

**Kotkamills Group Oyj**

**INTERIM REPORT**

**01.01. - 31.12.2017**

# Table of contents

**Interim report 01.01.-31.12.2017**

**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– December 31, 2017

## 1. Events during October - December 2017

On October 12th, 2017 The Company informed that it's fully owned subsidiary Kotkamills Oy has signed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in Kotkamills Imprex Oy to Dongwha Enterprise Co. On October 31st, 2017 The Company informed that it's fully owned subsidiary Kotkamills Oy has completed the disposal of Kotkamills Imprex Oy. Kotkamills Imprex Oy was part of Group's Industrial Products segment.

The enterprise value (on a debt and cash free basis) of Kotkamills Imprex Oy was EUR 27 million. The purchase price was subject to a customary closing accounts adjustment. The purchase price was paid to Kotkamills Oy in cash.

In accordance with the terms and conditions of the consent for the disposal of the Imprex Business granted by the holders of Kotkamills Group Oyj's EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705) (the "Bonds") on 16 January 2017, 50 per cent of the net disposal proceeds received by Kotkamills Oy from the sale of Kotkamills Imprex Oy was to be applied in partial repayment on outstanding Bonds. On that basis, the amount repaid for each Bond was EUR 11,732.00. The Record Date (as defined in the terms and conditions of the Bonds) for the repayment was 6 November 2017 and the repayment of EUR 12,5 million (including accrued interest) was disbursed to the bondholders on 7 November 2017. The repayment decreased non-current liabilities by EUR 12,3 million in Q4/2017.

The disposal improved Kotkamills Group's Q4/2017 operating profit by EUR 19,6 million.

On November 24th, 2017 The Company's fully owned subsidiary Kotkamills Oy reached a settlement in the contractual dispute related to potential compensation claim by a supplier related to performed construction work and pending arbitration was withdrawn. The settlement does not have a material impact on Kotkamills Oy's operating profit or balance sheet.

The delivery volumes of both saturating base kraft and wood products in Industrial Products segment increased clearly compared to the previous quarter mainly due to maintenance shutdown in Q3/17. The demand continued to stay at a good level.

The delivery volumes of Consumer Boards increased compared to the previous quarter and commercial ramp-up of Consumer Boards products continued in the third 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.

### Q4/2017 (compared with Q4/2016)

The Group's revenue of continuing operations of EUR 79,3 million (EUR 58,6 million) improved by EUR 20,7 million from the same period a year ago mainly due to increased Consumer Boards sales.

The Group EBITDA of EUR 23,7 million (EUR 17,9 million) improved from the same period a year ago.

The operating profit of continuing operations was EUR 16,7 million (EUR 13,8 million including EUR 18,9 million profit of disposal of Malaysian subsidiary LPPF shares) mainly due to EUR 19,6 million profit of disposal of Kotkamills Imprex Oy shares and further improved but still a negative impact of Consumer Boards business.

The good financial performance of Industrial Products segment with operating profit of EUR 5,5 million (EUR 7,4 million) continued also in Q4/2017.

The cash flows from operating activities of EUR -6,4 million (EUR -9,4 million) were negatively affected by increased net working capital.

The cash flows from investing activities of EUR 23,4 million (EUR 12,2 million including disposal of Malaysian subsidiary LPPF shares) were improved clearly due to disposal of Kotkamills Imprex Oy shares and decreased capital expenditure.

Cash flows from financing activities were EUR -12,7 million (EUR -0,2 million) including partial repayment of bond loan EUR -12,3 million.

#### **Q1-Q4/2017 (compared with Q1-Q4/2016)**

The Group's revenue of continuing operations of EUR 287,7 million (EUR 219,1 million) improved by EUR 68,6 million from the same period a year ago due to increased Consumer Boards sales.

The Group EBITDA of EUR 28,8 million (EUR 9,5 million) improved from the same period a year ago.

The operating profit of continuing operations was EUR 5,7 million (EUR -0,4 million including disposal of Malaysian subsidiary LPPF shares) mainly due to EUR 19,6 million profit of disposal of Kotkamills Imprex Oy shares, further improved but still a negative impact of Consumer Boards business and one-time impairment costs of intangible assets of EUR -3,9 million related to the announced termination of Tainionkoski PM7 leasing agreement at the end of 2018.

