



*“2017 was a year of
great activity and
accomplishment.”*

CEO'S REVIEW

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Highlights of the report

TORNATOR'S ANNUAL REPORT 2017

The Annual Report consists of five parts: annual review, strategy, responsibility, governance and financial statements. The company reports on its sustainability on the basis of the Global Reporting Initiative's GRI Standards for sustainability reporting. The reporting covers the key areas of Tornator's economic, social and environmental responsibility.

Peak year in digitalisation and environmental protection

875
HECTARES OF PERMANENT
CONSERVATION AREAS
p. 31

Finland 100
gift of nature
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**HOW TO SECURE
INCREASING
FOREST VALUE**
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30,000**
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**ALL
TORNATOR'S
FORESTS
FSC®-CERTIFIED**
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**FORESTS IN
ROMANIA
FSC-CERTIFIED**

**RECORD
IN NATURE
CONSERVATION
AREAS**
p. 31

**LARGEST
PRIVATE FOREST
OWNER**
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Tornator in brief

Tornator is a leading European company specialised in sustainable forestry, owning forests in Finland, Estonia and Romania. Our core business includes sustainable forestry and related timber sales. We also sell high-quality waterfront building plots and soil resources as well as lease our land for various uses.

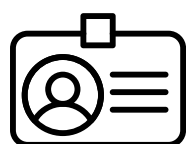
The company's shareholders are Finnish investors, mostly institutions. Tornator's mission is "generating sustainable well-being from the forest". The company's forests provide a versatile basis for various biomaterials, carbon sequestration as well as securing biodiversity.



NET SALES
€102
million

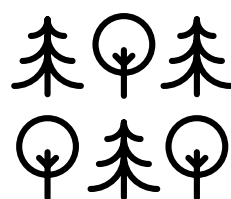
BALANCE SHEET VALUE INCREASED TO
€1.5
billion

ADJUSTED NET PROFIT INCREASED TO
€40.9
million



TORNATOR HAS CA.
200
employees

EMPLOYMENT EFFECT MORE THAN
900
person-years



FORESTRY
94%
of net sales

Business areas

Forestry

We manage our forests sustainably with the aim of good and steady yield. The forests are managed with full respect for nature, using the right treatments at the right time. In this way, our nearly 700,000 hectares of forestlands are kept diverse and in good growth condition, and the productivity of the land is utilised as well as possible. Systematic and long-term forest management and skilled employees will secure successful operations in the future as well.

Real estate

The main activity of our real estate business is the planning and sale of waterfront building plots. We also sell selected properties that are poorly suited to our real estate structure as well as special items. At the same time, we buy forestland in our core areas. We lease land for various purposes, such as hunting and wind power production. Our forests are also widely used for recreation, free of charge.



REAL ESTATE
6%
of net sales

FORESTLANDS IN FINLAND

600,000
HECTARES

FORESTLANDS IN ESTONIA

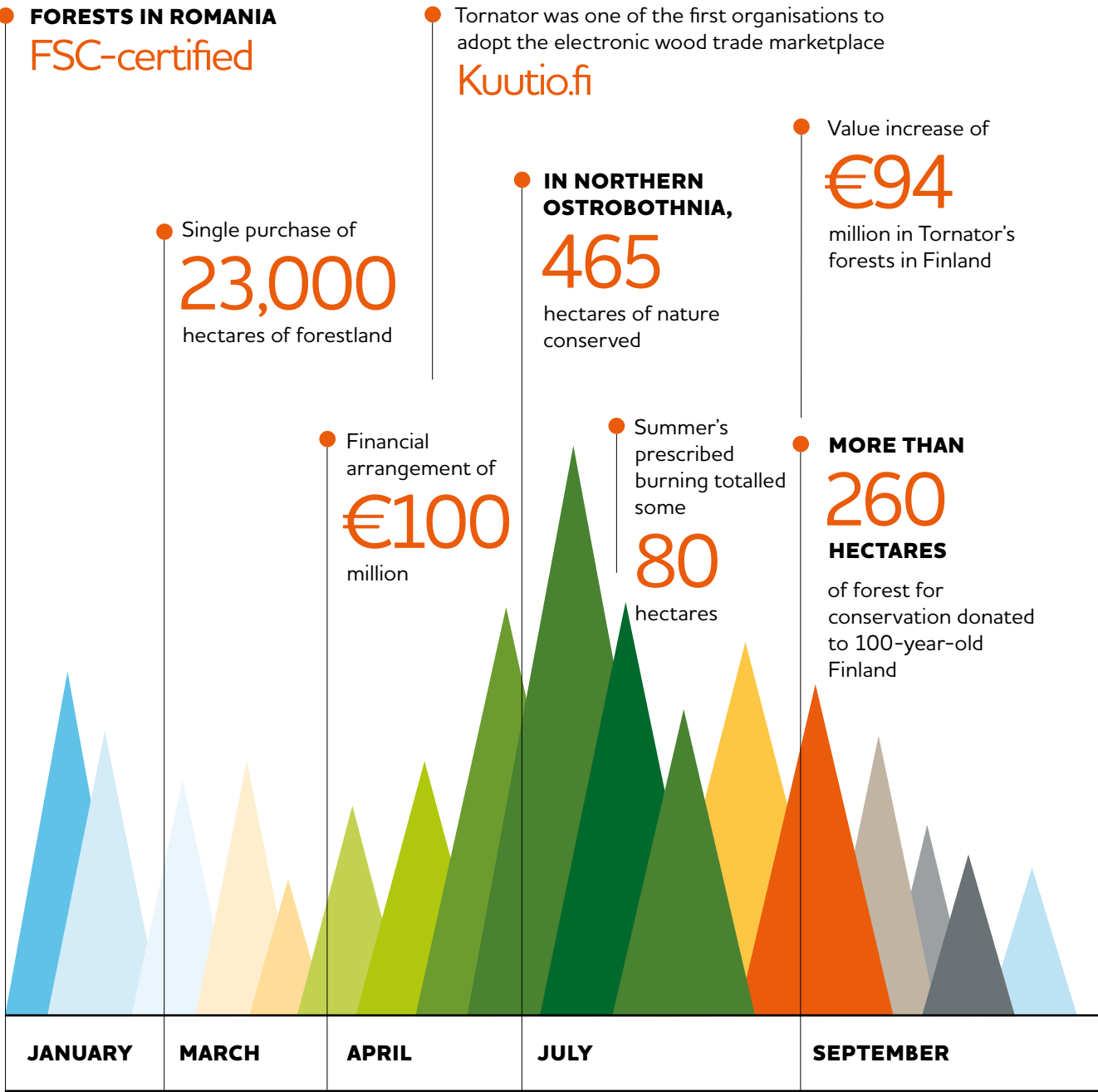
62,000
HECTARES

FORESTLANDS IN ROMANIA

12,000
HECTARES

THE YEAR 2017

Highlights of 2017



ENVIRONMENTAL PROTECTION

Tornator established 13 conservation areas with a total area of 875 hectares.



FOREST VALUE INCREASED

The fair value of Tornator's forests increased by €94 million. Long-term sustainable forest management is paying off.



MORE FORESTLANDS

Tornator purchased more than 30,000 hectares of forestland.

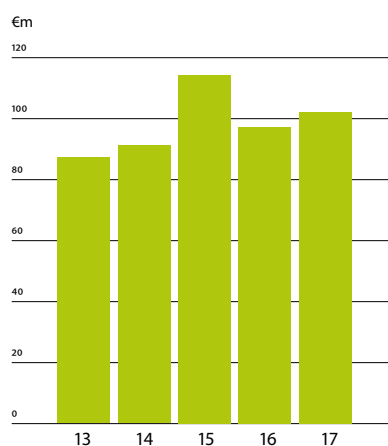
Key figures

Without effects of fair value changes

	2013	2014	2015	2016	2017
Net sales, € million	86.7	90.7	113.6	97.0	101.6
Operating profit, € million	65.5	62.6	74.5	67.2	72.4
Operating profit, % of net sales	75.6	69.0	65.6	69.3	71.2
Profit for the period, € million	31.7	29.6	44.0	37.3	40.9
Profit for the period, % of net sales	36.5	32.7	38.8	38.5	40.3
Average number of employees	216	217	213	200	189
Return on capital employed, %	7.1	6.5	7.7	6.5	6.1
Return on equity, %	7.0	6.5	10.0	7.1	6.5
Equity ratio, %	43.0	37.2	38.6	43.7	43.3

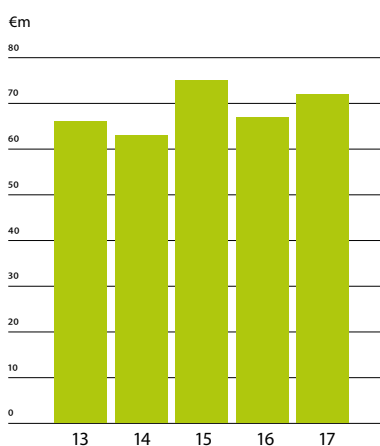
Net sales

(Without effects of fair value changes)



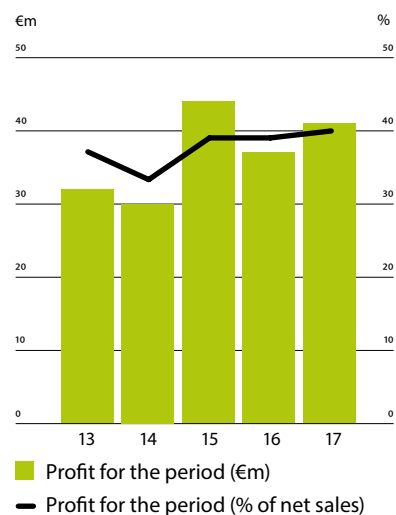
Operating profit

(Without effects of fair value changes)



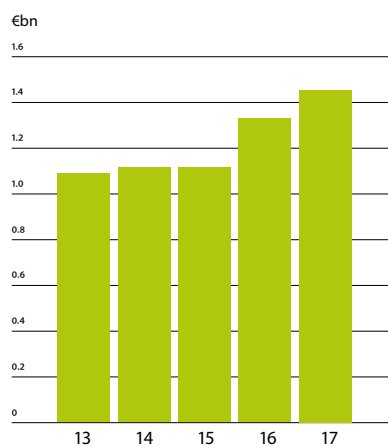
Profit for the period

(Without effects of fair value changes)



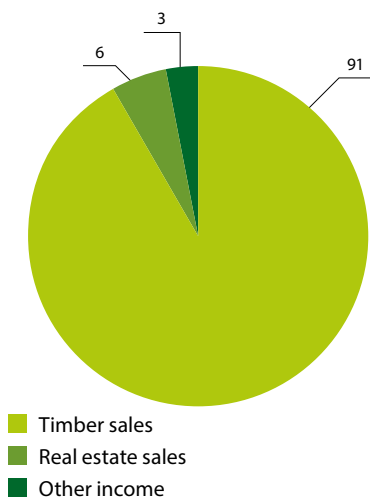
Valuation of forests

(fair value)



Cash flow from operations 2017

%



CEO'S REVIEW



“We shall further enhance our customer focus and competitiveness.”

For Tornator, 2017 was a year of profitable growth, and great activity and accomplishment. The company celebrated its 15th anniversary by increasing net sales and operating profit in all countries of operation. New forestland and good, long-term forest management enabled raising the sustainable annual cut, which improved forest value and once again created significant value for our shareholders.

Business driven by growth and new values

In the second year of the strategy period, we implemented our growth strategy by acquiring a total of over 30,000 hectares of new forestland in Finland and Estonia. We also started operating actively on the Finnish forestland market.

During the reporting year, net timber sales grew by 7.6 percent due to higher wood prices, and adjusted operating profit increased to €72.4 million. Timber deliveries totalled some 3 million cubic metres. Adjusted operating profit and net profit increased in all of the Group's operating countries – Finland, Estonia and Romania.

Tornator continued developing its information system, especially for business reporting, and was involved in setting up a new electronic wood trade marketplace (Kuutio.fi) and one of the first organisations in Finland to adopt it.

The company conducted an extensive and in-depth value discussion, after which the corporate values were updated to reflect the company's current state and priorities. Tornator was also active in promoting environmental responsibility. Its sustainable business is based on striking a balance between the commercial utilisation of forests and their ecological benefits. Tornator also made significant efforts in forest biodi-

versity and protection; a gift of nature to 100-year-old Finland was an excellent example of this.

Showing strong competitiveness in difficult conditions

Tornator showed its excellent competitiveness, especially during the challenging weather conditions of the autumn, by providing suitable, high-quality felling sites to its customers. Despite the very high rainfall, October was our best month of the year in timber deliveries. This was due to our efficient organisation, good infrastructure and large forest resources. Tornator's strengths are also clearly evident in studies conducted by external evaluators, demonstrating our cost-effective and high-quality operations.

During the year, we met the targets set for our productivity programme as well as forest and nature management quality.

All set for a successful future

Globally, there is an increasing demand for a business based on sustainable forestry such as Tornator's. In the future, the growth of well-being will rely more and more on the sustainable use of bio-based materials and renewable natural resources.

During the year, Tornator assessed carbon sequestration in its forests and the company's impacts on climate change. The company's well-managed forests grow well and capture about 4

million tonnes of carbon per year. One hectare of Tornator's forest captures nearly the same amount of carbon as a single EU citizen causes in emissions in a year. It is desirable that decisions made by EU bodies on forest utilisation will create a positive investment environment and effectively promote the mitigation of climate change.

We intend to increase our forest assets in core areas and to expand our business in all operating countries. We shall further enhance our customer focus and competitiveness. In line with the productivity programme, we shall also seek additional revenues in Estonia and Romania. We aim to keep our employee and stakeholder satisfaction high, and we shall continue to invest in leadership as well as the well-being of our employees and the environment.

I give my sincere thanks to our customers, partners, shareholders and all other stakeholders for their good co-operation and confidence in Tornator. My thanks also go to the employees and contractors for their excellent work for our customers' and Tornator's forests.

Sixten Sunabacka
Chief Executive Officer

REVIEW BY THE CHAIRMAN OF THE BOARD

Tornator's year 2017 was very intense and hardworking, which was also seen as numerous projects brought to the Board for discussion. The company made a major forestland purchase, signed a significant loan arrangement and strengthened Management Group resources by appointing a Head of HR. In addition, a lot of work was done on the processes of change related to corporate structure and management approach.



In timber deliveries, the early year was slower than usual, but a strong final spurt was made towards the end of the year. Despite the challenging conditions, a record volume of timber was delivered, which was a strong proof of the company's long-term efforts in maintaining forest infrastructure.

Another remarkable success of the reporting year was Tornator's major purchase and rapid taking over of forestland. Due to the digital forest resource information system and the employees' expertise, the new property was swiftly included in the company's forest management regime and timber sales, which was already reflected in timber deliveries late in the year. In situations like this, the Board and shareholders can see the company's operational performance at its best.

An excellent investment

For the shareholders, the reporting year was an excellent one in a long stretch of good years. The company delivered another strong result and the development of its net equity value was outstanding.

Tornator is a stable and safe investment. A long-term timber sales agreement with the main customer, Stora Enso, and the company's other agreements provide steady net sales and profits in all circumstances. Demand is also guaranteed when timber sales are otherwise slow for economic reasons.

Investing in forest is well suited for the long time frame of pension insurance companies. Forests will grow, and

long-term silviculture and investments in the improvement of growing conditions will be paid back many times over the years. Even items recorded as annual expenses are very much investments far into the future. During Tornator's 15 years of operation, there has been a massive increase in the volume of the growing stock owned by the company. A total of 32 million cubic metres of timber has been delivered. Despite this, Tornator now owns 6 million cubic metres more wood than when it started out in 2002. In the same time, shareholders have been rewarded with ever-higher dividends and a significant increase in the value of the assets.

It's all about responsibility

Responsibility is of utmost importance in all Tornator's business. Delivering timber is the core business of the company, and the annual cuts are always prepared in line with sustainable forestry and with full respect for nature values. The certification of Tornator's forests by both FSC and PEFC™ is at the very heart of responsibility, combining safeguarding biodiversity with versatile utilisation of forests.

