumption 2.0%) is included in cash flows. In calculating the discount rate, the equity interest component has a weight of 40% (2018: 35%), and the 5-year sliding average of the 50-year euro swap interest rate is used as the risk-free interest rate of 1.3 % (1.6 %). The equity risk premium calculated by an external assessor was at 2.75% in 2019 and 2018. In calculating the discount rate, the liability interest rate component has a weight of 60% (2018: 65%) on the basis of the targeted financing structure as determined in the strategy. This corresponds with the hedged interest rate of the non-current liabilities (estimated 5.00% over time). Fluctuation range of +/- 0.25%-point is applied to discount rate, i.e. it will be changed only if the change is outside the +/- 0.25%-point range.

The wood price estimate and the risk-free interest rate are updated annually. A change of ±1% in the discount rate will change the valuation of forest assets by EUR -250/+350 million (Finland, 70-year cash flows). A change of ±10% in the estimate of wood prices will change the valuation of forest assets by EUR ±175 million.

The valuation principles applied to forests are presented in the accounting principles concerning biological assets, and valuation during the financial year is presented in Note 9.

6 Operating segments

Tornator's core business consists of timber production and the sale of cutting rights to stands marked for harvesting. The stands include regular cutting methods and timber types. Tornator manages and monitors its business as a single entity, and thus the company only has one operating segment. Therefore, segment-specific information is not presented, as this would be a repetition of the figures presented on the income statement and balance sheet.

In addition to the figures presented on the income statement, reporting to the highest operational decision-maker also includes the operating profit excluding changes in the fair value of biological assets and harvesting, which amounted to EUR 68,627 thousand in 2019 (EUR 78,708 thousand in 2018).

The sale of cutting rights represented 96.9% of net sales (95.3% in 2018).

7 Intangible assets

31 December 2019 EUR thousand	Computer software	Other intangible rights	Total
Acquisition cost on 1 January 2019	**7,325.0**	**82.1**	**7,407.1**
Increases	350.4		350.4
Decreases			0.0
Acquisition cost on 31 December 2019	**7,675.3**	**82.1**	**7,757.4**
Accrued depreciation and impairment			
Accrued depreciation and impairment on 1 January 2019	-6,792.7	0.0	-6,792.7
Depreciation and amortisation expense and impairments	-308.6	-82.1	-390.7
Accrued depreciation and impairment on 31 Dec 2019	**-7,101.3**	**-82.1**	**-7,183.4**
Book value on 31 December 2019	**574.0**	**0.0**	**574.0**
Book value on 1 January 2019	532.3	82.1	614.4

31 December 2018 EUR thousand	Computer software	Other intangible rights	Total
Acquisition cost on 1 January 2018	**7,108.7**	**76.8**	**7,185.5**
Increases	216.3	5.3	221.5
Decreases			0.0
Acquisition cost on 31 December 2018	**7,325.0**	**82.1**	**7,407.1**
Accrued depreciation and impairment			
Accrued depreciation and impairment on 1 January 2018	-6,106.6	0.0	-6,106.6
Depreciation and amortisation expense and impairments	-686.0		-686.0
Accrued depreciation and impairment on 31 Dec 2018	**-6,792.7**	**0.0**	**-6,792.7**
Book value on 31 December 2018	**532.3**	**82.1**	**614.4**
Book value on 1 January 2018	1,002.0	76.8	1,078.9

8 Property, plant & equipment

31 December 2019 EUR thousand	Land areas	Buildings	Machinery and equipment	Roads and ditches	Purchases in progress	Total
Acquisition cost on 1 January 2018	**70,585.9**	**493.3**	**1,291.4**	**32,152.1**	**949.4**	**105,472.1**
Increases	5,111.2		173.5	1,032.6	2,110.3	8,427.6
Decreases	-35.9				-1,383.0	-1,418.9
Acquisition cost on 31 December 2018	**75,661.1**	**493.3**	**1,464.9**	**33,184.8**	**1,676.7**	**112,480.8**
Accrued depreciation and impairment						
Accrued depreciation and impairment on 1 January 2018	0.0	-198.8	-1,188.7	-21,224.7	0.0	-22,612.2
Depreciation expense and impairment		-18.8	-48.5	-1,971.4		-2,038.6
Accrued depreciation and impairment on 31 December 2018	**0.0**	**-217.6**	**-1,237.2**	**-23,196.0**	**0.0**	**-24,650.8**
Book value on 31 December 2018	**75,661.1**	**275.7**	**227.7**	**9,988.7**	**1,676.7**	**87,830.0**
Book value on 1 January 2018	70,585.9	294.5	102.7	10,927.5	949.4	82,859.9

31 December 2018

EUR thousand	Land areas	Buildings	Machinery and equipment	Roads and ditches	Purchases in progress	Total
Acquisition cost on 1 January 2018	**65,827.6**	**475.9**	**1,237.6**	**29,022.7**	**2,669.7**	**99,233.5**
Increases	4,830.0	17.4	53.8	3,129.4	1,621.5	9,652.1
Decreases	-71.8				-3,341.7	-3,413.5
Acquisition cost on 31 December 2018	**70,585.9**	**493.3**	**1,291.4**	**32,152.1**	**949.4**	**105,472.1**
Accrued depreciation and impairment						
Accrued depreciation and impairment on 1 January 2018	0.0	-180.2	-1,113.5	-19,333.3	0.0	-20,627.0
Depreciation expense and impairment	0.0	-18.6	-75.2	-1,891.4	0.0	-1,985.2
Accrued depreciation and impairment on 31 December 2018	**0.0**	**-198.8**	**-1,188.7**	**-21,224.7**	**0.0**	**-22,612.2**
Book value on 31 December 2018	**70,585.9**	**294.5**	**102.7**	**10,927.5**	**949.4**	**82,859.9**
Book value on 1 January 2018	65,827.6	295.7	124.1	9,689.4	2,669.7	78,606.5

