

# Tornator Oyj

Half-year Report  
1 January – 30 June 2019



## Timber delivery quantities were below target, which affected net sales

### SUMMARY 1 January–30 June 2019 (1 January–30 June 2018)

- Net sales totalled €38.9 (52.1) million, in which the share of timber deliveries\* was €37.1 (49.9) million. Timber deliveries totalled 1.2 (1.7) million cubic metres.
- The reported IFRS operating profit was €31.1 (28.7) million. Operative operating profit decreased by 38% to €23.8 (38.2) million.
- Comparable net profit without fair value changes was €+10.7 (+21.7) million and €-20.8 (+13.4) million with fair value changes. The differences were mainly due to changes in the fair values of both forests, €+7.3 (-9.5) million, and financial instruments €-46.8 (-0.9) million.
- Comparable return on equity was 3.2% (6.7) and return on capital employed 3.7% (6.1). Equity ratio was 40.0% (42.2).
- The fair value of biological assets (forests) was €1,473.7 million (1,451.0 at 31 December 2018).
- Tornator continued to purchase forestland in Finland and Estonia. Nearly 5,000 hectares of new forests were acquired with a total investment of more than €18 million.
- Tornator signed a binding bank loan contract (bridge loan) for €250 million, to refinance a secured bond loan at its maturity in December 2019.
- Deputy CEO Henrik Nieminen was appointed as the CEO of the company.

### Key figures (the Group)

|  | H1/2019 | H1/2018 | Change, % |
|--|---------|---------|-----------|
| Net sales, € million                     | 38.9    | 52.1    | -25 %     |
| Operative operating profit, € million    | 23.8    | 38.2    | -38 %     |
| Operative operating profit, %            | 61.1    | 73.3    | -17 %     |
| Operating profit (IFRS), € million       | 31.1    | 28.7    | 8 %       |
| Comparable net profit, € million         | 10.7    | 21.7    | -51 %     |
| Profit for the period (IFRS), € million  | -20.8   | 13.4    | -256 %    |
| Comparable return on equity, %           | 3.2     | 6.7     | -53 %     |
| Return on equity, %                      | -6.2    | 4.1     | -250 %    |
| Comparable return on capital employed, % | 3.7     | 6.1     | -40 %     |
| Return on capital employed, %            | 4.8     | 4.6     | 5 %       |
| Equity ratio, %                          | 40.0    | 42.2    | -5 %      |
| Average number of personnel              | 175     | 183     | -4 %      |

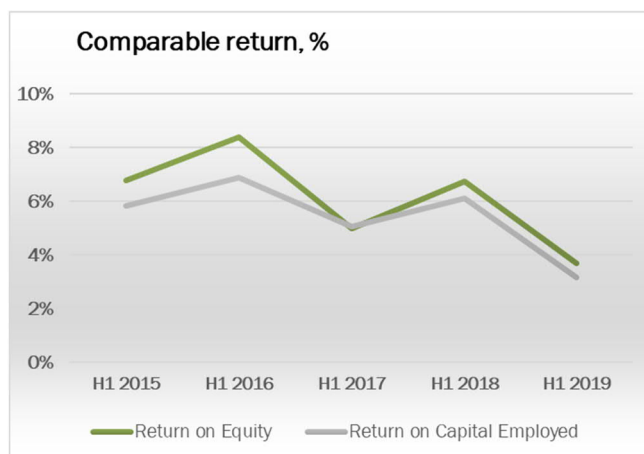
IFRS = International Financial Reporting Standards

\* 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:

|   |                  |
|---|------------------|
| <b>Operating profit, IFRS</b>                       | <b>31,1</b>      |
| - Change in fair value of biological assets         | -7,3             |
| <b>= Operative operating profit</b>                 | <b>23.8</b>      |
| <br><b>Profit for the period, IFRS</b>              | <br><b>-20.8</b> |
| - Change in fair value of biological assets         | -7.3             |
| - Change in fair value of financial instruments     | +46.8            |
| - Change in deferred taxes of above mentioned items | -8.0             |
| <b>= Comparable net profit</b>                      | <b>10.7</b>      |



### CEO Henrik Nieminen:

"The first half of 2019 was challenging for Tornator. In our main business area, timber deliveries, we remained clearly behind our target of steady growth. Caution is emerging in the forest industry due to global economic uncertainty, affecting Tornator's ability to forecast timber delivery trends for the second half of 2019. Due to advance payments for timber sales, the company is generating its normal, strong cash flow, which means that its current and forecast ability to honour loan obligations, for example, is entirely normal. In terms of the big picture, demand and prices remain at a good level in all operating countries, with no collapse following last year's strong growth. The number of major forestland sales around the Baltic Sea in 2018–19, and the related sales prices, are clear signs that demand for wood is still growing in the long term. Several megatrends are fostering increased use of renewable raw materials, such as wood. With regard to mitigating climate change, the key issue is the substitution of fossil-based raw materials and products with renewable ones. Tornator is playing a major role in this respect as a source of sustainably produced, double-certified wood raw material.

During the first half of the year, we continued our growth investments in Finland and Estonia. We acquired a total of over 5,000 hectares of new forestland. Our reputation as a reliable, competitive and responsible buyer has clearly increased the number of direct contacts from forest owners. People value the ease of doing business with Tornator's experienced employees. Naturally, transparent and competitive, commission-free pricing is a major factor in successful transactions. As a new business activity, Tornator now offers forest owners the opportunity to lease forest to Tornator on the basis of long-term lease contracts. This is a new way of maintaining contact with inherited assets without needing to engage in forest management, while gaining an easy and reliable source of steady rental income.

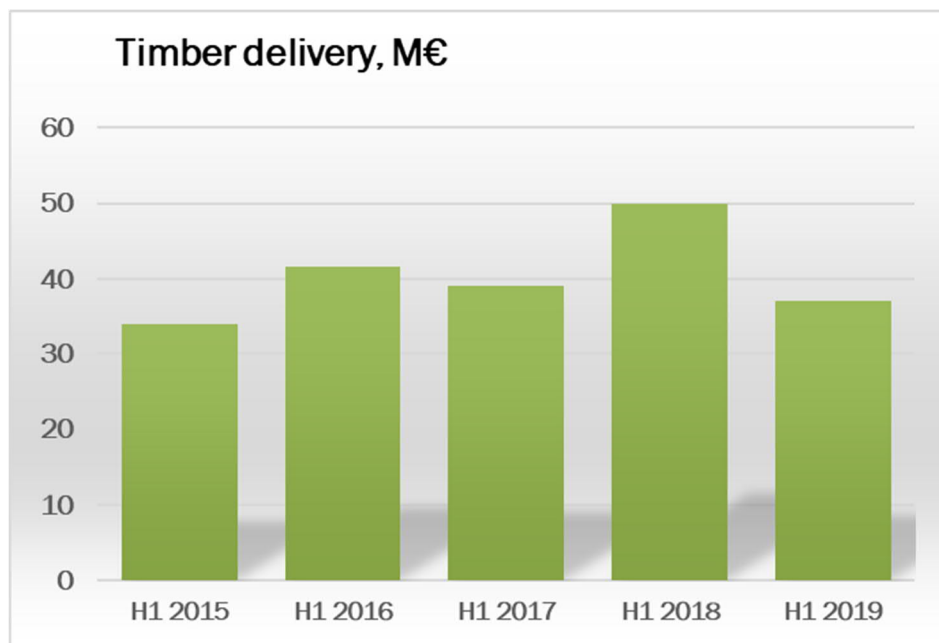
In line with our responsibility programme, we engaged in mire restoration, prescribed burning and the establishment of conservation areas on more than 200 hectares of our land.

