

**Kotkamills Group Oyj**

**INTERIM REPORT**

**01.01. - 31.12.2016**

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# Kotkamills Group Oyj's Interim Report January 1– December 31, 2016

## 1. Events during October - December 2016

On October 26, 2016, the Company informed, that the Company 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 L.P. Pacific Films ("LPPF"), a Malaysian limited liability company and the subsidiary of Kotkamills Oy, for the purposes of evaluating strategic options with respect to LPPF, including a potential disposal.

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. 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 was 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 Kotkamills Oy has 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 was transferred to Surfactor Germany GmbH with immediate effect.

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

The disposal improved the Kotkamills Group's cash position, operating profit and equity, but it did not have significant impact on Group's assets and liabilities.

On December 16, 2016 the Company informed, that following the LPPF Disposal, Kotkamills Group Oyj has continued to take steps to improve liquidity, performance and profitability of Kotkamills Oy by optimising and developing existing operations. As part of such efforts, Kotkamills Group Oyj initiated a strategic review process concerning the Imprex Business for the purposes of evaluating strategic options with respect to the Imprex Business, including a potential disposal.

The Imprex Business is operated by the Company's wholly owned subsidiary Kotkamills Oy and is part of the Group's Industrial Products segment. The Imprex Business is producing resin-treated core material for high-pressure laminates used in various decorative and industrial applications as well as phenolic resin treated products designed for overlaying of wood-based panels to be used mainly in concrete shuttering and in the transport and construction industries.

The potential disposal of Imprex Business would require a consent from the bondholders in accordance with the terms and conditions of the bonds. 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 Imprex Business.

On December 23, 2016 the Company informed, that following the initial request on December 16, 2016, the Company has engaged in discussion with a major Bondholder, as a result of which the Company decided to amend the request by including partial repayment on outstanding bonds (50 per cent of the net disposal) as a part of the allocation of the disposal proceeds from the potential disposal of Imprex Business.

The delivery volumes of Industrial Products segment decreased slightly compared to the previous quarter due to seasonal variation but the demand still continued to stay at a good level.

The commercial ramp-up of Consumer Boards products continued in the fourth quarter.

## **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 (e.g. Q4/2016 versus Q4/2015) 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.

### **Q4/2016 (compared with Q4/2015)**

The Group's revenue of continuing operations of EUR 58,6 million (EUR 49,9 million) improved by EUR 8,7 million from the same period a year ago mainly due to increased Consumer Boards sales.

The operating profit of continuing operations was EUR 13,8 million (EUR 7,4 million) mainly due to profit of disposal of LPPF shares (EUR 18,9 million) and a negative impact from the ramp-up of Consumer Boards operations.

The cash flows from operating activities of EUR -9,4 million (EUR -3,5 million) were negatively affected by decreased trade payables and increased trade receivables.

The cash flows from investing activities of EUR 12,2 million (EUR -9,4 million) were improved by the disposal of LPPF shares.

Cash flows from financing activities were EUR -0,2 million (EUR -0,1 million).

### **Year 2016 (compared with Year 2015)**

The Group's revenue of continuing operations of EUR 219,1 million (EUR 146,4 million) increased clearly because year 2015 does not include business activities of continuing operations of Q1/2015 (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 -0,4 million (EUR 40,9 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 3,4 million (EUR -6,1 million) was supported by releasing working capital of stopped Magazine business and sales of receivables. Cash flow from investing activities was EUR -116,6 million (EUR -75,7 million) of which the largest investment was conversion project of the paper machine 2 to board machine.