9 Right-of-use assets

31 December 2019

EUR thousand	Office space	Machinery and equipment	Right-of-use assets, total
Acquisition cost on 1 January 2019	0.0	0.0	0.0
Adoption of IFRS 16	1,657.2	78.2	1,735.4
Increases	87.1	28.1	115.2
Decreases		-23.2	-23.2
Acquisition cost on 31 December 2019	**1,744.3**	**83.2**	**1,827.4**
Accrued depreciation and impairment			
Accrued depreciation and impairment on 1 January 2019	0.0	0.0	0.0
Depreciation expense and impairment	-164.3	-38.8	-203.0
Accrued depreciation and impairment on 31 December 2019	**-164.3**	**-38.8**	**-203.0**
Book value on 31 December 2019	**1,580.0**	**44.4**	**1,624.4**

Tornator's right-of-use assets include leased office space and leased cars. Office space lease contracts that are valid for now have been evaluated case-by-case. Evaluation has included the term and probability of continuance of the contract. Evaluation of renewal of maturing leased car contracts is made case-by-case.

Income statement items from right-of-use assets:

Income statement items	2019
Depreciation	-203.0
Financial expenses	-63.6
Expenses from short-term and low value lease contracts	-65.1

10 Biological assets

EUR thousand	2019	2018
Biological assets at the beginning of the period	**1,288,617.8**	**1,248,123.2**
Harvesting	-5,528.8	-18,253.8
Valuation difference	156,166.0	20,250.0
Change in Income statement	**150,637.2**	**1,996.2**
Increases	41,345.3	39,079.1
Decreases	-281.3	-580.6
Biological assets at the end of the period	**1,480,319.0**	**1,288,617.8**

Fair value of biological assets is calculated based on discounted future cash flows of continuing operations. Discounted cash flow method requires estimation of growth, harvesting, wood price and expenses related to wood sales. The company's sustainable annual cut was increased mainly by new acquisitions of forestland. In addition, wood prices used in valuation model had a positive effect on fair value of forests. Sensitivity analysis of factors used in the valuation model of Finnish forests is presented below.

+/- 1 % -point change in discount rate changes fair value of forests by -250 / +350 million euros (Finland, 70 year cash flows). +/- 10 % change in wood price changes fair value of forests by +/- 175 million euros.

11 Derivatives

Tornator uses interest rate swaps for hedging its cash flows. The majority of the interest rate derivatives will mature in more than 3 years.

Fair values of interest derivatives on 31 December.

EUR thousand	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps	0.0	-141,058.5	-141,058.5	3,284.8	-94,140.6	-90,855.8
Total fair values of derivatives	**0.0**	**-141,058.5**	**-141,058.5**	**3,284.8**	**-94,140.6**	**-90,855.8**

The fair value of derivatives has changed as follows:

EUR thousand	2019			2018
	Income	Expenses	Net	Net
Recognised under financial items in the income statement *	**404.7**	**-51,208.2**	**-50,803.5**	**-5,582.1**
Interest rate swaps	404.7	-51,208.2	-50,803.5	-5,582.1
Portion of the change of accrued interest**	**0.0**	**600.8**	**600.8**	**-16.6**
Change in the fair value of derivatives on the balance sheet	**404.7**	**-50,607.4**	**-50,202.7**	**-5,598.7**

* Income statement includes also a booking of EUR +3,969.0 thousand (EUR +3,969.0 thousand) which represents the fair value change of the hedged item in an ended fair value hedging relationship.

** Included in financial expenses in the income statement

Nominal values of interest derivatives

EUR thousand	31 December 2019	31 December 2018
Interest rate swaps	338,625	653,625
Total nominal values of derivatives	**338,625**	**653,625**

Interest rate swaps are intended as protection against market rate fluctuations. Currently, all contracts are recognised at fair value through income statement. In cash flow hedging, changes in fair value have been recognised on the basis of efficiency testing partly through profit and loss and partly at equity through other comprehensive income. The ineffective part of cash flow hedges and changes in the value of fair value hedges and derivatives not included in hedge accounting are recognised at financial items through profit and loss.

The share recognised in the income statement has had a profit/loss effect of EUR -50,803.5 thousand (EUR -5,582.1 thousand). Profits and losses that have been transferred to fair value reserve (reconciliation of shareholders' equity) are systematically recognised in the income statement until the loans have been paid back in full. In addition, EUR +3,808.5 thousand (EUR +3,969.0 thousand) has been entered in financial items in the income statement as a change in fair value of the hedged item in an ended fair value hedging relationship.

Derivatives are classified under non-current assets or liabilities if the contract matures in more than 12 months; otherwise, derivatives are presented under current assets or liabilities.

A summary of profits and losses from cash flow hedging recognised in equity during the accounting period, the amount derecognised from equity and presented in the adjustments of net sales for the accounting period, and the hedging result recognised to adjust the acquisition costs of the balance sheet item are presented in the calculation in the changes of the company's equity.

