

## AUDITOR'S REPORT (Translation)

To the Annual General Meeting of Kotkamills Group Oyj

### Report on the Audit of Financial Statements

#### Opinion

We have audited the financial statements of Kotkamills Group Oyj (business identity code 2673676-1) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

#### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

#### 1) Revenue recognition

*Refer to the Summary of significant accounting policies and Note 3.*

Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer. The management of the Group focuses on sales as a key performance measure which could create an incentive for sales to be recognized before the risks and rewards have been

transferred. Revenue recognition is a key audit matter due to the identified risk of material misstatement.

Our audit procedures to address the risk of material misstatement relating to revenue recognition, included:

- Assessing the Group's accounting policies over revenue recognition and comparing them with applicable accounting standards;
- Understanding the nature of revenues, degree of automation and unusual contractual terms ;
- Testing revenue recognition including testing the associated internal controls where applicable. Our testing included obtaining third party confirmations, agreeing recognized amounts to customer contracts and, verifying the customer acceptance of delivery, where relevant.
- Performing substantive analytical review procedures on revenues; and
- Assessing the Group's disclosures in respect of revenues

## **2) Valuation of property, plant and equipment**

*Refer to the Summary of significant accounting policies, the Critical accounting estimates and judgments and Note 13.*

Property, plant and equipment were significant to our audit as a consequence of significant product line investment during the year. Carrying value of tangible fixed assets in the financial statements is EUR 215,2 million (71 % of total assets) of which investments during the financial period amount to EUR 140,9 million.

As part of the accounting for investments management judgement impacts the carrying value of property, plant and equipment and their respective depreciation profiles. These judgments include:

- the decision to capitalise or expense costs;
- the annual asset life review and review of depreciation methodology including the impact of changes in the Group's strategy; and
- the timeliness of the transfer from assets under construction to completed assets

Our audit procedures included among others evaluating the capitalisation policies, performing tests of details on costs capitalised and assessing the timeliness of the transfer of assets under construction to completed assets as well as assessing the appropriateness of asset lives applied in the calculation of depreciation.

## **Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of Financial Statements**

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Other Reporting Requirements**

### **Other information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors. We obtained the report of the Board of Directors prior to the date of the auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki March 27, 2017

Ernst & Young Oy  
Authorized Public Accountant Firm

Kristina Sandin  
Authorized Public Accountant

*Unofficial translation from Finnish*

**Kotkamills Group Oyj**

**ANNUAL REPORT**

**1.1. - 31.12.2016**

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## BOARD OF DIRECTORS' REPORT

### 1. Significant events during the financial year

Kotkamills Group Oyj (former Eagle Industries Oy, hereinafter "the Company") is a Finnish limited company founded on 5 February 2015 (registered on February 13, 2015). Kotkamills Group Oyj and its subsidiaries form Kotkamills Group ("Kotkamills" or "the Group").

The Company is owned by its majority shareholder MB Equity Fund IV Ky funded by MB Funds and Nordic Mezzanine Fund III L.P.:n funded by Nordic Mezzanine, Elo Mutual Pension Insurance Company, Finnish Industry Investment Ltd and the management of the Company. MB Funds is an independent Finnish private equity firm, which invests in mature companies in different industries in the Nordic market. The largest Finnish institutional investors are involved in MB Equity Fund IV Ky.

Kotkamills is a Finnish forest industry group which had 2016 production in Finland and Malaysia. Further, Kotkamills Oy has branches in Germany (Kotkamills Oy Filiale in Deutschland) and Spain (Kotkamills Oy - Branch Office in Spain). The Group is specialised in cosumer boards, laminating papers, printing paper and wood products. The Group is organised into three operating segments, which are Consumer Boards, Industrial Products and Magazine Paper.

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.

In July 2016, the Company informed, that the new consumer board machine BM2 of Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has started production in Kotka, Finland. A range of folding boxboards will be produced under the brand name AEGLE and a range of food service boards under the brand name ISLA. BM2 has the capability to produce dispersion barrier coatings directly on the machine, producing barrier boards that can be recycled with normal paper waste due to having zero plastic content. The total capital expenditure of the new board machine was approximately EUR 170 million.

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

The new machine will provide an increase to the environmental performance of the site by significantly decreasing the consumption of electricity and water compared to the former paper production process. The consumption of water per tonne of CTMP will be almost halved compared to earlier.

In November 2016, the Company informed that Kotkamills Oy has signed and completed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in L.P. Pacific Films Sdn. Bhd ("LPPF"), a Malaysian limited liability company and the subsidiary of Kotkamills Oy to Surfactor Germany GmbH. The ownership to LPPF's shares was transferred to Surfactor Germany GmbH with immediate effect. LPPF was part of Industrial Products segment.

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



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

The Group's revenue of continuing operations totaled EUR 219,1 million (EUR 146,4 million in 2015) in the reporting period 1.1.-31.12.2016. The operating profit was EUR -0,4 million (EUR 40,9 million), including EUR 18,9 million profit of the disposal of LPPF shares. Cash flow from operating activities was EUR 3,4 million (EUR -6,1 million). Cash flow from investing activities was EUR -116,6 (EUR -75,7 million) of which the largest investment was the conversion project of the paper machine 2 to board machine.

Foreign exchange rate movements and lower variable costs mainly in energy and wood based raw materials improved the operating profit. Also high delivery volumes in Industrial Products improved the operating profit. Higher fixed costs and particularly ramp up costs of new board machine had a negative effect on the operating profit.

## **2. Structural and financial arrangements**

On 12 February 2016, the Board of Directors made a decision to issue 20.0000 class B preference shares based on the authorization given by the shareholder on 23.2.2015. The subscription price of the shares was EUR 1,00 per share.

On 20 May, 2016 Kotkamills Oy, the subsidiary of the Company, signed a contract of approximately EUR 20 million with a Nordic financial institution concerning sale of trade receivables of the company to the financial institution (on an ongoing, non-recourse basis on customary market terms).

On July 4, 2016, the Board of Directors made a decision to utilize Junior loan facility of EUR 20 million (loan agreement approved on February 18, 2015) to complete the board machine conversion project.

On 27 July 2016 the shareholders of the Company unanimously resolved on a directed issue of maximum 1.406.277 new series A shares and a maximum of 153.128 new series B shares. The holders of series A shares subscribed the maximum amount of 1.406.277 new A shares offered for subscription on the directed issues of the company and the holders of series B shares subscribed 131.252 of the total 153.128 new B shares offered for subscription on the directed issue of the company. The subscription price of all shares was EUR 1,00 per share.

On September 2, 2016 Kotkamills Oy, the subsidiary of the Company, signed a contract of approximately EUR 20 million with a Nordic financial institution concerning sale of trade receivables of the company to the financial institution (on an ongoing, non-recourse basis on customary market terms). This transaction is expected to reach its full effect during the third quarter of 2017. Together with 20.5.2016 informed contract Kotkamills Oy will obtain aggregate financing of approximately EUR 40 million by sale of trade receivables.

During 2016 the Company distributed dividend of aggregate amount of EUR 30 041 for class B preference shares which equalled with the amount of 7% annual profit for subscription price calculated since the date the subscription price was paid.

## **3. Significant events after reporting date**

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

On February 16, 2017, the Company informed that the shareholders of Kotkamills Group Oyj have on



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

The subscription price for each New Share and each Treasury Share is EUR 1.00 and the aggregate subscription price for the New Shares and the Treasury Shares is EUR 2,142,427. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares are in connection with their participation in the share issue required to grant shareholder loans to the company up to the aggregate amount of EUR 17,920,698. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

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

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

The aggregate subscription price for the New Shares and the Treasury Shares was EUR 2,128,402. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 17,920,698.

As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj obtained financing in the aggregate amount of EUR 20,049,100.

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

The commercial ramp-up of the new board machine will increase the full year revenue and decrease the first half-year profit.

The demand of Industrial Products is expected to stay at present healthy level, but still ongoing uncertain economic environment in Europe and geopolitical tensions may have weakening impact on demand.

Also present foreign exchange rates and energy prices are expected to support the Company's performance, but possible increases in raw material prices could adversely impact the Group's profit development.