The cash flows from operating activities of EUR -10,0 million (EUR 3,4 million) were negatively affected by increased net working capital.

The cash flows from investing activities of EUR 16,0 million (EUR -116,6 million) were improved clearly due to decreased capital expenditure and disposal of Kotkamills Imprex Oy shares.

Cash flows from financing activities were EUR -8,7 million (EUR 26,9 million) including shareholders loans of EUR 17,9 million, direct share issue EUR 2,1 million and repayment of bond loan EUR -27,3 million.

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>1.10.-31.12.</b>	<b>1.10.-31.12.</b>	<b>1.1.-31.12.</b>	<b>1.1.-31.12.</b>
<b>Continuing operations</b>				
Revenue, EUR million	79,3	58,6	287,7	219,1
EBITDA, EUR million	23,7	17,9	28,8	9,5
Operating profit, EUR million	16,7	13,8	5,7	-0,4
Operating profit / Revenue (%)	21,1	23,6	2,0	-0,2
<b>Group Total</b>				
Return on equity (%)	119,7	58,3	7,0	-53,2
Equity ratio (%)	8,8	7,8	8,8	7,8
Equity ratio, adjusted (%)*	58,2	50,1	58,2	50,1

\*Equity including shareholder loans and the junior term loan

The Group monitors capital by using an adjusted equity ratio based on the financial covenant, which is total equity added with shareholder loan and the junior term loan and divided by total assets (which shall be at least 30% in the end of each reporting period). The Group's policy is to keep the adjusted equity ratio above 30%. There have been no breaches of the financial covenant of adjusted equity ratio in the current period.

### 3. Events after reporting date

On February 20th, 2018 the shareholders of Kotkamills Group Oyj have on unanimously resolved to offer by a directed issue a maximum of 450,770 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 20,000 new series B shares (the "New Management Incentive Allocation") for subscription to certain directors of the Kotkamills group and a maximum of 49,230 new series B shares (the "New B Shares", together with the New A Shares and the New Management Incentive Allocation, 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 New Management Incentive Allocation offered for subscription. The New Shares represent in aggregate approximately 3.82 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 24,376 new series B shares to key employees and directors 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 period for subscription of the New Shares based on primary subscription rights expired on 26 February 2018. Based on the primary subscription rights and secondary subscription rights allocated by the board of directors, holders of series A shares subscribed the maximum number of 450,770 New A Shares offered for subscription, certain directors of the Kotkamills group subscribed the maximum number of 20,000 series B Shares offered for subscription in the New Management Incentive Allocation and holders of series B shares subscribed 47,493 of the in total 49,230 New B Shares offered for subscription. The subscribed New Shares represent in aggregate approximately 3.81 per cent of the total number of shares in the company.

The subscription price for each New Share is EUR 2.00 and the aggregate subscription price for the New Shares is EUR 1,036,526. Pursuant to the terms of the share issue of the New A Shares, 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 5 million. 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 is to ensure successful commercial launch of new food service board products and to secure the efficient working capital management of Kotkamills Group's further increasing consumer board products delivery volumes. As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj will obtain financing in the aggregate amount of EUR 6 million.

After the share issue has been recorded in the Finnish Trade Register, the total number of shares issued by the company will be 14,121,069, of which 12,732,464 will constitute series A shares, representing approximately 90.17 per cent of the total number of the shares in the company, and 1,388,605 will constitute series B shares, representing approximately 9.83 per cent of the total number of the shares in the company. The entire subscription price of EUR 1,036,526 will be entered in the company's reserve for invested unrestricted equity.

The Company has decided to make a pre-feasibility study for an investment to increase the production of Saturating Base Kraft ("Laminating Papers"). In order to prepare Kotkamills Absorbex Oy, the fully owned subsidiary of Kotkamills Oy and the leading global supplier of Laminating Papers, to meet the increasing demand as well as to replace the discontinuing production volume of paper machine 7 in Tainionkoski, Imatra (Stock Exchange release on the 3rd of July 2017), Kotkamills Oy has started the pre-feasibility study of a new paper machine 3 (a "New PM3") in Kotka. Kotkamills Absorbex Oy is part of Group's Industrial Products segment.

