

**Kotkamills Group Oyj**

**INTERIM REPORT**

**01.01. - 30.09.2016**

# Table of contents

**Interim report 01.01.-30.09.2016**

**Explanatory statement to interim report**

**Consolidated financial statements**

- Consolidated statement of profit or loss
- Consolidated statement of other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows

**Notes to the interim report**

1. Accounting policies for the interim report
2. Segment information
3. Discontinued operations
4. Changes in property, plant and equipment
5. Financial assets and liabilities
6. Commitments and contingencies
7. Related party transactions
8. Events after the reporting period

## **Kotkamills Group Oyj's Interim Report January 1– September 30, 2016**

### **1. Events during July- September 2016**

On July 5, 2016, the Company informed, that it has utilized the EUR 20 million junior loan facility to complete the board machine conversion project. The summary of the material terms of the equity hybrid loan is presented in the listing prospectus available in the company website ([www.kotkamills.com/fi/kotkamillsgroup/keyfinancials](http://www.kotkamills.com/fi/kotkamillsgroup/keyfinancials)).

On July 22, 2016, the Company informed, that the new consumer board machine BM2 of Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has started production in Kotka, Finland. A range of folding boxboards will be produced under the brand name AEGLE and a range of food service boards under the brand name ISLA. BM2 has the capability to produce dispersion barrier coatings directly on the machine, producing barrier boards that can be recycled with normal paper waste due to having zero plastic content.

The Consumer Boards business will serve two main market areas. The first is the market for the production of packaging for food, confectionery, pharmaceuticals and cosmetics. The second is the market for food service boards for disposable cups and plates. All products are based on Nordic fresh forest fibres and come with the unique possibility of the addition of on-machine dispersion coated barriers to replace the non-renewable plastics traditionally used.

On July 27, 2016 the Company informed, that The shareholders of Kotkamills Group Oyj have on 27.7.2016 unanimously resolved to offer by a directed issue a maximum of 1,406,277 new series A shares (the "New A Shares") of the company for subscription to the holders of series A shares pro rata to their holding of series A shares and a maximum of 153,128 new series B shares (together with the New A Shares, the "New Shares") of the company for subscription to the holders of series B shares pro rata to their holding of series B shares.

The subscription price for each New Share is EUR 1.00 and the aggregate subscription price for the New Shares is EUR 1,559,405. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares are in connection with their participation in the share issue required to grant shareholder loans to the company up to the aggregate amount of EUR 13,437,470. The terms of such shareholder loans would in material respects be equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans was to strengthen the company's cash position at the time of the start of the new board machine to fully utilise increased sales potential resulting from the start.

On August 26 the Company informed, that the holders of series A shares subscribed the maximum amount of 1,406,277 New A Shares offered for subscription on the directed issue of the company and the holders of series B shares subscribed 131,252 of the total 153,128 New B Shares offered for subscription on the directed issue of the company. The subscribed New Shares represent in aggregate approximately 13.33 per cent of the total number of the shares in the company.

The subscription price for each New Share was EUR 1.00 and the aggregate subscription price for the New Shares was EUR 1,537,529. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 13,437,470. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj obtained financing in the aggregate amount of EUR 14,974,999.

On September 2 the Company informed that Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has signed a contract of approximately EUR 20 million with a Nordic financial institution concerning sale of trade receivables of the company to the financial institution (on an ongoing, non-recourse basis on customary market terms). This transaction is expected to reach its full effect by the end of Q1 2017. Together with 20.5.2016 informed contract Kotkamills Oy will obtain aggregate financing of approximately EUR 40 million by sale of trade receivables.

The last deliveries of the magazine paper were done during the third quarter in 2016.

Demand of Industrial Products segment's products continued to stay at a good level and delivery volumes improved compared to the previous quarter.

The first deliveries of Consumer Boards took place in the third quarter in 2016.

## **2. Key performance indicators**

Due to new group structure since March 2015, stopping Magazine paper production in January 2016 and entering into new Consumer Boards business different quarters (like Q3/2016 versus Q3/2015) are not fully comparable.

The business of Magazine Papers was classified as a discontinued operation in January 2016 and thus the net result of the business of Magazine Papers is presented in the statement of profit or loss under "Profit (loss) from discontinued operations" separately from continuing operations for all periods presented.