## 5. Research and development

The Group focused in 2016 especially on folding boxboard and barrier board as well as laminating paper and its converted products. Expenditure on research and development (R&D) in 2016 was EUR 944 thousand (EUR 350 thousand), equivalent to 0,4% (0,2%) of sales.

## 6. Risk review

General competition and changes in demand and supply of paper, board and wood products can impact the Group's profitability. Commercial ramp-up of Consumer Boards business includes risk of delivery volumes. Also the economic cycles and changes in consumer behavior can impact negatively on the profitability. These risks are monitored and assessed regularly in operating units as part of the ordinary business.

The Group's global operating activities expose the Group to risk due to fluctuations in the foreign exchange rates. The risks result from the Group's cash flows from foreign currency purchases.

The objective of the Group's risk management is to minimise the adverse impacts on the Group's profit due to changes in the financial markets. The main financial risks are market, credit and liquidity risks. The general principles of the Group's risk management are approved by the board and the centralised treasury department is responsible for the practical implementation. The Group's treasury department identifies and assesses the risks and acquires required instruments to hedge the risks in co-operation with operative units. The hedging transactions are carried out in accordance with the written risk management principles approved by the Group's management. The Group uses the following financial instruments in its risk management: foreign currency derivatives (options and forward contracts) and commodity derivatives (commodity swaps). Based on the Group's risk management principles, derivatives are not used in speculative trading.

The majority of the Group's financial liabilities, excluding derivative instruments, consist of interest bearing liabilities, trade and other payables and financial obligations. The main purpose of the financial liabilities is to finance and support Group's operational activities. The majority of the Group's financial assets consist of trade receivables, trade and other receivables, cash and short-term deposits which have arisen directly from the Group's operational activities. The Group also has investments classified as available-for-sale and enters into derivative contracts. The Group does not apply hedge accounting.

The credit risk of trade receivables is managed according to the Group's credit policy. The Group aims to identify all risks related to trade receivables. A part of the Group's receivable position is hedged with credit insurance. The risk of unsecured receivables is limited with prepayments or document payments and assessed and accepted internal risk.

The Group does not have significant concentrations of credit risk since it has a broadly segmented customer base. The accounts receivables do not include any significant concentrations of credit risk by customer. The customers operate mainly in the independent markets. Kotkamills Oy, the subsidiary of the Company, has signed two contracts with aggregate amount of EUR 40 million with Nordic financial institutions concerning sale of trade receivables of the company to the financial institutions.

The Group's business units are dependent on operational reliability of materials management, production, logistics and IT systems. These risks are prevented by well-planned maintenance and continuous development of processes. The Group companies are insured against property damage and business interruption.

The increase in prices related to energy, fiber and other raw materials as well as transportation and personnel costs can weaken profitability. This risk is reduced by broaden raw material base and number of suppliers as well as by energy hedges, which are carried out in accordance with the Company's hedging policy.

Changes in legislation and especially in environmental regulation could affect the Group's business. Possible tightening of environment laws may impact production and delivery costs. The profitability can be impacted by expenses related to environmental permits from environmental laws and regulations.

Developing and maintaining competent personnel are important success factors for the Company. The Company strives to actively follow and improve employee satisfaction. The objective is also to reduce accidents and work-related sickness absences.

The Group may also be involved in labor disputes, which could have adverse impact on the Group's business.

## 7. Key performance indicators

Due to new group structure since March 2015, stopping Magazine paper production in January 2016 and entering into new Consumer Boards business years 2016 and 2015 are not fully comparable.

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

The operating profit of continuing operations 2016 of EUR -0,4 million includes EUR 18,9 million profit of the disposal of LPPF shares. In 2015 the Group recognized a gain, i.e. negative goodwill, of EUR 30,5 million on the acquisition of Kotkamills Oy. The gain has been recognized in the other operating income.

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

\*Equity including shareholder loans and the junior term loan

## 8. Personnel

Figures related to personnel are:

	Group	
	2016	2015
Average personnel	602	576
Wages and Salaries (EUR million)	32,6	29,1

## 9. Environment

Kotkamills Group has complied with the requirements of environmental legislation. The Company will publish a separate environmental report, which will be available on the Company's Internet site.

Kotkamills Oy invested in a new waste water treatment plant in 2016.

	Group	
	2016	2015
Expenditure, EUR million	2,9	1,8
Depreciation and amortisation, EUR million	0,2	0,04
Total environmental costs, EUR million	3,1	1,9
Environmental investments, EUR million	6,3	0,01

## 10. Proposal of the Board of Directors to Distribute Retained Earnings

The Board of Directors has proposed dividend for class B preference shares which amount would reflect 7% annual profit for subscription price calculated since the date the subscription price was paid, resulting in a total dividend amount of EUR 68 812.

## 11. Share capital and shareholders

The Company's number of shares is 11.537.529 shares corresponding to carrying amount of 11.537.529 euro.

Kotkamills Group Oyj has two classes of shares, class A and class B. Each class A and class B share is assigned with one vote in the Annual General Meeting. Maximum number of shares is 11.559.405 shares. Shares do not have a nominal value. The shares have a redemption clause.

Class B shares have a preference for annual dividend distribution from the Company's non-restricted equity, which equals to 7% annual profit of the subscription price. If the preferred dividend is not distributed fully, class B shares have right to unpaid preferred dividend added with 7% interest for the unpaid dividend amount from future non-restricted equity prior to the dividend distribution for class A shares.

Class A shares have preference for dividend after class B preference shares which equals to 7% annual profit for subscription price. If the preferred dividend for class A shares is not distributed fully, class A shares have right to unpaid preferred dividend added with 7% interest for the unpaid dividend amount from future non-restricted equity after the dividend distribution for class B shares.

If dividend distribution exceeds preferred dividends, the amount exceeded is distributed between all shareholders in proportion to their shareholdings.

Otherwise, class B and class A shares carry equal rights in the company

Kotkamills Group Oyj's fully paid and registered share capital is 80.000 euro.

## 12. Own shares

The company 31.12.2016 had own serie B shares as follows:

Number	Share of shares %	Share of votes %
63.125	0,55	0,55

The company has purchased own serie B shares from certain key employees who have left the Group as follows:

Date	Number	Value, EUR
8.4.2016	20.000	20.000
30.9.2016	20.000	20.000
30.12.2016	23.125	23.125
<b>Total</b>	<b>63.125</b>	<b>63.125</b>

The purchased shares during the reporting period represents 0,55% of the total number of shares and votes respectively. The purchase of the own shares didn't have a material impact on the spread of ownership nor voice in the company.

## 13. Foreign branches

Kotkamills Group Oyj has a fully owned subsidiary Kotkamills Oy, which is located in Finland.

In addition, Kotkamills Oy has branches in Germany; Kotkamills Oy Filiale in Deutschland, Spaldingstraße 218, 20097 Hamburg, registration number 115516; and in Spain; Kotkamills Oy - Branch Office in Spain, registration number W0321811B, Cr.Pau Claris, 172 5º 2 A, 08037 Barcelona.

## 14. The Company's organisation, management and audit

In the annual general meeting of Kotkamills Group Oyj on 3 May 2016 Hannu Puhakka, Eero Niiva and Kari Rytönen were appointed as board members. Hannu Puhakka has acted as the Chairman of the Board.

Authorized Public Accountant Firm Ernst & Young Oy has been appointed as auditors with APA Kristina Sandin as the responsible auditor.

Markku Hämäläinen has acted as the Company's CEO since February 18, 2015.

