Kotkamills Group Oyj

INTERIM REPORT

01.01. - 31.12.2018

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Kotkamills Group Oyj's Interim Report January 1 – December 31, 2018

1. Events during October - December 2018

Delivery volumes in the Consumer Boards segment were clearly higher than a year ago, but on a lower level compared to the previous quarter mainly due to the seasonal decline in Q4/18.

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 Q3/18. The demand continued on good level.

2. Key performance indicators

Q4/2018 (compared with Q4/2017)

The Group's revenue of EUR 85,0 million (EUR 79,3 million) improved by EUR 5,7 million from the same period a year ago mainly due to increased sales in the Consumer Boards segment.

The Group's EBITDA of EUR 7,7 million (EUR 23,7 million including EUR 22,6 million gain relating to disposal of Kotkamills Imprex Oy shares) decreased clearly from the same period a year ago due to a one-time effect (sales of Kotkamills Imprex Oy shares) in the comparison period.

Consumer Boards segment EBITDA of EUR 1,4 million (EUR -5,1 million) stayed at the previous quarter level but was clearly better compared to the same period a year ago due to increased sales prices and volumes.

Industrial Products segment EBITDA of EUR 4,7 million (EUR 6,2 million) decreased by EUR 1,5 million mainly due to lower delivery volumes compared to the same period a year ago.

Operating profit was EUR 3,6 million (EUR 16,7).

Cash flow from operating activities of EUR 7,9 million (EUR -6,4 million) improved mainly due to better result of operating activities and stabilized working capital need compared to the same period a year ago.

Cash flow from investing activities of EUR -4,1 million (EUR 23,4 million) was clearly below previous year's level due to disposal of Kotkamills Imprex Oy shares in 2017. Capital expenditure stayed at previous year level.

Cash flow from financing activities was EUR -0,4 million (EUR -12,7 million including EUR -12,3 million partial repayment of outstanding bond loan).

Q1-Q4/2018 (compared with Q1-Q4/2017)

The Group's revenue of EUR 353,3 million (EUR 287,7 million) improved by EUR 65,6 million from the same period a year ago mainly due to increased Consumer Boards sales.

The Group's EBITDA was EUR 23,2 million (EUR 28,8 million including EUR 22,6 million gain relating to disposal of Kotkamills Imprex Oy shares) following the improved impact of Consumer Boards business.

Operating profit was EUR 7,1 million (EUR 5,7 million).

Cash flow from operating activities of EUR 21,3 million (EUR -10,0 million) improved clearly following the improved impact of Consumer Boards business and stabilized net working capital level.

Cash flow from investing activities was EUR -8,7million (EUR 16,0 million). Capital expenditure of EUR 8,7 million was below the previous year level (EUR 10,4 million).

Cash flow from financing activities was EUR -10,7 million (EUR -8,7 million), including shareholder loans of EUR 5,0 million, direct share issue of EUR 1,0 million and repayment of the bond loan of EUR -15,0 million.

	2018	**2017**	**2018**	**2017**
	1.10.-31.12.	**1.10.-31.12.**	**1.1.-31.12.**	**1.1.-31.12.**
Group Total				
Revenue, EUR million	85,0	79,3	353,3	287,7
EBITDA, EUR million	7,7	23,7	23,2	28,8
Operating profit, EUR million	3,6	16,7	7,1	5,7
Operating profit / Revenue (%)	4,2	21,1	2,0	2,0
Return on equity (%)	-15,1	119,7	-46,3	7,0
Equity ratio (%)	5,9	8,8	5,9	8,8
Equity ratio, adjusted (%)*	60,4	58,2	60,4	58,2

*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 loans and the junior term loan 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

Kotkamills Group has produced Saturating Base Kraft ("SBK") in Tainionkoski Paper Machine 7 ("PM7") in Imatra leased from Stora Enso Oyj since the separation of Kotkamills from Stora Enso in 2010. The operations have been part of the Group's Industrial Products segment.