The final decision of this possible investment will be done by the end of year 2018. The capacity, cost estimation and start-up timing of the New PM3 will be published later on subject to the positive investment decision. The possible investment would have a positive impact on the profitability of Kotkamills Group.

#### **4. Outlook for 2018**

The revenue of the first quarter in 2018 is estimated to be slightly higher than in the fourth quarter 2017 due to increasing delivery volumes in both segments despite of typically slightly lower seasonal demand in Industrial Products segment.

The profit of continuing operations for the first quarter of 2018 is estimated also to be slightly better compared to the previous quarter (excluding one-time profit of disposal Kotkamills Imprex Oy shares in October 2017) due to increased sales volumes and prices. This effect is estimated to be partly offset by increased raw material and energy prices and unfavorable currency exchange rates development.

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

#### **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](http://www.kotkamills.com/fi/kotkamillsgroup/keyfinancials).

# Consolidated statement of profit or loss

For the period 01.01.-31.12.2017

	01.10.- 31.12.2017	01.10.- 31.12.2016	01.01.- 31.12.2017	01.01.- 31.12.2016
	€000	€000	€000	€000
<b>Continuing operations</b>				
<b>Revenue</b>	<b>79 326</b>	<b>58 635</b>	<b>287 699</b>	<b>219 099</b>
<b>Other operating income</b>	<b>23 816</b>	<b>19 804</b>	<b>25 068</b>	<b>20 702</b>
Change in inventories of finished goods and work in progress	4 085	3 578	9 408	4 618
Production for own use	0	107	23	1 441
Materials and supplies	-59 513	-44 829	-206 365	-161 994
Employee benefit expenses	-9 758	-9 642	-39 923	-40 581
Depreciation and amortisation	-3 965	-4 050	-16 199	-9 927
Impairment	-2 977	0	-6 830	0
Other operating expenses	-14 273	-9 778	-47 132	-33 784
<b>Total expenses</b>	<b>-86 401</b>	<b>-64 614</b>	<b>-307 018</b>	<b>-240 227</b>
<b>Operating profit</b>	<b>16 741</b>	<b>13 825</b>	<b>5 749</b>	<b>-426</b>
Financial income	3 496	1 249	8 671	4 132
Financial expenses	-4 852	-4 709	-19 450	-17 255
	-1 356	-3 460	-10 779	-13 123
<b>Profit before taxes</b>	<b>15 385</b>	<b>10 365</b>	<b>-5 030</b>	<b>-13 549</b>
Income taxes	-10	-83	-24	-572
Deferred taxes	5 212	953	6 855	23
<b>Profit (loss) for the period from continuing operatios</b>	<b>20 586</b>	<b>11 235</b>	<b>1 800</b>	<b>-14 098</b>
<b>Discontinued operations</b>				
Profit (loss) after tax for the period from discontinued operations	0	-672	0	-2 279
<b>Profit (loss) for the period</b>	<b>20 586</b>	<b>10 563</b>	<b>1 800</b>	<b>-16 377</b>

## Consolidated statement of other comprehensive income

For the period 01.01.-31.12.2017

	01.10.- 31.12.2017	01.10.- 31.12.2016	01.01.- 31.12.2017	01.01.- 31.12.2016
	€000	€000	€000	€000
<b>Profit (loss) for the period</b>	<b>20 586</b>	<b>10 563</b>	<b>1 800</b>	<b>-16 377</b>
<b>Other comprehensive income items:</b>				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Translation differences	0	863	0	863
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes</b>	<b>0</b>	<b>863</b>	<b>0</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	-57	-200	-57	-200
Income taxes	11	40	11	40
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes</b>	<b>-46</b>	<b>-160</b>	<b>-46</b>	<b>-160</b>
<b>Other comprehensive income for the period, net of tax</b>	<b>-46</b>	<b>703</b>	<b>-46</b>	<b>703</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>20 541</b>	<b>11 266</b>	<b>1 755</b>	<b>-15 674</b>



