



**“THE YEAR 2016
WAS A TIME OF
GROWTH AND
DEVELOPMENT”**

CEO'S REVIEW

pages 4–5

GRI

This report has been prepared in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines

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REPORT DESCRIPTION:

This report has been prepared in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, applying the Core option. The report covers the key areas of economic, social and environmental responsibility.

OVERVIEW OF TORNATOR

TORNATOR IN BRIEF

Tornator is a leading company specialised in sustainable forestry, owning forests in Finland, Estonia and Romania. In 2016, the Group's net sales were some €97 million and its balance sheet increased to nearly €1.4 billion. The Group has about 200 employees. In total, its forests provide direct employment with an estimated worth of 900 person-years. Tornator has a large tax footprint: in the last few years, it has been among the top 50 corporate taxpayers in Finland and is the highest taxpayer in South Karelia. The company's shareholders consist mainly of Finnish institutions. Tornator's mission is "generating sustainable well-being from the forest".

FORESTLANDS IN FINLAND

575,000

HECTARES

FORESTLANDS IN ESTONIA

57,000

HECTARES

FORESTLANDS IN ROMANIA

12,000

HECTARES



FORESTRY

We practise sustainable forestry with the aim of good and steady yield. The forests are managed using the right treatments at the right time. In this way, our nearly 650,000 hectares of forestlands are maintained in good growth condition and the productivity of the land is utilised as well as possible. Systematic forest management and skilled employees will secure successful operations in the future as well. Our main business is the production and sale of wood, which secures sustainably produced certified wood for customers. In addition, we provide high-quality forest services to our customers.



REAL ESTATE BUSINESS

The main activity of the real estate business is the planning and sale of waterfront building plots. We also sell selected forest properties that are poorly suited to our real estate structure, including separate parcels and island locations. At the same time, we buy forestland in our core areas. We lease land for various purposes, such as hunting, and develop wind power projects and new business in co-operation with our partners.

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 for the economy, society and the environment.

THE YEAR 2016 HIGHLIGHTS AND KEY FIGURES



INCREASED VALUE OF FORESTS

The fair value of Tornator's forests in Finland increased by

€211

million. Long-term sustainable forest management brings results.

RAISE IN SUSTAINABLE ANNUAL CUT

Due to the good growth and age distribution of the forests, Tornator raised its sustainable annual cut in Finland by

50,000

cubic metres.

DEVELOPMENT OF TIMBER SALES IN ESTONIA

Tornator Eesti OÜ purchased 4,000 hectares of forestland and increased its net sales from timber deliveries by nearly

60

percent.



PEFC™ AND FSC® CERTIFICATION OF FORESTS IN ESTONIA

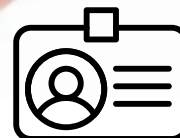
Tornator Eesti OÜ was awarded the PEFC and FSC certificates, attaining double certification for Tornator's forests in Estonia.

NATURE CONSERVATION

In Finland, Tornator established two new mire conservation areas with a total area of

450

hectares.



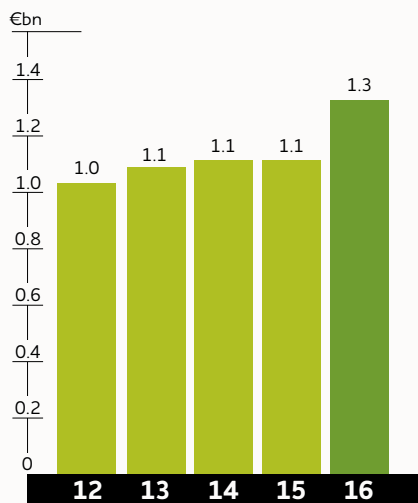
CHANGE IN MANAGEMENT APPROACH

Tornator adopted the process approach to management. The change enabled the company to remain competitive and fully engaged in forest sector growth in Finland.

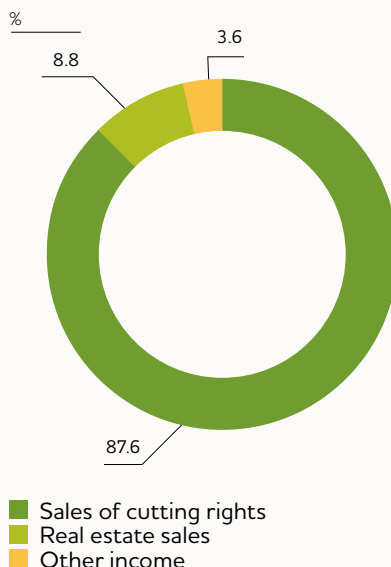
DEVELOPMENT OF OCCUPATIONAL SAFETY

In Romania, an extensive safety campaign was organised for logging and forest service contractors.

VALUATION OF FORESTS
(fair value)



CASH FLOW FROM OPERATIONS 2016



HIGH EMPLOYEE AND CUSTOMER SATISFACTION

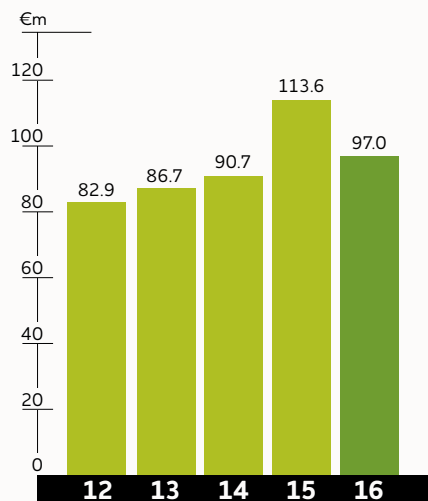
According to a survey, employees are very satisfied with their employer. Tornator also received excellent feedback on customer satisfaction.

KEY FIGURES

Without effects of fair value changes

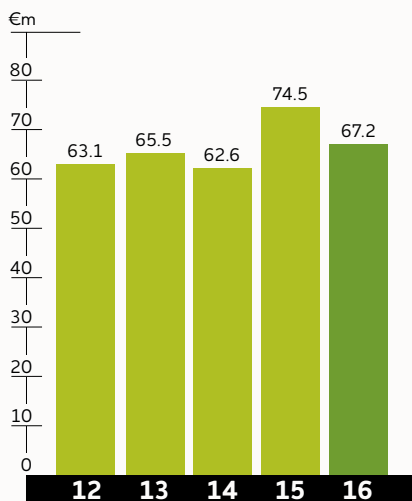
	2012	2013	2014	2015	2016
Net sales, € million	82.9	86.7	90.7	113.6	97.0
Operating profit, € million	63.1	65.5	62.6	74.5	67.2
Operating profit, % of net sales	76.1	75.6	69.0	65.6	69.3
Profit for the period, € million	35.4	31.7	29.6	44.0	37.3
Profit for the period, % of net sales	42.7	36.5	32.7	38.8	38.5
Average number of employees	211	216	217	213	200
Return on capital employed, %	7.1	7.1	6.5	7.7	6.5
Return on equity, %	8.3	7.0	6.5	10.0	7.1
Equity ratio, %	40.1	43.0	37.2	38.6	43.7

NET SALES



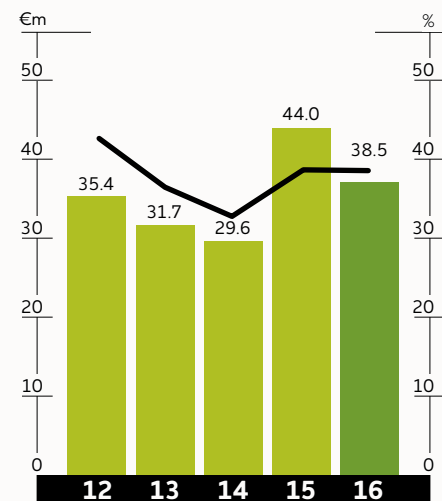
OPERATING PROFIT

(Without effects of fair value changes)



PROFIT FOR THE PERIOD

(Without effects of fair value changes)



■ Profit for the period (€m)
— Profit for the period (% of net sales)

CEO'S REVIEW

“Tornator has every opportunity to be a leading company in the bioeconomy and a forerunner in sustainable business.”

The year 2016 was a dynamic time of growth and development for Tornator. The company's long-term, professional and responsible work in forest asset management again created significant value for shareholders. The strengthening of the timber market improved the profitability of our core business, and we also streamlined our operations with internal changes.

During the reporting year, net timber sales grew by 7 percent from the previous year. Due to a reduction in forestland sales, revenues from plot and other land sales decreased to €8.3 million (30.8). For the first time in Tornator's history, our timber deliveries exceeded three million cubic metres. Operating profit without the change in the fair value of biological assets and net profit (without non-recurring items) increased in all of the Group's operating countries – Finland, Estonia and Romania. Forestland purchasing continued in Estonia and resumed in Finland.

In line with the new corporate strategy prepared at the beginning of the reporting year, we focused not only on profitable growth, but also on the development of competitiveness and management. Early in the year, we implemented a large-scale adoption of the process approach, enabling us to improve our competitiveness and management. We also continued the productivity programme that reaches into 2018, aiming at improving our profitability by €5 million. With the actions taken in 2016, the programme progressed as planned.

Another objective of the change in management approach was to improve customer focus. In fact, a survey conducted in the autumn showed that our customer satisfaction has further improved.

Our whole staff were actively involved in the change process and, according to an employee well-being survey, employee satisfaction was at a very high level. This is a strong indication that the decisions we have made have taken the company in the right direction, and that the employees are strongly committed to developing the company.

We grow and develop responsibly

The increased value of our forests in Finland and raising the sustainable annual cut during the reporting year are proof of our long-term efforts in forestry. We have also managed to establish double-certified wood as our competitive advantage. In late 2016, we obtained FSC certification for our forests in Estonia, and at the very beginning of January 2017 in Romania as well.

Tornator handled its corporate responsibility by being a significant corporate taxpayer and employer in sparsely populated areas. Our well-managed forests act as an important carbon sink. By caring for the growth and diversity of our forests, we shall continue to secure their effectiveness in mitigating climate change and the depletion of forest species.

Determined sustainability work will be continued in 2017. We want to develop our sustainability communication and to make reporting more systematic, as evidenced by our adoption of the international GRI guidelines.

Investments predict more growth

The starting point for Tornator's business in 2017 is good. Globally, there is more and more demand for a business based on sustainable forestry. Economic growth must lean more and more on increasing use of bio-based materials and renewable energy. In the Baltic Sea region, ongoing forest industry investments are already increasing the demand for wood. New forest industry and bioplant investments are being planned around the Baltic Sea, and hopefully we shall soon see new investment decisions as well. Tornator wants to be a part of the sustainably growing bioeconomy, continuing its efforts in the diverse utilisation of forests.

On the other hand, the sector's development faces potential challenges in the increasing unbalance in sawlog and pulpwood consumption on the Finnish market, as well as poor demand for fuelwood and forest biomass in Estonia and Finland. In ideal circumstances, Finnish companies would invest especially in sawmilling of small-diameter logs and sawn timber marketing. In addition, the revision of the renewable energy support system in Finland will cause delays in the implementation of Tornator's wind power projects.

I believe that our company has every opportunity to be a leading company in the bioeconomy and a forerunner in sustainable business in the coming years.

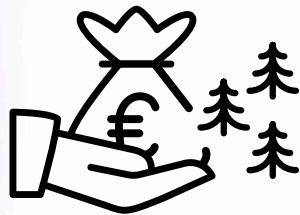
I would like to express my thanks to our skilled and motivated employees who did an excellent job in 2016. My heartfelt thanks for the past year also go to our customers, partners, shareholders and all other stakeholders. We shall continue our work to remain worthy of your confidence in the years to come.

Sixten Sunabacka
Chief Executive Officer

CFO'S REVIEW

INTEREST RATES INFLUENCE FOREST VALUE

The raised sustainable annual cut, the interest rate environment and price expectations influenced Tornator's balance sheet. Together, these increased the fair value of our forests by €211 million. The collateral value of the forests grew; in other words, the company's loan-to-value ratio improved.



**DURING THE PERIOD, THE
FAIR VALUE OF TORNATOR'S
FOREST ASSETS IN FINLAND
INCREASED BY**

€211

MILLION.

Henrik Nieminen
Chief Financial Officer

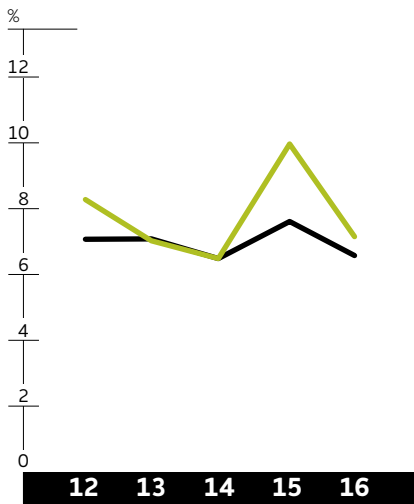
During the period, the fair value of Tornator's forest assets (growing stock) in Finland increased by €211 million. The good growth of the forests, resulting from high-quality forest management, enabled raising the sustainable annual cut. Another significant factor in the value increase was a reduction of the discount rate used in valuing the forests. The company reduced the nominal discount rate by 0.5 percentage points to 5.5 percent after taxes. The fair value is calculated using a real discount rate, where the expected inflation rate is equal to the EU's official long-term target rate of 2.0 percent.

In general, interest rates have decreased significantly and the new discount rate better reflects the capital costs of the company. On the other side of the balance sheet, lower market interest rates resulted in a decrease of the fair value of the company's long-term interest rate instruments by some €32.5 million. In line with the financial strategy, the aforesaid interest-induced changes in fair value offset each other.

