

Tornator records net sales of €113 million in 2015

Tornator's net sales exceeded €113 million and its operational profitability improved.

Press Release, 4 February 2016 at 11:00

SUMMARY 1 Jan – 31 Dec 2015 (1 Jan – 31 Dec 2014)

- The Group's net sales increased by 25.2% to a new record, €113.6 million
- The net operating income for the period was strong, €44.0 million
- The IFRS profit for the period at fair value was €39.1 million, the effect of the change in the value of growing stock being -€18.1 million and of interest rate instruments +€12.4 million before taxes
- Cash flow from operations was €62.3 million
- In Finland, the company sold 7,100 hectares of forestland in Northern Finland
- In Estonia, the net increase of forestland after sales and purchases was nearly 12,000 hectares
- Income taxes for the period totalled €9.9 million

CEO Sixten Sunabacka:

“Former CEO Arto Huurinainen and his crew have developed the company with a long view and good results have been made. It is my pleasure and privilege to continue developing such a successful firm. Tornator's employees show a strong will to take the company to ever better achievements, generating sustainable well-being from the forest in a versatile and effective manner. Growth, competitiveness and management will be the strategic priorities of Tornator's business in the next few years. Tornator has every opportunity to be a leading company in the bioeconomy and a forerunner in sustainable development.”

Net sales and results

The Group's net sales were €113.6 million (90.7), up 25.2%. The remarkable rise was due to forestland sales in Finland and forest ownership arrangements in Estonia. Net sales include proceeds from land and plot sales worth €30.8 million (10.8). Most of the net sales were timber sales income, €82.1 million, 72% (€79.2 million, 87%). The total volume of timber deliveries was 2.65 million m³ (2.75 million m³), nearly the same as in the previous year. The net sales were increased by a higher average price of timber. Other operating income, €3.6 million (4.3), includes €1.2 million (1.6) in compensation for conservation

areas. The remainder of other operating income is mainly land lease revenues and soil resource sales.

Operating profit at fair value amounted to €56.4 million (65.0) and profit for the period was €39.1 million (loss: 27.0). The change in the fair value of biological assets decreased operating profit by €18.1 million (+2.4), but a positive change in the fair value of financial instruments increased profit by €12.4 million (-71.4) before deferred taxes. Operating profit without the change in the fair value of biological assets and net profit increased in all countries: Finland, Estonia and Romania.

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

Key figures

The 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).

IFRS = International Financial Reporting Standards

FAS = Finnish Accounting Standards

		2015	2014	2013
Net sales, €million				
	THE GROUP	113.6	90.7	86.7
	Parent	77.8	74.9	73.5
Operating profit, €million				
	THE GROUP	74.5	62.6	65.5
	Parent	70.1	60.5	64.1
Operating profit, % of net sales				
	THE GROUP	65.6%	69.0%	75.6%
	Parent	90.1%	80.8%	87.2%
Profit for the period, €million				
	THE GROUP	44.0	29.6	31.7
	Parent	40.3	28.1	30.8
Profit for the period with fair value changes, €million				
	THE GROUP	39.1	-27.0	108.1
	Parent	49.6	-30.2	52.4
Return on equity				
	THE GROUP	10.0%	6.5%	7.0%
	Parent	35.4%	26.6%	22.4%
Return on capital employed				
	THE GROUP	7.7%	6.5%	7.1%
Equity ratio				
	THE GROUP	38.6%	37.2%	43.0%

Distribution of revenues and non-current assets by country

	1 Jan – 31 Dec 2015		1 Jan – 31 Dec 2014	
Revenues:	€000	%	€000	%
Finland	98,130	86	85,664	94
Estonia and Romania	15,431	14	5,046	6
Total	113,561	100	90,711	100

	1 Jan – 31 Dec 2015		1 Jan – 31 Dec 2014	
Biological assets:	€000	%	€000	%
Finland	936,785	90	955,442	91
Estonia and Romania	108,637	10	91,957	9
Total	1,045,422	100	1,047,399	100

	1 Jan – 31 Dec 2015		1 Jan – 31 Dec 2014	
Non-current assets:	€000	%	€000	%
Finland	1,017,554	89	1,036,253	91
Estonia and Romania	126,105	11	106,621	9
Total	1,143,659	100	1,142,874	100

Notable events during the period

Tornator recorded the best results in its history in 2015. Core business, i.e. timber sales and delivery, went according to plan, and significant forestland sales in Finland and Estonia additionally increased net sales to over €113 million. Intensified operations and savings in financial expenses also contributed to new records in operating profit and net profit.

