Tornator Oyj

Half-year Report
1 January – 30 June 2018

Net sales grow due to investments and responsible business

SUMMARY, 1 January – 30 June 2018 (1 January – 30 June 2017)

- Net sales totalled €52.1 (41.8) million, in which the share of timber deliveries* was €49.9 (39.2) million. Timber deliveries totalled 1.7 (1.4) million cubic metres.
- Reported IFRS operating profit was €28.7 (31.2) million. Operative operating profit improved by 32% to €38.2 (29.0) million.
- Comparable net profit without fair value changes was €+21.7 (+14.9) million and €+13.4 (+36.6) million with fair value changes. The differences were mainly due to changes in the fair values of both forests, €-9.5 (+2.2) million, and financial instruments, €-0.9 (+24.7) million.
- Comparable return on equity was 6.7% (5.0) and return on capital employed 6.1% (5.1). Equity ratio was 42.2% (43.3).
- The fair value of biological assets (forests) was €1,378.1 million (1,371.2 at 31 December 2017).
- Tornator continued to purchase forestland in Finland and Estonia. Nearly 7,000 hectares of new forests were acquired with a total investment of more than €18 million.
- During the first half of the year, the company's conservation and other special nature management measures covered more than 500 hectares.

Key figures (the Group)

	H1/2018	H1/2017	Change, %
Net sales, € million	**52.1**	41.8	25%
Operative operating profit, € million	**38.2**	29.0	32%
Operative operating profit, %	**73.3**	69.3	6%
Operating profit (IFRS), € million	**28.7**	31.2	-8%
Comparable net profit, € million	**21.7**	14.9	46%
Profit for the period (IFRS), € million	**13.4**	36.6	-63%
Comparable return on equity, %	**6.7**	5.0	35%
Return on equity, %	**4.1**	12.1	-66%
Comparable return on capital employed, %	**6.1**	5.1	20%
Return on capital employed, %	**4.6**	5.5	-16%
Equity ratio, %	**42.2**	43.3	-3%
Average number of personnel	**183**	188	-3%

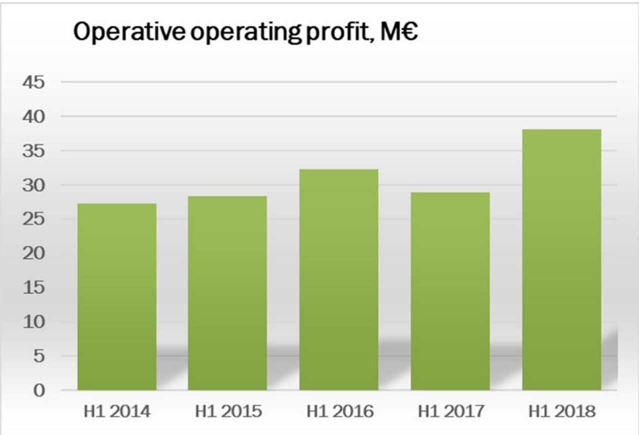
IFRS = International Financial Reporting Standards

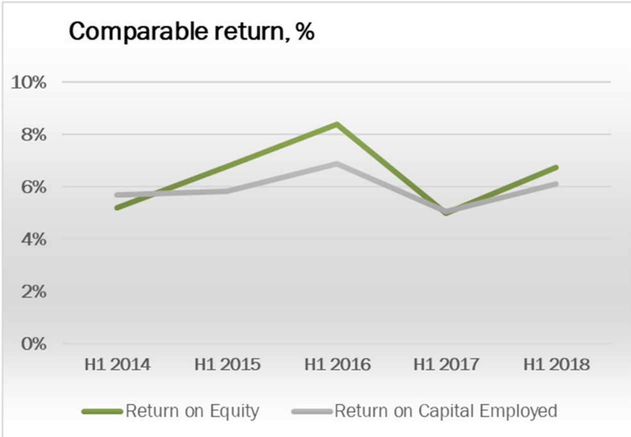
* Timber delivery = A customer harvests marked stands and gains ownership of the timber.

Comparable key figures
In addition to the official figures calculated according to the IFRS, the Tornator Group uses figures that are comparable between different years, thus better describing the success of operations. The comparable key figures have been calculated without fair value changes using the following formula:

Operating profit, IFRS	**28.7**
- Change in fair value of biological assets	+9.5
= Operative operating profit	**38.2**

Profit for the period, IFRS	**13.4**
- Change in fair value of biological assets	+9.5
- Change in fair value of financial instruments	+0.9
- Change in deferred taxes	-1.9
= Comparable net profit	**21.7**





CEO Sixten Sunabacka:
“I am very happy with the results of our investments in growth, profitability and development. The net sales and profitability of our main business, timber sales, improved in all our operating countries in comparison with the same period in the previous year. Strong demand for wood and increasing price level combined with skilled employees provided us well for an excellent performance.

During the first half of the year, we continued growth investments in Finland and Estonia. A total of nearly 7,000 hectares of new forestland was acquired. Our reputation as a reliable, competitive and responsible buyer has clearly spread among forest owners. In forest services we also gained more area to manage; here too, our competitive advantage is the range of benefits that a professional and responsible operator can provide to customers. Tornator also cared for its responsibility through mire restoration, prescribed burning and establishment of conservation areas on more than 500 hectares of its land.

The only major challenge during the first half of the year was snow damage in our forests in northern Finland. In order to prevent ensuing insect damage, we shall need to focus harvesting efforts on the affected areas, which will restrict our timber sales opportunities elsewhere in Finland. The snow damage will lower the average price of delivered timber somewhat, and the final effects will be discovered during the latter half of the year.