During the reporting year, the Board decided on a donation of valuable habitats to 100-year-old Finland, which was a proof of the strong initiative of the company's employees and management. Tornator is also a significant employer in sparsely populated areas, and the supply chain of the wood coming from the company's forests provides work not only for the employees, but a multiple number of contractors and their staff.

Wood demand will increase in the future

Tornator's prospects are strong. Investments in Finnish industry have increased wood consumption, and high demand has been reflected in increasing net sales. Operations are fine-tuned, and the company's infrastructure is in good shape. Tornator is a solid company, which gives us the opportunity to continue controlled growth. As an owner, we can look to the future with confidence.

The year 2017 was my second season as Chairman of Tornator's Board of Directors. I have been in a box seat to see what a great strength and competitive advantage the company's skilled employees are. They work in many scattered locations, independently and relying on their own skills. I greatly appreciate the vast expertise that I have encountered at all levels of Tornator's organisation.

Tornator's business is characterised by foresight and hard fieldwork. Foresight as a kind of wisdom was appreciated by the backwoods philosopher Konsta Pylkkänen, the main character of Finnish author Veikko Huovinen. He also said that anyone roaming in the woods would do well to follow the same tactics as a marathon runner. "At the very start, you kick one foot forward, and immediately the other foot in front of the first one. Again and again. That's how you will get where you want to go." With foresight, let us continue our journey through Tornator's forests in 2018.

Mikko Koivusalo
Chairman of the Board

FINANCE

Controlled growth by utilising leverage

Tornator made significant growth investments in new forestland. To implement the growth strategy, the company signed a bank loan arrangement of €100 million.

Tornator signed a secured bank loan of €100 million for about four years, consisting of increasing the existing loan agreement by €50 million as well as a new term loan of €50 million. The additional financial arrangement supported Tornator's growth strategy, while the maturity of the existing bank funding was extended by a year. In addition to the bank loans, Tornator has a secured bond of €250 million listed in the Helsinki Stock Exchange, and an unsecured debenture loan of €65 million.

An increase in long-term market interest rates decreased the negative fair value of Tornator's hedges in the balance sheet, and the change had a positive effect of €26.3 million (–32.5) on profit.

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 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 2017, Tornator had €60 million worth of undrawn credit.

2017

KEY ACHIEVEMENTS

- New bank loan arrangement of €100 million
- Extension of the maturity of bank loans by a year
- The productivity programme produced the desired results

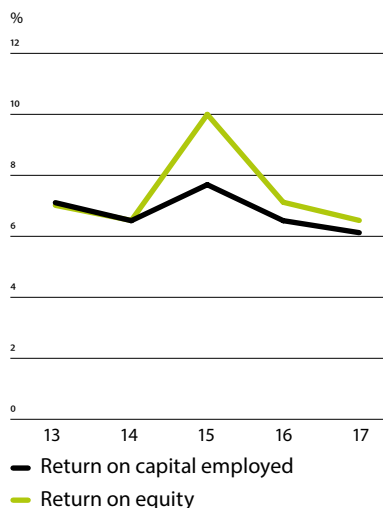
2018

GOALS

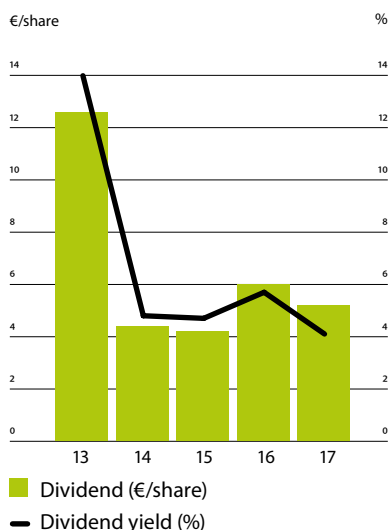
- Raise new capital to finance growth, if necessary
- Prepare a plan to refinance the bond due in 2019
- Continue productivity programme according to plan

ROCE and ROE

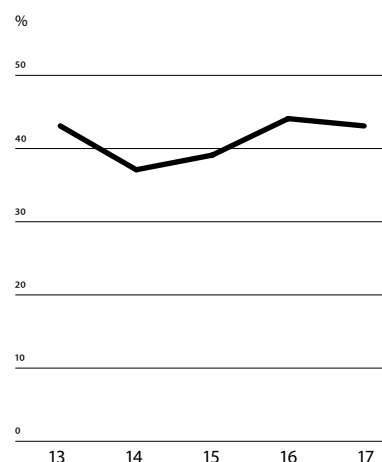
(Without effects of fair value changes)



Dividend and dividend yield



Equity ratio



Financial risk management

The purpose of financial risk management is to minimise the negative effects of changes in the financial markets on the company's profit and cash flow. The objectives of risk management and the risk management policy are defined by Tornator's Board of Directors, which is also responsible for monitoring risk management. The company's key financial risks are related to interest rates and the availability of financing. According to the risk management policy, the Group's loan portfolio must have an interest rate hedge ratio of 50–100 percent.

At the end of 2017, Tornator's hedge ratio was 68 percent. The effects of market rate changes are levelled out in the long term with fixed-interest loans and interest rate derivatives. The aim is to stabilise both sides of the balance sheet, i.e., to hedge interest rate risk on financial items as well as forest assets. The weighted average of the effective interest rates on long-term financial liabilities was 3.8 percent.

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 loan 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.

In 2017, the company fulfilled the covenants with a safe margin.

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 over the period 2015–2018. In 2017, the productivity programme was continued by further enhancing forest management processes and developing timber sales. Various actions contributed to achieving clear improvements in efficiency, and the implementation of the programme is on schedule.

DURING THE PERIOD, THE FAIR VALUE OF FOREST ASSETS INCREASED BY

€94

million

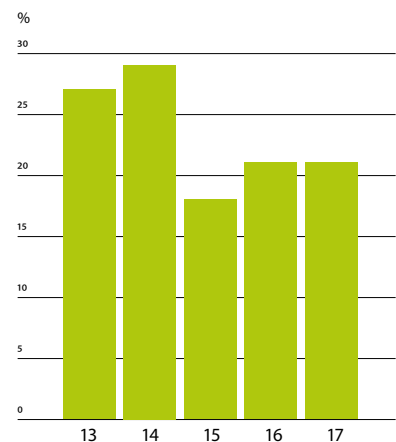
OPERATING PROFIT INCREASED TO

€72.4

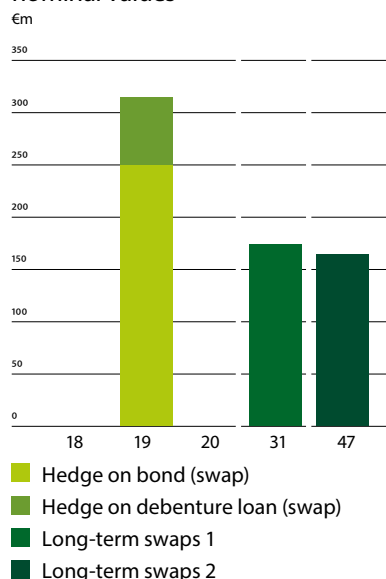
million

For more key figures, see p. 50

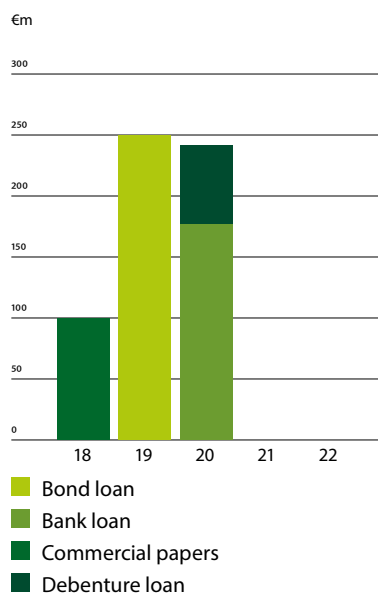
Net financial expenses (% of net sales)



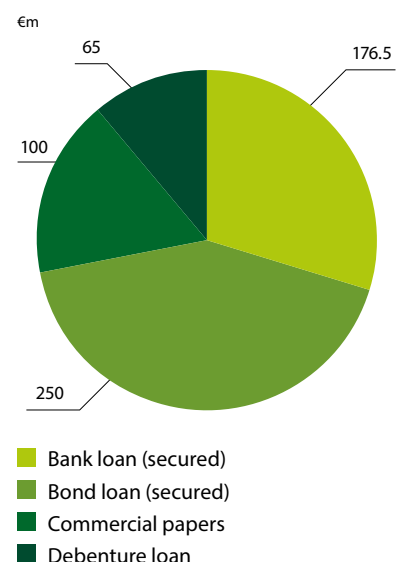
Expiry of interest rate hedges, nominal values



Maturity of debt



Structure of debt, nominal values 31 Dec 2017



Megatrends drive the demand for bio-based products

In the future, there will be more and more demand for a business based on sustainable forestry. Population growth, climate change and digitalisation will increase the development of the bioeconomy globally, and the roundwood market will continue to grow especially in the Baltic Sea region.

Diverse utilisation of wood helps fight climate change

Global megatrends are already increasing the demand for wood in industry. In the future, economic growth will rely more and more on the bioeconomy which is based on renewable raw materials and the opportunities of circular economy. Tornator responds to the higher demand for wood by increasing its forestlands and sustainable harvesting, and by managing its forests responsibly.

In Finland, the Government has made the bioeconomy one of its strategic priority areas, as the country has a

wealth of expertise and the opportunity to increase the sustainable utilisation of forests as well as the evolving bio-products industry.

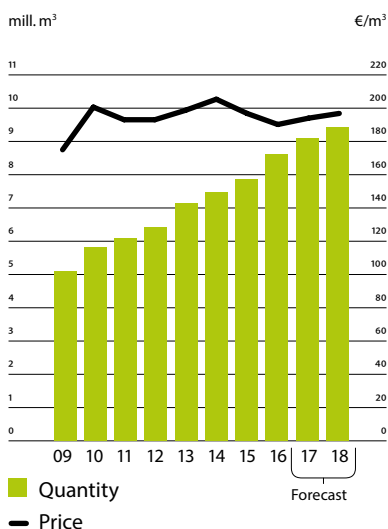
Climate change, population growth and digitalisation are the global megatrends that have the greatest impact on the growth of the bioeconomy. Responsibly produced wood-based products are a sustainable alternative to products made of fossil, non-renewable natural resources.

The demand for renewable bio-based materials such as wood will increase globally as part of mitigating climate

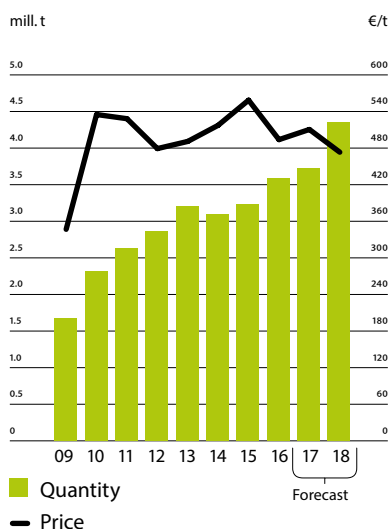
change. Due to its high carbon sequestration value and recyclability, wood provides new sustainable alternatives as a construction material for ever-increasing urban populations.

The need for paper has decreased as the world is going electronic, but the demand for higher value-added products made of pulp will increase, for example due to the growth of online shopping. Furthermore, the trend is to replace plastics with renewable materials in food packaging.

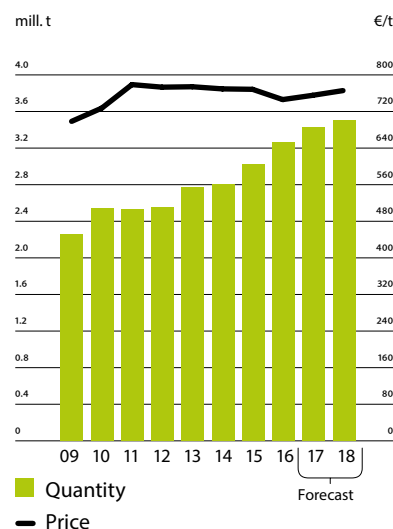
Sawnwood exports



Pulp exports



Paperboard exports





*“In the future, economic growth
will rely more and more on
renewable raw materials.”*

Roundwood demand on the increase

Wood demand is showing an increase in all of Tornator's operating countries – Finland, Estonia and Romania. New investments of the forest and energy industries are boosting wood consumption.

With the ongoing investments, commercial roundwood removals in Finland are expected to increase to 65.0 million cubic metres in 2018. Examples of realised 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.

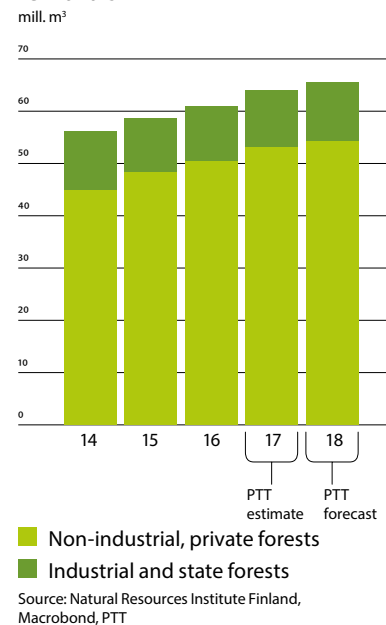
Sawn timber exports will continue to grow in the future, especially to China

where Finland exported an all-time record volume during the reporting year, some 1.7 million cubic metres.

The growth of sawn timber demand in China has also been supported by the increasing wealth of the population and the country's efforts to move from an investment-driven economy towards a consumer society. This has increased the demand for various wood products, such as furniture, furnishing materials and playground equipment.

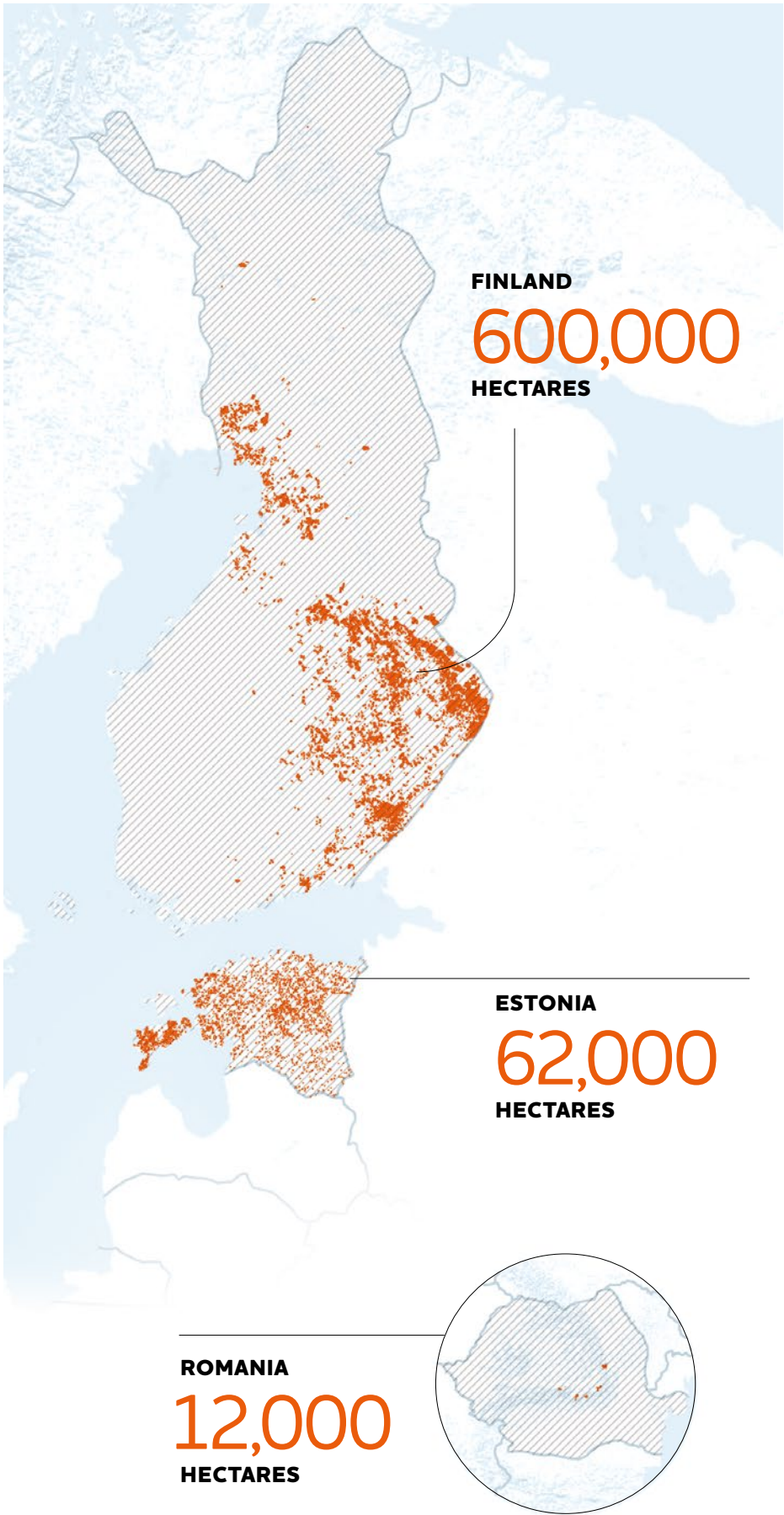
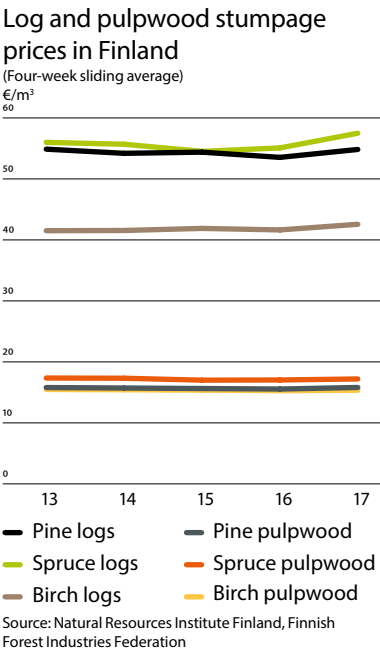
The export of sawn timber is also accelerated by the growth of construction on the European market.

