

Annual Report 2015



Overview of Tornator

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Tornator in brief

Tornator's forests have many uses

Tornator's forests provide a diverse basis for the needs of the growing bioeconomy. With its professional forest management and double-certified forests, Tornator improves customers' competitiveness and generates sustainable well-being to the economy, society and the environment.





Front cover

Tornator sold more than 25 million m³ of wood in Finland during 2002–2015, widely generating well-being for the society at large. Meanwhile, the company's forests increased by more than 30 million m³, so active use of forests also helps to combat climate change. Professional forest management is a guarantee of sustainable business.

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 exceeded €113 million, and the balance sheet value is about €1.2 billion. The Group has more than 200 employees, and its forests provide work for contractors and their staff worth some 700 person-years. Tornator has a large tax footprint: in the last few years, it has been the largest payer of corporation tax in South Karelia and among the 40 largest in Finland. The company's shareholders are Finnish investors, mostly institutions. Tornator's mission is "generating sustainable well-being from the forest".

Forestlands in Finland

580,000

hectares

Forestlands in Estonia

53,000

hectares

Forestlands in Romania

12,000

hectares

Year 2015 in brief

Highlights of the year

Tornator records the highest net sales ever, more than €113 million.

The company strengthens its foothold as Estonia's largest private forest owner by increasing its forestlands to 53,000 hectares.

Tornator's success in an FSC® audit proves that the company is able to secure its customers with certified wood.

Tornator focuses assets by selling 7,100 hectares of forest in Northern Finland to a fund administered by United Bankers.

Tornator starts to implement a supplementation programme for voluntary mire conservation, agreeing to conserve some 500 hectares of mires.

Tornator becomes the first foreign company to manage municipal forests in Romania.

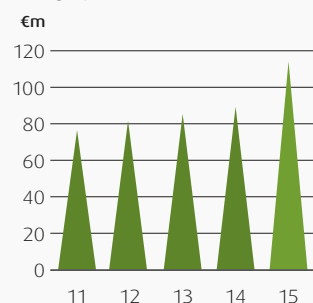
The Future Team finds new ways to develop and expand Tornator's business.

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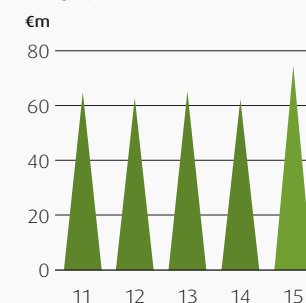
Net sales

(Without effects of fair value changes)



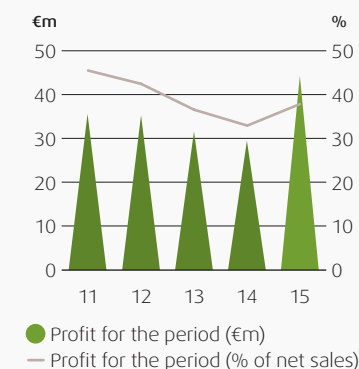
Operating profit

(Without effects of fair value changes)



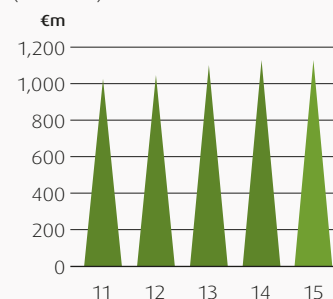
Profit for the period

(Without effects of fair value changes)

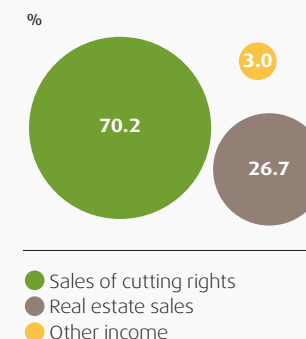


Valuation of forests

(fair value)



Cash flow from operations 2015



Key figures

Without effects of fair value changes

	2011	2012	2013	2014	2015
Net sales, € million	77.7	82.9	86.7	90.7	113.6
Operating profit, € million	65.2	63.1	65.5	62.6	74.5
Operating profit, % of net sales	83.8	76.1	75.6	69.0	65.6
Profit for the period, € million	35.7	35.4	31.7	29.6	44.0
Profit for the period, % of net sales	45.9	42.7	36.5	32.7	38.8
Average number of employees	197	211	216	217	213
Return on capital employed, %	7.4	7.1	7.1	6.5	7.7
Return on equity, %	8.6	8.3	7.0	6.5	10.0
Equity ratio, %	41.9	40.1	43.0	37.2	38.6

CEO's review

Steady growth and new operating models

“Tornator is in an excellent position to start business in 2016.”



The year 2015 was a period of successful business and internal development for Tornator. Responsibly managed and effective timber sales remained our key business. Establishing reliable supply of FSC-certified wood as a competitive advantage will increase both customer and investor confidence in our ability to generate sustainable well-being from the forest.

In Estonia, we increased our forestlands through land purchases and swaps, which will enable serving the local timber market in a more versatile manner in the future.

In Finland, Tornator made the largest single land sale in its history, to a fund administered by United Bankers. With this sale, the company pursued the strategy of recent years to decrease forestlands in Northern Finland, to rationalise assets and to focus resources in core areas.

Costs were cut for example by saving in IT and organisational expenses. To improve its competitiveness, Tornator initiated change and development programmes, including employee assessments. In order to reduce premature cases of disability pension among forest workers, the company also launched a "Retire Healthy" programme early in the year. Novel directions for Tornator's business were sought by a new Future Team 2.

During the year, wood prices decreased by some 2–5 percent due to an oversupply of coniferous pulpwood at the end of the year, and especially a dwindling demand for pine sawn goods.

An erratic subsidy policy and plummeting fossil fuel prices affected the competitiveness of biofuels, lowered the demand for forest biomass and slowed down wind power development.

Despite the instability of wood demand, Tornator was able to deliver wood raw materials as planned.

Finally, I would like to thank all of Tornator's employees, customers and other partners for your excellent co-operation over the years. You have played a key role in building a success story in Finnish forestry. I would also like to give the new CEO, Sixten Sunabacka, a warm welcome as head of the company.

Arto J. Huurinainen

Chief Executive Officer until 31 December 2015

New operating models for sustainable well-being

Forest industry investments, especially in the Varkaus pulp mill, board machine and LVL mill as well as the Kymi and Äänekoski pulp mills, will increase wood demand in Eastern Finland. Furthermore, other forest sector investments and global growth forecasts for the bioeconomy provide us great opportunities to succeed in new business and timber sales.

In late 2015, Tornator defined three strategic priority areas for the business: growth, competitiveness, management. Growth was sought last year by acquiring more forestland in Estonia, and expansion there will be continued if suitable areas are found. By adopting the process approach and organisation, we shall be able to

improve management and deepen our know-how. We aim to further improve our competitiveness with efficiency-focused development programmes.

The Future Team did a valuable job in generating new business. This work will be continued, among other things, in a new research and development project that looks into the potential of natural products. The team also created faith in hidden opportunities of utilising our forest assets more effectively. Our information systems will be developed for more effective use of data produced by them as well as laser scanning of forests. This way we shall be able to optimise our forest resources and offer new services to our customers.

Tornator has a key role in Suomen Puukauppa Oy which is due to start operations in 2016. The purpose of the new company's online portal is to facilitate wood purchasing and sales processes in Finland. New operating models will also be created in Estonian timber sales.

Tornator is in an excellent position to start business in 2016. Former CEO Arto Huurinainen and his crew have steered the company with a long view and good results. It is my pleasure and privilege to take the helm of such a successful firm. The employees show a strong will to take Tornator to ever better achievements, generating sustainable well-being from the forest in a versatile and effective manner. Tornator has every opportunity to be a leading company in the bioeconomy and a forerunner in sustainable development.

Sixten Sunabacka

Chief Executive Officer as of 1 January 2016

Finance

Strong financial position allows focus on business

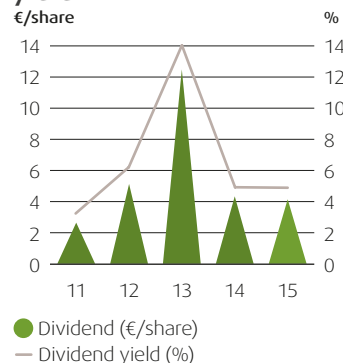
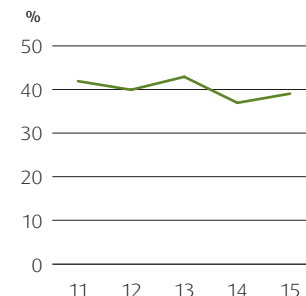
It is easier to forecast Tornator's value development when the cash flows from financing are foreseen. A clear financial strategy and management of financial risks create a conducive ground for investors. Risks with market changes are reduced by long-term loan agreements and interest rate hedges.