In Romania, we celebrated the 10th anniversary of our subsidiary in May. Set in the Carpathian Mountains, the occasion was attended by our own employees and a large group of important local stakeholders, such as the representatives of the Romanian government and the Royal Family as well as the Finnish embassy. We have clearly been able to assure local entities of Tornator’s rigorous commitment to the three pillars of responsibility; economic, social and ecological responsibility are reflected in everything the company does also in Romania.

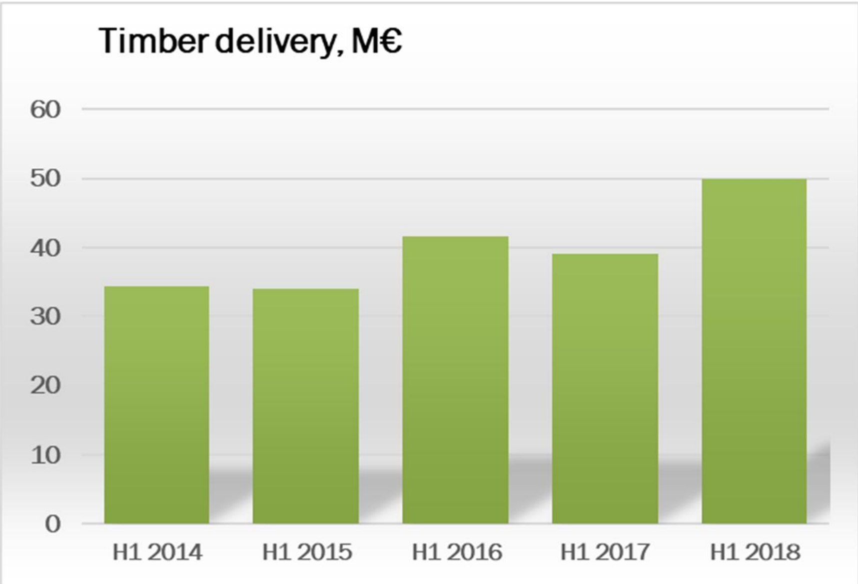
Tornator makes significant efforts to utilise digital information. The Group is running many projects aimed at improving accuracy and effectiveness, for example with the help of new imaging technology, robotics, analytics and reporting. Seizing the opportunities of digitalisation is of utmost importance to develop Tornator as well as the whole industry.

At Tornator, we are already preparing for the new strategy period 2019–2021. Strategy work has been a collaboration of top management and a wide group of key persons in the company. Later in the year, detailed targets will be drafted for the whole organisation to be able to successfully implement the new strategy. 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.

Increased wood demand and prices make for a good foundation for Tornator's growth and profitability for the remainder of the year in all operating countries. Through responsible and professional operations, we have been able to create trust in the company on the forestland market. This is another solid building block to let us continue steady growth despite the tight market."

Notable events during the reporting period

Tornator's timber deliveries were record-high at some 1.7 (1.4) million cubic metres or €49.9 (39.2) million. During the spring, silvicultural work was performed according to plan despite the additional challenges caused to employees and partners by exceptional snow damage.



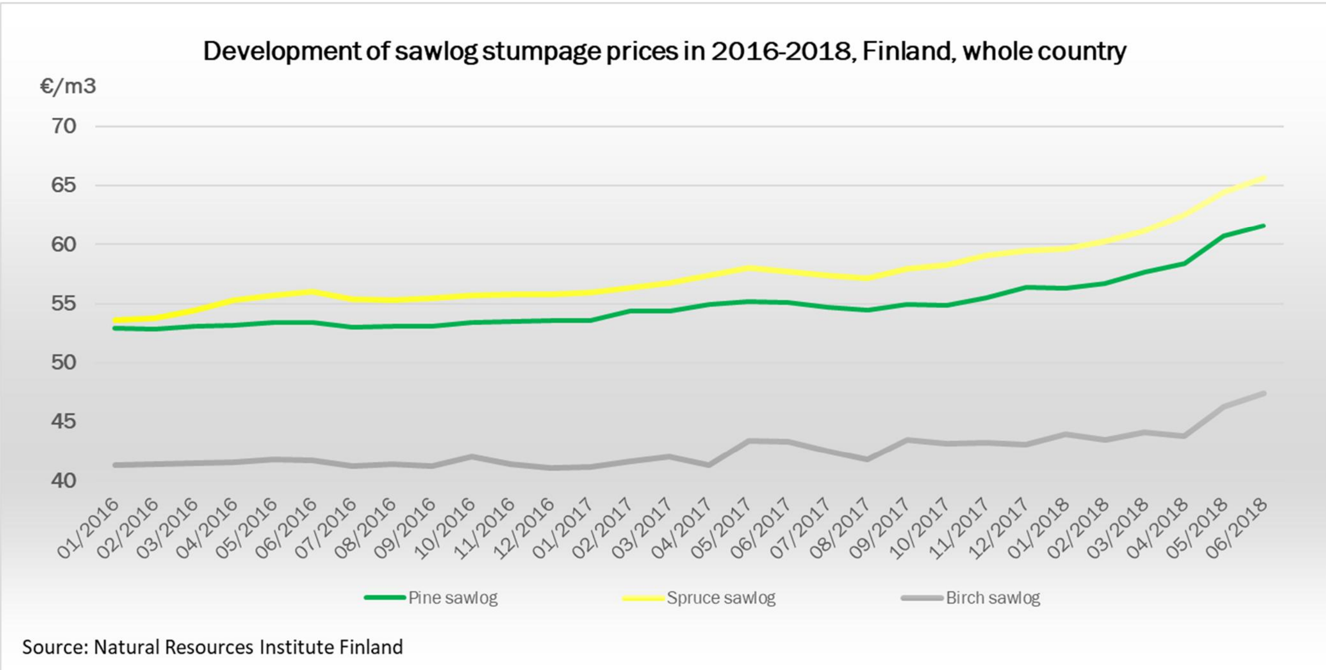
In total, the Group recorded €1.3 (2.2) million in real estate net sales. Net sales of silviculture services doubled to €0.9 (0.4) million.