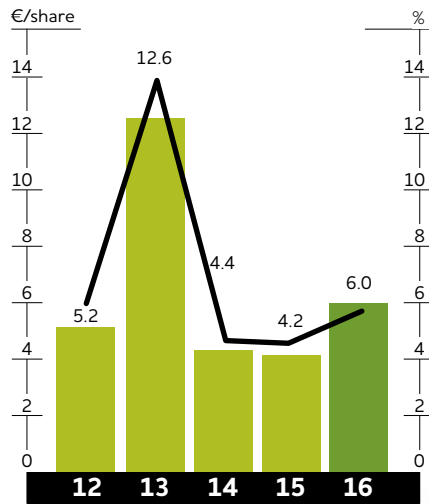
New forest funds appeared on the forestland market both in Finland and Estonia, and the trade was largely overheated. Low interest rates steer investments towards forest assets that generate a steady cash flow. Trees will grow in good and bad times.

ROCE AND ROE

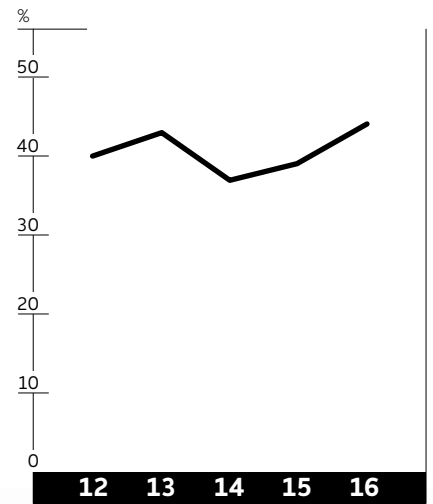
(Without effects of fair value changes)



DIVIDEND AND DIVIDEND YIELD



EQUITY RATIO



— Return on capital employed
— Return on equity

■ Dividend (€/share)
— Dividend yield (%)

Productivity programme boosts competitiveness

Tornator wants to improve its competitiveness through both additional revenues and cost savings, and has set a target to improve productivity by €5 million by the end of 2018. In 2016, the productivity programme focused especially on enhancing forest management and timber sales processes. Various actions contributed to achieving significant improvements in efficiency, and the implementation of the programme was well on schedule at the end of 2016.

The company has traditionally had a strongly positive cash flow from operations. In 2016, the goal was to optimise account balances on the one hand, and the amounts of commercial papers and drawn credit facilities on the other. Maintaining a high level of cash reserves would be imprudent due to the low interest rates. The goal was successfully achieved, as the cash reserves were significantly lower than in previous years, but without a liquidity risk.

Financial strategy supports and secures the business

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

2016

KEY ACHIEVEMENTS

Increased value of forest assets improved loan-to-value ratio and strengthened equity ratio.

The productivity programme produced the desired results.

Successful cash management optimised cash flows.

2017

GOALS AND PRIORITIES

Raise new capital to finance growth, if necessary.

Continue productivity programme according to plan.



strategy is based on comprehensive balance sheet management, ready access to the capital markets, diverse financial instruments, managed hedging of interest rate risk and sufficient 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 2016, 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 updated

risk management policy, the Group's loan portfolio must have an interest rate hedge ratio of 50–100 percent.

At the end of 2016, Tornator's hedge ratio was 80 percent. The effects of market rate changes are levelled out in the long term with fixed-interest loans and interest rate derivatives.

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.

FINANCIAL RATIOS, 31 DEC 2016

	31 Dec 2016	31 Dec 2015	31 Dec 2014	Max./Min.
Equity ratio, %	44	39	37	
Average interest rate, %	3.9	3.9	4.8	
Hedge ratio, %	80	80	79	
Average loan maturity, years	2.7	3.6	4.4	
Average fixing time, years	1.6	2.1	2.5	
Gearing ratio, %	64.7	81.9	86.7	150
Debt service coverage ratio (DSCR)	2.3	3.2	1.9	1.1
Loan-to-value (LTV) ratio, %	39.4	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%).

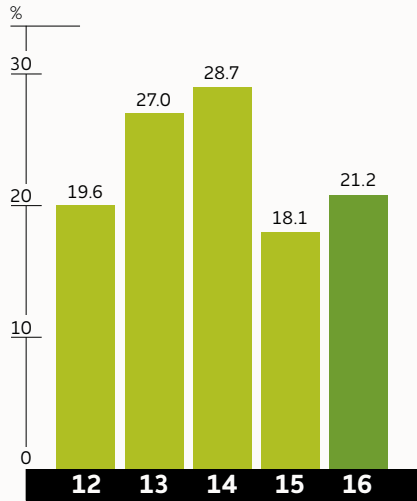
SENSITIVITY OF INTEREST RATE RISK

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

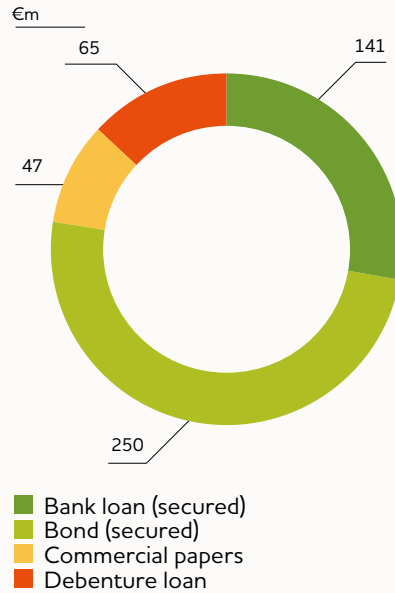
€m	31 Dec 2016	
	Income statement	Fair value reserve
One percentage point increase in market interest rates	64.1	0.0
One percentage point decrease in market interest rates	-81.5	0.0

“Tornator’s target is to improve productivity by €5 million by the end of 2018.”

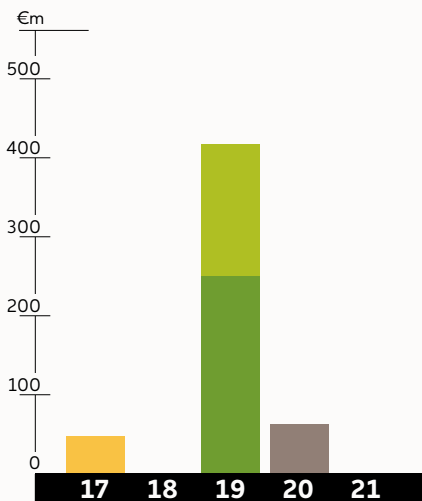
NET FINANCIAL EXPENSES
(% of net sales)



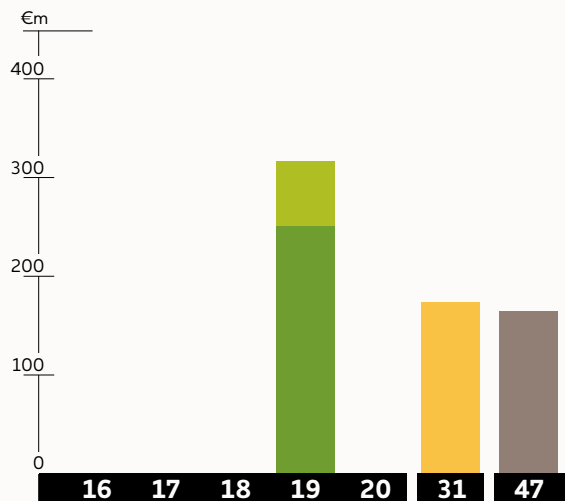
STRUCTURE OF DEBT, NOMINAL VALUES
31 DEC 2016



MATURITY OF DEBT



EXPIRY OF INTEREST RATE HEDGES, NOMINAL VALUES



- Bond
- Bank loan
- Commercial papers
- Debenture loan

- Hedge on bond (swap)
- Hedge on debenture loan (swap)
- Long-term swaps 1
- Long-term swaps 2

BUSINESS ENVIRONMENT

BIOECONOMY GROWTH DRIVEN BY MEGATRENDS

A business based on sustainable forestry will have more and more demand in the future. Globally, the development of the bioeconomy is driven by population growth and climate change, and a growing roundwood market will support wood production especially in the Baltic Sea region.

Wood consumption to increase in industry

Due to global megatrends, wood consumption in industry will increase further. Tornator's response to the global trends is to increase responsible wood production and to secure the availability of wood with its extensive forest assets and long-term forest management.

A multipurpose and ecological raw material, wood plays a key role in the bioeconomy. For a company such as Tornator that is specialised in sustainable wood production, this means ever-increasing business opportunities.

The main factors behind the rise of the bioeconomy are climate change and population growth. In an effective fight against climate change, the demand for wood-based materials will increase globally. Wood construction can provide sustainable housing solutions to populations moving into urban centres. At the same time, for example, online shopping will increase the demand for paperboard, and plastics in food packaging can be replaced with renewable materials.

The Government of Finland has made the bioeconomy one of its strategic priority areas, as the country has the fourth largest biocapacity per capita in the world. In addition, a new national energy and climate strategy further highlights the importance of renewable raw materials.

Growth expected in the Baltic Sea region

Growing demand for wood is expected in the Baltic Sea region, which will improve Tornator's business outlook in Finland and Estonia. In the next few years, the investments of the forest and energy industries will increase the need for roundwood both in Finland and Sweden.

Ongoing investments will increase logging in Finland by some 10 million cubic metres by the end of 2017. The investments include Stora Enso's board and LVL production in Varkaus, Metsä's new bioproducts plant in Äänekoski as well as other pulp production increases. The investments and increase in wood consumption in the Baltic Sea region are illustrated by the map on the following spread.

In 2016, Finland exported a record volume of sawn timber to China – about a million cubic metres, by preliminary estimates. This indicates the growth of sawn timber exports to Asia in the future as well.

Real estate market picking up

During the reporting year, the demand for building plots revived clearly from the previous year's low, and the sales of additional land also picked up. The upturn in the market was mainly due to a better general economic situation and restoration of people's faith in the future.

Several forestland funds have emerged in the forestland market and competition for larger sites is intense. Prices have also increased in Tornator's core areas.

“A multipurpose and ecological raw material, wood plays a key role in the bioeconomy.”

Megatrend	Effects on sector and Tornator	Our response
Climate change	<ul style="list-style-type: none"> • Increasing use of renewable raw materials and sustainable energy sources • Growing demand for renewable materials • Higher significance of forests as a carbon sink and wood as carbon storage • Impacts of extreme weather events on forests 	<ul style="list-style-type: none"> • Utilising resources efficiently and decreasing energy consumption, using renewable energy • Actively developing wind power • Choosing suppliers responsibly • Managing forests responsibly, enhancing forest growth and increasing forest area • Strengthening forest biodiversity
Population growth and urbanisation	<ul style="list-style-type: none"> • Increase in construction, emergence of new markets based on sustainable wood construction • Transfer of workforce from sparsely populated areas to urban centres • Growing middle class and changing consumption patterns, e.g., increasing need for recyclable food packaging • Increasing significance of forests for recreation and well-being 	<ul style="list-style-type: none"> • Producing raw materials for healthy wood construction • Developing the employer image, responsible employership • Developing bioeconomy, supplying products based on renewable raw materials • Producing wood responsibly for sustainable packaging materials • Actively providing forests for recreational use
Rise of bioeconomy and circular economy	<ul style="list-style-type: none"> • Increasing business based on renewable raw materials and circular economy, with bioeconomy in a key role • Opportunities in bioeconomy for economic growth in Finland, the Government's key projects in bioeconomy • Increasing understanding of the opportunities of bioeconomy in Europe 	<ul style="list-style-type: none"> • Practising profitable and long-term business based on a renewable natural resource • Developing bioeconomy through responsible wood production • Seeking new opportunities of forest utilisation, new businesses such as the collection of sap and other natural products
Digitalisation	<ul style="list-style-type: none"> • Continuous decrease in paper consumption • Increasing demand for renewable packaging materials due to expansion of online shopping and population growth • Increase in online services, new opportunities in customer service 	<ul style="list-style-type: none"> • Developing online services for customers • Enhancing forest management with digital methods and IT systems • Developing and adopting new management tools
Stakeholders' increasing expectations	<ul style="list-style-type: none"> • Increasing demands on regulation and reporting • Increasing importance of open and transparent communication • Higher significance of responsible corporate citizenship • Stronger environmental awareness of consumers and increasing demand for certified wood 	<ul style="list-style-type: none"> • Developing sustainability, training employees • Participating in the sector's sustainability projects and programmes • Improving control of the supply chain • Double certification of forestlands • Developing sustainability and stakeholder communication

INVESTMENTS AND INCREASE IN WOOD CONSUMPTION



- Realised and confirmed investments, million m³
- Preliminary estimates of planned investments, million m³