Cash flows from financing activities of EUR 26,9 million (EUR 185,0 million) consists of utilization of the junior term 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).

|                                | <b>2016</b>         | <b>2015</b>         | <b>2016</b>        | <b>2015</b>         |
|--------------------------------|---------------------|---------------------|--------------------|---------------------|
|                                | <b>1.10.-31.12.</b> | <b>1.10.-31.12.</b> | <b>1.1.-31.12.</b> | <b>13.2.-31.12.</b> |
| <b>Continuing operations</b>   |                     |                     |                    |                     |
| Revenue, EUR million           | 58,6                | 49,9                | 219,1              | 146,4               |
| EBITDA, EUR million            | 17,9                | 9,9                 | 9,5                | 46,0                |
| Operating profit, EUR million  | 13,8                | 7,4                 | -0,4               | 40,9                |
| Operating profit / Revenue (%) | 23,6                | 14,7                | -0,2               | 27,9                |
| <b>Group Total</b>             |                     |                     |                    |                     |
| Return on equity (%)           | 58,3                | 9,3                 | -53,2              | 122,4               |
| Equity ratio (%)               | 7,8                 | 13,1                | 7,8                | 13,1                |
| Equity ratio, adjusted (%)*    | 50,1                | 44,3                | 50,1               | 44,3                |

\*Equity including shareholder loans and the junior term loan

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 the junior term 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 January 17, 2017, the Company was informed by Nordic Trustee Oy, acting as the Trustee under the bonds, that the bondholders have given the requested consent (as revised on 23 December 2016) for a disposal of the Imprex Business in accordance with the terms and conditions of the bonds.

On February 16, 2017, the Company informed that the shareholders of Kotkamills Group Oyj have on 16 February 2017 unanimously resolved to offer by a directed issue a maximum of 1,875,417 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, a maximum of 63,125 series B shares held by the company (the "Treasury Shares") for subscription to certain key employees of the Kotkamills group and a maximum of 203,885 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, taking into account the Treasury Shares offered for subscription. The subscription period expired on 22 February 2017. The New Shares represent in aggregate approximately 18.02 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 68,233 series B shares held by the company to key employees of the company or its subsidiaries as part of the company's management incentive system in deviation from the shareholders' pre-emptive subscription rights.

The subscription price for each New Share and each Treasury Share is EUR 1.00 and the aggregate subscription price for the New Shares and the Treasury Shares is EUR 2,142,427. 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

17,920,698. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans was to ensure full utilization of the commercial ramp-up of the new board machine.

On February 24, 2017, the Company informed, that the holders of series A shares subscribed the maximum amount of 1,875,417 New A Shares offered for subscription in the directed share issue and the holders of series B shares subscribed the maximum amount of 63,125 Treasury Shares and 189,860 of the in total 203,885 New B Shares offered for subscription in the directed issue. The subscribed New Shares represent in aggregate approximately 17.90 per cent of the total number of shares in the company.

The aggregate subscription price for the New Shares and the Treasury Shares was EUR 2,128,402. 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 17,920,698.

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 20,049,100.

#### **4. Outlook for 2017**

The revenue of the first quarter in 2017 is estimated to be higher than in the fourth quarter 2016 due to increase in the delivery volumes. The profit of continuing operations for the first quarter of 2017 is estimated to improve from the previous quarter (excluding the profit of disposal of LPPF) although the commercial ramp-up of Consumer Boards business is estimated to have a negative effect on the profit of the first quarter.

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

Present euro exchange rate is 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.-31.12.2016