### **Q3/2016 (compared with Q3/2015)**

The Group's revenue of continuing operations of EUR 60,0 million (EUR 47,3 million) improved by EUR 12,7 million from the same period a year ago (in 2015 maintenance shutdown in August).

The operating profit of continuing operations of EUR -6,0 million (EUR 4,2 million) was effected by the start-up costs of Consumer Boards production.

Cash flows from operating activities of EUR 6,4 million (EUR 10,8 million) were supported by releasing working capital of stopped Magazine business. Cash flows from investing activities were EUR -31,9 million (EUR -13,8 million) of which the largest investment was conversion project of the paper machine 2 to board machine.

Cash flows from financing activities of EUR 27,3 million (EUR 0,9 million) consists of utilization of junior loan facility, share issue and shareholder loans and the first instalment of EUR 7,5 million of the EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705).

### **Q1-Q3/2016 (compared with Q1-Q3/2015)**

The Group's revenue of continuing operations of EUR 160,5 million (EUR 96,4 million) increased clearly because Q1/2015 does not include business activities of continuing operations (Kotkamills Group Oyj became the parent company on 24 March 2015, when the Company acquired the entire share capital of Kotkamills Oy).

The operating profit of continuing operations of EUR -14,3 million (EUR 33,5 million) was clearly lower due to start-up costs of Consumer Boards business and in Q1 2015 recognized gain, i.e. negative goodwill, of EUR 30,5 million on the acquisition of Kotkamills Oy.

Cash flow from operating activities of EUR 12,8 million (EUR -2,7 million) was supported by both releasing working capital of stopped Magazine business and sales of receivables. Cash flow from investing activities was EUR -128,8 million (EUR -66,4 million) of which the largest investment was conversion project of the paper machine 2 to board machine.

Cash flows from financing activities of EUR 27,1 million (EUR 185,1 million) consists of utilization of junior loan facility, share issue and shareholder loans and the first instalment of EUR 7,5 million of the EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705).

	2016	2015	2016	2015	2015
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	13.2.-30.9.	13.2.-31.12.
<b>Continuing operations</b>					
Revenue, EUR million	60,0	47,3	160,5	96,4	146,4
EBITDA, EUR million	-3,0	5,5	-8,4	36,1	46,0
Operating profit, EUR million	-6,0	4,2	-14,3	33,5	40,9
Operating profit / Revenue (%)	-10,1	8,8	-8,9	34,8	27,9
<b>Group Total</b>					
Return on equity (%)	-58,7	2,3	-106,7	117,3	122,4
Equity ratio (%)	4,2	12,8	4,2	12,8	13,1
Equity ratio, adjusted (%)*	39,7	45,2	39,7	45,2	44,3

\*Equity including shareholder loans

The Group monitors capital using an equity ratio and an adjusted equity ratio based on the financial covenants, which is total equity added with shareholder loan and divided by total assets. The Group's policy is to keep the adjusted equity ratio above 30%. There have been no breaches of the financial covenants of equity ratio in the current period.

### 3. Events after reporting date

On October 26, 2016 the Company informed that it has taken steps to improve liquidity, performance and profitability of its wholly owned subsidiary Kotkamills Oy by optimising and developing existing operations. As part of such efforts, Kotkamills Group Oyj initiated a strategic review process concerning Kotkamills Oy's wholly owned subsidiary L.P. Pacific Films ("LPPF"), a Malaysian limited liability company, for the purposes of evaluating strategic options with respect to LPPF, including a potential disposal.

LPPF operates an impregnating plant in Pasir Gudang, Malaysia, focusing on Imprex® films and core stock. The operations of LPPF are part of the Group's Industrial Products segment. For the financial year ended 31 December 2015, the turnover of LPPF was EUR 13.9 million (MYR 60.3 million).

Under the terms and conditions of Kotkamills Group Oyj's EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705), a disposal of shares in LPPF would require a consent from the bondholders in accordance with the terms and conditions of the bonds. At the same time a written procedure was initiated for the purpose of obtaining such consent for the event that Kotkamills Group Oyj would, as a result of the ongoing strategic review process, decide on a disposal of the shares in LPPF.

On November 15, 2016, the Company informed that it has been informed by Nordic Trustee Oy, acting as the Trustee under the bonds, that the bondholders have given the requested consent for a disposal of shares in LPPF in accordance with the terms and conditions of the bonds.