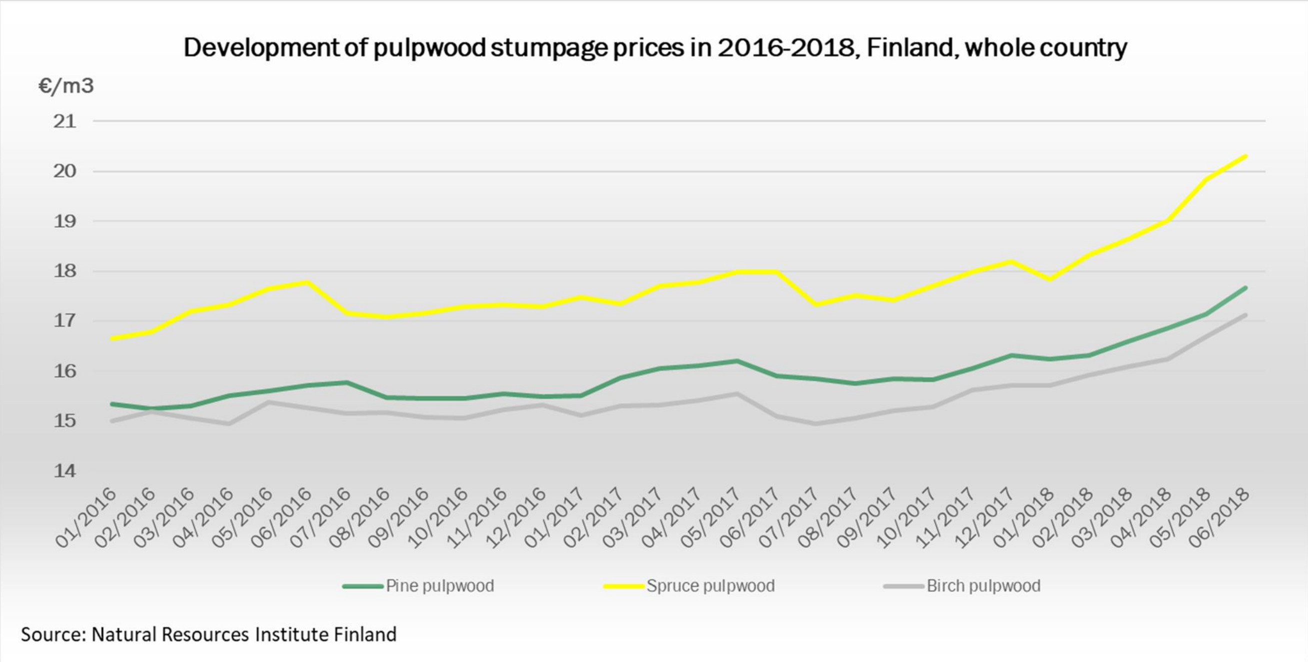
The rise in market interest rates since the beginning of the year turned down by the end of the spring, which had a slightly negative effect on the fair values of Tornator's financial instruments. The profit effect since the beginning of the year was €-0.9 (+24.7) million. At the end of June, the fair value of interest rate derivatives totalled €-84.2 million (-85.3 at 31 December 2017). The fair value of forests at the end of June was € 1,378.1 million (1,371.2 at 31 December 2017).

Business environment

In Finland, wood trade was lively throughout the reporting period. According to statistics by Natural Resources Institute Finland, industrial wood purchases from privately owned forests in January–June totalled 24.6 million cubic metres, which was 22% more than during the same period in two previous years. The total industrial wood harvesting in January–June was some 2.8 million cubic metres (+9%) more than in the previous year.

The high demand for wood was also reflected in unit prices. The average prices in January–June were higher than during the same period in the previous year: 8% for sawlogs and 6% for pulpwood.





Demand for leisure building plots was modest. Demand for forest estates by forest funds and other forestland investors continued to be very high while supply lagged significantly behind.

In Estonia, wood demand showed a clear improvement due to the forest industry investments in Finland and Sweden. Estonian market prices for wood increased sharply during the first half of the year. The supply of forest estates was rather good.

In Romania, wood demand was high and prices continued to rise. The supply of forest properties was meagre.

Finance

The financial position of the Group remained good and cash flow from operations was €32.8 (12.1) million. The latter was increased not only by improved operational profitability, but also by tax refunds received from 2017 (€+9.7 million). The Group’s net financial expenses in January–June were €-12.0 (+14.1) million. The interest-bearing liabilities totalled €612.2 million (598.8 at 31 December 2017), of which €517.7 million (494.4 at 31 December 2017) were long-term and €94.4 million (104.4 at 31 December 2017) were short-term.