# Consolidated statement of financial position

31.12.2017

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>€000</b>	<b>€000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	209 091	215 160
Other intangible assets	5 758	14 113
Non-current financial assets	1 513	2 138
Deferred tax assets	6 252	0
	<b>222 615</b>	<b>231 410</b>
<b>Current assets</b>		
Inventories	36 401	32 050
Trade and other receivables	34 558	22 221
Other financial assets	4 181	2 312
Cash	14 047	16 789
	<b>89 187</b>	<b>73 372</b>
<b>Total assets</b>	<b>311 801</b>	<b>304 783</b>

# Consolidated statement of financial position

31.12.2017

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>€000</b>	<b>€000</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	80	80
Reserve for invested non-restricted equity	13 523	11 458
Retained earnings	13 867	12 119
<b>Total equity</b>	<b>27 470</b>	<b>23 657</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	208 881	210 839
Other non-current financial liabilities	4 892	6 241
Pension obligations	875	837
Deferred tax liabilities	0	614
	<b>214 648</b>	<b>218 531</b>
<b>Current liabilities</b>		
Trade and other payables	52 468	44 237
Interest bearing liabilities	14 635	14 587
Other current financial liabilities	2 579	3 771
	<b>69 683</b>	<b>62 595</b>
<b>Total liabilities</b>	<b>284 331</b>	<b>281 126</b>
<b>Total shareholders' equity and liabilities</b>	<b>311 801</b>	<b>304 783</b>

# Consolidated statement of changes in equity

31.12.2017

€000	Share capital	Reserve for invested non- restricted equity	Retained earnings	Total equity
<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>
<b>Equity as at 01.01.2017</b>	<b>80</b>	<b>11 458</b>	<b>12 119</b>	<b>23 657</b>
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	1 800	1 800
Other comprehensive income items (net of tax)				
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	-46	-46
<b>Total comprehensive income</b>	<b>0</b>	<b>11 458</b>	<b>13 874</b>	<b>25 411</b>
<b>Transactions with shareholders</b>				
Share issue	0	2 065	0	2 065
Dividends, paid	0	0	-69	-69
Own shares	0	0	62	62
<b>Total transactions with shareholders</b>	<b>0</b>	<b>2 065</b>	<b>-7</b>	<b>2 059</b>
<b>Equity as at 31.12.2017</b>	<b>80</b>	<b>13 523</b>	<b>13 867</b>	<b>27 470</b>

# Consolidated statement of cash flows

For the period 01.01.-31.12.2017

	01.10.- 31.12.2017	01.10.- 31.12.2016	01.01.- 31.12.2017	01.01.- 31.12.2016
	€000	€000	€000	€000
<b>Cash flows from operating activities</b>				
Profit (loss) for the period before taxes	15 385	9 692	-5 030	-15 828
Adjustments:				
Transactions without payments	-597	1 062	-246	795
Depreciation and impairment	6 943	4 928	23 029	10 854
Interest expenses and other financial expenses	4 852	4 709	19 450	17 255
Interest income	-3 496	-1 249	-8 671	-4 132
Defined benefit plans, net	57	107	57	107
Other	-26 012	-23 263	-26 012	-23 263
	-18 253	-13 706	7 608	1 615
Change in working capital:				
Change in trade and other receivables	-5 513	4 880	-11 741	21 235
Change in inventories	-55	-1 860	-4 350	7 393
Change in trade and other payables	1 062	-7 511	8 599	-653
Interests and other financial expenses, paid	-825	-817	-10 311	-9 860
Interests and other financial income, received	1 797	26	5 230	41
Taxes, paid	-10	-83	-24	-572
	-3 544	-5 365	-12 597	17 584
<b>Net cash flows from operating activities (A)</b>	<b>-6 412</b>	<b>-9 379</b>	<b>-10 020</b>	<b>3 372</b>
<b>Cash flows from investing activities</b>				
Tangible and intangible assets sales profit	0	0	0	4
Proceeds from disposal of subsidiary shares and business operations	26 012	23 263	26 012	23 263
Investments in property, plant and equipment	-3 134	-10 812	-10 406	-138 582
Purchase of own shares	0	-23	1	-63
Change in non-current financial assets	525	-263	390	-1 269
<b>Net cash flows from investing activities (B)</b>	<b>23 404</b>	<b>12 165</b>	<b>15 997</b>	<b>-116 647</b>
<b>Cash flows from financing activities</b>				
Proceeds received related to share issue	0	0	2 065	1 558
Proceeds from loans and borrowings	0	0	17 921	33 437
Repayment of loans and borrowings	-12 319	0	-27 317	-7 499
Sale of own shares	0	0	63	0
Repayment of financial leases	-394	-239	-1 383	-558
Dividends, paid	0	0	-69	-30
<b>Net cash flows from financing activities (C)</b>	<b>-12 713</b>	<b>-239</b>	<b>-8 719</b>	<b>26 908</b>
Change in cash (A+B+C)	4 278	2 548	-2 742	-86 368
Cash and short term deposits at beginning of period	9 769	14 241	16 789	103 157
<b>Cash and short term deposits at the end of period</b>	<b>14 047</b>	<b>16 789</b>	<b>14 047</b>	<b>16 789</b>