On November 18, 2016, the Company informed that LPPF's sole shareholder Kotkamills Oy has on 18 November 2016 signed and completed a share purchase agreement concerning the sale and purchase of all

issued and outstanding shares in LPPF to Surfactor Germany GmbH. The ownership to LPPF's shares has been transferred to Surfactor Germany GmbH with immediate effect.

The enterprise value (on a debt and cash free basis) of LPPF is EUR 25 million. The purchase price is subject to a closing accounts adjustment, which is not expected to be material. The purchase price is paid to Kotkamills Oy in cash.

The disposal improves the Kotkamills Group's cash position and operating profit, but Kotkamills Group Oyj does not expect it to have significant impact on the Company's balance sheet.

#### **4. Outlook for 2016**

The revenue of the fourth quarter is estimated to be lower than in the third quarter due to seasonal lower demand. The profit for the fourth quarter of 2016 is estimated to improve from the previous quarter although the start-up costs of the new board machine and Consumer Boards business are estimated to have negative effect on the profit of the fourth quarter.

Markets of the other continuing operations' businesses are expected to be at the same level as in the last year, but ongoing uncertain economic situation in Europe and geopolitical risks may have weakening impact on demand.

Present energy price levels and weakened euro are expected to support the Group's performance, but possible increases in raw material prices could adversely impact the Group's profit development.

#### **5. Near-term risk review**

There has not occurred material changes in near-term risks and uncertainties disclosed in the annual financial statement of 2015. The annual financial statement of 2015 is available on the Company's website at [www.kotkamills.com/fi/kotkamillsgroup/keyfinancials](http://www.kotkamills.com/fi/kotkamillsgroup/keyfinancials).

# Consolidated statement of profit or loss

For the period 01.01.-30.09.2016

	01.07.- 30.09.2016	01.07.- 30.09.2015	01.01.- 30.09.2016	13.02.- 30.09.2015	13.02.- 31.12.2015
	€000	€000	€000	€000	€000
<b>Continuing operations</b>					
<b>Revenue</b>	<b>59 962</b>	<b>47 300</b>	<b>160 464</b>	<b>96 441</b>	<b>146 375</b>
<b>Other operating income</b>	<b>650</b>	<b>103</b>	<b>898</b>	<b>30 779</b>	<b>30 896</b>
Change in inventories of finished goods and work in progress	2 383	-2 485	1 040	-831	-3 384
Production for own use	271	231	1 334	351	594
Materials and supplies	-47 261	-27 206	-117 165	-63 065	-87 923
Employee benefit expenses	-10 337	-6 924	-30 939	-13 730	-20 889
Depreciation and amortisation	-3 052	-1 300	-5 877	-2 605	-5 170
Other operating expenses	-8 657	-5 563	-24 005	-13 826	-19 624
<b>Total expenses</b>	<b>-66 653</b>	<b>-43 247</b>	<b>-175 613</b>	<b>-93 706</b>	<b>-136 396</b>
<b>Operating profit</b>	<b>-6 042</b>	<b>4 156</b>	<b>-14 250</b>	<b>33 513</b>	<b>40 876</b>
Financial income	1 067	4 812	2 882	11 190	5 145
Financial expenses	-4 119	-8 132	-12 545	-17 222	-15 563
	-3 052	-3 320	-9 663	-6 031	-10 418
<b>Profit before taxes</b>	<b>-9 094</b>	<b>836</b>	<b>-23 913</b>	<b>27 482</b>	<b>30 458</b>
Income taxes	-219	-113	-489	-262	-273
Deferred taxes	-372	580	-930	225	937
<b>Profit (loss) for the period from continuing operatios</b>	<b>-9 685</b>	<b>1 304</b>	<b>-25 333</b>	<b>27 444</b>	<b>31 122</b>
<b>Discontinued operations</b>					
Profit (loss) after tax for the period from discontinued operations	-299	-513	-1 607	-2 122	-2 448
<b>Profit (loss) for the period</b>	<b>-9 984</b>	<b>791</b>	<b>-26 940</b>	<b>25 322</b>	<b>28 674</b>

