



**RESPONSIBLE USE OF
FORESTS MITIGATES
CLIMATE CHANGE**

p. 4

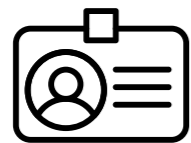
TORNATOR IN BRIEF

Tornator is a leading European company specialised in sustainable forestry, owning forests in Finland, Estonia and Romania. Our operating model is based on responsible use of forests as well as strong environmental expertise and utilisation of digital technologies. Our core business includes sustainable forestry, forestland purchasing and silvicultural services. We also lease our land for various uses, develop wind power projects and sell high-quality waterfront building plots and soil resources.

Tornator is a public limited company and its main shareholders are Finnish pension insurance companies and Stora Enso. We are a unique forestry company in Europe due to our extensive operations, ownership and operating model. 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
€112.8
million



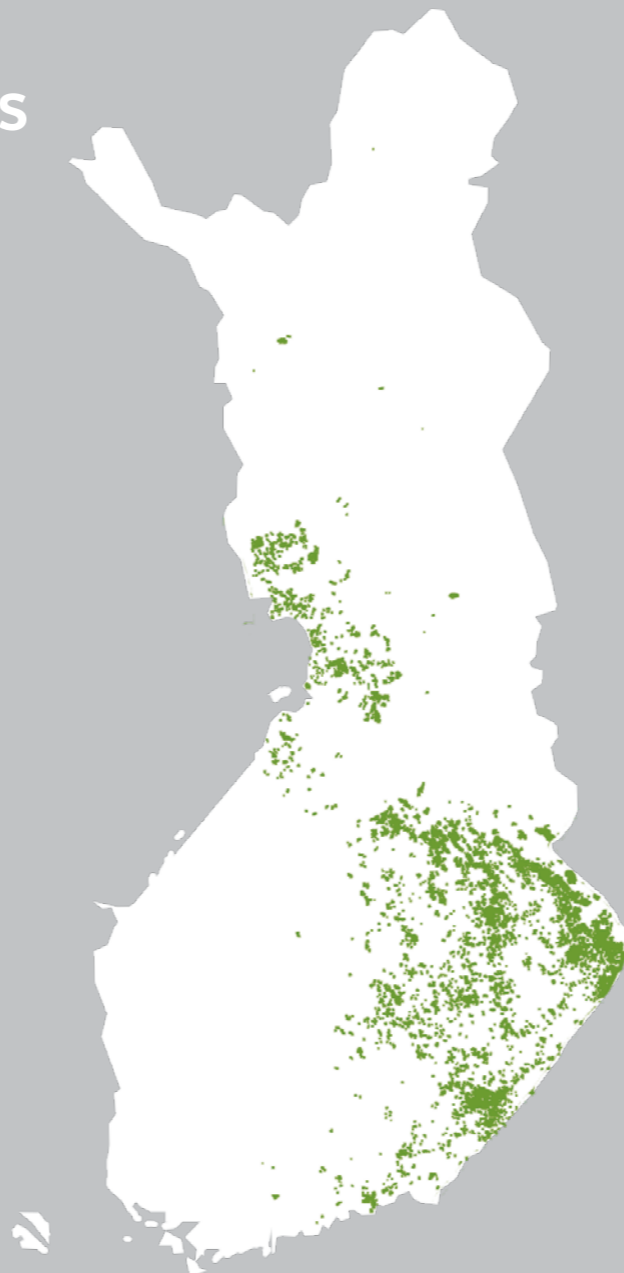
TORNATOR HAS ABOUT
180
employees

BALANCE SHEET VALUE
€1.6
billion

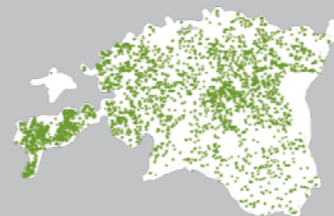
EMPLOYMENT EFFECT MORE THAN
1,000
person-years

ADJUSTED NET PROFIT
€49.7
million

TORNATOR'S FORESTLANDS



FINLAND
616,000
HECTARES

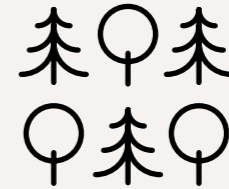


ESTONIA
65,500
HECTARES



ROMANIA
12,000
HECTARES

BUSINESS AREAS



TIMBER SALES

Our main business is the production and sale of timber. We manage our forests sustainably with the aim of good and steady yield, which enables us to provide customers with responsibly produced, certified wood. We manage the forests with full respect for nature, using the right treatments at the right time. In this way, we can ensure that our forest assets remain diverse and in good condition.



REAL ESTATE

We lease our land for various purposes, such as hunting, and actively develop wind power projects in co-operation with partners. Our forests are also widely used for recreation, free of charge. We plan and sell waterfront building plots as well as soil resources. We also sell selected pieces of forestland that are unsuitable for our real estate structure.



SERVICES

We provide high-quality silvicultural services to our customers. For our service agreement customers, we perform silvicultural work such as forest regeneration and tending of seedling stands. The keys to our success include extensive ownership of forestland as well as the procurement of resources and materials. We want to provide the best possible working conditions for our contractors. Successful co-operation results in well-growing forests.

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TORNATOR'S ANNUAL REPORT 2018

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.



CASE: Megatrends boost demand for wood-based end products p. 10



CASE: A joint fertilisation project for better forest growth and carbon sequestration p. 19



CASE: It is easy to sell forest to a responsible and professional company like Tornator p. 21



Q&A: Justification to use forests p. 32

HIGHLIGHTS OF 2018



THE FAIR VALUE OF
TORNATOR'S FORESTS
INCREASED BY

€80

MILLION

OPERATING PROFIT
AMOUNTED TO A RECORD

€84

MILLION

NET SALES OF THE
SERVICE BUSINESS
INCREASED BY SOME

80

PERCENT



A TOTAL OF SOME
20,000
HECTARES OF
FORESTLAND

5,300

HECTARES OF
FORESTLAND PURCHASED
FROM VAPO

7,300

HECTARES OF FOREST
FERTILISED



TORNATOR ESTABLISHED
A TOTAL OF

540

HECTARES OF
CONSERVATION AREAS

PRESCRIBED BURNING
AND MIRE RESTORATION
ON A TOTAL OF

133

HECTARES

A CONSERVATION AREA OF

341

HECTARES ESTABLISHED AT
VALKEAJÄRVI, ILOMANTSI



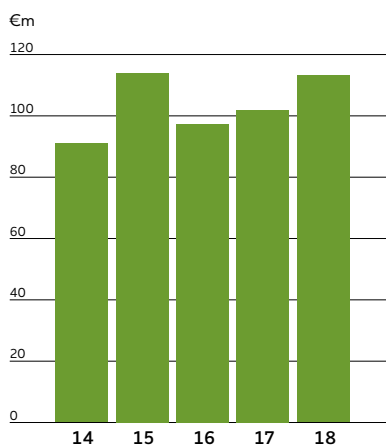
Key figures

Without effects of fair value changes

	2014	2015	2016	2017	2018
Net sales, € million	90.7	113.6	97.0	101.6	112.8
Operating profit, € million	62.6	74.5	67.2	72.4	83.9
Operating profit, % of net sales	69.0	65.6	69.3	71.2	74.4
Profit for the period, € million	29.6	44.0	37.3	40.9	49.7
Profit for the period, % of net sales	32.7	38.8	38.5	40.3	44.0
Average number of employees	217	213	200	189	182
Return on capital employed, %	6.5	7.7	6.5	6.1	6.6
Return on equity, %	6.5	10.0	7.1	6.5	7.3
Equity ratio, %	37.2	38.6	43.7	43.3	44.4

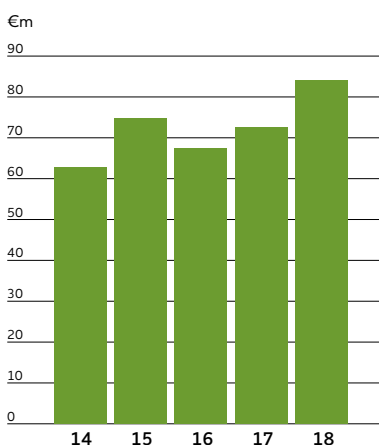
NET SALES

(Without effects of fair value changes)



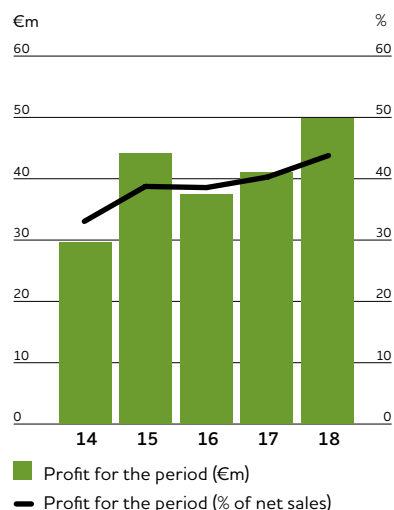
OPERATING PROFIT

(Without effects of fair value changes)



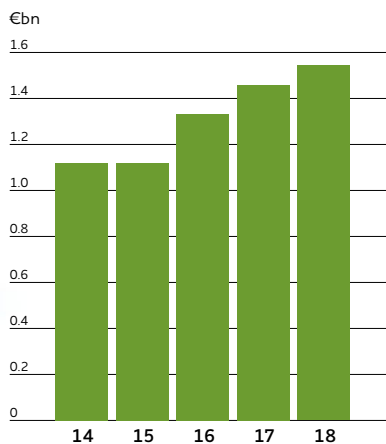
PROFIT FOR THE PERIOD

(Without effects of fair value changes)

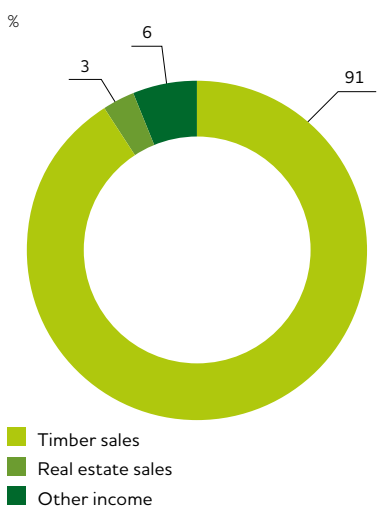


VALUATION OF FORESTS

(fair value)



CASH FLOW FROM OPERATIONS 2018



RESPONSIBLE USE OF FORESTS MITIGATES CLIMATE CHANGE



“Tornator’s forests provide sustainably produced raw materials, they capture and store carbon dioxide and act as significant carbon sinks.”

During 2018, there was a lot of public discussion on climate change and the role of forests in mitigating it. Without a doubt, the main thing in fighting climate change is to reduce the use of fossil raw materials. Carbon- and oil-based products shall be replaced with sustainably produced and renewable bio-based products. By using wood fibres for example instead of cotton, which is taxing on the environment and causes emissions to air, we shall be able to convert large areas of cotton production for the needs of the increasing food production.

Forests play a key role in mitigating climate change

In all countries where Tornator operates, annual forest growth by far exceeds annual harvesting. Tornator’s forests are a renewable natural resource, they provide sustainably produced raw materials, capture and store carbon dioxide (CO₂) and act as significant carbon sinks. Through responsible and professional forest management, we can increase the growth and carbon sequestration capacity of the forests. Tornator is also actively involved in wind power development. Wind power and wood production can easily be combined in practice, thereby mitigating climate change simultaneously in two ways in the same forests.

To ensure good growth of forests, we shall continue our multi-annual fertilisation programme and increase the use of improved seedlings in forest regeneration. Tree improvement helps enhance the health of forests, the resistance of trees and the volume of wood without jeopardising genetic diversity.

Healthy forests resist damage better

Global warming has increased the risk of forest damage and the spread of new pests. For Tornator, minimising such risks is easier since the company’s forestlands are located in different countries and scattered around them. The best way to prepare for damage is to keep the forests healthy and vital.

In 2018, the biggest challenge was the snow damage that occurred early in the year in Finland. Employees of Tornator and its main customer Stora Enso as well as contractors proved their capabilities in salvaging damaged stands fast and successfully. Previous investments in forest road infrastructure contributed to this success. A good network of forest roads also reduces the risk of major forest fires.

Good outlook for a new strategy period

Confidence in Tornator as a responsible actor grew further in 2018. This was especially demonstrated in an increase in forestland purchasing from private forest owners. We were able to communicate on our desire to do the right thing, to generate well-being and to be an active part of society. This was reflected in the better performance and growth of the company. The outlook for the next strategy period is also good.

I believe, with the EU’s new bioeconomy strategy and climate policies, the bio- and circular economies as well as the sustainable use of forests will be further emphasised. We shall certainly see an ever-livelier discussion on how forests should be utilised. In terms of forest policy, it would be important not to end up with forestry that is driven through regulation. Finland has a good set of norms, expertise and knowledge base to do things right. We must invest more and more in research information to enhance the use of forests.

The year 2018 was excellent for Tornator. Net timber sales, comparable operating profit and net profit were record-high. For the first time ever, we conducted a customer satisfaction survey for those who had sold forest estates to Tornator. Sellers were particularly happy with the ease and reliability of dealing with us. The satisfaction of wood buyers and employees also remained very high.

I would like to thank Tornator’s employees, contractors, customers and other stakeholders for their good co-operation and confidence.

Sixten Sunabacka
Chief Executive Officer

FOREST IS A STABLE AND SUSTAINABLE INVESTMENT



“Tornator’s stable history, strong equity, solid shareholders as well as long-term partnerships with financial institutions make good opportunities to continue controlled growth.”

From the shareholder’s point of view, 2018 was another very successful year for Tornator. The company’s profit climbed record high, and return on investment was excellent. The future outlook remains good due to the high demand for wood and Tornator’s professional and sustainable operations.

In 2018, forest industry investments increased timber sales significantly, and prices turned up sharply after a long flat period. The higher prices were reflected in Tornator’s record profit and net sales. Tornator’s Board of Directors and management continued to work closely together. As a result of the seamless collaboration, the company was able to carry out forestland purchases and other strategic projects successfully in 2018.

Good long-term returns for shareholders

Forest is a stable and steady asset class, well suited for the long time frame of pension insurance companies and other institutional shareholders. Tornator’s excellent revenues are the result of not only a profitable core business, but also a steadily increasing value of the forest assets. The combination of these components has yielded very good long-term returns for shareholders.

Tornator’s strengths include extensive forest assets, professional operations as well as effective and long-term forest management. Shareholders’ co-operation on the Board is seamless and our common goals are clear. Having a major industrial actor as a shareholder gives a long perspective to planning, while its being a customer helps secure the long-term demand for wood. On the other hand, Tornator’s coverage of various customer segments and the agreement structures in timber trade ensure the best possible return on investment for financial investors.

Sustainability and ESG aspects (Environmental, Social and Governance) play a key role in investment, and they are especially important in a sector where the assets are located in extensive natural areas. In fact, it is important for the shareholder that Tornator uses first-class practices in all sustainability areas.

Conditions for profitable growth remain strong

Conditions for profitable growth will continue to be strong in the future. Wood demand in Finland and the whole Baltic Sea region seems to remain high. Tornator’s strong growth orientation and new income generation areas strengthen the effectiveness of the organisation.

Tornator Oyj is also a strong name on debt markets. A stable history, strong equity, solid shareholders as well as long-term partnerships with financial institutions make good opportunities to continue controlled growth.