As earlier informed ((Stock Exchange release on the 3rd of July 2017) the leasing agreement concerning Tainionkoski PM7 was terminated in accordance with its terms in January 2019.

To serve its existing customers and to fulfill the needs arising from the increasing demand for SBK, Kotkamils is increasing the production capacity and product portfolio of Paper Machine 1 on Kotkamills' site in Kotka. In addition, Kotkamills has subcontracted production capacity for SBK.

Furthermore, the company will continue the earlier informed feasibility study for a possible investment to increase the production capacity of SBK with a new paper machine 3 (a "New PM3") in Kotka. The capacity, cost estimation and project schedule of the New PM3 will be published later on subject to the positive investment decision.

February 27th, 2019, Kotkamills has been announced as one of the winners in the global innovation initiative NextGen Cup Challenge, launched by the NextGen Consortium, aiming to develop the next generation of recyclable, compostable, hot and cold to-go, fiber cups. Fully recyclable, plastic-free and biodegradable The Game Changer cup – made of Kotkamills' ISLA® board – is one of the 12 awarded solutions that push the boundaries of sustainable design and material innovation. Company sees this recognition as a confirmation for its commitment to revolutionize paper cup production and recycling with its plastic-free next-generation barrier board solutions.

4. Near-term outlook

Revenue and profit of the first quarter in 2019 are estimated to be roughly at the same level as in the fourth quarter of 2018.

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

Currency exchange rate changes and possible further increases in raw material prices could adversely impact the Group's profit development.

5. Near-term risk review

No material changes have occurred in the short-term risks and uncertainties disclosed in the annual financial statement of 2017. The annual financial statement of 2017 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.-31.12.2018

	01.10.-31.12.2018	01.10.-31.12.2017	01.01.-31.12.2018	01.01.-31.12.2017
	€000	**€000**	**€000**	**€000**
Revenue	**85 013**	**79 326**	**353 317**	**287 699**
Other operating income	**1 373**	**23 816**	**2 956**	**25 068**
Change in inventories of finished goods and work in progress	405	4 085	1 689	9 408
Production for own use	0	0	36	23
Materials and supplies	-57 227	-59 513	-239 924	-206 365
Employee benefit expenses	-9 858	-9 758	-40 048	-39 923
Depreciation and amortisation	-4 104	-3 965	-16 114	-16 199
Impairment	0	-2 977	0	-6 830
Other operating expenses	-12 027	-14 273	-54 823	-47 132
Total expenses	**-82 812**	**-86 401**	**-349 186**	**-307 018**
Operating profit	**3 574**	**16 741**	**7 088**	**5 749**
Financial income	1 220	3 496	7 501	8 671
Financial expenses	-6 293	-4 852	-22 967	-19 450
	-5 073	-1 356	-15 466	-10 779
Profit before taxes	**-1 499**	**15 385**	**-8 379**	**-5 030**
Income taxes	-36	-10	-48	-24
Deferred taxes	-1 373	5 212	-2 330	6 855
Profit (loss) for the period	**-2 907**	**20 586**	**-10 757**	**1 800**

Consolidated statement of other comprehensive income

For the period 01.01.-31.12.2018

	01.10.- 31.12.2018	01.10.- 31.12.2017	01.01.- 31.12.2018	01.01.- 31.12.2017
	€000	€000	€000	€000
Profit (loss) for the period	**-2 907**	**20 586**	**-10 757**	**1 800**
Other comprehensive income items:				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods				
Actuarial gains (+) / losses (-) on defined benefit plans	239	-57	239	-57
Income taxes	-59	11	-59	11
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes	**180**	**-46**	**180**	**-46**
Other comprehensive income for the period, net of tax	**180**	**-46**	**180**	**-46**
Total comprehensive income for the period, net of tax	**-2 728**	**20 541**	**-10 577**	**1 755**