# Consolidated statement of profit or loss

For the period 1.1.-31.12.2016

		2016	2015
	Note	€000	€000
<b>Revenue</b>	3	<b>219 099</b>	<b>146 375</b>
<b>Other operating income</b>	7	<b>20 702</b>	<b>30 896</b>
Change in inventories of finished goods and work in progress		4 618	-3 384
Production for own use		1 441	594
Materials and services		-161 994	-87 923
Employee benefit expenses	9	-40 581	-20 889
Depreciation and amortisation	13,14	-9 927	-5 170
Other operating expenses	8	-33 784	-19 624
<b>Total expenses</b>		<b>-240 227</b>	<b>-136 396</b>
<b>Operating profit</b>		<b>-426</b>	<b>40 876</b>
Financial income	10	4 132	5 145
Financial expenses	10	-17 255	-15 563
		-13 123	-10 418
<b>Profit before taxes</b>		<b>-13 549</b>	<b>30 458</b>
Income taxes	12	-572	-273
Deferred taxes	12	23	937
		-549	664
<b>Profit after taxes</b>		<b>-14 098</b>	<b>31 122</b>
<b>Discontinued operations</b>			
Profit (loss) after tax for the period from discontinued operation	6, 17	-2 279	-2 448
<b>Profit (loss) for the period</b>		<b>-16 377</b>	<b>28 674</b>



# Consolidated statement of other comprehensive income

For the period 1.1.-31.12.2016

		2016	2015
	Note	€000	€000
<b>Profit (loss) for the period</b>		<b>-16 377</b>	<b>28 674</b>
<b>Other comprehensive income items</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Translation differences		863	-863
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes</b>	11	<b>863</b>	<b>-863</b>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gains (+) / losses (-) on defined benefit plans		-200	93
Income taxes		40	-18
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes</b>	11	<b>-160</b>	<b>75</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>703</b>	<b>-788</b>
<b>Total comprehensive income for the period</b>		<b>-15 674</b>	<b>27 886</b>

# Consolidated statement of financial position

31.12.2016

		2016	2015
	Note	€000	€000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	215 160	85 915
Other intangible assets	14	14 113	16 432
Non-current financial assets	15	2 138	546
		<b>231 410</b>	<b>102 893</b>
<b>Current assets</b>			
Inventories	17	32 050	39 971
Trade and other receivables	18	22 221	41 144
Other financial assets	15	2 312	1 698
Cash	19	16 789	103 157
		<b>73 372</b>	<b>185 970</b>
<b>Total assets</b>		<b>304 783</b>	<b>288 863</b>

# Consolidated statement of financial position

31.12.2016

		2016	2015
	Note	€000	€000
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		80	3
Reserve for invested non-restricted equity		11 458	9 978
Retained earnings		12 119	27 886
<b>Total equity</b>		<b>23 657</b>	<b>37 866</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	15	210 839	185 985
Other non-current financial liabilities	15	6 241	63
Provisions	21	0	133
Pension obligations	22	837	712
Deferred tax liabilities	12	614	845
		<b>218 531</b>	<b>187 738</b>
<b>Current liabilities</b>			
Trade and other payables	23	44 237	52 910
Interest bearing liabilities	15	14 587	7 052
Other current financial liabilities	15	3 771	3 297
		<b>62 595</b>	<b>63 259</b>
<b>Total liabilities</b>		<b>281 126</b>	<b>250 998</b>
<b>Total shareholders' equity and liabilities</b>		<b>304 783</b>	<b>288 863</b>

# Consolidated statement of changes in equity

31.12.2016

€000	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total equity
<b>Equity as at 24.3.2015</b>	3	8 998	0	9 000
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	28 674	28 674
Other comprehensive income items (net of tax)				
Translation differences	0	0	-863	-863
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	75	75
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>27 886</b>	<b>27 886</b>
<b>Transactions with shareholders</b>				
Share issue	0	980	0	980
<b>Total transactions with shareholders</b>	<b>0</b>	<b>980</b>	<b>0</b>	<b>980</b>
<b>Equity as at 31.12.2015</b>	<b>3</b>	<b>9 978</b>	<b>27 886</b>	<b>37 866</b>
<b>Equity as at 1.1.2016</b>	<b>3</b>	<b>9 978</b>	<b>27 886</b>	<b>37 866</b>
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	-16 377	-16 377
Other comprehensive income items (net of tax)				
Translation differences	0	0	863	863
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	-160	-160
<b>Total comprehensive income</b>	<b>3</b>	<b>9 978</b>	<b>12 212</b>	<b>22 192</b>
<b>Transactions with shareholders</b>				
Share issue	0	1 558	0	1 558
Increase in share capital	78	-78	0	0
Dividends, paid	0	0	-30	-30
Own shares	0	0	-63	-63
<b>Total transactions with shareholders</b>	<b>78</b>	<b>1 480</b>	<b>-93</b>	<b>1 464</b>
<b>Equity as at 31.12.2016</b>	<b>80</b>	<b>11 458</b>	<b>12 119</b>	<b>23 657</b>

## Consolidated statement of cash flows

For the period 1.1.-31.12.2016

	2016	2015
	€000	€000
<b>Cash flows from operating activities</b>		
Profit (loss) for the period	-15 828	28 010
Adjustments:		
Transactions without payments	795	752
Depreciation	10 854	5 443
Interest expenses and other financial expenses	17 255	15 563
Interest income and other financial incomes	-4 132	-5 145
Defined benefit plans, net	107	28
Proceeds from disposal of subsidiary shares and business operations	-23 263	0
Other (incl. negative goodwill)	0	-38 205
	1 615	-21 564
Change in working capital:		
Change in trade and other receivables	21 235	1 345
Change in inventories	7 393	-1 284
Change in trade and other payables	-653	-3 908
Interests, paid	-9 860	-6 549
Interests, received	41	187
Other payments	0	-2 111
Taxes, paid	-572	-273
	17 584	-12 593
<b>Net cash flows from operating activities (A)</b>	<b>3 372</b>	<b>-6 146</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash	0	-32 815
Tangible and intangible assets sales profit	4	0
Proceeds from disposal of subsidiary shares and business operations	23 263	0
Investments in property, plant and equipment	-138 582	-42 923
Purchase of own shares	-63	0
Change in non-current financial assets	-1 269	0
<b>Net cash flows from investing activities (B)</b>	<b>-116 647</b>	<b>-75 739</b>
<b>Cash flows from financing activities</b>		
Paid share capital	0	3
Proceeds received related to share issue	1 558	9 978
Proceeds from loans and borrowings	33 437	191 000
Repayment of loans and borrowings	-7 499	-15 648
Repayment of financial leases	-558	-291
Dividends, paid	-30	0
<b>Net cash flows from financing activities (C)</b>	<b>26 908</b>	<b>185 041</b>
<b>Change in cash (A+B+C)</b>	<b>-86 368</b>	<b>103 157</b>
Cash and short term deposits at beginning of period	103 157	0
<b>Cash and short term deposits at the end of period</b>	<b>16 789</b>	<b>103 157</b>

## Notes to the consolidated financial statements

### 1. Accounting policies for the consolidated financial statements

#### GENERAL INFORMATION

Kotkamills Group Oyj is a public limited company founded under Finnish legislation which domicile is Helsinki, registered address Norskankatu 6 48100 Kotka and business-ID 2673676-1. Kotkamills Group Oyj and its subsidiaries form Kotkamills Group (hereinafter "Kotkamills" or "the Group").

Kotkamills is a Finnish forest industry group with production in Finland and Malaysia. In addition, Kotkamills Oy has branches in Germany (Kotkamills Oy Filiale in Deutschland) and Spain (Kotkamills Oy - Branch Office in Spain). The Group is specialised in consumer boards, laminating papers, impregnated papers and wood products.

The consolidated financial statements of Kotkamills Group Oyj for the period ended December 31, 2016 were authorised for issue by the Board of Directors at the meeting held March 27, 2017. According to the Finnish Companies Act, shareholders have right to approve or reject the financial statements at the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting has also the right to decide whether the financial statements is to be revised. A copy of the consolidated financial statements is available on the Internet at [www.kotkamills.com/fi/kotkamillsgroup/keyfinancials](http://www.kotkamills.com/fi/kotkamillsgroup/keyfinancials) or at the Company's head office at Kotkamills Oy, Yläkonttori, Gutzeitintie 1, 48100 Kotka.

#### BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS standards and SIC and IFRIC Interpretations effective on December 31, 2016. In accordance with Finnish Accounting Act and regulations based on the Finnish Accounting Act the International Financial Reporting Standards refer to the standards and related issued interpretations as adopted within the EU in accordance with regulation (EC) 1606/2002. Notes to the consolidated financial statements are also in accordance with Finnish accounting and company legislation conforming IFRS requirements.

All amounts in the consolidated financial statements are presented in thousands of euros and are based on historical cost, except below specified items measured at fair value in accordance with the standards. The financial statements are presented by applying nature of expense income statement and balance sheet form.

