

Tornator's net sales set new record in anniversary year

Celebrating its 10th anniversary, the forestry company Tornator achieved net sales of EUR 83 million and ensured its financing far into the future.

Press Release, 7 February 2013 at 13:00

SUMMARY 1 Jan – 31 Dec 2012 (1 Jan – 31 Dec 2011)

- Net sales increased by 7% to a new record, €82.9 million.
- Net profit for the period was strong, €35.4 million without fair value changes.
- The Board of Directors proposes €23 million in dividends (2011: €26 million).
- In December, Tornator issued a bond of €250 million, secured by forest assets and listed on the Helsinki Stock Exchange. The bond has a maturity of 7 years and a coupon rate of 3.125%. In connection with the arrangement, Tornator was re-registered as public limited company (Oyj).

CEO Arto J. Huurinainen:

“Our anniversary year 2012 was in many ways a full ten score. Besides record-high net sales, we managed to expand our customer base into the energy sector, which I consider to be a major conquest for Tornator.

The refinancing of 2012 diversified our funding sources, ensuring our financing far into the future.”

Net sales and results

The Group's net sales were EUR 82.9 (77.7) million. Timber sales income accounted for the majority of the net sales, 89% (84%). The net sales include EUR 9.2 (12.6) million of income from the sale of land areas and plots. The growth of net sales was due to an increase in the volume of timber deliveries to 2.65 (2.50) million m³. Other operating income, EUR 5.4 (10.6) million, includes EUR 3.1 (8.6) million in conservation area compensation. The rest of other operating income came mainly from the leasing of land and the sale of soil resources.

Operating profit amounted to EUR 71.8 (90.5) million and profit for the period EUR 7.4 (61.5) million. Due to the refinancing of the loans in 2012, some of the Group's hedges lost the effectiveness required by hedge accounting, which necessitated a non-recurring write-off of the fair value of derivatives for EUR 45.0 million. After tax adjustments, this reduced the profit for the period by EUR 34.0 million. The change in the fair value of biological assets raised operating profit by EUR 8.7 (25.4) million.

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

Key figures

The key figures have been calculated without the effects of the changes in the fair value of biological assets and interest rate derivatives. The figures for the Group have been calculated according to the International Financial Reporting Standards (IFRS) and for the parent company according to the Finnish Accounting Standards (FAS).

	2012	2011	2010
Net sales, EUR million			
THE GROUP	82.9	77.7	70.8
Parent	70.7	63.6	59.2
Operating profit, EUR million			
THE GROUP	63.1	65.2	52.5
Parent	62.0	64.2	52.7
Operating profit, % of net sales			
THE GROUP	76.1%	83.8%	74.1%
Parent	87.6%	101.0%	89.0%
Profit for the period, EUR million			
THE GROUP	35.4	35.7	27.3
Parent	32.0	36.5	24.8
Return on equity			
THE GROUP	8.3%	8.6%	6.8%
Parent	20.5%	23.1%	17.5%
Return on capital employed			
THE GROUP	7.1%	7.4%	6.2%
Equity ratio			
THE GROUP	40.1%	41.9%	41.8%

Distribution of revenues and non-current assets by country

	2012		2011	
	EUR million	%	EUR million	%
Revenues:				
Finland	79.9	96.3	76.2	98.0%
Romania and Estonia	3.0	3.7	1.6	2.0%
Total	82.9	100.0	77.7	100.0%
Biological assets:				
Finland	906.7	93.6	891.9	93.8%
Romania and Estonia	62.5	6.4	59.0	6.2%
Total	969.2	100.0	950.9	100.0%
Non-current assets, total:				
Finland	981.4	93.5	963.1	93.7%
Romania and Estonia	68.4	6.5	64.4	6.3%
Total	1,049.8	100.0	1,027.5	100.0%

Notable events during the period

Celebrating its 10th anniversary, Tornator had great success in its operational activities. The good demand for wood resulted in the highest volume of deliveries in the company's history. Silvicultural work was performed as planned. In Finland, forestland sales continued at a steady pace, whereas building plot sales declined from previous years. Some 5,000 hectares of forestland was purchased in Estonia.