In the spring, Tornator signed a binding bank loan contract for €250 million, to refinance a secured bond loan upon its maturity in December 2019. In addition, Tornator may simultaneously utilise both a €100 million revolving credit facility and a €200 million commercial paper programme at its own discretion. These changes will increase Tornator's capacity to implement its growth strategy.

The focus areas of Tornator's new strategy period 2019–21 are as follows: profitably growing, competitively developing and responsibly influencing. We have identified three change themes and special priorities based on these strategic goals: digitalisation, services and our brand. We have reinforced our organisation and arranged training to enable our deeper understanding and development of these themes in particular. The purpose of the new strategy is to take Tornator closer to achieving its vision: "Tornator – The forerunner in responsible use of forests".

### Notable events during the reporting period

Timber deliveries were considerably below last year's record figure, at some 1.2 (1.7) million cubic metres, or €37.1 (49.9) million. Due to extra harvesting as a consequence of snow damage in our forests in 2018, we are undertaking somewhat more silvicultural work than normal. However, all such work was performed according to plan during the spring.

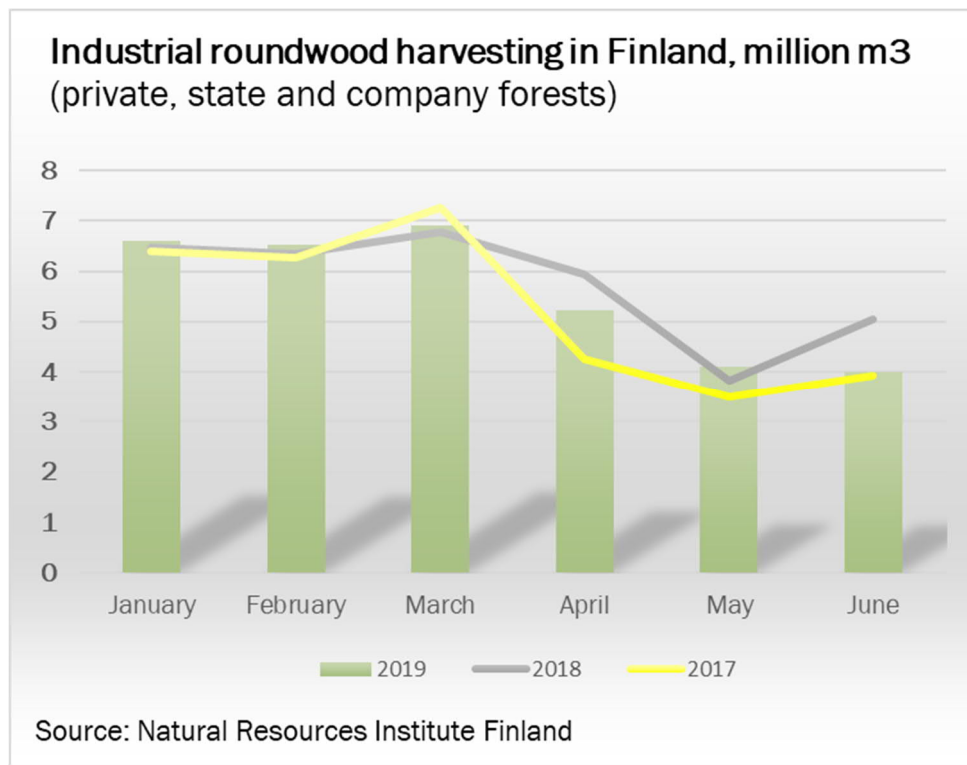


In total, the Group recorded €1.0 (1.3) million in real estate net sales. Net sales of silviculture services totalled €0.8 (0.9) million.

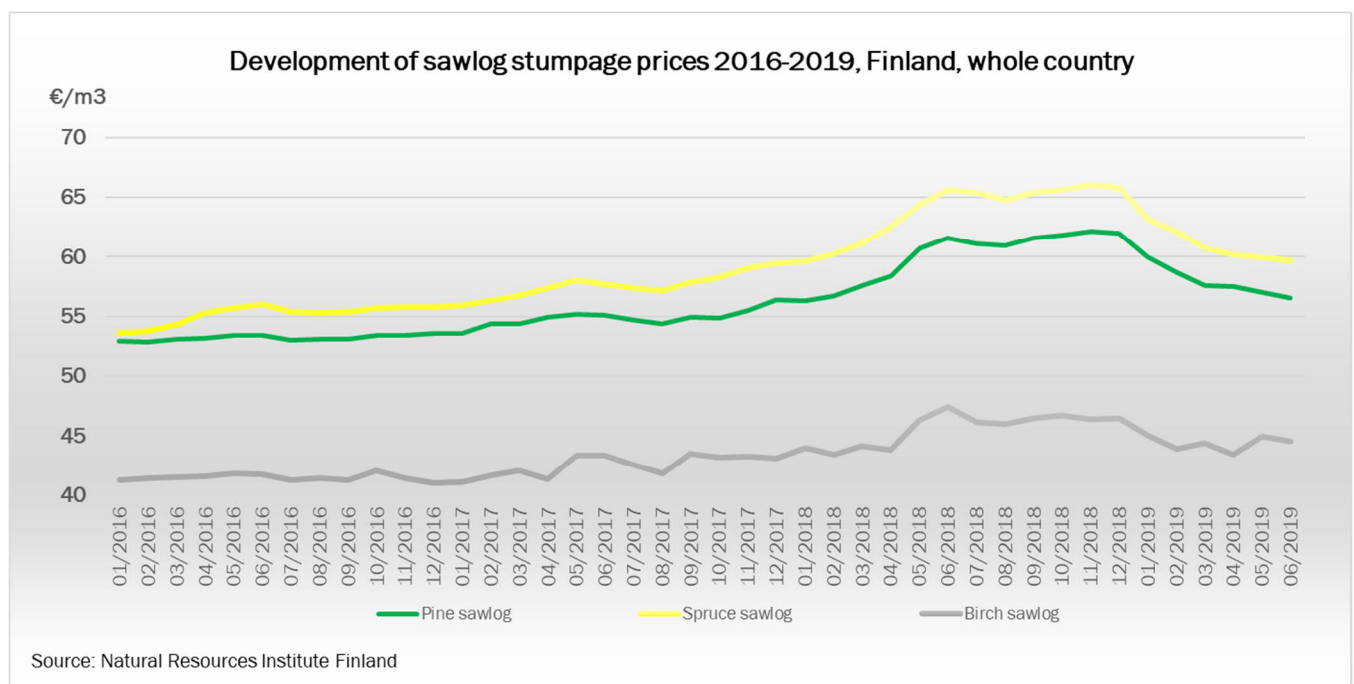
The strong fall in market interest rates affected the fair values of Tornator's financial instruments negatively. The profit effect since the beginning of the year was €-46.8 (-0.9) million. At the end of June, the fair value of interest rate derivatives totalled €-134.9 million (-90.9 on 31 December 2018). Market interest rates continued to fall after the reporting period. The fair value of forests at the end of June was €1,473.7 million (1,451.0 on 31 December 2018).