Kotkamills Group Oyj (former Eagle Industries Oy) was established on February 5, 2015 and registered on February 13, 2015. On March 24, 2015 the Company acquired the entire share capital from the majority shareholder OpenGate Capital and from the minority shareholders. The reporting period of Kotkamills Group is a calendar year. The comparison year, the first reporting period for Kotkamills Group, covers the period of 13.2.-31.12.2015, and hence does not cover 12 months.

#### SUBSIDIARIES

The consolidated financial statements include the financial statements of the parent company Kotkamills Group Oyj and its subsidiaries. Subsidiaries are entities which the parent company controls. Control is established when the Company is exposed or has rights to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. The subsidiaries are listed in the note 5 Group information.

Subsidiaries are consolidated to the consolidated financial statements and intragroup share ownership is eliminated using the acquisition method. Consideration transferred and identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date. Acquisition related costs, except the costs to issue



debt or equity securities, are recognised as expenses. Any possible contingent consideration is measured at fair value and classified as liability or equity at the acquisition date. The contingent consideration classified as liability is measured at fair value at the end of each reporting period and changes in the fair value are recognised through profit or loss. The contingent consideration classified as equity is not revalued.

Acquired subsidiaries are consolidated from the date on which the Group obtains control over the subsidiary and divested subsidiaries until the date which the Group ceases control. All intragroup transactions, receivables, liabilities, and unrealised profit and internal profit distribution are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated when the loss is due to impairment. If necessary, accounting policies of subsidiaries are unified to correspond to the Group's accounting policies.

## **FOREIGN CURRENCY TRANSLATION**

The Group's performance and financial position are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency for the parent company of the Group.

Transactions in foreign currencies are recorded in the functional currency by applying the exchange rates at the dates of the individual transactions. At the end of the accounting period, the unsettled balances of foreign currency monetary items are translated using the exchange rates at the end of the accounting period. Foreign currency non-monetary items are measured using the exchange rates at the dates of the individual transactions. Foreign exchange gains and losses resulting from translation of foreign currency transactions and monetary items are recognised through profit and loss. Foreign exchange gains and losses arising from operating activities are recognised in the respective items in the income statement as the underlying transaction. Foreign exchange gains and losses arising from loan receivables and loans denominated in foreign currency are included in financial income and expenses.

Liabilities and assets of the subsidiaries outside the euro-zone are translated into euros at the closing rates. Profit or loss and other comprehensive income and expense items are translated into euros using the average exchange rate for the reporting period. If exchange rates have significant fluctuations, income and expense items are translated into euros using the exchange rates at the dates of individual transactions. Exchange differences resulting from translating the functional currency into the presentation currency are recognised in other comprehensive income.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are measured at cost less accumulated depreciation and possible impairments.

The cost comprises the following expenses directly attributable to the acquisition:

- purchase price, including import duties and non-refundable purchase taxes, after deducting possible discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Borrowing costs relating to the acquisition of property, plant and equipment are capitalised in conjunction of cost of that asset.

If the property, plant or equipment asset consists of several parts with different useful lives, each part is considered as a separate asset. In such cases, the cost of replacing part of such items is recognised in the carrying amount and the carrying amount of those parts that are replaced is derecognised. Otherwise costs incurred subsequently are included in the carrying amount of property, plant and equipment only, if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other repair and maintenance expenses are recognised through profit and loss when they occur.

Assets are depreciated using straight-line depreciation method over the remaining useful life of the related asset. Land is not depreciated.

The estimated useful lives are:

Buildings and constructions	5 - 40 years
Machinery and equipment	5 - 30 years
Vehicles	3 - 5 years
Computer and office equipment	3 - 5 years
Other tangible assets	5 - 20 years

The residual value and useful life of an asset are reviewed at the end of each financial reporting period, and if expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

The gain or loss arising from the disposal of property, plant and equipment is recognised in profit or loss and presented in other operating income and expenses. Proceeds from the sale are determined as the difference between the selling price and the carrying amount of the asset.

## **GOVERNMENT GRANTS**

Government grants are recognised as a reduction of the carrying amount of the property, plant and equipment when there is reasonable assurance that the Group will receive the grants and will comply with the conditions attached to it. Grants are recognised as reduction to the carrying amount of the asset and recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. The government grants received as compensation for expenses are recognised through profit and loss over the same periods when the related expenses are recognised and are presented in other operating income.

## **INTANGIBLE ASSETS**

### **Goodwill**

Goodwill resulting from business combinations is measured at the aggregate amount of the consideration transferred measured at fair value, any non-controlling interest in the acquire and the amount of previously owned proportion exceeding the fair value of the net assets. If the net of assets acquired and the liabilities assumed measured at the acquisition-date fair value exceeds the consideration transferred, a gain on negative goodwill is recognised immediately.

Goodwill is not depreciated, but it is tested annually for possible impairment. For this purpose, goodwill is allocated to the cash-generating units. Goodwill is measured at cost less impairments.

### **Research and development costs**

Research costs are recognised as expenses when they occur. Development costs are recognised as intangible assets if, and only if, the product is technically feasible, it has commercial substance, it is expected to generate probable future economic benefits, and expenditure incurred during the development phase can be measured reliably. The capitalised development cost comprises all directly attributable costs necessary to create, produce, and prepare the asset to its intended use including materials, employee benefits and testing costs. Development costs recognised initially as an expense are not capitalised later.

Amortisation begins when the asset is available for use. The useful life of capitalised development costs is 5 years and intangible assets arising from development are recognised as expenses on a straight-line basis over the useful life. An intangible asset not yet available for use is annually tested for the impairment. Capitalised development costs are measured at the initial cost less accumulated amortisation and impairments.

### Other intangible assets

Other intangible assets include customer relationships, trademarks, software and licenses. An intangible asset is recognised at cost if the acquisition cost of the asset can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. The intangible assets acquired as part of a business combination are measured at fair value at the date of acquisition.

Intangible assets with finite useful life are recognised as an expense using straight-line amortisation method over known or expected useful life of the asset. The Group has no intangible assets with indefinite useful life.

The estimated useful lives are:

Customer relationships	5 – 15 years
Trademarks	10 – 20 years
Software and licenses	3 – 10 years

The useful life of an asset is reviewed at the end of each financial period, and if the expectations differ from previous estimates, the change is accounted for as a change in an accounting estimate.

The gain or loss arising from the disposal of an intangible asset is recognised in profit or loss and presented in other operating income and expenses. Proceeds from the sale are determined as the difference between the selling price and the carrying amount of the asset.

### Emission allowances

The Group is involved in the EU emissions trading system in which it has been allocated certain number of allowances for a particular time period. Emission allowances are recognised as intangible assets. Emission allowances received free of charge are measured at their nominal value (i.e. at zero) and purchased emission allowances are measured at cost.

The Group is obliged to return emission allowances equivalent to the actual emissions to the Union registry. A provision is recognised to cover the obligation to buy emission allowances if received and purchased emission allowances intended to cover the deficit do not cover actual emissions. The provision is measured at the market price at the end of the reporting period.

### IMPAIRMENT

The Group assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is assessed for goodwill, intangible assets not yet available for use and assets with indefinite useful life annually.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When determining the value in use, the expected future cash flows are discounted to their present value. The pre-tax interest rate reflecting market assessment of the time value of money and the risks specific to asset's future cash flows is used as a discount rate.

Impairment loss is recognised through profit and loss if the carrying amount exceeds the recoverable amount of the asset. An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The impairment loss is reversed at maximum to the carrying amount of the asset before recognising the impairment loss. Impairment loss of goodwill is never reversed.

## INVENTORIES

The Group's inventories consist of materials and supplies, semi-finished goods and finished goods. Inventories are measured at the lower of cost or net realisable value. The cost comprises all purchase costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned by using the weighted average cost method. The net realisable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## LEASES

### Group as a lessee

The Group classifies lease as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership. If the risks and rewards incidental to ownership are not transferred substantially to the Group, a lease is classified as an operating lease.

A finance lease is recognised as an asset and liability in the balance sheet at the beginning of the lease term at amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment. If there is reasonable certainty that the Group obtains the ownership by the end of the lease term, the period of expected use of the asset equals to asset's expected useful life. Otherwise assets leased under finance leases are depreciated over shorter of the useful life or the lease term. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability during the lease term so that each period has a constant periodic rate of interest. Lease payment obligations are included in the financial liabilities.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease expenses are included in other operating expenses.