In Finland, Tornator sold in a single transaction some 7,100 hectares of forestland in Northern Finland to a domestic forest fund. In Estonia, Tornator's subsidiary rearranged its forestlands: after purchases and sales, the net increase was nearly 12,000 hectares. Tornator is Estonia's largest private forest owner.

In Finland, Tornator's forests are certified under both the PEFC (Programme for the Endorsement of Forest Certification) and the FSC® (Forest Stewardship Council). For Tornator, double certification is one way of responding to customers' needs and securing a high demand for wood also in the future. The first FSC® periodic audit was carried out in August 2015, concluding that Tornator's operations comply with the FSC® standard requirements.

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

The rise in long-term market rates since the beginning of the year was reflected in the fair values of Tornator's hedges: the effect on profit or loss changed from €70 million negative in the previous year to €12 million positive before deferred taxes. Equity ratio increased to 39% (37%). Tornator's liquidity remained strong throughout the year. The financing

arrangements made at the end of the previous period were reflected in decreased financial expenses. In addition, structuring of interest rate hedges and establishment of a commercial paper programme lowered interest expenses by some €4 million.

Tornator Oyj's Annual General Meeting of 5 March 2015 decided, according to the proposal of the Board of Directors, to pay out €21 million in dividend.

Tornator Oyj's Board of Directors appointed Sixten Sunabacka, MSc (Agr & For), EMBA, the new Chief Executive Officer as of 1 January 2016. He joined the company on 1 October 2015. Tornator's long-time CEO Arto Huurinainen will retire at the end of February 2016.

Risk management

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

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

Strategic risks

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. Demand is also on the rise due to new investments. In addition, the company has built good relationships with a number of medium-sized wood-processing companies and operators in the energy sector. About 25% of the Group's timber sales come from companies other than the main customer, while the main customer's share of all net sales is about 55%.

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. In recent years, price volatility has decreased considerably in Finland.

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

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

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

When utilising forest resources Tornator manages risks to the environment by complying with environmental legislation and certification criteria. Rare in Finnish forestry, double certification is a strong indicator of the company's expertise in and commitment to forest management. Risks are discussed in employee training and induction, and minimised with careful planning of operations and a high standard of implementation.

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

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

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

Operational risks

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

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

Financial risks

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

is based on advance payments and up-to-date cash management. The company also has a commercial paper programme to optimise the need for cash. Cash reserves are invested in bank deposits and short-term, highly rated funds.

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

Notable events after the end of the period

No notable events after the end of the period.

An estimate of future development

The company estimates that its debt service capacity will remain stable in 2016.

Research and development

In order to improve efficiency and to deepen know-how, Tornator decided to transform from a geographic team organisation into a process organisation during 2016. The whole personnel was involved in the preparations, and the development programme included a 360/270 assessment of the employees. The tried and tested Future Team activities were continued. The Future Team's working groups focused on boosting current business and developing new business.

In addition, the company put a lot of emphasis on improving the availability and quality of forest stand data. The development of harvest monitoring was also continued.

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 7.0% of normal pay (6.5%) was given as performance-based bonuses in 2015, the Management Group excluded.

Besides its own employees, the direct employment impact of the company's forests in other firms is estimated at up to 700 person-years.