In 2018, Tornator’s shareholders had reason to be especially happy. Dividends, performance and appreciation provided a 12-percent return on investment. The returns on shares and many bonds quoted at the same time were clearly on the negative side. Along the lines of an old Finnish saying, “We went for stable and steady, but got excellent instead.” Thanks for the historically good performance are due to the company, its employees and other stakeholders. It is good to work in close co-operation, especially with the best possible results.

Mikko Koivusalo
Chairman of the Board

EFFECTIVE FINANCING SUPPORTED TORNATOR'S STRATEGY OF GROWTH

The year 2018 was excellent for Tornator. Net timber sales, adjusted operating profit and net profit were record-high. Tornator continued its growth strategy by purchasing new forestland. The implementation of investments was facilitated by the company's strong financial position. The Group's balance sheet value climbed to nearly €1.6 billion.



KEY ACHIEVEMENTS 2018

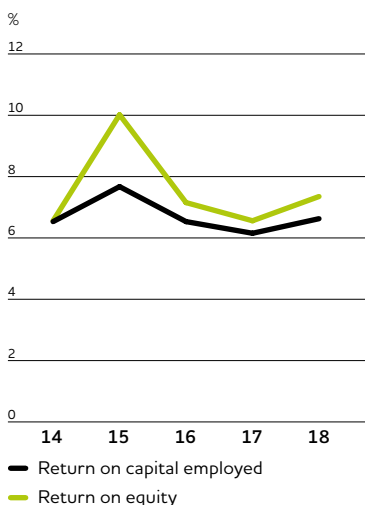
- Financial results were excellent and the value of forests increased
- Growth investments were safely financed
- The productivity programme recorded a profit improvement of €4 million
- There is a clear plan for refinancing the 2019 loan

GOALS 2019

- Continue stable and profitable growth
- Implement refinancing of the bond due at the end of 2019
- Explore opportunities for credit rating and green bonds
- Seek new capital to finance growth if necessary

ROCE AND ROE

(Without effects of fair value changes)



The Group's net sales were nearly €113 million, up 11 percent from the previous year. The growth was due to increases in felling volumes and market prices for wood. The growth was also profitable: adjusted operating profit was 16 percent and net profit 21 percent higher than in the previous year. The fair value of forests was €1.45 billion, some €80 million higher.

Controlled growth through financing

During the reporting year, Tornator made significant forestland investments both in Finland and Estonia. To finance the investments the company utilised its strong cash flow from operations and flexible bank loan facility. In addition to the bank funding, Tornator has a secured bond of €250 million listed in the Helsinki Stock Exchange, and an unsecured debenture loan of €65 million. The bond will be repaid under the agreement in December 2019, and the implementation of this arrangement will be ensured in good time in spring 2019.

Financial strategy supports and secures the business

The objective of Tornator's financial strategy is to secure competitive 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.

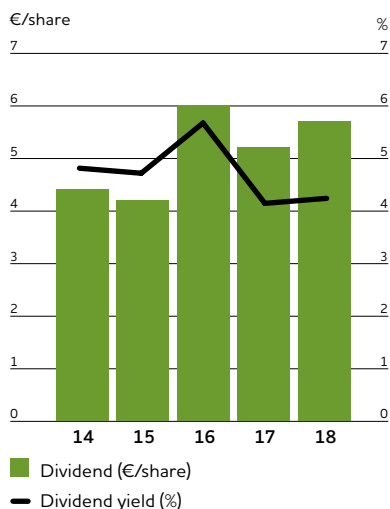
At the end of the financial year 2018, Tornator had €40 million worth of undrawn credit.

Financial risk management

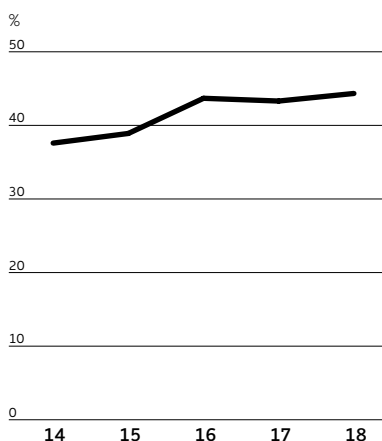
The purpose of financial risk management is to minimise the negative effects of changes in the financial markets on the company's profit and cash flow. The objectives of risk management and the risk management policy are defined by Tornator's Board of Directors, which is also responsible for monitoring risk management. The company's key financial risks are related to interest rates and the availability of financing.

In the long term, the company wants to hedge its balance sheet and equity value against fluctuation in market interest rates. The key balance sheet items in terms of market rate changes are the forests and financial instruments. The hedge ratio is changed as necessary to keep the net effect of market rate changes on various balance sheet items, and through them on equity value, within the range stated in the risk management policy. At the end of 2018, Tornator's hedge ratio was 67 percent.

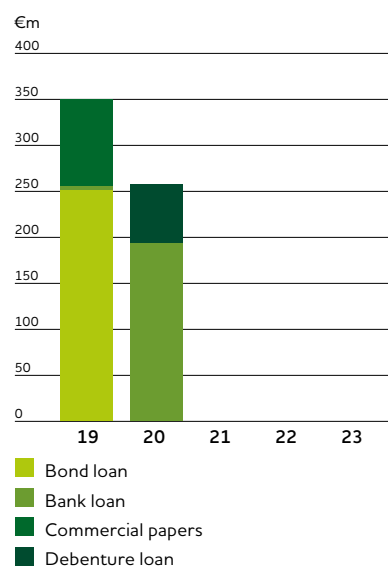
DIVIDEND AND DIVIDEND YIELD



EQUITY RATIO



MATURITY OF DEBT



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:

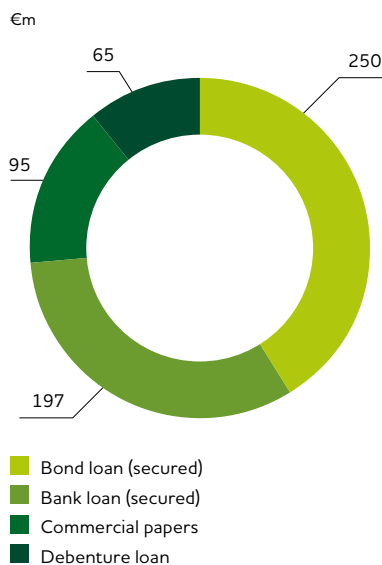
- The ratio of free cash flow to loan service costs (DSCR) must be at least 1.1
- The ratio of senior loans to the fair value of forest (LTV, loan to value) may be no higher than 70 percent.
- Gearing ratio may be no higher than 150 percent.

In 2018, the company fulfilled the covenants with a safe margin.

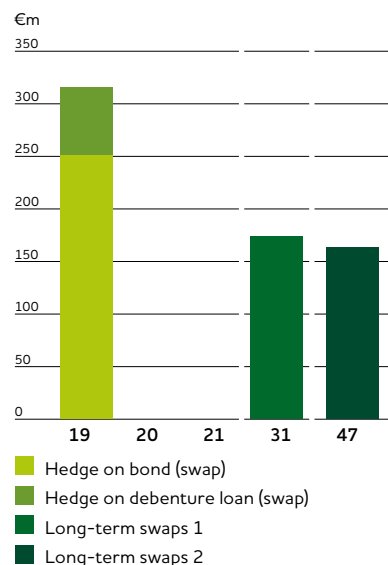
Productivity programme boosted competitiveness

Tornator wants to improve its competitiveness through additional revenues and cost savings. Of the target to improve productivity by €5 million in the period 2015–2018, more than €4 million were achieved. In the coming strategy period, the company will continue its inputs in operational development and continuous improvement. The objective is to intensify both core and support processes, for instance through digitalisation.

STRUCTURE OF DEBT, NOMINAL VALUES AT 31 DEC 2018



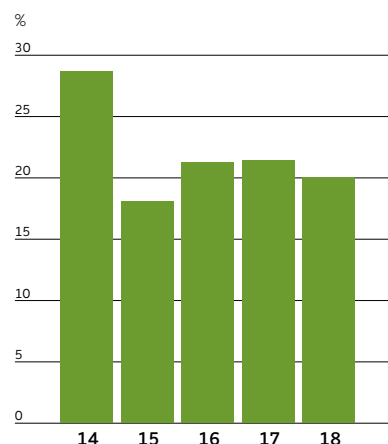
EXPIRY OF INTEREST RATE HEDGES, NOMINAL VALUES



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

€80
million

NET FINANCIAL EXPENSES (% of net sales)



BIOECONOMY IN FOCUS

The global growth of the bioeconomy is accelerated by climate change, population growth and digitalisation. The industry's need for renewable raw materials such as wood keeps increasing. Besides caring for the growth and health of forests, Tornator contributes to the fight against climate change by providing markets with renewable and sustainably produced wood to replace fossil raw materials.

The shift to the bioeconomy is also seen on wood markets where the demand for renewable raw materials keeps increasing. Due to its high carbon sequestration capacity and recyclability, wood offers sustainable solutions to challenges such as urbanisation, climate change and resource scarcity.

Need for wood increases in all operating countries

The bioeconomy forms the basis for the growth and prosperity of the whole Finnish economy. While recent investments have increased domestic wood consumption, the Government's new policies give more priority to renewable raw materials.

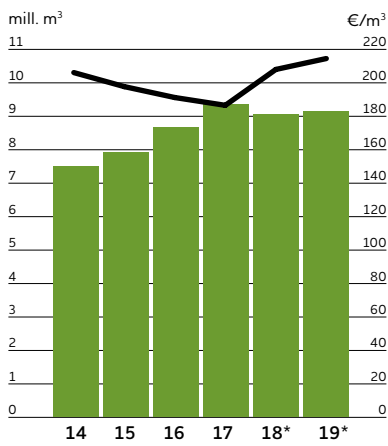
According to estimates, the Finnish forest industry's wood consumption exceeded 70 million cubic metres in 2018, and in recent years the need for raw materials has focused more and more on domestic wood. The high demand for wood was also reflected in unit prices of the reporting year. Compared with the previous year, average prices increased by 10.1 percent for logs and 10.4 percent for pulpwood.

The increased wood consumption of the forest and energy industries is also seen as positive development on the Estonian roundwood market. The change is especially obvious on export-oriented pulpwood markets where both demand and prices have risen considerably. In Romania too, wood demand is expected to remain high.



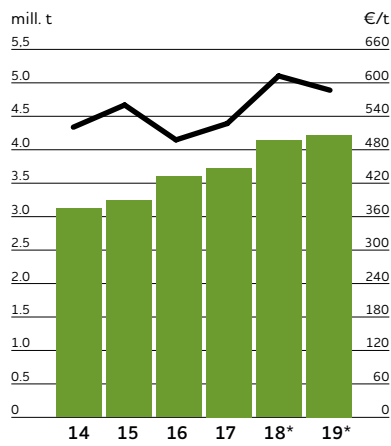
“Wood offers sustainable solutions to challenges such as urbanisation, climate change and resource scarcity.”

SAWNWOOD EXPORTS



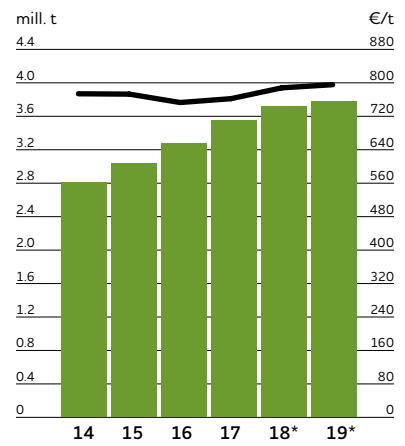
Source: Natural Resources Institute Finland and Customs statistics
*PTT forecast

PULP EXPORTS



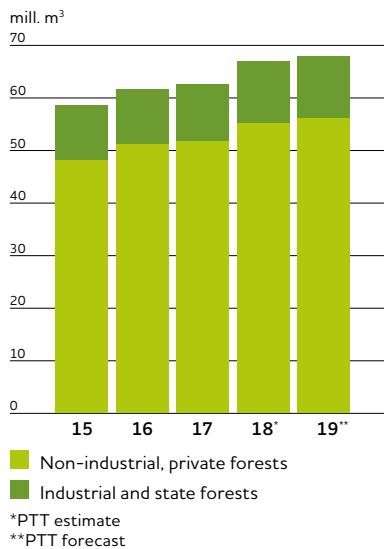
Source: Natural Resources Institute Finland and Customs statistics
*PTT forecast

PAPERBOARD EXPORTS



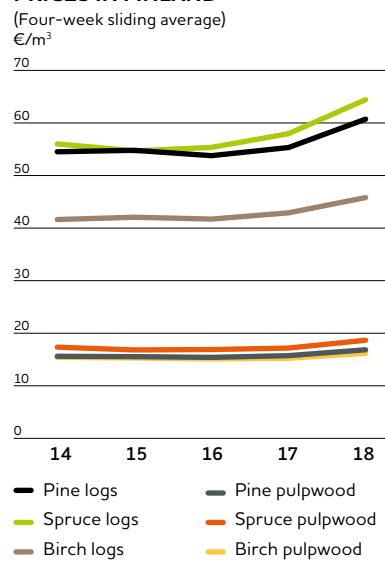
Source: Natural Resources Institute Finland and Customs statistics
*PTT forecast

ANNUAL COMMERCIAL ROUNDWOOD REMOVALS IN FINLAND



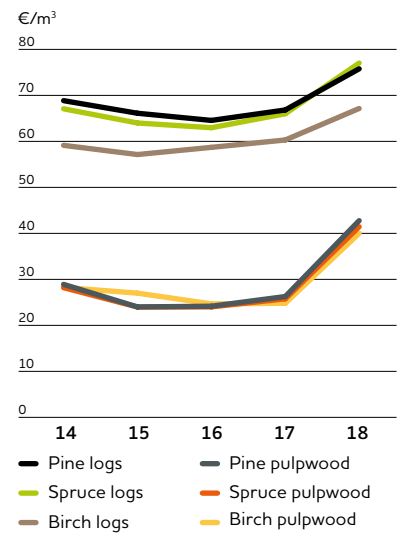
Source: Natural Resources Institute Finland, Macrobond, PTT

LOG AND PULPWOOD STUMPAGE PRICES IN FINLAND



Source: Natural Resources Institute Finland, Finnish Forest Industries Federation

LOG AND PULPWOOD ROADSIDE PRICES IN ESTONIA



Source: State Forest Management Centre (RMK)

Global megatrends with impacts on Tornator

Global megatrends	Key impacts from Tornator's viewpoint	Our responses
Climate change	<ul style="list-style-type: none"> Forests will be more important as carbon sinks and stores Extreme weather events and risk of forest damage will increase Forests will grow faster Carbon debate will intensify and people's attitudes will increasingly steer public opinion and political decision making Regulation may increase 	<ul style="list-style-type: none"> Increasingly influence opportunities to utilise forests Maintain good growth and damage resistance of forests with proper management Utilise additional growth of forests sustainably Openly communicate about our operations and responsibility Strive to make Tornator better known Maintain presence to influence regulation by providing our expertise
Population growth	<ul style="list-style-type: none"> Material needs and consumer demand will increase and wood prices will rise Utilisation of forests will be more diverse Importance of bioeconomy and circular economy as well as demand for renewable raw materials will increase Urbanisation will grow and people will become estranged from nature and forest management Finding skilled labour in sparsely populated areas will be more difficult Needs for recreational and other forest-related services will increase 	<ul style="list-style-type: none"> Increase forestland area, intensify wood production and diversify our business Provide markets with high-grade bio-based products to replace fossil ones Communicate to the public about forestry and provide our professional forest ownership as an alternative Ensure attractiveness of our jobs also in sparsely populated areas Develop multiple use of our forests and actively provide them for recreation
Digitalisation	<ul style="list-style-type: none"> Significance of digital systems for forest and multisource data will increase Use of artificial intelligence, robotics and automation will expand Volumes of forest-related information will grow, and its quality and accuracy will improve Information security risks and significance of data protection will increase Digital revolution will change operating and working practices 	<ul style="list-style-type: none"> Actively develop the TornaApps system and intensify its utilisation Improve understanding of new operational logics of digital systems and actively seek new business opportunities based on utilisation of digital data Utilise advanced security technology and provide instructions and training to users of information systems Be agile in adopting new practices and secure future expertise by training and developing employees



MEGATRENDS BOOST DEMAND FOR WOOD-BASED END PRODUCTS

“Working together, we can set an example how transparency, traceability and the use of sustainable raw materials can be promoted in the textile industry.”