INCREASE IN FELLING IN FINLAND

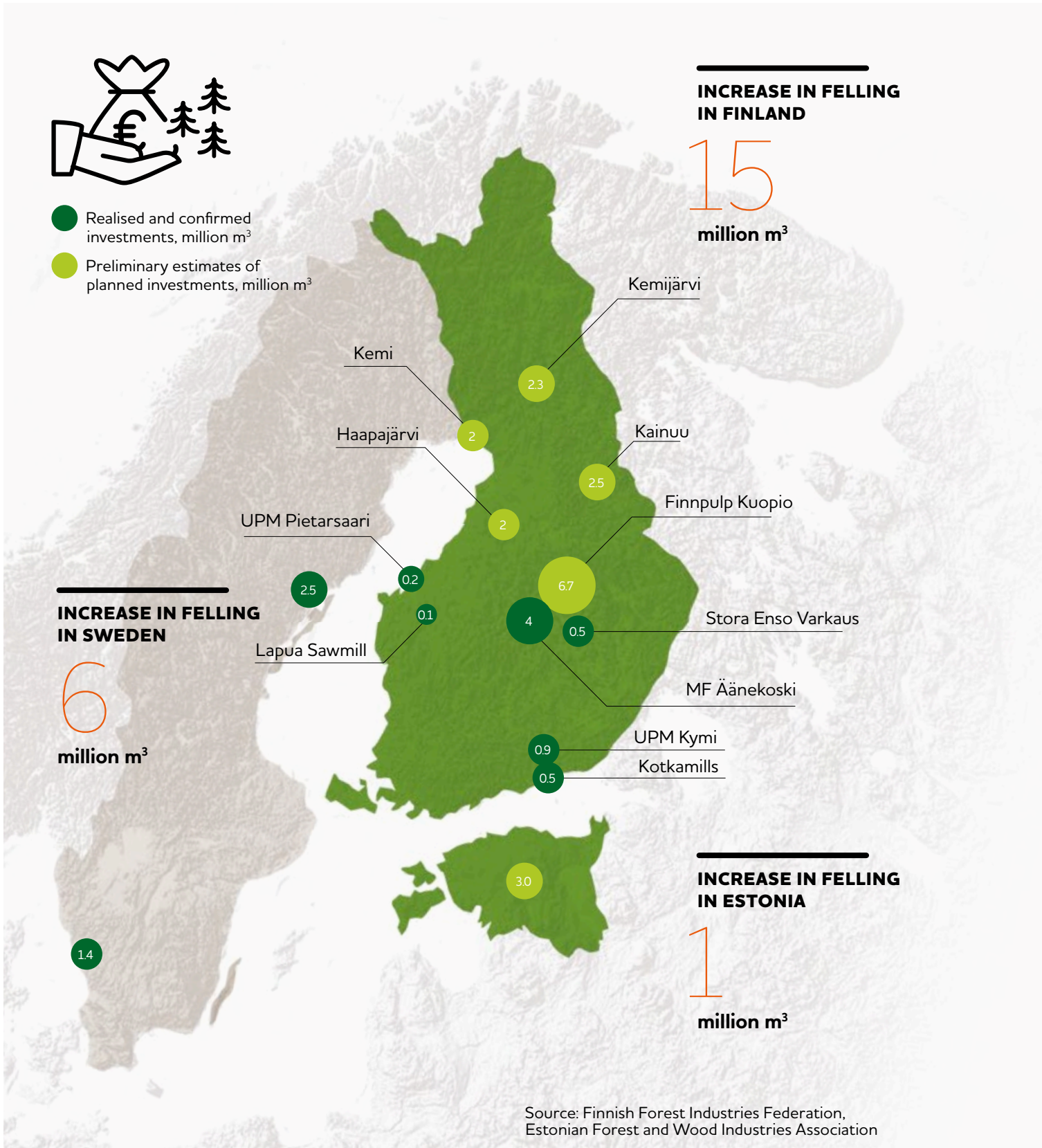
15
million m³

INCREASE IN FELLING IN SWEDEN

6
million m³

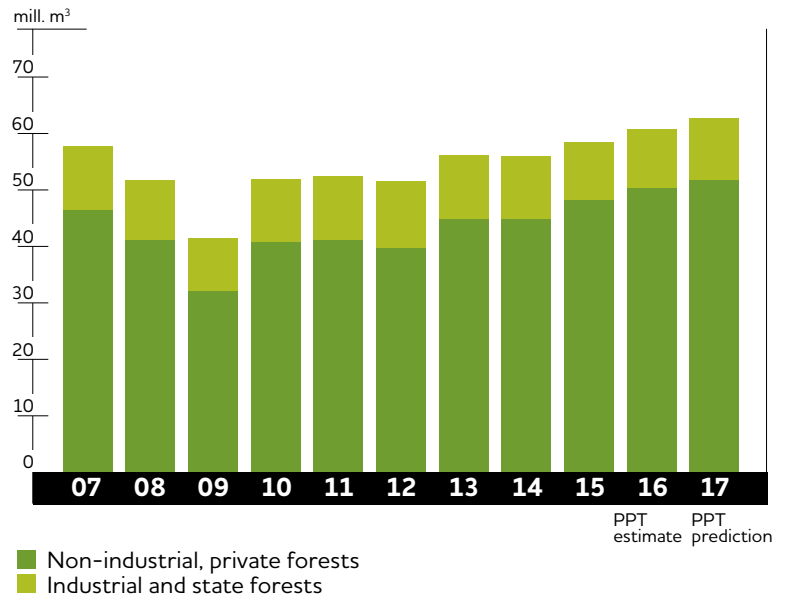
INCREASE IN FELLING IN ESTONIA

1
million m³



Source: Finnish Forest Industries Federation, Estonian Forest and Wood Industries Association

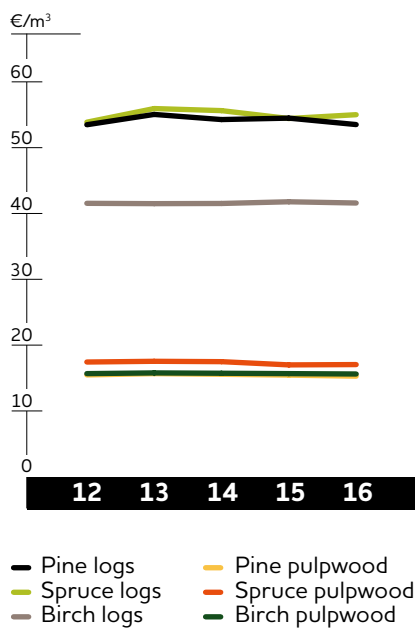
ANNUAL COMMERCIAL ROUNDWOOD REMOVALS



Source: Natural Resources Institute Finland, Macrobond, PPT

LOG AND PULPWOOD STUMPAGE PRICES IN FINLAND

(Four-week sliding average)



Source: Natural Resources Institute Finland, Finnish Forest Industries Federation

STRATEGY

SUSTAINABLE AND DIVERSE VALUE CREATION

Tornator develops its business by utilising digital technology, forming strategic partnerships, enhancing competence and investing in forestland. At the same time, the company seeks new ways to create a diversity of added value from the forest for its stakeholders.

During the reporting year, the company intensified its activities with operational changes and adopted new strategic guidelines to develop the business. The company's operations are driven by three priority areas: growth, competitiveness and management. These are discussed in detail on the following pages.

MISSION
GENERATING
SUSTAINABLE WELL-BEING
FROM THE FOREST.

VISION
TORNATOR IS AN
INTERNATIONALLY RESPECTED
FORESTRY COMPANY.

GROWTH

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

COMPETITIVENESS

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

MANAGEMENT

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

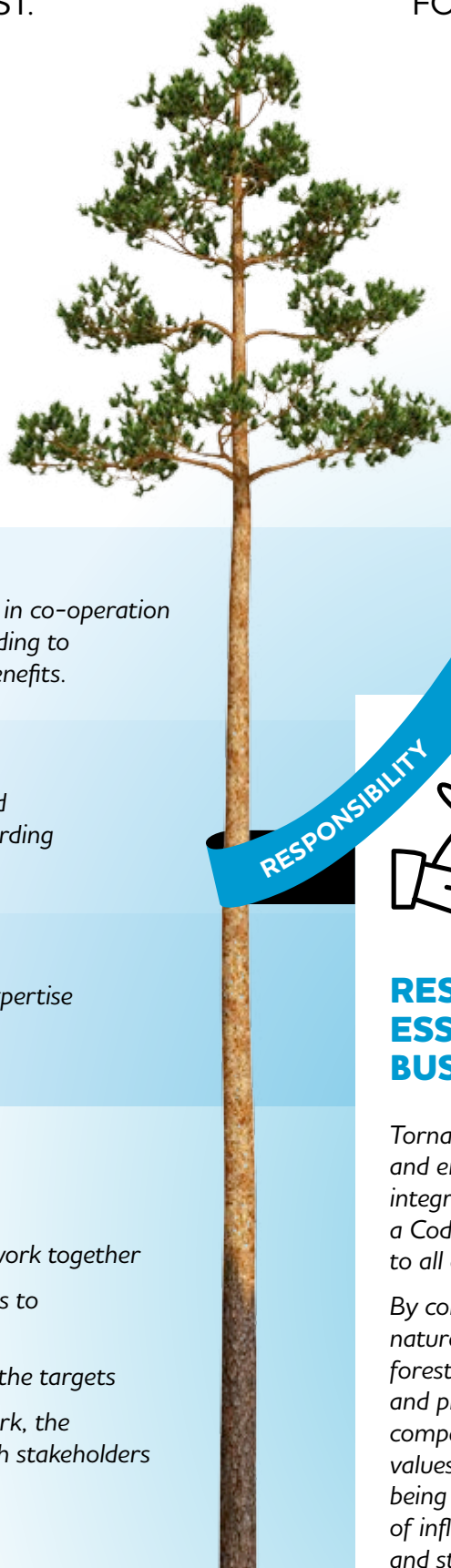
VALUES

Team spirit – ability and will to work together

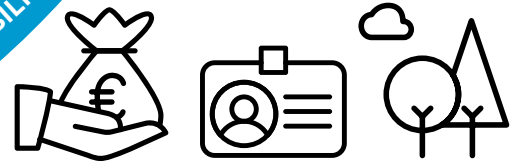
Willingness to change – readiness to adopt new ways of doing things

Performance – working towards the targets

Responsibility – for quality of work, the environment and relationships with stakeholders



RESPONSIBILITY



**RESPONSIBILITY IS AN
ESSENTIAL PART OF THE
BUSINESS**

Tornator makes economic, social and environmental responsibility an integral part of its business, guided by a Code of Conduct that is common to all countries of operation.

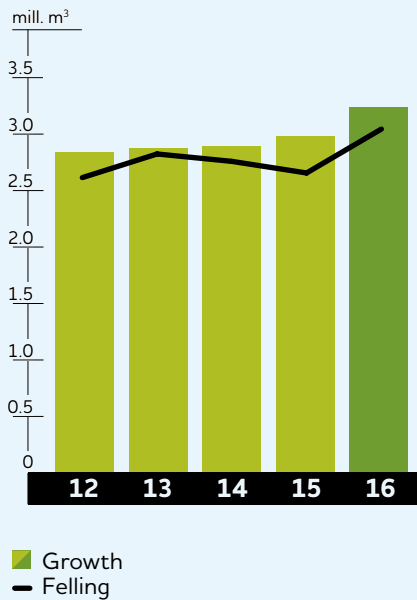
By combining effective forestry with nature management in commercial forests, protecting valuable habitats and providing employment, the company ensures that environmental values, biodiversity and human well-being are promoted in its entire sphere of influence, according to legislation and stakeholders' expectations.

GROWTH

CONTROLLED EXPANSION AND SUSTAINABLE GROWTH

Due to forest sector investments and increasing wood consumption, Tornator’s net timber sales grew to a record level. The company reduced its forestland sales, which also decreased sales revenues significantly. Tornator actively seeks opportunities to expand in strategically selected core areas.

GROWTH AND FELLING IN TORNATOR’S FORESTS



Tornator’s objective is to grow in a controlled manner and to create more value for shareholders and stakeholders. Skilled employees and a high standard of management provide a solid foundation for this. Growth is sought in the current core business as well as in new business based on the forest bioeconomy in Finland and abroad.

Despite an economically uncertain business environment, Tornator’s net timber sales climbed high in all countries of operation in 2016. Tornator responds to increasing wood consumption by optimising the yield of its forests in the long term and raising its sustainable annual cuts.

Growth in all countries of operation

Tornator’s long-term efforts in sustainable forestry and high-quality forest management paid off as vigorous growth of the forests in Finland, which is why the sustainable annual cut was raised by 50,000 cubic metres. Due to a high demand, the net timber sales increased by 7 percent. In addition, the company decided to start a multi-annual fertilisation programme in Finland to improve the growth and vitality of the forests.

Tornator’s growth also continued in Estonia when the subsidiary Tornator Eesti OÜ increased its forest assets by purchasing some 4,000 hectares of land. The company is now the largest private landowner in Estonia with about 57,000 hectares.

Thanks to the recent acquisitions and enhanced forest utilisation, the Estonian subsidiary's net timber sales went up nearly 60 percent. Tornator Eesti OÜ signed a long-term agreement to secure sales for a major part of its annual felling potential. This approach will be expanded in the future.

In Romania, Tornator utilised the existing forestlands more effectively and diversely. Wood demand and prices were high, helping the Romanian subsidiary to reach new records in both net sales and operating profit.

The company is expecting steady growth to continue in all operating countries in the years to come.

Utilising forests in diverse ways

Revenues other than timber sales represented some 12 percent of total revenues. Tornator strives to actively identify and take advantage of the current developments and market trends in the industry.

Tornator has been one of the partners establishing Suomen Puukauppa Oy, which will start operations in 2017. A new online portal will facilitate timber trade and improve the meeting of demand and supply. It will provide new opportunities for growth, helping to bring wood to the market with better customer focus and flexibility.

Tornator's objective is to find more and more diverse ways to utilise its forestland. Through its operations, the company enables a wide range of recreational activities in the forests. Leasing land for wind power generation provides interesting opportunities, and the company is actively involved in wind power development projects.

Growth prospects are also good on the natural products market, where demand has been identified globally. During the reporting year, Tornator started a trial of birch sap collection with Nordic Koivu.

DEVELOPMENT OF TORNATOR'S FORESTLANDS IN ESTONIA, 1,000 HA



INTERNATIONAL GROWTH

Tornator has also sought growth and dispersed risks outside Finland. The first investments in Estonia were made in 2007. The growth in forestland area has continued annually, and in 2014 Tornator Eesti OÜ became the largest private forest owner in the country.

However, merely owning forests or utilising forestland by selling timber resources is no guarantee of continuity. For Tornator, increasing forestland value and developing forest management have been key principles from the start. In addition to quantitative targets, method development, quality assurance and cost-effectiveness are also applied to secure the diverse and sustainable utilisation of forests in the future.

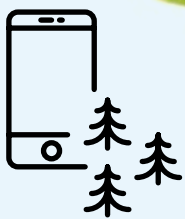
In Estonia, Tornator has created its own way to work by utilising the opportunities available in the country, such as small local enterprises. In fact, much of the fieldwork is done by workforce other than the company's own. The Tornator Group's ERP system, TornaApps, has been tailored to suit the operating environment in Estonia. This, combined with Estonia's own advanced ICT applications, enables effective steering and monitoring of operations as well as management of forest resources.

