

Kotkamills Group Oyj

INTERIM REPORT

01.01. - 30.06.2017

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Interim report 01.01.-30.06.2017

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Kotkamills Group Oyj's Interim Report January 1– June 30, 2017

1. Events during April - June 2017

The delivery volumes of Industrial Products segment increased compared to the previous quarter and the demand continued to stay at a good level.

The delivery volumes of Consumer Boards more than doubled compared to the previous quarter and commercial ramp-up of Consumer Boards products continued in the second quarter.

2. Key performance indicators

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 comparison periods presented.

Q2/2017 (compared with Q2/2016)

The Group's revenue of continuing operations of EUR 75,9 million (EUR 49,5 million) improved by EUR 26,4 million from the same period a year ago mainly due to increased Consumer Boards sales.

After the discontinuing Magazine Paper business and implementing Consumer Board machine investment and entering in the Consumer Boards markets since Q4/2015 (excluding one-time profit of disposal Malaysian subsidiary shares in Q4/2016) the Group delivered positive EBITDA of 2,4 MEUR in Q2/2017.

The operating profit of continuing operations was EUR -1,7 million (EUR -6,1 million) due to improved but still a negative impact from the commercial ramp-up of Consumer Boards business. The good financial performance of Industrial Products segment with operating profit of EUR 6,8 million (EUR 3,0 million) continued also in Q2/2017 (In 2016 the maintenance shutdown took place in May, in 2017 in August).

The cash flows from operating activities of EUR -1,7 million (EUR 23,8 million) were negatively affected by increased net working capital.

The cash flows from investing activities of EUR -1,5 million (EUR -65,9 million) were improved clearly due to decreased capital expenditure.

Cash flows from financing activities were EUR -0,3 million (EUR -0,1 million).

Q1-Q2/2017 (compared with Q1-Q2/2016)

The Group's revenue of continuing operations of EUR 135,9 million (EUR 100,5 million) improved by EUR 35,4 million from the same period a year ago mainly due to increased Consumer Boards sales.

The operating profit of continuing operations was EUR -5,8 million (EUR -8,2 million) due to improved but still a negative impact from the commercial ramp-up of Consumer Boards business.

The cash flows from operating activities of EUR -8,3 million (EUR 6,3 million) were negatively affected by increased net working capital.

The cash flows from investing activities of EUR -4,9 million (EUR -96,9 million) were improved clearly due to decreased capital expenditure.

Cash flows from financing activities were EUR 11,9 million (EUR -0,2 million) including shareholders loans of EUR 17,9 million, direct share issue EUR 2,1 million and repayment of bond loan EUR -7,5 million.

	2017	2016	2017	2016	2016
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-31.12.
Continuing operations					
Revenue, EUR million	75,9	49,5	135,9	100,5	219,1
EBITDA, EUR million	2,4	-4,7	2,4	-5,4	9,5
Operating profit, EUR million	-1,7	-6,1	-5,8	-8,2	-0,4
Operating profit / Revenue (%)	-2,3	-12,3	-4,3	-8,2	-0,2
Group Total					
Return on equity (%)	-27,6	-37,1	-63,1	-57,2	-53,2
Equity ratio (%)	4,4	7,8	4,4	7,8	7,8
Equity ratio, adjusted (%)*	52,3	41,8	52,3	41,8	50,1

*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

The Kotkamills group has been producing Saturating Base Kraft (laminating papers) in Tainionkoski, Imatra on Paper Machine 7 (PM 7) leased from Stora Enso Oyj since the separation of Kotkamills from Stora Enso in 2010. The operations are part of the Group's Industrial Products.

On July 3rd, 2017 The Company informed that Stora Enso Oyj has notified Kotkamills Oy that the leasing agreement concerning Tainionkoski PM7 will be terminated in accordance with its terms to expire at the end of 2018.

To serve its existing customers and fulfill the needs arising from increasing demand for laminating papers, Kotkamills is planning to increase the production capacity of Paper Machine 1 (PM1) on Kotkamills' site in Kotka. In addition, Kotkamills has started preparations to procure external production capacity for laminating papers. The external capacity is planned to be available during the first half of 2018. The planned additional external capacity (excluding PM1 increased capacity) will be higher than the present capacity of Tainionkoski PM 7. The discontinuation of the Group's operations in Imatra is not expected to have a material impact on the Group's financial position or results of operations.