## Business environment

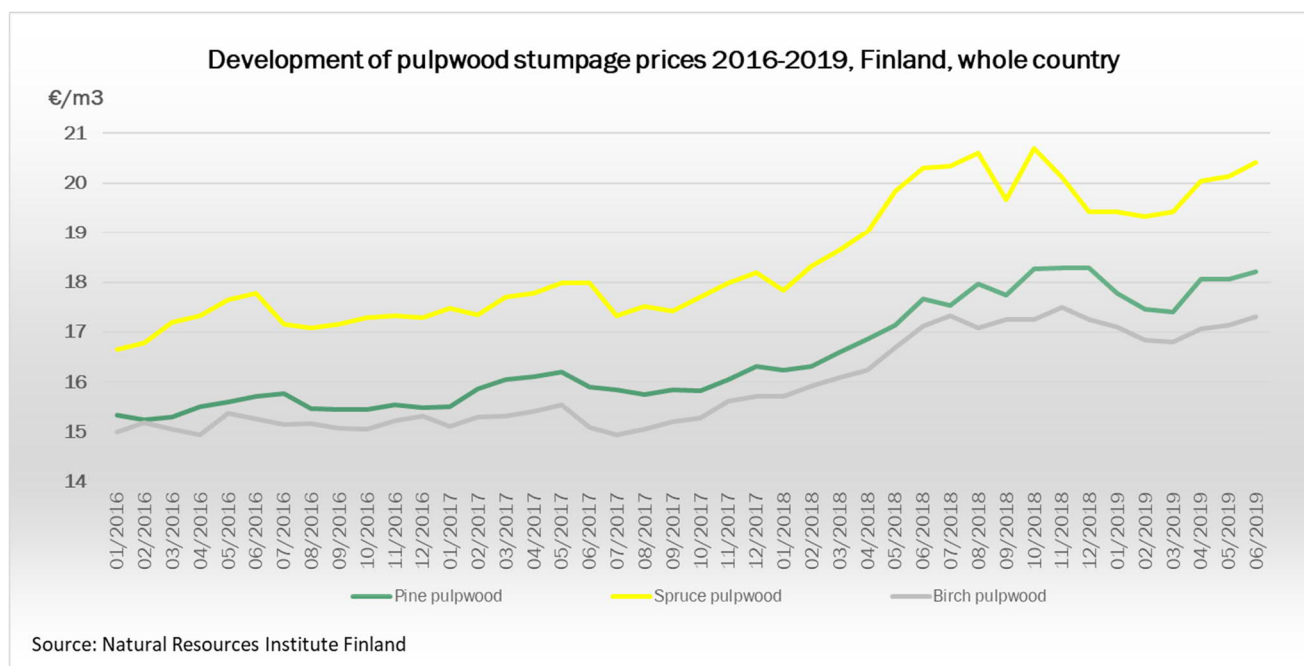
In Finland, wood trade was lively in January–March, but stabilized during the spring. Total industrial wood harvesting in January–June was some 33.4 million cubic metres, which is 1.0 million cubic metres (-3%) less than in the previous year.



The wood market stabilization was partly reflected also in wood prices. In January–June, the average prices of sawlogs were slightly lower than during the same period in the previous year, whereas those of pulpwood were slightly higher.







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 was normal and market prices for wood decreased slightly from the peaks of the previous year. The forest estate markets showed signs of overheating, with demand clearly exceeding supply.

In Romania too, demand for wood was normal and prices were slightly lower than the record levels of 2018. The forest estate market was quiet.

## Finance

The financial position of the Group remained good and cash flow from operations was €10.0 (32.8) million. The single largest item affecting cash flow was income tax, which totalled €-3.4 million in the reporting period, and €+7.4 in the comparison period due to the refund of pre-paid taxes from 2017. The Group's net financial expenses in January–June were €-57.7 (-12.0) million. Interest-bearing liabilities totalled €629.1 million (611.0 on 31 December 2018), of which €293.0 million (258.1 on 31 December 2018) were long-term and €336.1 million (352.9 on 31 December 2018) were short-term.

The company has used interest rate derivatives to hedge against market interest rate changes. The change in the fair value of debt and derivatives was €46.8 million negative (€0.9 million negative), including €-48.7 (-2.8) million for derivatives and €+2.0 (+2.0) million for long-term loans. In the change in the fair value of derivatives, the share of accrued interest booked on interest expenses was €+4.6 (+3.9) million.

During the reporting period, Tornator's net cash flow from investing activities was €-19.3 (-19.9) million. Net cash flow from financing activities was €+5.0 (-13.5) million. Liquid investments and cash and cash equivalents on 30 June 2019 were €10.7 million (15.0 on 31 December 2018). In addition, the company has a commercial paper program and a revolving credit facility totalling €220 million as available financing, and a €10 million bank account overdraft.

During the reporting period, Tornator signed a binding bank loan contract (bridge loan) for €250 million, to refinance a secured bond loan at its maturity in December 2019.

### Estimate of future development

Wood demand and harvesting will face challenges in the second half, due to increased uncertainty in the operating environment. A stronger-than-forecasted slowdown in the global economy could cause a contraction in forest industry production and a negative impact on wood delivery volumes and Tornator's net sales.

The situation in the forest estate market is expected to remain similar to the first half. Real estate sales will probably remain subdued.

Silvicultural work will be continued according to the normal annual cycle and the fertilisation programme will be carried out as planned.

The company estimates that its 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 2019, decided that dividend be paid as proposed by the Board of Directors: €7.0 per share, totalling €35 million. The AGM approved the financial statements for 2018 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 to the new Board of Directors:

| <u>Ordinary member</u> | <u>Deputy member</u> |
|------------------------|----------------------|
| Mikko Koivusalo        | Markus Aho           |
| Erkko Rynänen          | Ari Mäkinen          |
| Jari Suominen          | Jari Suvanto         |
| Mikko Mursula          | Ilja Ripatti         |

### Organisation of the Board of Directors

On 7 March 2019, the new Board of Directors elected Mikko Koivusalo as Chairman and Mikko Mursula as Vice Chairman. In addition to these two Board members, Erkko Rynänen was elected as a member of the Remuneration Committee, which reports to the Board. Regarding the Oversight Committee which oversees agreements between the company and the shareholders, Mikko Mursula was elected Chairman, Mikko Koivusalo and Erkko Rynänen as members, and Jari Suominen as a deputy member.