The demand for wood will increase with the bioeconomy, and Tornator is prepared for this, for example, through forest certification. Tornator Eesti OÜ joined the PEFC group certificate at the beginning of 2016 and obtained its own FSC Forest Management certificate (FSC-C132610) in November 2016. With the increasing forestlands, various types of timber sale have also been developed.

COMPETITIVENESS

HIGH SKILLS AND VAST FOREST ASSETS MAKE US COMPETITIVE

Tornator aims to be the most attractive partner in timber sale and related services. The company's competitive advantages include security of supply backed by the extensive forest assets, a business based on the sustainable use of a renewable natural resource, and highly skilled employees.



DUE TO ITS DIGITAL FORESTRY COMPETENCE, TORNATOR MAKES OPTIMAL USE OF ITS LAND WHILE CONSIDERING CUSTOMERS' NEEDS.

Tornator has every opportunity to be a leading company in the bioeconomy and a forerunner in sustainable forest management. It stands out from other forestry companies in that it has been able to combine forestry, forest environmental management, real estate and a high level of ICT competence into one comprehensive information system.

In recent years, Tornator has made customer-focused service one of its priorities. It has appointed new account managers and trained salaried employees in order to improve services. Due to its digital competence, the company can utilise its land in a sustainable and optimal way, serving the customers' changing needs.

The company provides its long-term customers with felling sites that are well-planned and ready to cut. The extensive forest assets enable the supply of versatile felling sites.

A productivity programme to boost efficiency

Implemented in 2016, Tornator's adoption of the process approach prepared it for a more competitive business. The company launched a productivity programme to cut costs and increase revenues, aiming at a total improvement of €5 million in productivity.

The programme is focused on activities such as the development of information systems and the utilisation of new working methods in the process-based organisation.

During the reporting year, Tornator improved productivity by seeking more cost-effective methods in silvicultural work. Forest resource management and felling site planning were intensified by various digital tools. Furthermore, to support the pricing of forestland sales, a new calculation system based on productive value was adopted.

The high level of competence of Tornator's employees benefits not only the company's own processes but also the needs of customers and stakeholders. A survey conducted in the autumn showed that Tornator's customer satisfaction is at a very high level, and respondents felt that customer service had developed positively.

Double certification also strengthens customers' competitiveness

Through professional and responsible forest management, Tornator also improves its customers' competitiveness. One of the main developments in the business in recent years has been the company's establishment of double-certified wood as a competitive advantage.

All Tornator's forests in Finland are double-certified, and the company is the largest FSC certificate holder in the country. In November, the company obtained FSC certification for its forestlands in Estonia, and by the end of the year, the FSC audit was also conducted for the forests in Romania.



FORESTS IN ESTONIA FSC-CERTIFIED

At the end of 2016, Tornator's Estonian subsidiary Tornator Eesti OÜ was awarded the FSC Forest Management certificate. Tornator's forests in Estonia are now double-certified, since the company had also joined the national PEFC group certificate at the beginning of the year.

"Tornator Eesti is a well-known company whose net sales have increased each year. Through certification, we want to ensure that the demand for wood remains high in the future and customers' needs are met better," says **Matti Kuusisto**, Tornator's Regional Manager for the Baltics.

The official FSC certification process started at the beginning of 2016, but preparations had already been made earlier in co-operation with the parent company. In connection with the certification, guidelines were updated and employees were trained extensively. Implementation in the Estonian subsidiary was co-ordinated by Forest Resource Manager **Tõnis Tõnisson** and the audit was carried out by NEPCon OÜ of Estonia.

The demand for certified wood has continuously increased in recent years. Interest in FSC certification has also grown in Estonia, where only a small proportion of private forests are FSC-certified. "Being the largest private forest owner in the country, we want to show the way in responsible forestry. It is important for us to continuously develop the company," says Tõnis Tõnisson.

MANAGEMENT

MANAGEMENT DRIVES GROWTH AND COMPETITIVENESS

Tornator's business is based on a high standard of management that ensures employees' well-being, competence development and competitive business. In 2016, the company adopted the process approach to management.

“In 2016, Tornator made special efforts to develop the management process and to deepen competence.”



It is important for Tornator to cultivate its employees' commitment, well-being and opportunities for development. The company aims at excellent management, to enable controlled and profitable growth as well as competitive performance as a market actor, an employer and a corporate citizen.

The management process is systematically developed

Since the introduction of the process approach, Tornator has made special efforts to develop management and to deepen employees' competence. During 2016, employees working in supervisory positions received more targeted training sessions, and internal information sharing within the company was enhanced.

A more systematic management process facilitated supervisors' time management and the planning of annual tasks. In addition, a study of the Board of Directors' and Management Group's work has resulted in well-defined job descriptions and a clearer division of duties.

Changes concerning management have been implemented in close co-operation with the employees, and collaboration will be emphasised in the future. According to an employee satisfaction survey conducted in late 2016, employee well-being and



satisfaction are at a very high level. This is a clear indication that the changes have been implemented correctly.

Supervision, human resource development and occupational safety are discussed more fully in the Personnel section on pages 34–38.

Digitalisation provides new opportunities for the management process

Tornator's use of forest resources and planning of work are based on digital data. One of the strategic objectives is to improve management with digital data. Therefore, the company has created a new ICT strategy to use opportunities provided by digitalisation more efficiently.

Using the new management tools, the company can significantly improve the utilisation rate of its forests. Vast areas of forests can be managed efficiently with the TornaApps ERP system. The decision making in forestry planning uses about a hundred different map layers, some of them based on aerial laser scanning data.

During 2016, Tornator also strengthened its identity and clarified its brand through open and active communication. In the future, the company intends to communicate more visibly on sustainability and to reinforce its social influence.



EFFICIENCY AND SMOOTH COMMUNICATION

Implemented in 2016, the adoption of the process approach was a major change from the employees' point of view. Employee assessments and interviews were conducted in the spring, and the division of work and roles of the whole forestry staff were redefined.

Changes in job descriptions presented new challenges to employees. For me, changes in operating models involved new tasks as well as more responsibility in terms of supervisory work and geographic coverage. Learning the new role has involved training sessions in which we standardised practices and solved challenges together.

Due to the reforms, supervisors' skills at Tornator have notably improved, and communication and the feedback culture have evolved. Regular monitoring meetings have increased efficiency and helped in sharing experiences.

Despite the challenges of the change, I feel that the reforms have clarified tasks and taken the organisation in a better direction. Development will continue in the coming years.

Pasi Juntunen,
Operations Superintendent, Forestry

SUSTAINABILITY

Tornator listened to its stakeholders and analysed emerging key sustainability themes from the point of view of its business. Based on this information, the company identified the ten most significant aspects for developing its sustainability work and reporting.

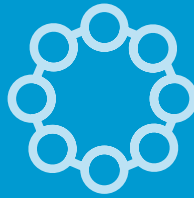
KEY SUSTAINABILITY THEMES



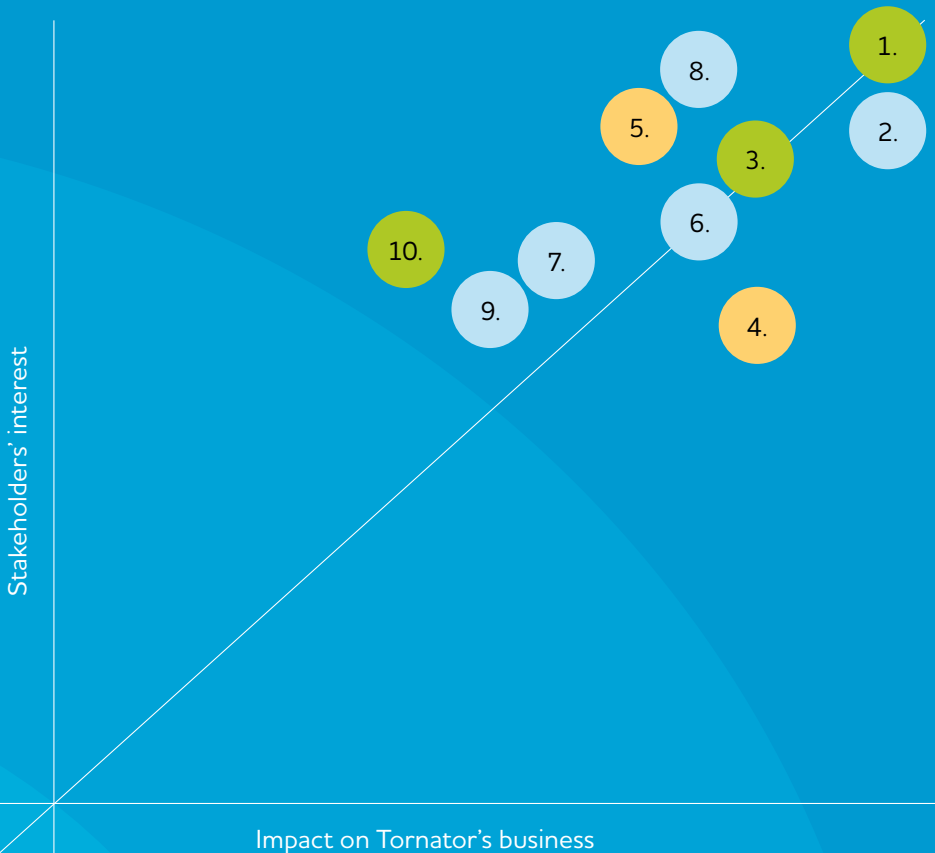
ENVIRONMENTAL



SOCIAL



SOCIETAL



- 1 Sustainable forestry
- 2 Economic profitability
- 3 Forest certification and chain of custody
- 4 Employee competence and well-being
- 5 Occupational safety throughout the value chain
- 6 Ethical business and good governance
- 7 Local economic impacts
- 8 Stakeholder interaction
- 9 Tax footprint
- 10 Carbon footprint – carbon storage

SUSTAINABILITY MANAGEMENT

RESPONSIBILITY IN THE CENTRE OF THE BUSINESS

Tornator's corporate responsibility is demonstrated in the way each employee acts in a socially, economically and ecologically responsible manner. The company is committed to open and transparent communication about all its activities.

Tornator's social responsibility is based on the Board of Directors' policies and the corporate strategy, and is an inseparable part of the employees' daily work. Social responsibility is centred on securing profitable business in an ethical and responsible manner considering the economy, employees, the environment and society.

The company's management practices and annual planning are guided by sustainability thinking. The Board of Directors has approved two important business drivers: the Code of Conduct and the environmental principles. Besides these internal principles, sustainable forestry is also defined by the PEFC and FSC certification criteria as well as the legislation of the respective countries of operation.

The various function managers and country managers are responsible, for their part, for the integration of sustainable practices in day-to-day operations. The implementation of corporate responsibility is monitored as part of the internal monitoring of functions as well as third-party audits, external and internal auditing. The Group's common co-ordination and guidance are the responsibility of the CEO, assisted by the Management Group and the Corporate Responsibility Manager.

Materiality analysis drives the business

Tornator outlined key sustainability themes driving its business with the help of a materiality analysis. The analysis focused on identifying the company's key business and corporate responsibility priorities with regard to economic, social and environmental aspects.

Emerging as key themes were sustainable forestry, economic profitability, forest certification and employee competence. A materiality matrix of the key themes is presented on the opposite page.

The materiality analysis was based on stakeholder surveys as well as shareholders' views. Through the analysis, Tornator obtained a better picture of key stakeholders' expectations of the company, which provided a good basis to clarify reporting priorities.

GRI guidelines adopted for reporting

Tornator continuously develops its sustainability communication. This is the first annual report that has been prepared in accordance with the Global Reporting Initiative (GRI) G4 guidelines, applying the Core option.

In line with the GRI guidelines, the annual report focuses on factors that are essential to Tornator's business. Tornator's corporate responsibility is divided into three areas of concern: society, environment and employees. Tornator's activities in these areas are presented in more detail in their respective sections.



STAKEHOLDERS

OPEN AND ACTIVE DIALOGUE

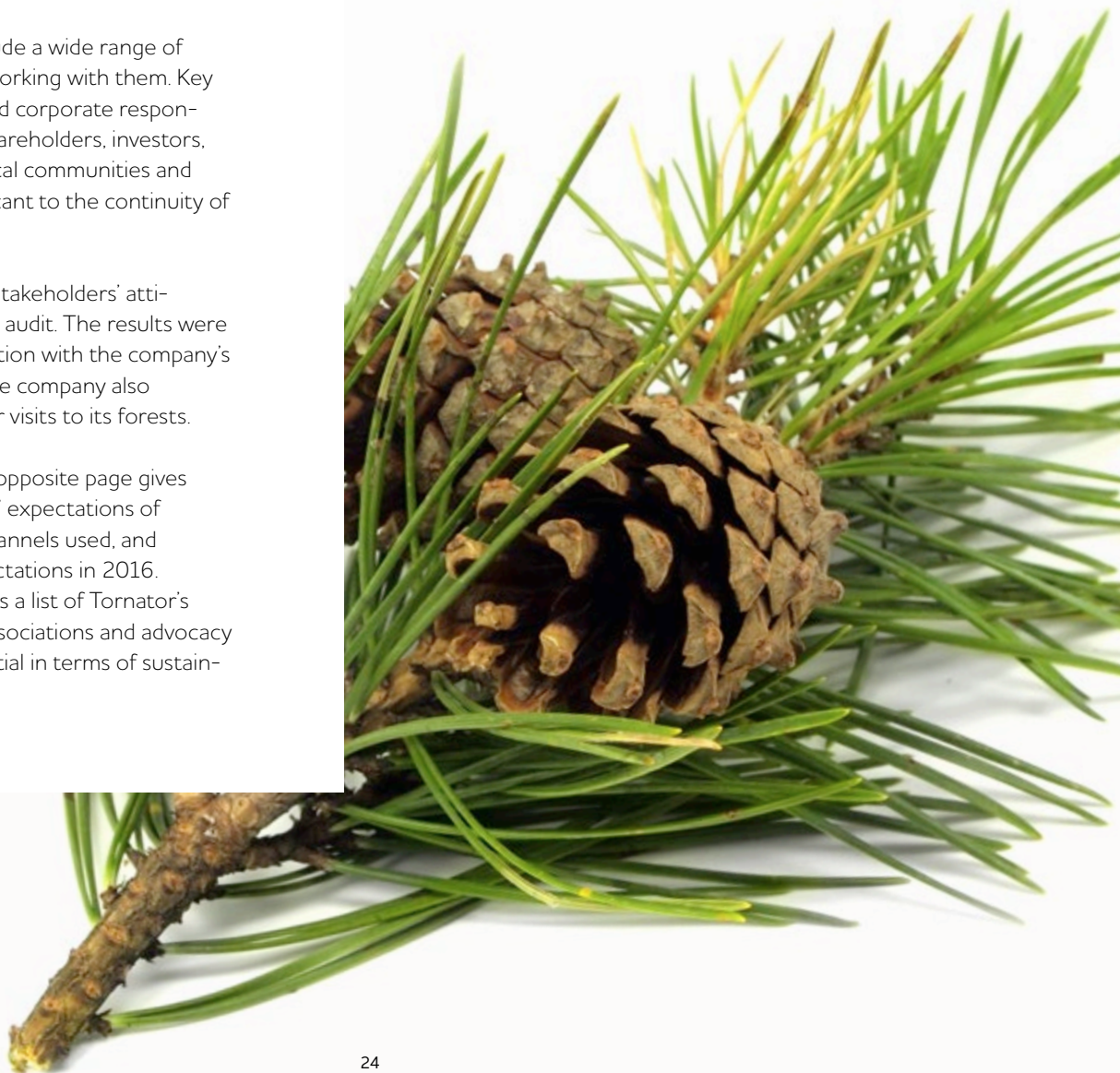
Close and responsible co-operation with stakeholders is one of the key principles guiding Tornator's business. It is important for the company that its relations with stakeholders are transparent and there is open dialogue with all parties concerned.