Tornator renewed its long-term timber sales agreement with Stora Enso to last until 2020. Tornator also expanded its customer base into the energy sector by signing an agreement with Fortum on the supply of roundwood and chips to a future pyrolysis plant in Joensuu, the first of its kind in Finland.

Tornator successfully refinanced its loan portfolio. The company's long-term senior and junior loans were renewed while the funding sources were diversified by issuing a listed secured bond of EUR 250 million. Secured by forest assets, the bond has a maturity of 7 years and a coupon rate of 3.125%. Listing the bond required changing the company type to public limited company (Oyj, registered on 17 December 2012). According to the rules of the Helsinki Stock Exchange, Tornator will report its financial statements in future by issuing a stock exchange release every six months.

The timber sales agreements and financing arrangements described above will help create a stable environment for Tornator far into the future.

After Tornator's loan arrangements, some of the company's hedges were no longer covered by hedge accounting, and the fair values of these hedges were entered in the results. The negative entry of fair value amounted to some EUR 34 million after deferred taxes. However, the entry had no effect on cash flows, and Tornator's liquidity remained strong throughout the year.

Biological assets, such as growing stock in the case of Tornator, are entered in the balance sheet at market value. The value of the Group's forest assets is based on the discounted cash flow model. The fair value is calculated by a third-party appraiser on the basis of the future cash flows of continuing operations, i.e. considering sustainable forest management and the growth potential of the forests.

The new value of the Group's forest assets in the financial statements was approximately EUR 1,034 (1,014) million, including growing stock and land. The figures include the effects of harvesting as well as the purchases and sales of forestland.

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 within the selected strategy. It is based on systematic identification and analysis of all significant risks to the company, enabling the company to select the optimum tools to manage them.

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

Tornator sells most of its cutting rights to a single customer. Naturally, this creates a risk exposure that is managed with special attention. In Finland, wood demand has traditionally exceeded domestic supply, as indicated by the significant volumes of wood imports for many years. The company has built good relationships with a number of small and medium-sized wood processing companies as well as operators in the energy sector. A part of the annual sales already goes to buyers other than the main customer.

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

Risks concerning roundwood quantity and quality are controlled through long-term forest resource management planning and focusing operations according to the structure and age class distribution of the forests. To support planning, Tornator regularly commissions an independent study on the structure of company forests, using it to prepare a long-term cutting plan (more than 30 years). The latest forest inventory by the Finnish Forest Research Institute and the cutting budget based on it are from 2011.

Changes in current certification criteria or the adoption of a new certification system may affect opportunities for forest utilisation and cause a loss of income for Tornator, unless there is an agreement on full compensation.

Tornator monitors the current economic trend when planning the volume of plot sales. The business will benefit from a positive trend, low interest rates and a general interest in leisure construction. A poorer trend may decrease the demand for holiday home plots and temporarily reduce profits.

When utilising forest resources Tornator manages risks to the environment by complying with environmental legislation and certification criteria. Risks are

discussed in employee training and induction, and minimised with careful planning of operations and a high standard of implementation.

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

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

Tornator's goal is to continue expanding its operations outside Finland in countries where the growth potential is considered profitable. Geographic expansion is both a positive method of risk management and a risk. The risks of expansion are managed by selecting competent partners and reliable customers, and by balancing out long and short-term timber sales agreements.

Operational risks

Tornator manages internal business risks with functional and auditor-approved processes. International expansion disperses risks to property and operations. Natural disasters pose a risk to forest assets. For Tornator, the size of its holdings on the one hand, and their geographic extent on the other, intrinsically work as a risk management tool. In addition, Tornator has a Finnish forest insurance policy that covers damage in case of a major disaster. However, the company has deemed it unprofitable to insure its forest holdings abroad, because the target countries presently lack an operational forest insurance market.

Financial risks

A substantial proportion of loan capital in the company's balance sheet constitutes a risk which Tornator manages with special attention. Ready access to the capital markets will enable the successful refinancing of the loans in the future. The company has dispersed the risks related to funding availability and timing by issuing a 7-year bond besides a 5-year bank loan. The company is prepared for market rate changes with swap agreements and plain vanilla options. Hedging is applied to mitigate the interest rate risk on the loans and to reduce the volatility of the discount rate used in calculating the fair value of forests, and therefore it will be easier to predict the development of the company value. Liquidity management is based on advance payments and up-to-date cash management. Cash reserves are invested in bank deposits and short-term, highly rated funds.