|  | 01.10.-<br>31.12.2016 | 01.10.-<br>31.12.2015 | 01.01.-<br>31.12.2016 | 13.02.-<br>31.12.2015 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | €000                  | €000                  | €000                  | €000                  |
| <b>Continuing operations</b>   |                       |                       |                       |                       |
| <b>Revenue</b>   | <b>58 635</b>         | <b>49 934</b>         | <b>219 099</b>        | <b>146 375</b>        |
| <b>Other operating income</b>  | <b>19 804</b>         | <b>117</b>            | <b>20 702</b>         | <b>30 896</b>         |
| Change in inventories of finished goods<br>and work in progress        | 3 578                 | -2 553                | 4 618                 | -3 384                |
| Production for own use   | 107                   | 243                   | 1 441                 | 594                   |
| Materials and supplies   | -44 829               | -24 859               | -161 994              | -87 923               |
| Employee benefit expenses  | -9 642                | -7 158                | -40 581               | -20 889               |
| Depreciation and amortisation  | -4 050                | -2 564                | -9 927                | -5 170                |
| Other operating expenses   | -9 778                | -5 798                | -33 784               | -19 624               |
| <b>Total expenses</b>  | <b>-64 614</b>        | <b>-42 690</b>        | <b>-240 227</b>       | <b>-136 396</b>       |
| <b>Operating profit</b>  | <b>13 825</b>         | <b>7 362</b>          | <b>-426</b>           | <b>40 876</b>         |
| Financial income*  | 1 249                 | 576                   | 4 132                 | 5 145                 |
| Financial expenses*  | -4 709                | -4 963                | -17 255               | -15 563               |
|  | -3 460                | -4 387                | -13 123               | -10 418               |
| <b>Profit before taxes</b>   | <b>10 365</b>         | <b>2 975</b>          | <b>-13 549</b>        | <b>30 458</b>         |
| Income taxes   | -83                   | -11                   | -572                  | -273                  |
| Deferred taxes   | 953                   | 712                   | 23                    | 937                   |
| <b>Profit (loss) for the period from continuing<br/>operatios</b>      | <b>11 235</b>         | <b>3 676</b>          | <b>-14 098</b>        | <b>31 122</b>         |
| <b>Discontinued operations</b>   |                       |                       |                       |                       |
| Profit (loss) after tax for the period from<br>discontinued operations | -672                  | -325                  | -2 279                | -2 448                |
| <b>Profit (loss) for the period</b>                                    | <b>10 563</b>         | <b>3 351</b>          | <b>-16 377</b>        | <b>28 674</b>         |

| *Reported in Q2/16 and Q3/16 interim reports<br>€000 | Q2/15  |        | Q3/15  |        | Corrected elimination |       |
|--|--------|--------|--------|--------|-----------------------|-------|
|  | Q2/15  | Q3/15  | Q2/15  | Q3/15  | Q2/15                 | Q3/15 |
| Financial income                                     | 6 378  | 4 812  | 3 004  | 1 565  |                       |       |
| Financial expenses                                   | -6 957 | -8 132 | -3 582 | -4 885 |                       |       |
|  | -579   | -3 320 | -579   | -3 320 |                       |       |

## Consolidated statement of other comprehensive income

For the period 01.01.-31.12.2016

|  | 01.10.-<br>31.12.2016 | 01.10.-<br>31.12.2015 | 01.01.-<br>31.12.2016 | 13.02.-<br>31.12.2015 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | €000                  | €000                  | €000                  | €000                  |
| <b>Profit (loss) for the period</b>  | <b>10 563</b>         | <b>3 351</b>          | <b>-16 377</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  | 863                   | -863                  | 863                   | -863                  |
| <b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes</b>     | <b>863</b>            | <b>-863</b>           | <b>863</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  | -200                  | 93                    | -200                  | 93                    |
| Income taxes   | 40                    | -18                   | 40                    | -18                   |
| <b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes</b> | <b>-160</b>           | <b>75</b>             | <b>-160</b>           | <b>75</b>             |
| <b>Other comprehensive income for the period, net of tax</b>   | <b>703</b>            | <b>-788</b>           | <b>703</b>            | <b>-788</b>           |
| <b>Total comprehensive income for the period, net of tax</b>   | <b>11 266</b>         | <b>2 563</b>          | <b>-15 674</b>        | <b>27 886</b>         |



# Consolidated statement of financial position

31.12.2016

|                               | <u>31.12.2016</u>     | <u>31.12.2015</u>     |
|-------------------------------|-----------------------|-----------------------|
| <b>Assets</b>                 | <b>€000</b>           | <b>€000</b>           |
| <b>Non-current assets</b>     |                       |                       |
| Property, plant and equipment | 215 160               | 85 915                |
| Other intangible assets       | 14 113                | 16 432                |
| Investments                   | 20                    | 20                    |
| Non-current financial assets  | 2 118                 | 526                   |
|                               | <u>231 410</u>        | <u>102 893</u>        |
| <b>Current assets</b>         |                       |                       |
| Inventories                   | 32 050                | 39 971                |
| Trade and other receivables   | 22 221                | 41 144                |
| Other financial assets        | 2 312                 | 1 698                 |
| Cash                          | 16 789                | 103 157               |
|                               | <u>73 372</u>         | <u>185 970</u>        |
| <b>Total assets</b>           | <u><u>304 783</u></u> | <u><u>288 863</u></u> |