On July 5th, 2017 the Company informed that its wholly owned subsidiary Kotkamills Oy ("Kotkamills") intends to transfer three of its existing business lines, namely the Imprex®, Absorbex® and Wood business lines, into wholly owned subsidiaries of Kotkamills (the "Reorganisation"). Kotkamills' fourth existing business line, Consumer Boards, producing bleached CTMP base high-quality Nordic Folding Boxboard and recyclable barrier board products, will remain in Kotkamills Oy.

The purpose of the Reorganisation is to optimize the group structure, increase efficiency and transparency and optimize the performance, profitability and development of each business line. In the Reorganisation, materially all assets and liabilities of the business lines to be transferred will be transferred to the relevant subsidiaries (intended to be named Kotkamills Absorbex Oy, Kotkamills Imprex Oy and Kotkamills Wood Oy), including buildings and machines, current assets, receivables, working capital and intellectual property rights. The Reorganisation is primarily intended to be implemented by way of a contribution in kind against shares in the relevant subsidiary. The employees of the Imprex®, Absorbex® and Wood business lines will transfer along with the relevant business line and the Reorganisation will not affect the rights and obligations of the employees. The Reorganisation is intended to be implemented (in one or several phases) during the second half of 2017.

Under the terms and conditions of Kotkamills Group's EUR 105,000,000 Senior Secured Callable Bonds2015/2020 (ISIN: FI4000148705), the Reorganisation constitutes a permitted transfer between Kotkamills group companies. To the extent the assets transferred are currently covered by the Transaction Security (as defined in the terms and conditions of the bonds), the existing security arrangements will remain in place or the receiving subsidiaries will grant appropriate security over the assets as required under the terms and conditions of the bonds.

4. Outlook for 2017

The revenue of the third quarter in 2017 is estimated to be slightly higher than in the second quarter 2017 due to increase in Consumer Boards delivery volumes offset by the overall effect of the maintenance shutdown in August (2016 in May). The profit of continuing operations for the third quarter of 2017 is estimated to be at the same level compared to the previous quarter due to one-time effect of the maintenance shutdown and diluting effect of the continuing excitable commercial ramp-up of Consumer Boards business.

The demand of all business segments is expected to stay at the good level, but changes in economic situation in Europe and geopolitical risks may have weakening impact on demand.

Currency exchange rate changes and 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 2016. The annual financial statement of 2016 is available on the Company's website at www.kotkamills.com/fi/kotkamillsgroup/keyfinancials.

Consolidated statement of profit or loss

For the period 01.01.-30.06.2017

	01.04.- 30.06.2017	01.04.- 30.06.2016	01.01.- 30.06.2017	01.01.- 30.6.2016	01.01.- 31.12.2016
			€000	€000	€000
Continuing operations					
Revenue	75 930	49 504	135 874	100 503	219 099
Other operating income	713	177	1 000	249	20 702
Change in inventories of finished goods and work in progress	-460	-1 246	4 018	-1 343	4 618
Production for own use	15	575	18	1 063	1 441
Materials and supplies	-50 928	-34 765	-96 304	-69 904	-161 994
Employee benefit expenses	-10 947	-11 402	-20 609	-20 602	-40 581
Depreciation and amortisation	-4 125	-1 438	-8 223	-2 825	-9 927
Other operating expenses	-11 929	-7 510	-21 593	-15 348	-33 784
Total expenses	-78 374	-55 786	-142 693	-108 960	-240 227
Operating profit	-1 731	-6 105	-5 819	-8 208	-426
Financial income	1 759	918	3 025	1 815	4 132
Financial expenses	-4 856	-4 022	-9 687	-8 427	-17 255
	-3 097	-3 103	-6 661	-6 611	-13 123
Profit before taxes	-4 828	-9 209	-12 480	-14 820	-13 549
Income taxes	-5	-158	-7	-270	-572
Deferred taxes	382	11	644	-558	23
Profit (loss) for the period from continuing operatios	-4 451	-9 356	-11 843	-15 648	-14 098
Discontinued operations					
Profit (loss) after tax for the period from discontinued operations	0	-391	0	-1 308	-2 279
Profit (loss) for the period	-4 451	-9 747	-11 843	-16 956	-16 377