Henrik Nieminen
Chief Financial Officer

ROCE and ROE

(Without effects of fair value changes)

**Dividend and dividend yield****Equity ratio**

The objective of Tornator's financial strategy is to secure sufficient funding for the company's business and investments, to manage the Group's financial risks and to stabilise the balance sheet. The financial strategy is based on comprehensive balance sheet management, ready access to the capital markets, diverse financial instruments, managed hedging of interest rate risk and good liquidity.

Cost-effective financing is facilitated by the high collateral value of forestland and Tornator's reputation as a responsible company. Strong liquidity and availability of financing are secured by a commercial paper programme of €200 million and a committed undrawn revolving credit facility.

At the end of the financial year 2015, Tornator had €53 million worth of undrawn revolving credit facility.

Financial risk management

The purpose of financial risk management is to minimise the negative effects of changes in the financial markets on the company's profit and cash flow. The objectives of risk management and the risk management policy are defined by Tornator's Board of Directors which is also responsible for monitoring risk management. The company's key financial risks are related to interest rates and the availability of financing. According to the risk management policy, the Group's loan portfolio must have an interest rate hedge ratio of 70–100 percent.

At the end of 2015, Tornator's hedge ratio was 80 percent. The effects of market rate changes are levelled out with fixed-interest loans and interest rate derivatives. The company has also signed long-term, up to 30-year interest

Key achievements in 2015

- Through adjustment of hedges, interest expenses permanently down by about €4 million per year
- Improved cash management: commercial paper programme of €200 million.



Key activities in 2016

- Launch a three-year productivity programme
- Raise new capital to finance growth, if necessary
- Make the company better known by arranging investor and press meetings.

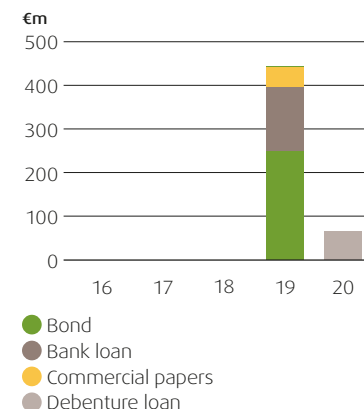
Financial ratios, 31 Dec 2015

Without effects of fair value changes

	31 Dec 2015	31 Dec 2014	Max./Min.
Equity ratio, %	39	37	
Average interest rate, %	3.9	4.8	
Hedge ratio, %	80	79	
Average loan maturity, years	3.6	4.4	
Average fixing time, years	2.1	2.5	
Gearing ratio, %	81.9	86.7	150
Debt service coverage ratio (DSCR)	3.2	1.9	1.1
Loan-to-value (LTV) ratio, %	49.1	48.3	70

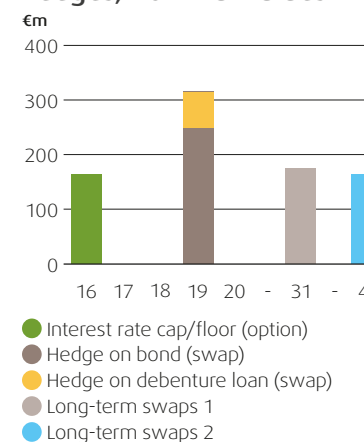
Long-term target for equity ratio is 35%.

Loan covenants are tied to gearing ratio (max. 150%), DSCR (min 1.1 x) and LTV ratio (max. 70%).

Maturity of debt**Sensitivity of interest rate risk**

Effects of one percentage point changes in yield curve on the company's income statement and fair value reserve in equity

€m	31 Dec 2014		31 Dec 2015	
	Income statement	Fair value reserve	Income statement	Fair value reserve
One percentage point increase in market interest rates	43.1	6.1	54.7	3.2
One percentage point decrease in market interest rates	-59.6	-20.7	-71.5	-3.3

Expiry of interest rate hedges, nominal values

“Balance sheet management, or stabilisation of forestland value and loan rates, is an essential part of Tornator’s strategy.”

rate swaps to stabilise the discount rate used in valuing the forests. A stable discount rate prevents major fluctuations in the fair value of forest, and therefore it is easier to forecast the company's performance and share value.

Risks related to the availability of financing

These risks are minimised through credit agreements with different maturities, a broad base of financiers and revolving credit facilities, and by maintaining the company's reputation as a reliable debtor.

Tornator's creditors are protected by standard covenants included in financing agreements. The most important covenants are as follows:

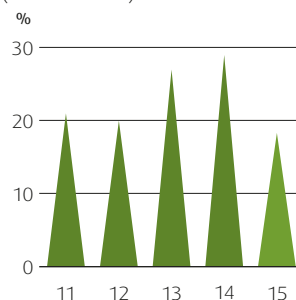
- The ratio of free cash flow to loan service costs (DSCR) must be at least 1.1
- The ratio of senior loans to the fair value of forest (LTV, loan to value) may be no higher than 70 percent
- Gearing ratio may be no higher than 150 percent.

Improvement of productivity

Tornator decided to launch a productivity programme for 2016–2018, aimed at both cutting costs and increasing revenues. The ambitious target of the programme is to gradually improve operating profit by some €5 million. Ways to achieve this include new working methods, development of information systems and utilisation of best practices in the new process organisation.

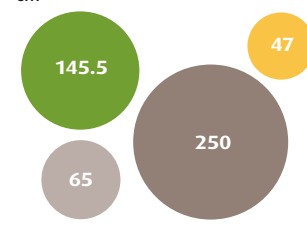
Net financial expenses

(% of net sales)



Structure of debt, nominal values, 31 Dec 2015

€m



- Bank loan (secured)
- Bond (secured)
- Commercial papers
- Debenture loan

Business environment

Bioeconomy development driven by megatrends

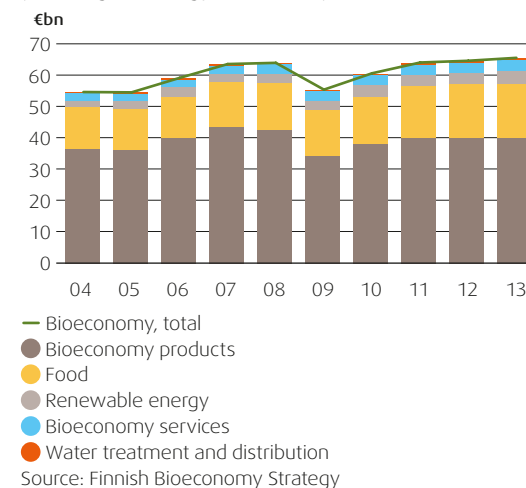
A multipurpose raw material, wood plays a key role in the bioeconomy, which increases the business opportunities of Tornator, a responsible company specialised in sustainable wood production.

The importance of fossil raw materials as a motor of economic growth will decline. They are gradually giving way to a rising era of bioeconomy which is based on renewable raw materials and circular economy. Thanks to its forests, Finland has the fourth largest bioproduction capacity in the world; in fact, the Government has made the bioeconomy one of its strategic priority areas.

Over the past ten years, the net sales of the Finnish bioeconomy have increased by about €1 billion annually. Climate change is the greatest megatrend spurring the rise of the bioeconomy, and to combat it effectively will require the use of renewable materials. National and EU-level decisions on actions against climate change will increase wood consumption significantly.

Mechanical wood products made of renewable materials provide sustainable solutions to construction, and their demand will increase with urbanisation.