# Consolidated statement of financial position

31.12.2016

|   | <u>31.12.2016</u> | <u>31.12.2015</u> |
|---|-------------------|-------------------|
|   | €000              | €000              |
| <b>Equity and liabilities</b>                     |                   |                   |
| <b>Equity</b>                                     |                   |                   |
| Share capital                                     | 80                | 3                 |
| Reserve for invested non-restricted equity        | 11 458            | 9 978             |
| Retained earnings                                 | 12 119            | 27 886            |
| <b>Total equity</b>                               | <u>23 657</u>     | <u>37 866</u>     |
| <b>Non-current liabilities</b>                    |                   |                   |
| Interest bearing loans and borrowings             | 210 839           | 185 985           |
| Other non-current financial liabilities           | 6 241             | 63                |
| Provisions  | 0                 | 133               |
| Pension obligations                               | 837               | 712               |
| Deferred tax liabilities                          | 614               | 845               |
|   | <u>218 531</u>    | <u>187 738</u>    |
| <b>Current liabilities</b>                        |                   |                   |
| Trade and other payables                          | 44 237            | 52 910            |
| Interest bearing liabilities                      | 14 587            | 7 052             |
| Other current financial liabilities               | 3 771             | 3 297             |
|   | <u>62 595</u>     | <u>63 259</u>     |
| <b>Total liabilities</b>                          | <u>281 126</u>    | <u>250 998</u>    |
| <b>Total shareholders' equity and liabilities</b> | <u>304 783</u>    | <u>288 863</u>    |

# Consolidated statement of changes in equity

31.12.2016

| €000  | Share<br>capital | Reserve for<br>invested non-<br>restricted<br>equity | Retained<br>earnings | Total<br>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  | 28 674               | 28 674          |
| Other comprehensive income items (net of tax)             |                  |  |                      |                 |
| Translation differences                                   | 0                | 0  | -863                 | -863            |
| Actuarial gains (+) / losses (-) on defined benefit plans |                  |  | 75                   | 75              |
| <b>Total comprehensive income</b>                         | <b>3</b>         | <b>0</b>   | <b>27 886</b>        | <b>27 888</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 31.12.2015</b>                            | <b>3</b>         | <b>9 978</b>   | <b>27 886</b>        | <b>37 866</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  | -16 377              | -16 377         |
| Other comprehensive income items (net of tax)             |                  |  |                      |                 |
| Translation differences                                   | 0                | 0  | 863                  | 863             |
| Actuarial gains (+) / losses (-) on defined benefit plans | 0                | 0  | -160                 | -160            |
| <b>Total comprehensive income</b>                         | <b>3</b>         | <b>9 978</b>   | <b>12 212</b>        | <b>22 192</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  | -63                  | -63             |
| <b>Total transactions with shareholders</b>               | <b>78</b>        | <b>1 480</b>   | <b>-93</b>           | <b>1 464</b>    |
| <b>Equity as at 31.12.2016</b>                            | <b>80</b>        | <b>11 458</b>  | <b>12 119</b>        | <b>23 657</b>   |