## Consolidated statement of other comprehensive income

For the period 01.01.-30.09.2016

	01.07.- 30.09.2016	01.07.- 30.09.2015	01.01.- 30.09.2016	13.02.- 30.09.2015	13.02.- 31.12.2015
	€000	€000	€000	€000	€000
<b>Profit (loss) for the period</b>	<b>-9 984</b>	<b>791</b>	<b>-26 940</b>	<b>25 322</b>	<b>28 674</b>
<b>Other comprehensive income items:</b>					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Translation differences	-223	-997	196	-997	-863
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes</b>	<b>-223</b>	<b>-997</b>	<b>196</b>	<b>-997</b>	<b>-863</b>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods					
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	0	0	93
Income taxes	0	0	0	0	-18
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>75</b>
<b>Other comprehensive income for the period, net of tax</b>	<b>-223</b>	<b>-997</b>	<b>196</b>	<b>-997</b>	<b>-788</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>-10 207</b>	<b>-206</b>	<b>-26 743</b>	<b>24 325</b>	<b>27 886</b>



# Consolidated statement of financial position

30.09.2016

	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	214 026	85 915	64 017
Other intangible assets	14 914	16 432	17 206
Investments	20	20	20
Non-current financial assets	1 645	526	508
	<b>230 605</b>	<b>102 893</b>	<b>81 752</b>
<b>Current assets</b>			
Inventories	30 718	39 971	35 931
Trade and other receivables	24 789	41 144	38 993
Other financial assets	1 833	1 698	1 716
Cash	14 241	103 157	116 127
	<b>71 581</b>	<b>185 970</b>	<b>192 767</b>
<b>Total assets</b>	<b>302 186</b>	<b>288 863</b>	<b>274 518</b>

# Consolidated statement of financial position

30.09.2016

	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	80	3	3
Reserve for invested non-restricted equity	11 458	9 978	9 978
Retained earnings	1 073	27 886	24 325
<b>Total equity</b>	<b>12 610</b>	<b>37 866</b>	<b>34 305</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	209 145	185 985	182 653
Other non-current financial liabilities	5 686	63	50
Provisions	34	133	343
Pension obligations	717	712	729
Deferred tax liabilities	1 827	845	1 578
	<b>217 408</b>	<b>187 738</b>	<b>185 353</b>
<b>Current liabilities</b>			
Trade and other payables	53 715	52 910	44 973
Interest bearing liabilities	14 575	7 052	6 414
Other current financial liabilities	3 877	3 297	3 473
	<b>72 167</b>	<b>63 259</b>	<b>54 860</b>
<b>Total liabilities</b>	<b>289 576</b>	<b>250 998</b>	<b>240 213</b>
<b>Total shareholders' equity and liabilities</b>	<b>302 186</b>	<b>288 863</b>	<b>274 518</b>

# Consolidated statement of changes in equity

30.09.2016

€000	Share capital	Reserve for invested non- restricted equity	Retained earnings	Total equity
<b>Equity as at 13.02.2015</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	25 322	25 322
Other comprehensive income items (net of tax)				
Translation differences	0	0	-997	-997
<b>Total comprehensive income</b>	<b>3</b>	<b>0</b>	<b>24 325</b>	<b>24 328</b>
<b>Transactions with shareholders</b>				
Share issue	0	9 978	0	9 978
<b>Total transactions with shareholders</b>	<b>0</b>	<b>9 978</b>	<b>0</b>	<b>9 978</b>
<b>Equity as at 30.09.2015</b>	<b>3</b>	<b>9 978</b>	<b>24 325</b>	<b>34 305</b>
<b>Equity as at 01.01.2016</b>	<b>3</b>	<b>9 978</b>	<b>27 886</b>	<b>37 866</b>
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	-26 940	-26 940
Other comprehensive income items (net of tax)				
Translation differences	0	0	196	196
<b>Total comprehensive income</b>	<b>3</b>	<b>9 978</b>	<b>1 143</b>	<b>11 123</b>
<b>Transactions with shareholders</b>				
Share issue	0	1 558	0	1 558
Increase in share capital	78	-78	0	0
Dividends, paid	0	0	-30	-30
Own shares	0	0	-40	-40
<b>Total transactions with shareholders</b>	<b>78</b>	<b>1 480</b>	<b>-70</b>	<b>1 487</b>
<b>Equity as at 30.09.2016</b>	<b>80</b>	<b>11 458</b>	<b>1 073</b>	<b>12 610</b>