Sirpa Välimaa, Product Manager,
Dissolving Pulp, Stora Enso



Global megatrends highlight responsibility throughout Tornator's supply chain. Megatrends such as climate change and the resulting shift from fossil to renewable raw materials also create new business opportunities for Tornator's customers. Stora Enso, Tornator's large-scale customer, has responded to the growing demand for textiles made from wood fibres by investing in dissolving pulp production at its Enocell Mill at Uimaharju. In the fight against climate change, long-lived wood-based products also grow in importance, which is seen in the business of Kuhmo Oy, Tornator's sawmill customer, as an increase in production.

Responsibility has become a stronger source of customers' competitive advantage, and therefore its role in the choice of wood supplier is also emphasised. According to Sirpa Välimaa, Stora Enso's Product Manager for Dissolving Pulp, what is especially positive about co-operation with Tornator is a common set of values that can be used as a basis to move the textile industry into a more responsible direction.

"The primary customer group of our dissolving pulp line is the textile industry which has a very long and complex value chain, and has been criticised for lacking transparency. Working together with Tornator, we can set an example how transparency, traceability and the use of sustainable raw materials can be promoted in the

textile industry. From a wider perspective, Tornator's responsibility is also seen as the promotion of the Finnish forest bioeconomy," Välimaa says.

Tornator's co-operation with Kuhmo Oy is built on forest certification and compliance with laws and regulations. In addition, Managing Director Tommi Ruha and Director of Forestry Juhani Pääkkönen appreciate the responsibility that comes with Tornator's professional business.

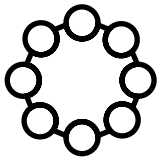
"A partnership with a professional forest owner such as Tornator brings positive things, for example steady timber sales and well-performed silvicultural treatments that improve the quality of stands for sale. The professionalism is also seen in the timeliness and correctness of the plans related to the stands for sale," Ruha and Pääkkönen comment.

From the customer's point of view, another important aspect of responsibility is the long-term nature of the raw material supplier's business, because confidence in raw material availability gives the customer better ground to make investment decisions.

"For successful forest industry, it is beneficial to have more professional and predictable forest owners like Tornator. Therefore, responsibility and sustainability also mean continuity to us," Ruha states.

ACTIVE COLLABORATION

Tornator's principles for stakeholder co-operation stem from its corporate values. The company aims at long-term and active collaboration with various stakeholders. For Tornator, responsibility means sustainable operations as well as seeking solutions that help align the goals and expectations of the company and its stakeholders.



“Concrete examples of Tornator’s close collaboration with stakeholders include diversified customer co-operation as well as the new conservation areas established and mire restoration projects carried out during the year.”

Tornator's stakeholder network is made up of a large group of entities utilising forests and working with them. The company wants to be responsible when co-operating with and influencing the stakeholder network at all levels, from European-level decision making to discussions with local people. Tornator's key stakeholders are: customers, shareholders and investors, contractors and other partners, employees, authorities and decision-makers as well as associations and local communities.

In 2018, Tornator again collaborated actively with its stakeholders, for example by arranging and participating in several discussion and co-operation meetings around various themes as well as familiarising stakeholders with its forests. Concrete examples of Tornator's close collaboration with stakeholders also include the new conservation areas established and mire restoration projects carried out during the year. Stakeholders' attitudes towards the company's operations were measured through a survey conducted during the annual FSC audit as well as a customer satisfaction survey. The results of both surveys showed that stakeholder satisfaction was high.

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 board and committee memberships in the Finnish Forest Industries Federation, and board memberships in top level bioeconomy platform Koli Forum, digital wood trade developer Suomen Puukauppa Oy, the Finnish Forest Museum Foundation and FSC Finland – Association for Responsible Forestry.



Stakeholder co-operation in 2018

	Expectations towards Tornator	Communication channels	How we met expectations
Wood buyers, forestland sellers and other customers	<ul style="list-style-type: none"> • Wood availability (flexibility) • Predictability • Long-term business • Reliability • Expertise 	<ul style="list-style-type: none"> • Sales and agreement negotiations • Information systems 	<ul style="list-style-type: none"> • Tornator provided customers with <ul style="list-style-type: none"> - High-quality felling sites and silvicultural services - Ease of doing business and competitive prices - PEFC™- and FSC®-certified wood - Planned holiday home plots
Shareholders and investors	<ul style="list-style-type: none"> • Reliable and steady long-term returns • Risk management • Responsibility 	<ul style="list-style-type: none"> • Co-operation with the Board and shareholders • Investor communications 	<ul style="list-style-type: none"> • Tornator arranged investor meetings • Close co-operation with the Board of Directors and shareholders • Adjusted profit was excellent and the value of forests increased significantly. No negative risks were realised.
Contractors and other partners	<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: 1,000 person-years • Organisation of various co-operation events • Participation in various R&D projects
Service providers	<ul style="list-style-type: none"> • Compliance with agreements and responsible behaviour as a customer • Provision of clear project plans in appropriate schedule 	<ul style="list-style-type: none"> • Service and project meetings • Teams • E-mail 	<ul style="list-style-type: none"> • Monitoring of outcomes in terms of substance and finance • Setting up of steering groups for larger projects • Responsible implementation of jointly agreed project schedules and tasks
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 and good management 	<ul style="list-style-type: none"> • Co-operation and development discussions • Co-operation with employee groups • Close first-line management 	<ul style="list-style-type: none"> • Supervisors stayed in close contact with employees • Individual training opportunities • Group-wide training programme for middle management • Well-being events
Authorities and decision-makers	<ul style="list-style-type: none"> • Professional and collaborative practices • High-quality plans and studies • 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 and establishment of conservation areas • Various stakeholder tours and active influence on the business environment
Local communities	<ul style="list-style-type: none"> • Consideration of the environment in forestry operations and various land-use projects • Regional employment effects • Listening to neighbours and other residents • Promotion of forest awareness among children and youth • Participation in local projects and provision of recreational opportunities 	<ul style="list-style-type: none"> • Discussions and participatory meetings • Website • Collection and handling of feedback 	<ul style="list-style-type: none"> • Organisation of various events • Regional sponsoring: forestry students, forest culture, physical activity of children and youth • Forest of Opportunities campaign school visits • Catchment area restoration project and mire restoration projects • Establishment of a nature trail in Romania • Annual award to a forestry student in Estonia • Provision of forests for recreation • Maintenance of forest roads • Number of hunting leases: 1,035
Associations	<ul style="list-style-type: none"> • Responsible and sustainable operations • Consideration of biodiversity and effective 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 forest management • Meetings with associations 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, proactive and fast communication on relevant topics 	<ul style="list-style-type: none"> • Press releases • E-mail • Website • Personal contacts 	<ul style="list-style-type: none"> • Appearances in current affairs programmes • Press releases on website • Articles in the press

CREATING VERSATILE VALUE FROM FOREST

STRATEGY

Profitable growth
Superior competitiveness
Excellent governance

ECONOMIC CAPITAL:

- Equity and debt
- Financial solutions

VISION

Tornator – the forerunner
in responsible use of forests

RESOURCES

BUSINESS

**PRODUCTIVE CAPITAL AND
NATURAL RESOURCES:**

- Forestlands: Finland, Estonia and Romania
- Forest road network
- Forest resource information
- TornaApps ERP system

HUMAN RESOURCES:

- Skilled employees and functioning organisation
- Contractors

INTELLECTUAL CAPITAL:

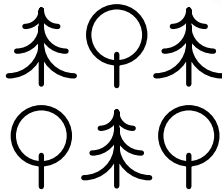
- Tornator brand and reputation
- Corporate culture
- Research information

EXTERNAL RELATIONSHIPS:

- Contractors and other partners
- Customers
- Co-operation with stakeholders, influencers and authorities

MISSION

Generating sustainable
well-being from
the forest



TIMBER SALES



REAL ESTATE



SERVICES

Support functions

Versatile partner network

Motivated, skilled employees

VALUES

Responsibility,
expertise and
partnership



SERVICES:

- Timber sales
- Forestland purchasing
- Silvicultural work
- Leases
- Recreation



ECONOMIC:

- Growing and profitable business
- Dividends and appreciation to shareholders
- Pay and benefits to employees
- Employment in sparsely populated areas
- Taxes to the public sector
- Payments to financial institutions
- Payments to contractors and partners

OUTPUTS

IMPACTS

PRODUCTS FOR CUSTOMERS:

- Planned and ready felling sites and timber sales
- Forestland purchases and sales
- Logs, pulpwood and biomass
- Natural products
- Land for sale and lease

FOREST AND WATER ECOSYSTEM OUTPUTS:

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

EMISSIONS:

- CO₂ emissions from own operations
- Impacts on water systems



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 and everyman's right
- Local co-operation, support and sponsoring



ENVIRONMENTAL:

- Healthy and diverse nature
- Carbon capture, storage and sink
- Energy and resource efficiency
- Increase in forest growth
- Established conservation areas and planning of new ones

THE FORERUNNER IN RESPONSIBLE USE OF FORESTS

Tornator develops and creates business by intensifying digitalisation, acquiring forestland, utilising its forests sustainably and enhancing employees' skills. The company actively seeks new opportunities to generate added value from forests.

During the reporting year, Tornator already prepared for the new strategy period 2019–2021, and the whole personnel was involved in strategy work. According to the new strategy, Tornator still wants to generate sustainable well-being from the forest and to be an ever-stronger forerunner in responsible use of forests.



MISSION

Generating sustainable well-being from the forest.

VISION

Tornator – the forerunner in responsible use of forests.

STRATEGIC PRIORITIES

Profitable growth

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

Superior competitiveness

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

Excellent governance

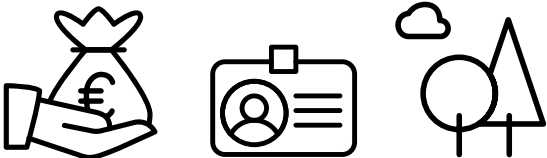
We proactively develop processes, systems and expertise to strengthen responsibility, people's well-being and influencing.

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.



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.

KEY ACHIEVEMENTS 2018

- Investment of more than €50 million to purchase 20,000 hectares of forestland
- Improvement of forest growth and carbon sequestration by fertilising some 7,300 hectares
- Investment in silviculture, fertilisation and forest roads for a total of nearly €20 million

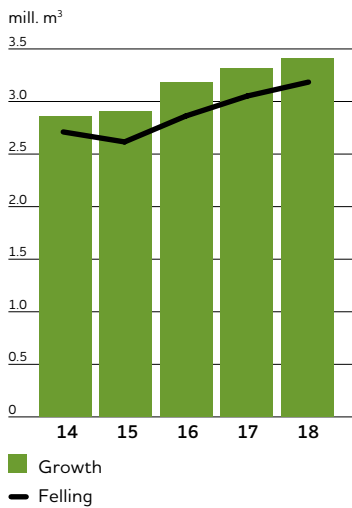
GOALS 2019

- Grow profitably by increasing forest assets
- Utilise forests more diversely and better
- Utilise opportunities provided by digitalisation more efficiently
- Develop the service business

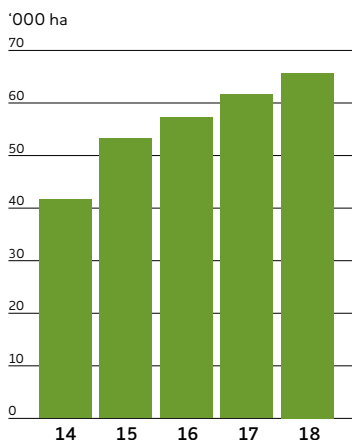
INVESTMENTS BOOSTED GROWTH

Tornator implemented its growth strategy by acquiring new forestland in Finland and Estonia as well as by enhancing its service business. Higher demand for wood and an increase in Tornator’s felling potential raised net sales to a record high. Growth is expected to remain strong in the new strategy period.

GROWTH AND FELLING IN TORNATOR GROUP’S FORESTS



DEVELOPMENT OF TORNATOR’S FORESTLANDS IN ESTONIA



Tornator’s objective is to grow profitably and to create more value for shareholders and other stakeholders. The growth is secured by highly professional staff as well as long-term and responsible forestry. The company actively seeks growth by increasing its forest assets, developing the current business and identifying new business opportunities.

Tornator responded to the increasing need for wood on the market by acquiring a total of some 20,000 hectares of new forestland in 2018. Investments related to forest purchasing amounted to €40 million. The largest single forestland purchase was signed with Vapo Oy whereby Tornator gained ownership of 5,300 hectares of forests. During the reporting year, the company also made a significant breakthrough on the private forest market.

In 2018, Tornator renewed its forest purchasing organisation, and its functioning was also measured for the first time in a customer satisfaction survey which provided excellent feedback.

Regarding silvicultural services, Tornator nearly doubled its net sales compared with the previous year. Furthermore, the company continued its efforts to develop wind power. The market for holiday home plots was slow, but the demand for various leases was high.

Growth in all operating countries

Tornator’s investments in forestland as well as long-term silvicultural work paid off in Finland as an increase in timber

sales. Forestland purchasing totalled some 16,000 hectares. Tornator also continued its multi-annual fertilisation programme and the use of improved seedlings, which has made a significant contribution to increasing forest growth.

The Estonian subsidiary Tornator Eesti OÜ continued its growth by acquiring some 4,000 hectares of forestland. Tornator is Estonia’s largest private landowner with some 65,500 hectares. In Estonia, wood demand showed a clear improvement due to forest industry investments in Finland and Sweden, and market prices for wood increased significantly. The supply of forestland was rather good.

In Romania, the company made efforts to utilise the existing forestlands efficiently. Investments in mechanical forest industry and energy industry were seen in higher demand, and prices continued to rise. Forestland supply was meagre.

Good outlook for growth

Moving to a new strategy period, Tornator intends to continue profitable growth and is continuously seeking new opportunities for growth. The company has been able to create trust on the forestland market despite difficult conditions. Higher demand and prices for wood will continue to support Tornator’s growth and profitability in all operating countries.

A JOINT FERTILISATION PROJECT FOR BETTER FOREST GROWTH AND CARBON SEQUESTRATION



“Fertilisation is the fastest way to increase the growth and carbon sequestration of forests.”