# Consolidated statement of cash flows

For the period 01.01.-31.12.2016

|   | 01.10.-<br>31.12.2016 | 01.10.-<br>31.12.2015 | 01.01.-<br>31.12.2016 | 13.02.-<br>31.12.2015 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | €000                  | €000                  | €000                  | €000                  |
| <b>Cash flows from operating activities</b>                         |                       |                       |                       |                       |
| Profit (loss) for the period before taxes                           | 9 692                 | 2 650                 | -15 828               | 28 010                |
| Adjustments:  |                       |                       |                       |                       |
| Transactions without payments                                       | 1 062                 | 1 243                 | 795                   | 752                   |
| Depreciation  | 4 928                 | 2 655                 | 10 854                | 5 443                 |
| Interest expenses and other financial expenses                      | 4 709                 | 4 963                 | 17 255                | 15 563                |
| Interest income   | -1 249                | -576                  | -4 132                | -5 145                |
| Defined benefit plans, net  | 107                   | 28                    | 107                   | 28                    |
| Other   | -23 263               | -7 691                | -23 263               | -38 205               |
|   | -13 706               | 622                   | 1 615                 | -21 564               |
| Change in working capital:  |                       |                       |                       |                       |
| Change in trade and other receivables                               | 4 880                 | -2 151                | 21 235                | 1 345                 |
| Change in inventories   | -1 860                | 51                    | 7 393                 | -1 284                |
| Change in trade and other payables*                                 | -7 511                | -4 625                | -653                  | -3 908                |
| Interests, paid   | -817                  | -217                  | -9 860                | -6549                 |
| Interests, received   | 26                    | 181                   | 41                    | 187                   |
| Other payments  | 0                     | 0                     | 0                     | -2111                 |
| Taxes, paid   | -83                   | -2                    | -572                  | -273                  |
|   | -5 365                | -6 764                | 17 584                | -12 593               |
| <b>Net cash flows from operating activities (A)</b>                 | <b>-9 379</b>         | <b>-3 492</b>         | <b>3 372</b>          | <b>-6 146</b>         |
| <b>Cash flows from investing activities</b>                         |                       |                       |                       |                       |
| Acquisition of subsidiaries, net of cash                            | 0                     | 0                     | 0                     | -32 815               |
| Tangible and intangible assets sales profit                         | 0                     | 0                     | 4                     | 0                     |
| Proceeds from disposal of subsidiary shares and business operations | 23 263                | 0                     | 23 263                | 0                     |
| Investments in property, plant and equipment*                       | -10 812               | -9 888                | -138 582              | -42 923               |
| Purchase of own shares  | -23                   | 0                     | -63                   | 0                     |
| Change in non-current financial assets                              | -263                  | 508                   | -1 269                | 0                     |
| <b>Net cash flows from investing activities (B)</b>                 | <b>12 165</b>         | <b>-9 380</b>         | <b>-116 647</b>       | <b>-75 739</b>        |
| <b>Cash flows from financing activities</b>                         |                       |                       |                       |                       |
| Paid share capital  | 0                     | 0                     | 0                     | 3                     |
| Proceeds received related to share issue                            | 0                     | 0                     | 1 558                 | 9 978                 |
| Proceeds from loans and borrowings                                  | 0                     | 0                     | 33 437                | 191 000               |
| Repayment of loans and borrowings                                   | 0                     | 0                     | -7 499                | -15 648               |
| Repayment of financial leases                                       | -239                  | -99                   | -558                  | -291                  |
| Dividends, paid   | 0                     | 0                     | -30                   | 0                     |
| <b>Net cash flows from financing activities (C)</b>                 | <b>-239</b>           | <b>-99</b>            | <b>26 908</b>         | <b>185 041</b>        |
| Change in cash (A+B+C)  | 2 548                 | -12 970               | -86 368               | 103 157               |
| Cash and short term deposits at beginning of period                 | 14 241                | 116 127               | 103 157               | 0                     |
| <b>Cash and short term deposits at the end of period</b>            | <b>16 789</b>         | <b>103 157</b>        | <b>16 789</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 |
| 01.10.-31.12.2016               | €000                  | €000                | €000          | €000                        | €000            |
| <b>Revenue</b>                  |                       |                     |               |                             |                 |
| External customers              | 6078                  | 48 373              | 0             | 54 451                      | -146            |
| Inter-segment                   | 32                    | 1 518               | -1 550        | 0                           | 0               |
| <b>Total revenue</b>            | <b>6110</b>           | <b>49 891</b>       | <b>-1 550</b> | <b>54 451</b>               | <b>-146</b>     |
| Depreciation and amortisation   | -2181                 | -529                | 0             | -2 710                      | -527            |
| <b>Segment operating profit</b> | <b>-11 013</b>        | <b>7 417</b>        | <b>0</b>      | <b>-3 596</b>               | <b>-672</b>     |