For the interest rates of interest derivatives, see Financial risks (Note 4).

12 Inventories

EUR thousand	2019	2018
Inventories	-	387.8
Total	**0.0**	**387.8**

Other inventories consist of the wood raw material stock and fertilizers. The company did not recognise any impairment on inventories in 2019 or 2018. Change in inventories recognised in the income statement EUR -615.8 thousand (EUR -845.7 thousand) consists of changes in fertilizer and wood raw material stock and acquisition cost of sold land properties.

13 Trade and other receivables

Accounts receivable

EUR thousand	2019	2018
Accounts receivable	12,437.7	12,012.0
Accounts receivable from Group companies	75.3	66.2
Accounts receivable, total	**12,513.0**	**12,078.2**
Maturity breakdown of accounts receivable:		
Not matured	12,010.9	11,276.6
matured for less than 3 months	500.1	801.5
matured for over 3 months – less than 6 months	0.9	0.0
matured for over 6 months	1.1	0.2

Other receivables

EUR thousand	2019	2018
Accrued income	8,870.6	2,541.4
Other receivables	32.3	30.6
Total other receivables	**8,902.9**	**2,572.0**
Trade and other receivables total	**21,415.9**	**14,650.3**

The book value of accounts receivable and other receivables corresponds to their fair value. Receivables are not associated with significant concentrations of credit risk. The balance sheet values best correspond to the amount that is the maximum amount of credit risk in cases where the other contracting parties cannot fulfil their liabilities connected to the receivables. The fair values of receivables are presented in Note 36.

14 Investments

Currently, all investments are classified as financial assets at fair value through income statement.

Investments, non-current:

EUR thousand	2019	2018
Value at beginning of financial period	111.2	108.2
+Increases / -Decreases	0.0	3.0
Value at the end of financial period	**111.2**	**111.2**

Non-current investments include shares and other investments which are not expected to be sold in near future.

Investments, current:

EUR thousand	2019	2018
Value at beginning of financial period	1,042.3	1,938.1
+Increases/-Decreases	1,116.9	-896.4
Changes in fair value recognised in equity	1.6	0.6
Value at end of financial period	**2,160.8**	**1,042.3**

Current investments mainly include investments in money market funds. Fund investments were sold and purchased during the 2019 financial period. Investments in money market funds are measured at fair value.

The fair values of financial assets are presented in Note 36. Financial assets have not expired and no impairment was recognised on them.

15 Cash and cash equivalents

EUR thousand	2019	2018
Cash and bank accounts (Cash and cash equivalents in the cash flow statement)	11,389.6	12,155.8
Total	**11,389.6**	**12,155.8**

Cash and cash equivalents are not associated with significant concentrations of credit risk. The balance sheet values best correspond to the amount that is the maximum amount of credit risk in cases where the other contracting parties cannot fulfil their liabilities connected to the receivables. The fair values of cash and cash equivalents are presented in Note 36.

In addition to cash and cash equivalents, Tornator Oyj has a bank loan facility of EUR 100 million, which is completely available for withdrawal. The facility, including drawn amounts, will mature in 2020

16 Share capital and share premium fund

Tornator Oyj has one series of shares in which all shares entitle the owner to the same dividend. The company's shares are subject to the redemption clause of the Articles of Association according to which other shareholders have a redemption right if there is a change in the ownership of the company’s share. The shares have no nominal value. Tornator Oyj has 5 million shares.

	2019	2018
Number of shares on 1 Jan	5,000,000	5,000,000
Number of shares on 31 Dec	5,000,000	5,000,000
Share capital (EUR thousand) on 1 Jan	51,836.20	51,836.20
Share capital (EUR thousand) on 31 Dec	51,836.20	51,836.20

All issued shares are fully paid.

An amount corresponding to the nominal value of the company’s shares was recognised under share capital when the parent company was established.

Fair value reserve

The fair value reserve includes the fair values deducted by deferred taxes of derivative instruments used to hedge cash flows and fair value amortisations from ended cash flow hedge relationships. Transfer from fair value reserve to retained earnings is related to actuarial changes caused by changes in the financial assumptions of pension obligations, which have previously been presented in fair value reserve.

EUR thousand	2019	2018
Value at beginning of financial period	0.0	-156.8
Fair value reserve, changes during the financial period	0.0	0.6
Hedging reserve, changes during the financial period	0.0	0.0
Transfer to retained earnings	0.0	156.2
Value at the end of financial period	**0.0**	**0.0**

17 Deferred tax assets and deferred tax liabilities

The deferred taxes have been recognised for all temporary differences. Changes in deferred taxes during 2019:

EUR thousand	Note	1 January 2019	Recognised through profit or loss	Recognised in other comprehensive income	31 December 2019
Deferred tax assets:					
Temporary differences					
Measurement of financial instruments at fair value	11	480.6	-480.6	0.0	0.0
Recognition of defined benefit pension plans	20	45.8	-2.0	-7.2	36.6
Total deferred tax assets		**526.4**	**-482.6**	**-7.2**	**36.6**
Deferred tax liabilities:					
Temporary differences:					
Measurement of financial liabilities at amortised cost	18	156.5	-108.6	0.0	47.9
Measurement of financial instruments at fair value	11	0.0	281.1	0.0	281.1
Measurement of biological assets at fair value	10	160,174.0	30,120.4	0.0	190,294.3
Total deferred tax liabilities		**160,330.5**	**30,292.8**	**0.0**	**190,623.3**