Heli Peltola, Professor of Silvicultural Sciences, University of Eastern Finland

Tornator is involved in research collaboration on forest fertilisation with the fertiliser manufacturer Yara and the fertiliser application company ForestVital as well as the University of Eastern Finland, School of Forest Sciences. Co-ordinated by the University of Eastern Finland and funded by the Academy of Finland, Strategic Research Council, the FORBIO project is aimed at studying the overall effects of forest fertilisation on forest growth, carbon sequestration and the environment through the use of research data. The joint project is special in that it brings together the whole supply chain of fertilisation from manufacturing to application as well as the best researchers in the field.

According to Heli Peltola, Professor of Silvicultural Sciences at the University of Eastern Finland, forest fertilisation can significantly increase the growth and carbon sequestration of trees as well as enhance the profitability of silviculture.

“The comprehensive data to be gained from the research project is also a means to ensure that forest fertilisation is planned and implemented considering environmental aspects, for instance securing forest biodiversity and protecting water systems. With the correct choice of site, sufficient protective zones and a suitable composition of fertiliser it is possible to avoid negative environmental impacts. With the help of the research data, the volumes of fertilisation can also be better calibrated to the nutrient needs of the growing stock. This will reduce environmental load as well as harmful effects, for example on wood density,” Peltola says.

KEY ACHIEVEMENTS 2018

- Development of a new approach to purchasing forest estates, and increase in purchasing on the Finnish forestland market
- Adoption of a new process-based organisation, and revision of the remuneration system for employees
- Further improvement of customer service and quality of operations

GOALS 2019

- Diversify silvicultural methods and services, improve quality of operations
- Secure competitive funding
- Utilise new approaches and digitalisation more widely

A RELIABLE AND PROFESSIONAL PARTNER

Tornator's competitiveness is based on its extensive forestlands, employees' skills, efficiency-improving technologies as well as a customer focus that is present in all activities. Responsible operations give the company a competitive advantage through sustainable forestry and partnerships founded on trust.

The cornerstones of Tornator's success include outstanding expertise as well as efficient work systems and tools that support the business. Professional planning and access to comprehensive electronic forest resource information enable the implementation of not only efficient but also sustainable harvests and silvicultural treatments. Digital tools also support employees to work independently and provide solutions to customers' changing needs.

Customer focus drives the business

Tornator's goal is to be the best timber sale and co-operation partner on the market, and its business is driven by a strong customer focus. The company's customer co-operation is based on listening to customers and responding to their needs through professional and reliable work. One indication of customers' deep trust is that Tornator was able to purchase a substantial amount of forest estates from private forest owners over the year.

Tornator's goal is to be an attractive choice for contractors and other partners, and it has strived to make contractor co-operation closer, thereby helping to build a better business for its partners too. According to the customer satisfaction survey of 2018, the satisfaction level of Tornator's customers remained very high.

The role of effective processes increases with forestland area

The total area of Tornator's silvicultural work increased significantly during the year, but operating costs were kept well under control at the same time. The cost-

effectiveness is based, above all, on the company's fine-tuned, effective processes, supported by the new organisational structure.

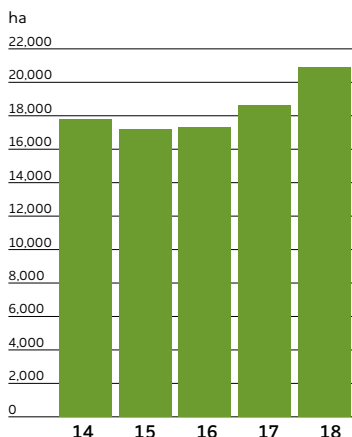
Tornator's competitiveness is also enhanced by its extensive forestlands; besides improving efficiency, they provide a wide selection of felling sites for customers' needs at any time. Increasing forest assets again required Tornator to make major investments. Competitive funding is important for the company, and securing it will be given a higher priority in 2019.

Dynamic organisation and smooth customer co-operation were highlighted

A flexible and dynamic organisation is another competitive advantage of Tornator, which was reflected particularly in the successful salvage operation after the major snow damage in 2018. It was crucial for success that the main customer Stora Enso worked flexibly so as to help avoid consequential losses, and timber was harvested quickly and disadvantages to the business could be minimised.

According to the annual third-party assessment of forest and nature management quality, the standards of Tornator's silvicultural work and harvesting remained high. During the reporting year, a special focus of the company's productivity programme was on the business of the Estonian and Romanian subsidiaries which successfully met their targets.

TOTAL AREA OF TORNATOR'S SILVICULTURAL WORK



IT IS EASY TO SELL FOREST TO A RESPONSIBLE AND PROFESSIONAL COMPANY LIKE TORNATOR



“Tornator’s quality of forest management is top notch. I feel that my forests were passed into really good hands.”

Matti Luukkonen, forest owner

Tornator signed a major forest purchase with Vapo Oy in 2018, gaining ownership of 5,300 hectares of forestland. Pasi Koivisto, Vapo’s Director of Strategic Projects and Real Estate, tells that co-operation with Tornator has been done for decades and this year’s deal is just a cherry on top.

“We can talk about a symbiosis between two companies. It is easy to work with Tornator because they know our business really well. We have a lot of forest assets which are no longer our crown jewel in the changing world. It is great that Tornator knows how to appreciate these forest estates, and in their professional hands those forests will do very well indeed,” Koivisto says.

Vapo’s CEO Vesa Tempakka says that the co-operation is based on a common set of values shared by two actors.

“Tornator does not only look at its forest assets through income, but puts a strong emphasis on natural values too. Tornator’s forests act as significant carbon sinks and the company cares for its forests without jeopardising biodiversity,” Tempakka stresses.

Many privately owned forests left untended – sell to a professional

Matti Luukkonen of Kuopio also decided to sell his forest assets during the reporting year. He thinks that it was particularly easy to sell the forests to Tornator.

“Tornator’s quality of forest management is top notch. I feel that my forests were passed into really good hands. Besides, they offered a competitive price for my forest estate,” he tells.

Luukkonen would like to see more large entities of forest ownership to appear, because the economy of scale makes forest management more sensible. If you are not able to or interested in taking care of your forest assets, it is advisable to sell them to a responsible professional.

“When I move around in the provinces I see a lot of small forest estates that have been left untended and would be better off in more professional hands,” he states.

RESPONSIBLE MANAGEMENT

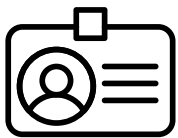
For Tornator, excellent governance means not only high-quality management but above all responsibility as an employer, partner and influencer. Trust and employee satisfaction are key in all activities, and they are strived for especially by developing management and communication practices.

KEY ACHIEVEMENTS 2018

- Deepening of value-based leadership training, definition of a new strategy and reinforcement of management principles
- Further improvement of supervision, and increase in employee involvement
- Adoption of new internal communication tools and improvement of communication

GOALS 2019

- Improve corporate image and actively influence the business environment
- Increase dialogue and collaboration, and invest in employee satisfaction
- Further develop decision-making support systems and tools



“In 2018, involvement of employees was reflected especially in the planning process for Tornator’s new strategy, which was implemented in collaboration with the employees.”

It is essential in terms of Tornator’s management that its organisation is dynamic, low and transparent. The company wants to act flexibly in all directions and to continuously develop its operations and capabilities. Tornator’s success also leans very much on people knowing each other and leaders trying to consider employees’ views in decision making. In 2018, involvement of employees was reflected especially in the planning process for Tornator’s new strategy, which was implemented in collaboration with the employees.

Value-based leadership training towards a shared vision

During the reporting year, one of the foremost management priorities was to deepen the value-based leadership training that had been started in 2017. The aim of the training was to continue to deploy Tornator’s values of responsibility, expertise and partnership, and to fuse them as part of strategy, supervision and daily work and practices. As part of the training, a new strategy was built for the company, and management principles were reinforced to clarify a shared vision and targets, to enhance dialogue and to promote giving feedback in the organisation.

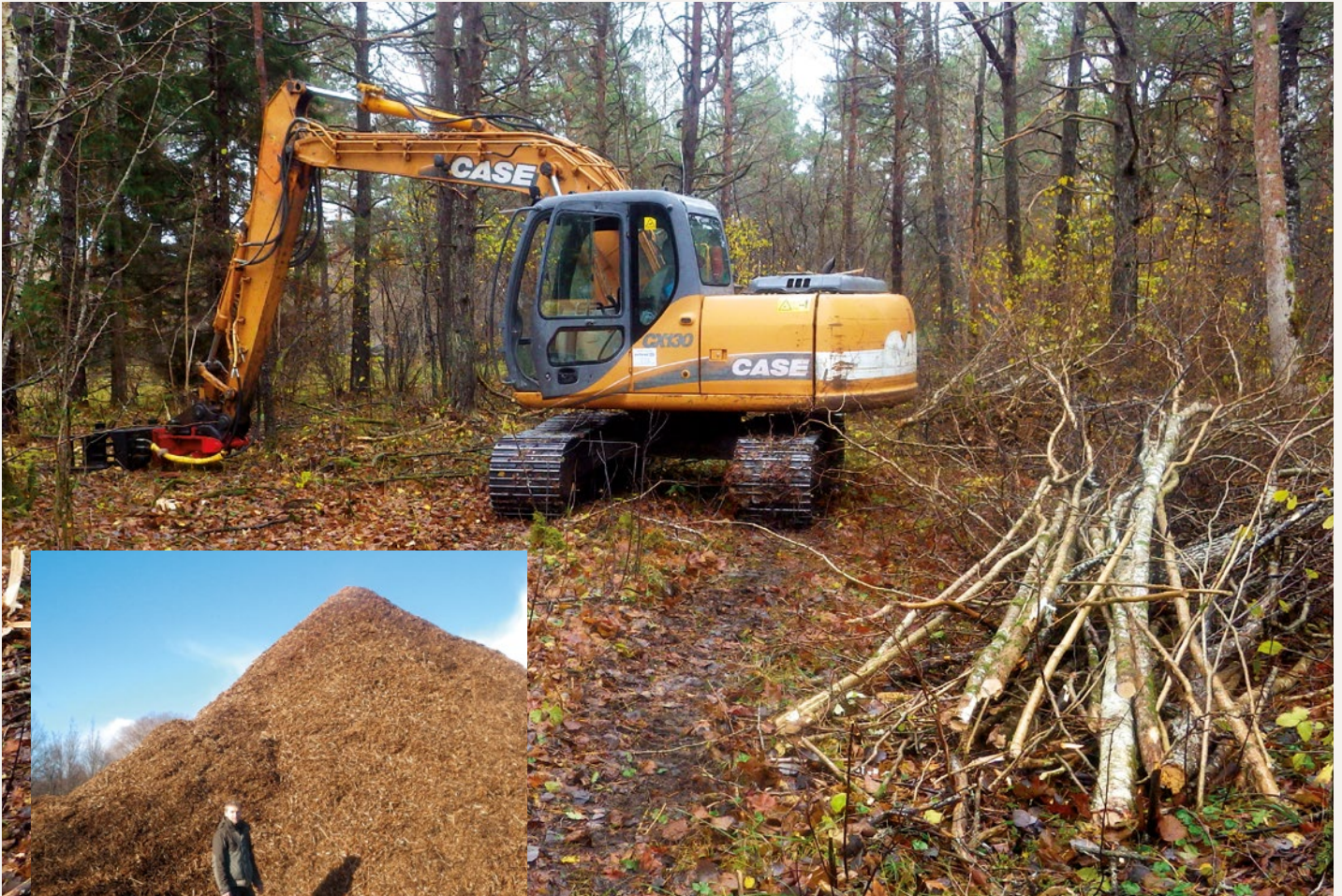
Tornator’s management approach is based on target-oriented working, and its employees work very independently. Geographic dispersion brings challenges to community spirit, and, in fact, one important objective of the value-based leadership training has been to foster a sense of belonging among employees. Community spirit has also been strengthened, for example, in the form of regular informal gatherings of employees

as well as reciprocal visits with the Estonian and Romanian subsidiaries.

Strong inputs in communication improvement

Successful communication is an essential part of Tornator’s management, and in 2018 communication was improved through many different actions. New digital communication channels were adopted within the company, and employees were trained in internal and external communication. The role of communication is also emphasised in stakeholder co-operation as well as in enhancing the corporate image and making the company better known. Furthermore, Tornator wants to communicate externally and more visibly about its operations and responsibility, especially by means of expert influence.

Tornator believes that efficient decision-making support systems and tools are important elements of excellent governance, and wants to develop them continuously. In fact, a major effort in the reporting year regarding governance was mainly related to system development, since Tornator’s employees participated extensively in the main customer’s information system project. However, Tornator further strengthened its customer knowledge due to the joint project, and will be able to resume its own system development in 2019.



VALUE-BASED LEADERSHIP TAKES SHAPE IN SAAREMAA CO-OPERATION

Tornator started negotiations with Grenor Trade OÜ in summer 2018 about co-operation to increase the utilisation rate of wood raw material from Saaremaa island. The collaboration took a form where Tornator provides sites that are well-suited for bioenergy while Grenor Trade takes care of most of the chain from the forest to the ship. Harvesting is mainly done by the whole-tree method using excavators equipped with guillotine heads, the trees are chipped on the roadside and the intermediate storage takes place near the port.

According to Margus Paesalu, Wood Sales Manager at Tornator Eesti, the company gains a clear economic benefit by way of improved competitive advantage.

“Previously, forest resources growing on ditches and roadsides were hardly worth utilising, but higher demand on both domestic and export markets has improved profitability. Another significant benefit is reaped when the necessary precommercial cleaning is done mechanically and the accumulated material is utilised for bioenergy,” states Paesalu.

According to Lauri Jürgenson, Supervisor at Grenor Trade OÜ, extending Tornator co-operation from continental Estonia to Saaremaa has been a significant development.

“Working with a major forest owner such as Tornator is a must for long-term business. As a large and stable corporation, Tornator has been able to bring security in the supply chain, not only for raw materials but also working with us in intermediate storage. Our customers want to know where the wood comes from, and the FSC certification of Tornator’s forests was a key factor in starting the co-operation,” Jürgenson says.



“Extending Tornator co-operation from continental Estonia to Saaremaa has been a significant development for us too.”