Consolidated statement of financial position

31.12.2018

	31.12.2018	31.12.2017
Assets	**€000**	**€000**
Non-current assets		
Property, plant and equipment	201 407	209 091
Other intangible assets	7 586	5 758
Non-current financial assets	1 429	1 513
Deferred tax assets	3 863	6 252
	214 285	**222 615**
Current assets		
Inventories	41 437	36 401
Trade and other receivables	33 053	34 558
Other financial assets	1 040	4 181
Cash	15 936	14 047
	91 466	**89 187**
Total assets	**305 751**	**311 801**

Consolidated statement of financial position

31.12.2018

	31.12.2018	31.12.2017
Equity and liabilities	**€000**	**€000**
Equity		
Share capital	80	80
Reserve for invested non-restricted equity	14 668	13 523
Retained earnings	3 200	13 867
Total equity	**17 948**	**27 470**
Non-current liabilities		
Interest bearing loans and borrowings	206 831	208 881
Other non-current financial liabilities	4 633	4 892
Pension obligations	680	875
	212 145	**214 648**
Current liabilities		
Trade and other payables	56 087	52 468
Contract liabilities	1 948	
Interest bearing liabilities	14 705	14 635
Other current financial liabilities	2 917	2 579
	75 658	**69 683**
Total liabilities	**287 802**	**284 331**
Total shareholders' equity and liabilities	**305 751**	**311 801**

Consolidated statement of changes in equity

31.12.2018

€000	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total equity
Equity as at 01.01.2017	**80**	**11 458**	**12 119**	**23 657**
Other comprehensive income				
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
Total comprehensive income	**80**	**11 458**	**13 874**	**25 411**
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 31.12.2017	**80**	**13 523**	**13 867**	**27 470**
Equity as at 01.01.2018	**80**	**13 523**	**13 867**	**27 470**
Other comprehensive income				
Profit (loss) for the period	0	0	-10 757	-10 757
Other comprehensive income items (net of tax)				
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	180	180
Total comprehensive income	**80**	**13 523**	**3 290**	**16 893**
Transactions with shareholders				
Share issue	0	1 037	0	1037
Share issue, unregistered	0	109	0	109
Dividends, paid	0	0	-90	-90
Total transactions with shareholders	**0**	**1 145**	**-90**	**1 055**
Equity as at 31.12.2018	**80**	**14 668**	**3 200**	**17 948**

Consolidated statement of cash flows

For the period 01.01.-31.12.2018

	01.10.-31.12.2018	01.10.-31.12.2017	01.01.-31.12.2018	01.01.-31.12.2017
	€000	€000	€000	€000
Cash flow from operating activities				
Profit (loss) for the period before taxes	-1 499	15 385	-8 379	-5 030
Adjustments:				
Transactions without payments	76	-597	173	-246
Depreciation and impairment	4 104	6 943	16 114	23 029
Interest expenses and other financial expenses	6 293	4 852	22 967	19 450
Interest income	-1 220	-3 496	-7 501	-8 671
Defined benefit plans, net	-180	57	-180	57
Other	5	-26 012	0	-26 012
	9 079	-18 253	31 574	7 608
Change in working capital:				
Change in trade and other receivables	4 573	-5 513	1 477	-11 741
Change in inventories	-2 769	-55	-5 036	-4 350
Change in trade and other payables	-2 189	1 062	2 666	8 599
Interests and other financial expenses, paid	-678	-825	-8 615	-10 311
Interests and other financial income, received	1 389	1 797	7 620	5 230
Taxes, paid	-36	-10	-48	-24
	289	-3 544	-1 937	-12 597
Net cash flow from operating activities (A)	**7 869**	**-6 412**	**21 258**	**-10 020**
Cash flow from investing activities				
Proceeds from sale of tangible and intangible assets	0	0	18	0
Proceeds from disposal of subsidiary shares and business operations	0	26 012	0	26 012
Investments in property, plant and equipment	-4 058	-3 134	-8 729	-10 406
Purchase of own shares	0	0	0	1
Change in non-current financial assets	0	525	-4	390
Net cash flow from investing activities (B)	**-4 058**	**23 404**	**-8 715**	**15 997**
Cash flow from financing activities				
Proceeds received related to share issue	109	0	1 145	2 065
Proceeds from loans and borrowings	-46	0	5 000	17 921
Repayment of loans and borrowings	0	-12 319	-14 998	-27 317
Sale of own shares	0	0	0	63
Repayment of financial leases	-425	-394	-1 712	-1 383
Dividends, paid	0	0	-90	-69
Net cash flow from financing activities (C)	**-362**	**-12 713**	**-10 654**	**-8 719**
Change in cash (A+B+C)	3 449	4 278	1 889	-2 742
Cash and short term deposits at beginning of period	12 487	9 769	14 047	16 789
Cash and short term deposits at the end of period	**15 936**	**14 047**	**15 936**	**14 047**