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

Notable events after the end of the period

No notable events after the end of the period.

An estimate of future development

The company estimates that its financial performance and debt service capabilities will remain stable in 2013.

The Group's total timber deliveries will be based on a sustainable annual cut, some 2.5 million m³. An impairment of the general economic situation and resulting curtailments of forest industry production will be a possible risk factor to wood supply.

Sales of forestland will only concern isolated estates or areas sold for special purposes.

The Group will continue to invest in forest management and, for instance, forest fertilisation for growth and remedial fertilisation, in line with the Forest Management Practice Recommendations. The total amount to be spent on forest management will be on a par with a normal year of operations.

Research and development

Besides finalising the last few functionalities of the enterprise resource planning system, the company put a lot of emphasis on improving the availability and quality of forest stand data. The monitoring of harvesting was also developed.

Personnel

The average number of personnel increased slightly. In addition to normal pay, the company uses a reward system based on performance targets. An average of 6.0% (5.9%) of normal pay was given as performance-based bonuses in 2012.

Personnel, wages and salaries

Year	2012	2011	2010
Average number of personnel during the period	211	197	193
Wages and salaries for the period	EUR million 7.8	EUR million 7.2	EUR million 7.2

Environment

The Company has an environmental programme whose objectives and realisation are reviewed annually. The framework for the company's environmental management is set by forest and environmental legislation as well as the PEFC (Programme for the Endorsement of Forest Certification). The company's forests in Finland are certified in accordance with the PEFC. Compliance with the certification criteria is audited annually by an external evaluator.

In its forestry operations, the company complies with the Forest Management Practice Recommendations published by the Forestry Development Centre Tapio.

Company organisation, management and auditors

At the Annual General Meeting of 8 March 2012, the following were elected as ordinary members of the Board of Directors and their personal deputies until the next Annual General Meeting:

Members of the Board of Directors:	Deputy:
Esko Torsti	Timo Kärkkäinen
<i>Chairman 2010– (Member 2003–2010) Ilmarinen, Head of Alternatives 2006–</i>	
Mikko Koivusalo	Risto Autio
<i>Vice Chairman 2010– (Member 2006–2010) Varma, Investments Director, Capital Markets 2005–</i>	
Elina Tourunen	Jari Puhakka
<i>Member 2011– Etera, Head of Private Equity and Debt 2011–</i>	
Markus Rauramo	Jyrki Tammivuori
<i>Member 2009–2012 Stora Enso Oyj, Chief Financial Officer 2009–2012</i>	
Erkko Ryyänen	Jari Pussinen
<i>Member 2010– OP Bank Group Pension Fund and Pension Foundation, Managing Director 2010–</i>	

At an extraordinary meeting of the shareholders on 12 November 2012, Jyrki Tammivuori, SVP, Group Treasurer, Stora Enso, was elected as an ordinary member of the Board of Directors and Jari Suvanto as his deputy, to replace Markus Rauramo who had voluntarily resigned from the Board.

Esko Torsti has acted as the Chairman of the Board with Mikko Koivusalo as Vice Chairman. An Oversight Committee works under the Board of Directors, with the job of overseeing significant agreements between the company and the shareholders. Mikko Koivusalo has acted as the Chairman of the Oversight Committee.

Arto J. Huurinainen has acted as Chief Executive Officer. Chief Financial Officer Henrik Nieminen is his deputy.

The Management Group was made up by Chief Executive Officer Arto J. Huurinainen, Chief Financial Officer Henrik Nieminen, Forestry Director Ari Karhapää, Planning and Development Director Tapio Suutarla, Real Estate Manager Antero Luhtio and Forestry and Resource Manager Antero Pasanen.

Deloitte & Touche Oy was elected auditor at the ordinary shareholders' meeting on 8 March 2012.

Number of shares

The company's share capital of EUR 50,000,000.00 is divided into 5,000,000 shares, and all shares carry equal rights.

Handling of profit

The parent company's distributable profit amounted to EUR 90,645,220.04, of which the profit for the period is EUR -1,270,630.92.