EUR thousand	Note	1 January 2018	Recognised through profit or loss	Recognised in other compre-hensive income	31 December 2018
Deferred tax assets:					
Temporary differences:					
Measurement of financial instruments at fair value	11	8,674.9	-8,194.2	0.0	480.6
Investments in unlisted securities	14	0.1	0.0	-0.1	0.0
Recognition of defined benefit pension plans	20	53.0	-2.0	-5.2	45.8
Total deferred tax assets		**8,728.0**	**-8,196.2**	**-5.3**	**526.5**
Deferred tax liabilities:					
Temporary differences:					
Measurement of financial instruments at fair value	11	301.2	-144.7		156.5
Measurement of biological assets at fair value	10	159,793.5	380.5		160,174.0
Total deferred tax liabilities		**160,094.7**	**235.8**	**0.0**	**160,330.5**

Deferred tax assets and deferred tax liabilities are offset when the corporation has the legal right to set off the recognised items against each other and the deferred taxes concern the same tax recipient.

EUR thousand	**2019**	**2018**
Total deferred tax assets	36.6	526.5
Offset against deferred tax liability	36.6	526.5
Deferred tax assets on the balance sheet	**0**	**0**
Total deferred tax liabilities	190,623.3	160,330.5
Offset against deferred tax assets	-36.6	-526.5
Deferred tax liabilities on the balance sheet	**190,586.7**	**159,804.0**

Deferred tax assets

EUR thousand	**2019**	**2018**
Deferred tax liabilities that expire after 12 months	36.6	526.5
Deferred tax liabilities that expire within 12 months	0	0

Deferred tax liabilities

EUR thousand	**2019**	**2018**
Deferred tax liabilities that expire after 12 months	190,623.3	160,330.5
Deferred tax liabilities that expire within 12 months	0	0

Deferred tax liability is not recognised for undistributed profit funds of subsidiaries.

18 Financial liabilities

EUR thousand	2019	2018
Non-current financial liabilities		
Bonds	0.0	65,000.0
Loans from financial institutions, non-current portion	0.0	192,106.0
Loans from financial institutions, current portion	0.0	4,500.0
Total non-current financial liabilities	**0.0**	**261,606.0**
Current financial liabilities		
Bonds	65,000.0	253,420.0
Loans from financial institutions	477,283.3	0.0
Commercial paper	104,897.3	94,919.3
Total current financial liabilities	**647,180.6**	**348,339.3**
Total financial liabilities	**647,180.6**	**609,945.3**

Loans from financial institutions include arrangement fee amortisations totalling EUR -0.2 million (EUR -0.4 million). In 2019 bonds included amortisations of fair value of the hedged item in an ended fair value hedging relationship and arrangement fee amortisations totalling EUR +3.4 million.

Current financial liabilities will be renewed at each maturity, i.e. they will not have any impact on the Group's current cash flows.

Due to the ongoing financing negotiations on the balance sheet date, all interest-bearing liabilities are short term. However, after one year the situation will be completely different. Before taking new loans, Tornator will modify the security structure of the forests that are collateral for the debt. This, together with the company's Green Finance Framework, will provide Tornator with more options and flexibility in executing future finance transactions. The new security structure and refinancing of the debt portfolio has already been agreed with financial institutions and new debt transactions will be made during 2020.

Maturity of current and non-current financial liabilities 31 December 2019

EUR thousand	2019
2020	647,180.6
2021+	0.0
Total	**647,180.6**

Maturity of current and non-current financial liabilities 31 December 2018

EUR thousand	2018
2019	352,839.3
2020	257,106.0
2021+	0.0
Total	**609,945.3**

Reconciliation of changes in liabilities arising from financing activities

EUR thousand	1 January 2019	Cash flow from financing activities	Financial expenses	Fair value changes	31 December 2019
Bonds	318,420.0	-250,000.0	388.5	-3,808.5	65,000.0
Loans from financial institutions	196,606.0	280,500.0	177.3	-	477,283.3
Commercial paper	94,919.3	10,000.0	-22.0	-	104,897.3
Total	**609,945.3**	**40,500.0**	**543.8**	**-3,808.5**	**647,180.6**

EUR thousand	1 January 2018	Cash flow from financing activities	Financial expenses	Fair value changes	31 December 2018
Bonds	322,000.5	-	388.5	-3,969.0	318,420.0
Loans from financial institutions	175,771.1	20,500.0	334.9	-	196,606.0
Commercial paper	99,918.7	-5,000.0	0.6	-	94,919.3
Total	**597,690.3**	**15,500.0**	**724.0**	**-3,969.0**	**609,945.3**

The company's financial liabilities are variable interest rate loans and the repricing takes place once every 1–6 months.

The weighted average interest rates of financial liabilities are:

EUR thousand	2019	2018
Loans from financial institutions	3.3 %	3.6 %

19 Lease liabilities

EUR thousand	2019
Non-current	1,486.6
Current	165.9
Total	**1,652.5**

Maturity of lease payments 31 December 2019

EUR thousand

Year	Total payments
2020	242.5
2021	215.0
2022	215.0
2023	200.7
2024	200.7
2025+	932.2
Total	**2,006.1**

At 31 December 2019 Tornator's lease liabilities from short-term lease contracts amount to EUR 26 thousand.
At 31 December 2019 Tornator's lease liabilities from low-value lease contracts amount to EUR 25 thousand.