Finnish bioeconomy output (turnover)
(excluding technology and services)

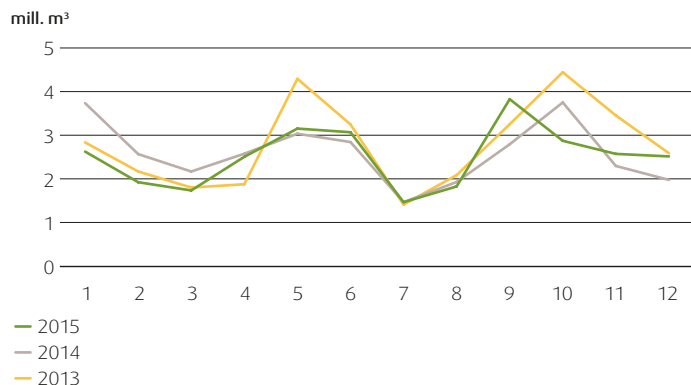


Digitalisation has decreased the use of paper but increased the demand for paperboard as people are increasingly ordering products online. Renewable food packaging is replacing plastics, especially in Asia where population growth is rapid.

Wood consumption will increase both in Finland and Sweden, which is why Tornator's wood production in Finland and Estonia will be in higher demand around the Baltic Sea. The company's objectives in the Finnish wood market are supported by investments such as the board and LVL production in Varkaus, the new bioproducts plant in Äänekoski and other pulp production increases in Finland.

Roundwood markets

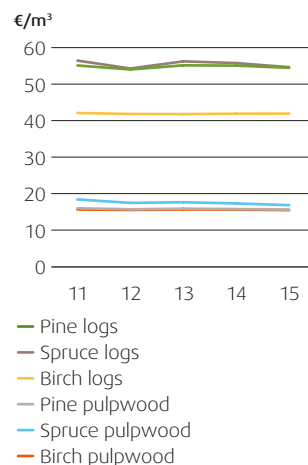
(Covers 83% of all timber sales in Finland)



Source: Natural Resources Institute Finland, Finnish Forest Industries Federation

Log and pulpwood stumpage prices in Finland

(Four-week sliding average)



Source: Natural Resources Institute Finland, Finnish Forest Industries Federation

Jyrki Kangas,
Professor of Forest
Bioeconomy,
University of Eastern
Finland



Wood has a key role in bioeconomy

The demand for wood will increase as a result of bioplant investments and the Finnish Government's key projects in bioeconomy. This should be responded to with efficient wood production. Globally, wood also has a key role in combating climate change as it effectively stores carbon.

For many products on international markets, such as packaging materials, the Nordic long-fibre softwood pulp produced from Tornator's wood is better suited than eucalyptus pulp. Professional forest management and wood production bring significant added value to the whole production chain, all the way from the forest to end-product markets.

Also for new wood products with high added value, it is important to be able to rely on a steady supply of wood and a suitable raw material for each product. Tornator is able to produce wood in large volumes and allocate it to the right product processes.

When such large-scale production is planned, stable and purposeful, it is also reliable and credible. It is significant to the whole bioeconomy value chain.

Business drivers

- Climate change and population growth generate international pressure to move from fossil raw materials to renewables, which increases the use of wood in packaging, construction and energy production as well as manufacturing of various new biomaterials.
- Increasing roundwood markets in Finland and Sweden support wood production in Finland and the Baltic countries.
- Digitalisation and expansion of online shopping, combined with population growth, increase the demand for renewable packaging materials.

Tornator's strengths and competitive advantages

- Thanks to the extensive forest assets, wood supply to customers is reliable and creation of added value is diverse.
- Business is profitable and long-term, being based on the sustainable use of a renewable natural resource.
- Double-certified forests guarantee customers that the primary production of raw materials is responsible and sustainable.
- High levels of forestry, environmental, real estate and ICT expertise cater to stakeholders' needs and the company's own processes.

Strategy

Creating value with sustainability and diversity

Tornator utilises its forestlands sustainably in co-operation with long-term partners. The company actively seeks new ways to generate a diversity of added value from the forest.

Tornator's mission is "generating sustainable well-being from the forest". This is also a way of contributing to Finland's bioeconomy objective of promoting the economy and well-being with renewable resources. During the reporting year, Tornator's Future Team defined the strategic guidelines for developing both the traditional and new business in the coming years.

In Finland, increasing wood consumption will significantly improve the demand for domestic wood in the next few years, laying the foundation for economic recovery. Over the past year, the company sought growth especially in Estonia

by investing in forestland and swapping land with international partners. As a result, Tornator has achieved sufficient assets there to enable cost-effective operations.

In the future, the company will pursue stronger results from new businesses and actively seek new partnerships for the diverse utilisation of its forests.

Strategic efficiency projects have improved Tornator's operations, management and competitiveness. For example, the company decided to adopt the process approach in operational

Mission

Generating sustainable well-being from the forest.

Vision

Tornator is an internationally respected forestry company.

Strategic priorities

Growth

We expand internationally in co-operation with well-considered partners, leading to economies of scale and synergy benefits.

Competitiveness

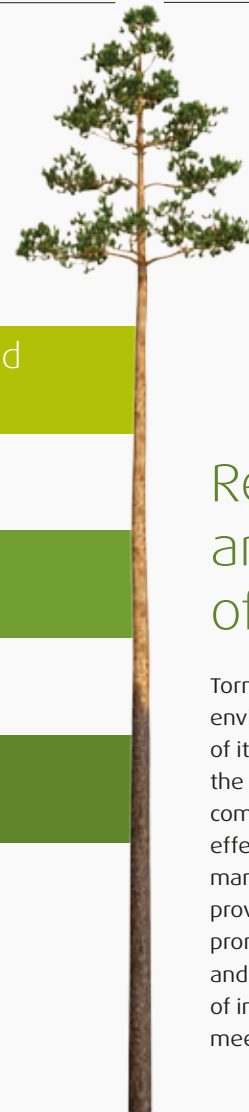
We utilise our forest resources and land property effectively, according to principles of sustainability.

Management

We care for our employees' well-being and expertise with a view to future needs.

Values

- **Team spirit** – ability and will to work together
- **Willingness to change** – readiness to adopt new ways of doing things
- **Performance** – working towards the targets
- **Responsibility** – for quality of work, the environment and relationships with stakeholders



Responsibility is an inseparable part of the business

Tornator makes economic, social and environmental responsibility an integral part of its business. In all countries of operation, the company's business is guided by a common Code of Conduct. Tornator combines effective forest management with nature management, protects valuable habitats and provides employment. This way the company promotes environmental values, biodiversity and human well-being in its entire sphere of influence, complying with legislation and meeting stakeholders' expectations.

activities and organisation of work from the beginning of 2016. Cost-effective methods are Tornator's way of pursuing a flexible and customer-focused service and operating model.

A new platform for Finnish timber trade

In November 2015, Tornator was one of the partners establishing Suomen Puukauppa Oy which will start operations in 2016. Tornator is a significant shareholder in a limited company including Finland's major organisations buying and selling wood.

The new company's key goal is to improve the functioning of the timber market through an online timber trade portal, estimated to be ready by the end of 2016. For Tornator, the online portal will provide opportunities to supply wood to the market with better customer focus and flexibility.

Shareholding in Suomen Puukauppa Oy supports Tornator's strategic objective to improve competitiveness and management using digital data. To this end, the company improved the service ability of its information systems during the past year, and this work will be continued in the future.

Future Teams hunting for new business

The task of the Future Team was to find new directions for Tornator's business. In 2014 the company set up its first Future Team and, partly to carry on its work, a Future Team 2 was made up of different employees in 2015.

Future Team 2 was divided into two working groups, each with their respective approaches and targets. One of the groups was comprised of forest management and timber sale experts who studied how Tornator can better utilise the increasing wood flows of the Estonian and Finnish units in the Baltic region.

During the year, the targets expanded to a more general scope of timber sales customers' regional needs and wood flows. Kimmo Kortelainen, Manager for Forest Resource Information, tells about the work of the group he headed as follows:

"We ended up redefining the targets of the working group and focused on how to increase business starting from Tornator's core business. It was essential to find out how we should sell cutting rights and various wood assortments from our forests, in order that we can best serve our customers and the sales are as profitable as possible."

Adding value with natural products

The other working group focused at an early stage on the theme of natural products as a global value business. A group of five experts studied what economic added value could be found in Tornator's diverse forests, besides timber sales and real estate.

As subject matter, the group selected various natural products, such as berries, plants, mushrooms and various unused woody materials. Of these, three raw materials with the highest sales potential on the natural health products market were picked for closer inspection.

"After preliminary calculations, we decided to stick to products that are linked with our forestlands. Next, we started discussions with potential customer companies. Naturally, building a new business out of this is still being studied. The main benefits of the project for me were to learn new things and to challenge myself in teamwork with a totally unknown topic," says the leader of the other working group, Financial Controller Antti Siirtola.