Personnel, wages and salaries

Year	2015	2014	2013
Average number of personnel during the period	213	217	216
Wages and salaries for the period	€8.6m	€9.4m	€8.7m

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 5 March 2015, the following were elected as ordinary members of the Board of Directors and their personal deputies until the next Annual General Meeting:

Ordinary member	Deputy
Mikko Koivusalo	Risto Autio
Jari Puhakka	Jukka Reijonen
Erkko Ryyänen	Jari Pussinen
Jari Suominen	Jari Suvanto
Esko Torsti	Timo Kärkkäinen

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 5 March 2015, Deloitte & Touche Oy were elected auditors with Jukka Vattulainen, APA, as principal auditor.

Number of shares

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

Handling of profit

The parent company's distributable profit amounted to €56,434,696.45, of which the profit for the period was €49,627,507.89.

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 Board proposes the dividend payment date as 14 April 2016 and the record date as 31 March 2016.

Major shareholders, 31 December 2015

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	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
Net sales	113,560.8	90,710.6
Other operating income	3,586.7	4,325.6
Change in inventories of finished goods and work in progress	-13,774.1	-1,228.1
Materials and services	-11,615.4	-12,856.2
Personnel expenses	-8,603.5	-9,408.6
Depreciation and amortisation	-2,836.9	-2,590.6
Other operating expenses	-5,170.8	-6,332.8
Share of profit or loss in associates	-625.0	-2.5
Change in fair value of biological assets and harvesting	-18,101.8	2,399.6
Operating profit	56,419.9	65,017.1
Financial income	123.9	36.0
Financial expenses	-20,722.4	-26,066.2
Change in fair value of financial instruments	12,414.6	-71,432.0
Financial expenses (net)	-8,183.9	-97,462.2
Profit/loss before tax	48,236.0	-32,445.1
Income taxes	-9,880.8	-6,966.5
Change in deferred taxes	778.3	12,395.1
Profit/loss for the financial period	39,133.5	-27,016.5
Distribution:		
To owners of the parent company	39,133.5	-27,016.5

Consolidated statement of comprehensive income

Profit for the financial period	39,133.5	-27,016.5
Other comprehensive income for the period after taxes:		
<i>Items not recognised later through profit and loss</i>		
Items derived from the re-definition of net defined benefit costs (or asset items)	60.0	-140.0
<i>Items that may later be recognised through profit and loss</i>		
Translation difference	-386.8	-113.6
Available-for-sale financial assets	26.0	0.8
Cash flow hedging	4,489.9	3,165.1
Comprehensive income for the period total	43,322.7	-24,104.2
Distribution:		
To shareholders of the parent company	43,322.7	-24,104.2

Consolidated Balance Sheet

EUR thousand	31 December 2015	31 December 2014
ASSETS		
Non-current assets		
Intangible assets	3,274.7	3,661.4
Property, plant & equipment	85,854.8	82,912.7
Biological assets	1,045,422.1	1,047,399.3
Derivatives	8,885.6	8,897.1
Investments in associates	128.8	3.7
Other investments	92.8	0.0
Non-current assets total	1,143,658.8	1,142,874.2
Current assets		
Inventories	3,296.7	4,070.2
Trade and other receivables	4,892.3	5,355.8
Available-for-sale investments	8,057.0	9,630.8
Cash and cash equivalents	20,869.6	28,857.6
Current assets total	37,115.6	47,914.4
Total assets	1,180,774.4	1,190,788.6
EQUITY AND LIABILITIES		
Equity belonging to shareholders of the parent company		
Share capital	50,000.0	50,000.0
Other equity	403,338.7	381,016.0
Shareholders' equity total	453,338.7	431,016.0
Non-current liabilities		
Deferred tax liabilities	96,408.3	96,042.6
Financial liabilities	466,787.9	472,006.6
Derivatives	86,169.6	107,615.2
Pension liabilities	251.0	325.0
Non-current liabilities total	649,616.8	675,989.4
Current liabilities		
Financial liabilities	51,467.0	61,519.6
Trade and other payables	22,346.1	22,147.1
Derivatives	4,005.7	116.6
Current liabilities total	77,818.9	83,783.3
Total liabilities	727,435.7	759,772.7
Total equity and liabilities	1,180,774.4	1,190,788.6