The company is prepared for market interest rate changes with interest rate derivatives. The change in the fair value of debt and derivatives was €0.9 million negative (€24.7 million positive), including €-2.8 (+22.7) million for derivatives and €+2.0 (+2.0) million for long-term loans. In addition to the booking on profit and loss statement, a change of €+0.2 million in the fair value of derivatives was booked directly on equity for the same period in the previous year. In the change in the fair value of derivatives, the share of accrued interest booked on interest expenses was €+3.9 (+3.7) million.

During the reporting period, Tornator’s net cash flow from investing activities was €-19.9 (-40.8) million. Net cash flow from financing activities was €-13.5 (+22.0) million. Available-for-sale financial assets and cash and cash equivalents at 30 June 2018 were €15.8 million (15.8 at 31 December 2017). In addition, the company has a commercial paper funding facility and a revolving credit facility totalling €45 million as available financing.

An estimate of future development

Wood demand and harvesting are expected to be high for the whole year in Finland, Estonia and Romania. Finnish and Estonian markets especially show growth in pulpwood demand.

The situation in the forestland market is expected to remain similar to the first half of the year.

Silvicultural work will be continued according to the normal annual cycle and the fertilisation programme will be carried out as planned. To ensure cost-competitiveness, the company will continue to implement its productivity programme in line with the set targets.

The company estimates that its financial performance and debt service capacity will remain stable for the remainder of the year.

Decisions of the Annual General Meeting

The Annual General Meeting of Tornator Oyj, held on 7 March 2018, decided that dividend be paid as proposed by the Board of Directors, €5.70 per share, totalling €28.5 million. The AGM approved the financial statements for 2017 and discharged the members of the Board of Directors and the CEO from liability. In addition, Deloitte Oy were elected as auditors. The AGM elected the following members and deputies on the new Board of Directors:

Ordinary member	Deputy member
Mikko Koivusalo	Markus Aho
Erkko Ryynänen	Antti Palkén
Jari Suominen	Jari Suvanto
Mikko Mursula	Ilja Ripatti

Organisation of the Board of Directors

On 7 March 2018, the new Board of Directors elected Mikko Koivusalo as Chairman and Mikko Mursula as Vice Chairman. These two as well as Erkko Ryynänen were elected as members of the Remuneration Committee which works under the Board. For the Oversight Committee which oversees agreements between the company and the shareholders, Mikko Mursula was elected Chairman, Mikko Koivusalo and Erkko Ryynänen as members and Jari Suominen as a deputy.

The minutes of the Annual General Meeting are available in full on the company's website at www.tornator.fi/en/investors.

Notable events after the end of the reporting period

No notable events after the end of the reporting period.

Major shareholders, 30 June 2018

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

Tables – Condensed half-year financial statements and notes

Condensed consolidated income statement

€'000	1 Jan - 30 Jun 2018 (unaudited)	1 Jan - 30 Jun 2017 (unaudited)	1 Jan – 31 Dec 2017 (audited)
Net sales	**52,096**	**41,784**	**101,631**
Other operating income	1,535	2,638	4,852
Change in inventories of finished goods and work in progress	-576	-1,913	-2,938
Materials and services	-6,676	-5,577	-14,435
Personnel expenses	-3,886	-3,688	-8,271
Depreciation and amortisation	-1,673	-1,617	-3,271
Other operating expenses	-2,656	-2,584	-5,132
Share of profit or loss in associates	0	-86	-86
Change in fair value of biological assets and harvesting	-9,458	2,220	20,014
Operating profit	**28,706**	**31,177**	**92,364**
Financial income	93	87	163
Financial expenses	-11,251	-10,632	-21,877
Change in fair value of financial instruments	-865	24,688	26,264
Net financial items	**-12,023**	**14,143**	**4,551**
Profit before tax	**16,683**	**45,320**	**96,916**
Income taxes	-431	-3,293	7,138
Change in deferred taxes	-2,887	-5,477	-26,178
Profit for the period	**13,365**	**36,550**	**77,876**
Distribution:			
To shareholders of the parent company	**13,365**	**36,550**	**77,876**

Consolidated statement of comprehensive income

Profit for the period	**13,365**	**36,550**	**77,876**
Other comprehensive income for the period after taxes:			
Items not recognised later through profit and loss			
Items derived from the redefinition of net defined benefit costs (or asset items)	0	0	23
Items that may later be recognised through profit and loss			
Translation difference	-45	-131	-1,061
Available-for-sale financial assets	1	-3	-3
Cash flow hedging	0	140	140
Comprehensive income for the period total	**13,321**	**36,556**	**76,975**
Distribution:			
To shareholders of the parent company	**13,321**	**36,556**	**76,975**

Condensed consolidated balance sheet

€'000	30 June 2018 (unaudited)	30 June 2017 (unaudited)	31 Dec 2017 (audited)
ASSETS			
Non-current assets			
Intangible assets	1,995	3,139	2,428
Property, plant and equipment	99,919	91,422	98,470
Biological assets	1,378,068	1,299,771	1,371,245
Derivatives	8,822	11,124	6,180
Other investments	111	93	108
Non-current assets total	**1,488,914**	**1,405,549**	**1,478,431**
Current assets			
Inventories	254	1,147	552
Trade and other receivables	12,792	7,647	15,271
Available-for-sale financial assets	2,608	1,146	1,938
Cash and cash equivalents	13,199	3,416	13,901
Current assets total	**28,853**	**13,355**	**31,662**
TOTAL ASSETS	**1,517,768**	**1,418,904**	**1,510,093**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company			
Share capital	50,000	50,000	50,000
Other equity	586,942	561,703	602,121
Total equity	**636,942**	**611,703**	**652,121**
Non-current liabilities			
Deferred tax liabilities	153,696	137,216	150,809
Financial liabilities	517,737	460,554	494,382
Derivatives	92,980	91,997	91,437
Other non-current liabilities	265	295	265
Non-current liabilities total	**764,678**	**690,062**	**736,893**
Current liabilities			
Financial liabilities	94,440	99,434	104,437
Trade and other payables	21,708	17,705	16,641
Current liabilities total	**116,148**	**117,139**	**121,078**
Total liabilities	**880,826**	**807,201**	**857,971**
TOTAL EQUITY AND LIABILITIES	**1,517,768**	**1,418,904**	**1,510,093**