“The main benefits for me were to learn new things and to challenge myself in teamwork.”



Stakeholder co-operation and materiality

Towards closer stakeholder interaction

“In 2015, Tornator conducted a materiality analysis to outline the key sustainable forest management themes driving the business.”

Over the past year, Tornator outlined key sustainable forest management themes driving its business. The definition work will continue as part of the strategy process in 2016. On the basis of the analysis, Tornator can clarify reporting focus and deepen stakeholder co-operation to get a better understanding of key stakeholders' expectations of the company.

The analysis focused on the business and corporate responsibility priorities with regard to economic, social and environmental aspects. The process included an analysis of Tornator's reporting and its relation to reporting guidelines and legislation, as well as of other key companies.

Workshops involving experts and management of the company outlined material aspects and their indicators. Emerging as key themes were sustainable products and services, economic profitability, forest certification and employee competence. This report follows the material themes identified in the analysis.

Tornator's key stakeholders in the business and corporate responsibility include forest industry customers, shareholders, investors, various partners and contractors. Information on stakeholders' expectations of Tornator, communication channels and how the company met its expectations in 2015 is compiled in the table presented on the next page.

Stakeholder co-operation

	Expectations towards Tornator	Communication channels	How we met expectations
Customers	<ul style="list-style-type: none"> • Availability of wood (flexibility) • Predictability • Long-term business • Reliability • Expertise 	<ul style="list-style-type: none"> • Sales and agreement negotiations • Informative website 	<ul style="list-style-type: none"> • Tornator provided customers with <ul style="list-style-type: none"> - PEFC- and FSC-certified wood - a wide selection of plots - forestland - land-use rights
Shareholders and investors	<ul style="list-style-type: none"> • Reliable and steady long-term profits • Risk management 	<ul style="list-style-type: none"> • Board work • Investor communications 	<ul style="list-style-type: none"> • Tornator arranged investor meetings • Close co-operation with Board of Directors • Profits were excellent and no negative risks were realised
Partners and contractors	<ul style="list-style-type: none"> • Predictability of work • Steady availability of work • Method development projects in co-operation with contractors 	<ul style="list-style-type: none"> • Annual contract negotiations • Inspection visits to sites • Co-operation meetings 	<ul style="list-style-type: none"> • Number of contractors employed by country: <ul style="list-style-type: none"> - Finland 160 - Estonia 35 - Romania 240 • Projects to develop soil preparation methods with two contractors
Employees	<ul style="list-style-type: none"> • Well-being at work • Forest workers: <ul style="list-style-type: none"> - sufficiency of work - working season as long as possible • Salaried employees: <ul style="list-style-type: none"> - stable employer - interesting tasks - good management 	<ul style="list-style-type: none"> • Co-operation and development discussions • Co-operation with employee groups • Close first-line management 	<ul style="list-style-type: none"> • Supervisors contacted forest workers also during layoff period • Individual training opportunities • Well-being days (5 events) • Retire Healthy programme
Authorities and decision makers	<ul style="list-style-type: none"> • Professional practices: high-quality conservation proposals (ELY Centres) • High-quality plans and studies in wind power zoning (municipalities and towns) • Open and fast communication on relevant topics 	<ul style="list-style-type: none"> • Co-operation meetings 	<ul style="list-style-type: none"> • Discussions before formal negotiations • Environmental inventories for ongoing EIA procedures (4) • Various stakeholder tours
Local communities	<ul style="list-style-type: none"> • Consideration of the environment in wind power and other land uses • Regional employment effects • Listening to neighbours and other local residents • Promotion of forest awareness among children and youth • Participation in local projects 	<ul style="list-style-type: none"> • Participatory meetings, incl. village meetings and workshops • Postal surveys and website • Collection and handling of feedback 	<ul style="list-style-type: none"> • Participatory meetings on wind power (10) • Regional sponsoring: forestry students, forest culture, physical activity of children and youth • Forest of Opportunities campaign, school visits • Lake Immolanjärvi nature project • Jukajoki river restoration project • All feedback handled
NGOs	<ul style="list-style-type: none"> • Sustainable products and services • Forest certification • Provision of hunting opportunities and consideration of game animals 	<ul style="list-style-type: none"> • Meetings, messages 	<ul style="list-style-type: none"> • Tornator provided FSC-certified wood to customers • Meetings with WWF and FSC International • Participation in a game management project, preparation of trial sites • Number of hunting leases: 1,000
Media	<ul style="list-style-type: none"> • Open and fast communication on relevant topics 	<ul style="list-style-type: none"> • Press releases • E-mail • Website 	<ul style="list-style-type: none"> • Appearances in current affairs programmes • Press releases on website

Wood production and cutting right sales

Best yield through systematic forest management

Tornator aims to increase the production capacity of its forestlands. The company's main business in Finland is the sale of cutting rights which secures customers a steady supply of high-quality, double-certified wood.

“The targets set for cutting right sales were achieved.”

The sales of cutting rights and delivered roundwood, i.e. Tornator's timber sales, total 2.6 million cubic metres and net about €80 million. Despite a challenging business environment, especially poor demand for pulpwood, Tornator achieved the targets set for cutting right sales and improved its net sales in 2015.

In the next few years, investments of the forest and energy industries will increase the demand for wood both in Finland and Sweden, which improves the business outlook for Tornator's operations in Finland and Estonia. Tornator strives to increase the yield of its assets through forestland deals and sustainable forest management.

One of the most significant events behind the business in 2015 was that Tornator established double-certified wood as a competitive advantage. The company obtained FSC certification for all of its forestland in Finland already in late 2014. The process became established over the past year, and the Finnish forest industry will continue to receive a reliable, industrial-scale supply of certified wood from Tornator.

Core competencies in forest ownership and value improvement

The value of the cutting rights for sale is maintained by professionally managed wood production. Tornator does not harvest or deliver wood to mills itself, but provides its long-term forest industry customers with felling sites that are ready, well-planned and suitable for the market conditions.

As Tornator's partner, the buyer of timber can rely on the quality and availability of the raw material. A steady supply of wood is a key criterion for customers, since any downtime in production will result in significant costs for them. Especially a reliable supply of FSC-certified wood is essential in the forest sector value chain.

Activities that are closely related to the business include forest regeneration, silvicultural treatments and maintenance of forest biodiversity. In addition, the company keeps up forestland infrastructure, investing in and maintaining the road network to make the customer's supply chain from wood harvesting to processing as efficient as possible.

Key achievements in 2015

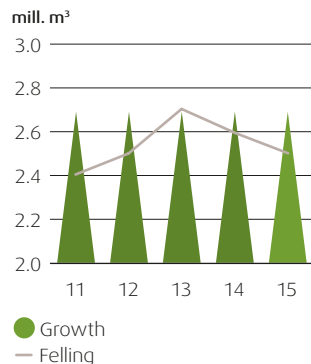
- Availability of FSC wood on the Finnish roundwood market was doubled.
- Business targets were achieved despite a difficult market situation.
- An organisational development project was launched, and forest resource management and felling site planning were intensified with digital tools.



Key activities in 2016

- Target at delivering 2.6 million cubic metres of wood
- Generate growth in the core business and new business
- Improve competitiveness and develop management using measures defined in the development project.

Felling and forest growth in Tornator's forests in Finland



“Tornator is a major employer in sparsely populated areas.”

Corporate responsibility is an integral part of the business

Tornator uses a cutting plan based on the sustainability of natural resources, ensuring that logging is economically, ecologically and socially responsible. The cutting plan is commercially significant and helps the forest to store carbon more efficiently.

Forests provide raw materials for many purposes. All harvested materials can be used in industrial processes, whether for pulp production, energy or construction.

Tornator cares for its environmental responsibility, for example, through nature management in commercial forests. This is a way to produce and safeguard forest biodiversity, for instance

by leaving decaying wood on felling sites, vital for some 4,000–5,000 species living in Finnish forests.

Responsibility is one of Tornator's values. Tornator implements social responsibility for example by being a major employer and corporation tax payer in sparsely populated areas. The company listens to its stakeholders and improves its operations on the basis of feedback. To support active stakeholder co-operation, it has created a feedback system which collects all feedback received from residents, ENGOS, hunters and decision makers. With the help of the system, all feedback will be handled and any nonconformities can be addressed quickly.