Annual commercial roundwood removals



Megatrend	Effects on sector and Tornator	Our response
Climate change and concern for the environment	<ul style="list-style-type: none"> Utilisation of forests will be more diverse Forests will grow faster Risk of forest damage will be higher Criticism of commercial use of forests will increase Forests will be more important as carbon sinks 	<ul style="list-style-type: none"> Increase forestland area and diversify the business Utilise additional growth of forests sustainably Maintain good forest growth with proper management Act responsibly and actively participate in the forest debate
Population growth and urbanisation (Growth of bioeconomy and circular economy)	<ul style="list-style-type: none"> Wood construction, use of biomaterials and recycling will increase Recreational use and well-being effects of forests will be highlighted Finding labour in sparsely populated areas will be more difficult 	<ul style="list-style-type: none"> Intensify wood production and forest conservation, and strengthen forest biodiversity Develop the multipurpose use of our forests, and actively provide them for recreation Act as a responsible and competitive employer and partner
Digitalisation	<ul style="list-style-type: none"> Digital use of forest and multisource data will expand, and utilisation of systems will be intensified Use of wood in papermaking will diminish, and increase further in packaging Use of online services will increase and open up new business opportunities 	<ul style="list-style-type: none"> Actively develop the TornaApps system and intensify its utilisation Actively seek new business opportunities based on the utilisation of digital data (e.g. Kuutio.fi)
Social role of companies	<ul style="list-style-type: none"> Sustainability requirements of citizens will be emphasised Requirements for regulation and reporting will increase Open and transparent communication will be more important 	<ul style="list-style-type: none"> Openly demonstrate sustainability and development targets (e.g., through double certification) Actively participate in advocacy and regulatory development Report and communicate actively and openly

Tornator’s forestlands



“Wood demand is showing an increase in all of Tornator’s operating countries – Finland, Estonia and Romania.”

STAKEHOLDERS

Active interaction

Open and responsible co-operation with stakeholders is one of the key principles guiding Tornator's business. The company aims at active interaction and collaborative stakeholder relationships, enabling open and active discussion with various parties.

Tornator's stakeholders include a wide range of actors utilising forests and working with them. The key stakeholders are: customers, shareholders, investors, associations, contractors, local communities as well as other parties significant to the continuity of the business.

Tornator collaborated closely with stakeholders throughout 2017. The company arranged visits to its forests and surveyed stakeholders' attitudes during the annual FSC audit. The results were good and showed satisfaction with the company's activities.

Tornator conducted a customer satisfaction survey which yielded mainly positive results. During the reporting year, the company also updated the materiality analysis that drives its responsibility work and communication, for which various stakeholders were interviewed.

Materiality analysis
Read more on p. 25

Tornator's memberships and roles in associations and advocacy organisations essential in terms of sustainability are presented in a table on the company's website at www.tornator.fi/memberships. The key roles include memberships on the boards of the Finnish Forest Industries Federation, Suomen Puukauppa Oy, the Finnish Forest Museum Foundation and FSC Finland – Association for Responsible Forestry.

“Customers were satisfied with Tornator's co-operation.”



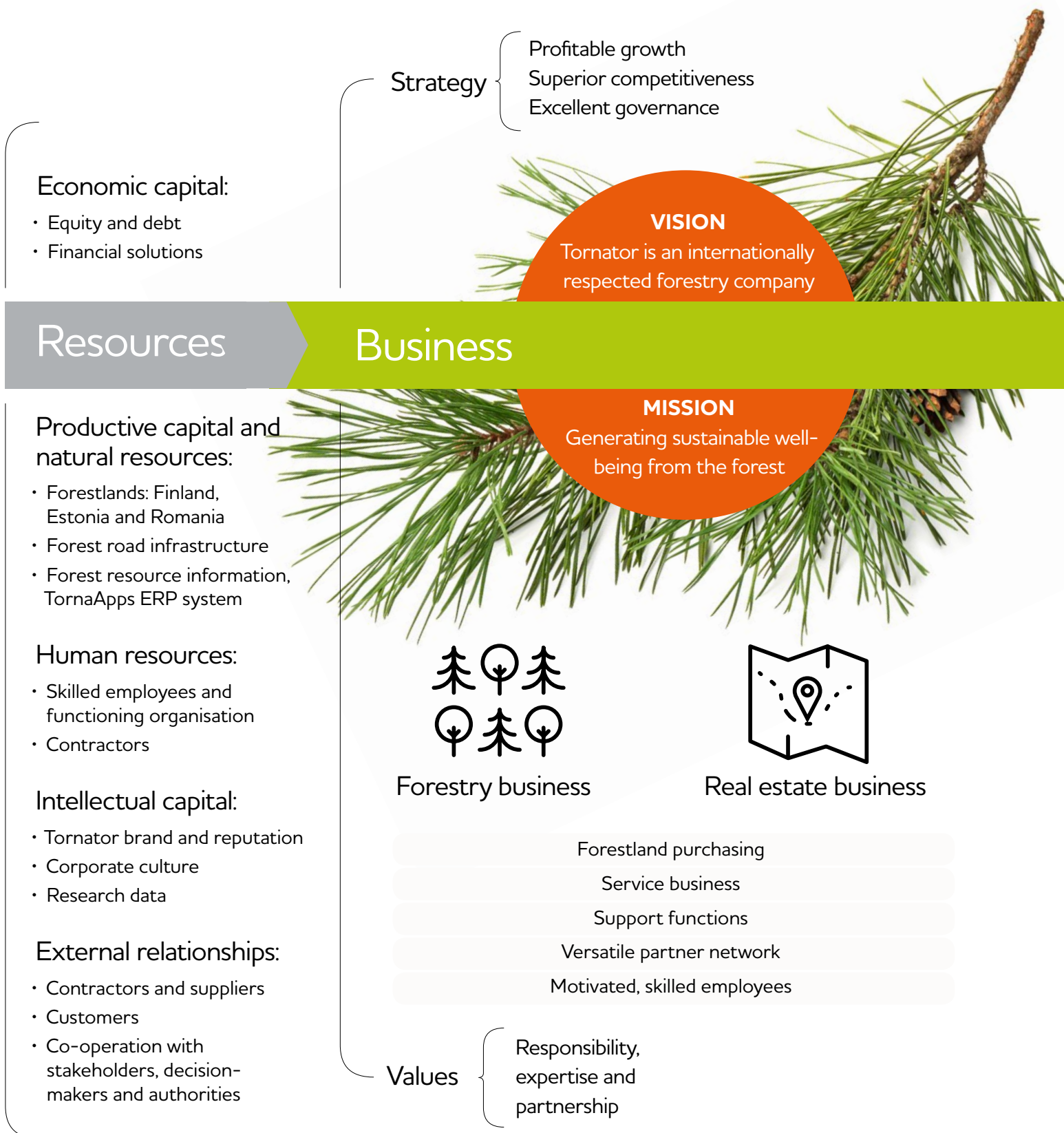
Stakeholder co-operation in 2017

	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 	<p>Tornator provided customers with</p> <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 communications 	<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"> • Tornator's total employment effect 900 person-years • Various co-operation events • Participation in various R&D projects
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 • Individual training opportunities • Groupwide training programme for middle management • Well-being days (6 events) • Retire Healthy programme • Finland 100 coffee party
Authorities and decision-makers	<ul style="list-style-type: none"> • Professional and collaborative practices • High-quality plans and studies in wind power zoning (municipalities and towns) • Open and fast communication on relevant topics 	<ul style="list-style-type: none"> • Co-operation meetings 	<ul style="list-style-type: none"> • Active discussion and formal negotiations • Environmental inventories for ongoing EIA procedures • Various stakeholder tours, and contributing to the arrangements of the Forest Academy for Decision-makers and the Young Influencers' Forest Forum
Local communities	<ul style="list-style-type: none"> • Consideration of the environment in wind power and other land uses • Regional employment effects • Listening to neighbours and other residents • Promotion of forest awareness among children and youth • Participation in local projects 	<ul style="list-style-type: none"> • Participatory meetings • Website • Collection and handling of feedback 	<ul style="list-style-type: none"> • Participatory meetings on wind power (1) • 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 • As a gift of nature to 100-year-old Finland, Tornator established eight conservation areas around Finland • In Romania, Finland 100 forest planting campaign, promising to plant 100,000 seedlings by 2020 • In Estonia, forest planting day for schoolchildren • Annual award to a forestry student (Estonia) • Provision of forests for recreational use • Maintenance of forest roads • Number of hunting leases: approx. 1,000
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"> • PEFC and FSC certified wood • Meetings with WWF and FSC International • In Finland, participation in the LUMO, FORBIO, Light & Fire LIFE and Freshabit LIFE IP projects • In Estonia, participation in development groups for forest certification and private forestry • Participation in a game-based forest management project, provision of trial sites • Various stakeholder tours
Media	<ul style="list-style-type: none"> • Open and fast communication on relevant topics 	<ul style="list-style-type: none"> • Press releases • E-mail • Website 	<ul style="list-style-type: none"> • Appearances in current affairs programmes • Press releases on website • Articles in the press

VALUE CREATION

How we create value

Tornator's objective is to create value for various stakeholders. The diagram below presents the economic, social and environmental impacts of the company's operations.



Services:

- Silvicultural work
- Leases
- Recreational use



Economic:

- Profitable business
- Increasing net sales
- Employee rewards and benefits
- Employment in sparsely populated areas
- Taxes to the public sector
- Payments to financial institutions
- Payments to suppliers and partners
- Dividends and increase in value to shareholders

Outputs

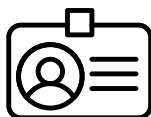
Impacts

Products for customers:

- Sawlogs, pulpwood and biomass
- Natural products
- Land for sale and lease
- Planned and ready felling sites

Forest and water ecosystem services:

- Oxygen from photosynthesis and carbon stored in forests
- Clean water
- Wildlife
- Wild berries and mushrooms



Social:

- Employees' safety and well-being
- Low sickness absenteeism
- High employee satisfaction
- Employees' opportunities to develop themselves
- Well-being of people, recreational use of forests
- Local communities, support and sponsoring



Environmental:

- Sustainable forestry
- Carbon sequestration
- Energy and resource efficiency
- Nature management in commercial forests
- Increase in forest growth
- Established conservation areas and planning of new ones

Creating value with sustainability and diversity

Tornator develops and creates business by utilising digitalisation, acquiring forestland and intensifying the sustainable utilisation of forests as well as enhancing employees' expertise. The company actively seeks new opportunities to generate added value from forests.

During the reporting year, Tornator sharpened up its strategic guidelines to develop the business. The company's operations are driven by three priorities: profitable growth, superior competitiveness and excellent governance.

Mission

Generating sustainable well-being from the forest

Vision

Tornator is an internationally respected forestry company

Strategic priorities

Profitable growth

We expand our activities in strategic core areas by seeking synergies with selected partners.

Excellent governance

We proactively develop processes, systems and expertise to strengthen responsibility, people's well-being and internal communication.

Values

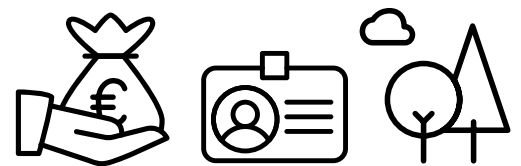
Responsibility – for quality of work, the environment and relationships with stakeholders.

Expertise – willingness to develop and improve.

Partnership – ability and will to work together.

Superior competitiveness

We utilise our forest resources and land efficiently and diversely, complying with the principles of sustainability.



Responsibility as 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 people's well-being are promoted in its entire sphere of influence, according to legislation and stakeholders' expectations.

Forest assets increased in Finland and Estonia

The industry's investments and increasing need for roundwood boosted Tornator's net timber sales in all three operating countries. To support the growth, the company acquired substantial areas of forestland during 2017.

Tornator's objective is to grow profitably and to create more value for all stakeholders. Growth is sought in the current core business as well as in new business based on the forest bioeconomy in Finland and abroad. The company has also assumed a key role in the digitalisation of forestry as well as expanded its service business in all operating countries.

Tornator responded to the increasing wood consumption on the market by purchasing more than 30,000 hectares of new forestland in 2017. In addition, the company signed new long-term agreements on timber sales and forest services.

Tornator's investments in 2017 totalled €110 million, which is more than ever before. The company also signed a financial arrangement of €100 million, which supported Tornator's strategy of growth.

Wood demand high in all operating countries

In Finland, Tornator's investments in additional forestland, sustainable forestry and high-quality forest management paid off as increased timber sales. Due to the high demand, net timber sales increased by 7.6 percent. In addition, the company continued its multi-annual fertilisation programme in Finland, which can improve the growth of the forests significantly. The prices of both sawlogs and pulpwood increased slightly.

Tornator Eesti OÜ, the Estonian subsidiary, increased its forest assets by acquiring 4,500 hectares of forestland. In addition, the company has ensured decent prices and steady sales by signing long-term timber sales agreements. The demand for pulpwood in Estonia increased and the market trend looks good. The wood consumption of the mechanical industry was high and sawlog prices increased significantly towards the end of the year.

In Romania, wood demand was high, and prices continued the rise that had begun in the previous year.

2017

KEY ACHIEVEMENTS

- Improvement of the growth and utilisation of present forests
- More than 30,000 hectares of new forestland
- Financial arrangement of €100 million
- Expansion of the service business

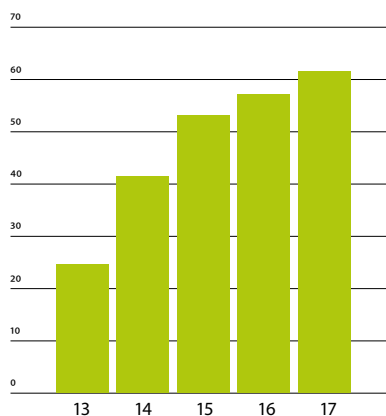
2018

GOALS

- Increase forestlands in Tornator's core areas
- Increase forest growth with proper management and fertilisation
- Utilise digital opportunities more efficiently for the business
- Expand the service business

Development of Tornator's forestlands in Estonia

'000 ha



Digitalisation enables growth

Digital and up-to-date information on forests as well as efficient decision-making support systems enable an ever-higher level of forest and nature management, increasing commercial utilisation of forests and more extensive protection of important ecological habitats.