Statement of changes in equity

€'000	Share capital	Share premium	Translation difference	Fair value reserve	Retained earnings	Total equity
Equity 1 January 2018	50,000	29,995	-8,547	-157	580,830	652,121
Comprehensive income						
Profit for the period					13,365	13,365
Other items of comprehensive income (after taxes)						
Translation difference			-45			-45
Available-for-sale financial assets				1		1
Cash flow hedging				0		0
Comprehensive income for the period	0	0	-45	1	13,365	13,321
Transactions with shareholders						
Dividends paid					-28,500	-28,500
Total transactions with shareholders	0	0	0	0	-28,500	-28,500
Equity 30 June 2018	50,000	29,995	-8,592	-156	565,695	636,942
Equity 1 January 2017	50,000	29,995	-7,486	-317	528,954	601,147
Comprehensive income						
Profit for the period					36,550	36,550
Other items of comprehensive income (after taxes)						
Translation difference			-131			-131
Available-for-sale financial assets				-3		-3
Cash flow hedging				140		140
Comprehensive income for the period	0	0	-131	137	36,550	36,556
Transactions with shareholders						
Dividends paid					-26,000	-26,000
Total transactions with shareholders	0	0	0	0	-26,000	-26,000
Equity 30 June 2017	50,000	29,995	-7,618	-180	539,505	611,703
Equity 1 January 2017	50,000	29,995	-7,486	-317	528,954	601,147
Comprehensive income						
Profit for the period					77,876	77,876
Other items of comprehensive income (after taxes)						
Remeasurement of net defined benefit liability (or asset)			-1,061			-1,061
Translation difference				-3		-3
Available-for-sale financial assets				23		23
Cash flow hedging				140		140
Comprehensive income for the period	0	0	-1,061	160	77,876	76,975
Transactions with shareholders						
Dividends paid					-26,000	-26,000
Total transactions with shareholders					-26,000	-26,000
Equity 31 December 2017	50,000	29,995	-8,547	-157	580,830	652,121

Condensed consolidated cash flow statement

€'000	1 Jan - 30 Jun 2018 (unaudited)	1 Jan - 30 Jun 2017 (unaudited)	1 Jan – 31 Dec 2017 (audited)
Cash flow from operating activities			
Cash receipts from customers	47,232	38,074	95,395
Proceeds from sale of tangible assets	1,336	2,222	5,637
Cash receipts from other operating income	1,792	1,428	3,564
Cash paid to suppliers and employees	-13,976	-13,769	-27,174
Cash flow from operating activities before financial items and taxes	**36,384**	**27,955**	**77,422**
Interest paid and other financial expenses	-11,261	-10,805	-21,445
Interest received	93	87	164
Income taxes paid	7,565	-5,136	-10,137
Net cash flow from operating activities	**32,782**	**12,101**	**46,003**
Cash flow from investing activities			
Investments in biological assets	-16,550	-41,412	-96,248
Investments in tangible assets, forestland	-2,045	-5,118	-11,896
Investments in other tangible and intangible assets	-681	-793	-2,551
Proceeds from sale of intangible assets	0	0	335
Investments in associates and other investments	-3	-60	-75
Net cash flow from acquisition of subsidiaries	0	157	157
Investments in unlisted securities	-670	0	0
Proceeds from sale of unlisted securities	0	6,415	5,622
Net cash flow from investing activities	**-19,948**	**-40,812**	**-104,657**
Cash flow from financing activities			
Withdrawal of long-term loans	25,000	0	40,000
Repayment of long-term loans	-33	-23	-4,554
Withdrawal of short-term loans	0	48,000	53,000
Repayment of short-term loans	-10,000	0	0
Dividends paid	-28,500	-26,000	-26,000
Net cash flow from financing activities	**-13,533**	**21,977**	**62,446**
Net increase/decrease in cash and cash equivalents	**-700**	**-6,734**	**3,792**
Cash and cash equivalents at beginning of period	13,901	10,151	10,151
Effect of exchange rate changes on cash and cash equivalents	-2	-1	-42
Cash and cash equivalents at end of period	**13,199**	**3,416**	**13,901**

Notes to the half-year report

General information

Tornator Oyj (Tornator or the company) with its subsidiaries (together, the Group) is a leading company specialised in sustainable forest management in Europe. Tornator's main business is wood production and the sale of cutting rights. It also provides forest management and silviculture services, sells land for recreational use and buys forestland.

The Group's main market is Finland, but it also owns forestland in in Estonia and Romania. All Tornator Group's forests are FSC certified. The Group owns in total approximately 680,000 hectares of forestland and, in addition, the Group performs forest management and silviculture services for almost 30,000 hectares.