### Group as a lessor

The Group has leased properties with agreements, where substantially all the risks and rewards incidental to the ownership remains with the lessor. Leased asset is presented in the statements of the financial position according to the nature of the asset and is depreciated on a straight-line basis following the depreciation plan. Rental income from the operating lease agreements is recognised in other operating income.

## PENSION PLANS

The Group has both defined contribution and defined benefit pension plans.

The Group's employees' statutory pension scheme is covered by an external insurance company and is classified as a defined contribution plan. Under defined contribution plan the Group pays fixed contributions into a separate entity and payments are recognised in the related period. The Group has no legal or constructive obligation to pay further contributions if the party is unable to pay the pension benefits.

The Group has a greater liability in pension schemes classified as defined benefit plans. The liability covers the risk of changes in the defined benefit obligation and plan assets. Pension expenses are recognised as expenses during employees' service period using actuarial calculations. The present value of the obligation at the end of the reporting period less fair value of plan assets is recognised as a liability in the balance sheet. The present value of the obligation is determined by discounting the expected amounts of the future benefits. The discount rate is based on high quality corporate bonds' or state bonds' market yield. The pension plan assets are measured at the fair value at the end of the financial period. The actuarial gains and losses, return on plan assets (excluding amounts included in net interest) and changes in the effect of the asset ceiling (excluding amounts included in net interest) resulting from remeasurements of the net defined benefit liability are

recognised in other comprehensive income. The net interest on the defined benefit plan and all other expenses are recognised through profit and loss.

## **PROVISIONS, CONTINGENT LIABILITIES AND ASSETS**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, payment required to settle the obligation is probable and a reliable estimate can be made of the amount of the obligation. Amount to be recognised as a provision is the best estimate of the expense which is required to settle the present obligation at the end of the reporting period. Change in the provision is recognised in the respective items in the income statement where the provision was initially recognised. If the effect of time value of money is material, the provision is presented at the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation of which payment is not probable or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are presented in the notes to the financial statements, unless the probability of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are disclosed if an inflow of economic benefits is probable.

## **INCOME TAXES**

The taxes recognised in the consolidated income statement include the Group companies' taxes accounted for on an accrual basis, adjustments to prior year taxes and changes in deferred taxes. The tax effect of items recognised directly in equity or in other comprehensive income are recognised respectively in equity or in other comprehensive income.

Deferred tax assets and liabilities are recognised for all temporary differences between the carrying amount of an asset or liability and its tax base. Deferred tax liability is not recognised when it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised for unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has right to set off current tax assets against current tax liabilities. Deferred taxes are measured using enacted or substantively enacted tax rates by the end of the reporting period.

The most significant temporary differences arise from fair value measurements of acquired balances as part of a business combination, property, plant and equipment, defined benefit plans, financial instruments, provision and unused tax losses.

## **REVENUE RECOGNITION**

Fair value of the consideration received from sale of goods adjusted with indirect taxes, rebates and foreign currency sales translation differences is presented as net sales. Revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer, and the Group has no longer control over the good. In practice, revenue is recognised at the time the Group transfers the good to the customer in accordance with the delivery terms.

Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has signed two contracts total of EUR 40 million with Nordic financial institutions concerning sale of trade receivables of the company to the financial institution on an ongoing and non-recourse basis.

Interest income is recognised using the effective interest rate method. Dividends are recognised when the right to the dividend is established.

## **FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### **Financial assets**

The Group's financial assets are classified in the following categories: financial assets recognised at fair value through profit and loss, loans and other receivables.

Classification is based on the purpose of the acquired financial assets at the initial recognition. The Group recognises a financial asset when it becomes a party to the contractual provisions. All purchases and sales of financial assets are recognised at the settlement date. A financial asset is derecognised when the contractual rights to the cash flows of the financial asset expire or the Group transfers the risks and rewards of ownership of the financial asset outside the Group.

All financial assets are measured at fair value at the initial recognition. Transaction costs directly attributable to the acquisition of a financial asset are included in initial carrying amount of the financial asset when the item is not measured at fair value through profit and loss. Transactions costs related to financial assets recognised at fair value are expensed immediately through profit and loss.

Financial assets measured at fair value through profit and loss are held for sale financial assets or derivatives, which does not fulfil the hedge accounting requirements of IAS 39. The Group has classified foreign currency and commodity derivatives relating to operating activities and for which the Group does not apply IAS 39 hedge accounting as financial assets measured at fair value through profit and loss. After the initial recognition, the Group measures derivatives at the fair value. Derivatives are classified as non-current assets, when their maturity is more than 12 months and as current receivables, when the maturity is less than 12 months. Derivatives can also be liabilities and the accounting principles are specified below under "Financial liabilities".

Loans and other receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market or which the Group does not hold for purpose of selling or particularly classify those at the initial recognition as available-for-sale. The Group has classified trade receivables and cash and cash equivalents to this category. These are measured at amortised cost. They are included in the balance sheet according to their nature in current or non-current assets: latter if they mature over 12 months after the reporting period.

### **Impairment of financial assets**

The Group assesses at the end of each reporting period, whether there is objective evidence that a financial asset measured at acquisition cost is impaired. The financial asset is considered to be impaired when the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised through profit and loss.

### **Cash and cash equivalents**

Cash and cash equivalents include cash at bank and on hand, deposits or liquid money market investments with an initial maturity of three months or less. They are measured at cost and related income is recognised in financial income.



## Financial liabilities

The Group's financial liabilities are classified in two categories: financial liabilities at fair value recognised through profit and loss and financial liabilities measured at amortised cost.

Financial liabilities are recognised at the settlement date. Financial liabilities are classified as non-current liabilities if their maturity is more than 12 months after the reporting period and as current liabilities if they mature less than 12 months after the reporting period.

Financial liabilities are derecognised when contractual obligations expire or liabilities are transferred outside the Group.

Foreign currency and commodity derivatives relating to operating activities, which does not fulfil the hedge accounting requirements of IAS 39, are classified as financial liabilities measured at fair value through profit or loss. When the Group becomes contractual party, derivative liabilities are recognised at the inception at their fair values. After the initial recognition derivatives are also measured at fair value.

Financial liabilities recognised at amortised cost are initially measured at fair value. Transaction costs incurred at subscription of a loan are included in the initial carrying amount. Subsequent measurement is made at amortised cost using the effective interest rate method.

## Derivatives and hedge accounting

Derivatives are accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* – standard. The Group has classified all derivatives as held for trading, since it does not apply IAS 39 hedge accounting. Held-for-trading derivatives are foreign currency and commodities derivatives measured at fair value. The fair value of derivatives is recognised as other non-current and current assets and liabilities. Changes in the fair values and unrealised and realised gains and losses are recognised in financial items during the financial period in which they incur.

## EQUITY

The nominal value of the ordinary shares is presented as share capital. Costs related to issue or purchase of equity instruments are deducted from the equity.

Dividend distribution to the Company's shareholders proposed by the Board of Directors to the General Meeting is recognised as a liability and deducted from the equity in the consolidated balance sheet for the period in which the General Meeting has approved the dividend.

## NON-RECURRING ITEMS

The Group accounts for exceptional, outside ordinary course of business transactions as non-recurring items. For example proceeds or losses from the sale of properties and business, disposal expenses of businesses and impairments are classified as non-recurring items. Proceeds on sales are recognised in the other operating income and losses in the other operating expenses. Impairments are recognised in the profit and loss account 'Impairments'. More information about non-recurring items in the financial period is presented in the note 7. Other operating income.

## NEW IFRS STANDARDS

IASB has published the following new or amended standards and interpretations, which the Group has not yet adopted:

### IFRS 9 Financial instruments

In July 2014 IASB issued full version of the standard IFRS 9 Financial Instruments, which will replace the current standard IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes requirements

for classification and measurement of financial assets and liabilities. Different measurement principles will remain, but they have been simplified by determining three measurement categories: recognised at the amortised cost, at the fair value through other comprehensive income and at the fair value through profit and loss. The classification depends on the business model of the entity and the characteristics of the contractual cash flows. The loss allowance model in IAS 39 is replaced with new expected credit loss model. Changes in financial liabilities measured at fair value relating to own credit risk are recognised in other comprehensive income. The standard is effective for financial periods beginning on or after 1 January 2018. Early adoption will be permitted.