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 2017.

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 2017, except for the adoption of new standards and amendments effective as of January 1, 2018.

New standards, interpretations and amendments adopted by the Group

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 has superseded the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the good or service underlying the particular performance obligation is transferred to the customer. The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption. There are no changes impacting the comparative information.

The Group is specialised in consumer boards, saturating base kraft (laminating papers) and wood products. The revenue streams can be divided into two operating segments, which are Consumer Boards and Industrial Products. The Group is acting as a principal in all of the customer contracts as the Group provides the good and services itself to a customer and controls the specified goods and services before they are transferred to a customer.

Consumer Boards
Consumer Boards provides renewable and fiber-based packaging materials for consumer boards. The production of Consumber Boards was started in July 2016.

The company's sales consist mainly of sales of products and performance obligations are normally defined as the products are delivered based on customer contracts and customer order confirmations. The Group's contracts with customers for the sale of Consumer Boards generally include one performance obligation. The Group has concluded that revenue from sale of Consumer Boards should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The exact timing of the control transfer is analyzed contract by contract taking into account the delivery terms, customer acceptance clauses and customer's ability to benefit from the goods delivered. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Industrial Products
Industrial Products produces saturating base kraft (laminating papers) as well as wood products for construction and transportation industry.

Similar to Consumer Boards, performance obligations are normally defined as the products are delivered based on customer contracts and customer order confirmations. The Group's contracts with customers for the sale of Industrial Products generally include one performance obligation. The Group has concluded that revenue from sale of Industrial Products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The exact timing of the control transfer is analyzed contract by contract taking into account the delivery terms, customer acceptance clauses and customer's ability to benefit from the goods delivered. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

In conclusion the Group does not identify factors that would materially change the amount and timing of the present revenue recognition practises of sales of Consumer Boards and Industrial Products.

IFRS 9 *Financial Instruments*
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. In accordance with the section on classification and measurement included in IFRS 9, financial assets are classified and measured based on the entity's business model and contractual cash flows of financial assets. The classification and measurement of financial liabilities primarily complies with the principles of IAS 39, the current standard.

The hedge accounting model provides more opportunities for the application of hedge accounting, thereby allowing entities to reflect their risk management practices in more detail in financial statements. The hedge effectiveness testing rules have been revised, and the new principles are based on financial dependence.

The impairment model pursuant to IAS 39 was based on credit losses incurred, while the new impairment model takes into account expected credit losses. Entities recognize the expected credit losses and changes in them in each reporting period so that changes in the credit risk after initial recognition are taken into consideration. The standard will provide new disclosure requirements concerning the entity's risk management practices.

The Group has applied IFRS 9 with the initial application date of 1 January 2018. The Group concluded that the timing recording expected credit losses will be impacted by the new standard and notes information disclosed will be affected. The Group does not apply hedge accounting. There is no impact on Group's consolidated financial statements by the new requirements for the classification and measurement of financial assets.

This interim report is unaudited.