The Group's Half-year financial report for the six months ended 30 June 2018 has been prepared in accordance with the international financial reporting standard IAS 34 *Interim Financial Reporting*. The half-year report should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards, IFRS.

The accounting policies adopted are consistent with those of the previous financial year, except for new IFRS standards which have been adopted for financial periods beginning on or after 1 January 2018. Annual amendments to IFRS have had no effects on the preparation of the Half-year report for the period ended 30 June 2018.

The preparation of the Half-year report requires management to make certain estimates and assumptions. Making of these assumptions and estimates has an impact on the assets and liabilities reported on the balance sheet date, the presentation of contingent assets and liabilities in the notes and the income and expenses reported for the half-year period. These estimates are based on the management's best knowledge of the events; thus the final actual results may differ from the estimates made.

In preparing the Half-year report, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

The amounts presented in this Half-year report are rounded, so the sums of individual amounts may differ from the total amounts reported.

Operating segments

The Group's main business is wood production and the sale of cutting rights to planned sites covering normal felling methods and wood assortments. The Group's operations are managed and monitored as a whole and the Group only has one operating segment. Therefore, operating segment information is not presented as it would re-present the income statement and the balance sheet.

Timber delivery (= A customer harvests marked stands and gains ownership of the timber) represented 95.8% of total revenues (93.7 % 1 Jan - 30 June 2017).

The following tables present the geographical distribution of revenues and non-current assets. Sales are attributed to countries on the basis of the geographical location of forests:

	1 Jan - 30 Jun 2018		1 Jan - 30 Jun 2017		1 Jan – 31 Dec 2017	
Revenues:	€'000	%	€'000	%	€'000	%
Finland	46,572	89.4	38,299	91.7	93,146	91.7
Romania and Estonia	5,524	10.6	3,486	8.3	8,485	8.3
Total	**52,096**	**100**	**41,784**	**100**	**101,631**	**100**

	30 June 2018		30 June 2017		31 Dec 2017	
Biological assets:	€'000	%	€'000	%	€'000	%
Finland	1,250,830	90.8	1,180,258	90.8	1,248,123	91.0
Romania and Estonia	127,238	9.2	119,513	9.2	123,122	9.0
Total	**1,378,068**	**100**	**1,299,771**	**100**	**1,371,245**	**100**

Intangible assets

€'000	Computer software	Other intangible rights	Total
Acquisition cost at 1 January 2018	**7,629**	**987**	**8,617**
Translation difference	0	0	0
Increases	142	5	148
Decreases	0	0	0
Acquisition cost at 30 June 2018	**7,772**	**993**	**8,764**
Accrued depreciation and impairment			
Accrued depreciation and impairment at 1 January 2018	-6,189	0	-6,189
Depreciation and amortization expense and impairments	-580	0	-580
Accrued depreciation and impairment on 30 June 2018	**-6,769**	**0**	**-6,769**
Book value at 30 June 2018	**1,003**	**993**	**1,995**
Book value at 1 January 2018	1,441	987	2,428

Acquisition cost at 1 January 2017	**7,263**	**325**	**7,588**
Translation difference	-1	0	0
Increases	201	925	1,126
Decreases	0	0	0
Acquisition cost at 30 June 2017	**7,463**	**1,250**	**8,714**
Accrued depreciation and impairment			
Accrued depreciation and impairment at 1 January 2017	-4,985	0	-4,985
Depreciation and amortization expense and impairments	-590	0	-590
Accrued depreciation and impairment at 30 June 2017	**-5,575**	**0**	**-5,575**
Book value at 30 June 2017	**1,889**	**1,250**	**3,139**
Book value at 1 January 2017	2,278	325	2,603

€'000	Computer software	Other intangible rights	Total
Acquisition cost on 1 January 2017	**7,263**	**325**	**7,588**
Translation difference	-6	0	-6
Increases	372	998	1,370
Decreases	0	-335	-335
Acquisition cost at 31 December 2017	**7,629**	**987**	**8,617**
Accrued depreciation and impairment			
Accrued depreciation and impairment at 1 January 2017	-4,985	0	-4,985
Depreciation and amortisation expense and impairments	-1,204	0	-1,204
Accrued depreciation and impairment at 31 Dec 2017	**-6,189**	**0**	**-6,189**
Book value at 31 December 2017	**1,441**	**987**	**2,428**
Book value on 1 January 2017	2,278	325	2,603

Property, Plant and Equipment

€'000	Land areas	Buildings	Machinery and equipment	Roads and ditches	Purchases in progress	Total
Acquisition cost at 1 January 2018	**82,709**	**1,123**	**2,211**	**28,959**	**3,082**	**118,084**
Translation difference	-4	0	0	-2	0	-6
Increases	2,045	68	63	959	463	3,599
Decreases	-29				-1,021	-1,050
Acquisition cost at 30 June 2018	**84,721**	**1,191**	**2,274**	**29,917**	**2,524**	**120,626**
Accrued depreciation and impairment						
Accrued depreciation and impairment at 1 January 2018	0	-376	-1,878	-17,361	0	-19,614
Depreciation and amortisation expense and impairments	0	-48	-84	-961	0	-1,093
Accrued depreciation and impairment at 30 June 2018	**0**	**-424**	**-1,962**	**-18,322**	**0**	**-20,708**
Book value at 30 June 2018	**84,721**	**767**	**312**	**11,595**	**2,524**	**99,919**
Book value at 1 January 2018	82,709	747	333	11,598	3,082	98,470
Acquisition cost at 1 January 2017	**71,051**	**974**	**2,097**	**27,203**	**3,079**	**104,405**
Translation difference	-12	-1	0	-3	-2	-19
Increases	5,118	0	13	896	524	6,551
Decreases	-83	-1	-2	0	-852	-939
Acquisition cost at 30 June 2017	**76,074**	**971**	**2,108**	**28,095**	**2,749**	**109,997**
Accrued depreciation and impairment						
Accrued depreciation and impairment at 1 January 2017	0	-329	-1,712	-15,506	0	-17,547
Depreciation and amortisation expense and impairments	0	-23	-88	-916	0	-1,027
Accrued depreciation and impairment at 30 June 2017	**0**	**-352**	**-1,800**	**-16,422**	**0**	**-18,575**
Book value at 30 June 2017	**76,074**	**619**	**307**	**11,673**	**2,749**	**91,423**
Book value at 1 January 2017	71,051	645	385	11,697	3,079	86,857