# 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
<b>01.10.-31.12.2017</b>					
<b>Revenue</b>					
External customers	34 906	43 673	0	78 579	0
Inter-segment	21	1 498	-1 519	0	0
<b>Total revenue</b>	<b>34 927</b>	<b>45 171</b>	<b>-1 519</b>	<b>78 579</b>	<b>0</b>
Depreciation and amortisation	-2 298	-647	0	-2 945	0
<b>Segment operating profit</b>	<b>-7 422</b>	<b>5 523</b>	<b>0</b>	<b>-1 900</b>	<b>0</b>
<b>01.10.-31.12.2016</b>					
<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>
<b>01.01-31.12.2016</b>					
<b>Revenue</b>					
External customers	11 473	200 275	0	211 747	18 712
Inter-segment	93	3 090	-3 182	0	0
<b>Total revenue</b>	<b>11 566</b>	<b>203 364</b>	<b>-3 182</b>	<b>211 747</b>	<b>18 712</b>
Depreciation and amortisation	-3603	-2 081	0	-5 685	-878
<b>Segment operating profit</b>	<b>-38 209</b>	<b>23 096</b>	<b>0</b>	<b>-15 113</b>	<b>-2 279</b>

**Reconciliation of revenue**

	01.10.- 31.12.2017	01.10.- 31.12.2016	01.01.- 31.12.2016
<b>Revenue</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Total segment revenue	78 579	54 451	211 747
Items not allocated to segments			
Sales of energy	1 694	2 491	6 673
Other and exchange rate differences	-948	1 485	679
<b>Total unallocated items</b>	<b>746</b>	<b>3 975</b>	<b>7 352</b>
IFRS adjustments	0	209	0
<b>Group's total revenue</b>	<b>79 326</b>	<b>58 635</b>	<b>219 099</b>

**Reconciliation of profit**

	01.10.- 31.12.2017	01.10.- 31.12.2016	01.01.- 31.12.2016
<b>Operating profit</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Segment operating profit	-1 900	-3 596	-15 113
Items not allocated to segments			
Unallocated administrative income/expenses	-1 492	128	-365
<b>Total unallocated items</b>	<b>-1 492</b>	<b>128</b>	<b>-365</b>
Sales of assets	23 679	18 907	18 907
Asset impairment	-2 977	0	0
Other IFRS adjustments	-570	-1 614	-3 855
<b>Group's total operating profit</b>	<b>16 741</b>	<b>13 825</b>	<b>-426</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.-31.12.2017</b>	<b>01.10.-31.12.2016</b>
	<b>€000</b>	<b>€000</b>
Revenue	0	-116
Expenses	0	-556
Operating profit	0	-672
Profit (loss) before tax from discontinued operations	0	-672
<b>Profit (loss) after tax for the period from discontinued operations</b>	<b>0</b>	<b>-672</b>
<b>Total profit before tax</b>		
Profit (loss) before tax from discontinued operations	0	-672
<b>Total</b>	<b>0</b>	<b>-672</b>