“Tornator’s certified forests are an important source of raw materials for the Finnish board industry.”

Terhi Koipijärvi,
Stora Enso Consumer Board



Sustainable wood sells

Stora Enso requires that its suppliers are committed to our Supplier Code of Conduct, including respect of human and labour rights, consideration of environmental impacts and responsibility of the business.

For Stora Enso Consumer Board, it is of utmost importance that the wood we use comes from certified forests and that we can provide both FSC- and PEFC-certified products to our customers. By sourcing its raw materials in Tornator’s certified forests, the Finnish board industry can respond to these customer needs.

Tornator’s professional forest management guarantees us a continued supply of high-quality raw materials in the future. Our customers, too, are interested in the standard of forest management. It is important for all parties concerned that the forest management is economically sustainable.

Finland produces mainly coniferous wood, and using Nordic softwood pulp in a suitable mix for different layers gives strength to many board grades. The raw materials of softwood pulp are mainly thinning wood and sawmill by-products, and therefore its use promotes sustainable forest management and utilisation of by-products.

Real estate business

Quality waterfront plots and new forms of land use

The real estate business is responsible for land development, land sales as well as various leases and concessions. Its objective is to develop Tornator's land holdings and to identify and utilise areas of forestland with hidden economic added value.



"In the year 2000, we bought a holiday home plot in Savonlinna, surrounded by land now owned by Tornator. Tornator has been a good neighbour. We especially appreciate them for contacting us in good time and offering us to buy some adjacent forestland which would have been treated with regeneration felling otherwise."

Päivi Hirvonen

In 2015, Tornator made the largest single land sale in its history, signing over some 7,100 hectares of forestland to a fund administered by United Bankers. This sale promoted the company's objective to decrease forestlands in Northern Finland and to focus assets in core areas.

In land development, Tornator identifies special values in forest areas, which can be utilised or for which the areas can be sold at a price significantly higher – at best, many times higher – than their forestry value. A good example of this is zoning land suitable for holiday homes and selling plots. In Finland, the general economic situation slowed down the demand for plots, which affected Tornator's plot sales.

The company also obtains revenues by leasing land, for example for wind power generation and extraction of aggregates. All forestry land is continuously on lease for hunting, and accessible to the general public for recreational purposes under everyman's right.

Tornator promotes nature conservation through voluntary conservation agreements with environmental authorities. In 2015, a new supplementation programme for mire conservation was introduced, and Tornator was one of the first landowners to agree on the implementation of pilot sites. The conservation deals with three mire areas with a total area of some 500 hectares.

Collaboration and openness – the foundation of responsible land use

Tornator collaborates with ELY Centres, municipalities and other stakeholders when planning land-use opportunities, for example zoning of wind farms. Local residents and community associations are involved in meetings discussing the impacts of land-use plans on the environment, landscape, employment and tax revenues.

Key achievements in 2015

- The largest single land sale in Tornator's history was made in Northern Finland.
- Environmental impact assessments were completed in four major wind power projects.
- A supplementation programme for voluntary mire conservation was launched.



Key activities in 2016

- Continue selling high-value sites and stray estates in Northern Finland according to strategy
- Promote municipal master plans on ongoing wind power projects to the plan proposal phase
- Increase forestland in Tornator's core areas.



"Tornator manages its forests with a long view, just as I take care of mine."

Taavi Ehrpais,
Alemaa ja Mets OÜ

Forest management with a long view

My company Alemaa ja Mets OÜ owns, manages and utilises some 900 hectares of forests in Estonia. My work includes planning and supervision of silvicultural and harvesting work as well as looking after my clients' interests, also on Tornator's estates. Through my company, I have also planted seedlings in Tornator's forests.

Tornator manages its forests with a long view, just as I take care of mine. They also act responsibly towards the environment.

Thanks to Tornator's way of working and the TornaApps ERP system, I am able to manage much bigger forest areas than before when I started my business.

Subsidiaries

Controlled expansion and service business

Our two subsidiaries, Tornator Eesti OÜ in Estonia and SC Tornator SRL in Romania, build their business in a controlled manner and in close co-operation with local stakeholders.

Tornator Eesti OÜ focused on expanding its business through forestland purchases and ownership arrangements. During 2015 forestlands were increased by 12,000 hectares, and over the past two years the company's total forest area was nearly doubled to 53,000 hectares.

In Estonia, Tornator focuses on the sale of various bioeconomy products, and on increasing

the value of the assets with efficient and responsible forest management. Operational silviculture and logging are conducted using reliable Estonian forest service contractors and their resources.

To support its expansion targets, the company hired a fifth salaried employee in early 2015, responsible for wood harvesting and sales. With the help of an evolving organisation, work practices and the TornaApps ERP system, the nearly doubled forestland area can still be managed by relatively few employees.

Romania's most reliable forest services

SC Tornator SRL owns 12,000 hectares of forest in Romania, being a medium-sized company in the region's timber sales. Another part of operations is a forest service business covering 18,000 hectares and including customers such as foreign investors, small local private landowners and Oituz municipality. Tornator is trusted in Romania: it is the first foreign company entrusted to manage municipal forests.

Tornator expands in a controlled way, primarily with the existing personnel. The effective management of large areas is also enabled by the TornaApps IT system tailored to Romania. In the future, the company intends to expand its forestlands, increase the volume of timber sales and decrease fixed costs per hectare.

Tornator is a significant taxpayer in many localities, and it indirectly employs 200–300 persons each year. Co-operation with the Transilvania University of Brasov, Faculty of Forestry, also employs 6–8 students annually for 1–2 months at a time. The research co-operation harnesses scientific knowledge to develop the business. Trials are made, for example, with the planting of new tree species as well as various clearing and thinning intensities in seedling and young stands.

Estonia

Key achievements in 2015

- Forestland area was increased by nearly 12,000 hectares.
- Forest investments made in 2014–2015 were immediately included in operations.
- Tornator joined national PEFC group certification.

Key activities in 2016

- Obtain company's own forest certificate
- Include national forest growth and management models in the calculation application, and apply them to the TornaApps ERP system
- Improve the utilisation of forest assets by developing harvesting and sales methods.



Romania

Key achievements in 2015

- Steady growth continued and operational results improved.
- A risk analysis on occupational safety was commissioned.
- An employee responsible for corporate responsibility was hired and a preparatory study for FSC certification was started.

Key activities in 2016

- Increase sales by 10 percent
- Increase forestlands through land deals
- Obtain an FSC certificate for the forestlands
- Improve safety standards among subcontractors, including harvesting and transport contractors.

Personnel

Participation and learning opportunities

Tornator's way of managing its corporate responsibility is crystallised in the company's human resource policy. By organising regular training and monitoring employees' work ability, Tornator maintains a high level of expertise and does everything for safety and well-being at work in all countries where it operates.

Tornator's common Code of Conduct is the backbone of the responsible HR policy. By preventing accidents and supporting well-being at work, the company can reduce sick days and significantly influence personnel costs.

Tornator's personnel in Finland includes two main groups: about a hundred forest workers and some 65 salaried employees, such as forest management superintendents, real estate superintendents, accountants and administrative staff. In addition, there are five employees in Estonia and 38 employees in Romania working with forestry.

A long view of well-being at work

In spring 2015, Tornator carried out for the first time a risk assessment on salaried employees' psychosocial workload, measuring things such as mental strain.

The risk assessment showed good results as a whole. However, some employees told that they felt being discriminated or unequally treated. As a result, a statement was prepared to remind all employees about what interaction in the workplace should be like.

In November 2015, Tornator's salaried employees took an employee assessment, aimed at providing comprehensive feedback on their individual strengths and development needs. The assessments were used to build an individual development plan to improve work results. Another aim of the process was to clarify salaried employees' roles in the evolving company.

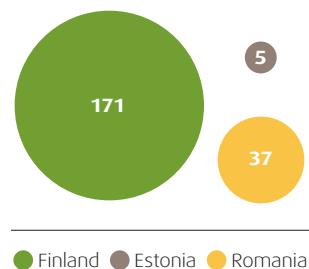
To support its long-term strategy, Tornator launched a development programme to streamline the organisation. The company wants to ensure that the right people are in the right jobs.