Consolidated statement of other comprehensive income

For the period 01.01.-30.06.2017

	01.04.- 30.06.2017	01.04.- 30.06.2016	01.01.- 30.06.2017	01.01.- 30.6.2016	01.01.- 31.12.2016
	€000	€000	€000	€000	€000
Profit (loss) for the period	-4 451	-9 747	-11 843	-16 956	-16 377
Other comprehensive income items:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Translation differences	0	-28	0	463	863
Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes	0	-28	0	463	863
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	-200
Income taxes	0	0	0	0	40
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes	0	0	0	0	-160
Other comprehensive income for the period, net of tax	0	-28	0	463	703
Total comprehensive income for the period, net of tax	-4 451	-9 775	-11 843	-16 493	-15 674

Consolidated statement of financial position

30.06.2017

	30.06.2017	31.12.2016	30.06.2016
	€000	€000	€000
Assets			
Non-current assets			
Property, plant and equipment	211 056	215 160	177 745
Other intangible assets	13 079	14 113	15 609
Non-current financial assets	2 193	2 138	596
Deferred tax assets	31	0	0
	226 359	231 410	193 950
Current assets			
Inventories	36 388	32 050	28 317
Trade and other receivables	31 994	22 221	36 783
Other financial assets	3 530	2 312	1 374
Cash	15 504	16 789	12 369
	87 416	73 372	78 842
Total assets	313 774	304 783	272 793

Consolidated statement of financial position

30.06.2017

	30.06.2017	31.12.2016	30.06.2016
	€000	€000	€000
Equity and liabilities			
Equity			
Share capital	80	80	80
Reserve for invested non-restricted equity	13 523	11 458	9 920
Retained earnings	270	12 119	11 393
Total equity	13 873	23 657	21 393
Non-current liabilities			
Interest bearing loans and borrowings	224 774	210 839	181 615
Other non-current financial liabilities	5 619	6 241	21
Provisions	234	0	35
Pension obligations	803	837	715
Deferred tax liabilities	0	614	1 409
	231 431	218 531	183 795
Current liabilities			
Trade and other payables	49 700	44 237	49 761
Interest bearing liabilities	14 610	14 587	14 564
Other current financial liabilities	4 161	3 771	3 280
	68 471	62 595	67 605
Total liabilities	299 902	281 126	251 400
Total shareholders' equity and liabilities	313 774	304 783	272 793

Consolidated statement of changes in equity

30.06.2017

€000	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total equity
Equity as at 01.01.2016	3	9 978	27 886	37 866
Other comprehensive income				
Profit (loss) for the period	0	0	-16 956	-16 956
Other comprehensive income items (net of tax)				
Translation differences	0	0	463	463
Total comprehensive income	3	9 978	11 393	21 373
Transactions with shareholders				
Share issue	0	20	0	20
Increase in share capital	78	-78	0	0
Total transactions with shareholders	78	-58	0	20
Equity as at 30.06.2016	80	9 920	11 393	21 393
Equity as at 01.07.2016	80	9 920	11 393	21 393
Other comprehensive income				
Profit (loss) for the period	0	0	579	579
Other comprehensive income items (net of tax)				
Translation differences	0	0	400	400
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	-160	-160
Total comprehensive income	80	9 920	12 212	22 212
Transactions with shareholders				
Dividends, paid	0	0	-30	-30
Share issue	0	1 538	0	1 538
Own shares	0	0	-63	-63
Total transactions with shareholders	0	1 538	-93	1 445
Equity as at 31.12.2016	80	11 458	12 119	23 657
Equity as at 01.01.2017	80	11 458	12 119	23 657
Other comprehensive income				
Profit (loss) for the period	0	0	-11 843	-11 843
Other comprehensive income items (net of tax)				
Total comprehensive income	80	11 458	276	11 814
Transactions with shareholders				
Share issue	0	2 065	0	2 065
Dividends, paid	0	0	-69	-69
Own shares	0	0	62	62
Total transactions with shareholders	0	2 065	-7	2 059
Equity as at 30.06.2017	80	13 523	270	13 873