In 2017, Tornator was one of the first organisations to adopt the Kuutio.fi wood trade portal developed by Suomen Puukauppa Oy. The digital marketplace will open up new timber sales opportunities for the company.

How digitalisation improves efficiency

Learn more about the utilisation of digital forest resource information on p. 23

Kuutio.fi service

Read more on p. 21

Forest value increases through expertise and long-term management

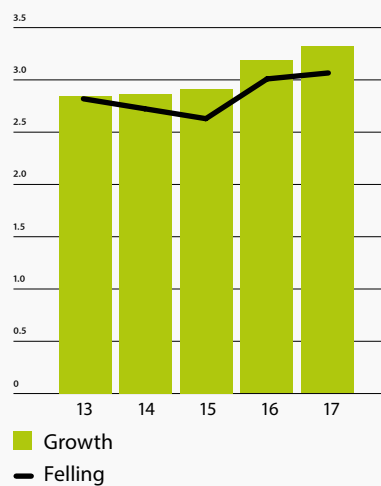
Sustainable forestry is based on the long-term planning of operations. Tornator has a modern, tailored information system that contains extensive data on the status and ecological values of the company's forests. This system is the key tool of the skilled employees and contractors. The electronic forest resource information and expert planning enable the performance of fellings and silvicultural treatments while preserving the biodiversity and future felling potential of the forests.

The forest resource information is updated with treatments and maintained with growth models, and further adjusted using laser-based remote sensing data. Advanced information systems allow the calculation of various treatment options for the forests, enabling the simulation of future development and calculation of alternatives for various targets. This is the basis for the sustainable annual cut.

Skilled employees make decisions on the timing and performance of treatments according to the targets of the annual cut. In this way, the forestlands are maintained in good growth condition and the forests are utilised as well as possible.

Growth and felling in
Tornator's forests

mill. m³



Competitiveness founded on expertise and technology

Tornator's goal is to be the best timber sale and business partner on the market. Its competitiveness is founded on skilled employees as well as cost-effective and high-quality operations based on extensive digital data on the forest resources. The company's vast forestlands are a superior competitive advantage.

Tornator's competitiveness relies on excellent tools and skilled employees, enabling the efficient utilisation of the extensive forestlands. Throughout its history, Tornator has actively developed and adopted new digital tools. This is one of the reasons that the company's vast forests can be managed by a fairly small organisation.

Thanks to the advanced digital tools, Tornator's salaried staff and forest workers are able to work independently and effectively. Electronic forest resource information enables comprehensive work planning remotely from the office, and the only thing left to do in terrain is to verify the information and finish planning the ready-to-cut felling site for the wood buyer.

Investments in infrastructure enhance customer satisfaction

Customer-focused service is one of Tornator's priorities. Employees have been trained in order to improve services and staff responsible for our key customers take care of the daily contacts with their business partners.

Tornator's extensive forestlands provide a wide selection of felling sites for the customer's needs at any time. Tornator has made special efforts to develop forest road infrastructure and maintenance in all operating countries.

Tornator also wants to be an attractive partner for contractors. As a major forest owner, Tornator is able to offer large commissions to forest service and forest machine contractors, which

decreases Tornator's costs and improves the efficiency of contractors' operations.

Superior competitiveness increased operating profit

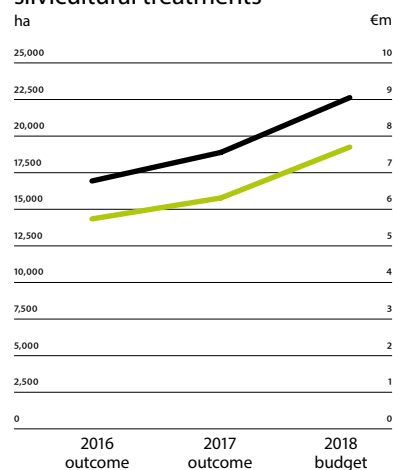
During the reporting year, Tornator's net sales increased significantly, despite the fact that weather conditions were very challenging for wood procurement. This is evidence of the value of the high-grade forest infrastructure and the employees' expertise.

Finland is a high-cost country, and costs have also increased in the company's other operating countries. The total area of Tornator's silvicultural work has grown with increasing forestland and harvesting areas. Despite this, Tornator has managed to keep all operating costs well in control. The increased net sales and cost-effectiveness significantly improved the company's operating profit.

The productivity programme started in Finland in 2015 continued also in 2017. Targets have also been defined for productivity programmes in Estonia and Romania, and implementation will begin in 2018.

The annual assessment of forest and nature management quality, conducted by Tapio Silva Oy, once again showed that the quality of silvicultural work and harvesting had remained high.

Total area and costs of silvicultural treatments



— Area
— Costs

2017

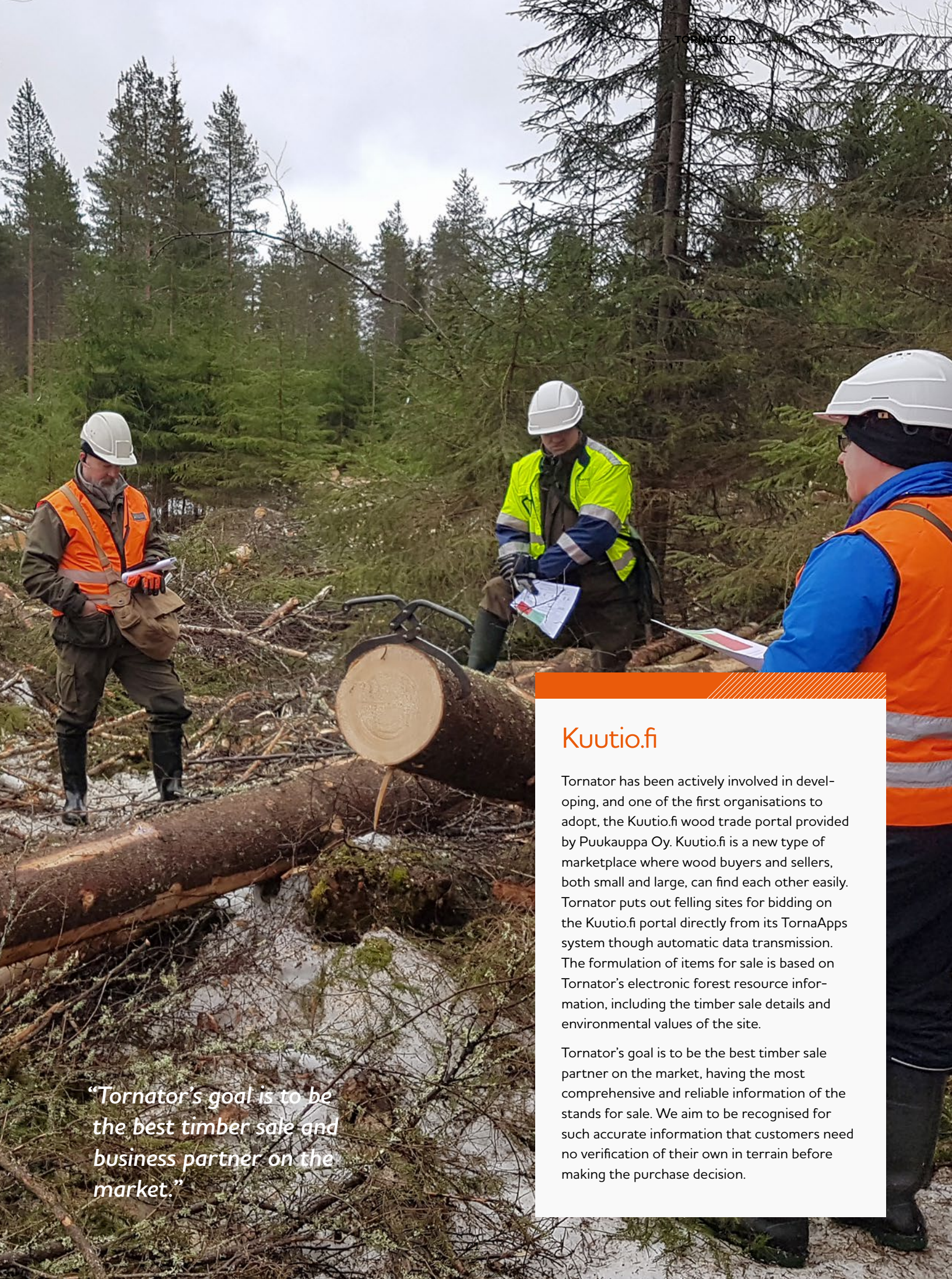
KEY ACHIEVEMENTS

- Excellent service to customers in difficult conditions increased net sales
- Cost-effectiveness improved in line with the productivity programme and increased operating profit
- Customer satisfaction remained high

2018

GOALS

- Develop customer-focused timber sales and planning
- Continue improving the productivity and monitoring of operations
- Improve forest and nature management quality further
- Intensify work with the shift to a new reporting environment



“Tornator’s goal is to be the best timber sale and business partner on the market.”

Kuutio.fi

Tornator has been actively involved in developing, and one of the first organisations to adopt, the Kuutio.fi wood trade portal provided by Puukauppa Oy. Kuutio.fi is a new type of marketplace where wood buyers and sellers, both small and large, can find each other easily. Tornator puts out felling sites for bidding on the Kuutio.fi portal directly from its TornaApps system through automatic data transmission. The formulation of items for sale is based on Tornator’s electronic forest resource information, including the timber sale details and environmental values of the site.

Tornator’s goal is to be the best timber sale partner on the market, having the most comprehensive and reliable information of the stands for sale. We aim to be recognised for such accurate information that customers need no verification of their own in terrain before making the purchase decision.

Excellent governance facilitates success

Tornator aims at excellent governance by developing responsibility, leadership, communication as well as pay and reward systems. The shift to a process-based organisation has been a success for the company.

2017

KEY ACHIEVEMENTS

- Creation and adoption of new corporate values
- Development of a new pay and reward system
- Start of a training programme on value-based leadership
- Maintenance of high employee satisfaction

2018

GOALS

- Strengthen team spirit in the company
- Increase value-based leadership training
- Develop communication

Tornator's employees work very independently, on the basis of initiative and individual targets. The employees are also expected to make independent decisions. The company has tackled the challenges with geographically scattered activities by focusing on both internal and external co-operation, as well as actively training its middle management. In 2017, supervisors' training included a two-year course in value-based leadership built on the company's new values.

Tornator conducted a study of the vulnerability and cyber security of the entire TornaApps system. The study showed that these things are well in hand. Tornator has strengthened its excellent governance by investing in human resource development and management as well as effective decision-making support systems and tools. In 2017, the corporate management adopted a new business reporting model. Tornator also hired a new Head of HR who immediately started the further development of pay and reward systems, management processes, employees' expertise as well as communication.

According to a pay comparison and an employee satisfaction survey conducted in the company, we may draw the conclusion that Tornator is a competitive employer in its field. A new pay system to be introduced at the beginning of 2018 is an attempt to further develop pay into a more flexible, open and motivational direction.

Communication is key

For a company like Tornator, successful communication is a key priority and challenge. By developing communication, Tornator has the opportunity to improve not only management but also the company's public image. Tornator will further develop external and internal communication by adopting new communication channels.

Tornator intends to enhance transparency and interaction in its organisation. The aim is that information will flow in both directions, not only from management to the field. Interaction will be increased for instance through leadership training.

Process organisation boosts efficiency

Tornator's adoption of the process approach has been a success. Improvements in performance levels as well as the accuracy and uniform quality of operations are obvious. Already in its first year, the change in management approach has boosted Tornator's efficiency significantly.

As a result of job specialisation, however, unity and team spirit emerge as areas that need to be addressed more in the future.

Tornator has also strengthened groupwide thinking. This will improve support to the subsidiaries in Estonia and Romania.

“Digital tools have enabled strong growth with a fairly small organisation.”



How digitalisation improves efficiency

Digitalisation is integrated in Tornator's organisational culture. Digital tools have enabled significant growth with a fairly small organisation. In Tornator's culture, digitalisation means, above all, doing everyday things more effectively and wisely.

Due to the electronic forest resource information, most of felling site planning can be done in the office environment. The planner has access to both aerial photos and laser-based remote sensing data on a digital surface model, tree height and age, groundwater areas, topography and any environmental values.

Tornator is also a pioneer of efficiency in data transmission. Thanks to shared interfaces, information on felling sites is automatically transmitted either to the Kuutio.fi marketplace or directly to the customer. There is no more need to send it by e-mail, which allows employees to spend their time on more important tasks.

Successes and challenges of the year

Challenges

- Maintaining the balance between the ecological and economic benefits of forests.
- Open and transparent dialogue with stakeholders.

START OF VALUE-BASED LEADERSHIP TRAINING FOR EMPLOYEES IN SUPERVISORY POSITIONS

In honour of Finland's centennial,

100,000

tree seedlings to be planted in Romania by 2020

CREATION OF NEW CORPORATE VALUES AS A RESULT OF VALUE DISCUSSION

PEFC CHAIN-OF-CUSTODY CERTIFICATE

AS A GIFT OF NATURE TO 100-YEAR-OLD FINLAND, **260** HECTARES FOR PERMANENT CONSERVATION

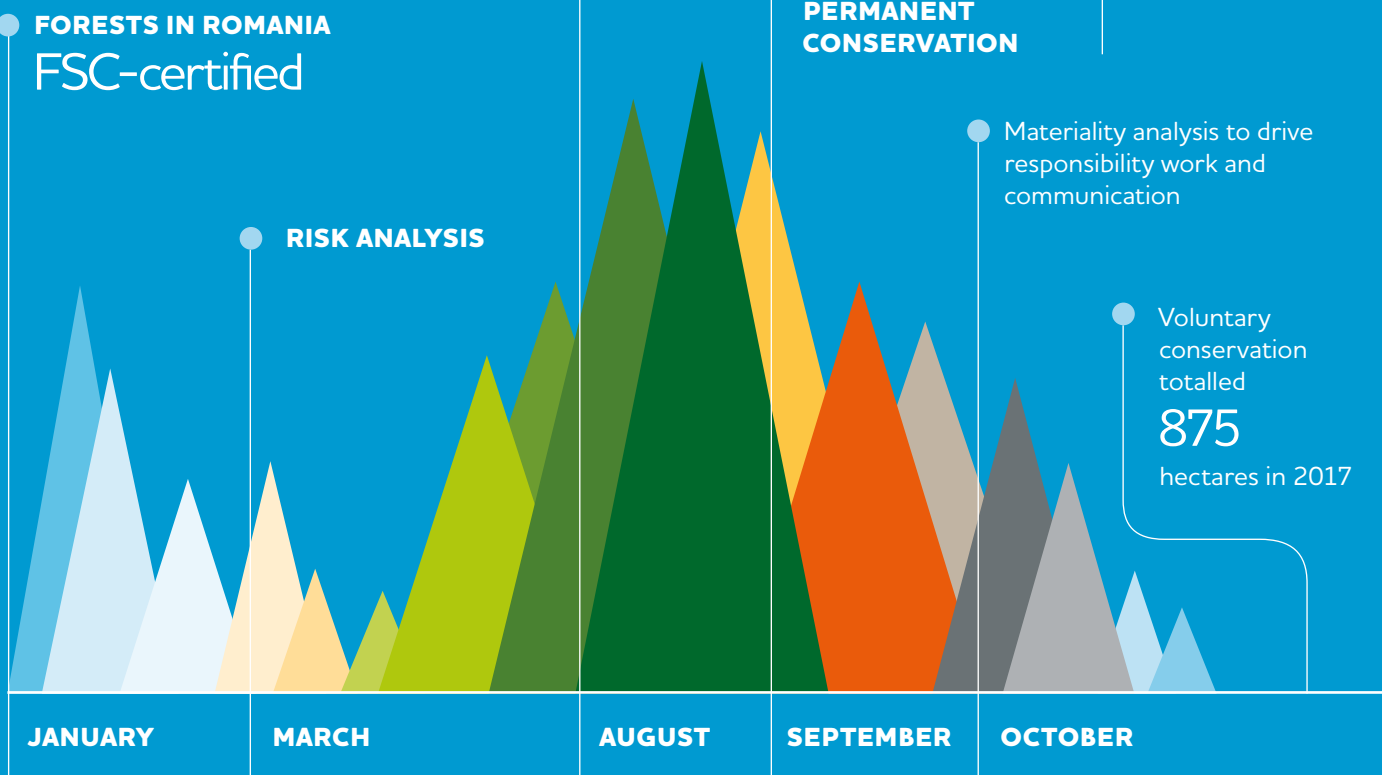
REVISION OF PAY AND REWARD SYSTEM

FORESTS IN ROMANIA FSC-certified

RISK ANALYSIS

Materiality analysis to drive responsibility work and communication

Voluntary conservation totalled **875** hectares in 2017



RESPONSIBILITY VISION AND KEY THEMES

Generating sustainable well-being from the forest



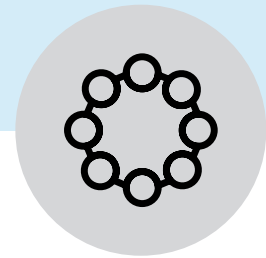
Expert in sustainable forestry

- We work sustainably, considering the ecological values of commercial forests
- We protect valuable habitats and promote biodiversity, minimising the environmental impacts of our operations
- We demonstrate sustainability through independently verified forest certification
- We maintain the carbon sequestration capacity of forests with good forest management