Personnel expenses

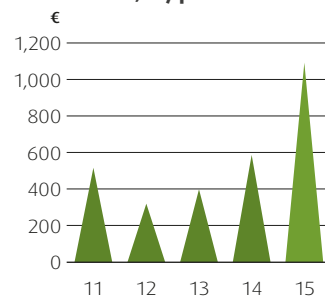
(% of net sales)



Distribution of employees by country



Human resource development in Finland, €/person



"In Romania, Tornator stands out from other employers with its responsibility."

Sandor Peter,
Forester



Employees are cared for in Romania

In Romania, Tornator stands out from other employers with its responsibility. We pay our taxes and salaries on time, complying with legislation and agreements, which is not the norm in Romanian companies.

Employee competence development has been key in Tornator's business in Romania. It includes induction, professional study tours at home and abroad as well as high-level courses in the English and German languages.

Our greatest challenge today is to be able to apply corporate responsibility principles of Finnish standards among our contractors and customers. Our goal is to profile ourselves as a responsible investor and actor in Romanian forestry.

In addition, it wants to free up resources for new businesses.

As a result of the development programme, Tornator will transform into a process organisation during 2016. This means that the forest management superintendents will have a larger area of responsibility and they will focus more clearly on the planning process. There will also be a dedicated employee who is responsible for silviculture and supervision of forest workers.

Proactive measures for safety and well-being at work

Forest workers are exposed to safety risks such as long-term strain and fieldwork injuries. Risks are addressed with regular training sessions, workshops and clear work practices.

Each new forest worker is assigned an instructor, a more experienced forest worker. The instructor works as the new worker's partner, advising on correct working positions and making sure

that the tools are in order and used properly. The forest workers are employed on seasonal contracts, being laid off for the winter. Held in spring, the working season opening days include brushing up on safety matters and going over any changes in work practices.

The competence of salaried employees is also cared for with training sessions. For example, forest management superintendents were trained in peatland forest management in autumn 2015. Together with the subsidiaries in Estonia and Romania, Tornator planned how the Code of Conduct can be disseminated as effectively as possible outside Finland and among contractors, subcontractors and customers.

“Safety risks are addressed with regular training sessions, workshops and clear work practices.”





A programme to lengthen careers

Launched in spring 2015, the “Retire Healthy” programme is aimed at reducing long-term sick leaves and premature cases of disability pension. By lengthening working careers and especially the health of forest workers, the productivity and quality of Tornator’s business can be significantly improved.

Tornator has set a strategic objective of reducing sick days to a half. At the moment, the sick leaves of Tornator’s forest workers account for about 10 percent of their total working hours, mainly consisting of long-term absences. With this programme, Tornator aims to reduce accidents and to improve the physical and psychological well-being of workers.

Some of the accident risks are related to working in terrain, and are caused by slips and trips. Such accidents are well in control as absences due to them have remained at the level of 1–2 percent. A more significant risk, however, are the long-term knee and back injuries which may result in careers ending before pensionable age.

“Tornator has set a strategic objective of reducing sick days to a half.”

Results through training

In order to prevent long-term occupational health risks, various training sessions and workshops have been held as part of the “Retire Healthy” programme since spring 2015.

At the opening day of the silvicultural season, an occupational health and safety session was arranged for forest workers and their supervisors. In addition, there was a stretching exercise to maintain joint-supporting muscles, and the effect of diet on keeping energy levels up was highlighted by planning a healthy packed lunch.

During the year, three similar events were arranged in Tornator’s regions around Finland. Forest workers and supervisors had a chance to think about their work practices: what to change and what to keep.

A summary of these events was prepared to be used as a basis to promote career lengthening in co-operation with the OHS organisation and occupational health care service. All parties involved are working together to keep employees fit for work. The measures are preventive, and significant results can be expected in 2–3 years.

The targets for 2016 are to implement the changes with the partners providing occupational health care services, to clarify management and to adopt individual working time arrangements more widely.

Corporate governance

Ownership and corporate structure

In 2015 the Tornator Timberland Group included, besides the parent company Tornator Oyj in Finland, Tornator Eesti OÜ in Estonia and SC Tornator SRL in Romania. All three companies own forest-lands and practise operational forestry.

The owners of Tornator Oyj are Finnish investors, mostly institutions. There are 11 shareholders.

Governance principles

Tornator's governing bodies are: the Annual General Meeting, the Board of Directors and the Chief Executive Officer assisted by the Strategic Management Group. The Boards of Directors of the foreign subsidiaries are comprised of representatives of parent company management.

Annual General Meeting and Board of Directors

The Annual General Meeting is the highest decision-making body in Tornator Oyj, deciding on matters laid down in the Finnish Companies Act. The AGM is held once a year, in May at the latest, on a date determined by the company's Board of Directors.

The Board of Directors consists of 4-7 ordinary members, elected by the AGM for one year at a time. The AGM also elects a personal deputy for each member.

The Board of Directors supervises Tornator's operations and management, deciding on significant matters concerning the company strategy, investments, organisation and finance. The Board

of Directors convenes at least four times a year. In 2015 the Board had eight meetings.

Committees

Tornator has two committees. The Oversight Committee's job is to oversee significant agreements between the company and the shareholders. It works under the Board of Directors which elects three of its members on it for one year at a time. The Oversight Committee convenes and reports to the Board at least twice a year.

Also under the Board of Directors, there is a Remuneration Committee on which the Board elects two of its members for one year at a time, and which convenes and reports to the Board as necessary.

Chief Executive Officer and Management Group

Tornator's Board of Directors appoints the Chief Executive Officer. The CEO is responsible for the company's financial performance and for organising business operations and administration according to legislation as well as instructions and orders issued by the Board. The CEO's task is to provide information to the Board on things such as the company's financial situation and changes in the business environment. The CEO is also responsible for key customer relationships.

The CEO is assisted by the Strategic Management Group. In 2015, the Management Group included four members. The CEO acts as the Chairman of the Management Group. The Management Group

is responsible for the practical implementation of the strategy determined by the Board of Directors. The Management Group meets at about one month's intervals and always when necessary. In 2015, the Management Group had eight meetings.

In addition to the Strategic Management Group, the company has an operational management level made up of experts of various functions, with the task of assisting the Strategic Management Group in deploying the strategy. The operational management level includes ten members, and its representatives are invited to the Strategic Management Group's meetings as necessary.

Operational activities

In Finland, operational activities were still divided regionally between five forestry teams in 2015. However, Tornator becomes a process organisation from the beginning of 2016 and regional teams are dismantled. The new core processes are: forestry, silviculture and real estate. These are supported, as earlier, by the internal service processes such as HR, ICT, finance, communications, etc.

Abroad, Country Managers are responsible for organising operational activities and reporting on them to the parent company.

Remuneration

The Annual General Meeting decides on the remuneration for the Board of Directors. The Chairman and members of the Board are paid an annual fee. The Board of Directors decides on the

Tornator Oyj's shareholders

	%
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

remuneration for the Chief Executive Officer and the members of the Strategic Management Group, consisting of a fixed monthly salary and an individual performance bonus. The Management Group is also covered by a long-term monetary incentive scheme.

Auditors

The Annual General Meeting elects the authorised public accountants for one year at a time. Tornator's auditors are Deloitte & Touche Oy with Jukka Vattulainen, APA, as principal auditor since 2011.

The parent company's auditors are responsible for planning, co-ordinating and supervising the audit of the whole Group. An audit plan is prepared annually in co-operation with corporate management. The auditors report to the parent company's Board of Directors at least twice a year.

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 Timberland Group, 31 December 2015

11 shareholders	
Tornator Oyj Finland 580,000 ha	
SC Tornator SRL Romania 12,000 ha	Tornator Eesti OÜ Estonia 53,000 ha

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. The company has also built good relationships with a number of medium-sized wood-processing companies and operators in the energy sector. About 25 percent 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 percent.

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 forest-land 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

Tornator's forestlands in Finland

580,000

hectares



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 indication 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 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. 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.

Operational risks

Tornator manages internal business risks with processes that are approved by the Board of Directors and management, and inspected by external 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. Cash reserves are invested in bank deposits and short-term, highly rated funds.