Lauri Jürgenson, Supervisor,
Grenor Trade OÜ

SUCCESSSES AND CHALLENGES OF THE YEAR

DIRECT EMPLOYMENT
EFFECT OF TORNATOR'S
FORESTS A RECORD

1,000
PERSON-YEARS

ADOPTION OF A
NEW PAY AND
REWARD SYSTEM

CARBON
SEQUESTRATION
OF TORNATOR'S
FORESTS SOME

4
MILLION TONNES
OF CO₂

ACTIVE PARTICIPATION IN
RESEARCH PROJECTS AND
LAUNCHING THE FORBIO
FERTILISATION RESEARCH
PROJECT CO-ORDINATED BY
THE UNIVERSITY OF EASTERN
FINLAND

A TOTAL OF SOME
500
HECTARES
CONSERVED

AT VALKEAJÄRVI,
ILOMANTSI,
341
HECTARES FOR
PERMANENT
CONSERVATION

DEFINITION OF NEW
STRATEGY, DEEPENING OF
VALUE-BASED LEADERSHIP
TRAINING AND NEW
MANAGEMENT PRINCIPLES

MIRE RESTORATION
CARRIED OUT ON
70
HECTARES AND
PRESCRIBED
BURNING ON
63
HECTARES

FERTILISATION
CARRIED OUT ON
7,300
HECTARES

CHALLENGES OF THE YEAR

- Maintaining the balance between the ecological and economic benefits of forests
- Open and transparent dialogue with stakeholders
- Early-year snow damage which, in the worst case, could have also caused extensive damage by insects
- A hot and dry summer which made silvicultural work difficult

TORNATOR – THE FORERUNNER IN RESPONSIBLE USE OF FORESTS



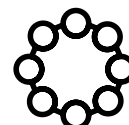
AN EXPERT IN SUSTAINABLE FORESTRY

- 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 improve water quality by ensuring water protection and by restoring small waters
- We demonstrate sustainability through independently verified forest certification
- We maintain the carbon sequestration capacity of forests with good forest management and sustainable harvest planning



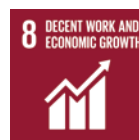
A PROGRESSIVE AND SAFE WORKPLACE

- We care for the safety and well-being of employees and contractors
- We keep employee satisfaction high
- We strive for good leadership and transparent decision making
- We invest in the training and development of employees and contractors



A PRODUCTIVE PROMOTER OF WELL-BEING

- We grow profitably, improve our efficiency and ensure excellent governance
- We generate well-being through taxes and jobs all over our operating area
- We are a responsible and long-term partner and help our partners to develop their business
- We collaborate locally, nationally and internationally with an extensive group of stakeholders



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

	Material topic	Indicator	Target	Outcome
AN EXPERT IN SUSTAINABLE FORESTRY	Sustainable utilisation of natural resources	Annual cut vs. growth	Make cutting plans sustainably	CUT some 3.2 mill. m ³ /yr GROWTH some 3.4 mill. m ³ /yr
	Certified products	No major non-compliances	Comply with FSC and PEFC certification criteria	NO MAJOR NON-COMPLIANCES
	Carbon capture and storage	Maintenance of carbon capture and storage capacity	Increase carbon sequestration by caring for the health and vigour of forests. Maintain carbon stores of forests with sustainable harvesting.	FOREST GROWTH 5.5 m³/ha/yr
A PROGRESSIVE AND SAFE WORKPLACE	Employee satisfaction, health and safety	Result of employee well-being survey, reduction in accident rate	Satisfied employees, healthy and safe work environment	4/5 55%
	Employee and contractor training	Days of training per person	Secure necessary expertise for the company	7.5 days
A PRODUCTIVE PROMOTER OF WELL-BEING	Economic responsibility and profitability	Return on equity	Steady dividends and increasing forest value for shareholders	11.6%
	Local economic impacts	Net value retained	High net value retained	€29.5 million
	Responsible management of contractor and partner relationships	Completed supplier assessments	Monitor suppliers' sustainability systematically	135
	Open communication and stakeholder relationships	Updating of the materiality analysis (core/comprehensive) at three years' intervals in co-operation with stakeholders	Identify sustainability themes important to the company and stakeholders	WE SHALL UPDATE THE MATERIALITY ANALYSIS NEXT TIME IN 2020

KEY SUSTAINABILITY THEMES



AN EXPERT IN SUSTAINABLE FORESTRY



A PROGRESSIVE AND SAFE WORKPLACE



A PRODUCTIVE PROMOTER OF WELL-BEING

Materiality analysis

Tornator's responsibility work and communication are driven by a materiality analysis prepared through stakeholder interviews. The analysis was last updated in 2017 by interviewing representatives of internal and external stakeholders on their views about Tornator's key responsibility areas, their successes and development needs.

Tornator's key sustainability themes defined in the materiality analysis include: sustainable utilisation of natural resources, economic responsibility and profitability, employee satisfaction, health and safety as well as open communication and stakeholder relationships.

On the basis of themes emerging from the materiality analysis, Tornator has determined a vision and related goals for its responsibility work as follows: it wants to be an expert in sustainable forestry, a progressive and safe workplace and a productive promoter of well-being.

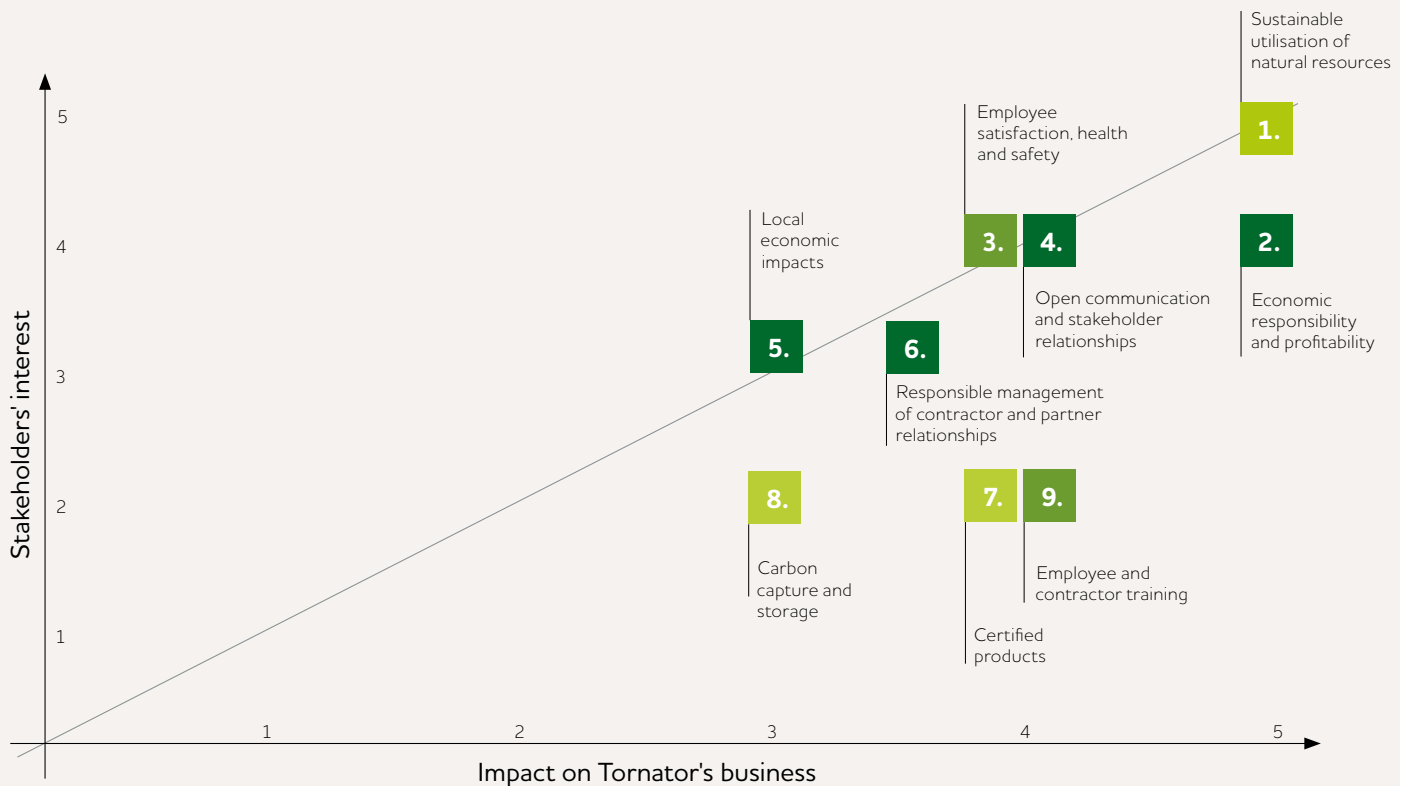
UN Sustainable Development Goals

Tornator supports the United Nations Sustainable Development Goals (SDGs) and has identified six key goals regarding its own business and stakeholders. The selected SDGs are based on the materiality analysis prepared from stakeholder interviews as well as the company's core business and its impacts on the world around it. Tornator's mission, strategy and views of management were also taken into consideration when defining the SDGs.

The selected key Sustainable Development Goals are as follows:

- Clean water and sanitation
- Decent work and economic growth
- Climate action
- Life on land
- Peace, justice and strong institutions
- Partnerships for the goals

MATERIALITY MATRIX



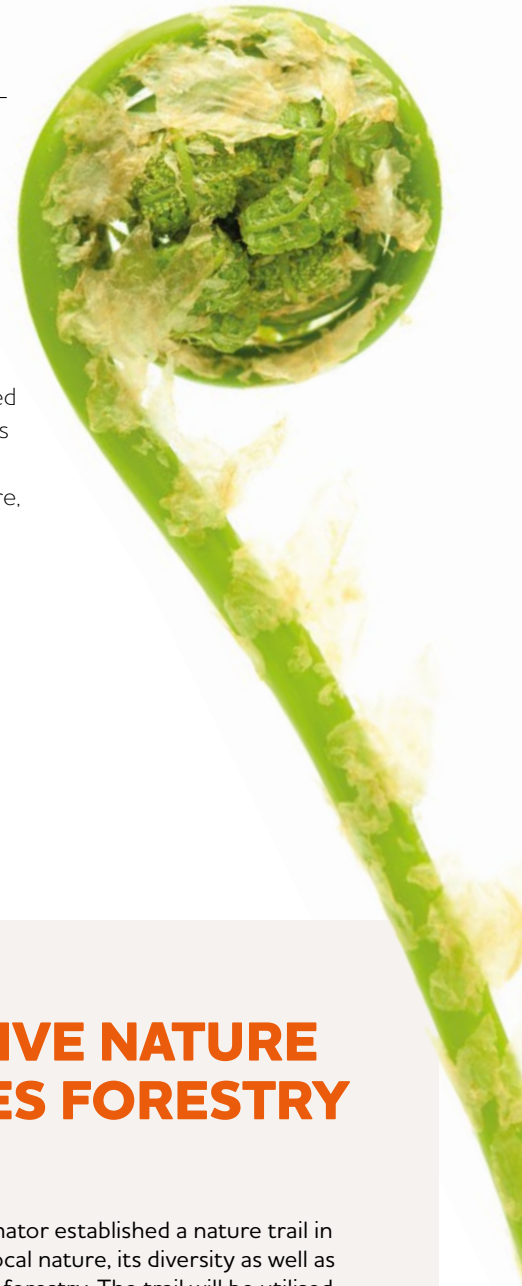
RESPONSIBILITY AS A KEY VALUE

Responsibility is one of Tornator's key values, besides expertise and partnership, and it is an integral part of the company's business based on sustainable forestry. Responsibility is Tornator's way of doing things and it is put into practice in employees' day-to-day work.

Tornator's responsibility work is based on the corporate values, which also shows clearly in the business strategy. By acting in a socially, economically and ecologically sustainable manner, Tornator also secures the continuity of profitable business for its part. For Tornator, responsibility means aligning the goals and expectations of the company and stakeholders.

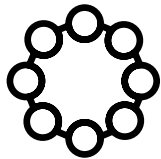
Tornator's management approach and annual planning are guided by responsibility thinking. The company is committed to responsible business through internal and external principles. Approved by the Board of Directors, the Code of Conduct and environmental principles form the basis for employees' day-to-day work. Sustainable forestry and Tornator's business are also defined by the PEFC and FSC certification criteria as well as the legislation of the respective countries of operation.

The integration of sustainable and responsible practices as part of Tornator's everyday work is the responsibility of the persons in charge of various functions. At the Group level, the co-ordination and guidance of corporate responsibility is the job of the CEO, assisted by the Management Group and the Corporate Responsibility Manager. The implementation of corporate responsibility is ensured by internal control of the various functions as well as through third-party audits, and external and internal auditing. Furthermore, Tornator uses a Group-wide whistleblower system maintained by a third party and based on an anonymous online form, through which employees can report any unethical behaviour or violations.



AN INTERACTIVE NATURE TRAIL TEACHES FORESTRY IN ROMANIA

Oituz, Romania, is where Tornator established a nature trail in autumn 2018, presenting local nature, its diversity as well as responsible and sustainable forestry. The trail will be utilised for various training sessions aimed at our stakeholders and for schoolchildren's forest tours. Visitors can learn about forestry with the help of information boards on the trail and under the guidance of Tornator's experts. This is one way of generating sustainable well-being from our forests, sharing our expertise and working with our stakeholders.



A PRODUCTIVE PROMOTER OF WELL-BEING

KEY ACHIEVEMENTS 2018

- Employment effect of Tornator's forests 1,000 person-years, and economic value distributed to stakeholders some €90 million
- Maintenance of forest biodiversity and development of local infrastructures
- Starting of responsible influencing

GOALS 2019

- Invest in sustainable and profitable growth
- Co-operate closer with local communities
- Strengthen responsible influencing based on research and development

WELL-BEING FOR SOCIETY AT LARGE

As a responsible corporate citizen, Tornator generates a wide range of well-being from the forest for the whole society. The company engages in active dialogue with local communities, and its professionally managed forests provide significant employment and recreational opportunities.

Tornator's mission is to generate sustainable well-being from the forest. The economic, social and ecological responsibility that drive the company's long-term forestry are reflected in everything Tornator does in each country of operation. The company complies with international agreements as well as national laws and regulations taking into account the local people and conditions.

As an advocate for the sustainable use of forests, Tornator has considerable influence on society at large. Through its professional forest management, the company is able to generate well-being from its commercial forests without jeopardising biodiversity. Any negative impacts of operations on local communities and the business environment are closely monitored and evaluated. In addition, the effectiveness of environmental activities is measured annually in a third-party quality assessment procedure.

Tornator nurtures community relations by engaging in active dialogue with local stakeholders. In addition, the company collaborates extensively with local hunting clubs and recreational communities. Tornator uses electronic feedback systems to support stakeholder co-operation, and any issues can be addressed fast when necessary.

Responsible supply chain is key

Wood production and sale of cutting rights are Tornator's core business. The company's share in the forestry supply chain covers silvicultural work, harvest planning, timber

sales, harvest control and timber delivery. In addition, the volume of the company's silvicultural services is on the rise.

Tornator operates at the beginning of the forestry supply chain. It does not use the produced wood raw material but sells it to the forest and energy industries. The company acquires resources from manual forest work and forest machine contractors as well as suppliers of tree seedlings and equipment. Tornator's internal supply chain consists of forest regeneration and silvicultural work which are mainly focused on the management of the company's own forests.

Tornator follows a contractor policy and performs supplier assessments to secure a responsible supply chain. Key supplier criteria include price, quality and delivery reliability as well as responsibility. The company applies the same criteria to guide its own operations.

Significant local effects

During the time of its operation, 2002–2018, Tornator has sold more than 35 million cubic metres of wood, and has thereby generated well-being widely through society. Tornator operates in a geographically large area and creates jobs especially in sparsely populated areas. The company's forests are located in 116 municipalities around Finland, countrywide in Estonia and centrally in a few municipalities in Romania.

As a result of new subcontracts, the volume of work offered by Tornator to

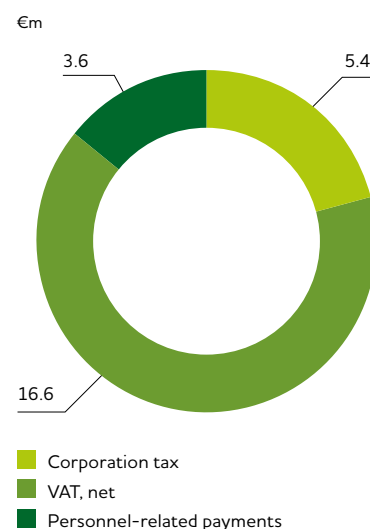
“Besides wood production, Tornator's forests generate a multitude of other tangible and intangible well-being for local communities.”

its contractor partners increased from the previous year. In 2018, the company's forests provided work for the company's employees as well as contractors and their staff worth a total of 1,000 person-years.