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

### Changes in management

Henrik Nieminen (MSc (Econ); eMBA), the Deputy CEO of Tornator Oyj, was appointed as the new CEO as of 17 June 2019. Mr Nieminen has served as Tornator's Chief Financial Officer (CFO) since the company was founded in 2002. By mutual agreement, the Board of Directors and the former CEO, Sixten Sunabacka, resolved that Mr Sunabacka would vacate the position of CEO and continue with Tornator as Senior Adviser until the end of the year. Tornator's Financial Controller, Antti Siirtola (MSc (Econ)), was appointed as Tornator's new Chief Financial Officer (CFO) and a member of the Management Group, with effect from 1 July 2019. Mr Siirtola has been working for the company since 2013, and before joining Tornator Siirtola worked as Authorised Public Accountant auditor with EY.

Heikki Penttinen (MSc (Econ)) was appointed Tornator's new Director of Development and a member of the Management Group on 14 March 2019. Mr Penttinen's responsibilities include development and digitalisation. Before joining Tornator, Mr Penttinen served in roles such as head of CGI's virtual and mobile solutions unit. Antero Luhtio, Director, Real Estate, left Tornator at his own request on 31 March 2019.

**Notable events after the end of the reporting period**

No notable events occurred after the end of the reporting period.

**Major shareholders, 30 June 2019**

| <b>Shareholder</b>                         | <b>%</b>       |
|--|----------------|
| Stora Enso Oyj                             | 41.00%         |
| Ilmarinen Mutual Pension Insurance Company | 23.13%         |
| Varma Mutual Pension Insurance Company     | 15.33%         |
| OP Henkivakuutus Oy                        | 5.21%          |
| OP-Forest Owner Fund                       | 5.00%          |
| OP-Eläkesäätiö                             | 4.16%          |
| Veritas Pension Insurance                  | 2.50%          |
| Finnair Pension Foundation                 | 2.18%          |
| Riffu Oy                                   | 0.75%          |
| Danilostock Oy                             | 0.75%          |
| <b>Total</b>                               | <b>100.00%</b> |



## Tables – Condensed half-year financial statements and notes

## Condensed consolidated income statement

| €'000  | 1 Jan - 30 Jun 2019<br>(unaudited) | 1 Jan - 30 Jun 2018<br>(unaudited) | 1 Jan – 31 Dec 2018<br>(audited) |
|--|------------------------------------|------------------------------------|----------------------------------|
| <b>Net sales</b>   | <b>38,872</b>                      | <b>52,096</b>                      | <b>112,825</b>                   |
| Other operating income                                       | 1,895                              | 1,535                              | 6,567                            |
| Change in inventories of finished goods and work in progress | -773                               | -576                               | -998                             |
| Materials and services                                       | -7,143                             | -6,676                             | -16,975                          |
| Personnel expenses   | -4,366                             | -3,886                             | -8,447                           |
| Depreciation and amortisation                                | -1,543                             | -1,673                             | -3,094                           |
| Other operating expenses                                     | -3,171                             | -2,656                             | -5,979                           |
| Change in fair value of biological assets and harvesting     | 7,312                              | -9,458                             | 32,576                           |
| <b>Operating profit</b>                                      | <b>31,085</b>                      | <b>28,706</b>                      | <b>116,475</b>                   |
| Financial income   | 112                                | 93                                 | 180                              |
| Financial expenses   | -11,057                            | -11,251                            | -22,726                          |
| Change in fair value of financial instruments                | -46,752                            | -865                               | -1,613                           |
| <b>Net financial items</b>                                   | <b>-57,697</b>                     | <b>-12,023</b>                     | <b>-24,159</b>                   |
| <b>Profit before tax</b>                                     | <b>-26,612</b>                     | <b>16,683</b>                      | <b>92,317</b>                    |
| Income taxes   | 7,546                              | -431                               | -3,062                           |
| Change in deferred taxes                                     | -1,744                             | -2,887                             | -10,373                          |
| <b>Profit for the period</b>                                 | <b>-20,811</b>                     | <b>13,365</b>                      | <b>78,881</b>                    |
| Distribution:  |                                    |                                    |                                  |
| To shareholders of the parent company                        | -20,811                            | 13,365                             | 78,881                           |

## Consolidated statement of comprehensive income

|   |                |               |               |
|---|----------------|---------------|---------------|
| <b>Profit for the period</b>  | <b>-20,811</b> | <b>13,365</b> | <b>78,881</b> |
| <b>Other comprehensive income for the period after taxes:</b>                     |                |               |               |
| Items not recognised later through profit and loss                                |                |               |               |
| Items derived from the redefinition of net defined benefit costs (or asset items) | 0              | 0             | 21            |
| Items that may later be recognised through profit and loss                        |                |               |               |
| Translation difference  | -581           | -45           | -49           |
| Investments in unlisted securities  | 0              | 1             | 1             |
| <b>Comprehensive income for the period total</b>                                  | <b>-21,392</b> | <b>13,321</b> | <b>78,853</b> |
| Distribution:   |                |               |               |
| To shareholders of the parent company   | -21,392        | 13,321        | 78,853        |