€'000	Land areas	Buildings	Machinery and equipment	Roads and ditches	Purchases in progress	Total
Acquisition cost at 1 January 2017	**71,051**	**974**	**2,097**	**27,203**	**3,079**	**104,405**
Translation difference	-104	-11	-3	-30	-17	-166
Increases	11,896	161	117	1,786	1,871	15,830
Decreases	-134				-1,850	-1,984
Acquisition cost at 31 December 2017	**82,709**	**1,123**	**2,211**	**28,959**	**3,082**	**118,084**
Accrued depreciation and impairment						
Accrued depreciation and impairment at 1 January 2017	0	-329	-1,712	-15,506	0	-17,547
Depreciation and amortisation expense and impairments	0	-47	-166	-1,855	0	-2,067
Accrued depreciation and impairment at 31 December 2017	**0**	**-376**	**-1,878**	**-17,361**	**0**	**-19,614**
Book value at 31 December 2017	**82,709**	**747**	**333**	**11,598**	**3,082**	**98,470**
Book value at 1 January 2017	71,051	645	385	11,697	3,079	86,857

Biological assets

€'000	30 June 2018	30 June 2017	31 Dec 2017
Biological assets at the beginning of the period	**1,371,245**	**1,256,911**	**1,256,911**
Harvesting	-9,458	2,220	-9,405
Valuation difference	0	0	29,419
Change in Income statement	**-9,458**	**2,220**	**20,014**
Increases	16,550	41,412	96,248
Decreases	-238	-676	-1,084
Translation difference	-32	-96	-844
Biological assets at the end of the period	**1,378,068**	**1,299,771**	**1,371,245**

Derivatives

The Group uses interest rate swaps and plain vanilla options for hedging its interest rate exposure. The majority of the interest rate derivatives will mature in more than 2 years.

Fair values of derivatives:

€'000	30 June 2018			30 June 2017			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps	8,822	-92,980	-84,158	11,124	-91,997	-80,872	6,180	-91,437	-85,257
Total fair values of derivatives	**8,822**	**-92,980**	**-84,158**	**11,124**	**-91,997**	**-80,872**	**6,180**	**-91,437**	**-85,257**

Nominal values of derivatives:

€'000	30 June 2018	30 June 2017	31 Dec 2017
Interest rate swaps	653,625	653,625	653,625
Total nominal values of derivatives	**653,625**	**653,625**	**653,625**

Change in fair value of interest rate derivatives during the reporting period

€'000	1 Jan - 30 Jun 2018			1 Jan - 30 Jun 2017	1 Jan - 31 Dec 2017
	Income	Expenses	Net	Net	Net
Recognised under financial items in the income statement *	0.0	-2,829.4	-2,829.4	22,719.5	22,295.4
Interest rate swaps	*0.0*	*-2,829.4*	*-2,829.4*	*22,719.5*	*22,295.4*
Share of the change in accrued interest**	3,928.2	0.0	3,928.2	3,734.7	-226.2
Recognised under shareholders' equity***	0.0	0.0	0.0	175.0	175.0
Interest rate swaps	*0.0*	*0.0*	*0.0*	*175.0*	*175.0*
Change in the fair value of derivatives on the balance sheet	3,928.2	-2,829.4	1,098.8	26,629.2	22,244.2

* Income statement includes also a booking of EUR +1,968.2 thousand (EUR +1,968.2 thousand) which represents the accrued fair value change of the hedged item in an ended fair value hedging relationship and EUR -3.7 (0.0) thousand which is the change in the fair value of investment funds.

** Included in financial expenses in the income statement

*** Portion recognised under shareholders's equity matured during H1/2017 resulting in a net change of EUR +140.0 thousand after deferred taxes.

Book values and fair values of financial assets and liabilities by category at 30 June 2018

Financial assets	Amortised cost	Financial items recognized at fair value through the income statement	Book values, total	Fair value
Non-current				
Derivatives		8,822	8,822	8,822
Total		8,822	8,822	8,822
Current				
Unlisted securities		2,608	2,608	2,608
Trade and other receivables	12,792		12,792	12,792
Cash and cash equivalents	13,199		13,199	13,199
Total	25,991	2,608	28,599	28,599

Financial liabilities	Amortised cost	Financial items recognised at fair value through the income statement	Book values, total	Fair value
Non-current				
Interest-bearing debt	517,737		517,737	523,385
Derivatives		92,980	92,980	92,980
Total	517,737	92,980	610,717	616,364
Current				
Current portion of non-current interest-bearing debt	4,518		4,518	4,518
Interest-bearing debt	89,922		89,922	89,922
Trade and other payables	21,708		21,708	21,708
Total	116,148		116,148	116,148

Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs having a significant effect on the recorded fair values that are not based on observable market data.