Tornator's stakeholders include a wide range of actors utilising forests and working with them. Key stakeholders for business and corporate responsibility include customers, shareholders, investors, associations, contractors, local communities and other parties that are significant to the continuity of the business.

In 2016, Tornator surveyed stakeholders' attitudes during the annual FSC audit. The results were positive and showed satisfaction with the company's activities. During the year, the company also arranged several stakeholder visits to its forests.

The table presented on the opposite page gives information on stakeholders' expectations of Tornator, communication channels used, and how the company met expectations in 2016. The following spread includes a list of Tornator's memberships and roles in associations and advocacy organisations that are essential in terms of sustainability.

“Tornator collaborated closely with stakeholders throughout 2016.”



STAKEHOLDER CO-OPERATION IN 2016

	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 returns • Risk management 	<ul style="list-style-type: none"> • Board work • Investor communication 	<ul style="list-style-type: none"> • Tornator arranged investor meetings • Close co-operation with Board of Directors • Operational results were good and the value of the forests increased significantly. 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 120 - Estonia 40 - Romania 260 • Participation in a silviculture project for forest service contractors (NRIF)
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"> • No redundancies • Supervisors stayed in close contact with forest workers during the lay-off period • Individual training opportunities • First-line supervisors were trained in early care • Well-being days (9 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 timely 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 • Effects on regional employment • Listening to neighbours and other 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 (4) • Regional sponsoring: forestry students, forest culture, physical activity of children and youth • Forest of Opportunities campaign, school visits • Catchment area restoration project in Tohmajärvi • All feedback handled
Associations and working groups	<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 PEFC- and FSC-certified wood to customers • Meetings with FANC, WWF and FSC International • Participation in the LUMO, FORBIO, Light & Fire LIFE and Freshabit LIFE IP projects • Participation in a game-based forest management project, provision of trial sites • Number of hunting leases: approx. 1,000
Media	<ul style="list-style-type: none"> • Open and timely 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

TORNATOR'S MEMBERSHIPS IN ASSOCIATIONS AND WORKING GROUPS

Association or working group	Tornator's role
Finland	
Finnish Forest Industries Federation	member of the Board of Directors, member of forest committee, member of land policy subcommittee, member of environmental committee, member of forest environmental subcommittee, member of labour market committee, member of FSC project steering group
Finnish Society of Forest Science	member
Finnish Landowners' Organisation	member
Bioenergy Association of Finland	member
Finnish Wind Power Association	member
FSC Finland – Association for Responsible Forestry	deputy member of the Board of Directors, member of Economic Chamber, member of standard working group
FSC International	member
North Karelia Chamber of Commerce	member
South Karelia Chamber of Commerce	member
TTS (Work Efficiency Institute)	member
Taxpayers Association of Finland	member
Suomen Puukauppa Oy	member of the Board of Directors, member of steering group, member of technical group
Finnish Forest Museum Foundation	member of the Board of Directors
INFRA (Infra Contractors Association in Finland)	member
Ministry of Agriculture and Forestry, Roundwood Market Working Group	member
Tapio's Forest Policy Forum, Steering Group	member
Minister of Agriculture and the Environment, Round Table Group	member
Natural Resources Institute Finland, Strategic Advisory Board for Boreal Green Bioeconomy	member
University of Eastern Finland, FORBIO project	member of steering group, member of expert panel
Romania	
Association of Private Forest Land Owners – PROFOREST	chair
Asociatia Forestierilor din Romania – ASFOR	member
Asociatia Administratorilor de Paduri – AAP	member
Estonia	
Finnish-Estonian Chamber of Commerce, FECC	member
Private forest owners' association Ühinenud Metsaomanikud	member, membership in the umbrella organisation Eesti Erametsaliit
Private forest owners' association Erametsaühing Eesti Metsaomanikud	member, membership in the umbrella organisation Eesti Erametsaliit

SCHOOLCHILDREN ATTEND A FOREST DAY

In May 2016, Tornator and the primary school of Korivaara, Muhos, jointly arranged a forest day for a total of 125 pupils on the Lemmenpolku nature trail at Pyhäkoski. The day's programme included a walk, a forest quiz and a visit to a farm with animals.

The purpose of the day was to increase the children's awareness and knowledge of forests. "The main theme of the day was everyman's right. We also discussed the basics of forest ownership, administration and management," says **Heikki Tuomikoski**, Planning Superintendent of Tornator.

After the walk, the children had a chance to visit the Pakurila smallholding where they had their lunch and a taste of local natural foods. Around a campfire, the children were told how wood products are made today, also covering the history and future.

"The day was a positive experience for the pupils. We learned a lot of new things which were recounted in the classrooms long after the excursion. This kind of collaboration provides a practical and sensible way for the children to learn about nature," says **Jukka Laine**, Head Teacher of Korivaara School.



SOCIETY

WELL-BEING FROM RESPONSIBLE FORESTRY

With its professional and profitable business, Tornator develops responsible forestry, promotes Finnish competitiveness and generates well-being for the society at large. The company is among the 50 largest corporate taxpayers in Finland.

Tornator aims to promote well-being in all communities where it operates. It accomplishes this, for example, by creating jobs, paying dividends and taxes, caring for human resource development, promoting forest biodiversity and working closely with local communities.

The company fulfils its social responsibility by employing people and paying significant amounts of corporation tax in sparsely populated areas, for instance. During the period 2002–2016, it sold a total of 27 million cubic metres of wood in Finland, generating well-being for the society at large. Within the same period, the company's forests grew by some 33 million cubic metres.

Tornator's forests are accessible to the public for recreational purposes, and the growing forests act as a carbon sink helping to mitigate climate change.

Responsibility from the start of the supply chain

Tornator's key activities in the forestry supply chain are: forest resource management, silviculture, planning of sites for sale, sale of timber and related services, and control of harvesting. In addition, the company maintains information and road networks to make the customer's supply chain from wood harvesting to processing as efficient as possible.

As a supplier of roundwood, Tornator operates at the start of the supply chain and has few suppliers of raw materials. Besides its own personnel, the

company provides employment to a large number of contractors who play a significant role in performing forestry work. Regarding silvicultural work and harvesting, the most important group of suppliers is made up of forest service and harvesting contractors. In addition, the company employs suppliers of various materials, safety equipment, seedlings, forest machinery and information technology.

The selection of suppliers is based on the key criteria of price, quality and security of supply; the choice of partners is also guided by the Act on Contractor's Obligations. Tornator prefers local suppliers in all countries where it operates, and contractor co-operation will be further developed in 2017. The quality of contractors' work is systematically monitored, and all suppliers are required to comply with occupational health and safety regulations.

Assessing impacts of operations

As a forestry company, Tornator has a significant impact on nature as well as communities in which it operates. Tornator strives to minimise the negative impacts and maximise the positive impacts on the environment and society. The company is committed to responsible and ethical business and promotes Nordic values in all operating countries. It co-operates closely with local research institutes, and forest and nature management guidelines are always updated to the latest available information. The company is also actively involved in the development of new methods and instructions.

“During the period 2002–2016, Tornator sold a total of 27 million cubic metres of wood in Finland, generating well-being for the society at large.”

There are annual evaluations of forest and nature management quality, impacts on local communities as well as success of environmental responsibility. The company's forests are FSC-certified and local community assessments have been conducted accordingly. The results showed that the company had complied with the criteria, and no negative impacts or major non-conformities were found.

Tornator continuously develops the assessment of its impacts according to feedback received from stakeholders. The company has created an assessment procedure for wood harvesting quality, which was extended to cover all types of work in 2016 and will be adopted in systematic use throughout the company in 2017. Tornator also intends to develop the practices and indicators of social impact assessment in all operating countries in 2017.

Major taxpayer and employer

Tornator's forests provide employment to a significant number of people, mainly in sparsely populated areas, with an estimated worth of some 900 person-years. Besides the direct employment impacts, jobs are also created along the forest sector value chain.

Tornator has a large tax footprint: it is the largest payer of corporation tax in South Karelia, also paying significant amounts of corporation tax in sparsely populated areas. The company generates well-being all over Finland as its forests are located in a total of 110 municipalities.



INTRODUCING FORESTRY TO IMMIGRANTS

In summer 2016, Tornator and the forest service company Lapin Metsäpalvelut Oy provided a joint work placement to unemployed immigrants. During three weeks, 14 Burmese and Somali students practised planting and clearance work on silvicultural sites in Tornio.

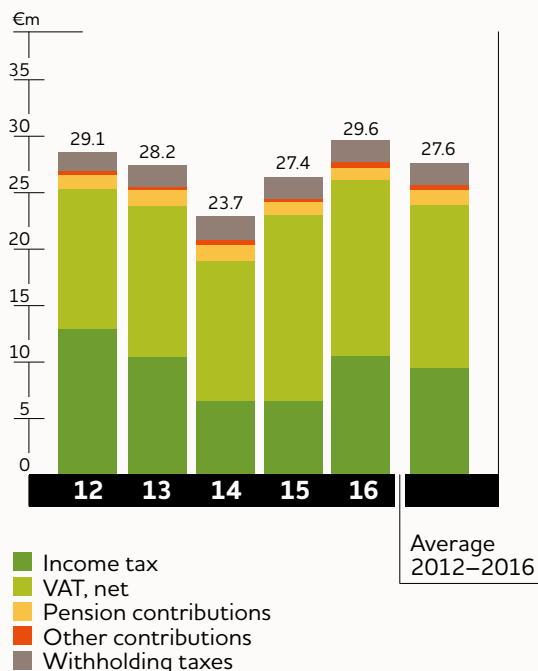
“Work placement is a good way to familiarise immigrants with the Finnish working life and the forest sector. We are pleased to support integration and to inspire new skilled workforce in the industry,” says **Heikki Aarnipuro**, Operations Superintendent of Tornator.

The work placement was a part of a project by the Vocational College Lappia and Northern Ostrobothnia TE Services, providing immigrants an opportunity to study forestry. The job training was implemented as part of the Skills Fixed project of the city of Kemi.

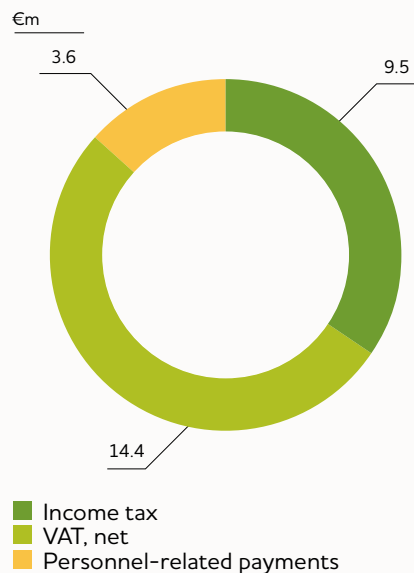
The project was aimed at promoting the diversity of working life as well as strengthening the vocational skills of immigrants and increasing their chances to become attached to the Finnish working life.

“Work tasks included planting, pre-clearance, early cleaning and tending of seedling stands. The students were highly motivated and hard-working, and discussions on follow-up were immediately started,” **Risto Kelloniemi**, General Manager of Lapin Metsäpalvelut, comments with satisfaction.

TORNATOR'S TAX FOOTPRINT



ANNUAL TAXES AND OTHER PAYMENTS TO GOVERNMENT, AVERAGE 2012-2016



DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

€'000		2016	2015	2014
Direct economic value generated				
Customers	Revenues	100,120	117,147	95,036
Direct economic value generated, total		100,120	117,147	95,036
Economic value distributed				
Contractors and other suppliers	Purchases of products and services	24,211	33,842	22,904
Shareholders	Dividends paid during the period	30,000	21,000	22,000
Financial institutions	Interest and financial expenses, net	20,591	20,599	26,030
Society	Taxes	9,556	10,061	7,072
Employees	Salaries and wages, remuneration and employer's contributions	8,439	8,604	9,409
Economic value distributed, total		92,797	94,105	87,415
Economic value retained		7,323	23,042	7,621
Taxes by country				
Finland		9,155	9,746	6,854
Estonia		225	180	106
Romania		176	135	112
Total		9,556	10,061	7,072

ENVIRONMENT

LONG-TERM AND SUSTAINABLE FORESTRY

Tornator manages its forests while minimising environmental impacts and securing forest biodiversity. The company's forests act as a significant carbon sink and storage, thereby mitigating climate change.