## Condensed consolidated balance sheet

| €'000  | 30 June 2019<br>(unaudited) | 30 June 2018<br>(unaudited) | 31 Dec 2018<br>(audited) |
|--|-----------------------------|-----------------------------|--------------------------|
| <b>ASSETS</b>  |                             |                             |                          |
| <b>Non-current assets</b>  |                             |                             |                          |
| Intangible assets  | 1,703                       | 1,995                       | 1,944                    |
| Property, plant and equipment                                    | 107,100                     | 99,919                      | 103,734                  |
| Biological assets  | 1,473,665                   | 1,378,068                   | 1,450,960                |
| Derivatives  | 0                           | 8,822                       | 0                        |
| Other investments  | 111                         | 111                         | 111                      |
| <b>Non-current assets total</b>                                  | <b>1,582,580</b>            | <b>1,488,914</b>            | <b>1,556,749</b>         |
| <b>Current assets</b>  |                             |                             |                          |
| Inventories  | 98                          | 254                         | 436                      |
| Trade and other receivables                                      | 26,232                      | 12,792                      | 15,534                   |
| Derivatives  | 5,597                       | 0                           | 3,285                    |
| Investments in unlisted securities                               | 1,221                       | 2,608                       | 1,042                    |
| Cash and cash equivalents  | 9,434                       | 13,199                      | 13,957                   |
| <b>Current assets total</b>                                      | <b>42,581</b>               | <b>28,853</b>               | <b>34,255</b>            |
| <b>TOTAL ASSETS</b>  | <b>1,625,161</b>            | <b>1,517,768</b>            | <b>1,591,004</b>         |
| <b>EQUITY AND LIABILITIES</b>                                    |                             |                             |                          |
| <b>Equity attributable to shareholders of the parent company</b> |                             |                             |                          |
| Share capital  | 50,000                      | 50,000                      | 50,000                   |
| Other equity   | 596,083                     | 586,942                     | 652,475                  |
| <b>Total equity</b>  | <b>646,083</b>              | <b>636,942</b>              | <b>702,475</b>           |
| <b>Non-current liabilities</b>                                   |                             |                             |                          |
| Deferred tax liabilities   | 162,931                     | 153,696                     | 161,187                  |
| Financial liabilities  | 293,001                     | 517,737                     | 258,130                  |
| Derivatives  | 140,530                     | 92,980                      | 93,014                   |
| Lease liabilities  | 1,733                       | 0                           | 0                        |
| Other non-current liabilities                                    | 229                         | 265                         | 229                      |
| <b>Non-current liabilities total</b>                             | <b>598,423</b>              | <b>764,678</b>              | <b>512,560</b>           |
| <b>Current liabilities</b>                                       |                             |                             |                          |
| Financial liabilities  | 336,075                     | 94,440                      | 352,862                  |
| Derivatives  | 0                           | 0                           | 1,127                    |
| Lease liabilities  | 247                         | 0                           | 0                        |
| Trade and other payables   | 44,333                      | 21,708                      | 21,981                   |
| <b>Current liabilities total</b>                                 | <b>380,655</b>              | <b>116,148</b>              | <b>375,970</b>           |
| <b>Total liabilities</b>   | <b>979,078</b>              | <b>880,826</b>              | <b>888,530</b>           |
| <b>TOTAL EQUITY AND LIABILITIES</b>                              | <b>1,625,161</b>            | <b>1,517,768</b>            | <b>1,591,004</b>         |

## Statement of changes in equity

| €'000   | Share capital | Share premium | Translation difference | Fair value reserve | Retained earnings | Total equity   |
|---|---------------|---------------|------------------------|--------------------|-------------------|----------------|
| <b>Equity 1 January 2019</b>                      | <b>50,000</b> | <b>29,995</b> | <b>-8,597</b>          | <b>0</b>           | <b>631,076</b>    | <b>702,475</b> |
| <b>Comprehensive income</b>                       |               |               |                        |                    |                   |                |
| Profit for the period                             |               |               |                        |                    | -20,811           | -20,811        |
| Other items of comprehensive income (after taxes) |               |               |                        |                    |                   |                |
| Translation difference                            |               |               | -581                   |                    |                   | -581           |
| <b>Comprehensive income for the period</b>        | <b>0</b>      | <b>0</b>      | <b>-581</b>            | <b>0</b>           | <b>-20,811</b>    | <b>-21,392</b> |
| <b>Transactions with shareholders</b>             |               |               |                        |                    |                   |                |
| Dividends paid                                    |               |               |                        |                    | -35,000           | -35,000        |
| <b>Total transactions with shareholders</b>       | <b>0</b>      | <b>0</b>      | <b>0</b>               | <b>0</b>           | <b>-35,000</b>    | <b>-35,000</b> |
| <b>Equity 30 June 2019</b>                        | <b>50,000</b> | <b>29,995</b> | <b>-9,178</b>          | <b>0</b>           | <b>575,265</b>    | <b>646,083</b> |

|   |               |               |               |             |                |                |
|---|---------------|---------------|---------------|-------------|----------------|----------------|
| <b>Equity 1 January 2018</b>                      | <b>50,000</b> | <b>29,995</b> | <b>-8,547</b> | <b>-157</b> | <b>580,830</b> | <b>652,121</b> |
| <b>Comprehensive income</b>                       |               |               |               |             |                |                |
| Profit for the period                             |               |               |               |             | 13,365         | 13,365         |
| Other items of comprehensive income (after taxes) |               |               |               |             |                |                |
| Translation difference                            |               |               | -45           |             |                | -45            |
| Investments in unlisted securities                |               |               |               | 1           |                | 1              |
| <b>Comprehensive income for the period</b>        | <b>0</b>      | <b>0</b>      | <b>-45</b>    | <b>1</b>    | <b>13,365</b>  | <b>13,321</b>  |
| <b>Transactions with shareholders</b>             |               |               |               |             |                |                |
| Dividends paid                                    |               |               |               |             | -28,500        | -28,500        |
| <b>Total transactions with shareholders</b>       | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>    | <b>-28,500</b> | <b>-28,500</b> |
| <b>Equity 30 June 2018</b>                        | <b>50,000</b> | <b>29,995</b> | <b>-8,592</b> | <b>-156</b> | <b>565,695</b> | <b>636,942</b> |

|   |               |               |               |             |                |                |
|---|---------------|---------------|---------------|-------------|----------------|----------------|
| <b>Equity 1 January 2018</b>                              | <b>50,000</b> | <b>29,995</b> | <b>-8,547</b> | <b>-157</b> | <b>580,830</b> | <b>652,121</b> |
| <b>Comprehensive income</b>                               |               |               |               |             |                |                |
| Profit for the period                                     |               |               |               |             | 78,881         | 78,881         |
| Transfers between items                                   |               |               |               | 156         | -156           | 0              |
| Other items of comprehensive income (after taxes)         |               |               |               |             |                |                |
| Remeasurement of net defined benefit liability (or asset) |               |               |               |             | 21             | 21             |
| Translation difference                                    |               |               | -49           |             |                | -49            |
| Investments in unlisted securities                        |               |               |               | 1           |                | 1              |
| <b>Comprehensive income for the period</b>                | <b>0</b>      | <b>0</b>      | <b>-49</b>    | <b>157</b>  | <b>78,746</b>  | <b>78,853</b>  |
| <b>Transactions with shareholders</b>                     |               |               |               |             |                |                |
| Dividends paid  |               |               |               |             | -28,500        | -28,500        |
| <b>Total transactions with shareholders</b>               | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>    | <b>-28,500</b> | <b>-28,500</b> |
| <b>Equity 31 December 2018</b>                            | <b>50,000</b> | <b>29,995</b> | <b>-8,597</b> | <b>0</b>    | <b>631,076</b> | <b>702,475</b> |