### Net cash flow of the discontinued operations:

	<b>01.10.-31.12.2017</b>	<b>01.10.-31.12.2016</b>
	<b>€000</b>	<b>€000</b>
Operating	0	-751
Investing	0	-90
<b>Net cash flow</b>	<b>0</b>	<b>-842</b>



## 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>31.12.2016</b>	<b>755</b>	<b>11 221</b>	<b>209 665</b>	<b>1 715</b>	<b>3 360</b>	<b>226 716</b>
Additions	0	261	9 557	8 915	241	18 974
Transfers	0	0	0	-10 027	0	-10 027
Disposals	0	0	-400	0	0	-400
<b>31.12.2017</b>	<b>755</b>	<b>11 482</b>	<b>218 822</b>	<b>603</b>	<b>3 601</b>	<b>235 262</b>
<b>Depreciation and impairment</b>						
<b>31.12.2016</b>	<b>0</b>	<b>561</b>	<b>10 782</b>	<b>0</b>	<b>213</b>	<b>11 557</b>
Depreciation charge for the year	0	415	13 952	0	249	14 615
<b>31.12.2017</b>	<b>0</b>	<b>976</b>	<b>24 734</b>	<b>0</b>	<b>462</b>	<b>26 172</b>
<b>Carrying amount</b>						
31.12.2016	755	10 660	198 883	1 715	3 147	215 160
<b>31.12.2017</b>	<b>755</b>	<b>10 506</b>	<b>194 087</b>	<b>603</b>	<b>3 139</b>	<b>209 091</b>

# Notes to the interim report

## 5. Financial assets and liabilities

Financial assets	31.12.2017	31.12.2017	31.12.2016	31.12.2016	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	809	809	438	438	2
Commodity derivatives	3 460	3 460	2 197	2 197	2
<b>Total</b>	<b>4 269</b>	<b>4 269</b>	<b>2 635</b>	<b>2 635</b>	
<b>Total financial assets at fair value through profit or loss</b>	<b>4 269</b>	<b>4 269</b>	<b>2 635</b>	<b>2 635</b>	
<b>Loans and other receivables</b>					
Trade receivables	15 194	15 194	10 526	10 526	
Cash	14 047	14 047	16 789	16 789	
<b>Total</b>	<b>29 241</b>	<b>29 241</b>	<b>27 315</b>	<b>27 315</b>	
<b>Total financial assets</b>	<b>33 510</b>	<b>33 510</b>	<b>29 950</b>	<b>29 950</b>	
<b>Total non-current</b>					
Non-current financial assets	1 425	1 425	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	31.12.2017	31.12.2017	31.12.2016	31.12.2016	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	374	374	1 030	1 030	2
Commodity derivatives	402	402	956	956	2
<b>Total</b>	<b>776</b>	<b>776</b>	<b>1 987</b>	<b>1 987</b>	
<b>Financial liabilities measured at amortised cost</b>					
Bond	69 468	69 468	96 352	96 352	
Shareholder loan	133 689	133 689	108 898	108 898	
Trade payables	28 521	28 521	27 479	27 479	
Junior term loan	20 356	20 356	20 175	20 175	
Leasing liabilities	6 373	6 373	7 676	7 676	
<b>Total</b>	<b>258 408</b>	<b>258 408</b>	<b>260 580</b>	<b>260 580</b>	
<b>Total financial liabilities</b>	<b>259 184</b>	<b>259 184</b>	<b>262 567</b>	<b>262 567</b>	
<b>Financial liabilities held for trading</b>					
Bond	91	91	40	40	
Shareholder loan	54 833	54 833	81 765	81 765	
Junior term loan	133 689	133 689	108 898	108 898	
Leasing liabilities	20 356	20 356	20 175	20 175	
<b>Total non-current</b>	<b>213 770</b>	<b>213 770</b>	<b>217 080</b>	<b>217 080</b>	
<b>Financial liabilities held for trading</b>					
Bond	685	685	1 946	1 946	
Trade payables	14 635	14 635	14 587	14 587	
Leasing liabilities	28 521	28 521	27 479	27 479	
<b>Total current</b>	<b>45 414</b>	<b>45 414</b>	<b>45 488</b>	<b>45 488</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 / 2017.