Taking responsibility for the environment is an integral part of Tornator's business. On the basis of its values, the company has prepared a set of sustainable environmental principles that guide all activities and form a basis for a corporate responsibility programme.

Tornator's forests act as a significant carbon sink and storage. Well-managed and vigorous forests capture carbon more effectively than aged forests, and carbon will be stored in products made of wood for a long time. Through nature management in commercial forests and forest protection, the company cares for the growth and diversity of its forests, securing their effectiveness in mitigating climate change.

During the reporting year, the company started a project to calculate its carbon footprint, and the results will be available in 2017. The project covers both carbon emissions and carbon sequestering and storing effects. The company's emissions are very low in proportion to the positive overall effects of the forests.

Tornator continuously assesses the environmental impacts of its operations and strives to manage them in accordance with the principle of continuous improvement. The company requires that all its partners comply with environmental and social responsibility.

Certification guides forest management

Tornator's forests in Finland and Estonia are certified under the PEFC and FSC systems. Double certification, which is rare in Europe so far, is an indication

of the company's ambitious approach to responsible forestry.

In 2016, Tornator focused on maintaining and developing certification-compliant forestry in Finland. Complying with double certification criteria, and demonstrating it, require special expertise of Tornator, such as guiding contractors' operations and listening to stakeholders. These activities are measured by follow-up audits and stakeholder feedback, among others. During the year, compliance with the criteria was successful, and stakeholder surveys showed satisfaction with the company's activities.

The quality of nature and forest management as well as Tornator's own harvesting is assessed annually by an independent agency. Furthermore, the quality of operations is regularly monitored by authorities.

On the basis of the latest assessment of nature management quality, the increased adoption of the FSC certification criteria is reflected in wider protective zones on water bodies and small waters as well as a larger quantity of retention trees. However, there is still room for improvement in compliance with the criteria concerning retention trees. Water protection has developed and is at an excellent level.

Safeguarding forest biodiversity

Tornator strives to combine safeguarding biodiversity with diverse utilisation of forests. This is done from the planning stage, by means of nature management in commercial forests, forest conservation and stakeholder co-operation.



The mark of
responsible forestry

Regarding conservation areas, the company complies with legislation and does not jeopardise protected natural values with its activities. Valuable habitats referred to in forest certification criteria as well as the Forest Act and the Nature Conservation Act are continuously surveyed during planning and secured in all operations.

Biodiversity is safeguarded, for example, by leaving decaying wood on felling sites, which is vital for thousands of species living in Finnish forests. According to Tornator's geographic information system, its forests in Finland are home to 2,286 known occurrences of IUCN Red List species. Their presence and habitats are observed in forest management and silviculture in accordance with conservation requirements and instructions issued by authorities.


Loading of solids in water systems may occur in silvicultural work, unless prevented. Tornator protects groundwater and the quality of surface waters by leaving protective zones on water bodies and using recommended water protection methods in ditch maintenance. Nutrient runoff from forestry work is minor and has no significant effect on aquatic habitats.

Voluntary conservation

Tornator has established a total of some 1,200 hectares of conservation areas under the voluntary METSO programme. In January 2016, the company set up two new mire conservation areas in Sonkajärvi and Nyby, Ii. In 2017, the company will give special emphasis to restoring previously drained mires on poorly productive forestland.

Furthermore, the company has excluded 10 percent of its forestland area from commercial utilisation and as special sites, as required by the FSC certification criteria. For a large-scale forest owner like Tornator, the definition work has been a major effort, accomplished by utilising resources such as local knowledge, various types of data and field surveys.

In late 2016, FSC Finland started work to revise the national FSC standard to meet the new international FSC principles and criteria. The revision work will take two years, 2017–2018, and this is another undertaking in which Tornator participates actively.



***“In all its operations,
Tornator strives to combine
safeguarding biodiversity with
diverse utilisation of forests.”***

ACTIVE WORK FOR MIRE CONSERVATION

Early in the year, we established a new 332-hectare conservation area in Nyby-Heposuo, located in the municipality of Ii, in co-operation with the ELY Centre of Northern Ostrobothnia.

The National Mire Conservation Group has found the Nyby-Heposuo conservation area unique in Finland. The area is made special by its late-succession aapa mires, diversity of vegetation as well as the age of the mires: from one up to four thousand years.

Protection will secure the maintenance of biodiversity on the Nyby-Heposuo site. Good planning will also enable the coexistence of various land uses in connection with the conservation area: wind power generation and forestry are practised on adjacent lands, and the area also has recreational uses such as hunting and berry-picking.

Tornator has nearly 150 private conservation areas with a total area of some 9,000 hectares. In addition, we annually restore several hectares of mires back to their natural state on our forestry land with poor bearing capacity.

Heikki Leppänen
Real Estate Expert, Tornator



**TORNATOR HAS PRIVATE CONSERVATION
AREAS WITH AN AREA OF SOME**

9,000

HECTARES

PERSONNEL

SUCCESS DEPENDS ON SKILLED EMPLOYEES

Tornator's way of managing its corporate responsibility is crystallised in the company's human resource policy. Employees' well-being and safety are cared for by proactive measures and regular training in all countries of operation.

The key objectives of Tornator's HR policy include the promotion of interaction between management and employees as well as giving emphasis to equality.

According to an employee well-being survey conducted in 2016, employee satisfaction was very good (average of all categories 4.1/5). Key improvement areas were communication during situations of change and development of operations, and the implementation of corporate values and equality in everyday work. Towards the end of the year, the company prepared an equality plan, effective from the beginning of 2017.

Tornator's personnel includes three main groups: managers, salaried field employees and forest workers. In Finland, the company had an average of 64 salaried employees and 88 forest workers during the reporting year. In addition to the personnel in Finland, there were 37 employees in Romania and six employees in Estonia working with forestry.

The increasing importance of contractors

The importance of forest service contractors is continuously increasing in Tornator's operations. With the retirement of forest workers, the company is employing more and more contractors and their forest workers.

In Finland, silvicultural work can only be done on snowless ground, which is why Tornator provides seasonal employment to forest workers and contractors. The company tries to shorten the winter layoff period by offering forest workers the

opportunity to make deposits in a "working-time bank" in preparation for the layoff.

Operations guided by the Code of Conduct

The employees' day-to-day work is guided by the Code of Conduct, Tornator's common responsibility guidelines. Approved by the Board of Directors, these guidelines define the ethical principles concerning the business, environment and employees.

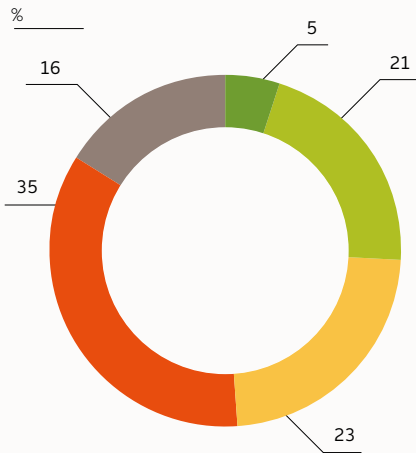
The Code of Conduct applies to all of the company's employees as well as independent contractors. It is handed out to each employee when signing the employment contract, and its content is revisited during training sessions given over the employee's career. In 2016, training on anti-corruption procedures was arranged throughout the Group with an average of two hours per employee. In addition, the company disseminates the Code of Conduct as widely as possible among contractors, subcontractors and customers.

In Finland, 83.8 percent of Tornator's employees are covered by universally applicable collective bargaining agreements, whereas in Estonia and Romania there is no similar practice in the sector.

Tornator continuously develops its feedback channels as well as interaction between employees and management. In the autumn, the company introduced an online whistleblower system that employees in all countries can use to anonymously report violations and unethical behaviour.

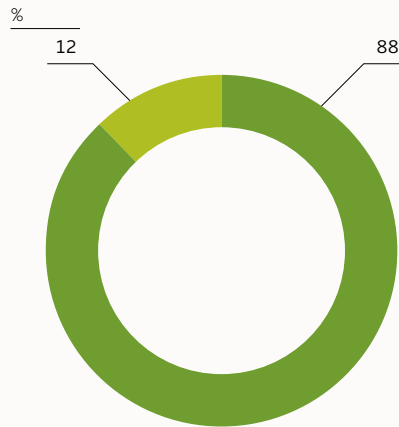
“Tornator continuously develops interaction between employees and management.”

AGE STRUCTURE OF EMPLOYEES



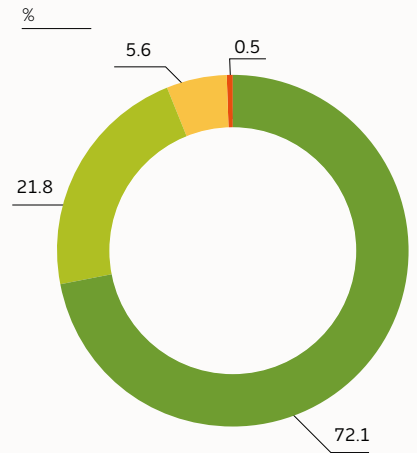
- less than 30 years
- 30-39 years
- 40-49 years
- 50-59 years
- 60 years or older

GENDER DISTRIBUTION OF EMPLOYEES



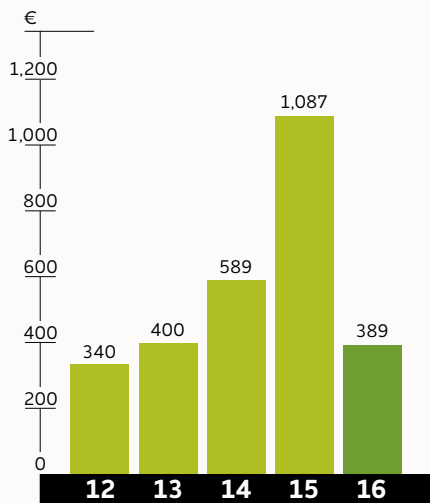
- Men
- Women

EMPLOYMENT TYPES OF EMPLOYEES

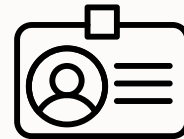
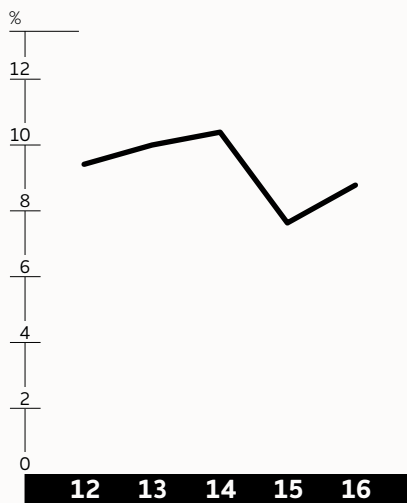


- Permanent full-time
- Permanent part-time
- Temporary full-time
- Temporary part-time

HUMAN RESOURCE DEVELOPMENT IN FINLAND, €/EMPLOYEE



PERSONNEL EXPENSES (% of net sales)




AVERAGE DAYS OF TRAINING PER EMPLOYEE IN FINLAND

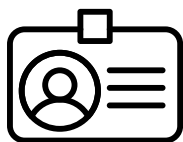
All employees	3.4
Men	3.1
Women	6.0
Salaried employees	5.7
Management	7.0
Forest workers	1.5

WELL-BEING FROM LOGGER PILATES

Forest workers' well-being days were themed around how to take care of yourself during the layoff period. The forest workers had a chance to try a new physical fitness system, Logger Pilates, where the exercises have been specifically tailored for people doing manual forest work. The purpose of the session was to inspire forest workers in body maintenance and control as well as flexibility exercises to prevent back injuries. Including both theory and physical exercises, the session was positively received.



“In 2016, Tornator arranged events promoting well-being at work for forest workers in six different locations.”



RESPONSES TO AN EMPLOYEE WELL-BEING SURVEY AVERAGED

4.1/5

TOTAL NUMBER AND RATES OF NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

	Finland	Estonia	Romania
Number of employment contracts signed	10	1	1
Number of employment contracts terminated	25	0	0
Employment contracts terminated by employer, %	0	0	0
Total employee turnover*, %	10	17	0
Average number of employees in 2016	153	6	41
Total number of employees at 31 Dec 2016	142	6	37

* The total rate of employee turnover is obtained by adding up the numbers of signed and terminated employment contracts, and dividing the sum by the average number of permanent employees during the year.

OCCUPATIONAL ACCIDENTS AND SICKNESS ABSENTEEISM

Sickness absenteeism	Finland	Estonia	Romania
Men, %	5.1	0.7	2.0
Women, %	2.9	0.0	0.4
Accidents, own employees	Finland	Estonia	Romania
Number of accidents resulting in lost days, men	5	0	0
Number of accidents resulting in lost days, women	0	0	0
Number of days lost due to accidents, men	81	0	0
Number of days lost due to accidents, women	0	0	0
Number of fatalities	0	0	0

Supporting employee well-being during change

In spring 2016, Tornator transformed from a team organisation to a process organisation. The purpose of the internal change programme was to streamline operations and to ensure that the right people are in the right jobs. At the same time, the tasks of salaried employees in forestry were redefined on the basis of employee assessments and interviews.

The main objective in occupational health and safety was to give attention to employees' well-being and motivation during change. A special training programme was arranged for those taking up supervisory duties, and planning experts were provided with internal workshops to strengthen their competence. All of the company's employees are involved in regular development discussions, and in 2016 several discussions were held to facilitate the implementation of the changes. The development discussions were conducted with the whole staff in Estonia and Romania, and with 95 percent of the employees in Finland.