Progressive and safe

- We care for the safety and well-being of employees and contractors
- We keep employee satisfaction high
- We invest in the training and development of employees and contractors

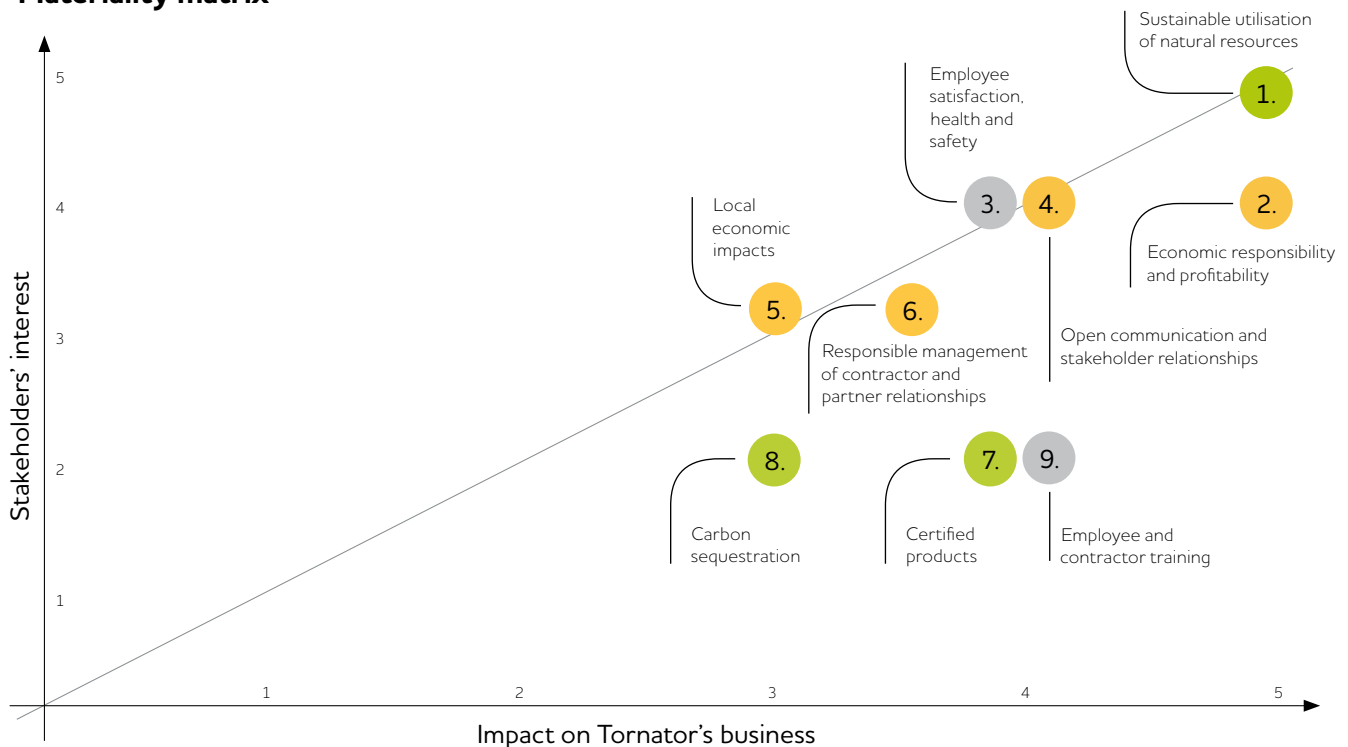


Productive promoter of well-being

- We grow profitably and improve our efficiency
- We generate well-being through taxes and jobs all over our operating area
- We are a responsible and long-term partner

Ethical principles, good governance, open communication and dialogue with stakeholders

Materiality matrix



Responsibility key performance indicators

Subject	Indicator	Target	Outcome
Sustainable utilisation of natural resources	Annual cut vs. growth	Annual cut not to exceed the long-term yield of forests	In 2008–2017, average annual cut 2.25 million m ³ / growth 2.7 million m ³
Economic responsibility and profitability	Net profit and dividend payment capacity	Steady dividends paid to shareholders	Dividends paid: €26 million
Employee satisfaction, health and safety	Result of employee well-being survey	Satisfied employees, healthy and safe work environment	4.1/5
Open communication and stakeholder relationships	Updating of materiality analysis in co-operation with stakeholders	Identify sustainability themes important to the company and stakeholders	Materiality analysis completed in October 2017
Local economic impacts	Net value retained	High net value retained	€14.9 million
Responsible management of contractor and partner relationships	Completed supplier assessments	Monitor suppliers' sustainability systematically	113 supplier assessments
Certified products	Compliance with FSC and PEFC certification criteria, no non-compliances	Maintain certificates	0 non-compliances
Carbon sequestration	Maintenance of carbon sequestration capacity	Increase carbon sequestration by caring for the health and vigour of forests	Forest growth 5.5 m ³ /ha/year
Employee and contractor training	Days of training per person	Secure necessary expertise for the company	4 days



Sixten Sunabacka, CEO

Increased felling from the viewpoint of sustainability

Is Tornator planning to increase felling volumes in the future?

Tornator's felling volumes are based on a long-term sustainable annual cut. This year, the company has purchased substantial amounts of new forestland and invested in forest growth, which will also increase felling potential. Due to the acquisitions and investments, Tornator has updated its sustainable annual cuts.

How do increased felling volumes relate to FSC certification?

Tornator always manages its forests according to the principles of sustainable forestry, minimising environmental impacts and securing forest biodiversity. Our sustainable annual cuts are not in conflict with FSC certification.

FSC allows the efficient utilisation of forests if the future felling potential is ensured. With our digital forest resource information and long-term operational planning, we are able to anticipate forest growth when planning annual cuts.

Will carbon sinks be jeopardised with the increased felling volumes?

Tornator's objective is to maintain the carbon sequestration capacity and carbon storage of forests as high as possible. Forest growth is a key factor in increasing carbon sinks. Tornator strives to increase the health and growth of forests not only through normal silvicultural work but also by forest fertilisation.

RESPONSIBLE MANAGEMENT

Responsibility drives the business

Responsibility is one of Tornator's core values and the business is driven by a Code of Conduct. Responsibility is demonstrated in the way each employee acts in a socially, economically and ecologically sustainable manner as well as in Tornator's commitment to open and transparent communication about its activities.

Tornator's social responsibility is based on the values and strategy reconfirmed by the Board of Directors in 2017. 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 responsibility 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 persons in charge of each function 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 control of functions as well as through third-party audits, external and internal auditing. Groupwide co-ordination and guidance are the responsibility of the CEO, assisted by the Management Group and the Corporate Responsibility Manager.

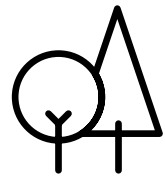
Materiality analysis was updated

In 2017, Tornator updated the materiality analysis that drives its responsibility work and communication. For the analysis, 21 representatives of internal and external stakeholders were interviewed regarding their views on Tornator's focus areas, successes and development needs.

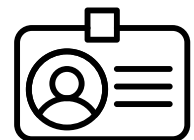
On the basis of the materiality analysis, the key themes of Tornator's responsibility work remain the sustainable utilisation of natural resources as well as economic responsibility and profitability. Included as clear new subject was open communication and stakeholder relationships. Some of the stakeholders were satisfied with Tornator's communication, whereas others saw room for improvement in communication towards the public at large.

Generally, stakeholders were satisfied with Tornator's ability to utilise natural resources in a sustainable manner, and the PEFC and FSC double certifications in Finland and Estonia were especially appreciated. At the same time, however, themes related to sustainable forestry were considered to be the greatest corporate responsibility risks to the company. Therefore, Tornator continues to work hard to ensure and further develop the sustainable utilisation of natural resources.

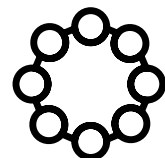
While updating the materiality analysis, Tornator formulated new key sustainability themes: expert in sustainable forestry, progressive and safe, and productive promoter of well-being.



**EXPERT IN
SUSTAINABLE
FORESTRY**



**PROGRESSIVE
AND SAFE**



**PRODUCTIVE
PROMOTER OF
WELL-BEING**

Forestry as a cornerstone of well-being

Tornator's mission is to promote well-being in society at large. Due to the profitable business, the company has long had a considerable tax footprint. Tornator is a significant employer in local communities in all operating countries, and the recreational use of the company's forests is an extensive source of well-being.

It is important for Tornator to be a responsible corporate citizen and a constructive partner in local communities. The professional and profitable business enables the company to promote forest biodiversity, to create jobs and to pay taxes and dividends.

Tornator wants to work in open and direct interaction with local communities. Any negative impacts on local communities and the operating environment are closely monitored and assessed. The company strives to minimise emissions from its operations as well as any threats to biodiversity. In its wind power projects, Tornator considers their impacts on local residents.

Responsible forestry supply chain

Tornator's core business includes forestry and timber sales. The company's share in the forestry supply chain covers silvicultural work, harvest planning, timber sales, harvest control and timber delivery.

Tornator operates at the beginning of the forestry supply chain, and the amounts of raw materials supplied to the company are marginal. Tornator acquires resources from forest machine and forest service contractors as well as suppliers of equipment and tree seedlings. The company's internal supply chain consists of forest regeneration and silvicultural work, including contract management and control of work. The internal supply chain mainly focuses on the management of the company's own forests.

The company has prepared a contractor policy and started supplier assessment to ensure a sustainable supply chain. Suppliers are assessed not only by price, quality and delivery reliability but also from the viewpoint of responsibility. The baseline is that contractors must fulfil the criteria that Tornator

has set for its own operations. During 2017, the company extended the assessment of contractors to other types of work besides harvesting operations.

A significant employer and taxpayer

Tornator has sold a total of 32 million cubic metres of wood during its existence, 2002–2017, fulfilling its social responsibility by employing people and paying substantial amounts of corporation tax in sparsely populated areas, for instance.

Tornator has a significant tax footprint – it is the largest corporate taxpayer in South Karelia. The company's forests are located in 110 municipalities around Finland, countrywide in Estonia and centrally in a few municipalities in Romania, generating well-being all over the operating area.

Besides its own employees, Tornator provides work to dozens of contractors and their staff in all operating countries. The total employment effect of the company's forests in 2017 was more than 900 person-years.

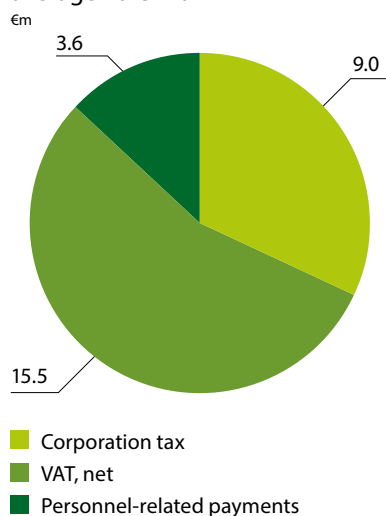
Tornator's forests are very important to local communities. Under everyman's right, people have the opportunity to pick berries and mushrooms and move around in forests. Tornator also leases hunting rights to local hunting clubs, thereby offering leisure activities and game to thousands of hunters.

In addition to providing work, the company builds infrastructure in its operating areas and participates in road projects of local residents. For example, forest roads commissioned by Tornator give access to new forest areas, providing recreational and hunting opportunities to residents of local communities.

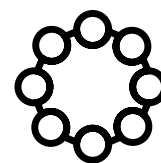
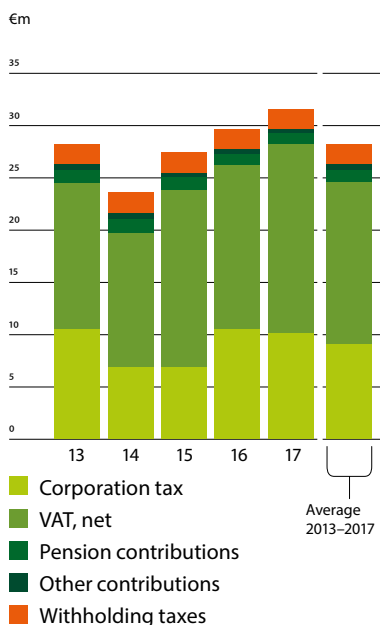


What is Tornator's influence in Romania?
Read more on p. 30.