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

Board of Directors



Esko Torsti

Born 1964, LicSc (Pol)
Chairman 2010–
Member 2003–2009
Ilmarinen, Head of Alternatives
2006–

Background:

Pohjola Group plc, Chief
Investment Officer 2001–2003 and
2005–2006
Pohjola Asset Management Ltd,
President 2003–2005
Ilmarinen, First Vice President,
Fixed Income 1998–2001
Skandinaviska Enskilda Banken,
Finland, Chief Economist
1996–1998

Membership on other boards of directors:

Desentum Oy, chairman of the
Board
Fingrid Oyj, member of the Board
William and Ester Otsakorpi
Foundation, member of the Board



Erkki Ryynänen

Born 1971, MSc (Econ)
Member 2010–
OP Wealth Management,
Insurance and Pension
Investments, Director 2014–
OP Bank Group Pension Fund and
Pension Foundation, Managing
Director 2010–

Background:

OP Bank Group Pension Fund and
Pension Foundation, Investment
Manager 2009–2010
OP-Pohjola Group, Pension and
Insurance Institution Investments,
Investment Manager 2000–2009

Membership on other boards of directors:

Suomen Metsäsiiritys Oy,
member of the Board
Eläkesäätiöyhdistys, member of
the Board



Mikko Koivusalo

Born 1961, MSc (Econ)
Deputy Chairman 2010–
Member 2006–2010
Varma, Director, Investments,
Capital Markets, 1997–

Membership on other boards of directors:

Realia Group Oy, member of the
Board



Jari Puhakka

Born 1966, MSocSc
Member 2015–
Etera, Chief Investment Officer
2010–

Background:

Pohjola Asset Management Ltd,
Chief Investment Officer 2005–2010
Ilmarinen, Head of Equities 2000–
2003, Head of Equities and Fixed
Income 2003–2005
OKOBANK Group Central
Cooperative, Pension and Insurance
Institution Investments, Chief
Investment Officer 1999–2000
Gyllenberg, Portfolio Manager and
Strategist 1994–1999
OKOBANK, Analyst and Portfolio
Manager 1989–1994

Membership on other boards of directors:

Design Forum Finland, member of
the Board



Jari Suominen

Born 1969, MSc (Business
Administration)
Member 2015–
Stora Enso Oyj, Executive Vice
President, Head of Wood Products
Division 2014–

Background:

Several managerial positions at
Stora Enso since 1995

Deputy members:

Jukka Reijonen, Etera
Risto Autio, Varma
Jari Pussinen, Pohjola
Jari Suvanto, Stora Enso
Timo Kärkkäinen, Ilmarinen

Strategic Management Group



Arto J. Huurinainen

Born 1950, MSc (Agr & For)
Chief Executive Officer 2002–2015

Background:

Stora Enso Oyj, Vice President, Resources and Administration 1997–2002
Enso Oy, Regional Manager 1992–1996
Enso-Gutzeit Oy, Internal Auditor 1987–1991
Enso-Gutzeit Oy, Procurement Manager 1987
Plan Sell Oy, Procurement Manager 1982–1986
National Board of Forestry, Planning and Field Manager 1974–1982



Henrik Nieminen

Born 1970, MSc (Econ), EMBA
Chief Financial Officer,
Deputy CEO 2007–

Background:

Tornator Oy, Chief Financial Officer 2002–2006
Stora Enso Ab, Project Director, 2001–2002
Stora Enso Financial Services SA, Director, Finance 2000–2001
Enso Oy, Treasury Manager 1998–2000
Enso Oy, Accounting Analyst 1997–1998



Ari Karhapää

Born 1967, BSc (For)
Director, Forestry 2012–
Deputy CEO 2014–

Background:

Forest Owners' Union of North Karelia, Executive Manager 2009–2011
Forest Management Association of North Karelia, Executive Manager 2009–2011
Karjalan Metsätilat Oy LKV, Managing Director 2004–2009
Forest Management Association of Border Karelia, Executive Manager 2004–2008
Forest Management Association of Upper Karelia, Executive Manager 2002–2004



Antero Luhtio

Born 1957, MSc (Eng)
Director, Real Estate 2014–

Background:

Tornator Oyj, Real Estate Manager 2011–2014
Forest and Park Service / Metsähallitus, Director, Laatumaa Business Unit 1998–2011
Forest and Park Service, Land Use Manager 1995–1998
National Board of Forestry / Forest and Park Service, Surveying Engineer 1990–1995
National Land Survey of Finland, Assistant District Engineer 1988–1990
National Land Survey of Finland, Surveying Engineer 1983–1988



Sixten Sunabacka

Born 1960, MSc (Agr & For), MBA
Chief Executive Officer 2016–

Background:

Ministry of Employment and the Economy, Strategic Director 2010–2015
UPM Kymmene Oyj, Vice President (Head of UPM Forest, North Europe) 2005–2010
Several managerial and expert positions in different forest industry and consulting companies 1985–2005

Summary of consolidated financial statements 2015

The Tornator Timberland Group reports according to the International Financial Reporting Standards (IFRS). Key figures have been calculated without the effects of the changes in the fair value of biological assets (i.e. forest) and interest rate derivatives on the results. The same applies to the figures for the previous year.

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.

Operating profit was 65.6% (69.0) of net sales, return on capital employed stood at 7.7% (6.5) and return on equity at 10.0% (6.5). Dividend yield was 4.7% (4.8).

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 more than €70 million negative in the previous year to some €12 million positive before deferred taxes. 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.

At the end of the period, the nominal value of Tornator's loans totalled €507.5 million (522.0) and the net financial expenses without fair value changes were €20.6 million (26.0). The Group's equity ratio on 31 December 2015 was 38.6% (37.2).

The company invested in road construction, ditch network maintenance, IT projects and fertilisation totalling some €3.4 million (3.3). Tornator also purchased new forestlands in Estonia for a total of some €31.8 million (28.2), and sold forestlands in Finland and Estonia for a total of some €30.8 million (11.1).

In 2015, the company paid a total of €21 million (22) in dividends to its shareholders. Tornator's Board of Directors proposed that the spring 2016 Annual General Meeting decide that Tornator pay shareholders a dividend of €6.00 per share, totalling €30 million.

Tornator's personnel in 2015 included an average of 213 (217) employees.

Consolidated income statement

€m	1 Jan–31 Dec 2011	1 Jan–31 Dec 2012	1 Jan–31 Dec 2013	1 Jan–31 Dec 2014	1 Jan–31 Dec 2015
Net sales	77.7	82.9	86.7	90.7	113.6
Other operating income	10.6	5.4	4.8	4.3	3.6
Change in inventories of finished goods and work in progress	-3.2	-1.8	0.6	-1.2	-13.8
Materials and services	-7.5	-8.8	-11.4	-12.9	-11.6
Personnel expenses	-7.2	-7.8	-8.7	-9.4	-8.6
Depreciation and amortisation	-1.2	-1.4	-2.0	-2.6	-2.8
Other operating expenses	-4.1	-5.5	-4.6	-6.3	-5.2
Share of profit/loss of associates	0.0	0.0	0.0	0.0	-0.6
Change in fair value of biological assets and harvesting	25.4	8.7	49.2	2.4	-18.1
Operating profit	90.5	71.8	114.7	65.0	56.4
Financial income	0.6	0.4	0.4	0.0	0.1
Financial expenses	-17.1	-16.7	-23.8	-26.1	-20.7
Change in fair value of financial instruments	-1.6	-45.0	17.1	-71.4	12.4
Financial expenses (net)	-18.2	-61.3	-6.3	-97.5	-8.2
Profit/loss before taxes	72.4	10.5	108.4	-32.4	48.2
Income taxes	-12.9	-11.4	-10.4	-7.0	-9.9
Change in deferred taxes	2.0	8.3	10.1	12.4	0.8
Profit/loss for the period	61.5	7.4	108.1	-27.0	39.1