The Group intends to record expected credit losses and their changes in the each reporting period. The Group does not apply hedge accounting. The impact on Group's consolidated financial statements by the new requirements for the classification and measurement of financial assets is not expected to be significant.

### **IFRS 15 Revenue from contracts with customers**

In May 2014 IASB issued the standard IFRS 15 Revenue from contracts with customers. The new standard will replace the current revenue related standards, IAS 18 Revenue and IAS 11 Construction contracts and the related interpretations. IFRS 15 includes five-step revenue recognition model. The revenue is recognised when the customer obtains control of a good or service. The customer obtains control when it has the ability to direct the use of the good or services and receive the remaining benefits from it. The core principle is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity is expects to be entitled in exchange for those goods or services. The revenue recognition model includes significantly more detailed instructions than current standards IAS 11 and IAS 18. Also extensive disclosures are required. The standard will apply to financial periods beginning on or after 1 January 2018 either by applying a full retrospective application or a modified retrospective application. The Group has not yet decided whether a full retrospective application will be applied.

The Group has reviewed the main customer contracts and not noted factors that would materially change the timing of the revenue recognition practises. In connection with the contract analysis the Group identified certain contracts terms related to the variable consideration that may be affected by the standard. However, the impact is not expected to be significant.

During 2017 the Group continues to assess the impacts and develop necessary processes to collect and disclose the required information.

### **IFRS 16 Leases**

In January 2016 IASB issued new leasing standard, IFRS 16 Leases. The new standard changes the accounting requirements for a lessee. All leases, except short-term leases and leases of low value, are recognised on the balance sheet of the lessee as a right-of-use asset and as a liability. The lease payments are divided into depreciation and interest expense. Accounting requirements for a lessor do not contain significant changes. Also additional disclosures are required. IFRS 16 is effective for financial periods beginning on or after 1 January 2019 and early adaptation is permitted. The EU has not yet endorsed the standard. The adoption of IFRS 16 is not expected to have a significant impact on the Groups figures and the Group will continue assessing the impact of IFRS 16 during the year 2017.

No other already issued, but not yet effective new standards, amendments to standards or IFRIC interpretations are expected to have a material impact on the Group.

## 2. Management's judgements on key estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions concerning the future, which include uncertainty. The actual results may differ from estimates and assumptions. The estimates are based on management's previous experience, all available information at the end of the reporting period and justified assumptions. In addition, judgment needs to be exercised when applying accounting principles especially when IFRS standards include alternative accounting treatments. The following presents the key accounting estimates and assumptions included in the consolidated financial statements:

### Measurement of the acquired assets and liabilities

Assets and liabilities acquired in a business combination are measured at fair value at the acquisition date. The fair value is attempted to be defined primarily based on market values. If market values are not available, as for example for intangible assets, the measurement is based on estimated performance considering the intended use in the Group's business. The valuation requires management to estimate inter alia future cash flows and intended use of the asset.

### Impairment testing

Determining the asset's or cash-generating unit's recoverable amounts based on value in use calculations requires estimates and assumptions. Value in use is calculated using discounted cash flow method, which is sensitive to changes in expected future cash flows and discount rate.

### Useful lives of property, plant and equipment and intangible assets

The residual value and useful life of property, plant and equipment are re-estimated at the end of each reporting period. The monetary amount received from disposal at the end of the useful life is assessed, when determining the residual value. The estimation of asset's useful life is based on previous experience on similar assets.

Concerning the intangible assets, the management assess whether the useful life is definite or indefinite. In conjunction with the assessment the management analyses inter alia typical life cycle of the asset, technological aging and legal and other restrictions on the use of the asset.

### Employee benefits

Measurement of defined benefit obligations requires actuarial assumptions on discount rate, expected return on funds, increases in wages and demographic factors. Assumptions used in calculating the defined benefit plans are presented in more detail in note 22. Pension obligations. Changes in the assumptions and actuarial conditions may materially affect the defined benefit obligation and expense.

### Income taxes

Deferred tax assets are recognised for unused tax losses and tax credits and other deductible temporary differences to the extent that it is probable that the future taxable profit will be available against which deductible temporary difference can be utilised. Estimating the future amount of taxable income requires management's judgement and is based on the management's assumptions made at the reporting date.

### Provisions

The amount to be recognised as a provision is based on the management's best estimate on expenses to fulfil the existing obligation at the end of reporting date. The estimation on the probability of the realisation of the obligation and the economic impact requires management's judgement and is based on empirical knowledge on similar events. The actual expenses may differ from the assumed provision.

### Inventories

Inventories are stated at the lower of the acquisition cost or net realisable value at the end of the reporting period. Determining the net realisable value requires management's assumptions on which monetary amount the inventory is realisable at the end of the reporting period. Management also assesses the amount of direct

expenses relating to the completion of the inventories and to obtain the sales. The assessment is based on the most reliable available information at the end of the reporting period.

**Accounts receivables**

The management assesses at the end of the reporting period the amount of credit risk and recognises credit loss provision on those accounts receivables where it is probable that full payment is not received. The assumptions are based on a systematic credit control, previous experiences on realised credit losses and economic circumstances at the assessment date. Contracts total of EUR 40 million concerning sale of trade receivables of the company to the financial institution on an ongoing and non-recourse basis decrease credit risk.

# Notes to the consolidated financial statements

## 3. Segment information

The Group is organised into three strategic business units, which produce different products or services. Business units are managed separately. The Group's segment information is based on internal management reporting provided to the Senior Management Group for the purpose of making operational decisions.

The Group has the following three reportable segments:

- Consumer Boards: Consumer Boards provides renewable and fiber-based packaging materials for consumer boards. The production of Consumer Boards was started in July 2016.
- Industrial Products: Industrial Products produces laminates and converted forms of laminating paper as well as wood products for construction and transportation industry.
- Magazine Paper: The production of printing paper was discontinued in January 2016 and the deliveries continued till third quarter of 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.

No operating segments have been aggregated to form the above reportable operating segments.

On November 18, 2016 Kotkamills Oy signed and completed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in L.P. Pacific Films Sdn. Bhd ("LPPF"), a Malaysian limited liability company and the subsidiary of Kotkamills Oy to Surfactor Germany GmbH. The ownership to LPPF's shares was transferred to Surfactor Germany GmbH with immediate effect. LPPF was part of Industrial Products segment.

The Senior Management Group monitors the operating results of its operating segments and makes decisions about resource allocation. Segment performance is evaluated based on operating profit. The Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis, and are not allocated to operating segments. Items managed on a Group basis are presented below in section 'Adjustments and eliminations'. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

### Adjustments and eliminations

Inter-segment revenues are eliminated upon consolidation and reflected in the 'Adjustments' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Financing and tax items, fair value gains and losses, items not related to operating activities nor non-recurring items are not allocated to operating segments.

	Consumer Boards	Industrial Products	Adjustments	Total	Magazine Papers
2016	€000	€000	€000	€000	€000
<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	-3 603	-2 082	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>
	Consumer Boards	Industrial Products	Adjustments	Total	Magazine Papers
2015	€000	€000	€000	€000	€000
<b>Revenue</b>					
External customers	0	142 359	0	142 359	61 995
Inter-segment	0	3 789	-4 012	-223	223
<b>Total revenue</b>	<b>0</b>	<b>146 148</b>	<b>-4 012</b>	<b>142 135</b>	<b>62 219</b>
Depreciation and amortisation	-2	-1 315	0	-1 316	-636
<b>Segment operating profit</b>	<b>-1 039</b>	<b>16 670</b>	<b>0</b>	<b>15 631</b>	<b>-2 448</b>

**Reconciliation of revenue**

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>	<b>€000</b>	<b>€000</b>
Total segment revenue	211 747	142 135
Items not allocated to segments		
Sales of energy	6 673	1 739
Revenue recognition and other	679	-745
Total unallocated items	7 352	994
IFRS adjustments	0	3 247
<b>Group's total revenue</b>	<b>219 099</b>	<b>146 375</b>