## Condensed consolidated cash flow statement

| €'000   | 1 Jan - 30 Jun 2019<br>(unaudited) | 1 Jan - 30 Jun 2018<br>(unaudited) | 1 Jan – 31 Dec 2018<br>(audited) |
|---|------------------------------------|------------------------------------|----------------------------------|
| <b>Cash flow from operating activities</b>                                  |                                    |                                    |                                  |
| Cash receipts from customers  | 38,679                             | 47,232                             | 102,690                          |
| Proceeds from sale of tangible assets                                       | 980                                | 1,336                              | 3,547                            |
| Cash receipts from other operating income                                   | 1,931                              | 1,792                              | 6,753                            |
| Cash paid to suppliers and employees  | -16,789                            | -13,976                            | -30,646                          |
| <b>Cash flow from operating activities before financial items and taxes</b> | <b>24,801</b>                      | <b>36,384</b>                      | <b>82,344</b>                    |
| Interest paid and other financial expenses                                  | -11,597                            | -11,261                            | -21,903                          |
| Interest received   | 112                                | 93                                 | 180                              |
| Income taxes paid   | -3,364                             | 7,565                              | 7,470                            |
| <b>Net cash flow from operating activities</b>                              | <b>9,952</b>                       | <b>32,782</b>                      | <b>68,092</b>                    |
| <b>Cash flow from investing activities</b>                                  |                                    |                                    |                                  |
| Investments in biological assets  | -16,280                            | -16,550                            | -47,882                          |
| Investments in tangible assets, forestland                                  | -2,012                             | -2,045                             | -5,918                           |
| Investments in other tangible and intangible assets                         | -815                               | -681                               | -2,051                           |
| Investments in associates and other investments                             | 0                                  | -3                                 | -3                               |
| Investments in unlisted securities  | -179                               | -670                               | 0                                |
| Proceeds from sale of unlisted securities                                   | 0                                  | 0                                  | 896                              |
| <b>Net cash flow from investing activities</b>                              | <b>-19,286</b>                     | <b>-19,948</b>                     | <b>-54,958</b>                   |
| <b>Cash flow from financing activities</b>                                  |                                    |                                    |                                  |
| Withdrawal of long-term loans   | 35,000                             | 25,000                             | 25,000                           |
| Repayment of long-term loans  | -38                                | -33                                | -4,575                           |
| Repayment of short-term loans   | -15,000                            | -10,000                            | -5,000                           |
| Repayment of leasing liabilities  | -124                               |                                    |                                  |
| Dividends paid  | -15,000                            | -28,500                            | -28,500                          |
| <b>Net cash flow from financing activities</b>                              | <b>4,839</b>                       | <b>-13,533</b>                     | <b>-13,075</b>                   |
| <b>Net increase/decrease in cash and cash equivalents</b>                   | <b>-4,495</b>                      | <b>-700</b>                        | <b>58</b>                        |
| Cash and cash equivalents at beginning of period                            | 13,957                             | 13,901                             | 13,901                           |
| Effect of exchange rate changes on cash and cash equivalents                | -29                                | -2                                 | -2                               |
| <b>Cash and cash equivalents at end of period</b>                           | <b>9,434</b>                       | <b>13,199</b>                      | <b>13,957</b>                    |

## 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 Estonia and Romania. All Tornator Group's forests are FSC certified. Forestland is split between countries as follows: Finland 620,000 (31 December 2018: 616,000), Estonia 66,000 (65,500) and Romania 12,000 (12,000) hectares. Average number of personnel during the financial period was 175 (183).

The Group's Half-year financial report for the six months ended 30 June 2019 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 2018, 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 2019. Annual amendments to IFRS have had no effects on the preparation of the Half-year report for the period ended 30 June 2019.

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 2018.

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 95.5% of total revenues (95.8 % 1 Jan - 30 June 2018).

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 2019 |              | 1 Jan - 30 Jun 2018 |              | 1 Jan – 31 Dec 2018 |              |
|---------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| Revenues:           | €'000               | %            | €'000               | %            | €'000               | %            |
| Finland             | 33,241              | 85.5         | 46,572              | 89.4         | 101,990             | 90.4         |
| Romania and Estonia | 5,632               | 14.5         | 5,524               | 10.6         | 10,836              | 9.6          |
| <b>Total</b>        | <b>38,872</b>       | <b>100.0</b> | <b>52,096</b>       | <b>100.0</b> | <b>112,825</b>      | <b>100.0</b> |

|                     | 30 June 2019     |              | 30 June 2018     |              | 31 Dec 2018      |              |
|---------------------|------------------|--------------|------------------|--------------|------------------|--------------|
| Biological assets:  | €'000            | %            | €'000            | %            | €'000            | %            |
| Finland             | 1,309,756        | 88.9         | 1,250,830        | 90.8         | 1,288,618        | 88.8         |
| Romania and Estonia | 163,910          | 11.1         | 127,238          | 9.2          | 162,342          | 11.2         |
| <b>Total</b>        | <b>1,473,665</b> | <b>100.0</b> | <b>1,378,068</b> | <b>100.0</b> | <b>1,450,960</b> | <b>100.0</b> |

## Intangible assets

| €'000  | Computer software | Other intangible rights | Total         |
|--|-------------------|-------------------------|---------------|
| <b>Acquisition cost at 1 January 2019</b>                  | <b>8,019</b>      | <b>993</b>              | <b>9,011</b>  |
| Translation difference                                     | -4                | 0                       | -4            |
| Increases  | 17                | 0                       | 17            |
| Decreases  | 0                 | 0                       | 0             |
| <b>Acquisition cost at 30 June 2019</b>                    | <b>8,032</b>      | <b>993</b>              | <b>9,025</b>  |
| <b>Accrued depreciation and impairment</b>                 |                   |                         |               |
| Accrued depreciation and impairment at 1 January 2019      | -7,067            | 0                       | -7,067        |
| Depreciation and amortization expense and impairments      | -255              | 0                       | -255          |
| <b>Accrued depreciation and impairment on 30 June 2019</b> | <b>-7,322</b>     | <b>0</b>                | <b>-7,322</b> |
| <b>Book value at 30 June 2019</b>                          | <b>710</b>        | <b>993</b>              | <b>1,703</b>  |
| Book value at 1 January 2019                               | 951               | 993                     | 1,944         |

|  |               |            |               |
|--|---------------|------------|---------------|
| <b>Acquisition cost at 1 January 2018</b>                  | <b>7,629</b>  | <b>987</b> | <b>8,617</b>  |
| Translation difference                                     | 0             | 0          | 0             |
| Increases  | 142           | 5          | 148           |
| Decreases  | 0             | 0          | 0             |
| <b>Acquisition cost at 30 June 2018</b>                    | <b>7,772</b>  | <b>993</b> | <b>8,764</b>  |
| <b>Accrued depreciation and impairment</b>                 |               |            |               |
| Accrued depreciation and impairment at 1 January 2018      | -6,189        | 0          | -6,189        |
| Depreciation and amortization expense and impairments      | -580          | 0          | -580          |
| <b>Accrued depreciation and impairment at 30 June 2018</b> | <b>-6,769</b> | <b>0</b>   | <b>-6,769</b> |
| <b>Book value at 30 June 2018</b>                          | <b>1,003</b>  | <b>993</b> | <b>1,995</b>  |
| Book value at 1 January 2018                               | 1,441         | 987        | 2,428         |