Consolidated balance sheet

€m	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015
ASSETS					
Non-current assets					
Intangible assets	1.1	0.5	4.4	3.7	3.3
Fixed assets	75.5	80.0	78.8	82.9	85.9
Biological assets	950.9	969.2	1,022.7	1,047.4	1,045.4
Derivatives	0.0	0.0	0.0	8.9	8.9
Other investments	0.0	0.0	0.0	0.0	0.2
	1,027.5	1,049.7	1,105.8	1,142.9	1,143.7
Current assets					
Inventory	0.1	0.1	2.4	4.1	3.3
Trade and other receivables	1.6	4.2	3.7	5.4	4.9
Other financial assets	24.2	16.2	7.4	9.6	8.1
Cash and cash equivalents	7.4	34.8	30.3	28.9	20.9
	33.3	55.3	43.8	47.9	37.1
Total assets	1,060.8	1,105.0	1,149.6	1,190.8	1,180.8
EQUITY AND LIABILITIES					
Equity attributable to parent company shareholders					
Share capital	50.0	50.0	50.0	50.0	50.0
Other equity	380.4	376.1	427.1	381.0	403.3
Total equity	430.4	426.1	477.1	431.0	453.3
Non-current liabilities					
Deferred tax liabilities	117.4	115.0	107.7	96.0	96.4
Financial liabilities	431.4	457.8	453.0	472.0	466.8
Derivatives	44.0	65.7	45.3	107.6	86.2
Pension obligations	0.0	0.0	0.2	0.3	0.3
	592.7	638.4	606.1	676.0	649.6
Current liabilities					
Financial liabilities	12.0	4.5	44.5	61.5	51.5
Derivatives	0.0	3.8	0.0	0.1	4.0
Trade and other payables	25.7	32.1	21.8	22.1	22.3
	37.7	40.5	66.3	83.8	77.8
Total liabilities	630.4	678.9	672.5	759.8	727.4
Total equity and liabilities	1,060.8	1,105.0	1,149.6	1,190.8	1,180.8

Statement of changes in Group shareholders' equity

€'000	Share capital	Share premium	Translation differences	Fair value reserve	Retained earnings	Total equity
Balance at 1 January 2015	50,000.0	29,995.2	-6,960.4	-9,957.3	367,938.5	431,016.0
Comprehensive income						
Profit/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 differences			-386.8			-386.8
Available-for-sale financial assets				26.0		26.0
Cash flow hedges				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
Balance at 31 December 2015	50,000.0	29,995.2	-7,347.2	-5,381.4	386,072.0	453,338.7

€'000	Share capital	Share premium	Translation differences	Fair value reserve	Retained earnings	Total equity
Balance at 1 January 2014	50,000.0	29,995.2	-6,846.8	-12,983.2	416,955.0	477,120.2
Comprehensive income						
Profit/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 differences			-113.6			-113.6
Available-for-sale financial assets				0.8		0.8
Cash flow hedges				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	0.0	0.0	0.0	0.0	-22,000.0	-22,000.0
Balance at 31 December 2014	50,000.0	29,995.2	-6,960.4	-9,957.3	367,938.5	431,016.0

Consolidated cash flow statement

€m	2011	2012	2013	2014	2015
Cash flow from operating activities					
Cash receipts from customers	59.1	79.2	68.1	76.9	81.1
Proceeds from sale of tangible assets	12.6	9.4	9.5	11.1	30.8
Cash receipts from other operating income	10.8	5.6	4.8	4.2	3.5
Cash paid to suppliers and employees	-19.8	-22.4	-25.4	-27.2	-25.6
Cash flow from operating activities before financial items and taxes	62.8	71.7	57.0	65.0	89.8
Interest paid and other financial expenses	-16.7	-20.0	-21.8	-25.3	-20.8
Interest received	0.6	0.4	0.4	0.0	0.1
Income taxes paid	-13.4	-13.0	-10.5	-6.9	-6.8
Net cash flow from operating activities	33.3	39.2	25.0	32.8	62.3
Cash flow from investing activities					
Investments in biological assets	-12.8	-10.8	-6.2	-25.1	-28.3
Investments in tangible assets, forestland	-1.6	-1.3	-0.8	-3.1	-3.5
Investments in other tangible and intangible assets	-4.3	-4.1	-3.9	-3.3	-3.4
Investments in associates and other investments	0.0	0.0	0.0	0.0	-0.8
Investments in available-for-sale financial assets	-2.5	0.0	0.0	-2.2	0.0
Proceeds from sale of available-for-sale financial assets	0.0	8.5	8.7	0.0	1.6
Net cash flow from investing activities	-21.2	-7.7	-2.2	-33.7	-34.5
Cash flow from financing activities					
Withdrawal of long-term loans	0.5	395.5	0.0	150.0	0.0
Repayment of long-term loans	-12.0	-366.0	-4.4	-145.6	-4.7
Withdrawal of short-term loans	0.0	4.5	40.0	17.0	57.0
Repayment of short-term loans	0.0	-12.1	0.0	0.0	-67.1
Dividends paid	-13.5	-26.0	-63.0	-22.0	-21.0
Net cash flow from financing activities	-25.0	-4.1	-27.4	-0.6	-35.8
Net increase/decrease in cash and cash equivalents	-12.9	27.4	-4.6	-1.4	-8.0
Cash and cash equivalents at beginning of period	20.3	7.4	34.8	30.3	28.9
Cash and cash equivalents at end of period	7.4	34.8	30.3	28.9	20.9

Summary of financial statements

The Tornator Timberland Group reports according to the International Financial Reporting Standards (IFRS).

	2011	2012	2013	2014	2015
Net sales, € million	77.7	82.9	86.7	90.7	113.6
Operating profit, € million	90.5	71.8	114.7	65.0	56.4
Operating profit without change in fair value of biological assets, € million	65.2	63.1	65.5	62.6	74.5
Operating profit without change in fair value of biological assets, % of net sales	83.8	76.1	75.6	69.0	65.6
Profit/loss for the period, € million	61.5	7.4	108.1	-27.0	39.1
Profit/loss for the period without fair value changes, € million	35.7	35.4	31.7	29.6	44.0
Profit/loss for the period without fair value changes, % of net sales	45.9	42.7	36.5	32.7	38.8
Shareholders' equity, € million	430.4	426.1	477.1	431.0	453.3
Interest-bearing net liabilities, € million	411.7	411.3	459.8	495.0	489.3
Balance sheet total, € million	1,060.8	1,105.0	1,149.6	1,190.8	1,180.8
Return on capital employed without change in fair value of biological assets, %	7.4%	7.1%	7.1%	6.5%	7.7%
Return on equity without fair value changes, %	8.6%	8.3%	7.0%	6.5%	10.0%
Equity ratio, %	41.9%	40.1%	43.0%	37.2%	38.6%
Dividends paid, €/share	2.7	5.2	12.6	4.4	4.2
Dividend yield, %	3.1%	6.1%	14.0%	4.8%	4.7%
Average number of employees	197	211	216	217	213
Personnel expenses, % of net sales	9.3%	9.4%	10.0%	10.4%	7.6%
Investments in forestland, € million	14.3	12.1	7.0	28.2	31.8
Investments in other fixed assets, € million	4.3	4.1	3.9	3.3	4.3
Sales of cutting rights, million cubic metres	2.0	2.5	2.6	2.6	2.6
Annual cut, million cubic metres	2.4	2.6	2.8	2.8	2.7
Book value of forests, € million	577.1	587.9	592.7	617.8	635.9
Fair value of forests, € million	1,014.4	1,033.8	1,087.9	1,115.4	1,115.4
Gross proceeds from land sales, € million	12.6	9.2	9.3	10.8	30.8

Financing, nominal values

€m	2011	2012	2013	2014	2015
Long-term bonds	0	250	250	250	250
Long-term bank loans	366.4	144.1	141.0	145.5	141.0
Long-term debenture loan	65.0	65.0	65.0	65.0	65.0
Current portion of long-term loans	12.0	4.5	4.5	4.5	4.5
Short-term bank loans and commercial papers	0.0	0.0	40.0	57.0	47.0
Net financial expenses	18.2	61.3	6.3	97.5	8.2
Net financial expenses without fair value changes	16.5	16.3	23.4	26.0	20.6
Net financial expenses without fair value changes, % of net sales	21.3%	19.6%	27.0%	28.7%	18.1%
Financial expenses for loans, average, %	3.7%	3.5%	5.1%	5.2%	3.9%
All loans	443.4	463.6	500.5	522.0	507.5

Calculation of key figures

$$\text{Return on equity, \%} = \frac{\text{Profit for the period}}{\text{Equity}} \times 100$$

$$\text{Return on capital employed, \%} = \frac{\text{Operating profit} + \text{Interest income}}{\text{Balance sheet total} - \text{Interest-free liabilities}} \times 100$$

$$\text{Dividend yield, \%} = \frac{\text{Dividends paid}}{\text{Equity}} \times 100$$

$$\text{Equity ratio, \%} = \frac{\text{Equity}}{\text{Balance sheet total} - \text{Advances received}} \times 100$$

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