Besides wood production, Tornator's forests generate a multitude of other tangible and intangible well-being for local communities, such as opportunities to roam around in them as well as to pick wild berries and mushrooms. In addition, forest provides a setting for nature tourism.

Tornator has played an important role in the development of infrastructures in its operating areas and it has been involved in a number of local road projects. Tornator has enabled recreational and hunting opportunities for residents of local communities by having forest roads built in new forest areas.

TORNATOR'S TAX FOOTPRINT: ANNUAL TAXES AND OTHER PAYMENTS TO GOVERNMENT, AVERAGE 2014–2018



Direct economic value generated and distributed

€'000		2014	2015	2016	2017	2018
Direct economic value generated						
Customers	Revenues	95,036	117,147	100,120	106,483	119,393
Direct economic value generated, total		95,036	117,147	100,120	106,483	119,393
Economic value distributed						
Contractors and other suppliers	Purchases of products and services	22,904	33,842	24,211	25,607	26,774
Shareholders	Dividends paid during the period	22,000	21,000	30,000	26,000	28,500
Financial institutions	Interest and financial expenses, net	26,030	20,599	20,591	21,713	22,546
Society	Taxes	7,072	10,061	9,556	9,976	3,605
Employees	Salaries and wages, remuneration and employer's contributions	9,409	8,604	8,439	8,271	8,447
Economic value distributed, total		87,415	94,105	92,797	91,567	89,872
Economic value retained		7,621	23,042	7,323	14,916	29,521
Taxes by country						
Finland		6,854	9,746	9,155	9,483	3,063
Estonia		106	180	225	255	272
Romania		112	135	176	239	270
Total		7,072	10,061	9,556	9,976	3,605

DIVERSIFYING SILVICULTURAL METHODS IN PEATLAND FORESTS



During 2018, Tornator conducted a study to find out to which degree its peatland forests could be managed by using methods of continuous cover forestry, thereby improving water protection and carbon sequestration in these areas. The study was spurred by new research findings, stakeholders' more critical views of current forestry methods on peatlands, and the significant role of peatlands in carbon capture and storage. As a result of the study, Tornator wants to diversify the choice of silvicultural methods in peatland forests to be able to better consider all aspects of sustainable forestry.

Expanding the range of silvicultural methods is also justified by the fact that, in terms of forest regeneration, peatlands are far more complex than mineral soils. This means that even in one area there is a lot of variation in peat thickness, nutrient balance and water conditions, and it is not

necessarily possible to treat the whole area with one silvicultural method only. In peatland areas that are well suited for timber growing, Tornator maintains and improves forest growth while caring for the water economy through ditch network maintenance. Some sites can be treated with wood-ash fertilisation which is a good way to recycle nutrients and to increase peatland forest growth in the long term. On the other hand, sites that have rich biodiversity or poor growth potential are assigned to conservation or restorative measures.

In fact, Tornator believes that peatland forests should be managed using the best-suited approach to each particular situation – from mire conservation to efficient forestry. The company wants to take a broader look at the advantages of various methods, making economic benefits derived from forests one indicator besides their ecological and social benefits.



“We want to diversify silvicultural methods in peatland forests to be better suited for various sites and situations.”

Maarit Sallinen,
Forestry Manager,
Tornator Oyj

AN ADVOCATE FOR SUSTAINABLE USE OF FORESTS

Tornator's environmental responsibility is materialised in the sustainable use and protection of forests. Through its good forest management and promotion of forest biodiversity, Tornator generates well-being widely, and contributes to the fight against climate change by increasing the carbon sinks and stores of forests.

Sustainable utilisation of forests is at the core of Tornator's business. The company wants to increase the value of its forest assets in the long term, with full respect for environmental values. The company's operations are guided by its own environmental principles, the legislation of the respective countries of operation as well as the PEFC and FSC certification criteria. Double certification is an indication of Tornator's commitment to responsible forestry, and it helps secure a sustainable level of annual cut. For Tornator, sustainable forestry also means a balance between the economic utilisation of forests and their ecological and social benefits.

Forests help fight climate change

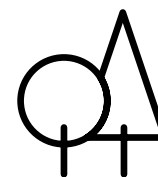
Tornator has a significant role in the fight against climate change due to the high carbon capture and storage capacity of its forests. The company's forests capture about four million tonnes of CO₂ from the atmosphere per year. Carbon sequestration is enhanced through regular silvicultural treatments, for example thinning and regeneration felling, the use of improved regeneration materials as well as fertilisation. Tornator's business that is based on the growing of high-grade logs is also a good thing in terms of maintaining carbon stocks. The CO₂ emissions of Tornator's own forestry supply chains amount to some 0.002 million tonnes of per year.

Extensive measures to safeguard biodiversity

The key positive impacts of Tornator's operations on the environment and communities are related to a better carbon sequestration capacity of growing stock resulting from forest management, active nature conser-

vation work as well as maintenance of the forest road network, which enables the extensive utilisation of ecosystem services in the company's forests. Negative impacts include changes to biodiversity due to forest management as well as impacts on water systems caused by soil preparation, which is necessary for forest regeneration, and ditch maintenance. Tornator strives to actively mitigate and control negative environmental impacts from its operations through continuous assessment, best practices and development of more environmentally friendly methods. The impacts and quality of operations are also monitored annually by a third-party auditor and authorities.

Conservation is important in generating well-being. Tornator's forests are home to threatened species which are taken into consideration according to their respective conservation requirements and management recommendations. Tornator also actively promotes forest biodiversity by establishing new conservation areas and performing nature management in its commercial forests. In 2018, Tornator established 540 hectares of new conservation areas. Besides the increase in conservation areas, priorities of the reporting year included restoration projects, prescribed burning and participation in joint environmental management projects. During the year, the company also invested in water protection by training its Planning Experts. Care for forest biodiversity and good forest management are also important for Tornator in terms of preventing forest damage.



**AN EXPERT IN
SUSTAINABLE
FORESTRY**

KEY ACHIEVEMENTS 2018

- New conservation areas, total 540 ha
- Mire restoration through joint projects and own actions on more than 70 ha
- Fertilisation investments to enhance forest growth and carbon sequestration on 7,300 ha
- Prescribed burning on 63 ha
- A simulation study on the change of carbon balance in Tornator's forests

GOALS 2019

- Promote forest conservation as well as carbon capture and storage
- Further develop carbon calculation
- Continue voluntary mire restoration
- Diversify silvicultural methods on peatlands
- Actively promote LIFE co-operation projects



The mark of
responsible forestry





Sixten Sunabacka,
CEO, Tornator Oyj

Q & A: JUSTIFICATION TO USE FORESTS

Q: What is Tornator's view of the debate to ban clearcutting?

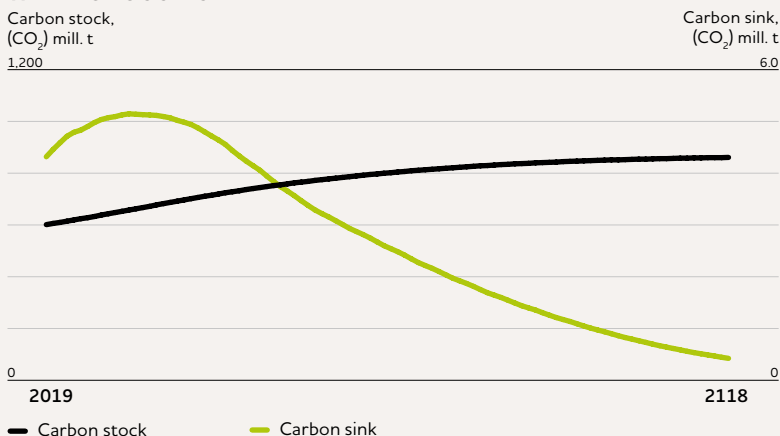
A: Banning clearcutting by law would significantly narrow down the choice of methods in forestry. It would also affect profitability through lower wood prices and smaller felling volumes. Furthermore, forest regeneration would not benefit from the use of improved seedlings which increases tree growth and carbon sequestration and reduces risks of forest damage.

It is important to use the best possible method on each site. Forest owners shall be able to decide, on the basis of their own goals, which methods are best for their forests. Various bans and tight regulations may be restrictive, and do not necessarily work in the best possible way in practice.

Q: How much clearcutting does Tornator do in its forests?

A: Tornator performs regeneration felling on some 1.5 percent of its forest area annually. Regeneration felling refers not only to clearcutting, but also to natural regeneration and uneven-aged forest management. Clearcutting does not imply that all trees are removed from the area. Groups of retention trees are left there, both to secure biodiversity and for landscape reasons. Valuable habitats are also left intact.

SIMULATION OF CARBON BALANCE IN TORNATOR'S FORESTS WITH NO LOGGING AT ALL



Tornator started carbon calculations of its forests in 2017. In these calculations, the company utilises research results and calculation models based on various studies and commonly used in Finland.

If forests were not logged and managed, both carbon sink and stock would increase for some time, but relatively soon the carbon sink would start to decline and after a few decades the carbon stock would hardly increase anymore. Calculations have been made without the possibility to consider effects such as reduction in carbon sinks and stocks caused by ill health of forests due to damage (by insects, fungi, wind and snow). The chart is indicative only.

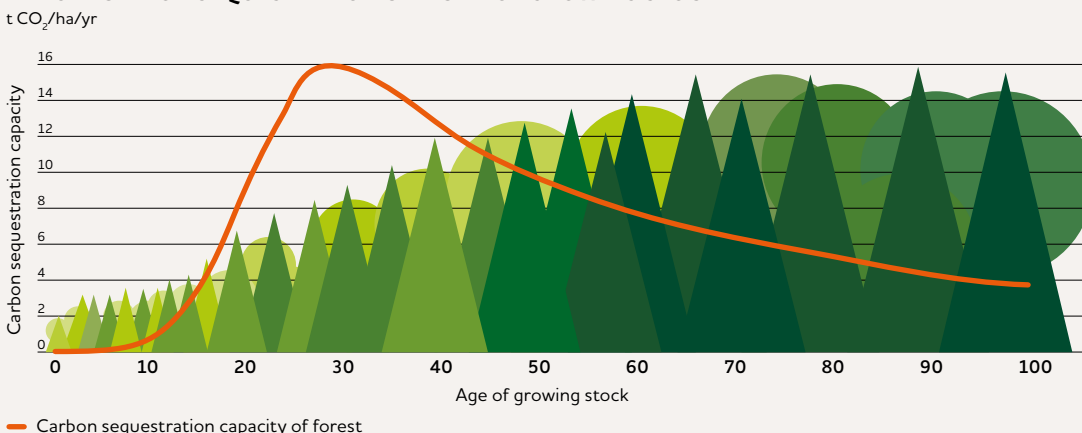
In forests, carbon is absorbed and stored in trees, undergrowth, peat and soil.

Carbon sequestration of forests = The ability of forests (trees and other vegetation) to capture carbon from the air through photosynthesis

Carbon sink of forests = The difference of carbon sequestration of forests, natural carbon release and carbon removed in logging

Carbon stock of forests = Carbon stored in trees, other biomass and soil of forests

ANNUAL CARBON SEQUESTRATION CAPACITY OF GROWING STOCK*



FOREST SEQUESTERS CARBON BEST AT ABOUT 30 YEARS OF AGE

* Average situation in southern Finland when forest is managed according to the Best Practices for Sustainable Forest Management, using improved seedlings and periodic cover silviculture.

Q: How does Tornator ensure that its felling volumes are sustainable?

A: Tornator monitors and simulates the development of its forests systematically. The best research information available is used in the simulations and the felling volume is set so that operations are sustainable. FSC and PEFC certification as such also verifies that the company's operations are ecologically, socially and economically sustainable.

Q: The Intergovernmental Panel on Climate Change, IPCC, published its latest report in 2018. What is Tornator's view of its outcome?

A: We agree with the IPCC that it is of utmost importance to reduce fossil fuels and materials, because they increase the amount of CO₂ in the atmosphere. Forests are significant carbon sinks and stores but, to remain as sinks and vital stores, they require care and sustainable utilisation. This is what people tend to forget.

Q: How is it possible to slow down global warming by using forests?

A: In the fight against climate change, the sustainable use of forests is part of the solution. The use of fossil raw materials can be replaced with renewable wood-based products. In addition, carbon is stored for a long time in many kinds of products made of wood. By recycling and using wood products for energy at the end of their life cycle, positive climate effects are also achieved.



A SUBSTANTIAL CONSERVATION AREA ESTABLISHED IN ILOMANTSI



TOTAL SIZE
341
HECTARES

Tornator established a substantial private nature conservation area with a total size of 341 hectares at Valkeajärvi, Ilomantsi. The protected area is valuable in terms of geology and landscape, and includes conservation designations of land-use plans as well as Natura and METSO sites.

“Tornator wants to make this a concrete example of how a forest owner can maintain a balance between the economic utilisation of forests and their ecological and social benefits. Tornator’s mission is to generate well-being extensively through sustainable use of forests and forest conservation while demonstrating its responsibility in practice,” comments Tornator’s CEO Sixten Sunabacka.

The conservation area has several sites of antiquities, mainly settlements related to a prehistoric hunting and fishing culture. In addition, the natural beauty of the area provides a great setting for the recreational use of forests.

EMPLOYEES WHO DEVELOP TOGETHER

For Tornator, responsible human resource management means above all caring for the well-being, motivation and safety of employees who work independently and towards targets. In the rapid change of work and the business environment, Tornator invests more and more in the development of employees' skills as well as opportunities of digitalisation.

Tornator's human resource objectives for 2018 were to improve openness and transparency as well as equality, to develop target orientation and value-based leadership, and to increase employee empowerment. During the reporting year, several actions were taken to achieve these objectives, one of them a new pay and reward system adopted at the beginning of the year. The new model of remuneration is Tornator's own and it is the same for all salaried employees, regardless of their collective agreements. With this model, the company wanted to make pay not only more equal, but also more open and incentive.

During the year, the increase in openness and empowerment at Tornator was also seen in the form of new discussion and feedback channels. The purpose of these channels is to increase dialogue between organisational units and people as well as to promote low-threshold ways of bringing out things. The results of the employee satisfaction survey of 2018 show that the feeling of equality has increased in the company, but sharing information and building a culture of dialogue still require practice and effort in the years to come.

Contracting on the increase

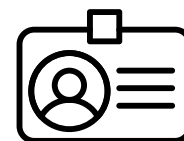
Tornator's personnel in Finland includes 60 forest workers and 63 salaried employees, totalling 123 persons. The company also has eight employees in Estonia and 46 employees in Romania. During the reporting year, the number of forest workers employed through contracting

companies increased with the retirement of Tornator's own workers. 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.

A diversity of well-being at work

Maintaining high levels of employee well-being and satisfaction is an important area of responsibility that receives major attention at Tornator. The well-being of employees is cared for by providing high-quality occupational health care as well as encouraging employees in healthy working practices. During the reporting year, Tornator also introduced an electronic pass to sports, cultural and wellness services for employees.