Consolidated statement of cash flows

For the period 01.01.-30.06.2017

	01.04.- 30.06.2017	01.04.- 30.06.2016	01.01.- 30.06.2017	01.01.- 30.06.2016	01.01.- 31.12.2016
	€000	€000	€000	€000	€000
Cash flows from operating activities					
Profit (loss) for the period before taxes	-4 828	-9 600	-12 480	-16 127	-15 828
Adjustments:					
Transactions without payments	-267	654	232	455	795
Depreciation	4 125	1 136	8 223	2 874	10 854
Interest expenses and other financial expenses	4 856	4 022	9 687	8 427	17 255
Interest income	-1 759	-918	-3 025	-1 815	-4 132
Defined benefit plans, net	0	0	0	0	107
Other	0	0	0	0	-23 263
	6 955	4 893	15 116	9 941	1 615
Change in working capital:					
Change in trade and other receivables	-4 834	6 820	-9 773	4 361	21 235
Change in inventories	-30	5 679	-4 338	11 654	7 393
Change in trade and other payables	606	16 255	6 440	1 347	-653
Interests and other financial expenses, paid	-541	-80	-5 206	-4 602	-9 860
Interests and other financial income, received	1 009	5	1 948	11	41
Taxes, paid	-5	-158	-7	-270	-572
	-3 795	28 521	-10 936	12 500	17 584
Net cash flows from operating activities (A)	-1 668	23 815	-8 300	6 313	3 372
Cash flows from investing activities					
Proceeds from disposal of subsidiary shares and business operations	0	0	0	0	23 263
Investments in property, plant and equipment	-1 341	-65 919	-4 806	-96 873	-138 582
Purchase of own shares	0	-20	-1	-20	-63
Change in non-current financial assets	-115	1	-115	-14	-1 269
Net cash flows from investing activities (B)	-1 456	-65 938	-4 922	-96 907	-116 647
Cash flows from financing activities					
Proceeds received related to share issue	0	0	2 065	20	1 558
Proceeds from loans and borrowings	0	0	17 921	0	33 437
Repayment of loans and borrowings	0	0	-7 499	0	-7 499
Sale of own shares	0	0	63	0	0
Repayment of financial leases	-239	-85	-545	-185	-558
Dividends, paid	-69	-30	-69	-30	-30
Net cash flows from financing activities (C)	-308	-115	11 936	-195	26 908
Change in cash (A+B+C)	-3 432	-42 239	-1 286	-90 788	-86 368
Cash and short term deposits at beginning of period	18 935	54 608	16 789	103 157	103 157
Cash and short term deposits at the end of period	15 504	12 369	15 504	12 369	16 789

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 2016.

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 2016.

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
	€000	€000	€000	€000	€000
01.04.-30.06.2017					
Revenue					
External customers	21 958	53 402	0	75 360	0
Inter-segment	8	1 486	-1 494	0	0
Total revenue	21 966	54 888	-1 494	75 360	0
Depreciation and amortisation	-2 264	-522	0	-2 786	0
Segment operating profit	-7 213	6 753	0	-461	0
01.04.-30.06.2016					
Revenue					
External customers	0	48 262	0	48 262	6 259
Inter-segment	0	0	0	0	0
Total revenue	0	48 262	0	48 262	6 259
Depreciation and amortisation	-38	-504	0	-542	-15
Segment operating profit	-8 471	2 964	0	-5 507	-391
01.01-31.12.2016					
Revenue					
External customers	11 473	200 275	0	211 747	18 712
Inter-segment	93	3 090	-3 182	0	0
Total revenue	11 566	203 364	-3 182	211 747	18 712
Depreciation and amortisation	-3603	-2 081	0	-5 685	-878
Segment operating profit	-38 209	23 096	0	-15 113	-2 279