# Consolidated statement of cash flows

For the period 01.01.-30.09.2016

	01.07.- 30.09.2016	01.07.- 30.09.2015	01.01.- 30.09.2016	13.02.- 30.09.2015	13.02.- 31.12.2015
	€000	€000	€000	€000	€000
<b>Cash flows from operating activities</b>					
Profit (loss) for the period before taxes	-9 393	323	-25 520	25 360	28 010
Adjustments:					
Transactions without payments	-725	-435	-267	-491	752
Depreciation	3 052	1 390	5 926	2 788	5 443
Interest expenses and other financial expenses	4 118	8 132	12 545	17 222	15 563
Interest income	-1 067	-4 812	-2 882	-11 190	-5 145
Defined benefit plans, net	0	0	0	0	28
Other	0	-686	0	-30 514	-38 205
	5 379	3 589	15 322	-22 186	-21 564
Change in working capital:					
Change in trade and other receivables	11 994	5 285	16 355	3 496	1 345
Change in inventories	-2 401	1 509	9 253	-1 335	-1 284
Change in trade and other payables*	5 511	4 533	6 858	718	-3 908
Interests, paid	-4 441	-4 280	-9 043	-6 332	-6 549
Interests, received	4	3	15	7	187
Other payments	0	0	0	-2 111	-2 111
Taxes, paid	-219	-121	-489	-270	-273
	10 449	6 930	22 949	-5 828	-12 593
<b>Net cash flows from operating activities (A)</b>	<b>6 436</b>	<b>10 841</b>	<b>12 751</b>	<b>-2 654</b>	<b>-6 146</b>
<b>Cash flows from investing activities</b>					
Acquisition of subsidiaries, net of cash	0	0	0	-32 815	-32 815
Tangible and intangible assets sales profit	4	0	4	0	0
Investments in property, plant and equipment*	-30 897	-13 263	-127 770	-33 035	-42 923
Purchase of own shares	-20	0	-40	0	0
Change in non-current financial assets	-993	-508	-1 006	-508	0
<b>Net cash flows from investing activities (B)</b>	<b>-31 906</b>	<b>-13 771</b>	<b>-128 813</b>	<b>-66 359</b>	<b>-75 739</b>
<b>Cash flows from financing activities</b>					
Paid share capital	0	0	0	3	3
Proceeds received related to share issue	1 538	980	1 558	9 978	9 978
Proceeds from loans and borrowings	33 437	0	33 437	191 000	191 000
Repayment of loans and borrowings	-7 499	0	-7 499	-15 648	-15 648
Repayment of financial leases	-134	-92	-319	-192	-291
Dividends, paid	0	0	-30	0	0
<b>Net cash flows from financing activities (C)</b>	<b>27 342</b>	<b>888</b>	<b>27 147</b>	<b>185 140</b>	<b>185 041</b>
Change in cash (A+B+C)	1 873	-2 043	-88 915	116 127	103 157
Cash and short term deposits at beginning of period	12 369	118 170	103 157	0	0
<b>Cash and short term deposits at the end of period</b>	<b>14 241</b>	<b>116 127</b>	<b>14 241</b>	<b>116 127</b>	<b>103 157</b>

\*Reclassification of trade payables of 13.2.2015-31.12.2015 between Change in trade and other payables EUR - 3 908 thousand (earlier EUR 8 831 thousand in Annual report 2015) and Investments in property, plant and equipment EUR -42 923 thousand (earlier EUR -55 662 thousand) has been done in connection of Q1/16 reporting.

# Notes to the interim report

## 1. Accounting principles for the interim report

This Interim Report has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Interim Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The accounting policies adopted in the preparation of the Interim Report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015

This interim report is unaudited.

# Notes to the interim report

## 2. Segment information

	Continuing operations			Discontinued operations	
	Consumer Boards	Industrial Products	Adjustments	Total continuing operations	Magazine Papers
01.07.-30.9.2016	€000	€000	€000	€000	€000
<b>Revenue</b>					
External customers	5394	53 202	0	58 597	483
Inter-segment	61	1 432	-1 493	0	0
<b>Total revenue</b>	<b>5455</b>	<b>54 634</b>	<b>-1 493</b>	<b>58 597</b>	<b>483</b>
Depreciation and amortisation	-1358	-570	0	-1 928	0
<b>Segment operating profit</b>	<b>-14 265</b>	<b>8 881</b>	<b>0</b>	<b>-5 384</b>	<b>-299</b>