The valuation techniques are described in more detail in the financial statements.

Fair Value hierarchy	Level 1	Level 2	Level 3	Total
Unlisted securities	2,608	-	-	2,608
Derivate assets	-	8,822	-	8,822
Derivative liabilities	-	92,980	-	92,980
Interest-bearing debt	-	617,824	-	617,824

Financial covenants

The loan agreements between Tornator and financial institutions include covenants on debt service capacity, gearing and the fair value of the pledged forestlands. The company fulfilled all covenant requirements with a safe margin.

Related party transactions

The following transactions were carried out with related parties:

Stora Enso Group owns 41% of the parent company Tornator’s shares, which gives Stora Enso significant influence within the Group. The following transactions were carried out with Stora Enso:

€’000	Sales	Purchases	Receivables	Liabilities
30 June 2018	38,362	16	6,711	6,580
30 June 2017	26,689			3,869
31 Dec 2017	63,529		689	4,544

Related party transactions occurred under the same terms and conditions as transactions between unrelated parties.

Employment benefits of management:

€’000	30 June 2018	30 June 2017	31 Dec 2017
Wages of the Management team (including the CEO) with indirect costs and other short-term employment benefits	540	474	920
Board remuneration	28	33	66

Contingent liabilities and commitments

Commitments relate to operating leases in which the Group is the lessee. The Group leases office space, machinery and cars under non-cancellable operating leases.

Minimum lease payments under non-cancellable operating leases at period end were:

€'000	30 June 2018	30 June 2017	31 Dec 2017
Within one year	404	496	380
After one year and within five years	500	574	531
After more than five years	17	33	31

Other collateral given on own behalf

The Group has pledged forestland in Finland as collateral for debt, and agreed a limit with a financial institution to verify soil remediation, as follows:

€'000	30 June 2018	30 June 2017	31 Dec 2017
Fair value of pledge	1,328,353	1,270,605	1,339,053
Bank guarantee	248	256	268

Adoption of new standards

IFRS 9 *Financial instruments*

- Tornator Group has adopted IFRS 9 *Financial instruments* beginning on 1 January 2018. The Standard supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 contains the requirements for the classification, valuation and recognition of financial assets and liabilities, the new hedge accounting model and the impairment model for new financial assets. Retrospective adoption of the Standard had no impact on Tornator's equity as of January 1, 2018.
- Tornator has classified financial assets and liabilities in accordance with IFRS 9. The unlisted securities held by the Group have been classified as "at fair value through profit and loss". Unlisted securities include both unlisted shares and holdings in money market funds. Otherwise, adoption of IFRS 9 did not change treatment of Tornator's financial assets and liabilities. Classification and valuation according to both the new and the old standard are described in the following table:

Effects of changes in classification of financial instruments at 1 January 2018				
€'000 euro	Original classification IAS 39	New classification IFRS 9	Original book value IAS 39	New book value IFRS 9
Financial assets				
Unlisted securities	Available-for-sale financial assets	At fair value through the income statement	2,046	2,046
Trade and other receivables	Loans and receivables (amortised cost)	Amortised cost	15,271	15,271
Derivatives	At fair value through the income statement	At fair value through the income statement	6,180	6,180
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost	13,901	13,901
Financial liabilities				
Interest-bearing debt	Loans and receivables (amortised cost)	Amortised cost	598,819	598,819
Trade and other payables	Loans and receivables (amortised cost)	Amortised cost	16,641	16,641
Derivatives	At fair value through the income statement	At fair value through the income statement	91,437	91,437

- IFRS 9 requires recognition of impairment of financial assets based on expected credit losses. Following the introduction of IFRS 9, Tornator Group updated its expected credit loss calculation model to meet the requirements of the new standard. The introduction of the new model had no impact on the Group's figures and credit losses are expected to remain at a very low level
- The Group did not have hedge accounting relationships in place at 1 January 2018

IFRS 15 *Revenue from contracts with customers*

- Tornator Group has adopted IFRS 15 *Revenue from contracts with customers* beginning on 1 January 2018. The Standard supersedes IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. IFRS 15 defines a single model to apply to all revenues. The basic principle of the model is that revenues are recognised in a way that depicts the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the standard had no impact on Tornator's equity as of January 1, 2018.
- The Group's revenues from contracts with customers consist mainly of wood sales and land sales. These contracts do not contain variable consideration, service component, financing components, contract costs or loyalty programmes. Revenue from wood sales is recognized when the wood is delivered and revenue from land sales is recognized when land sales contract is signed. Silviculture services provided by the Group include preformance obligations for both products and services. Revenue from silviculture services is recognized when the agreed performance obligations have been met and no change in revenue recognition will be made with respect to current practice. The new standard has no effect on recognition of other operating income.

IFRS 16 *Leases*

- IFRS 16 *Leases* is effective for financial periods beginning on or after 1 January 2019. The standard defines the recognition, valuation, presentation and disclosure requirements of the lease agreements. According to the Standard, all lessees' leases are treated in the same way so that the lessee recognizes assets and liabilities in the balance sheet on all lease contracts, unless the lease period is 12 months or less or the rental value is low.
- According to information presented in Tornator's financial statements 31 December 2017, adoption of IFRS 16 will increase both the Group's assets (right-to-use assets) and liabilities (lease liabilities). The income statement effect is not significant