Reconciliation of revenue

	01.04.- 30.06.2017	01.04.- 30.06.2016	01.01.- 31.12.2016
Revenue	€000	€000	€000
Total segment revenue	75 360	48 262	211 747
Items not allocated to segments			
Sales of energy	1 161	954	6 673
Other and exchange rate differences	-591	400	679
Total unallocated items	570	1354	7352
IFRS adjustments	0	-112	0
Group's total revenue	75 930	49 504	219 099

Reconciliation of profit

	01.04.- 30.06.2017	01.04.- 30.06.2016	01.01.- 31.12.2016
Operating profit	€000	€000	€000
Segment operating profit	-461	-5 507	-15 113
Items not allocated to segments			
Unallocated administrative income/expenses	-77	-16	-365
Unallocated non-recurring items related to the business combination/asset disposal	0	0	0
Total unallocated items	-77	-16	-365
Gain from bargain purchase	0	0	18 907
Other IFRS adjustments	-1 194	-582	-3 855
Group's total operating profit	-1 731	-6 105	-426

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:

	01.04.-30.06.2017	01.04.-30.06.2016
	€000	€000
Revenue	0	6 261
Expenses	0	-6 652
Operating profit	0	-391
Profit (loss) before tax from discontinued operations	0	-391
Profit (loss) after tax for the period from discontinued operations	0	-391
Total profit before tax		
Profit (loss) before tax from discontinued operations	0	-391
Total	0	-391

Net cash flow of the discontinued operations:

	01.04.-30.06.2017	01.04.-30.06.2016
	€000	€000
Operating	0	6440
Investing	0	851
Net cash flow	0	7291

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
Acquisition cost						
31.12.2016	755	11 221	209 665	1 715	3 360	226 716
Additions	0	9	4 008	3 021	61	7 100
Transfers	0	0	0	-3 936	0	-3 936
30.06.2017	755	11 230	213 674	801	3 421	229 880
Depreciation and impairment						
31.12.2016	0	561	10 782	0	213	11 557
Depreciation charge for the year	0	207	6 938	0	123	7 267
30.06.2017	0	768	17 720	0	336	18 824
Carrying amount						
31.12.2016	755	10 660	198 883	1 715	3 147	215 160
30.06.2017	755	10 462	195 953	801	3 085	211 056

Notes to the interim report

5. Financial assets and liabilities

Financial assets	30.06.2017	30.06.2017	31.12.2016	31.12.2016	Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
Financial assets at fair value through profit or loss					
Financial assets held for trading					
Foreign currency derivatives	2 006	2 006	438	438	2
Commodity derivatives	1 526	1 526	2 197	2 197	2
Total	3 532	3 532	2 635	2 635	
Total financial assets at fair value through profit or loss	3 532	3 532	2 635	2 635	
Loans and other receivables					
Trade receivables	15 853	15 853	10 526	10 526	
Cash	15 504	15 504	16 789	16 789	
Total	31 357	31 357	27 315	27 315	
Total financial assets	34 888	34 888	29 950	29 950	
Total non-current					
Non-current financial assets	1 930	1 930	1 815	1 815	

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	30.06.2017	30.06.2017	31.12.2016	31.12.2016	Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading					
Foreign currency derivatives	803	803	1 030	1 030	2
Commodity derivatives	1 263	1 263	956	956	2
Total	2 067	2 067	1 987	1 987	
Financial liabilities measured at amortised cost					
Bond	89 064	89 064	96 352	96 352	
Shareholder loan	130 139	130 139	108 898	108 898	
Trade payables	26 362	26 362	27 479	27 479	
Junior term loan	20 179	20 179	20 175	20 175	
Leasing liabilities	7 269	7 269	7 676	7 676	
Total	273 013	273 013	260 580	260 580	
Total financial liabilities	275 080	275 080	262 567	262 567	
Financial liabilities held for trading					
Bond	116	116	40	40	
Shareholder loan	74 454	74 454	81 765	81 765	
Junior term loan	130 139	130 139	108 898	108 898	
Leasing liabilities	20 179	20 179	20 175	20 175	
Total non-current	230 391	230 391	217 080	217 080	
Financial liabilities held for trading					
Bond	1 951	1 951	1 946	1 946	
Trade payables	14 610	14 610	14 587	14 587	
Leasing liabilities	26 362	26 362	27 479	27 479	
Total current	44 690	44 690	45 488	45 488	

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 Q2 / 2017.