Annual taxes and other payments to government, average 2013–2017



Tornator's tax footprint

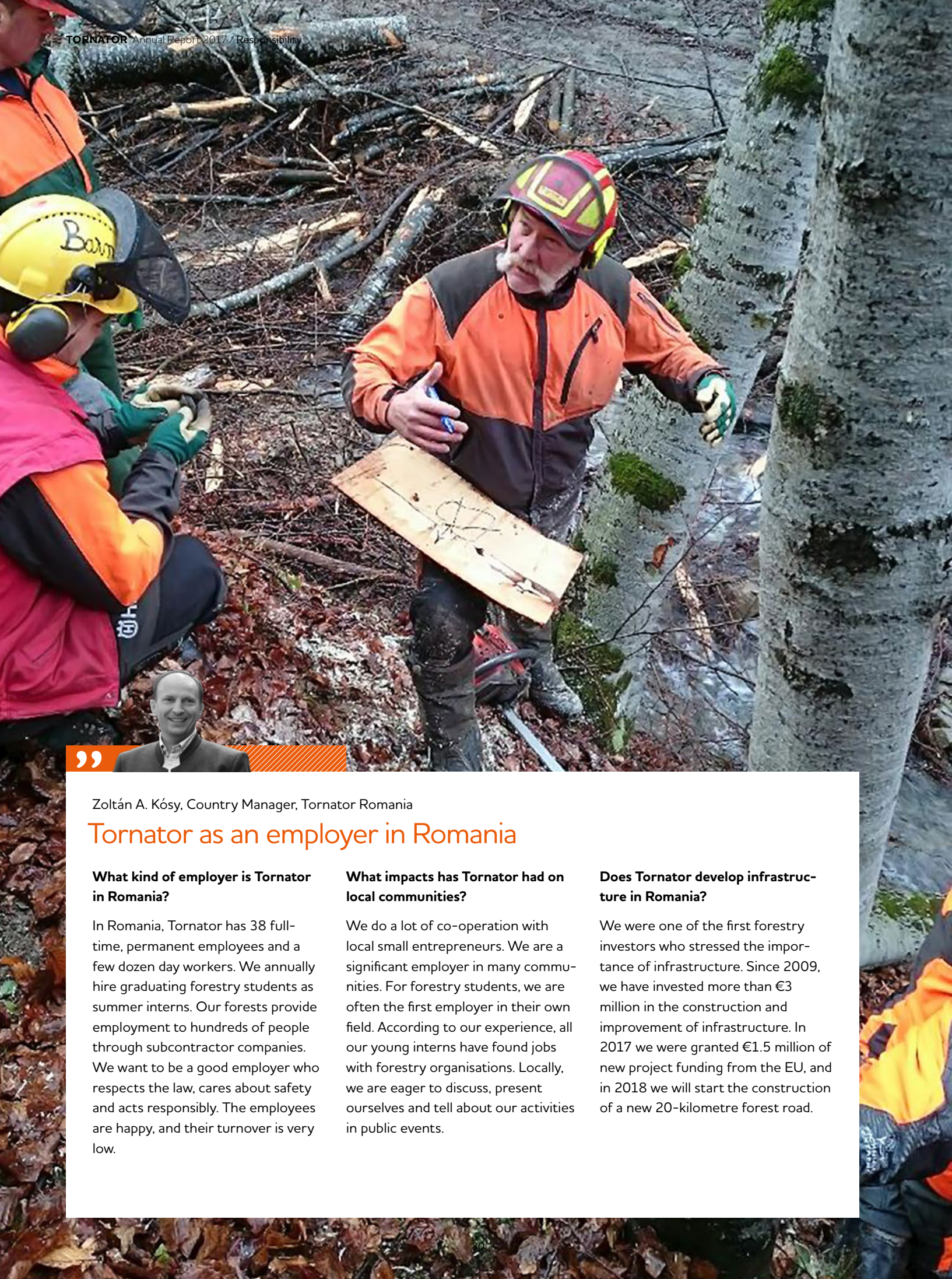


**TORNATOR'S
EMPLOYMENT EFFECT:
MORE THAN**

900
person-years

Direct economic value generated and distributed

€'000		2014	2015	2016	2017
Direct economic value generated					
Customers	Revenues	95,036	117,147	100,120	106,483
Direct economic value generated, total		95,036	117,147	100,120	106,483
Economic value distributed					
Contractors and other suppliers	Purchases of products and services	22,904	33,842	24,211	25,607
Shareholders	Dividends paid during the period	22,000	21,000	30,000	26,000
Financial institutions	Interest and financial expenses, net	26,030	20,599	20,591	21,713
Society	Taxes	7,072	10,061	9,556	9,976
Employees	Salaries and wages, remuneration and employer's contributions	9,409	8,604	8,439	8,271
Economic value distributed, total		87,415	94,105	92,797	91,567
Economic value retained		7,621	23,042	7,323	14,916
Taxes by country					
Finland		6,854	9,746	9,155	9,483
Estonia		106	180	225	255
Romania		112	135	176	239
Total		7,072	10,061	9,556	9,976



”

Zoltán A. Kósy, Country Manager, Tornator Romania

Tornator as an employer in Romania

What kind of employer is Tornator in Romania?

In Romania, Tornator has 38 full-time, permanent employees and a few dozen day workers. We annually hire graduating forestry students as summer interns. Our forests provide employment to hundreds of people through subcontractor companies. We want to be a good employer who respects the law, cares about safety and acts responsibly. The employees are happy, and their turnover is very low.

What impacts has Tornator had on local communities?

We do a lot of co-operation with local small entrepreneurs. We are a significant employer in many communities. For forestry students, we are often the first employer in their own field. According to our experience, all our young interns have found jobs with forestry organisations. Locally, we are eager to discuss, present ourselves and tell about our activities in public events.

Does Tornator develop infrastructure in Romania?

We were one of the first forestry investors who stressed the importance of infrastructure. Since 2009, we have invested more than €3 million in the construction and improvement of infrastructure. In 2017 we were granted €1.5 million of new project funding from the EU, and in 2018 we will start the construction of a new 20-kilometre forest road.

ENVIRONMENT

We utilise forests sustainably and in the long term

Tornator manages its forests complying with its environmental principles and securing biodiversity. The company strives to minimise the environmental impacts of its operations while practising careful forest management to ensure that the forests act as significant carbon sinks.

Tornator's business is focused on the long-term increase of forestland value with full respect for environmental values. The company's forest management is guided by the corporate environmental principles, PEFC and FSC certification criteria as well as the legislation of the respective countries of operation.

The year 2017 was an active one for Tornator in the promotion of environmental responsibility. Early in the year, the Romanian subsidiary received an FSC certificate for its forests, after which all of the Group's forestlands are FSC certified. Tornator also passed the audits required for PEFC and FSC certification without major non-conformities. Double certification like this is rare in Europe and demonstrates Tornator's commitment to sustainable forestry.

Safeguarding biodiversity

Forestry operations have significant impacts on the forest environment, but Tornator strives to combine safeguarding biodiversity with forest management in all its activities. The environmental impacts of the operations are also carefully monitored. By tending and harvesting its forests, the company improves their vitality and resistance to damage, and increases recreational opportunities.

Preserving valuable habitats is at the heart of securing biodiversity. During harvesting, Tornator also cares for the preservation of characteristics that are important for biodiversity. In 2017, the company was involved in the forest industry's joint decaying wood campaign, where artificial snags that are important for cavity-nesting birds were created in young forests during thinnings.

Tornator's operating areas are also home to threatened species. The company has access to observation data recorded of these species by authorities, and the species are taken into consideration in forest operations according to their respective conservation requirements and management recommendations.

Various species of game and other wildlife thrive in Tornator's forests, and caring for their habitats is part of the company's normal nature management in commercial forests.

In order to be able to better consider the capercaillie in forestry, its courting grounds were surveyed on a total of some 2,000 hectares.

Voluntary conservation

During the reporting year, Tornator established a total of 875 hectares of permanent conservation areas. Under the Hydrology LIFE conservation project for mires and small waters, a mire conservation area of 33 hectares was established in Kälkäsuu, Joutsa. Tornator is also involved in water protection projects and has built wetland areas in collaboration with other actors.

At the end of 2017, Tornator started an extensive undertaking of more than 200 hectares in Ilomantsi, focusing on the restoration of small waters and mire environment in ravines as part of the Freshabit LIFE IP project.



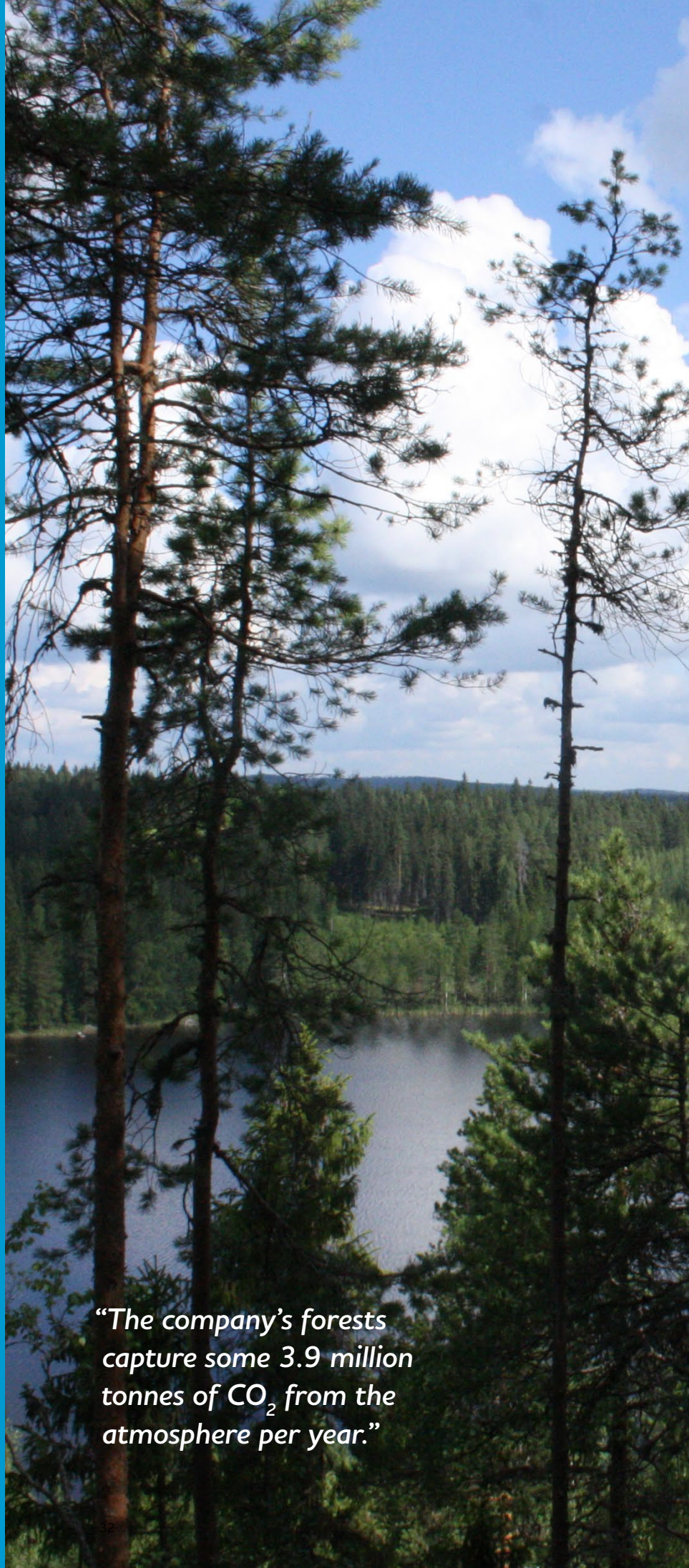
The mark of
responsible forestry



A valuable gift to 100-year-old Finland

Tornator participated in the campaign “My Gift of Nature to 100-year-old Finland” by donating more than 260 hectares of valuable habitats for permanent conservation. The sites are valuable and representative samples of the diversity of Finnish mire nature.

“Conservation is another way of generating sustainable well-being from our forests. Considering local ecological values, we selected sites that are special for their biodiversity around Finland,” explains Tornator’s CEO Sixten Sunabacka.



“The company’s forests capture some 3.9 million tonnes of CO₂ from the atmosphere per year.”

Forests capture atmospheric CO₂ effectively

In forests, growing trees and undergrowth capture carbon dioxide (CO₂) from the atmosphere through photosynthesis and store the carbon contained in it; this is called carbon sequestration. Tornator's forests constitute a large carbon storage that continuously increases as felling volumes remain smaller than tree growth. Old, full-grown trees must be harvested in order to give room to young forests that capture CO₂ better.

Tornator is an advocate for the use of forests. The company wants to do its part in extracting as many renewable products from forests as possible without jeopardising biodiversity.

After harvesting, wood does not turn into CO₂ but still stores carbon in various wood-based products. In addition, materials are often recycled many times over before they are used for energy. By-products of the production chain are also significantly utilised in bioenergy production. Therefore, all wood-based materials can be used to replace the use of fossil fuels, reduce CO₂ emissions into the atmosphere and thus help to mitigate global warming.

The carbon cycle from the atmosphere to trees, products and, after energy use, back to the atmosphere is natural and inevitable over time. The more forests and wood and energy products can be used sustainably for the good of humanity, the better.

Tornator improves forest growth and carbon sequestration through silvicultural treatments and fertilisation. Fertilised areas have been systematically increased, and fertilisation has been focused on well-stocked upland forests aged 40–70 years, which are best equipped to utilise the additional nutrients. Any environmental risks are considered in planning, for example by leaving waterfront stands unfertilised to avoid nutrient load on water systems.

Tornator has calculated its carbon footprint. The company's forests capture some 3.9 million tonnes of CO₂ from the atmosphere per year. The emissions of Tornator's own forestry supply chains are about 0.002 million tonnes of CO₂ per year.

EMISSIONS FROM TORNATOR'S OPERATIONS:

LESS THAN

0.05

percent of the carbon sequestration capacity of Tornator's forests

EMISSIONS FROM OTHER ORGANISATIONS' OPERATIONS:

LESS THAN

6

percent of the carbon sequestration capacity of Tornator's forests

”



Heikki Myöhänen, acting Forestry and Environmental Manager, and Sixten Sunabacka, CEO

Tornator's answers to stakeholders' environmental concerns

Will Tornator increase its efforts in environmental protection?

Tornator supports and promotes environmental protection. We establish hundreds of hectares of conservation areas annually. This year we protected not only forests but also mires and small waters. In addition, we conserved more than 260 hectares of valuable habitats as a gift of nature for Finland's 100th anniversary of independence.

Is Tornator going to communicate more about its activities in the future?

It is Tornator's challenge to be able to translate our activities into communication that is easier to understand. Conflicts with environmental groups are often due to nothing but lacking communication. In the future, Tornator wants to communicate more actively and transparently about its activities and way of thinking. The company also intends to bring social media as part of stakeholder communication.

Will Tornator increase the share of continuous cover silviculture?

Tornator's vast forestlands include a great number of sites that are treated with special fellings. One alternative here is continuous cover silviculture. We are also testing opportunities to increase continuous cover silviculture through selection or small clear-cuts on sites managed with periodic cover silviculture.



IN 2017, TORNATOR ESTABLISHED

875

hectares of permanent conservation areas



COURTING GROUNDS OF THE CAPERCAILLIE WERE SURVEYED ON SOME

2,000

hectares



UNDER THE VOLUNTARY METSO PROGRAMME,

1,300

hectares of conservation areas have been established

DURING THE REPORTING YEAR, THERE WERE

0

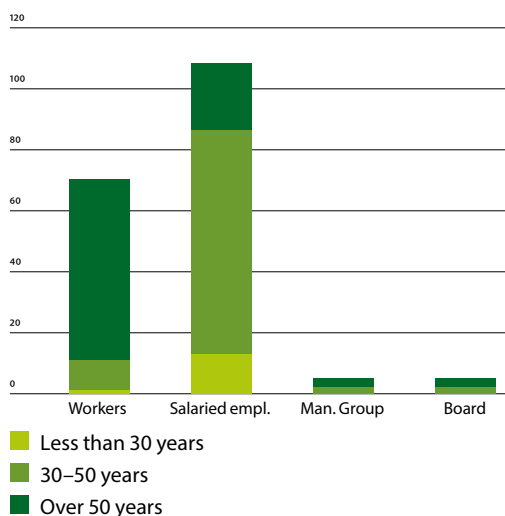
major environmental non-conformities

PERSONNEL

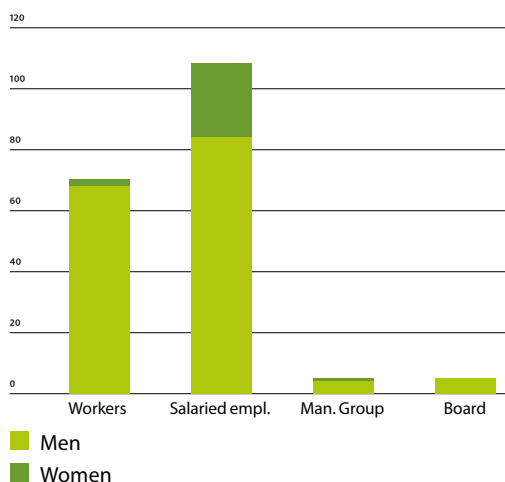
Skilled and committed employees

The skills and commitment of employees are the key components of Tornator's operating model based on independent working. The company continuously develops expertise while trying to keep employee satisfaction as high as possible.

Age structure of employees



Gender distribution of employees



During 2017, Tornator revised the values that drive its business. All employee groups were extensively involved in the value discussion. The company's new values are: responsibility, expertise and partnership. To deploy the values throughout the Group, Tornator launched a training programme on value-based leadership aimed at the middle management. The objective is to fuse the corporate values, strategy and supervision as part of day-to-day work and practices. The programme will last two years and include several training courses as well as project work.

In the spring, Operations Superintendents were given training in contractor co-operation, together with 59 contractors.