|                                 | Consumer Boards | Industrial Products | Adjustments   | Total         | Magazine Papers |
|---------------------------------|-----------------|---------------------|---------------|---------------|-----------------|
|                                 | €000            | €000                | €000          | €000          | €000            |
| <b>Revenue</b>                  |                 |                     |               |               |                 |
| External customers              | 0               | 48 489              | 0             | 48 489        | 21 499          |
| Inter-segment                   | 0               | 1 451               | -1 504        | -53           | 53              |
| <b>Total revenue</b>            | <b>0</b>        | <b>49 940</b>       | <b>-1 504</b> | <b>48 435</b> | <b>21 552</b>   |
| Depreciation and amortisation   | -2              | -477                | 0             | -479          | -453            |
| <b>Segment operating profit</b> | <b>-499</b>     | <b>7 152</b>        | <b>0</b>      | <b>6 653</b>  | <b>-325</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

|                                     | 01.10.-<br>31.12.2016 | 01.10.-<br>31.12.2015 | 13.02.-<br>31.12.2015 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| Revenue                             | €000                  | €000                  | €000                  |
| Total segment revenue               | 54 451                | 48 435                | 142 135               |
| Items not allocated to segments     |                       |                       |                       |
| Sales of energy                     | 2 491                 | 665                   | 1 739                 |
| Other and exchange rate differences | 1485                  | -124                  | -745                  |
| <b>Total unallocated items</b>      | <b>3 975</b>          | <b>541</b>            | <b>994</b>            |
| IFRS adjustments                    | 209                   | 958                   | 3 247                 |
| <b>Group's total revenue</b>        | <b>58 635</b>         | <b>49 934</b>         | <b>146 375</b>        |

### Reconciliation of profit

|  | 01.10.-<br>31.12.2016 | 01.10.-<br>31.12.2015 | 13.02.-<br>31.12.2015 |
|--|-----------------------|-----------------------|-----------------------|
| Operating profit   | €000                  | €000                  | €000                  |
| Segment operating profit   | -3 596                | 6 653                 | 15 631                |
| Items not allocated to segments  |                       |                       |                       |
| Unallocated administrative income/expenses   | 128                   | -70                   | -452                  |
| Unallocated non-recurring items related to the business combination/asset disposal | 18 907                | 0                     | -2 574                |
| <b>Total unallocated items</b>   | <b>19035</b>          | <b>-70</b>            | <b>-3026</b>          |
| Gain from bargain purchase   | 0                     | 0                     | 30 514                |
| Other IFRS adjustments   | -1 614                | 779                   | -2 243                |
| <b>Group's total operating profit</b>  | <b>13 825</b>         | <b>7 362</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:

|  | <b>01.10.-31.12.2016</b> | <b>01.10.-31.12.2015</b> |
|--|--------------------------|--------------------------|
|  | <b>€000</b>              | <b>€000</b>              |
| Revenue  | -116                     | 21 554                   |
| Expenses   | -556                     | -21 879                  |
| Operating profit   | -672                     | -325                     |
| Profit (loss) before tax from discontinued operations                      | -672                     | -325                     |
| <b>Profit (loss) after tax for the period from discontinued operations</b> | <b>-672</b>              | <b>-325</b>              |
| <b>Total profit before tax</b>   |                          |                          |
| Profit (loss) before tax from discontinued operations                      | -672                     | -325                     |
| <b>Total</b>   | <b>-672</b>              | <b>-325</b>              |