Notes to the interim report

6. Commitments and contingencies

	30.06.2017	31.12.2016
	€000	€000
Operating lease commitments		
Operating leases, within one year	71	153
Operating leases, more than one year	128	153
Guarantees		
Securities given on own behalf		
Mortgages	750 000	750 000
Shares of Kotkamills Oy	39 653	39 653
Intercompany loan	175 000	155 000
Total	964 852	944 959

Commitments

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. On April 7, 2017 the Court of Appeals approved the decision of the court of first instance and sent the lawsuit file back to court of first instance for finalization of the decision. Kotkamills Oy has not recognized any provision because of the claim.

Disputes

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 was a party to the dispute. Arbitration award was given on May 2, 2017. Based on both award and agreement between Kotkamills Group Oyj and Kotkamills Oy's Seller there won't be any financial impacts on Kotkamills Oy.

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. In a pending arbitration the supplier claims Kotkamills Oy for compensation of preliminary EUR 1 500 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:

	30.06.2017			
	Sales	Purchases	Receivables	Liabilities
	€000	€000	€000	€000
Entities with significant influence over the Group				75 327

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

The Kotkamills group has been producing Saturating Base Kraft (laminating papers) in Tainionkoski, Imatra on Paper Machine 7 (PM 7) leased from Stora Enso Oyj since the separation of Kotkamills from Stora Enso in 2010. The operations are part of the Group's Industrial Products

On July 3rd, 2017 The Company informed that Stora Enso Oyj has notified Kotkamills Oy that the leasing agreement concerning Tainionkoski PM7 will be terminated in accordance with its terms to expire at the end of 2018.

To serve its existing customers and fulfill the needs arising from increasing demand for laminating papers, Kotkamills is planning to increase the production capacity of Paper Machine 1 (PM1) on Kotkamills' site in Kotka. In addition, Kotkamills has started preparations to procure external production capacity for laminating papers. The external capacity is planned to be available during the first half of 2018. The planned additional external capacity (excluding PM1 increased capacity) will be higher than the present capacity of Tainionkoski PM 7. The discontinuation of the Group's operations in Imatra is not expected to have a material impact on the Group's financial position or results of operations.

On July 5th, 2017 the Company informed that its wholly owned subsidiary Kotkamills Oy ("Kotkamills") intends to transfer three of its existing business lines, namely the Imprex®, Absorbex® and Wood business lines, into wholly owned subsidiaries of Kotkamills (the "Reorganisation"). Kotkamills' fourth existing business line, Consumer Boards, producing bleached CTMP base high-quality Nordic Folding Boxboard and recyclable barrier board products, will remain in Kotkamills Oy.

The purpose of the Reorganisation is to optimize the group structure, increase efficiency and transparency and optimize the performance, profitability and development of each business line. In the Reorganisation, materially all assets and liabilities of the business lines to be transferred will be transferred to the relevant subsidiaries (intended to be named Kotkamills Absorbex Oy, Kotkamills Imprex Oy and Kotkamills Wood Oy), including buildings and machines, current assets, receivables, working capital and intellectual property rights. The Reorganisation is primarily intended to be implemented by way of a contribution in kind against shares in the relevant subsidiary. The employees of the Imprex®, Absorbex® and Wood business lines will transfer along with the relevant business line and the Reorganisation will not affect the rights and obligations of the employees. The Reorganisation is intended to be implemented (in one or several phases) during the second half of 2017.

Under the terms and conditions of Kotkamills Group's EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705), the Reorganisation constitutes a permitted transfer between Kotkamills group companies. To the extent the assets transferred are currently covered by the Transaction Security (as defined in the terms and conditions of the bonds), the existing security arrangements will remain in place or the receiving subsidiaries will grant appropriate security over the assets as required under the terms and conditions of the bonds.