The company's foremost indicator of employee well-being and satisfaction is the annual Group-level employee satisfaction survey. Thanks to the multitude of feedback received from the survey, Tornator readily obtains information of any issues that employees experience regarding well-being and satisfaction, and is able to take corrective action rapidly. The average grade of the employee satisfaction survey of 2018 was 4 out of 5, i.e., it remained at an excellent level.



A PROGRESSIVE AND SAFE WORKPLACE

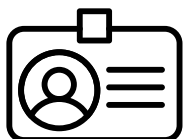
KEY ACHIEVEMENTS 2018

- Keeping employee satisfaction high, even though it was a demanding year for employees in many ways
- Opening of new discussion and feedback channels
- Adoption of a new pay and reward system
- Transfer of safety observations on a mobile platform

GOALS 2019

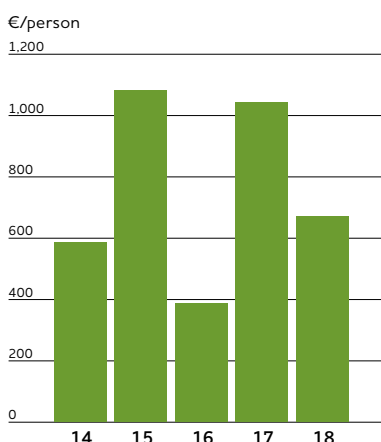
- Continuously develop human resources to meet new strategy requirements
- Continue leadership training programme and further develop supervision skills
- Make information sharing and management systematic and culture of dialogue a part of everyday work
- Develop new digital tools and practices





“For a fairly small organisation such as Tornator, developing skills and exploiting the opportunities of digitalisation are key success factors.”

HUMAN RESOURCE DEVELOPMENT IN FINLAND



Continuous development of skills and tools

Current changes in the business environment and working life have essential impacts on Tornator's operations and set new kinds of demands to developing practices. For a fairly small organisation such as Tornator, developing skills and exploiting the opportunities of digitalisation are key success factors. Human resource development at Tornator is largely based on individual development discussions that are conducted twice a year to review each employee's performance and skills development needs. Besides the traditional development discussions, the company wants to put more emphasis on continuous dialogue and feedback between supervisors and workers.

During the reporting year, digital technology was strongly present in both human resource development and new tools. Tornator trained employees especially in the use of new digital tools as well as information sharing. The company also continued investing in occupational safety by adopting a mobile platform for safety observations. Digital technology and employee development are also priorities in Tornator's forthcoming strategy which is aimed at securing the technologies and capabilities essential to the company's future success.

Average hours of training per employee

	Finland	Estonia	Romania
All employees	28.5	48	89
Men	27	54	92
Women	30	24	76
Salaried employees	37	48	89
Management	70	-	-
Forest workers	17	-	-

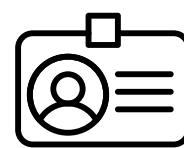
Total number and rates of new employee hires and employee turnover

	Finland	Estonia	Romania
Number of employment contracts signed	17	0	12
Number of employment contracts terminated	25	0	13
Employment contracts terminated by employer, %	1	0	0
Total employee turnover*, %	9.6	0	5.6
Average number of employees in 2018	136	8	38
Total number of employees at 31 Dec 2018	128	8	36

* 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.



▲ In July, Tornator mobilised a team to help Stora Enso fight and mop up after the extensive forest fires that raged through central Sweden. The team included forestry professionals from Tornator as well as contracting companies.



**RESPONSES TO
EMPLOYEE WELL-
BEING SURVEY
AVERAGED**

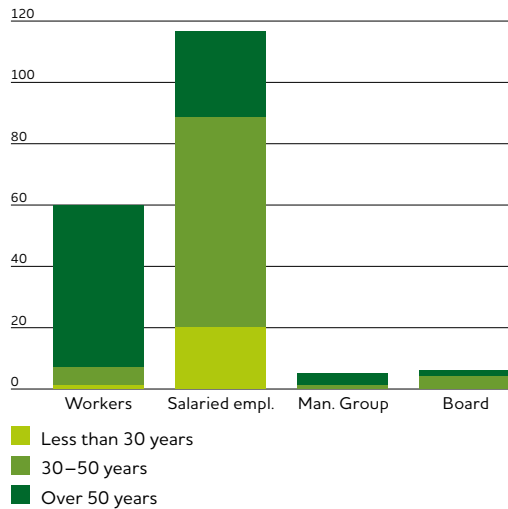
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**WORKERS
RATED
SUPERVISION AT**

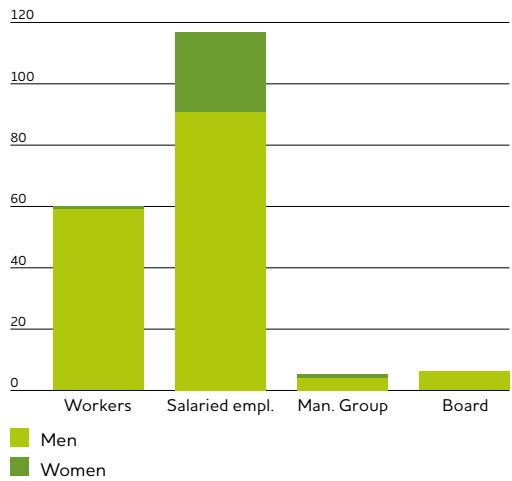
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PERSONNEL

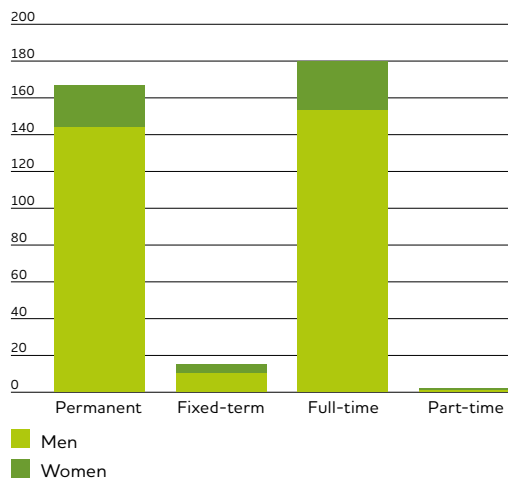
AGE STRUCTURE OF EMPLOYEES



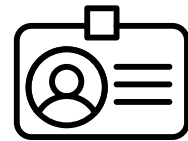
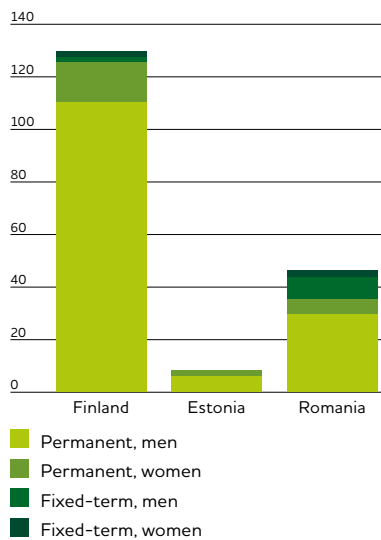
GENDER DISTRIBUTION OF EMPLOYEES



EMPLOYMENT TYPES OF EMPLOYEES



EMPLOYMENT TYPES OF EMPLOYEES BY COUNTRY



SICKNESS ABSENTEEISM IN THE GROUP WENT DOWN BY
1.1%

NUMBER OF DAYS LOST DUE TO ACCIDENTS WAS HALVED

Occupational accidents and sickness absenteeism

	2017			2018		
	Finland	Estonia	Romania	Finland	Estonia	Romania
Sickness absenteeism						
Men, %	4.1	0.3	3.4	3.6	0.0	1.0
Women, %	5.5	0.2	1.7	2.0	0.0	2.0
Accidents, own employees						
Number of accidents resulting in lost days, men	4	0	0	4	0	0
Number of accidents resulting in lost days, women	0	0	0	2	0	0
Number of days lost due to accidents, men	59	0	0	30	0	0
Number of days lost due to accidents, women	0	0	0	5	0	0
Number of fatalities	0	0	0	0	0	0

CORPORATE GOVERNANCE

Ownership and corporate structure

In 2018 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 ten 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's strategy, investments, organisation and finance. The Board of Directors convenes at least four times a year. In 2018 the Board had ten 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 three 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 2018 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 2018 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. Operational managers are invited to the Management Group's meetings as necessary.

Operational activities

Operational activities are arranged as a process organisation. The core processes are: planning, timber sales, real estate, silviculture and environment. 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. 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

Tornator Oyj's shareholders

	Shares, qty	Shares, %
Stora Enso Oyj	2,050,000	41.00
Ilmarinen Mutual Pension Insurance Company	1,156,500	23.13
Varma Mutual Pension Insurance Company	766,250	15.32
OP Life Assurance Company Ltd	260,500	5.21
OP Forest Owner Fund	250,000	5.00
OP Pension Fund	208,000	4.16
Veritas Pension Insurance	125,000	2.50
Finnair Pension Fund	108,750	2.17
Riffu Oy	37,500	0.75
Danilostock Oy	37,500	0.75
Total	5,000,000	100

Tornator Timberland Group

10 shareholders	
Tornator Oyj Finland 616,000 ha	
SC Tornator SRL Romania 12,000 ha	Tornator Eesti OÜ Estonia 65,500 ha

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 guidelines, 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 use of wood has increased and 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 has increased 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.

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 is redefining its national criteria and Tornator is closely involved in the process.

Forestland purchasing includes risks, and the success of investment is often discovered after a long time. The forest resources and structure of the estate to be purchased are determined using highly advanced technology, but some decisions must still be made on estimates. The pricing of estates is based on clear criteria, but the pricing and underlying appraisals may have an effect on the success of purchases in terms of returns.

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

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

projects before construction and remains the lessor of land.

When utilising forest resources Tornator manages risks to the environment by complying with environmental legislation and certification criteria. Risks are discussed in employee training and induction, and minimised with careful planning of operations and a high standard of implementation.

What may also be considered a risk are significant new statutes or other factors impeding operations. An example of this is the EU-level discussion on regulation to restrict forestry. In managing risks, it is important to co-operate with authorities and various NGOs as well as to actively participate in societal debate. Tornator pursues open communication with an emphasis on responsibility and other corporate values.

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, the company collaborates with educational institutions and recruits proactively. The risk is also managed with active HR management and development.

Tornator's goal is to continue expanding its operations also outside Finland in countries where the growth potential is considered profitable. Geographic expansion is both a way to manage risks 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 increased by climate change pose an ever-greater risk to forest assets. For Tornator, the size and geographic extent of its holdings, the good health and growth of the forests as well as the measures required by the Act on Prevention of Forest Damage 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 also be considered a 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. 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, liquid and highly rated funds.

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



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



Mikko Mursula

Born 1966, MSc (Econ)
Deputy Chairman 2017–
Ilmarinen, Deputy CEO, Investments 2018–

Background:

Ilmarinen, Chief Investment Officer 2015–2018
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, managerial and investment positions 2000–2010

Membership on other boards of directors:

Kojamo Oyj, member of the Board
Jane and Aatos Erkko Foundation, member of the Board



Erikko Rynnänen

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

Background:

OP Bank Group, investment and portfolio management positions 1999–

Membership on other boards of directors:

Amplus Holding Oy, member of the Board
Probus Holding Oy, member of the Board
OP Property Management Ltd, member of the Board
Access Capital Partners SA, member of the Board
Suomen Metsäsijoitus Oy, member of the Board
Eläkesäätiöyhdistys, member of the Board



Jari Suominen

Born 1969, MSc (Econ)
Member 2015–
Stora Enso Oyj, Executive Vice President, Wood Products Division 2014–

Background:

Enso Oy / 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
CEI-Bois, member of the Board

Deputy members:

Markus Aho, Varma
Antti Palkén, OP (–6/2018)
Jari Suvanto, Stora Enso
Ilja Ripatti, Ilmarinen



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



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



Ari Karhapää

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

Background:

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



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



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

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 €112.8 million (101.6), up 11.0%. The growth was due to increases in felling volumes and market prices for wood. However, the average price was affected somewhat by snow damage. Most of the net sales were timber sales income, €107.1 million, 94.9% (€94.8 million, 93.3%). Net sales include proceeds from land and plot sales worth €3.5 million (5.6) and forest service sales for €2.2 million (1.2). Other operating income, €6.6 million (4.9), includes land access and lease revenues, compensation for conservation areas and soil resource sales.

Operating profit at fair value amounted to €116.5 million (92.4) and profit for the period was €78.9 million (77.9). In the previous year, the fair value of biological assets increased in all operating countries, which in part accounts for the change in operating profit. In the financial statements, the change in the fair value of biological assets increased operating profit by €32.6 million (20.0), and a negative change in the fair value of financial instruments decreased profit by €1.6 million (+26.3) 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 16,000 hectares in Finland and nearly 4,000 hectares in Estonia. Tornator continued the responsible management of its forests in Romania, and the development of sustainable business, combined with a

high demand for wood, improved the company's profitability from the previous year. Tornator's forests in Finland and Estonia are double-certified (PEFC, FSC), and its forests in Romania hold the FSC certificate.

Tornator set a record in its core business, i.e., timber sales and delivery, in all three operating countries in 2018. The high demand for wood was reflected in a high average price of deliveries. Timber deliveries to the main customer totalled some €79.5 million (63.5), or some 74.2% (67.0%) 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 has other long-term timber sales agreements in Finland and Estonia.

Early in the year in Finland, Tornator's forests were affected by major snow damage, which is reflected in the financial statements. Net timber sales include €2.5 million in forest insurance compensation, i.e., the damage surpassed the excess (€5 million).

Improvement of competitiveness was continued within the productivity programme. The four-year programme was targeted to improve productivity by €5 million by the end of 2018. Cost savings were realised, but not all additional revenue targets were achieved. However, the positive effect of the programme totalled more than €4 million.

An update of the fair value of Tornator's forest assets (growing stock) recorded positive effects in all operating countries. The increase in sustainable felling potential combined with other valuation factors increased the fair value of forests in the balance sheet by €80 million. The annual fair value update, which is based on several valuation factors, improved operating profit by €32.6 million. Due to the timber deliveries made during the period, the figures cannot be directly derived to the income statement / balance sheet. In

Finland, the fair value was calculated by an external evaluator, Indufor Oy, on the basis of the future cash flows, i.e., considering sustainable forest management and the growth potential of the forests. The acquisition of new forestland and inputs in increasing forest growth enabled raising the sustainable annual cut.

The total value of the Group's forests in the financial statements was some €1,539 million (1,454), 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 693,000 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 decreased due to the fall in market interest rates. This created a negative entry of €1.6 million in financial items in the income statement (+26.3). The above fair value changes had no effects on cash flow.

For forestland investments, Tornator utilised competitive bank loan funding. In addition to the bank and commercial paper funding, totalling some €300 million, Tornator has a secured bond of €250 million listed in the Helsinki Stock Exchange, and an unsecured debenture loan of €65 million. Due in December 2019, the bond is recorded in the financial statements under short-term bonds. A binding security will be arranged for the repayment of the bond in good time before the due date.

Tornator's equity ratio was 44% (43%) and liquidity remained strong throughout the year. The company met its loan covenants within safe margins.