20 Pension obligations

Pension plans are classified as defined benefit and defined contribution plans. Payments made under a defined contribution arrangement are recognised in the income statement for the period the payment concerns.

The Group has additional defined benefit pension plans in Finland. The plans are based on the average final salary and those taking part in them receive an additional pension in addition to their retirement pension. The amount of the pension benefit upon retirement is defined on the basis of certain factors, such as the salary and service years. Pensions are adjusted according to the minimum price index. The pension plans have been taken out from a life insurance company. The Group has partially funded plans. The assets included in these plans are managed by a life insurance company according to local legislation and practices.

Net defined benefit liabilities on the balance sheet are defined as follows:

EUR thousand	2019	2018
Present value of funded obligations	1,425	1,548
Fair value of plan assets	-1,242	-1,319
Net balance sheet liability	**183**	**229**

Net defined benefit liabilities were changed as follows during the financial period:

EUR thousand	Present value of liability	Fair value of plan assets	Total
1 January 2019	**1,548**	**1,319**	**229**
Current service costs	-	-	0
Interest loss or gain	23	19	4
Previous service costs and losses from fulfilled obligations	-	-	-
Amount booked in personnel costs of the income statement	23	19	4
Re-defined items:			
Profit from assets included in the plan, apart from items included in interest loss or gain (±)	-	-21	21
Actuarial profit (-) or loss (+) from changes in financial assumptions	-	-	-
Actuarial profit (-) or loss (+) from changes in financial assumptions	-36	-	-36
Experience-based profit (-) or loss (+)	-85	-	-85
Changes in the maximum amount of an asset item, apart from the amount included in interest losses (±)	-	-	-
Total amount of re-defined items	**-57**	**-21**	**-36**
Payments:			
From employers (+)		14	-14
From plan members (+)	-	-	-
Payments from plans:			
Benefits paid (-)	-89	-89	0
31 December 2019	**1,425**	**1,242**	**183**

1 January 2018	1,691	1,426	265
Current service costs	-	-	-
Interest loss or gain	25	21	4
Previous service costs and losses from fulfilled obligations	-	-	-
	25	21	4
Re-defined items:			
Profit from assets included in the plan, apart from items included in interest loss or gain (±)	-	-81	81
Actuarial profit (-) or loss (+) from changes in financial assumptions	-	-	-
Actuarial profit (-) or loss (+) from changes in financial assumptions	-22	-	-22
Experience-based profit (-) or loss (+)	-85	-	-85
Changes in the maximum amount of an asset item, apart from the amount included in interest losses (±)	-	-	-
	-107	-81	-26
Payments:			
From employers (+)		11	-11
From plan members (+)	-	-	-
Payments from plans:			
Benefits paid (-)	-61	-61	0
31 December 2018	1,548	1,319	229

Sensitivity analysis for defined benefit pension obligations

The following table illustrates the impact of various factors on defined benefit obligations, the fair value of assets, net liabilities and pension costs over the 2018 financial period. The analysis has been conducted following the same accounting principles as those applied to pension calculations.

EUR thousand	Defined benefit obligation	Fair value of plan assets	Net liabilities	Service costs	Net interest
Discount rate 1.50%	1,425	1,242	183	0	2
Discount rate 0.50%	1,342	1,175	167	0	3
Discount rate -0.50%	1,516	1,316	200	0	1
Change %					
Discount rate 1.50%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Discount rate 0.50%	-5.8 %	-5.4 %	-8.6 %	0.0 %	27.6 %
Discount rate -0.50%	6.4 %	5.9 %	9.6 %	0.0 %	-34.0 %
EUR thousand					
Change in pension benefit 2.10%	1,425	1,242	183	0	2
Change in pension benefit 0.50%	1,508	1,242	266	0	3
Change in pension benefit -0.50%	1,348	1,242	106	0	1
Change %					
Change in pension benefit 2.10%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Change in pension benefit 0.50%	5.8 %	0.0 %	45.4 %	0.0 %	47.2 %
Change in pension benefit -0.50%	-5.4 %	0.0 %	-41.8 %	0.0 %	-43.4 %

A change in mortality which would increase life expectancy by one year would increase net liabilities by EUR 12.0 thousand (6.3 %).

Fair value of plan assets

Contributions paid to the insurance company and accumulated by the date of the financial statements are considered plan assets. The assets are included in the insurance company's investment assets and the insurance company is liable for their management. Therefore, it is not possible to present the breakdown of plan assets by asset category. The realised yield of the plan assets was EUR -2.0 thousand in 2019 (EUR -60.0 thousand in 2018).

Key actuarial assumptions:

	2019	2018
Discount rate %	1.25 %	1.50 %
Future employee pension increases %	1.50 %	2.00 %
Inflation	1.20 %	1.70 %
Average remaining service years	2	2
Obligation duration	12	13
Mortality table	Gompertz	Gompertz

The Group predicts that it will pay EUR 14 thousand in defined benefit pension plans during the 2020 financial period.