Employees involved in development discussions

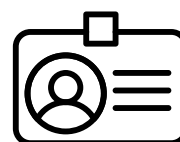
Half of Tornator's own workforce are salaried employees and the other half are forest workers. The forest sector is very male-dominated. Women account for some 14 percent of Tornator's organisation.

Tornator's personnel includes 71 forest workers and 70 salaried employees in Finland, 8 salaried employees in Estonia, and 12 forest workers and 26 salaried employees in Romania. The number of forest workers has decreased due to retirement, but the shortage of labour has been made up by signing on contractors.

All employees of the Group are involved in development discussions. The discussions are conducted twice a year with the salaried employees and once a year with the forest workers.

Employee well-being and safety remained high

In 2017, the annual employee well-being survey was conducted in the same way, for the first time, in the whole Group. The level of employee satisfaction had risen further, being very high throughout the Group, as demonstrated by the grade 4.1 out of 5.



Responses to an employee well-being survey averaged

4.1/5

Tornator's employment effects
Read more on p. 28.



Digitalisation brings safety

Tornator's forest workers and contractors work in terrain very much on their own. As a responsible employer, Tornator invests in occupational safety. The TornaApps system includes a working time monitoring feature which ensures that a worker who has gone out to work in the forest will also come back.

If the worker has not signed out of terrain within nine hours after starting work, the system automatically alerts the supervisor and a security company. The alert goes to two addresses in order to immediately start the necessary action.

The latest location information of the worker's phone can be seen on TornaApps. Attempts are first made to contact the person directly, but if this proves unsuccessful the security company will start to mobilise help. Luckily, each case resulting in an alert so far has been due to a human lapse of memory.

At Tornator, occupational safety is an area of intense efforts and continuous development. The goal for 2018 is to transfer safety observation reporting on a mobile platform, while the only current practice is a form filled in by hand.

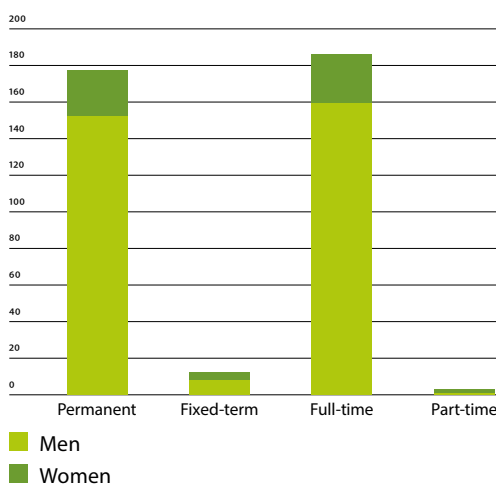
During the reporting year, the whole staff working in the field in Finland, 116 persons in total, completed Occupational Safety Card training. In Estonia, safety training has been provided according to the needs of the respective job descriptions. In an official inspection conducted in spring 2017, occupational health and safety were found to be at an excellent level in Tornator. In addition, Tornator arranged training on ergonomics and healthy work practices for salaried employees and forest workers.

Working at Tornator starts from equality and non-discrimination

Tornator's objective for 2017 was to improve equality and non-discrimination, as guided by an equality and non-discrimination plan prepared in 2016. The employee satisfaction survey showed improvement in this area.

Besides the new corporate values, Tornator's employees throughout the Group commit themselves to the Code of Conduct, the company's common responsibility guidelines, when signing the employment contract. The employees' day-to-day work is guided by the Code of Conduct. Approved by

Employment types of employees



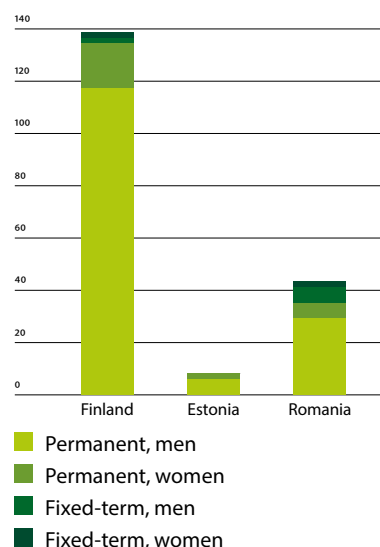
the Board of Directors, these guidelines define the ethical principles concerning the business, environment and employees. During the reporting year, the Code of Conduct was emphasised as part of employee induction and supervisor training.

Responsibility
drives the business
p. 27

The implementation of the Code of Conduct is monitored with a whistleblower system that is based on an online form maintained by a third party. Employees can anonymously report irregularities with safety, financing, corruption, etc. The system is available throughout the Group, in each country in the local language. In Romania, it is also possible to give a report by phone. In 2017, no irregularities were reported.

In Finland, 81 percent of Tornator's employees are covered by universally applicable collective bargaining agreements. In Estonia and Romania, there are no similar practices in the sector.

Employment types of employees by country

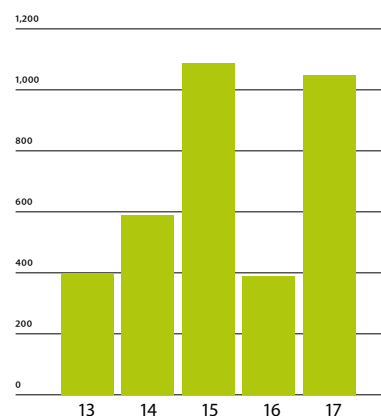


Total number and rates of new employee hires and employee turnover

	Finland	Estonia	Romania
Number of employment contracts signed	16	2	11
Number of employment contracts terminated	19	0	13
Employment contracts terminated by employer, %	0	0	0
Total employee turnover*, %	25	25	62
Average number of employees in 2017	156	7	39
Total number of employees at 31 Dec 2017	138	8	37

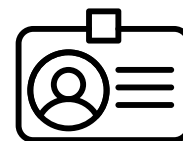
* The total rate of employee turnover is obtained by adding up the numbers of signed and terminated employment contracts, and dividing the sum by the average number of permanent employees during the year

Human resource development in Finland
€/person



Average hours of training per employee

	2017		
	Finland	Estonia	Romania
All employees	27.0	60.0	9.0
Men	27.5	70.0	8.0
Women	26.0	33.0	14.0
Salaried employees	35.0	60.0	9.0
Management	60.0	n/a	n/a
Forest workers	18.0	n/a	n/a



WORKERS RATED SUPERVISION AT

4/5

IN 2017,

116

Tornator employees
in Finland completed
Occupational Safety
Card training

Occupational accidents and sickness absenteeism

	2017			2016		
	Finland	Estonia	Romania	Finland	Estonia	Romania
Sickness absenteeism						
Men, %	4.10	0.30	3.40	5.1	0.7	2.0
Women, %	5.50	0.20	1.70	2.9	0.0	0.4
Accidents, own employees						
Number of accidents resulting in lost days, men	4	0	0	5	0	0
Number of accidents resulting in lost days, women	0	0	0	0	0	0
Number of days lost due to accidents, men	59	0	0	81	0	0
Number of days lost due to accidents, women	0	0	0	0	0	0
Number of fatalities	0	0	0	0	0	0

Corporate governance

Ownership and corporate structure

In 2017 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. In addition, Tornator Oyj is the sole owner of five wind power development companies in Finland.

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 2017 the Board had 15 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 2017 the Management Group included five 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 2017 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's operational activities are arranged as a process organisation. The core processes are: forestry, silviculture and real estate. These are supported 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.

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). 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 and an attendance allowance. 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 Oy with Jukka Vattulainen, APA, as principal auditor since 2011.

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

Risk management

Tornator's risk management is aimed at securing profitable business in the long term and to create opportunities for well-managed risk taking using the selected strategy. It is based on systematic identification and analysis of all significant risks to the company, enabling the company to select the optimum tools to manage them. The Board of Directors determines the company's risk management strategy, monitoring the risk management results and activities as well as evaluating the operation of risk management processes annually. The Management Group is responsible for the implementation of the risk management strategy, the monitoring of actual risks and the necessary risk management activities.

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. Demand risk has decreased as the uses of wood have diversified, and many new innovations

are as yet unknown. 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 its 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. During the reporting year, the demand for plots remained at the previous year's level.

The risk with investments made in wind power project development is managed

Tornator Oyj's shareholders

	%
Stora Enso Oyj	41.0
Ilmarinen Mutual Pension Insurance Company	23.1
Varma Mutual Pension Insurance Company	15.3
OP Financial Group, insurance, pension and investment institutions	14.4
Other shareholders	6.2
Total	100.0

Tornator Timberland Group

11 shareholders	
Tornator Oyj Finland 600,000 ha	
SC Tornator SRL Romania 12,000 ha	Tornator Eesti OÜ Estonia 62,000 ha

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. An example of this is the EU-level discussion on the LULUCF regulation concerning forestry. 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

To manage internal business risks, Tornator has operational processes that are approved by the Board of Directors and senior management.

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 certainly 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 (Danske Bank), Business Analyst, Portfolio Manager 1991–1997

Salmi, Virkkunen & Helenius Oy (PWC), Auditor, 1988–1991



Erkki Ryynänen

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

Background:

OP Bank Group, investment and portfolio management positions 1999–

Membership on other boards of directors:

Eläkesäätiöyhdistys, member of the Board



Mikko Mursula

Born 1966, MSc (Econ)
Deputy Chairman 2017–
Ilmarinen, Chief Investment Officer 2015–

Background:

FIM Oyj, Chief Executive Officer 2013–2015

S-Bank, Head of Asset Management and Securities Broking Business 2013–2015

FIM Asset Management, Managing Director 2010–2015

Ilmarinen, several managerial and investment positions 2000–2010

AG Private Bankers (Den Danske Bank 1998–), Partner, Institutional Sales 1994–2000

Opstock Securities, Broker, Equities and Derivatives 1993

Membership on other boards of directors:

Kojamo Oyj, member of the Board

Jane and Aatos Erkkö Foundation, member of the Board



Jari Puhakka

Born 1966, MSocSc
Member 2015–
Etera, Chief Investment Officer 2010–2017

Background:

Pohjola Asset Management Ltd, Chief Investment Officer 2005–2010

Ilmarinen, Head of Equities 2000–2003, Head of Equities and Fixed Income 2003–2005

OKOBANK Group Central Cooperative, Pension and Insurance Institution Investments, Chief Investment Officer 1999–2000

Gyllenberg, Portfolio Manager and Strategist 1994–1999

OKOBANK, Analyst and Portfolio Manager 1989–1994

Membership on other boards of directors:

Design Forum Finland, member of the Board



Jari Suominen

Born 1969, MSc (BA)

Member 2015–

Enso Oy / Stora Enso Oyj, Executive Vice President, Wood Products Division 2014–

Background:

Stora Enso Oyj, several managerial positions 1995–

Membership on other boards of directors:

Varma, member of the Supervisory Board

The Federation of the Finnish Woodworking Industries, Chairman of the Board

Deputy members:

Lassi Ruuska, Etera
Markus Aho, Varma
Antti Palkén, OP
Jari Suvanto, Stora Enso
Ilja Ripatti, 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
Several managerial and expert positions in different forest industry and consulting companies 1985–2005



Outi Nevalainen

Born 1968, MSc (Econ), MBA
Head of HR, Communications and Responsibility 2017–

Background:

Microsoft Oy, HR Director, Finland Sales Subsidiary 2015–2017
Microsoft Mobile Oy, Head of HR, Corporate Functions 2014–2015
Nokia Oyj, several HR managerial positions 1998–2014
United Parcel Service Finland Oy, HR Manager 1994–1998



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



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 Metsätal 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

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 (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 €101.6 million (97.0), up 4.8%. The growth was due to an increase in felling potential and a high demand for wood. Most of the net sales were timber sales income, €94.8 million, 93.3% (€88.1 million, 90.9%). The total volume of timber deliveries was at the previous year's level at 3.04 million m³ (3.05), but the average price of deliveries was higher. Net sales include proceeds from land and plot sales worth €5.6 million (8.3) and forest service sales for €1.2 million (0.5). Other operating income, €4.9 million (3.1) includes land access and lease revenues, compensation for conservation areas and soil resource sales.

Operating profit at fair value amounted to €92.4 million (269.8) and profit for the period was €77.9 million (172.9). In the previous year, the fair value of biological assets increased significantly, which accounts for the change in operating profit. In the financial statements for 2017, the change in the fair value of biological assets increased operating profit by €20.0 million (202.6), and a positive change in the fair value of financial instruments increased profit by €26.3 million (-32.5) before deferred taxes. Adjusted net sales, operating profit and net profit increased in all countries: Finland, Estonia and Romania.

Notable events during the period

Tornator made significant investments in the acquisition of new forestland, purchasing some 26,000 hectares in Finland and some 4,500 hectares in Estonia. Tornator's forestland area in Romania (12,000 ha) did not increase, 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. Tornator's forests in Finland and Estonia are double-certified (PEFC, FSC), and its forests in Romania were awarded an FSC certificate in January 2017.

Tornator set a record in its core business, i.e., timber sales and delivery, in all three operating countries in 2017. The high demand for wood was reflected in a high average price of deliveries. Timber deliveries to the main customer totalled some €63.5 million (63.0), or some 67.0% (71.5%) of the Group's net timber sales. Timber sales to the main customer are based on a long-term, market-conform framework agreement. Tornator also signed new long-term timber sales agreements in Finland and Estonia.

Improvement of competitiveness was continued within a productivity programme started in 2015. The programme is targeted to improve productivity by €5 million by the end of 2018. With the actions taken in 2017, the programme progressed as planned.

An update of the fair value of Tornator's forest assets (growing stock) in Finland recorded positive effects. The increase in sustainable felling potential combined

with other valuation factors increased the fair value of forests in the balance sheet by €94 million. The annual fair value update, which is based on several valuation factors, improved operating profit by €29 million.

The total value of the Group's forests in the financial statements was some €1,454 million (1,328), including growing stock and land. The figures include the effects of harvesting as well as the purchases and sales of forestland. Tornator owns a total of some 674,000 hectares of forest in Finland, Estonia and Romania.

On the other side of the balance sheet, the fair values of the company's long-term interest rate hedges increased due to a rise in market interest rates. This created a positive entry of €26.3 million in financial items in the income statement (-32.5). The above fair value changes had no effects on cash flow.

During the period, Tornator signed a new bank loan arrangement of €100 million. The secured additional loan arrangement is for about four years and consists of increasing the existing loan agreement (€250 million) by €50 million as well as a new term loan of €50 million.

Tornator's equity ratio was 43% (44%) 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 2017 decided to pay dividend, as proposed by the Board of Directors, for a total of €26 million.