	Consumer Boards	Industrial Products	Adjustments	Total	Magazine Papers
	€000	€000	€000	€000	€000
<b>Revenue</b>					
External customers	0	46 838	0	46 838	20 566
Inter-segment	0	1 026	-1 104	-78	78
<b>Total revenue</b>	<b>0</b>	<b>47 864</b>	<b>-1 104</b>	<b>46 760</b>	<b>20 644</b>
Depreciation and amortisation	0	-415	0	-415	-90
<b>Segment operating profit</b>	<b>-201</b>	<b>5 302</b>	<b>0</b>	<b>5 101</b>	<b>-513</b>

	Consumer Boards	Industrial Products	Adjustments	Total	Magazine Papers
	€000	€000	€000	€000	€000
<b>Revenue</b>					
External customers	0	142 359	0	142 359	61 995
Inter-segment	0	3 789	-4 012	-223	223
<b>Total revenue</b>	<b>0</b>	<b>146 148</b>	<b>-4 012</b>	<b>142 135</b>	<b>62 219</b>
Depreciation and amortisation	-2	-1 315	0	-1 316	-636
<b>Segment operating profit</b>	<b>-1 039</b>	<b>16 670</b>	<b>0</b>	<b>15 631</b>	<b>-2 448</b>

### Reconciliation of revenue

	01.07.- 30.9.2016	01.07.- 30.9.2015	13.02.- 31.12.2015
	€000	€000	€000
<b>Revenue</b>			
Total segment revenue	58 597	46 760	142 135
Items not allocated to segments			
Sales of energy	1 107	338	1 739
Other and exchange rate differences	263	-472	-745
<b>Total unallocated items</b>	<b>1 370</b>	<b>-133</b>	<b>994</b>
IFRS adjustments	-5	673	3 247
<b>Group's total revenue</b>	<b>59 962</b>	<b>47 300</b>	<b>146 375</b>

### Reconciliation of profit

	01.07.- 30.9.2016	01.07.- 30.9.2015	13.02.- 31.12.2015
	€000	€000	€000
<b>Operating profit</b>			
Segment operating profit	-5 384	5 101	15 631
Items not allocated to segments			
Unallocated administrative expenses	-120	113	-452
Unallocated non-recurring items related to the business combination	0	0	-2 574
<b>Total unallocated items</b>	<b>-120</b>	<b>113</b>	<b>-3026</b>
Gain from bargain purchase	0	0	30 514
Other IFRS adjustments	-538	-1058	-2 243
<b>Group's total operating profit</b>	<b>-6 042</b>	<b>4 156</b>	<b>40 876</b>

# Notes to the interim report

## 3. Discontinued operations

According to the plan, the production of magazine paper was discontinued on January 23, 2016 and the conversion of paper machine 2 to board machine began. The last deliveries of magazine paper were done during the third quarter in 2016.

The business of Magazine Papers was classified as a discontinued operation on January 23, 2016. The business represented the entirety of the Group's Magazine Papers operating segment until the production was discontinued on January 23, 2016.

The net result of the business of Magazine Papers is presented in the statement of profit or loss under "Profit (loss) from discontinued operations" separately from continuing operations for all periods presented.

The results of discontinued operations for the period are presented below:

	<u>01.07.-30.09.2016</u>	<u>01.07.-30.09.2015</u>
	<u>€000</u>	<u>€000</u>
Revenue	485	20 650
Expenses	-784	-21 163
Operating profit	-299	-513
Profit (loss) before tax from discontinued operations	-299	-513
<b>Profit (loss) after tax for the period from discontinued operations</b>	<b>-299</b>	<b>-513</b>
<b>Total profit before tax</b>		
Profit (loss) before tax from discontinued operations	-299	-513
<b>Total</b>	<b>-299</b>	<b>-513</b>

### Net cash flow of the discontinued operations:

	<u>01.07.-30.09.2016</u>	<u>01.07.-30.09.2015</u>
	<u>€000</u>	<u>€000</u>
Operating	2 136	-27
Investing	63	-42
<b>Net cash flow</b>	<b>2 198</b>	<b>-68</b>

The statement of financial position 30.9.2016 includes the following items related to the discontinued operations:

Trade receivables EUR 810,6 thousand and other receivables EUR 21,5 thousand and inventories EUR 5,4 thousand.