Statement of changes in equity

EUR thousand	Share capital	Share premium	Translation difference	Fair value reserve	Retained earnings	Shareholders' equity total
Equity 1 January 2014	50,000.0	29,995.2	-6,846.8	-12,983.2	416,955.0	477,120.2
Comprehensive income						
Profit or loss for the period					-27,016.5	-27,016.5
Other items of comprehensive income (after taxes)						
Remeasurement of net defined benefit liability (or asset)				-140.0		-140.0
Translation difference			-113.6			-113.6
Available-for-sale financial assets				0.8		0.8
Cash flow hedging				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					-22,000.0	-22,000.0
Total transactions with shareholders					-22,000.0	-22,000.0
Equity 31 December 2014	50,000.0	29,995.2	-6,960.4	-9,957.3	367,938.5	431,016.0

Equity 1 January 2015	50,000.0	29,995.2	-6,960.4	-9,957.3	367,938.5	431,016.0
Comprehensive income						
Profit or loss for the period					39,133.5	39,133.5
Other items of comprehensive income (after taxes)						
Remeasurement of net defined benefit liability (or asset)				60.0		60.0
Translation difference			-386.8			-386.8
Available-for-sale financial assets				26.0		26.0
Cash flow hedging				4,489.9		4,489.9
Comprehensive income for the period	50,000.0	29,995.2	-7,347.2	-5,381.4	407,072.0	474,338.7
Transactions with shareholders						
Dividends paid					-21,000.0	-21,000.0
Total transactions with shareholders					-21,000.0	-21,000.0
Equity 31 December 2015	50,000.0	29,995.2	-7,347.2	-5,381.4	386,072.0	453,338.7

Consolidated cash flow statement

EUR thousand	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
Cash flow from operating activities		
Cash receipts from customers	81,064.4	76,862.3
Proceeds from sale of tangible assets	30,844.3	11,106.6
Cash receipts from other operating income	3,502.9	4,210.5
Cash paid to suppliers and employees	-25,628.1	-27,218.6
Cash flow from operating activities before financial items and taxes	89,783.5	64,960.9
Interest paid and other financial expenses	-20,824.2	-25,337.8
Interest received	138.1	42.4
Income taxes paid	-6,804.0	-6,853.9
Net cash flow from operating activities	62,293.4	32,811.6
Cash flow from investing activities		
Investments in biological assets	-28,303.7	-25,063.6
Investments in tangible assets, forestland	-3,498.2	-3,097.7
Investments in other tangible and intangible assets	-3,428.8	-3,272.1
Investments in associates and other investments	-849.2	0.0
Investments in available-for-sale financial assets	0.0	-2,240.9
Proceeds from sale of available-for-sale financial assets	1,606.4	0.0
Net cash flow from investing activities	-34,473.5	-33,674.4
Cash flow from financing activities		
Withdrawal of long-term loans	0.0	150,000.0
Repayment of long-term loans	-4,749.4	-145,563.0
Withdrawal of short-term loans	57,000.0	17,000.0
Repayment of short-term loans	-67,053.9	0.0
Dividends paid	-21,000.0	-22,000.0
Net cash flow from financing activities	-35,803.4	-563.0
Net increase/decrease in cash and cash equivalents	-7,983.5	-1,425.7
Cash and cash equivalents at beginning of period	28,857.6	30,284.2
Effect of exchange rate changes on cash and cash equivalents	-4.5	-0.9
Cash and cash equivalents at end of period	20,869.6	28,857.6

Appendices: [Balance Book 2015](#)

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www.tornator.fi

Tornator is a leading company specialised in sustainable forest management in Europe. It owns forests in Finland, Estonia and Romania. In 2015 the Group's net sales were some €113 million, and the balance sheet value is about €1.2 billion. The Group has more than 200 employees, also providing work for contractors worth some 700 person-years. Tornator is among the 40 largest corporation tax payers in Finland. The company's shareholders are Finnish investors, mostly institutions. Tornator's mission is "Generating sustainable well-being from the forest".