### Net cash flow of the discontinued operations:

|                      | <b>01.10.-31.12.2016</b> | <b>01.10.-31.12.2015</b> |
|----------------------|--------------------------|--------------------------|
|                      | <b>€000</b>              | <b>€000</b>              |
| Operating            | -751                     | -27                      |
| Investing            | -90                      | -42                      |
| <b>Net cash flow</b> | <b>-842</b>              | <b>-68</b>               |

## Notes to the interim report

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

|                                    | Land and<br>water areas | Buildings and<br>constructions | Machinery<br>and<br>equipment | Advance<br>payments and<br>construction in<br>progress | Other<br>tangible<br>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                       | 9 738                          | 180 137                       | 133 332  | 2 976                       | 326 182        |
| Transfers                          | 0                       | 0                              | 0                             | -185 319   | 0                           | -185 319       |
| Disposals                          | 0                       | -1 070                         | -2 247                        | 0  | 0                           | -3 317         |
| Exchange differences               | 0                       | 23                             | 46                            | 0  | 0                           | 69             |
| <b>31.12.2016</b>                  | <b>759</b>              | <b>11 221</b>                  | <b>209 665</b>                | <b>1 715</b>   | <b>3 360</b>                | <b>226 720</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                       | 258                            | 7 658                         | 0  | 148                         | 8 064          |
| Disposals                          | 4                       | 0                              | 302                           | 0  | 0                           | 306            |
| <b>31.12.2016</b>                  | <b>4</b>                | <b>561</b>                     | <b>10 782</b>                 | <b>0</b>   | <b>213</b>                  | <b>11 560</b>  |
| <b>Carrying amount</b>             |                         |                                |                               |  |                             |                |
| <b>31.12.2016</b>                  | <b>755</b>              | <b>10 660</b>                  | <b>198 883</b>                | <b>1 715</b>   | <b>3 147</b>                | <b>215 160</b> |



# Notes to the interim report

## 5. Financial assets and liabilities

| Financial assets   | 31.12.2016      | 31.12.2016    | 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                                       | 438             | 438           | 556             | 556            | 2                  |
| Commodity derivatives  | 2 197           | 2 197         | 1 142           | 1 142          | 2                  |
| <b>Total</b>   | <b>2 635</b>    | <b>2 635</b>  | <b>1 698</b>    | <b>1 698</b>   |                    |
| <b>Total financial assets at fair value through profit or loss</b> | <b>2 635</b>    | <b>2 635</b>  | <b>1 698</b>    | <b>1 698</b>   |                    |
| <b>Loans and other receivables</b>                                 |                 |               |                 |                |                    |
| Trade receivables  | 10 526          | 10 526        | 26 190          | 26 190         |                    |
| Cash   | 16 789          | 16 789        | 103 157         | 103 157        |                    |
| <b>Total</b>   | <b>27 315</b>   | <b>27 315</b> | <b>129 347</b>  | <b>129 347</b> |                    |
| <b>Total financial assets</b>                                      | <b>29 950</b>   | <b>29 950</b> | <b>131 045</b>  | <b>131 045</b> |                    |
| <b>Total non-current</b>   |                 |               |                 |                |                    |
| Non-current financial assets                                       | 2 118           | 2 118         | 526             | 526            |                    |