**Reconciliation of profit**

	<b>2016</b>	<b>2015</b>
<b>Operating profit</b>	<b>€000</b>	<b>€000</b>
Segment operating profit	-15 113	15 631
Items not allocated to segments		
Unallocated administrative gains/expenses	-365	-452
Unallocated non-recurring items related to the business combination	0	-2 574
Total unallocated items	-365	-3026
Sales of assets/Gain from bargain purchase	18 907	30 514
Other IFRS adjustments	-3 855	-2 243
<b>Group's total operating profit</b>	<b>-426</b>	<b>40 876</b>

**Information about geographical areas**

The Group operates in the following geographical areas: EU, other European countries, North America, South America, Far East and Southeast Asia. The geographical revenue is reported based on the customers locations and the assets are reported based on the locations in which the assets are held. Revenue from external customers is measured in accordance with IFRS standards. The following items are excluded from the non-current assets: financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

	<b>2016</b>	<b>2015</b>
	<b>Revenue</b>	<b>Revenue</b>
	<b>€000</b>	<b>€000</b>
Finland	35 090	15 121
Germany	31 526	22 913
Italy	13 009	9 962
Turkey	13 397	9 461
Poland	12 036	6 732
Japan	10 917	7 197
Russia	10 885	7 576
France	9 918	9 086
Austria	8 727	4 446
China	7 123	3 419
Other countries	66 472	50 463
<b>Total</b>	<b>219 099</b>	<b>146 375</b>

**Information about major customers**

The Group has no single external customers from which revenues amount to 10 per cent or more of the Group's revenue.



# Notes to the consolidated financial statements

## 4. Capital management

For the purpose of the Group's capital management, capital includes issued capital, reserve for invested non-restricted equity and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and adjusts it based on changes in the economic conditions and considering the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a equity ratio and an adjusted equity ratio based on the financial covenants, which is total equity added with shareholder loans and the junior term loan and divided by total assets. The Group's policy is to keep the adjusted equity ratio above 30%.

	<b>Equity ratio</b>		<i>Financial covenants</i> <b>Equity ratio, adjusted</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Equity	23 657	37 866	23 657	37 866
Added: Shareholder loans and the junior term loan			129 073	89 970
<b>Total</b>	<b>23 657</b>	<b>37 866</b>	<b>152 730</b>	<b>127 836</b>
<b>Total assets</b>	<b>304 783</b>	<b>288 863</b>	<b>304 783</b>	<b>288 863</b>
<b>Equity ratio</b>	<b>7,8 %</b>	<b>13,1 %</b>	<b>50,1 %</b>	<b>44,3 %</b>

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets the equity ratio as defined in the financial covenants. The equity ratio defines the capital structure requirements. Breaches in meeting the financial covenants would enable the creditor to immediately call loans and borrowings. There have been no breaches of the financial covenants of equity ratio in the current period.

# Notes to the consolidated financial statements

## 5. Group information

### Information about the subsidiaries

The following subsidiaries are consolidated in the consolidated financial statements (L.P. Pasific Films Sdn. Bhd. 1.1.2016-31.10.2016):

Name of the entity	Principal business	Domicile	Ownership %	Parent company
			31.12.2016	
Kotkamills Oy	Production of laminating paper and impregnated products, printing papers and wood products	Finland	100 %	Kotkamills Group Oyj
L.P. Pasific Films Sdn. Bhd.	Production of impregnated products	Malaysia	0 %	-

Kotkamills Group Oyj owns 100 % of Kotkamills Oy's shares.

On November 18, 2016 Kotkamills Oy signed and completed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in L.P. Pacific Films Sdn. Bhd ("LPPF"), a Malaysian limited liability company and the subsidiary of Kotkamills Oy to Surfactor Germany GmbH. The ownership to LPPF's shares was transferred to Surfactor Germany GmbH with immediate effect. LPPF was part of Industrial Products segment.

Kotkamills Oy has branches in Germany (Kotkamills Oy Filiale in Deutschland) and in Spain (Kotkamills Oy - Branch Office in Spain).

### Entities which have significant influence over the Group

Entity MB Equity Fund IV Ky owns 51,8 % of the shares of Kotkamills Group Oyj.

# Notes to the consolidated financial statements

## 6. 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:

	1.1.-31.12.2016	24.3.-31.12.2015
	€000	€000
Revenue	18 824	62 242
Expenses	-21 103	-64 690
Operating profit	-2 279	-2 448
Profit (loss) before tax from discontinued operations	-2 279	-2 448
<b>Profit (loss) after tax for the period from discontinued operations</b>	<b>-2 279</b>	<b>-2 448</b>
<b>Total profit before tax</b>		
Profit (loss) before tax from discontinued operations	-2 279	-2 448
<b>Total</b>	<b>-2 279</b>	<b>-2 448</b>

### Net cash flow of the discontinued operations

	1.1.-31.12.2016	24.3.-31.12.2015
	€000	€000
From operating activities	11 529	729
From investing activities	343	220
<b>Net cash flow</b>	<b>11 872</b>	<b>949</b>

# Notes to the consolidated financial statements

## 7. Other operating income

	2016	2015
	€000	€000
Gain on sale of subsidiary	18 960	0
Rental income	98	85
Government grants	99	135
Insurance claims	526	85
Sale of services	103	19
Negative goodwill	0	30 514
Other income items	916	57
<b>Total</b>	<b>20 702</b>	<b>30 896</b>

### Government grants

The Group has received grants associated with occupational health care costs from the Social Insurance Institution. There are no unfulfilled conditions or contingencies attached to these grants. The total amount of government grants during the period is EUR 117 thousand.

# Notes to the consolidated financial statements

## 8. Other operating expenses

	2016	2015
	€000	€000
Rental expenses	1 152	648
Shipping expenses of the products	20 411	14 079
Sales commissions	1 814	1 212
Administration and office services	4 723	1 566
Insurance payments	1 018	385
Other expenses	4 666	1 733
<b>Total other operating expenses</b>	<b>33 784</b>	<b>19 624</b>

## Fees to the auditors

	2016	2015
	€000	€000
Audit	110	40
Tax consultation	95	4
Other services	125	462
<b>Total</b>	<b>329</b>	<b>506</b>

# Notes to the consolidated financial statements

## 9. Employee benefit expenses

	2016	2015
	€000	€000
Wages and salaries	32 579	16 170
Pension expenses, defined contribution plans	6 144	3 658
Pension expenses, defined benefit plans	-20	-75
Other social security costs	1 878	1 137
<b>Total</b>	<b>40 581</b>	<b>20 889</b>

Average personnel of the Group during the period divided into groups:

	2016	2015
Consumer Boards	106	17
Industrial Products	324	330
Magazine Papers	9	109
Common operations	163	120
<b>Total</b>	<b>602</b>	<b>576</b>

The defined benefit pension plan is described more in detail in the note 22. Pension obligations. The information relating to management's employee benefits is presented in the note 25. Related party transactions.

### Years of service retention

Long-term commitment to the Group is acknowledged with years of service retentions after 20-50 years' commitment. The retentions consists of gifts and health packages in the destinations chosen by the employer.

At the end of the reporting period, EUR 349 thousand of service retention liability has been recognised in the balance sheet.

# Notes to the consolidated financial statements

## 10. Financial income and expenses

<b>Financial income</b>	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Changes in fair values of financial items recognised through profit and loss		
Foreign currency derivatives	836	3557
Commodity derivatives	3278	1577
Other financial income	17	11
<b>Total financial income</b>	<b>4 132</b>	<b>5 145</b>
<b>Financial expenses</b>		
Interest expenses from financial liabilities	13 268	8 002
Changes in fair values of financial items recognised through profit and loss		
Foreign currency derivatives	1 305	3 344
Commodity derivatives	2 292	1 999
Other financial expenses	390	2 218
<b>Total</b>	<b>17 255</b>	<b>15 563</b>
Capitalised borrowing costs of qualifying asset	2 442	1 457
<b>Total financial expenses</b>	<b>19 697</b>	<b>17 020</b>

The interest income and expenses and changes in fair values of financial instruments recognised through profit and loss are related to derivative contracts, which are not determined as hedging instruments. The Group has not applied hedge accounting during the 2016 reporting period. The information regarding the derivatives is presented in the note 15. Financial assets and liabilities.

The foreign currency exchange rate differences has been recognized in income statement's finance expenses total EUR 12 thousand in 2016.