Weighted average duration of pension liability is 12 years. Maturity analysis of undiscounted pension liabilities as of 31 December 2019 is assumed to be as follows:

EUR thousand	Less than a year	1-5 years	6-10 years	11-15 years	More than 15 years	Total
Pension liabilities	91	283	320	310	664	**1,668**

21 Trade and other payables

EUR thousand	2019	2018
Accounts payable	792.2	1,031.7
Advance payments received	11,111.6	8,797.7
Accrued liabilities:		
Personnel related accruals	2,334.2	1,984.1
Interest accruals	1,609.6	1,752.8
Income tax accrual	0.0	533.2
Other accruals	144.5	94.2
Accrued liabilities and deferred income total	**4,088.4**	**4,364.4**
Liabilities to Group companies	0.0	2,510.0
Other liabilities	6,680.0	6,244.2
Trade and other payables total	**22,672.2**	**22,948.0**

The fair values of trade and other payables are presented in Note 36.

22 Breakdown of net sales

EUR thousand	2019	2018
Sale of cutting rights	90,556.1	97,159.3
Sale of holiday plots and forest plots	1,243.3	3,234.2
Sale of silviculture services	1,638.1	1,596.1
Total	**93,437.4**	**101,989.6**

23 Other operating income

EUR thousand	2019	2018
Group internal income	261.7	245.0
Sale of soil resources	998.0	865.0
Land area rents	1,454.0	1,275.2
Compensation for nature conservation	1,570.0	3,269.0
Other	1,124.4	630.4
Total	**5,408.1**	**6,284.6**

24 Materials and services

EUR thousand	2019	2018
Products and services		
Purchases	-3,164.7	-2,604.0
External services	-11,050.1	-11,651.6
Total	**-14,214.8**	**-14,255.6**

Purchases mainly consist of seeds, seedlings and fertilizers.
External services mainly consist of services by machine contractors.

25 Personnel expenses

EUR thousand	Note	2019	2018
Wages		6,562.6	6,100.1
Pension costs – defined contribution arrangements		1,136.6	1,073.8
Pension costs – defined benefit arrangements	20	4.0	4.0
Social security costs		170.0	235.8
Total		**7,873.2**	**7,413.7**

26 Depreciation and amortisation expense and impairments

EUR thousand	Note	2019	2018
Depreciation on fixed assets			
Buildings	8	18.8	18.6
Machinery and equipment	8	48.5	75.2
Roads and ditches	8	1,971.4	1,891.4
Right-of-use assets	9	203.0	0.0
Computer software	7	390.7	686.0
Total depreciation		**2,632.4**	**2,671.2**

27 Other operating costs

EUR thousand	2019	2018
ICT expenses	1,372.8	1,151.3
Travel expenses	637.7	589.1
Other services	557.4	502.6
Rental expenses (other lease contracts)	65.1	289.2
Other expenses*	2,249.4	1,847.4
Total	**4,882.4**	**4,379.5**

* Other expenses include various items that are not individually material

28 Financial income and expenses

EUR thousand	Note	2019	2018
Dividends from Group companies		3,710.0	1,025.6
Financial income from bank deposits and gains from interest funds		196.5	177.8
Net interest expenses from loans and derivatives		-22,498.0	-22,716.9
Change in fair value of financial instruments	11,18	-46,993.4	-1,613.2
Financial items – net		**-65,584.9**	**-23,126.7**

29 Income taxes

The company's income taxes for the financial period were generated as follows:

EUR thousand	2019	2018
Tax based on the period's taxable income	614.6	-2,790.2

Reconciliation of tax expenses:

EUR thousand	2019	2018
Profit/loss before tax	153,679.1	55,067.9
Deferred items in the income statement	-150,637.3	-1,996.2
Taxable income	**3,041.8**	**53,071.7**
Tax calculated at 20% tax rate	-608.4	-10,614.3
Taxable income impact of parent company's transition to IFRS reporting in local reporting	0.0	7,380.0
Tax-free or non-deductible items, total	1,223.0	444.1
Tax based on the period's taxable income	**614.6**	**-2,790.2**

The change in the company's deferred taxes for the 2019 financial period was EUR -30,775.5 thousand (EUR -8,432.0 thousand, including the impact of parent company's transition to IFRS reporting in local reporting of EUR -7,380.0 thousand). Deferred tax assets and tax liabilities are calculated using a tax rate of 20%. Deferred taxes and any changes therein are presented in Note 18. In 2019, the company's average tax rate was 19.6% (20.4%).

Taxes related to other comprehensive income items:

EUR thousand	2019			2018		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
Items derived from the re-definition of net defined benefit liabilities	36.0	-7.2	28.8	26.0	-5.2	20.8
Investments in unlisted securities	0.0	0.0	0.0	0.7	-0.1	0.6

30 Dividends

In 2019, EUR 35.0 million was paid in dividends (EUR 7.00 per share).

The Board of Directors has proposed that, on the basis of the 2019 result, a maximum dividend of EUR 30.0 million (EUR 6.00 per share) to be paid. The debt resulting from the proposed dividend has not been recognised in these Financial Statements.

31 Related party transactions

The following transactions were carried out with related parties:

Employment benefits of management:

EUR thousand	2019	2018
Wages of the Management team (including the CEO) with indirect costs and other short-term employment benefits	1,161.90	1,214.30
Board remuneration	51.8	52.8

Stora Enso owns 41% of the parent company's shares, which gives Stora Enso significant influence within the Group. The following transactions were carried out with Stora Enso:

EUR thousand	Sales	Purchases	Receivables	Liabilities
31.12.2019	**68,165.0**		**7,580.0**	**9,773.5**
31.12.2018	80,958.9		8,950.6	7,785.3

Related party transactions occurred under the same terms and conditions as transactions between unrelated parties.

