

Tornator shows strong growth in 2014

Tornator's net sales exceeded EUR 90 million, and the company became the largest private forest owner in Estonia.

Press Release, 5 February 2015 at 13:00

SUMMARY 1 Jan – 31 Dec 2014 (1 Jan – 31 Dec 2013)

- The Group's net sales increased by 4.6% to a new record, €90.7 million
- The net operating income for the period was strong, €29.6 million
- The IFRS profit/loss for the period with fair value changes was -€27.0 million, and the negative change in the fair value of financial instruments decreased the result by €71.4 million
- Cash flow from operations was €32.8 million
- More than 16,000 hectares of forestland was acquired in Estonia
- The company's forests in Finland were FSC-certified

CEO Arto J. Huurinainen:

"In 2014 our employees worked very hard, completing many important projects that will have positive impacts to the company for years to come. Strategic projects were implemented as planned."

Net sales and results

The Group's net sales were EUR 90.7 million (86.7), up 4.6%. Timber sales income accounted for the majority of the net sales, 87% (88%). The net sales include EUR 10.8 million of income from the sale of land areas and plots (9.3). Net sales increased in all of the Group's countries of operation: Finland, Estonia and Romania. The volume of timber deliveries was at the previous year's level, 2.75 million m³ (2.80), but higher average prices increased net sales. Other operating income, EUR 4.3 million (4.8), includes EUR 1.6 million in conservation area compensation (2.6). The rest of the other operating income is mainly attributable to leasing of land and the sale of soil resources.

Operating profit with fair value changes amounted to EUR 65.0 million (114.7) and loss for the period EUR 27.0 million (profit 108.1). The change in the fair value of biological assets increased operating profit by EUR 2.4 million (49.2), but the negative change in the fair value of interest rate derivatives decreased the result by EUR -71.4 million (17.1) before deferred taxes.

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).

	2014	2013	2012
Net sales, EUR million			
THE GROUP	90.7	86.7	82.9
Parent	74.9	73.5	70.7
Operating profit, EUR million			
THE GROUP	62.6	65.5	63.1
Parent	60.5	64.1	62.0
Operating profit, % of net sales			
THE GROUP	69.0%	75.6%	76.1%
Parent	80.8%	87.2%	87.6%
Profit for the period, EUR million			
THE GROUP	29.6	31.7	35.4
Parent	28.1	30.8	32.0
Profit for the period with fair value changes, EUR million			
THE GROUP	-27.0	108.1	7.4
Parent	-30.2	52.4	-1.3
Return on equity			
THE GROUP	6.5%	7.0%	8.3%
Parent	26.6%	22.4%	20.5%
Return on capital employed			
THE GROUP	6.5%	7.1%	7.1%
Equity ratio			
THE GROUP	37.2%	43.0%	40.1%

Distribution of revenues and non-current assets by country

EUR thousand	1 Jan – 31 Dec 2014		1 Jan – 31 Dec 2013	
Revenues:	EUR	%	EUR	%
Finland	85,664	94%	82,815	96%
Estonia and Romania	5,046	6%	3,892	4%
Total	90,711	100%	86,707	100%
Biological assets:				
Finland	955,442	91%	949,986	93%
Estonia and Romania	91,957	9%	72,675	7%
Total	1,047,399	100%	1,022,660	100%
Non-current assets:				
Finland	1 036 253	91%	1 022 282	92%
Estonia and Romania	106 621	9%	83 518	8%
Total	1 142 874	100%	1 105 800	100%

Notable events during the period

Tornator's operational activities were excellent. The good demand for wood helped the company hit new sales records in all countries of operation, and for the first time the Group exceeded EUR 90 million in net sales. Silvicultural work was performed according to plan. In Finland, forestland sales continued at a good pace, whereas the plot sales remained slow as in the previous year. In Estonia, significant growth was achieved in land area, and Tornator is the largest private forest owner in the country with about 41,000 hectares.