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   | 31.12.2016      | 31.12.2016     | 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                                      | 1 030           | 1 030          | 425             | 425            | 2                  |
| Commodity derivatives   | 956             | 956            | 1 619           | 1 619          | 2                  |
| <b>Total</b>  | <b>1 987</b>    | <b>1 987</b>   | <b>2 045</b>    | <b>2 045</b>   |                    |
| <b>Financial liabilities measured at amortised cost</b>           |                 |                |                 |                |                    |
| Bond  | 96 352          | 96 352         | 103 067         | 103 067        |                    |
| Shareholder loan  | 108 898         | 108 898        | 89 970          | 89 970         |                    |
| Trade payables  | 27 479          | 27 479         | 36 329          | 36 329         |                    |
| Junior term loan  | 20 175          | 20 175         | 0               | 0              |                    |
| Leasing liabilities   | 7 676           | 7 676          | 945             | 945            |                    |
| <b>Total</b>  | <b>260 580</b>  | <b>260 580</b> | <b>230 312</b>  | <b>230 312</b> |                    |
| <b>Total financial liabilities</b>                                | <b>262 567</b>  | <b>262 567</b> | <b>232 356</b>  | <b>232 356</b> |                    |
| Financial liabilities held for trading                            | 40              | 40             | 63              | 63             |                    |
| Bond  | 81 765          | 81 765         | 96 014          | 96 014         |                    |
| Shareholder loan  | 108 898         | 108 898        | 89 970          | 89 970         |                    |
| Junior term loan  | 20 175          | 20 175         | 0               | 0              |                    |
| Leasing liabilities   | 6 201           | 6 201          | 579             | 579            |                    |
| <b>Total non-current</b>  | <b>217 080</b>  | <b>217 080</b> | <b>186 626</b>  | <b>186 626</b> |                    |
| Financial liabilities held for trading                            | 1 946           | 1 946          | 1 982           | 1 982          |                    |
| Bond  | 14 587          | 14 587         | 7 052           | 7 052          |                    |
| Trade payables  | 27 479          | 27 479         | 36 329          | 36 329         |                    |
| Leasing liabilities   | 1 475           | 1 475          | 367             | 367            |                    |
| <b>Total current</b>  | <b>45 488</b>   | <b>45 488</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 Q4 / 2016.

# Notes to the interim report

## 6. Commitments and contingencies

|                                      | <b>31.12.2016</b> | <b>31.12.2015</b> |
|--------------------------------------|-------------------|-------------------|
|                                      | <b>€000</b>       | <b>€000</b>       |
| <b>Operating lease commitments</b>   |                   |                   |
| Operating leases, within one year    | 153               | 188               |
| Operating leases, more than one year | 153               | 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 Kotkamills Oy has one unsettled contractual dispute.

The dispute relates to a potential compensation claim by a supplier related to performed construction work. The supplier has claimed for additional payments of EUR 320 thousand on top of agreed contract prices. Additionally the supplier has claimed for payments of EUR 1 690 thousand by appealing to rushing costs and increases of unit prices.

Kotkamills Oy has disputed the claims as unfounded and has not recognised any provision because of the claim.

# 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>31.12.2016</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 |                   |                  |                    | 63 033             |

### **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 January 17, 2017, the Company was informed by Nordic Trustee Oy, acting as the Trustee under the bonds, that the bondholders have given the requested consent (as revised on 23 December 2016) for a disposal of the Imprex Business in accordance with the terms and conditions of the bonds.

On February 16, 2017, the Company informed that the shareholders of Kotkamills Group Oyj have on 16 February 2017 unanimously resolved to offer by a directed issue a maximum of 1,875,417 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, a maximum of 63,125 series B shares held by the company (the "Treasury Shares") for subscription to certain key employees of the Kotkamills Group and a maximum of 203,885 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, taking into account the Treasury Shares offered for subscription. The subscription period expired on 22 February 2017. The New Shares represent in aggregate approximately 18.02 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 68,233 series B shares held by the company to key employees of the company or its subsidiaries as part of the company's management incentive system in deviation from the shareholders' pre-emptive subscription rights.

The subscription price for each New Share and each Treasury Share is EUR 1.00 and the aggregate subscription price for the New Shares and the Treasury Shares is EUR 2,142,427. 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 17,920,698. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans was to ensure full utilization of the commercial ramp-up of the new board machine.

On February 24, 2017, the Company informed, that the holders of series A shares subscribed the maximum amount of 1,875,417 New A Shares offered for subscription in the directed share issue and the holders of series B shares subscribed the maximum amount of 63,125 Treasury Shares and 189,860 of the total 203,885 New B Shares offered for subscription in the directed issue. The subscribed New Shares represent in aggregate approximately 17.90 per cent of the total number of shares in the company.

The aggregate subscription price for the New Shares and the Treasury Shares was EUR 2,128,402. 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 17,920,698.

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 20,049,100.