Promoting safety through proactive measures

Maintaining and developing a high level of occupational safety is a key component of Tornator's HR policy. By lengthening working careers and enhancing employee well-being, the company can significantly improve the productivity and quality of its business.

Especially forest workers are exposed to a considerable number of safety risks such as long-term strain injuries affecting the knees and back, as well as fieldwork accidents associated with slips and trips. The number of potential risks is increased by the high average age of the forest workers.

Tornator prepares for safety risks by providing regular job instruction as well as maintaining forest workers' skills and working capacity. In 2016, events promoting well-being at work were arranged in six different locations.

To reduce accidents at work, Tornator provides training to employees within the Retire Healthy and Early Care programmes. In addition, company staff make site visits during which safety matters are discussed with contractors. Accidents are prevented by recording near-miss incidents and responding to them. Safety has also been systematically developed in Estonia and Romania, where special attention has been given to working methods and the safe use of equipment.

“Maintaining and developing a high level of occupational safety is a key component of Tornator’s HR policy.”



PROMOTING SAFETY AT WORK IN ROMANIA

Tornator is a pioneer of occupational health and safety in Romania. We stand out from the other local companies with our responsible and reliable operations.

In autumn, we organised an extensive internal safety campaign for contractors active in Romania. Our objective is to raise the standard of occupational health and safety among the logging contractors at least to the same level as in Finland. The campaign was a part of a greater entity of corporate responsibility, focused on responsible and sustainable operations.

Collaborating with the importer, we supplied our Romanian contractors with high quality safety equipment, half of it sponsored by Tornator. In addition, we arranged training on the use and maintenance of the equipment to local logging companies. The campaign was positively received, and the training was attended by more than a hundred people.

Our staff in Romania have had no serious accidents in five years, and this is also our goal for the future. We arrange supplementary training for our contractors, monitoring and guiding them in the safe use of equipment.

Zoltán A. Kósy

Country Manager, Romania, Tornator

GOVERNANCE

CORPORATE GOVERNANCE

Ownership and corporate structure

In 2016 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 forestlands and practise sustainable, operational forestry.

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

Governance principles

The governance of Tornator Oyj is based on the Finnish Companies Act and Tornator Oyj's articles of association. The company's shares are not listed for public trading. Tornator Oyj has issued a secured bond that is listed by NASDAQ OMX Helsinki Oy, and the company complies with its rules and regulations for listed bonds, the Securities Markets Act as well as the Financial Supervisory Authority's regulations which are publicly available at www.finanssivalvonta.fi.

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. 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.

The Board of Directors of Tornator Oyj 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 2016 the Board had 14 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. The Board has decided not to establish a separate audit committee, but instead to perform these duties as part of normal Board work.

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 Management Group. In 2016 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 2016 the Management Group had ten meetings. In addition to the Management Group, the company has an operational management level made up of experts of various functions, with the task of assisting the Management Group in deploying the strategy. The operational management level includes ten members, and its representatives are invited to the Management Group's meetings as necessary.

Operational activities

In Finland, the company transformed in operational activities from a geographic team organisation into a process organisation. 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. The processes perform tasks set with company management to meet strategic goals. Abroad, Country Managers are responsible for organising operational activities and reporting on them to the parent company. The subsidiaries also receive assistance from the parent company's support functions.

TORNATOR OYJ'S SHAREHOLDERS

	%
Stora Enso Oyj	41.0
Ilmarinen Mutual Pension Insurance Company	16.9
OP Financial Group, insurance and pension institutions	14.4
Varma Mutual Pension Insurance Company	13.1
Etera Mutual Pension Insurance Company	6.3
Other shareholders	8.3
Total	100.0

Related party transactions

Tornator and Stora Enso Oyj have a significant, volume-based long-term timber sales agreement. The market conformity of this agreement is supervised by the Oversight Committee which works under the Board of Directors (see Committees above). The Oversight Committee has no representatives from Stora Enso.

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 remuneration for the Chief Executive Officer and the members of the Management Group, consisting of a fixed monthly salary and an incentive bonus based on individual performance. 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 iden-

TORNATOR TIMBERLAND GROUP, 31 DECEMBER 2016

11 shareholders	
Tornator Oyj Finland 575,000 ha	
SC Tornator SRL Romania 12,000 ha	Tornator Eesti OÜ Estonia 57,000 ha

tification and analysis of all significant risks to the company.

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

Strategic risks

Fluctuation in wood demand is naturally a risk for a forestry company. To manage the risk, Tornator has dispersed its forest ownership into three countries, and the range of customers has significantly increased since the early years of business. The company has also secured a high demand for wood by certifying all of its forests. With the new investments of the forest industry, wood demand is on the rise in all countries of operation.

Volatility 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 Natural Resources Institute Finland and the cutting budget based on it are from 2016.

Changes in current certification criteria may affect opportunities for forest utilisation and cause a loss of income for Tornator, unless there is an agreement on full compensation. FSC Finland has started to revise the national criteria, and Tornator is 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. 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, guided by a Code of Conduct that is common to all countries of operation.

Operational risks

Tornator manages internal business risks with processes that are approved by the Board of Directors and senior 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. The threat of a cyber attack on corporate information systems may be considered a new risk. Tornator is prepared for this by utilising advanced security technology and by providing instructions and training to users.

Financial risks

A substantial proportion of loan capital in the company's balance sheet constitutes a risk which Tornator manages with special attention. Ready access to the capital markets will enable the successful refinancing of 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.

BOARD OF DIRECTORS



Mikko Koivusalo

Born 1961, MSc (Econ)
Chairman 2016–
Deputy Chairman 2010–2015
Member 2006–2010
Varma, Director, Investments, Capital Markets 1997–
Background:
Postipankki Oy, Business Analyst, Portfolio Manager 1991–1997
Salmi, Virkkunen & Helenius Oy, Auditor 1988–1991



Matti Rusanen

Born 1961, MSc (Agr & For), EMBA
Deputy Chairman 2016–
Retired from Ilmarinen in summer 2016
Background:
Ilmarinen, Head of Equities, Listed Securities, Domestic Equities 2007–2016
Ilmarinen, Senior Portfolio Manager 2000–2006
SEB Gyllenberg Asset Management, Partner, Senior Portfolio Manager 1994–2000
OKO Bank/OP Bank Group, Portfolio Manager, Head of Equities 1987–1994
Membership on other boards of directors:
M-Brain Oyj, member of the Board



Erkko Ryyänen

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:
Investment and portfolio management positions at OP Bank Group since 1999
Membership on other boards of directors:
Eläkesäätiöyhdistys, 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
OKO Bank Group Central Cooperative, Pension and Insurance Institution Investments, Chief Investment Officer 1999–2000
Gyllenberg, Portfolio Manager and Strategist 1994–1999
OKO Bank, Analyst and Portfolio Manager 1989–1994
Membership on other boards of directors:
Design Forum Finland, member of the Board



Jari Suominen

Born 1969, MSc (BA)
Member 2015–
Stora Enso Oyj, Executive Vice President, Wood Products Division 2014–
Background:
Several managerial positions at Stora Enso since 1995
Membership on other boards of directors:
Varma, member of the Supervisory Board

Deputy members:

Jukka Reijonen, Etera (until 13 June 2017)
Risto Autio, Varma
Jari Pussinen, Pohjola (until 13 June 2017)
Jari Suvanto, Stora Enso
Timo Kärkkäinen, Ilmarinen

MANAGEMENT GROUP



Sixten Sunabacka

Born 1960, MSc (Agr & For), EMBA
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



Henrik Nieminen

Born 1970, MSc (Econ), EMBA
Chief Financial Officer 2002–
Deputy CEO 2007–

Background:

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,
Laatunmaa 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

FINANCIAL STATEMENTS

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

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.

Net sales and profit

The Group's net sales were €970 million (113.6), down 14.6%. The drop was due to the previous year's exceptionally large forestland sales in Finland and rearrangement of forest ownership in Estonia. Net sales include proceeds from land and plot sales worth €8.3 million (30.8). Most of the net sales were timber sales income, €88.1 million, 90.9% (€82.1 million, 72%). The total volume of timber deliveries was at a record-high at 3.0 million m³ (2.7). Other operating income, €3.1 million (3.6), includes €0.6 million (1.0) 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 €269.8 million (56.4) and profit for the period was €172.9 million (39.1). The change in the fair value of biological assets increased operating profit by €202.6 million (-18.1), but a negative change in the fair value of financial instruments decreased profit by €32.5 million (+12.4) before deferred taxes. Operating profit without the change in the fair value of biological assets and net profit without one-off land sales increased in all countries: Finland, Estonia and Romania.

Notable events during the period

During the period, the fair value of Tornator's forest assets (growing stock) in Finland increased by €211 million. The fair value was calculated by an external evaluator, Indufor Oy, on the basis of the future cash flows of continuing operations, i.e. considering sustainable forest management and the growth potential of the forests. Tornator's long-term efforts in sustainable forestry and high-quality forest management are reflected in good growth of the forests, both in volume and diameter. This enabled raising the sustainable annual cut. Another significant factor to the value increase was a reduction of the discount rate used in valuing the forests. The company reduced the nominal discount rate by 0.5 percentage points to 5.5 percent after taxes. The fair value is calculated using a real discount rate where the expected inflation rate is equal to EU's official long-term target rate of 2.0 percent. In general, interest rates have decreased significantly and the new discount rate reflects better the capital costs of the company.

The total value of the Group's forests in the financial statements was some €1,328 million (1,115), including growing stock and land. The figures include the effects of harvesting as well as the purchases and sales of forestland.

On the other side of the balance sheet, the fair values of the company's long-term interest rate hedges decreased respectively due to the decline in market rates. This caused a negative entry of €32.5 million in financial items in the income statement (+12.4). The above fair value changes had no effects on cash flow.

Tornator set a record in its core business, i.e. timber sales and delivery, in all three operating countries in 2016. The new investments of the forest industry already started to reflect in wood demand. However, the Group's total net sales decreased, because in the previous year net sales had been increased by exceptionally large forestland sales in Finland and Estonia.

In Estonia, Tornator continued forestland purchasing with an increase of some 4,000 hectares and a total area of some 57,000 hectares at the end of the period. The company is Estonia's largest forest owner after the state. In Romania, there was no increase in Tornator's forestland area (12,000 ha), but the company's efforts in the development of responsible business, combined with a high demand for wood and increasing prices, improved the results from the previous year. In Estonia, Tornator received both the PEFC and FSC certificates for its forests, i.e. both the Finnish and Estonian forests are now double-certified. In Romania, too, the company's forests were audited during the period, and awarded an FSC certificate in January 2017. Thanks to the certifications, Tornator can respond better to customers' needs and secure a good demand for wood also in the future.

Improvement of competitiveness was continued within a programme of cost savings and additional revenues started in the previous year. The programme is targeted to improve productivity by €5 million by the end of 2018. With the actions taken in 2016, the programme progressed as planned.

Tornator's equity ratio increased to 44% (39) and liquidity remained strong throughout the year. The company met its loan covenants within safe margins.

Tornator Oyj's Annual General Meeting of 8 March 2016 decided to pay dividend, as proposed by the Board of Directors, for a total of €30 million.

Sixten Sunabacka, MSc (Agr & For), EMBA, started as Tornator Oyj's new CEO on 1 January 2016. The company's long-time CEO Arto Huurinainen retired at the end of February 2016.

Tornator's personnel in 2016 included an average of 200 (213) employees.

CONSOLIDATED INCOME STATEMENT

€m	2012	2013	2014	2015	2016
Net sales	82.9	86.7	90.7	113.6	97.0
Other operating income	5.4	4.8	4.3	3.6	3.1
Change in inventories of finished goods and work in progress	-1.8	0.6	-1.2	-13.8	-3.4
Materials and services	-8.8	-11.4	-12.9	-11.6	-12.4
Personnel expenses	-7.8	-8.7	-9.4	-8.6	-8.4
Depreciation and amortisation	-1.4	-2.0	-2.6	-2.8	-3.1
Other operating expenses	-5.5	-4.6	-6.3	-5.2	-5.1
Share of profit/loss of associates	0.0	0.0	0.0	-0.6	-0.4
Change in fair value of biological assets and harvesting	8.7	49.2	2.4	-18.1	202.6
Operating profit	71.8	114.7	65.0	56.4	269.8
Financial income	0.4	0.4	0.0	0.1	0.2
Financial expenses	-16.7	-23.8	-26.1	-20.7	-20.7
Change in fair value of financial instruments	-45.0	17.1	-71.4	12.4	-32.5
Financial expenses (net)	-61.3	-6.3	-97.5	-8.2	-53.1
Profit/loss before taxes	10.5	108.4	-32.4	48.2	216.7
Income taxes	-11.4	-10.4	-7.0	-9.9	-9.3
Change in deferred taxes	8.3	10.1	12.4	0.8	-34.5
Profit/loss for the period	7.4	108.1	-27.0	39.1	172.9

CONSOLIDATED BALANCE SHEET

€m	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016
ASSETS					
Non-current assets					
Intangible assets	0.5	4.4	3.7	3.3	2.6
Fixed assets	80.0	78.8	82.9	85.9	86.9
Biological assets	969.2	1,022.7	1,047.4	1,045.4	1,256.9
Derivatives	0.0	0.0	8.9	8.9	8.9
Other investments	0.0	0.0	0.0	0.2	0.2
	1,049.7	1,105.8	1,142.9	1,143.7	1,355.5
Current assets					
Inventory	0.1	2.4	4.1	3.3	2.3
Trade and other receivables	4.2	3.7	5.4	4.9	5.6
Other financial assets	16.2	7.4	9.6	8.1	7.6
Cash and cash equivalents	34.8	30.3	28.9	20.9	10.2
	55.3	43.8	47.9	37.1	25.6
Total assets	1,105.0	1,149.6	1,190.8	1,180.8	1,381.1
EQUITY AND LIABILITIES					
Equity attributable to parent company shareholders					
Share capital	50.0	50.0	50.0	50.0	50.0
Other equity	376.1	427.1	381.0	403.3	551.1
Total equity	426.1	477.1	431.0	453.3	601.1
Non-current liabilities					
Deferred tax liabilities	115.0	107.7	96.0	96.4	132.1
Financial liabilities	457.8	453.0	472.0	466.8	462.7
Derivatives	65.7	45.3	107.6	86.2	116.4
Pension obligations	0.0	0.2	0.3	0.3	0.3
	638.4	606.1	676.0	649.6	711.6
Current liabilities					
Financial liabilities	4.5	44.5	61.5	51.5	51.5
Derivatives	3.8	0.0	0.1	4.0	0.0
Trade and other payables	32.1	21.8	22.1	22.3	16.9
	40.5	66.3	83.8	77.8	68.3
Total liabilities	678.9	672.5	759.8	727.4	779.9
Total equity and liabilities	1,105.0	1,149.6	1,190.8	1,180.8	1,381.1