# Notes to the interim report

## 6. Commitments and contingencies

	<u>31.12.2017</u>	<u>31.12.2016</u>
	€000	€000
<b>Operating lease commitments</b>		
Operating leases, within one year	52	153
Operating leases, more than one year	105	153
<b>Guarantees</b>		
Securities given on own behalf		
Mortgages	950 000	750 000
Shares of Kotkamills Oy	39 653	39 653
Intercompany loan	175 000	155 000
<b>Total</b>	<b><u>1 164 810</u></b>	<b><u>944 959</u></b>

### Commitments

#### Litigations and disputes

No litigation processes during the reporting period.

#### Disputes

On November 24th, 2017 The Company's fully owned subsidiary Kotkamills Oy reached a settlement in the contractual dispute related to potential compensation claim by a supplier related to performed construction work and pending arbitration was withdrawn. The settlement does not have a material impact on Kotkamills Oy's operating profit or balance sheet.

# 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>31.12.2017</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				<b>77 382</b>

### **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 February 20th, 2018 the shareholders of Kotkamills Group Oyj have on unanimously resolved to offer by a directed issue a maximum of 450,770 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 20,000 new series B shares (the "New Management Incentive Allocation") for subscription to certain directors of the Kotkamills group and a maximum of 49,230 new series B shares (the "New B Shares", together with the New A Shares and the New Management Incentive Allocation, 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 New Management Incentive Allocation offered for subscription. The subscription period expires on 26 February 2018. The New Shares represent in aggregate approximately 3.82 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 24,376 new series B shares to key employees and directors 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 period for subscription of the New Shares based on primary subscription rights expired on 26 February 2018. Based on the primary subscription rights and secondary subscription rights allocated by the board of directors, holders of series A shares subscribed the maximum number of 450,770 New A Shares offered for subscription, certain directors of the Kotkamills group subscribed the maximum number of 20,000 series B Shares offered for subscription in the New Management Incentive Allocation and holders of series B shares subscribed 47,493 of the in total 49,230 New B Shares offered for subscription. The subscribed New Shares represent in aggregate approximately 3.81 per cent of the total number of shares in the company.

The subscription price for each New Share is EUR 2.00 and the aggregate subscription price for the New Shares is EUR 1,036,526. Pursuant to the terms of the share issue of the New A Shares, 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 5 million. 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 is to ensure successful commercial launch of new food service board products and to secure the efficient working capital management of Kotkamills Group's further increasing consumer board products delivery volumes. As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj will obtain financing in the aggregate amount of EUR 6 million.

After the share issue has been recorded in the Finnish Trade Register, the total number of shares issued by the company will be 14,121,069, of which 12,732,464 will constitute series A shares, representing approximately 90.17 per cent of the total number of the shares in the company, and 1,388,605 will constitute series B shares, representing approximately 9.83 per cent of the total number of the shares in the company. The entire subscription price of EUR 1,036,526 will be entered in the company's reserve for invested unrestricted equity.

The Company has decided to make a pre-feasibility study for an investment to increase the production of Saturating Base Kraft ("Laminating Papers"). In order to prepare Kotkamills Absorbex Oy, the fully owned subsidiary of Kotkamills Oy and the leading global supplier of Laminating Papers, to meet the increasing demand as well as to replace the discontinuing production volume of paper machine 7 in Tainionkoski, Imatra (Stock Exchange release on the 3rd of July 2017), Kotkamills Oy has started the pre-feasibility study of a new paper machine 3 (a "New PM3") in Kotka. Kotkamills Absorbex Oy is part of Group's Industrial Products segment.

The final decision of this possible investment will be done by the end of year 2018. The capacity, cost estimation and start-up timing of the New PM3 will be published later on subject to the positive investment decision. The possible investment would have a positive impact on the profitability of Kotkamills Group.