Tornator Oyj's Annual General Meeting of 7 March 2018 decided to pay dividend, as proposed by the Board of Directors, for a total of €28.5 million.

Consolidated income statement, IFRS

€m	2014	2015	2016	2017	2018
Net sales	90.7	113.6	97.0	101.6	112.8
Other operating income	4.3	3.6	3.1	4.9	6.6
Change in inventories of finished goods and work in progress	-1.2	-13.8	-3.4	-2.9	-1.0
Materials and services	-12.9	-11.6	-12.4	-14.4	-17.0
Personnel expenses	-9.4	-8.6	-8.4	-8.3	-8.4
Depreciation and amortisation	-2.6	-2.8	-3.1	-3.3	-3.1
Other operating expenses	-6.3	-5.2	-5.1	-5.1	-6.0
Share of profit/loss of associates	0.0	-0.6	-0.4	-0.1	0.0
Change in fair value of biological assets and harvesting	2.4	-18.1	202.6	20.0	32.6
Operating profit	65.0	56.4	269.8	92.4	116.5
Financial income	0.0	0.1	0.2	0.2	0.2
Financial expenses	-26.1	-20.7	-20.7	-21.9	-22.7
Change in fair value of financial instruments	-71.4	12.4	-32.5	26.3	-1.6
Financial items (net)	-97.5	-8.2	-53.1	4.6	-24.2
Profit/loss before taxes	-32.4	48.2	216.7	96.9	92.3
Income taxes	-7.0	-9.9	-9.3	7.1	-3.1
Change in deferred taxes	12.4	0.8	-34.5	-26.2	-10.4
Profit/loss for the period	-27.0	39.1	172.9	77.9	78.9

Consolidated balance sheet, IFRS

€m	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018
ASSETS					
Non-current assets					
Intangible assets	3.7	3.3	2.6	2.4	1.9
Fixed assets	82.9	85.9	86.9	98.5	103.7
Biological assets	1,047.4	1,045.4	1,256.9	1,371.2	1,451.0
Derivatives	8.9	8.9	8.9	6.2	0.0
Other investments	0.0	0.2	0.2	0.1	0.1
	1,142.9	1,143.7	1,355.5	1,478.4	1,556.7
Current assets					
Inventory	4.1	3.3	2.3	0.6	0.4
Trade and other receivables	5.4	4.9	5.6	15.3	15.5
Derivatives					3.3
Other financial assets	9.6	8.1	7.6	1.9	1.0
Cash and cash equivalents	28.9	20.9	10.2	13.9	14.0
	47.9	37.1	25.6	31.7	34.3
Total assets	1,190.8	1,180.8	1,381.1	1,510.1	1,591.0
EQUITY AND LIABILITIES					
Equity attributable to parent company shareholders					
Share capital	50.0	50.0	50.0	50.0	50.0
Other equity	381.0	403.3	551.1	602.1	652.5
Total equity	431.0	453.3	601.1	652.1	702.5
Non-current liabilities					
Deferred tax liabilities	96.0	96.4	132.1	150.8	161.2
Financial liabilities	472.0	466.8	462.7	494.4	258.1
Derivatives	107.6	86.2	116.4	91.4	93.0
Pension obligations	0.3	0.3	0.3	0.3	0.2
	676.0	649.6	711.6	736.9	512.6
Current liabilities					
Financial liabilities	61.5	51.5	51.5	104.4	352.9
Derivatives	0.1	4.0	0.0	0.0	1.1
Trade and other payables	22.1	22.3	16.9	16.6	22.0
	83.8	77.8	68.3	121.1	376.0
Total liabilities	759.8	727.4	779.9	858.0	888.5
Total equity and liabilities	1,190.8	1,180.8	1,381.1	1,510.1	1,591.0

Statement of changes in shareholders' equity

€'000	Share capital	Share premium	Translation differences	Fair value reserve	Retained earnings	Total equity
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)				23.2		23.2
Translation differences			-1,060.8			-1,060.8
Investments in unlisted securities				-3.3		-3.3
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
Balance at 1 January 2018	50,000.0	29,995.2	-8,547.2	-156.8	580,830.3	652,121.4
Comprehensive income						
Profit/loss for the period					78,881.1	78,881.1
Transfers between items				156.2	-156.2	0.0
Other items of comprehensive income (after taxes)						
Remeasurement of net defined benefit liability (or asset)					20.8	20.8
Translation differences			-49.3			-49.3
Investments in unlisted securities				0.6		0.6
Comprehensive income for the period	0.0	0.0	-49.3	156.8	78,745.7	78,853.2
Transactions with shareholders						
Dividends paid					-28,500.0	-28,500.0
Total transactions with shareholders					-28,500.0	-28,500.0
Balance at 31 December 2018	50,000.0	29,995.2	-8,596.5	0.0	631,075.9	702,474.6

Consolidated cash flow statement

€m	2014	2015	2016	2017	2018
Cash flow from operating activities					
Cash receipts from customers	76.9	81.1	82.8	95.4	102.7
Proceeds from sale of tangible assets	11.1	30.8	8.3	5.6	3.5
Cash receipts from other operating income	4.2	3.5	3.4	3.6	6.8
Cash paid to suppliers and employees	-27.2	-25.6	-25.4	-27.2	-30.6
Cash flow from operating activities before financial items and taxes	65.0	89.8	69.2	77.4	82.3
Interest paid and other financial expenses	-25.3	-20.8	-20.1	-21.4	-21.9
Interest received	0.0	0.1	0.2	0.2	0.2
Income taxes	-6.9	-6.8	-10.5	-10.1	7.5
Net cash flow from operating activities	32.8	62.3	38.7	46.0	68.1
Cash flow from investing activities					
Investments in biological assets	-25.1	-28.3	-11.2	-96.2	-47.9
Investments in tangible assets, forestland	-3.1	-3.5	-1.4	-11.9	-5.9
Investments in other tangible and intangible assets	-3.3	-3.4	-2.3	-2.6	-2.1
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 fund units	-2.2				
Proceeds from sale of fund units		1.6	0.5	5.6	0.9
Net cash flow from investing activities	-33.7	-34.5	-14.8	-104.7	-55.0
Cash flow from financing activities					
Withdrawal of long-term loans	150.0	0.0	0.0	40.0	25.0
Repayment of long-term loans	-145.6	-4.7	-4.6	-4.6	-4.6
Withdrawal of short-term loans	17.0	57.0	0.0	53.0	0.0
Repayment of short-term loans	0.0	-67.1	0.0	0.0	-5.0
Dividends paid	-22.0	-21.0	-30.0	-26.0	-28.5
Net cash flow from financing activities	-0.6	-35.8	-34.6	62.4	-13.1
Net increase/decrease in cash and cash equivalents	-1.4	-8.0	-10.7	3.8	0.1
Cash and cash equivalents at beginning of period	30.3	28.9	20.9	10.2	13.9
Cash and cash equivalents at end of period	28.9	20.9	10.2	13.9	14.0

Summary of financial statements

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

	2014	2015	2016	2017	2018
Net sales, € million	90.7	113.6	97.0	101.6	112.8
Operating profit, € million	65.0	56.4	269.8	92.4	116.5
Operating profit without change in fair value of biological assets, € million	62.6	74.5	67.2	72.4	83.9
Operating profit without change in fair value of biological assets, % of net sales	69.0	65.6	69.3	71.2	74.4
Profit/loss for the period, € million	-27.0	39.1	172.9	77.9	78.9
Profit/loss for the period without fair value changes, € million	29.6	44.0	37.3	40.9	49.7
Profit/loss for the period without fair value changes, % of net sales	32.7	38.8	38.5	40.3	44.0
Shareholders' equity, € million	431.0	453.3	601.1	652.1	702.5
Interest-bearing net liabilities, € million	495.0	489.3	496.5	583.0	596.0
Balance sheet total, € million	1,190.8	1,180.8	1,381.1	1,510.1	1,591.0
Return on capital employed without change in fair value of biological assets, %	6.5%	7.7%	6.5%	6.1%	6.6%
Return on equity without fair value changes, %	6.5%	10.0%	7.1%	6.5%	7.3%
Equity ratio, %	37.2%	38.6%	43.7%	43.3%	44.4%
Dividends paid, €/share	4.4	4.2	6.0	5.2	5.7
Dividend yield, %	4.8%	4.7%	5.7%	4.1%	4.2%
Average number of personnel	217	213	200	189	182
Personnel expenses, % of net sales	10.4%	7.6%	8.7%	8.1%	7.5%
Investments in forestland, € million	28.2	31.8	12.6	108.1	53.8
Investments in other fixed assets, € million	3.3	4.3	2.7	2.6	2.1
Annual cut, million cubic metres	2.8	2.7	3.0	3.0	3.2
Fair value of forests, € million	1,115.4	1,115.4	1,328.0	1,454.0	1,539.5
Gross proceeds from land sales, € million	10.8	30.8	8.3	5.6	5.6

Financial ratios

	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018	Max./Min.
Equity ratio, %	39%	44%	43.3%	44.4%	
Average interest rate, %	3.9%	3.9%	3.8%	3.6%	
Hedge ratio, %	80%	80%	68%	67%	
Average loan maturity, years	3.6	2.7	2.0	1.2	
Average fixing time, years	2.1	1.6	1.0	0.6	
Gearing ratio, %	81.9%	64.7%	72.2%	69.2%	150%
Debt service coverage ratio (DSCR)	3.2	2.3	2.5	3.4	1.1
Loan-to-value (LTV) ratio, %	49.1%	39.4%	43.6%	43.9%	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	2014	2015	2016	2017	2018
Long-term bonds	250.0	250.0	250.0	250.0	0.0
Long-term bank loans	145.5	141.0	136.5	172.0	192.5
Long-term debenture loan	65.0	65.0	65.0	65.0	65.0
Short-term bonds					250.0
Current portion of long-term loans	4.5	4.5	4.5	4.5	4.5
Short-term bank loans and commercial papers	57.0	47.0	47.0	100.0	95.0
All loans	522.0	507.5	503.0	591.5	607.0
Net financial expenses	97.5	8.2	53.1	-4.6	24.2
Net financial expenses without fair value changes	26.0	20.6	20.6	21.7	22.5
Net financial expenses without fair value changes, % of net sales	28.7%	18.1%	21.2%	21.4%	20.0%
Average interest rate, %	5.2%	3.9%	3.9%	3.8%	3.6%

Sensitivity of interest rate risk

Effects of one percentage point changes in yield curve on the company's income statement

	31 Dec 2018
€m	Income statement
One percentage point increase in market interest rates	61.6
One percentage point decrease in market interest rates	-76.5

Calculation of key figures

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

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

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

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

Reporting principles

This report is based on the Global Reporting Initiative's GRI Standards for sustainability reporting, the Core option. The reporting period is the calendar year, 1 January – 31 December 2018, and the report is published annually.

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 7 March 2018.

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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Material topic	GRI Standard	Topic boundary
Sustainable utilisation of natural resources	<ul style="list-style-type: none"> • Water and effluents • Biodiversity • Non-compliance with environmental laws and regulations 	Tornator Group, except for the 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	Back cover	
102-2	Activities, brands, products, and services	Tornator in brief, second cover page; Value creation, pp. 14–15	
102-3	Location of headquarters	Reporting principles, p. 51	
102-4	Location of operations	Tornator in brief, second cover page	
102-5	Ownership and legal form	Governance, p. 39	
102-6	Markets served	Tornator in brief, second cover page; Business environment, p. 8	Main customer Stora Enso, additionally SME sawmills.
102-7	Scale of the organisation	The year 2018, pp. 2–3; Profitable growth, p. 18; Summary of consolidated financial statements, p. 49	Waterfront plots sold: 27.
102-8	Information on employees and other workers	Personnel, pp. 35–38	Forest workers have seasonal employment. Number of contractors: 175. Contractors' employees have indefinite or fixed-term employment, number unknown. 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.
102-11	Precautionary Principle or approach	Governance, pp. 40–41	
102-12	External initiatives	Responsibility vision and goals, p. 25; Key sustainability themes, p. 26; Environment, p. 31	
102-13	Membership of associations	Stakeholders, pp. 12–13	
Strategy			
102-14	Statement from senior decision-maker	CEO's review, p. 4	
102-15	Key impacts, risks, and opportunities	Business environment, pp. 8–11; Value creation, pp. 14–15; Key sustainability themes, p. 26; Governance, pp. 40–41	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	Strategy, pp. 16–17; Excellent governance, p. 22; Responsibility management, p. 27	
102-17	Mechanisms for advice and concerns about ethics	Personnel, p. 35	
Governance			
102-18	Governance structure	Responsibility management, p. 27; Governance, p. 39	
Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholders, p. 13	
102-41	Collective bargaining agreements	Personnel, p. 35	
102-42	Identifying and selecting stakeholders	Stakeholders, p. 12	
102-43	Approach to stakeholder engagement	Stakeholders, pp. 12–13	
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	Key sustainability themes, p. 26	
102-47	List of material topics	Responsibility vision and goals, p. 25, Key sustainability themes, p. 26; Reporting principles, p. 51	
102-48	Restatements of information	GRI content index	No restatements.
102-49	Changes in reporting	GRI content index	No significant 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	YContact 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	
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; Society pp. 28–29; Environment, pp. 31–33; Personnel, pp. 35–36	
103-2	The management approach and its components	Responsibility vision and goals, p. 25; Responsibility management, p. 27; Society, pp. 28–30; Environment, pp. 31–34; Personnel, pp. 35–37	
103-3	Evaluation of the management approach	Responsibility vision and goals, p. 25; Key sustainability themes, p. 26; Responsibility management, p. 27; Society pp. 28–30; 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	Society, pp. 28–29	
GRI 205: ANTI-CORRUPTION			
205-2	Communication and training about anti-corruption policies and procedures	GRI content index	Partly reported. No training programme covering all employees. New employees received an introduction to the Code of Conduct.
205-3	Confirmed incidents of corruption and actions taken	GRI content index	No incidents.
GRI 206: ANTI-COMPETITIVE BEHAVIOUR			
206-1	Legal actions for anti-competitive behaviour, antitrust, and monopoly practices	GRI content index	No legal actions.
ENVIRONMENTAL STANDARDS			
GRI 303: WATER AND EFFLUENTS			
303-1	Interactions with water as a shared resource	Environment, p. 31	Partly reported.
GRI 304: BIODIVERSITY			
304-2	Significant impacts of activities, products, and services on biodiversity	Environment, p. 31	Partly reported.
304-3	Habitats protected or restored		Total area of conservation areas 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 2,467 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	One suspected violation of the Forest Act, investigation pending.
SOCIAL STANDARDS			
GRI 401: EMPLOYMENT			
401-1	New employee hires and employee turnover	Personnel, p. 36	No information by age group and gender.
GRI 403: OCCUPATIONAL HEALTH AND SAFETY			
403-2 (2016)	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 53% in Finland and 100% in Estonia. Results: In Finland, contractors had 3 injuries resulting in a total of 6 lost days. In Estonia, contractors had no injuries.
GRI 404: TRAINING AND EDUCATION			
404-1	Average hours of training per year per employee	Personnel, p. 36	
404-2	Programmes for upgrading employee skills and transition assistance programmes	Personnel, p. 36	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 59%.
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
405-1	Diversity of governance bodies and employees	Personnel, p. 38	
GRI 406: NON-DISCRIMINATION			
406-1	Incidents of discrimination and corrective actions taken	GRI content index	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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