32 Auditors' fees

Fees paid to Deloitte, Audit firm, in 2019 (EUR thousand):

1) auditing 248.7 (142.6)

2) assignments referred to in section 1 (1) subsection 2 of the Auditing Act 0.0 (0.0)

3) tax guidance 12.6 (40.7)

4) other services 14.6 (38.2)

33 Subsidiaries and associated companies

Tornator Oyj is the parent company of Tornator Group. Following companies belong to Tornator Group at 31 December 2019:

Company name	Group shareholding	Domicile
SC Tornator SRL	100%	Romania
Tornator Eesti Oü	100%	Estonia
Oituz Private Forest District SRL	100%	Romania
Lavakorven Tuulipuisto Oy	100%	Finland
Maaselän Tuulipuisto Oy	100%	Finland
Pahkavaaran Tuulipuisto Oy	100%	Finland
Martimon Tuulipuisto Oy	100%	Finland
Niinimäen Tuulipuisto Oy	100%	Finland

34 Other collateral granted for own account

Tornator has pledged forest property as collateral for debt (Note 18). As collateral for debts, land areas and biological assets have been pledged at a total value of EUR 1,576.4 million (EUR 1,355.4 million). In addition, the Group has agreed upon a limit of EUR 500 thousand with a financial institution to verify soil remediation. Of this limit, EUR 210.1 thousand has been used (EUR 272.1 thousand).

35 Judicial proceedings

The company had no judicial proceedings pending during the financial period.

36 Classification of financial assets and financial liabilities

31 December 2019

Financial assets EUR thousand	Amortised cost	Fair value through income statement	Book value	Fair value
Current				
Unlisted securities		2,161	2,161	2,161
Trade and other receivables	21,416		21,416	21,416
Cash and cash equivalents	11,390		11,390	11,390
Total	**32,806**	**2,161**	**34,966**	**34,966**

Financial liabilities EUR thousand	Amortised cost	Fair value through income statement	Book value	Fair value
Non-current				
Derivatives		141,059	141,059	141,059
Total	**0**	**141,059**	**141,059**	**141,059**
Current				
Interest-bearing debt	647,158		647,158	649,006
Trade and other payables	22,672		22,672	22,672
Total	**669,830**	**0**	**669,830**	**671,679**

The following price quotes, assumptions and measurement models have been used to determine the fair values of the financial assets and financial liabilities presented in the table.

Derivatives

The fair values of interest rate swaps are based on the counterparty's price quote, which has been compared to the balance sheet date's market rates and other market information. Fair values correspond to the prices the company would have to pay or would receive if it cancelled the derivative financial instrument.

The fair values of interest derivatives correspond to the current value of their cash flows.

Investments in unlisted securities

Investments in unlisted securities mainly consist of shares in Finnish money market funds and Finnish unlisted shares. Unlisted share investments are measured at acquisition cost because their measurement at fair value using measurement methods is not possible. The fair values of investments could not be reliably determined and the estimate varies significantly, or the probabilities of various estimates located in the range could not be reasonably determined and used to evaluate fair value. Financial assets recognised at fair value are either eligible for secondary markets or the purchase rate of the counterparty on the balance sheet date was used in their measurement, and the rate was also tested using generally applicable measurement methods and available market quotes.

Trade and other receivables

The initial book value of receivables not based on derivative financial instruments corresponds to their book value because the effect of discounting is not material when taking the maturity of the receivables into account.

Interest-bearing debt

The fair values of debts are based on discounted cash flows. The discount rate used is the interest rate the company would have to pay to withdraw a corresponding external loan on the balance sheet date. The total interest rate consists of risk-free interest and the company-specific risk premium.

Trade and other payables

The initial book value of trade and other payables corresponds to their book value because the effect of discounting is not material when taking the maturity of the payables into account.

37 Fair value hierarchy of financial assets and liabilities at fair value

31 December 2019				
EUR thousand	Level 1	Level 2	Level 3	Total
Assets				
Biological assets			1,480,319.2	1,480,319.2
Investments in unlisted securities:				
- equity investments			111.2	111.2
- debt investments	2,160.8			2,160.8
Total assets	**2,160.8**	**0.0**	**1,480,430.4**	**1,482,591.2**
Liabilities				
Derivatives		141,058.5		141,058.5
Total liabilities	**0.0**	**141,058.5**	**0.0**	**141,058.5**

31 December 2018				
EUR thousand	Level 1	Level 2	Level 3	Total
Assets				
Biological assets			1,288,617.8	1,288,617.8
Derivatives		3,284.8		3,284.8
Investments in unlisted securities:				
- equity investments			111.2	111.2
- debt investments	1,042.3			1,042.3
Total assets	**1,042.3**	**3,284.8**	**1,288,729.0**	**1,293,056.1**
Liabilities				
Derivatives		94,140.6		94,140.6
Total liabilities	**0.0**	**94,140.6**	**0.0**	**94,140.6**

No transfers between fair value hierarchy levels 1 and 2 took place during the ended financial period.

Hierarchy level 1 fair values are based on the quoted prices for similar assets or liabilities on a functioning market.

The fair values of level 2 instruments are to a significant extent based on input data other than quoted prices included in level 1 but nevertheless on data (i.e. prices) or indirectly (i.e. derived from prices). In determining the fair value of these instruments, the company uses generally accepted valuation models whose input data is, nevertheless to a significant extent, based on verifiable market data.

The fair values of level 3 instruments are based on input data concerning the asset or liability which are not based on verifiable market data but to a significant extent on estimates by the management or their use in generally accepted valuation models.