Notes to the interim report

2. Segment information and revenue from contract with customers

01.10.-31.12.2018	Consumer Boards	Industrial Products	Adjustments	Total
	€000	€000	€000	€000
Revenue				
External customers	44 636	37 710	0	**82 346**
Inter-segment	0	1 535	-1 535	0
Total revenue	**44 636**	**39 245**	**-1 535**	**82 346**
Depreciation and amortisation	-2 328	-462	0	-2 790
Segment operating profit	**-899**	**4 214**	**0**	**3 315**

01.10.-31.12.2017	Consumer Boards	Industrial Products	Adjustments	Total
	€000	€000	€000	€000
Revenue				
External customers	34 906	43 673	0	**78 579**
Inter-segment	21	1 498	-1 519	0
Total revenue	**34 927**	**45 171**	**-1 519**	**78 579**
Depreciation and amortisation	-2 298	-647	0	-2 945
Segment operating profit	**-7 422**	**5 523**	**0**	**-1 900**

01.01-31.12.2017	Consumer Boards	Industrial Products	Adjustments	Total
	€000	€000	€000	€000
Revenue				
External customers	93 620	188 756	0	282 375
Inter-segment	109	5 494	-5 603	0
Total revenue	**93 728**	**194 250**	**-5 603**	**282 375**
Depreciation and amortisation	-9 080	-2 373	0	-11 454
Segment operating profit	**-29 518**	**23 706**	**0**	**-5 812**

Reconciliation of revenue

Revenue	01.10.-31.12.2018 €000	01.10.-31.12.2017 €000	01.01.-31.12.2017 €000
Total segment revenue	82 346	78 579	282 375
Items not allocated to segments			
Sales of energy	2 672	1 694	6 258
Revenue recognition and other	-4	-948	-934
Total unallocated items	**2 667**	**746**	**5 324**
Group's total revenue from contracts with customers	**85 013**	**79 326**	**287 699**

Reconciliation of profit

Operating profit	01.10.-31.12.2018 €000	01.10.-31.12.2017 €000	01.01.-31.12.2017 €000
Segment operating profit	3 315	-1 900	-5 812
Items not allocated to segments			
Unallocated administrative income/expenses	-40	-1492	-1 542
Total unallocated items	**-40**	**-1492**	**-1542**
Sales of assets	0	23 679	23 679
Asset impairment	0	-2 977	-6 830
Other IFRS adjustments	298	-570	-3 745
Group's total operating profit	**3 574**	**16 741**	**5 749**

At the closing date the Group has recognised impairment losses on receivables and contract assets arising from contracts with customers total EUR 47 thousand.

Notes to the interim report

3. 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						
31.12.2017	**755**	**11 482**	**218 822**	**603**	**3 601**	**235 262**
Additions	0	111	7 339	6 240	67	13 756
Transfers	0	0	0	-6 295	0	-6 295
Disposals	0	0	-31	0	0	-31
31.12.2018	**755**	**11 593**	**226 130**	**548**	**3 667**	**242 693**
Depreciation and impairment						
31.12.2017	**0**	**976**	**24 734**	**0**	**462**	**26 172**
Depreciation charge for the year	0	425	14 446	0	262	15 133
Disposals	0	0	-18	0	0	-18
31.12.2018	**0**	**1 401**	**39 162**	**0**	**724**	**41 286**
Carrying amount						
31.12.2017	755	10 506	194 087	603	3 139	209 091
31.12.2018	**755**	**10 192**	**186 968**	**548**	**2 944**	**201 407**

Notes to the interim report

4. Financial assets and liabilities

Financial assets	31.12.2018 Carrying amount	31.12.2018 Fair value	31.12.2017 Carrying amount	31.12.2017 Fair value	Level of hierarchy
	€000	€000	€000	€000	
Financial assets at fair value through profit or loss					
Financial assets held for trading					
Foreign currency derivatives	2	2	809	809	2
Commodity derivatives	1 037	1 037	3 460	3 460	2
Total	**1 040**	**1 040**	**4 269**	**4 269**	
Total financial assets at fair value through profit or loss	**1 040**	**1 040**	**4 269**	**4 269**	
Loans and other receivables					
Trade receivables	15 567	15 567	15 194	15 194	
Cash	15 936	15 936	14 047	14 047	
Total	**31 503**	**31 503**	**29 241**	**29 241**	
Total financial assets	**32 542**	**32 542**	**33 510**	**33 510**	
Total non-current					
Non-current financial assets	**1 429**	**1 429**	**1 425**	**1 425**	