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 1 January 2015	50,000.0	29,995.2	-7,347.2	-5,381.4	386,072.0	453,338.7
Balance at 1 January 2016	50,000.0	29,995.2	-7,347.2	-5,381.4	386,072.0	453,338.7
Comprehensive income						
Profit/loss for the period					172,882.5	172,882.5
Other items of comprehensive income (after taxes)						
Remeasurement of net defined benefit liability (or asset)				-34.4		-34.4
Translation differences			-139.2			-139.2
Available-for-sale financial assets				3.6		3.6
Cash flow hedges				5,095.4		5,095.4
Comprehensive income for the period	50,000.0	29,995.2	-7,486.4	-316.7	558,954.5	631,146.5
Transactions with shareholders						
Dividends paid					-30,000.0	-30,000.0
Total transactions with shareholders					-30,000.0	-30,000.0
Balance at 1 January 2016	50,000.0	29,995.2	-7,486.4	-316.7	528,954.5	601,146.5

CONSOLIDATED CASH FLOW STATEMENT

€m	2012	2013	2014	2015	2016
Cash flow from operating activities					
Cash receipts from customers	79.2	68.1	76.9	81.1	82.8
Proceeds from sale of tangible assets	9.4	9.5	11.1	30.8	8.3
Cash receipts from other operating income	5.6	4.8	4.2	3.5	3.4
Cash paid to suppliers and employees	-22.4	-25.4	-27.2	-25.6	-25.4
Cash flow from operating activities before financial items and taxes	71.7	57.0	65.0	89.8	69.2
Interest paid and other financial expenses	-20.0	-21.8	-25.3	-20.8	-20.1
Interest received	0.4	0.4	0.0	0.1	0.2
Income taxes paid	-13.0	-10.5	-6.9	-6.8	-10.5
Net cash flow from operating activities	39.2	25.0	32.8	62.3	38.7
Cash flow from investing activities					
Investments in biological assets	-10.8	-6.2	-25.1	-28.3	-11.2
Investments in tangible assets, forestland	-1.3	-0.8	-3.1	-3.5	-1.4
Investments in other tangible and intangible assets	-4.1	-3.9	-3.3	-3.4	-2.3
Investments in associates and other investments	0.0	0.0	0.0	-0.8	-0.4
Investments in available-for-sale financial assets	0.0	0.0	-2.2	0.0	0.0
Proceeds from sale of available-for-sale financial assets	8.5	8.7	0.0	1.6	0.5
Net cash flow from investing activities	-7.7	-2.2	-33.7	-34.5	-14.8
Cash flow from financing activities					
Withdrawal of long-term loans	395.5	0.0	150.0	0.0	0.0
Repayment of long-term loans	-366.0	-4.4	-145.6	-4.7	-4.6
Withdrawal of short-term loans	4.5	40.0	17.0	57.0	0.0
Repayment of short-term loans	-12.1	0.0	0.0	-67.1	0.0
Dividends paid	-26.0	-63.0	-22.0	-21.0	-30.0
Net cash flow from financing activities	-4.1	-27.4	-0.6	-35.8	-34.6
Net increase/decrease in cash and cash equivalents	27.4	-4.6	-1.4	-8.0	-10.7
Cash and cash equivalents at beginning of period	7.4	34.8	30.3	28.9	20.9
Cash and cash equivalents at end of period	34.8	30.3	28.9	20.9	10.2

SUMMARY OF FINANCIAL STATEMENTS

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

	2012	2013	2014	2015	2016
Net sales, € million	82.9	86.7	90.7	113.6	97.0
Operating profit, € million	71.8	114.7	65.0	56.4	269.8
Operating profit without change in fair value of biological assets, € million	63.1	65.5	62.6	74.5	67.2
Operating profit without change in fair value of biological assets, % of net sales	76.1	75.6	69.0	65.6	69.3
Profit/loss for the period, € million	7.4	108.1	-27.0	39.1	172.9
Profit/loss for the period without fair value changes, € million	35.4	31.7	29.6	44.0	37.3
Profit/loss for the period without fair value changes, % of net sales	42.7	36.5	32.7	38.8	38.5
Shareholders' equity, € million	426.1	477.1	431.0	453.3	601.1
Interest-bearing net liabilities, € million	411.3	459.8	495.0	489.3	496.5
Balance sheet total, € million	1,105.0	1,149.6	1,190.8	1,180.8	1,381.1
Return on capital employed without change in fair value of biological assets, %	7.1	7.1	6.5	7.7	6.5
Return on equity without fair value changes, %	8.3	7.0	6.5	10.0	7.1
Equity ratio, %	40.1	43.0	36.6	38.8	43.7
Dividends paid, €/share	5.2	12.6	4.4	4.2	6.0
Dividend yield, %	6.1	14.0	4.8	4.7	5.7
Average number of employees	211	216	217	213	200
Personnel expenses, % of net sales	9.4	10.0	10.4	7.6	8.7
Investments in forestland, € million	12.1	7.0	28.2	31.8	12.6
Investments in other fixed assets, € million	4.1	3.9	3.3	4.3	2.7
Sales of cutting rights, million cubic metres	2.5	2.6	2.6	2.6	2.8
Annual cut, million cubic metres	2.6	2.8	2.8	2.7	3.0
Book value of forests, € million	587.9	592.7	617.8	635.9	645.9
Fair value of forests, € million	1,033.8	1,087.9	1,115.4	1,115.4	1,328.0
Gross proceeds from land sales, € million	9.2	9.3	10.8	30.8	8.3

Financing, nominal values

€m	2012	2013	2014	2015	2016
Long-term bonds	250	250	250	250	250
Long-term bank loans	144.1	141.0	145.5	141.0	136.5
Long-term debenture loan	65.0	65.0	65.0	65.0	65.0
Current portion of long-term loans	4.5	4.5	4.5	4.5	4.5
Short-term bank loans and commercial papers	0.0	40.0	57.0	47.0	47.0
All loans	463.6	500.5	522.0	507.5	503.0
Net financial expenses, € million	61.3	6.3	97.5	8.2	53.1
Net financial expenses without fair value changes, € million	16.3	23.4	26.0	20.6	20.6
Net financial expenses without fair value changes, % of net sales	19.6	27.0	28.7	18.1	21.2
Financial expenses for loans, average, %	3.5	5.1	5.2	3.9	3.9

CALCULATION OF KEY FIGURES

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

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

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

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

REPORTING PRINCIPLES AND GRI INDEX

REPORTING PRINCIPLES

Tornator Oyj's head office is located at Napinkuja 3, Imatra, Finland. With this Annual Report, the company reports for the first time in accordance with the Global Reporting Initiative (GRI) G4 guidelines, applying the Core option. References to the report's contents regarding the GRI G4 guidelines are found in the GRI Content Index. The report is published in Finnish and English, both in print and online. The sustainability information has not been verified by an external party. The company's previous Annual Report was published on 8 March 2016.

The reporting period is the calendar year, 1 January – 31 December 2016.

The sustainability information given in this Annual Report covers the Tornator Group. Some of the information only applies to Tornator Oyj, the parent company in Finland, as expressly indicated.

For further information, please contact:

Tuija Luukkanen, Corporate Responsibility Manager, tuija.luukkanen@tornator.fi
Henrik Nieminen, Chief Financial Officer, henrik.nieminen@tornator.fi

Material aspect	Aspects in GRI G4 guidelines	Aspect boundaries
Sustainable forestry	<ul style="list-style-type: none"> • Biodiversity • Products and services • Effluents and waste 	Tornator Oyj, except for EN12 which covers the whole Tornator Group
Economic profitability	<ul style="list-style-type: none"> • Economic performance 	Tornator Group
Forest certification and chain of custody	<ul style="list-style-type: none"> • Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses 	Tornator Group
Employee competence and well-being	<ul style="list-style-type: none"> • Training and education 	Tornator Group
Occupational safety throughout the value chain	<ul style="list-style-type: none"> • Occupational health and safety 	Tornator Group
Ethical business and good governance	<ul style="list-style-type: none"> • Ethics and integrity • Anti-corruption 	Tornator Group
Local economic impacts	<ul style="list-style-type: none"> • Indirect economic impacts • Local communities • Employment 	Tornator Group
Stakeholder interaction	<ul style="list-style-type: none"> • Stakeholder engagement • Product and service labelling 	Tornator Group, except for PR5 which only covers Tornator Oyj
Tax footprint	<ul style="list-style-type: none"> • Indirect economic impacts 	Tornator Group
Carbon footprint – carbon storage	<ul style="list-style-type: none"> • Emissions 	During the reporting year, the company started a project to calculate its carbon footprint; results will be available in 2017.

GRI G4 CONTENT INDEX

Code	Description	Reference
GENERAL STANDARD DISCLOSURES		
STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker of the organisation	CEO's review, pp. 4–5
ORGANISATIONAL PROFILE		
G4-3	Name of the organisation	Reporting principles, p. 51
G4-4	Primary brands, products, and/or services	Tornator in brief, p. 1
G4-5	Location of the organisation's headquarters	Reporting principles, p. 51
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	Tornator in brief, p. 1
G4-7	Nature of ownership and legal form	Corporate governance, p. 39
G4-8	Markets served	Tornator in brief, p. 1
G4-9	Scale of the reporting organisation	Tornator in brief, p. 1 The year 2016, pp. 2–3
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	Personnel, pp. 34–35
G4-11	Percentage of employees covered by collective bargaining agreements	Personnel, p. 34
G4-12	Supply chain of the organisation	Society, p. 28
G4-13	Significant changes during the reporting period regarding size, structure, ownership or supply chain	No significant changes.
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Corporate governance, pp. 40–41
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Competitiveness, p. 19 Sustainability management, p. 23 Environment, p. 31
G4-16	Memberships in associations and advocacy organisations	Stakeholders, p. 26
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities included in the organisation's consolidated financial statements	Financial statements, p. 44
G4-18	Process for defining the report content and the aspect boundaries	Sustainability management, p. 23
G4-19	Material aspects identified	Sustainability, p. 22 Reporting principles, p. 51
G4-20	Aspect boundary within the organisation for each material aspect	Reporting principles, p. 51
G4-21	Aspect boundary outside the organisation for each material aspect	Reporting principles, p. 51
G4-22	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements	No changes.
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	Reporting principles, p. 51
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organisation	Stakeholders, p. 25
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholders, p. 24
G4-26	Approaches to stakeholder engagement	Stakeholders, p. 24
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organisation has responded to them	Stakeholders, p. 25
REPORT PROFILE		
G4-28	Reporting period	Reporting principles, p. 51
G4-29	Date of most recent previous report	Reporting principles, p. 51
G4-30	Reporting cycle	Reporting principles, p. 51
G4-31	Contact point for questions regarding the report or its contents	Reporting principles, p. 51
G4-32	GRI content index	GRI Index, pp. 52–53
G4-33	Policy and current practice with regard to seeking external assurance for the report	Reporting principles, p. 51
GOVERNANCE		
Governance and composition		
G4-34	Governance structure of the organisation, including committees of the highest governance body	Corporate governance, p. 39
ETHICS AND INTEGRITY		
G4-56	The organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Strategy, p. 15 Sustainability management, p. 23

Code	Description	Reference
SPECIFIC STANDARD DISCLOSURES		
DISCLOSURES ON MANAGEMENT APPROACH		
DMA	Generic disclosures on management approach	Management, pp. 20–21 Sustainability management, p. 23; management approach is also described in sections dealing with aspects.
ECONOMIC INDICATORS		
Economic performance		
G4-EC1	Direct economic value generated and distributed	Society, p. 30 Personnel, p. 35
Indirect economic impacts		
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Society, p. 30
ENVIRONMENTAL INDICATORS		
Biodiversity		
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Environment, pp. 31–32
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Environment, pp. 31–32
G4-EN13	Habitats protected or restored	Environment, pp. 32–33
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Environment, p. 32; no listing by level of extinction risk available.
Effluents and waste		
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff	Environment, pp. 31–32
Products and services		
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	Environment, pp. 31–33
Compliance		
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Nothing to report.
SOCIAL INDICATORS		
Labour practices and decent work		
Employment		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Personnel, p. 37
Occupational health and safety		
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Personnel, p. 37
Training and education		
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Personnel, p. 35
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Personnel, p. 37
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Personnel, p. 37
Society		
Local communities		
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Society, pp. 28–29
G4-SO2	Operations with significant actual or potential negative impacts on local communities	Society, pp. 28–29
Anti-corruption		
G4-SO4	Communication and training on anti-corruption policies and procedures	Personnel, p. 34
G4-SO5	Confirmed incidents of corruption and actions taken	No incidents to report.
Compliance		
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	No non-compliances to report.
Product responsibility		
Product and service labelling		
G4-PR5	Results of surveys measuring customer satisfaction	Competitiveness, p. 19 Stakeholders, p. 24

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**YEARS
OF RESPONSIBLE
EXPERTISE IN
FORESTRY**



Tornator Oyj
Napinkuja 3 C
FI-55100 Imatra, Finland

Tel. +358 10 563 0000
www.tornator.fi/en