Consolidated income statement

€m	2013	2014	2015	2016	2017
Net sales	86.7	90.7	113.6	97.0	101.6
Other operating income	4.8	4.3	3.6	3.1	4.9
Change in inventories of finished goods and work in progress	0.6	-1.2	-13.8	-3.4	-2.9
Materials and services	-11.4	-12.9	-11.6	-12.4	-14.4
Personnel expenses	-8.7	-9.4	-8.6	-8.4	-8.3
Depreciation and amortisation	-2.0	-2.6	-2.8	-3.1	-3.3
Other operating expenses	-4.6	-6.3	-5.2	-5.1	-5.1
Share of profit/loss of associates	0.0	0.0	-0.6	-0.4	-0.1
Change in fair value of biological assets and harvesting	49.2	2.4	-18.1	202.6	20.0
Operating profit	114.7	65.0	56.4	269.8	92.4
Financial income	0.4	0.0	0.1	0.2	0.2
Financial expenses	-23.8	-26.1	-20.7	-20.7	-21.9
Change in fair value of financial instruments	17.1	-71.4	12.4	-32.5	26.3
Financial items (net)	-6.3	-97.5	-8.2	-53.1	4.6
Profit/loss before taxes	108.4	-32.4	48.2	216.7	96.9
Income taxes	-10.4	-7.0	-9.9	-9.3	7.1
Change in deferred taxes	10.1	12.4	0.8	-34.5	-26.2
Profit/loss for the period	108.1	-27.0	39.1	172.9	77.9

Consolidated balance sheet

€m	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017
ASSETS					
Non-current assets					
Intangible assets	4.4	3.7	3.3	2.6	2.4
Fixed assets	78.8	82.9	85.9	86.9	98.5
Biological assets	1,022.7	1,047.4	1,045.4	1,256.9	1,371.2
Derivatives	0.0	8.9	8.9	8.9	6.2
Other investments	0.0	0.0	0.2	0.2	0.1
	1,105.8	1,142.9	1,143.7	1,355.5	1,478.4
Current assets					
Inventory	2.4	4.1	3.3	2.3	0.6
Trade and other receivables	3.7	5.4	4.9	5.6	15.3
Other financial assets	7.4	9.6	8.1	7.6	1.9
Cash and cash equivalents	30.3	28.9	20.9	10.2	13.9
	43.8	47.9	37.1	25.6	31.7
Total assets	1,149.6	1,190.8	1,180.8	1,381.1	1,510.1
EQUITY AND LIABILITIES					
Equity attributable to parent company shareholders					
Share capital	50.0	50.0	50.0	50.0	50.0
Other equity	427.1	381.0	403.3	551.1	602.1
Total equity	477.1	431.0	453.3	601.1	652.1
Non-current liabilities					
Deferred tax liabilities	107.7	96.0	96.4	132.1	150.8
Financial liabilities	453.0	472.0	466.8	462.7	494.4
Derivatives	45.3	107.6	86.2	116.4	91.4
Pension obligations	0.2	0.3	0.3	0.3	0.3
	606.1	676.0	649.6	711.6	736.9
Current liabilities					
Financial liabilities	44.5	61.5	51.5	51.5	104.4
Derivatives	0.0	0.1	4.0	0.0	0.0
Trade and other payables	21.8	22.1	22.3	16.9	16.6
	66.3	83.8	77.8	68.3	121.1
Total liabilities	672.5	759.8	727.4	779.9	858.0
Total equity and liabilities	1,149.6	1,190.8	1,180.8	1,381.1	1,510.1

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 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 31 December 2016	50,000.0	29,995.2	-7,486.4	-316.7	528,954.5	601,146.5
Balance at 1 January 2017	50,000.0	29,995.2	-7,486.4	-316.7	528,954.5	601,146.5
Comprehensive income						
Profit/loss for the period					77,875.8	77,875.8
Other items of comprehensive income (after taxes)						
Remeasurement of net defined benefit liability (or asset)			-1,060.8			-1,060.8
Translation differences				-3.3		-3.3
Available-for-sale financial assets				23.2		23.2
Cash flow hedges				140.0		140.0
Comprehensive income for the period	0.0	0.0	-1,060.8	159.9	77,875.8	76,974.9
Transactions with shareholders						
Dividends paid					-26,000.0	-26,000.0
Total transactions with shareholders					-26,000.0	-26,000.0
Balance at 31 December 2017	50,000.0	29,995.2	-8,547.2	-156.8	580,830.3	652,121.4

Consolidated cash flow statement

€m	2013	2014	2015	2016	2017
Cash flow from operating activities					
Cash receipts from customers	68.1	76.9	81.1	82.8	95.4
Proceeds from sale of tangible assets	9.5	11.1	30.8	8.3	5.6
Cash receipts from other operating income	4.8	4.2	3.5	3.4	3.6
Cash paid to suppliers and employees	-25.4	-27.2	-25.6	-25.4	-27.2
Cash flow from operating activities before financial items and taxes	57.0	65.0	89.8	69.2	77.4
Interest paid and other financial expenses	-21.8	-25.3	-20.8	-20.1	-21.4
Interest received	0.4	0.0	0.1	0.2	0.2
Income taxes paid	-10.5	-6.9	-6.8	-10.5	-10.1
Net cash flow from operating activities	25.0	32.8	62.3	38.7	46.0
Cash flow from investing activities					
Investments in biological assets	-6.2	-25.1	-28.3	-11.2	-96.2
Investments in tangible assets, forestland	-0.8	-3.1	-3.5	-1.4	-11.9
Investments in other tangible and intangible assets	-3.9	-3.3	-3.4	-2.3	-2.6
Proceeds from sale of intangible assets					0.3
Investments in associates and other investments			-0.8	-0.4	-0.1
Net cash flow from acquisition of subsidiaries					0.2
Investments in available-for-sale financial assets		-2.2			
Proceeds from sale of available-for-sale financial assets	8.7	0.0	1.6	0.5	5.6
Net cash flow from investing activities	-2.2	-33.7	-34.5	-14.8	-104.7
Cash flow from financing activities					
Withdrawal of long-term loans	0.0	150.0	0.0	0.0	40.0
Repayment of long-term loans	-4.4	-145.6	-4.7	-4.6	-4.6
Withdrawal of short-term loans	40.0	17.0	57.0	0.0	53.0
Repayment of short-term loans		0.0	-67.1	0.0	0.0
Dividends paid	-63.0	-22.0	-21.0	-30.0	-26.0
Net cash flow from financing activities	-27.4	-0.6	-35.8	-34.6	62.4
Net increase/decrease in cash and cash equivalents	-4.6	-1.4	-8.0	-10.7	3.8
Cash and cash equivalents at beginning of period	34.8	30.3	28.9	20.9	10.2
Cash and cash equivalents at end of period	30.3	28.9	20.9	10.2	13.9

Summary of financial statements

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

	2013	2014	2015	2016	2017
Net sales, € million	86.7	90.7	113.6	97.0	101.6
Operating profit, € million	114.7	65.0	56.4	269.8	92.4
Operating profit without change in fair value of biological assets, € million	65.5	62.6	74.5	67.2	72.4
Operating profit without change in fair value of biological assets, % of net sales	75.6	69.0	65.6	69.3	71.2
Profit/loss for the period, € million	108.1	-27.0	39.1	172.9	77.9
Profit/loss for the period without fair value changes, € million	31.7	29.6	44.0	37.3	40.9
Profit/loss for the period without fair value changes, % of net sales	36.5	32.7	38.8	38.5	40.3
Shareholders' equity, € million	477.1	431.0	453.3	601.1	652.1
Interest-bearing net liabilities, € million	459.8	495.0	489.3	496.5	583.0
Balance sheet total, € million	1,149.6	1,190.8	1,180.8	1,381.1	1,510.1
Return on capital employed without change in fair value of biological assets, %	7.1%	6.5%	7.7%	6.5%	6.1%
Return on equity without fair value changes, %	7.0%	6.5%	10.0%	7.1%	6.5%
Equity ratio, %	43.0%	37.2%	38.6%	43.7%	43.3%
Dividends paid, €/share	12.6	4.4	4.2	6.0	5.2
Dividend yield, %	14.0%	4.8%	4.7%	5.7%	4.1%
Average number of employees	216	217	213	200	189
Personnel expenses, % of net sales	10.0%	10.4%	7.6%	8.7%	8.1%
Investments in forestland, € million	7.0	28.2	31.8	12.6	108.1
Investments in other fixed assets, € million	3.9	3.3	4.3	2.7	2.6
Sales of cutting rights, million cubic metres	2.6	2.6	2.6	2.8	2.9
Annual cut, million cubic metres	2.8	2.8	2.7	3.0	3.0
Book value of forests, € million	592.7	617.8	635.9	645.9	751.9
Fair value of forests, € million	1,087.9	1,115.4	1,115.4	1,328.0	1,454.0
Gross proceeds from land sales, € million	9.3	10.8	30.8	8.3	5.6

Financial ratios, 31 Dec 2017

	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	Max./Min.
Equity ratio, %	37%	39%	44%	43.3%	
Average interest rate, %	4.8%	3.9%	3.9%	3.8%	
Hedge ratio, %	79%	80%	80%	68%	
Average loan maturity, years	4.4	3.6	2.7	2.0	
Average fixing time, years	2.5	2.1	1.6	1.0	
Gearing ratio, %	86.7%	81.9%	64.7%	72.2%	150%
Debt service coverage ratio (DSCR)	1.9	3.2	2.3	2.5	1.1
Loan-to-value (LTV) ratio, %	48.3%	49.1%	39.4%	43.6%	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%).

Financing, nominal values

€m	2013	2014	2015	2016	2017
Long-term bonds	250.0	250.0	250.0	250.0	250.0
Long-term bank loans	141.0	145.5	141.0	136.5	172.0
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	40.0	57.0	47.0	47.0	100.0
All loans	500.5	522.0	507.5	503.0	591.5
Net financial expenses	6.3	97.5	8.2	53.1	-4.6
Net financial expenses without fair value changes	23.4	26.0	20.6	20.6	21.7
Net financial expenses without fair value changes, % of net sales	27.0%	28.7%	18.1%	21.2%	21.4%
Financial expenses for loans, average, %	5.1%	5.2%	3.9%	3.9%	3.8%

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

	31 Dec 2017	
€m	Income statement	Fair value reserve
One percentage point increase in market interest rates	59.2	0.0
One percentage point decrease in market interest rates	-74.2	0.0

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

This report is based on the Global Reporting Initiative's GRI Standards for sustainability reporting. The reporting period is the calendar year, 1 January–31 December 2017.

References to the report's contents regarding the GRI Standards 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 2017.

The sustainability information given in this Annual Report covers the Tornator

Group, except for the biodiversity disclosure 304-4 which only applies to Finland.

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Napinkuja 3, Imatra, Finland.

Material topic	GRI Standard	Topic boundary
Sustainable utilisation of natural resources	<ul style="list-style-type: none"> Biodiversity Non-compliance with environmental laws and regulations 	Tornator Group, except for GRI biodiversity disclosure 304-4 which only applies to Finland
Economic responsibility and profitability	<ul style="list-style-type: none"> Direct economic value generated and distributed 	Tornator Group
Employee satisfaction, health and safety	<ul style="list-style-type: none"> Occupational health and safety Employment Diversity of governance bodies and employees Non-discrimination 	Tornator Group
Open communication and stakeholder relationships	<ul style="list-style-type: none"> Key topics and concerns raised 	Tornator Group
Local economic impacts	<ul style="list-style-type: none"> Indirect economic impacts 	Tornator Group
Responsible management of contractor and partner relationships	<ul style="list-style-type: none"> Confirmed incidents of corruption and actions taken Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices 	Tornator Group
Certified products	<ul style="list-style-type: none"> Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes, or which it endorses 	Tornator Group
Carbon sequestration	<ul style="list-style-type: none"> Own indicator: Tornator's carbon footprint 	Tornator Group
Employee and contractor training	<ul style="list-style-type: none"> Training and education 	Tornator Group

GRI Content index

Code		Location	Comments
GRI 102 GENERAL DISCLOSURES			
Organisational profile			
102-1	Name of the organisation	Reporting principles, p. 51	
102-2	Activities, brands, products, and services	Tornator in brief, p. 1	
102-3	Location of headquarters	Reporting principles, p. 51	
102-4	Location of operations	Tornator in brief, p. 1	
102-5	Ownership and legal form	Governance, p. 39	
102-6	Markets served	Tornator in brief, p. 1; Business environment, p. 10	Main customer Stora Enso, additionally SME sawmills.
102-7	Scale of the organisation	The year 2017, pp. 2–3; Summary of consolidated financial statements, p. 50; Profitable growth, p. 19	Waterfront plots sold: 32.
102-8	Information on employees and other workers	Personnel, p. 37	d. Forest workers have seasonal employment. e. Number of contractors: 140. Contractors' employees have indefinite or fixed-term employment, number unknown. f. The figures have been reported by each subsidiary through the reporting system and aggregated on Group level. The data have been compiled when signing the contract.
102-9	Supply chain	Society, p. 28	
102-10	Significant changes to the organisation and its supply chain	GRI content index	No significant changes during the reporting period.
102-11	Precautionary Principle or approach	Governance, pp. 40–41	
102-12	External initiatives	Responsible management, p. 27; Environment, p. 31	
102-13	Membership of associations	Stakeholders, p. 12	
Strategy			
102-14	Statement from senior decision-maker	CEO's review, p. 4	
102-15	Key impacts, risks, and opportunities	Business environment, p. 11; Value creation, pp. 28–29; Governance, pp. 39–40	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	Strategy, p. 17; Responsible management, p. 27	
102-17	Mechanisms for advice and concerns about ethics	Personnel, p. 37	
Governance			
102-18	Governance structure	Governance, p. 39	
Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholders, p. 13	
102-41	Collective bargaining agreements	Personnel, p. 37	
102-42	Identifying and selecting stakeholders	Stakeholders, p. 12	
102-43	Approach to stakeholder engagement	Stakeholders, p. 12	
102-44	Key topics and concerns raised	Stakeholders, p. 13	
Reporting practice			
102-45	Entities included in the consolidated financial statements	Financial statements, p. 44	
102-46	Defining report content and topic Boundaries	Responsible management, p. 27	
102-47	List of material topics	Responsibility, p. 25, Reporting principles, p. 51	
102-48	Restatements of information	GRI content index	No restatements.
102-49	Changes in reporting	GRI content index	No changes.
102-50	Reporting period	Reporting principles, p. 51	
102-51	Date of most recent report	Reporting principles, p. 51	
102-52	Reporting cycle	Reporting principles, p. 51	
102-53	Contact point for questions regarding the report	Reporting principles, p. 51	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles, p. 51	
102-55	GRI content index	GRI content index, p. 52–53	
102-56	External assurance	Reporting principles, p. 51	

Code		Location	Comments
GRI 103: MANAGEMENT APPROACH			
103-1	Explanation of the material topic and its Boundary	Reporting principles, p. 51	
103-2	The management approach and its components	Responsibility, pp. 24–26; Responsible management, p. 27; Society 28; Environment, pp. 31–34; Personnel, pp. 35–38	
103-3	Evaluation of the management approach	Responsibility, pp. 24–26; Responsible management, p. 27; Society p. 28; Environment, pp. 31–34; Personnel, pp. 35–38	
ECONOMIC STANDARDS			
GRI 201: ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	Society, p. 29	
GRI 203: INDIRECT ECONOMIC IMPACTS			
203-2	Significant indirect economic impacts	Value creation, p. 15; Society, pp. 28–29	
GRI 205: ANTI-CORRUPTION			
205-2	Communication and training about anti-corruption policies and procedures	GRI content index	Responsibility training of 2 h arranged for contractors (59). Partly reported.
205-3	Confirmed incidents of corruption and actions taken	GRI content index	No incidents.
GRI 206: ANTI-COMPETITIVE BEHAVIOR			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	GRI content index	No legal actions.
ENVIRONMENTAL STANDARDS			
GRI 304: BIODIVERSITY			
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	GRI content index	More information available on request (contact details on website). Partly reported.
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	GRI content index	According to Tornator's geographic information system, there are 2,286 known occurrences of IUCN Red List species in its forests in Finland. No listing by level of extinction risk is available.
GRI 307: ENVIRONMENTAL COMPLIANCE			
307-1	Non-compliance with environmental laws and regulations	GRI content index	No non-compliances.
SOSIAALISET STANDARDIT			
GRI 401: EMPLOYMENT			
401-1	New employee hires and employee turnover	Personnel, p. 37	No information by age groups.
GRI 403: OCCUPATIONAL HEALTH AND SAFETY			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Personnel, p. 38	A survey was sent to contractors in Finland and Estonia, with a response rate of 48% in Finland ja 90% in Estonia. Results: In Finland, contractors had no injuries. In Estonia, contractors had two injuries but no lost days.
GRI 404: TRAINING AND EDUCATION			
404-1	Average hours of training per year per employee	Personnel, p. 38	
404-2	Programmes for upgrading employee skills and transition assistance programmes	Personnel, pp. 35–38	Tornator has no programmes regarding termination of employment.
404-3	Percentage of employees receiving regular performance and career development reviews	GRI content index	Participation rate in Finland and Estonia 100%, in Romania 33%.
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
405-1	Diversity of governance bodies and employees	Personnel, p. 35	
GRI 406: NON-DISCRIMINATION			
406-1	Incidents of discrimination and corrective actions taken	Personnel, p. 37	No incidents.
GRI 419: SOCIOECONOMIC COMPLIANCE			
419-1	Non-compliance with laws and regulations in the social and economic area	GRI content index	No non-compliances.



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**RESPONSIBLE EXPERTISE
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