## Notes to the interim report

### 4. Changes in property, plant and equipment

	Land and water areas	Buildings and constructions	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total
	€000	€000	€000	€000	€000	€000
<b>Acquisition cost</b>						
<b>31.12.2015</b>	<b>759</b>	<b>2 529</b>	<b>31 730</b>	<b>53 703</b>	<b>384</b>	<b>89 105</b>
Additions	0	8 673	168 174	115 031	2 792	294 670
Transfers	0	0	0	-161 821	0	-161 821
Exchange differences	0	19	38	0	0	57
<b>30.09.2016</b>	<b>759</b>	<b>11 221</b>	<b>199 942</b>	<b>6 913</b>	<b>3 176</b>	<b>222 011</b>
<b>Depreciation and impairment</b>						
<b>31.12.2015</b>	<b>0</b>	<b>303</b>	<b>2 822</b>	<b>0</b>	<b>65</b>	<b>3 190</b>
Depreciation charge for the year	0	158	4 244	0	88	4 489
Disposals	4	0	302	0	0	306
<b>30.09.2016</b>	<b>4</b>	<b>461</b>	<b>7 368</b>	<b>0</b>	<b>153</b>	<b>7 985</b>
<b>Carrying amount</b>						
<b>30.09.2016</b>	<b>755</b>	<b>10 760</b>	<b>192 574</b>	<b>6 913</b>	<b>3 023</b>	<b>214 026</b>



# Notes to the interim report

## 5. Financial assets and liabilities

Financial assets	30.09.2016	30.09.2016	31.12.2015	31.12.2015	Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
<b>Financial assets at fair value through profit or loss</b>					
Financial assets held for trading					
Foreign currency derivatives	934	934	556	556	2
Commodity derivatives	899	899	1 142	1 142	2
<b>Total</b>	<b>1 833</b>	<b>1 833</b>	<b>1 698</b>	<b>1 698</b>	
<b>Total financial assets at fair value through profit or loss</b>					
	<b>1 833</b>	<b>1 833</b>	<b>1 698</b>	<b>1 698</b>	
<b>Loans and other receivables</b>					
Trade receivables	11 214	11 214	26 190	26 190	
Cash	14 241	14 241	103 157	103 157	
<b>Total</b>	<b>25 456</b>	<b>25 456</b>	<b>129 347</b>	<b>129 347</b>	
<b>Total financial assets</b>					
	<b>27 289</b>	<b>27 289</b>	<b>131 045</b>	<b>131 045</b>	
<b>Total non-current</b>					
Non-current financial assets	<b>1 645</b>	<b>1 645</b>	<b>526</b>		

The management assessed that the fair values of cash and short-term deposits and trade receivables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial liabilities	30.09.2016	30.09.2016	31.12.2015	31.12.2015	Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities held for trading					
Foreign currency derivatives	634	634	425	425	2
Commodity derivatives	1 598	1 598	1 619	1 619	2
<b>Total</b>	<b>2 232</b>	<b>2 232</b>	<b>2 045</b>	<b>2 045</b>	
<b>Financial liabilities measured at amortised cost</b>					
Bond	96 244	96 244	103 067	103 067	
Shareholder loan	107 345	107 345	89 970	89 970	
Trade payables	38 578	38 578	36 329	36 329	
Junior term loan	20 130	20 130	0	0	
Leasing liabilities	6 953	6 953	945	945	
<b>Total</b>	<b>269 249</b>	<b>269 249</b>	<b>230 312</b>	<b>230 312</b>	
<b>Total financial liabilities</b>	<b>271 481</b>	<b>271 481</b>	<b>232 356</b>	<b>232 356</b>	
<b>Financial liabilities held for trading</b>					
Bond	8	8	63	63	
Shareholder loan	81 669	81 669	96 014	96 014	
Junior term loan	107 345	107 345	89 970	89 970	
Leasing liabilities	20 130	20 130	0	0	
<b>Total non-current</b>	<b>214 830</b>	<b>214 830</b>	<b>186 626</b>	<b>186 626</b>	
<b>Financial liabilities held for trading</b>					
Bond	2 232	2 232	1 982	1 982	
Trade payables	14 575	14 575	7 052	7 052	
Leasing liabilities	38 578	38 578	36 329	36 329	
<b>Total current</b>	<b>56 660</b>	<b>56 660</b>	<b>45 730</b>	<b>45 730</b>	

The management assessed that the fair values of trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

#### Fair value measurement hierarchy for financial assets and liabilities measured at fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1 that, however, are observable for the asset or liability, either directly or indirectly.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability, which are to a significant extent based on management's judgement and use of the assumptions as inputs for widely used valuation techniques.