## TORNATOR OYJ - HALF-YEAR REPORT

| €'000   | Computer software | Other intangible rights | Total         |
|---|-------------------|-------------------------|---------------|
| <b>Acquisition cost on 1 January 2018</b>                 | 7,629             | 987                     | 8,617         |
| Translation difference                                    |                   |                         | 0             |
| Increases   | 389               | 5                       | 394           |
| Decreases   |                   |                         | 0             |
| <b>Acquisition cost at 31 December 2018</b>               | <b>8,019</b>      | <b>993</b>              | <b>9,011</b>  |
| <b>Accrued depreciation and impairment</b>                |                   |                         |               |
| Accrued depreciation and impairment at 1 January 2018     | -6,189            | 0                       | -6,189        |
| Depreciation and amortisation expense and impairments     | -878              |                         | -878          |
| <b>Accrued depreciation and impairment at 31 Dec 2018</b> | <b>-7,067</b>     | <b>0</b>                | <b>-7,067</b> |
| <b>Book value at 31 December 2018</b>                     | <b>951</b>        | <b>993</b>              | <b>1,944</b>  |
| Book value on 1 January 2018                              | 1,441             | 987                     | 2,428         |

## Property, Plant and Equipment

| €'000  | Land areas    | Buildings    | Machinery and equipment | Roads and ditches | Right-of-use assets | Purchases in progress | Total          |
|--|---------------|--------------|-------------------------|-------------------|---------------------|-----------------------|----------------|
| <b>Acquisition cost at 1 January 2019</b>                  | 88,535        | 1,216        | 2,279                   | 32,085            | 0                   | 1,450                 | 125,564        |
| Adoption of IFRS 16  |               |              | -112                    |                   | 2,103               | 0                     | 1,991          |
| Translation difference                                     | -59           | -7           | -2                      | -24               | 0                   | -8                    | -100           |
| Increases  | 2,012         | 64           | 124                     | 202               | 0                   | 551                   | 2,954          |
| Decreases  | -50           | 0            | 0                       | 0                 | 0                   | -141                  | -191           |
| <b>Acquisition cost at 30 June 2019</b>                    | <b>90,438</b> | <b>1,273</b> | <b>2,289</b>            | <b>32,262</b>     | <b>2,103</b>        | <b>1,853</b>          | <b>130,218</b> |
| <b>Accrued depreciation and impairment</b>                 |               |              |                         |                   |                     |                       |                |
| Accrued depreciation and impairment at 1 January 2019      | 0             | -473         | -2,040                  | -19,317           | 0                   | 0                     | -21,830        |
| Depreciation and amortisation expense and impairments      | 0             | -34          | -52                     | -1,060            | -142                | 0                     | -1,288         |
| <b>Accrued depreciation and impairment at 30 June 2019</b> | <b>0</b>      | <b>-507</b>  | <b>-2,092</b>           | <b>-20,377</b>    | <b>-142</b>         | <b>0</b>              | <b>-23,118</b> |
| <b>Book value at 30 June 2019</b>                          | <b>90,438</b> | <b>766</b>   | <b>198</b>              | <b>11,885</b>     | <b>1,961</b>        | <b>1,853</b>          | <b>107,100</b> |
| Book value at 1 January 2019                               | 88,535        | 743          | 239                     | 12,768            |                     | 1,450                 | 103,734        |

|  |               |              |               |                |          |              |                |
|--|---------------|--------------|---------------|----------------|----------|--------------|----------------|
| <b>Acquisition cost at 1 January 2018</b>                  | 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           | 0            | 0             | 0              | -        | -1,021       | -1,050         |
| <b>Acquisition cost at 30 June 2018</b>                    | <b>84,721</b> | <b>1,191</b> | <b>2,274</b>  | <b>29,917</b>  | <b>-</b> | <b>2,524</b> | <b>120,626</b> |
| <b>Accrued depreciation and impairment</b>                 |               |              |               |                |          |              |                |
| 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         |
| <b>Accrued depreciation and impairment at 30 June 2018</b> | <b>0</b>      | <b>-424</b>  | <b>-1,962</b> | <b>-18,322</b> | <b>-</b> | <b>0</b>     | <b>-20,708</b> |
| <b>Book value at 30 June 2018</b>                          | <b>84,721</b> | <b>767</b>   | <b>312</b>    | <b>11,595</b>  | <b>-</b> | <b>2,524</b> | <b>99,919</b>  |
| Book value at 1 January 2018                               | 82,709        | 747          | 333           | 11,598         | -        | 3,082        | 98,470         |

## TORNATOR OYJ - HALF-YEAR REPORT

€'000

|  | Land areas    | Buildings    | Machinery and equipment | Roads and ditches | Right-of-use assets | Purchases in progress | Total          |
|--|---------------|--------------|-------------------------|-------------------|---------------------|-----------------------|----------------|
| <b>Acquisition cost at 1 January 2018</b>                      | 82,709        | 1,123        | 2,211                   | 28,959            | -                   | 3,082                 | 118,084        |
| Translation difference   | -4            | 0            | 0                       | -2                | -                   | 0                     | -7             |
| Increases  | 5,918         | 93           | 68                      | 3,129             | -                   | 1,710                 | 10,918         |
| Decreases  | -88           | 0            | 0                       | -2                | -                   | -3,342                | -3,432         |
| <b>Acquisition cost at 31 December 2018</b>                    | <b>88,535</b> | <b>1,216</b> | <b>2,279</b>            | <b>32,085</b>     | <b>-</b>            | <b>1,450</b>          | <b>125,564</b> |
| <b>Accrued depreciation and impairment</b>                     |               |              |                         |                   |                     |                       |                |
| Accrued depreciation and impairment at 1 January 2018          | 0             | -376         | -1,878                  | -17,361           | -                   | 0                     | -19,614        |
| Depreciation and amortisation expense and impairments          | 0             | -97          | -162                    | -1,956            | -                   | 0                     | -2,215         |
| <b>Accrued depreciation and impairment at 31 December 2018</b> | <b>0</b>      | <b>-473</b>  | <b>-2,040</b>           | <b>-19,317</b>    | <b>-</b>            | <b>0</b>              | <b>-21,830</b> |
| <b>Book value at 31 December 2018</b>                          | <b>88,535</b> | <b>743</b>   | <b>239</b>              | <b>12,768</b>     | <b>-</b>            | <b>1,450</b>          | <b>103,734</b> |
| Book value at 1 January 2018                                   | 82,709        | 747          | 333                     | 11,598            | -                   | 3,082                 | 98,470         |