Tornator's forests in Finland have been certified by the PEFC (Programme for the Endorsement of Forest Certification), and at the end of 2014 the company received a certificate from the FSC (Forest Stewardship Council). For Tornator, FSC certification is one way of responding to customers' needs and securing a high demand for wood also in the future.

During the period, Tornator signed a major project development agreement for wind power with Nordisk Vindkraft of Sweden. Tornator sees opportunities in wind power in the form of increasing land lease income as well as revenues from project development.

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, considering sustainable forest management and the growth potential of the forests. The value of the Group's forests in the financial statements was approximately EUR 1,115 million (1,088) including growing stock and land. The figures include the effects of harvesting as well as the purchases and sales of forestland.

Long-term market rates declined to a historically low level, which was reflected as a decrease in the fair value of Tornator's hedges: the negative entry amounted to some EUR 71 million before deferred taxes. This also affected Tornator's equity ratio which decreased to 37.2% (43.0). Tornator's liquidity remained strong throughout the year. The refinancing of the bank debt of EUR 250 million at the end of the period will

extend the maturity of the company's loan portfolio and decrease the interest expenses.

Tornator Oyj's Annual General Meeting of 4 March 2014 decided, according to the proposal of the Board of Directors, to pay out EUR 22 million in dividend

Risk management

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

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

Strategic risks

Tornator sells most of its cutting rights to a single customer. 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 also built good relationships with a number of medium-sized wood-processing companies and operators in the energy sector. About 35% of the Group's net sales come from companies 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.

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.

Natural phenomena 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 incident. However, the company has deemed it unprofitable to insure its forest holdings abroad, because the target countries presently lack an operational forest insurance market.

Operational risks

Tornator manages internal business risks with functional and auditor-approved processes. International expansion disperses risks to property and operations.

Attracting and retaining skilled employees is important 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.

Financial risks

A substantial proportion of loan capital in the company's balance sheet constitutes a risk which Tornator manages with special attention. Ready access to the capital markets will enable the successful refinancing of the loans in the future. The company has dispersed the risks related to funding by issuing a 7-year bond besides a 5-year bank loan. The company is prepared for market rate changes with derivative contracts. Hedging is applied to mitigate the interest rate risk on the loans and to reduce the volatility of the discount rate used in calculating the fair value of forests, and therefore it will be easier to predict the development of the company's value in the long term. Liquidity management is based on advance payments and up-to-date cash management. 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 debt service capabilities will remain stable in 2015.

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 remained nearly unchanged. In addition to normal pay, the company uses a reward system based on performance targets. An average of 6.5% of normal pay (6.0%) was given as performance-based bonuses in 2014.

Personnel, wages and salaries

Year	2014	2013	2012
Average number of personnel during the period	217	216	211
Wages and salaries for the period	EUR 9.4 million	EUR 8.7 million	EUR 7.8 million

Environment

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

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

Company organisation, management and auditors

At the Annual General Meeting of 4 March 2014, the following were elected as ordinary members of the Board of Directors and their personal deputies until the next Annual General Meeting:

Ordinary member	Deputy
Mikko Koivusalo	Risto Autio
Erkko Ryyänen	Jari Pussinen
Jyrki Tammivuori	Jari Suvanto
Esko Torsti	Timo Kärkkäinen
Elina Tourunen	Jari Puhakka

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

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 and Real Estate Director Antero Luhtio.

At the Annual General Meeting of 4 March 2014, Deloitte & Touche Oy were elected auditors with Jukka Vattulainen, APA, as principal auditor.

Number of shares

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

Handling of profit

The parent company's distributable profit amounted to EUR 27,807,188.56, of which the loss for the period was EUR -30,190,171.71.

The Board of Directors of Tornator Oyj proposes to the Annual General Meeting that a dividend of EUR 4.20 per share or EUR 21,000,000.00 be paid. The remaining part will be carried over in the shareholders' equity. The Board proposes the dividend payment date as 14 April 2015 and the record date as 31 March 2015.