The Board of Directors of Tornator Oyj proposes to the Annual General Meeting that a dividend of EUR 4.60 per share or EUR 23,000,000.00 be paid. The remaining part will be carried over in the shareholders' equity. The Board proposes the dividend payment date as 25 March 2013 and the settlement date as 15 March 2013.

Major shareholders, 31 December 2012

Stora Enso Oyj	41%
Varma Mutual Pension Insurance Company	13.1%
OP Life Assurance Company Ltd	7.5%
Ilmarinen Mutual Pension Insurance Company	7.5%
Etera Mutual Pension Insurance Company	6.3%
OP Bank Group Pension Fund	6.3%
Other shareholders	18.3%
Total	100%

The key figures of the consolidated financial statements are presented below. The financial statements and their appendices are found on the company website at www.tornator.fi.

CONSOLIDATED INCOME STATEMENT

EUR thousand	App.	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Net sales	6,20	82,937.4	77,748.1
Other operating income	21	5,436.4	10,587.6
Change in inventories of finished goods and work in progress	11	-1,772.4	-3,164.9
Materials and services	22	-8,846.6	-7,538.3
Personnel expenses	23	-7,829.6	-7,212.8
Depreciation, amortisation and impairment charges	24	-1,368.4	-1,204.0
Other operating expenses	25	-5,451.2	-4,057.2
Other change in liabilities	18	0.0	0.0
Change in fair value of biological assets	9	8,694.3	25,378.5
Operating profit		71,799.8	90,537.1
Financial income	26	-148.6	550.4
Financial expenses	26	-16,108.7	-17,077.4
Change in fair value of derivative financial instruments	5,10	-45,002.4	-1,631.9
Financial expenses (net)	26	-61,259.7	-18,158.9
Profit before taxes		10,540.1	72,378.2
Income taxes	27	-11,448.1	-12,910.7
Change in deferred taxes	16	8,258.8	2,023.5
Profit for the period		7,350.8	61,491.0
Distribution:			
To parent company shareholders		7,350.8	61,491.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit for the period		7,350.8	61,491.0
Other items of comprehensive income (after taxes):			
Translation differences	15,27	-1,303.5	-595.7
Available-for-sale financial assets	13,27	278.9	-92.3
Cash flow hedges	10,27	14,764.6	-31,301.5
Comprehensive income for the period		21,090.8	29,501.5
Distribution:			
To parent company shareholders		21,090.8	29,501.5

CONSOLIDATED BALANCE SHEET

EUR thousand	Appendix	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible assets	7	520.1	1,099.8
Fixed assets	8	80,028.1	75,470.3
Biological assets	9	969,177.0	950,931.5
Available-for-sale financial assets	13	2.7	2.7
		1,049,727.9	1,027,504.3
Current assets			
Inventories	11	65.6	123.1
Trade and other receivables	12	4,080.1	1,481.8
Other financial assets	13	16,173.7	24,228.0
Other receivables	18	109.0	95.0
Cash and cash equivalents	14	34,843.0	7,403.1
		55,271.5	33,331.0
Total assets		1,104,999.4	1,060,835.3
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders			
Share capital	15	50,000.0	50,000.0
Other equity		376,097.4	380,409.9
Total equity		426,097.4	430,409.9
Non-current liabilities			
Deferred tax liabilities	16	114,968.5	117,402.1
Financial liabilities	17	457,769.6	431,380.5
Derivatives	10	65,693.9	43,965.5
		638,432.0	592,748.1
Current liabilities			
Financial liabilities	17	4,500.0	12,000.0
Tax liabilities based on the period's taxable income		-	445.6
Trade and other payables	19	32,146.3	25,231.6
Derivatives	10	3,823.7	-
		40,470.0	37,677.2
Total liabilities		678,902.0	630,425.4
Total equity and liabilities		1,104,999.4	1,060,835.3

STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

EUR thousand		Share capital	Share premium	Translation differences	Fair value reserve	Retained earnings	Total equity
Balance at 1 January 2011	App. 15	50,000.0	29,995.2	-5,036.0	-2,708.4	343,595.4	415,846.1
Error correction						-1,437.6	-1,437.6
Adjusted balance at 1 January 2011		50,000.0	29,995.2	-5,036.0	-2,708.4	342,157.8	414,408.5
Comprehensive income							
Profit for the period						61,491.0	61,491.0
Other items of comprehensive income (after taxes)							
Translation differences	15, 27			-595.7			-595.7
Available-for-sale financial assets	13, 27				-92.3		-92.3
Cash flow hedges	10, 27				-31,301.5		-31,301.5
Comprehensive income for the period		0.0	0.0	-595.7	-31,393.9	61,491.0	29,501.4
Transactions with shareholders							
Dividends paid	28					-13,500.0	-13,500.0
Total transactions with shareholders		0.0	0.0	0.0	0.0	-13,500.0	-13,500.0
Balance at 31 December 2011		50,000.0	29,995.2	-5,631.7	-34,102.3	390,148.8	430,409.9
Balance at 1 January 2012	15	50,000.0	29,995.2	-5,631.7	-34,102.3	390,147.8	430,409.9
Error correction						597.6	597.6
Adjusted balance at 1 January 2012		50,000.0	29,995.2	-5,631.7	-34,102.3	390,745.4	431,006.6
Comprehensive income							
Profit for the period						7,350.8	7,350.8
Other items of comprehensive income (after taxes)							
Translation differences	15, 27			-1,303.5			-1,303.5
Available-for-sale financial assets	13, 27				278.9		278.9
Cash flow hedges	10, 27				14,764.6		14,764.6
Comprehensive income for the period		0.0	0.0	-1,303.5	15,043.5	7,350.8	21,090.8
Transactions with shareholders							
Dividends paid	28					-26,000.0	-26,000.0
Total transactions with shareholders		0.0	0.0	0.0	0.0	-26,000.0	-26,000.0
Balance at 31 December 2012		50,000.0	29,995.2	-6,935.2	-19,058.8	372,096.2	426,097.4

STATEMENT OF CASH FLOWS

EUR thousand	2012	2011
Cash flow from operating activities		
Cash receipts from customers	79,203.7	58,850.1
Proceeds from sale of tangible and intangible assets	9,371.7	12,606.8
Cash receipts from other operating income	5,574.8	10,904.9
Cash paid to suppliers and employees	-22,417.1	-20,600.8
Cash generated from operations	71,733.2	61,761
Interest paid and other financial expenses	-20,009.4	-16,699.7
Interest received	426.4	550.4
Income taxes paid	-12,952.3	-13,203.2
Net cash flow from operating activities	39,197.9	32,408.4
Cash flow from investing activities		
Investments in intangible assets	-53.6	-101.7
Investments in biological assets	-10,766.1	-12,778.3
Investments in tangible assets, forestland	-1,330.6	-1,579.3
Investments in other tangible assets	-4,070.8	-3,285.9
Cash flow from receivables	8,547.4	-2,523.7
Net cash flow from investing activities	-7,673.7	-20,269.0
Cash flow from financing activities		
Withdrawal of long-term loans	395,470.0	498.7
Repayment of long-term loans	-366,000.0	-12,000
Withdrawal of short-term loans	4,525.2	0.0
Repayment of short-term loans	-12,096.0	0.0
Dividends paid	-26,000.0	-13,500.0
Net cash flow from financing activities	-4,100.8	-25,001.3
Net increase/decrease in cash and cash equivalents	27,423.4	-12,861.8
Cash and cash equivalents at beginning of period	7,403.1	20,255.2
Effect of changes in exchange rates on cash and cash equivalents	16.5	9.7
Cash and cash equivalents at end of period	34,843.0	7,403.1

Appendices: [Balance Book 2012](#)

For further information, please contact:

Arto J. Huurinainen, Chief Executive Officer, tel. +358 400 674 902

Henrik Nieminen, Chief Financial Officer, tel. +358 40 869 761

www.tornator.fi

Tornator Oyj is, with about 600,000 hectares of forestlands, the third largest forest owner in Finland. The Group's net sales are about EUR 80 million and total balance sheet value about EUR 1.1 billion. Tornator owns forestlands and practises forestry also in Romania and Estonia. Tornator's main business is wood production and the sale of cutting rights. The Group employs about 200 people, mainly in south-eastern and eastern Finland.