### Biological assets

| €'000   | 30 June 2019     | 30 June 2018     | 31 Dec 2018      |
|---|------------------|------------------|------------------|
| <b>Biological assets at the beginning of the period</b> | <b>1,450,960</b> | <b>1,371,245</b> | <b>1,371,245</b> |
| Harvesting  | 7,312            | -9,458           | -19,869          |
| Valuation difference                                    | 0                | 0                | 52,445           |
| <b>Change in Income statement</b>                       | <b>7,312</b>     | <b>-9,458</b>    | <b>32,576</b>    |
| Increases   | 16,280           | 16,550           | 47,882           |
| Decreases   | -406             | -238             | -708             |
| Translation difference                                  | -481             | -32              | -35              |
| <b>Biological assets at the end of the period</b>       | <b>1,473,665</b> | <b>1,378,068</b> | <b>1,450,960</b> |

### Derivatives

The Group uses interest rate swaps 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 2019  |                 |                | 30 June 2018 |                |                | 31 December 2018 |                |                |
|---|---------------|-----------------|----------------|--------------|----------------|----------------|------------------|----------------|----------------|
|   | Assets        | Liabilities     | Net            | Assets       | Liabilities    | Net            | Assets           | Liabilities    | Net            |
| Interest rate swaps                     | 55,597        | -140,530        | -84,933        | 8,822        | -92,980        | -84,158        | 3,285            | -94,141        | -90,856        |
| <b>Total fair values of derivatives</b> | <b>55,597</b> | <b>-140,530</b> | <b>-84,933</b> | <b>8,822</b> | <b>-92,980</b> | <b>-84,158</b> | <b>3,285</b>     | <b>-94,141</b> | <b>-90,856</b> |

#### Nominal values of derivatives:

| €'000                                      | 30 June 2019   | 30 June 2018   | 31 Dec 2018    |
|--|----------------|----------------|----------------|
| Interest rate swaps                        | 588,625        | 653,625        | 653,625        |
| <b>Total nominal values of derivatives</b> | <b>588,625</b> | <b>653,625</b> | <b>653,625</b> |

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

| €'000  | 1 Jan - 30 Jun 2019 |          |         | 1 Jan -<br>30 Jun 2018 | 1 Jan -<br>31 Dec 2018 |
|--|---------------------|----------|---------|------------------------|------------------------|
|  | Income              | Expenses | Net     | Net                    | Net                    |
| Recognised under financial items in the income statement *   | 405                 | -49,124  | -48,720 | -2,829                 | -5,582                 |
| Interest rate swaps  | 405                 | -49,124  | -48,720 | -2,829                 | -5,582                 |
| Share of the change in accrued interest**                    | 4,642               | 0        | 4,642   | 3,928                  | -17                    |
| Change in the fair value of derivatives on the balance sheet | 5,047               | -49,124  | -44,077 | 1,099                  | -5,599                 |

\* 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 -0.3 (-3.7) thousand which is the change in the fair value of investment funds.

\*\* Included in financial expenses in the income statement

## Book values and fair values of financial assets and liabilities by category at 30 June 2019

| Financial assets                                     |                | Financial items recognized at fair value through the income statement | Book values, total | Fair value     |
|--|----------------|---|--------------------|----------------|
|  | Amortised cost |   |                    |                |
| <b>Current</b>                                       |                |   |                    |                |
| Unlisted securities                                  |                | 1,221   | 1,221              | 1,221          |
| Trade and other receivables                          | 12,750         |   | 12,750             | 12,750         |
| Derivatives  |                | 5,597   | 5,597              | 5,597          |
| Cash and cash equivalents                            | 9,434          |   | 9,434              | 9,434          |
| <b>Total</b>   | <b>22,184</b>  | <b>6,818</b>  | <b>29,001</b>      | <b>29,001</b>  |
| <b>Financial liabilities</b>                         |                |   |                    |                |
|  | Amortised cost | Financial items recognised at fair value through the income statement | Book values, total | Fair value     |
| <b>Non-current</b>                                   |                |   |                    |                |
| Interest-bearing debt                                | 293,001        |   | 293,001            | 294,038        |
| Derivatives  |                | 140,530   | 140,530            | 140,530        |
| <b>Total</b>   | <b>293,001</b> | <b>140,530</b>  | <b>433,530</b>     | <b>434,567</b> |
| <b>Current</b>                                       |                |   |                    |                |
| Current portion of non-current interest-bearing debt | 4,500          |   | 4,500              | 4,500          |
| Interest-bearing debt                                | 331,575        |   | 331,575            | 329,429        |
| Trade and other payables                             | 44,333         |   | 44,333             | 44,333         |
| <b>Total</b>   | <b>380,408</b> |   | <b>380,408</b>     | <b>378,262</b> |

## 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    | 1,221   | -       | -       | 1,221   |
| Derivate assets        | -       | 5,597   | -       | 5,597   |
| Derivative liabilities | -       | 140,530 | -       | 140,530 |
| Interest-bearing debt  | -       | 627,967 | -       | 627,967 |

## 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 |
|---------------------|--------|-----------|-------------|-------------|
| <b>30 June 2019</b> | 26,949 | 17        | 8,564       | 8,551       |
| 30 June 2018        | 38,362 | 16        | 6,711       | 6,580       |
| 31 Dec 2018         | 81,285 | 45        | 9,172       | 8,103       |

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

Employment benefits of management:

| €'000   | 30 June 2019 | 30 June 2018 | 31 Dec 2018 |
|---|--------------|--------------|-------------|
| Wages of the Management team (including the CEO) with indirect costs and other short-term employment benefits | 763          | 540          | 1,214       |
| Board remuneration  | 27           | 28           | 53          |

## 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 2019 | 30 June 2018 | 31 Dec 2018 |
|----------------------|--------------|--------------|-------------|
| Fair value of pledge | 1,374,982    | 1,328,353    | 1,355,401   |
| Bank guarantee       | 275          | 248          | 272         |

## Adoption of new standards

### IFRS 16 Leases

- Tornator Group adopted IFRS 16 Leases beginning on 1 January 2019. The Standard replaces IAS 17 Leases. IFRS 16 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.

Tornator Group adopted the standard using modified retrospective method. The Group applies the practical expedient of not recognizing right-to-use asset and lease liability of low-value contracts and contracts with maturity less than 12 months. The Group's right-to-use assets consist of leased cars and office space. Office space lease contracts that are valid for now will be evaluated case-by-case. Evaluation includes the term and probability of continuance of the contract.

At 31 December 2018, the Group had non-cancellable lease and rent payment commitments worth approximately EUR 738 thousand. In accordance with IFRS 16, on 1 January 2019 the Group recognized EUR 2,1 million as right-to-use assets and lease liabilities. The difference is attributable to office space lease contracts that are valid for now. Right-to-use assets are depreciated during the lease period and lease payments are divided into repayment of lease liabilities and interest expense. The income statement effects of adopting IFRS 16 are limited: lease payments which were accounted according to the standard totaled EUR 176 thousand, depreciation was EUR 142 thousand and interest expense EUR 41 thousand. Thus, adoption of IFRS 16 improved operating profit of the period EUR 34 thousand and decreased the net income of the reporting period by EUR 7 thousand.