38 Essential post-balance sheet date events

In addition to dividend payment proposal (see Note 30), the company did not have other essential post-balance sheet date events.

SIGNATURES TO THE FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

Helsinki, 10 February 2020

Mikko Koivusalo
Chairman of the Board

Mikko Mursula

Erkko Ryynänen

Jari Suominen

Henrik Nieminen
Chief Executive Officer

AUDITORS' NOTATION

A report on the audit carried out has been submitted today.

Helsinki, 10 February 2020

Deloitte Oy
Audit Firm

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Authorised Public Accountant

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(Translation from the Finnish original)

AUDITOR’S REPORT

To the Annual General Meeting of Tornator Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Tornator Oyj (business identity code 0162807-8) for the year ended 31 December, 2019. The financial statements comprise the consolidated and parent company balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the consolidated financial statements and the parent company financial statements give a true and fair view of the group’s financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the key audit matter
Valuation of Biological Assets Refer to Notes 3, 5, 6 and 10 in the consolidated financial statements and Notes 3, 5 and 10 in the parent company financial statements. The value of the Biological assets in the consolidated financial statements amounts to EUR 1 682,6 million as of December 31, 2019. The value of Biological assets in the parent company financial statements amounts to EUR 1 480,3 million as of December 31, 2019. The value of Biological assets is measured at fair value less costs to sell. The fair value is determined using discounted cash flows from continuous operations based on sustainable forest management plans taking into account the growth potential of one cycle. The one cycle varies depending on the geographic location and species. The calculation of the discounted cash flows requires estimates of growth, harvest, sales price and costs. Due to the level of judgment involved in the valuation of Biological Assets, the complexity of the governance involved and due to the significance of biological assets to the Tornator Group's financial position, this is considered to be a key audit matter.	In our audit we: Gained an understanding of the managements review and monitoring of compliance with group policy and IAS 41 Biological Assets requirements. Tested management's controls and effectiveness of systems in place for the existence and valuation of Biological assets of the parent company and the subsidiaries. Assessed the key assumptions contained within the fair value calculations including growth assumptions, discount rates and implications of industry changes. We have used Deloitte specialists when needed. Perform analytic review of the results of the IAS 41 valuations to highlight outliers which warrant further procedures. As part of our audit procedures we have assessed and tested the controls and procedures around management's recording impact of Biological assets valuation. We have assessed the presentation of the Biological Assets in the consolidated financial statements according to IFRS.

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Key audit matter	How our audit addressed the key audit matter
Fair value measurement of derivative financial instruments Refer to Notes 3, 4 and 11 in the consolidated financial statements and Notes 3, 4 and 11 in the parent company financial statement. In the consolidated and parent company financial statements the derivative liabilities amounted to EUR 141,1 million as of December 31, 2019. The fair value of financial instruments is determined through the application of valuation techniques which involve management judgment and use of assumptions and estimates by the management.	Our audit procedures included an assessment of internal controls over the identification, measurement and management of fair value measures, and evaluating the methodologies, inputs, judgments made and assumptions used by management in determining fair values in accordance with IFRS 13. We have also assessed the valuation methods, technical parameters and the assumptions used in determining the fair value of the derivatives. We have considered the appropriateness or the related disclosures and notes provided in the consolidated financial statements and parent company financial statements for the derivative contracts.
Revenue recognition of timber sales Refer to Notes 6 and 22 in the consolidated financial statements and Notes 6 and 22 in the parent company financial statement. The turnover of the Tornator Group in the consolidated financial statements amounts to EUR 105,8 million as of December 31, 2019. (Parent company turnover amounts to EUR 93,4 million. The turnover is mainly from timber sales of cutting rights income form the parent company. Income is recognized for a cutting right sold once the measurement certificate for the cutting carried out pursuant to the cutting right has been signed, i.e. the customer has cut the trees from the purchased cutting right area. The amount of cutting rights related invoicing events is large and the turnover consists of several small separate measurement certificates. Due to the large number of sales relating to the cutting rights revenue recognition is a key audit matter for the audit. For the other revenue streams in the Group the revenue recognition timing does not qualify a key adit matter due to the nature of the operations and the relative small monetary amounts of the sales transactions.	Our audit procedures included gaining an understanding over the internal control, assessing internal controls and substantive testing for revenue recognition. Our audit procedures regarding the group internal control focused on assessing central revenue recognition controls, pinpointing the right timing of the sales and assessing controls for the correct accounting of the sales. We have focused on assessing revenue recognition during the reporting period and especially assessing, whether the revenue recognition does correspond with actual transactions and whether the revenue recognition is accounted correctly as of 31 December 2019. As part of the substantive procedures for revenue, we assessed the correctness of the accounting principles applied in revenue recognition. We audited sales transactions during the financial year that related to the cutting rights to verify that the sales accounted for and related payments conform to the actual sales transactions. We have audited the revenue recognition for sales transactions accounted for close to the financial year-end, focusing on large wood sale transfers. We also audited the basis for selected memorial vouchers accounted for revenue and analyzed and assessed the selected revenue balance sheet item contents, for instance comparing the received wood trade advances to payments and balancing verifications prepared by the company.

Responsibilities of the Board of Directors and the Managing Director for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland an comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities in the audit of financial statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in of the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki, 10 February 2020

Deloitte Oy
Audit Firm
Marika Nevalainen
Authorised Public Accountant (KHT)