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	31.12.2018	31.12.2018	31.12.2017	31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Level of hierarchy
	€000	€000	€000	€000	
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading					
Foreign currency derivatives	14	14	374	374	2
Commodity derivatives	1 272	1 272	402	402	2
Total	**1 286**	**1 286**	**776**	**776**	
Financial liabilities measured at amortised cost					
Bond	54 837	54 837	69 468	69 468	
Shareholder loan	145 979	145 979	133 689	133 689	
Trade payables	32 323	32 323	28 521	28 521	
Junior term loan	20 719	20 719	20 356	20 356	
Leasing liabilities	5 954	5 954	6 373	6 373	
Total	**259 814**	**259 814**	**258 408**	**258 408**	
Total financial liabilities	**261 100**	**261 100**	**259 184**	**259 184**	
Financial liabilities held for trading	0	0	91	91	
Bond	40 133	40 133	54 833	54 833	
Shareholder loan	145 979	145 979	133 689	133 689	
Junior term loan	20 719	20 719	20 356	20 356	
Leasing liabilities	4 633	4 633	4 801	4 801	
Total non-current	**211 464**	**211 464**	**213 770**	**213 770**	
Financial liabilities held for trading	1 286	1 286	685	685	
Bond	14 705	14 705	14 635	14 635	
Trade payables	32 323	32 323	28 521	28 521	
Leasing liabilities	1 322	1 322	1 572	1 572	
Total current	**49 636**	**49 636**	**45 414**	**45 414**	

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/ 2018.

Notes to the interim report

5. Commitments and contingencies

	31.12.2018	31.12.2017
	€000	**€000**
Operating lease commitments		
Operating leases, within one year	247	52
Operating leases, more than one year	153	105
Guarantees		
Securities given on own behalf		
Mortgages	950 000	950 000
Shares of Kotkamills Oy	39 653	39 653
Intercompany loan	175 000	175 000
Total	**1 165 053**	**1 164 810**

Commitments

Litigations and disputes

At the closing date there was not any pending litigations.

Disputes

At the closing date there was not any material unsettled disputes.

Notes to the interim report

6. Related party transactions

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

	31.12.2018			
	Sales	**Purchases**	**Receivables**	**Liabilities**
	€000	**€000**	**€000**	**€000**
Entities with significant influence over the Group	0	0	0	84 496

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

7. Events after the reporting period

Kotkamills Group has produced Saturating Base Kraft ("SBK") in Tainionkoski Paper Machine 7 ("PM7") in Imatra leased from Stora Enso Oyj since the separation of Kotkamills from Stora Enso in 2010. The operations have been part of the Group's Industrial Products segment.

As earlier informed ((Stock Exchange release on the 3rd of July 2017) the leasing agreement concerning Tainionkoski PM7 was terminated in accordance with its terms in January 2019.

To serve its existing customers and to fulfill the needs arising from the increasing demand for SBK, Kotkamils is increasing the production capacity and product portfolio of Paper Machine 1 on Kotkamills' site in Kotka. In addition, Kotkamills has subcontracted production capacity for SBK.

Furthermore, the company will continue the earlier informed feasibility study for a possible investment to increase the production capacity of SBK with a new paper machine 3 (a "New PM3") in Kotka. The capacity, cost estimation and project schedule 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.

February 27th, 2019, Kotkamills has been announced as one of the winners in the global innovation initiative NextGen Cup Challenge, launched by the NextGen Consortium, aiming to develop the next generation of recyclable, compostable, hot and cold to-go, fiber cups. Fully recyclable, plastic-free and biodegradable The Game Changer cup – made of Kotkamills' ISLA® board – is one of the 12 awarded solutions that push the boundaries of sustainable design and material innovation. Company sees this recognition as a confirmation for its commitment to revolutionize paper cup production and recycling with its plastic-free next-generation barrier board solutions.