Major shareholders, 31 December 2014

Stora Enso Oyj	41.0%
Ilmarinen Mutual Pension Insurance Company	16.9%
Varma Mutual Pension Insurance Company	13.1%
Etera Mutual Pension Insurance Company	6.3%
OP Bank Group Pension Fund	5.2%
Other shareholders	17.5%
Total	100.0%

Voting rights

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

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

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

Consolidated Income Statement

EUR thousand	App.	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013
Net sales	6,20	90,710.6	86,706.8
Other operating income	21	4,325.6	4,820.0
Change in inventories of finished goods and work in progress	11	-1,228.1	579.7
Materials and services	22	-12,856.2	-11,350.6
Personnel expenses	23	-9,408.6	-8,696.5
Depreciation, amortisation and impairment charges	24	-2,590.6	-1,956.7
Other operating expenses	25	-6,335.3	-4,593.9
Change in fair value of biological assets and harvesting	9	2,399.6	49,211.6
Operating profit		65,017.1	114,720.2
Financial income	26	36.0	402.9
Financial expenses	26	-26,066.2	-23,826.7
Change in fair value of financial instruments	5,19	-71,432.0	17,131.8
Financial expenses (net)	26	-97,462.2	-6,292.0
Profit/loss before taxes		-32,445.1	108,428.1
Income taxes	27	-6,966.5	-10,397.1
Change in deferred taxes	16	12,395.1	10,087.8
Profit for the period		-27,016.5	108,118.8
Distribution:			
To parent company shareholders		-27,016.5	108,118.8

Consolidated Statement of Comprehensive Income

Profit for the period		-27,016.5	108,118.8
Other items of comprehensive income (after taxes):			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of net defined benefit liability (asset)		-140.0	-68.2
<i>Items that may be reclassified subsequently to profit or loss</i>			
Translation differences	15,27	-113.6	88.4
Available-for-sale financial assets	13,27	0.8	-89.0
Cash flow hedges	10,27	3,165.1	6,164.6
Comprehensive income for the period		-24,104.2	114,214.6
Distribution:			
To parent company shareholders		-24,104.2	114,214.6

Consolidated Balance Sheet

EUR thousand	App.	31 Dec 2014	31 Dec 2013
ASSETS			
Non-current assets			
Intangible assets	7	3,661.4	4,352.1
Fixed assets	8	82,912.7	78,788.2
Biological assets	9	1,047,399.3	1,022,660.3
Derivatives	10	8,897.1	0.0
Investments in associates	31	3.7	0.0
Total non-current assets		1,142,874.2	1,105,800.6
Current assets			
Inventories	11	4,070.2	2,415.4
Trade and other receivables	12	5,355.8	3,717.9
Available-for-sale financial assets	13	9,630.8	7,362.5
Cash and cash equivalents	14	28,857.6	30,284.2
Total current assets		47,914.4	43,780.1
Total assets		1,190,788.6	1,149,580.7
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders			
Share capital	15	50,000.0	50,000.0
Other equity		381,016.0	427,120.2
Total equity		431,016.0	477,120.2
Non-current liabilities			
Deferred tax liabilities	16	96,042.6	107,675.9
Financial liabilities	17	472,006.6	452,994.9
Derivatives	10	107,615.2	45,295.3
Pension obligations	18	325.0	181.0
Total non-current liabilities		675,989.4	606,147.2
Current liabilities			
Financial liabilities	17	61,519.6	44,500.0
Trade and other payables	19	22,147.1	21,813.3
Derivatives	10	116.6	
Total current liabilities		83,783.3	66,313.3
Total liabilities		759,772.7	672,460.5
Total equity and liabilities		1,190,788.6	1,149,580.7