There were no transfers between Level 1 and Level 2 during Q3 / 2016.

# Notes to the interim report

## 6. Commitments and contingencies

	<b>30.09.2016</b>	<b>31.12.2015</b>
	<b>€000</b>	<b>€000</b>
<b>Operating lease commitments</b>		
Operating leases, within one year	192	188
Operating leases, more than one year	151	192
<b>Guarantees</b>		
Securities given on own behalf		
Mortgages	750 000	750 000
Shares of Kotkamills Oy	39 653	39 653
<b>Total</b>	<b>944 653</b>	<b>944 653</b>

### Litigations and disputes

In a pending litigation a claimant claims Kotkamills Oy for compensation of EUR 190 thousand for termination of an agent contract. The legal action has been taken in Turkey and the claimant has based its claim on Turkish law. The court has dismissed the lawsuit based on the grounds that it lacks competence since the parties have agreed to settle all disputes arising out of the agency agreement by arbitration. The claimant appealed the decision of the court of first instance with a petition dated 19 April 2016 and hence, the lawsuit file has been sent to the Court of Appeals on 15.6.2016 for review. Kotkamills Oy has not recognised any provision because of the claim.

Kotkamills Oy's Seller and former owner prior to the Seller have a dispute related to the terms and conditions of the former acquisition. The dispute is related to certain voluntary pension obligations. Kotkamills Oy is a party to the dispute. At the closing date the process is in arbitration. Because the value of the contingent consideration cannot be measured reliably and the possible consideration paid to Kotkamills Oy gives the Seller a right to an additional purchase price equalling the amount of consideration paid to Kotkamills Oy, no contingent liability nor asset has been recognised due to the arbitration.

### Disputes

At the closing date the Company didn't have any unsettled contractual dispute.

# Notes to the interim report

## 7. Related party transactions

A transaction that is not eliminated in the consolidated financial statements is presented as a related party transaction as follows:

	<b>30.09.2016</b>			
	<b>Sales</b>	<b>Purchases</b>	<b>Receivables</b>	<b>Liabilities</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Entities with significant influence over the Group				62 134

### **Terms relating to the related party transactions**

The loan is a shareholder loan from the majority owner. The annual interest of 6% is paid on the loan nominal. The loan matures in year 2025.

# Notes to the interim report

## 8. Events after the reporting period

On October 26, 2016 the Company informed that it has taken steps to improve liquidity, performance and profitability of its wholly owned subsidiary Kotkamills Oy by optimising and developing existing operations. As part of such efforts, Kotkamills Group Oyj initiated a strategic review process concerning Kotkamills Oy's wholly owned subsidiary L.P. Pacific Films ("LPPF"), a Malaysian limited liability company, for the purposes of evaluating strategic options with respect to LPPF, including a potential disposal.

LPPF operates an impregnating plant in Pasir Gudang, Malaysia, focusing on Imprex® films and core stock. The operations of LPPF are part of the Group's Industrial Products segment. For the financial year ended 31 December 2015, the turnover of LPPF was EUR 13.9 million (MYR 60.3 million).

Under the terms and conditions of Kotkamills Group Oyj's EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705), a disposal of shares in LPPF would require a consent from the bondholders in accordance with the terms and conditions of the bonds. At the same time a written procedure was initiated for the purpose of obtaining such consent for the event that Kotkamills Group Oyj would, as a result of the ongoing strategic review process, decide on a disposal of the shares in LPPF.

On November 15, 2016, the Company informed that it has been informed by Nordic Trustee Oy, acting as the Trustee under the bonds, that the bondholders have given the requested consent for a disposal of shares in LPPF in accordance with the terms and conditions of the bonds.

On November 18, 2016, the Company informed that LPPF's sole shareholder Kotkamills Oy has on 18 November 2016 signed and completed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in LPPF to Surfactor Germany GmbH. The ownership to LPPF's shares has been transferred to Surfactor Germany GmbH with immediate effect.

The enterprise value (on a debt and cash free basis) of LPPF is EUR 25 million. The purchase price is subject to a closing accounts adjustment, which is not expected to be material. The purchase price is paid to Kotkamills Oy in cash.

The disposal improves the Kotkamills group's cash position and operating profit, but Kotkamills Group Oyj does not expect it to have significant impact on the Company's balance sheet.