Statement of Changes in Equity

EUR thousand	App.	Share capital	Share premium	Translation differences	Fair value reserve	Retained earnings	Total equity
Balance at 1 Jan 2013	15	50,000.0	29,995.2	-6,935.2	-19,058.8	371,904.4	425,905.6
Comprehensive income							
Profit for the period						108,118.8	108,118.8
Other items of comprehensive income (after taxes)							
Remeasurement of net defined benefit liability (asset)	18					-68.2	-68.2
Translation differences	15, 27			88.4			88.4
Available-for-sale financial assets	13, 27				-89.0		-89.0
Cash flow hedges	10, 27				6,164.6		6,164.6
Comprehensive income for the period				88.4	6,075.6	108,050.6	114,214.6
Transactions with shareholders							
Dividends paid	28					-63,000.0	-63,000.0
Total transactions with shareholders						-63,000.0	-63,000.0
Balance at 31 Dec 2013		50,000.0	29,995.2	-6,846.8	-12,983.2	416,955.0	477,120.2
Balance at 1 Jan 2014	15	50,000.0	29,995.2	-6,846.8	-12,983.2	416,955.0	477,120.2
Comprehensive income							
Profit for the period						-27,016.5	-27,016.5
Other items of comprehensive income (after taxes)							
Remeasurement of net defined benefit liability (asset)	18				-140.0		-140.0
Translation differences	15, 27			-113.6			-113.6
Available-for-sale financial assets	13, 27				0.8		0.8
Cash flow hedges	10, 27				3,165.1		3,165.1
Comprehensive income for the period		50,000.0	29,995.2	-6,960.4	-9,957.3	389,938.5	453,016.0
Transactions with shareholders							
Dividends paid	28					-22,000.0	-22,000.0
Total transactions with shareholders						-22,000.0	-22,000.0
Balance at 31 Dec 2014		50,000.0	29,995.2	-6,960.4	-9,957.3	367,938.5	431,016.0

Statement of Cash Flows

EUR thousand	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013
Cash flow from operating activities		
Cash receipts from customers	76,862.3	68,106.3
Proceeds from sale of tangible and intangible assets	11,106.6	9,520.1
Cash receipts from other operating income	4,210.5	4,759.4
Cash paid to suppliers and employees	-27,218.6	-25,377.5
Cash flow from operations before financial items and taxes	64,960.9	57,008.3
Interest paid and other financial expenses	-25,337.8	-21,842.2
Interest received	42.4	402.8
Income taxes paid	-6,853.9	-10,534.1
Net cash flow from operating activities	32,811.6	25,034.8
Cash flow from investing activities		
Investments in biological assets	-25,063.6	-6,191.4
Investments in tangible assets, forestland	-3,097.7	-765.2
Investments in other tangible and intangible assets	-3,272.1	-3,927.3
Other investments	-2,240.9	
Cash flow from receivables		8,685.3
Net cash flow from investing activities	-33,674.4	-2,198.6
Cash flow from financing activities		
Withdrawal of long-term loans	150,000.0	0.0
Repayment of long-term loans	-145,563.0	-4,390.2
Withdrawal of short-term loans	17,000.0	40,000.0
Repayment of short-term loans	0.0	
Dividends paid	-22,000.0	-63,000.0
Net cash flow from financing activities	-563.0	-27,390.2
Net increase/decrease in cash and cash equivalents	-1,425.7	-4,554.0
Cash and cash equivalents at beginning of period	30,284.2	34,843.0
Effect of exchange rate changes on cash and cash equivalents	-0.9	-4.8
Cash and cash equivalents at end of period	28,857.6	30,284.2

Appendices: [Balance Book 2014](#)

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www.tornator.fi

Tornator Oyj is the third largest forest owner in Finland with about 600,000 hectares of forestland. The Group's net sales are about EUR 90 million and total balance sheet value about EUR 1.2 billion. Tornator also owns forests and practises forestry in Estonia and Romania. Tornator's main business is wood production and the sale of cutting rights. The Group employs about 200 people, mainly in Finland.