Other financial income and expenses consists of indirect taxation's tax-free interest income and other income of total EUR 17 thousand, interest on arrears EUR 26 thousand and financing expenses relating to factoring EUR 108 thousand.

# Notes to the consolidated financial statements

## 11. Other comprehensive income to be reclassified to profit or loss in subsequent periods

Items recognised to other comprehensive income and adjustments related to reclassification of such items are as follows:

	2016	2015
	Recognised to other comprehensive income items	Recognised to other comprehensive income items
	€000	€000
Actuarial gains (+) / losses (-) on defined benefit plans	-160	75
Translation differences	863	-863
<b>Total</b>	<b>703</b>	<b>-788</b>

The taxes related to other comprehensive income items are presented in the note 12. Income taxes.



# Notes to the consolidated financial statements

## 12. Income taxes

<b>Consolidated statement of profit or loss</b>	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Current income tax charge	-572	-273
Deferred taxes	23	937
<b>Total</b>	<b>-549</b>	<b>664</b>

### Consolidated statement of other comprehensive income

Deferred tax related to items recognised in other comprehensive income during in the year:

	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Actuarial gains (+) / losses (-) on defined benefit plans	40	-19
<b>Total</b>	<b>40</b>	<b>-19</b>

Reconciliation of tax expense and tax calculated at domestic tax rate 20%:

	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Profit before taxes	-15828	28010
Tax calculated at parent's tax rate 20%	-3166	5602
Effect of different tax rate in the foreign subsidiary	136	-125
Tax-exempt income	-15	-43
Non-deductible expenses for tax purposes	18	8
Utilisation of previously unrecognised tax losses	0	-83
The reporting period unrecognised deferred tax assets from tax losses	2125	0
Other temporary differences	330	-5632
<b>Income tax expense reported in the statement of profit or loss</b>	<b>-572</b>	<b>-273</b>

## Deferred taxes

	Consolidated statement of financial position	Consolidated statement of profit or loss	Consolidated statement of financial position	Consolidated statement of profit or loss
	2016	2016	2015	2015
<b>Deferred tax assets</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Excess of depreciation made in taxation	2 311	-53	2283	-16
Defined benefit plans	237	-1	216	13
Provisions	0	0	37	37
Unused tax losses	2 455	475	1760	0
Other temporary differences	219	-551	1034	111
<b>Deferred tax expense (/benefit)</b>		<b>-130</b>		<b>145</b>
<b>Total deferred tax assets</b>	<b>5 222</b>		<b>5331</b>	
<b>Deferred tax liabilities</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Capitalised borrowing costs	764	472	291	291
Purchase price allocation	5 072	-625	5 698	-1 373
Other temporary differences	0	0	187	0
<b>Deferred tax expense (/benefit)</b>		<b>-153</b>		<b>-1 082</b>
<b>Total deferred tax liabilities</b>	<b>5 836</b>		<b>6 176</b>	
Net deferred tax liabilities /(assets)	614		845	
Reflected in the statement of financial position as follows:	5 836		6 176	
Deferred tax assets	5 222		5 331	
Deferred tax liabilities	-5 836		-6 176	
<b>Total</b>	<b>-614</b>		<b>-845</b>	
<b>Reconciliation of deferred tax liabilities, net</b>	<b>2016</b>		<b>2015</b>	
	<b>€000</b>		<b>€000</b>	
<b>Deferred tax liabilities (/assets) at the beginning of the financial period</b>	<b>-845</b>		<b>0</b>	
Tax income/(expense) recognised in profit or loss	23		937	
Tax income/(expense) recognised in other comprehensive items	21		0	
Deferred taxes of sold subsidiary	187		0	
Deferred taxes acquired in business combinations	0		-1670	
Exchange rate differences	0		-112	
<b>Deferred tax liabilities at the end of the financial period</b>	<b>-614</b>		<b>-845</b>	

Deferred tax assets and liabilities have been offset only when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority.

The Group has unused tax losses of EUR 3 546 thousand available until 2019, EUR 5 149 thousand available until 2021 and EUR 3 582 thousand available until 2025, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax asset has been recognised on the unused tax losses from previous years. Deferred tax asset has not recognised from the reporting period loss.

# Notes to the consolidated financial statements

## 13. 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>						
13.2.2015	0	0	0	0	0	0
Additions	0	106	1 570	55 881	0	57 557
Business combinations	759	2 423	27 800	182	384	31 548
Transfers	0	0	2 360	-2 360	0	0
<b>31.12.2015</b>	<b>759</b>	<b>2 529</b>	<b>31 730</b>	<b>53 703</b>	<b>384</b>	<b>89 105</b>
Additions	0	9 738	180 137	133 332	2 976	326 182
Transfers	0	0	0	-185 319	0	-185 319
Disposals	-4	-1 070	-2 247	0	0	-3 321
Exchange differences	0	23	46	0	0	69
<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>
<b>Accumulated depreciation and impairment</b>						
13.2.2015	0	0	0	0	0	0
Depreciation charge for the year	0	117	2 677	0	65	2 859
Exchange rate differences	0	186	145	0	0	331
<b>31.12.2015</b>	<b>0</b>	<b>303</b>	<b>2 822</b>	<b>0</b>	<b>65</b>	<b>3 190</b>
Depreciation charge for the year	0	258	7 658	0	148	8 064
Disposals	0	0	302	0	0	302
<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>
<b>Carrying amount</b>						
31.12.2015	759	2 227	28 908	53 703	319	85 915
<b>31.12.2016</b>	<b>755</b>	<b>10 660</b>	<b>198 883</b>	<b>1 715</b>	<b>3 147</b>	<b>215 160</b>

The financing expenses relating to the paper machine investment started during 2015 are capitalised as a part of the acquisition cost and depreciated during the useful life. The loan has been raised to finance the investment and the realised borrowing costs have been capitalised. The capitalised borrowing costs totals to EUR 2 442 thousand during the year 2016 and are included in the balance sheet's line item Machinery and equipment. The capitalisation rate of 7,53 (until 6/2016) and 7,84 (7/2016 onwards) are used in determining the capitalised borrowing costs. Construction of the production line completed in 2016.

The Group's loans are secured by real estates and machinery. In addition, the Group has investing commitments relating to the purchase agreement of production machines. Details about commitment and contingencies are presented in the note 24. Commitments and contingencies.

## Financial leases

Property, plant and equipment includes the following assets through financial leases:

	<b>Buildings and constructions</b>	<b>Machinery and equipment</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Acquisition cost</b>			
31.12.2015	0	1 211	1 211
Additions	0	7 289	7 289
<b>31.12.2016</b>	<b>0</b>	<b>8 500</b>	<b>8 500</b>
<b>Accumulated depreciation</b>			
31.12.2015	0	292	292
Depreciations	0	977	977
<b>31.12.2016</b>	<b>0</b>	<b>1 269</b>	<b>1 269</b>
<b>Carrying amount</b>			
31.12.2015	0	919	919
<b>31.12.2016</b>	<b>0</b>	<b>7 231</b>	<b>7 231</b>

# Notes to the consolidated financial statements

## 14. Intangible assets

	Customer relationships	Trademarks	Emission allowances	Other intangible assets	Total
	€000	€000	€000	€000	€000
<b>Acquisition cost</b>					
<b>13.2.2015</b>	0	0	0	0	<b>0</b>
Additions	0	0	667	130	<b>797</b>
Business combinations	12 403	3 956	651	1 209	<b>18 219</b>
<b>31.12.2015</b>	<b>12 403</b>	<b>3 956</b>	<b>1 319</b>	<b>1 339</b>	<b>19 017</b>
Additions	0	0	484	77	<b>561</b>
<b>31.12.2016</b>	<b>12 403</b>	<b>3 956</b>	<b>1 803</b>	<b>1 416</b>	<b>19 578</b>
<b>Accumulated depreciation and impairment</b>					
<b>13.2.2015</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Depreciation charge for the year	1 240	396	756	193	<b>2 584</b>
<b>31.12.2015</b>	<b>1 240</b>	<b>396</b>	<b>756</b>	<b>193</b>	<b>2 584</b>
Depreciation charge for the year	1 240	396	969	276	<b>2 880</b>
<b>31.12.2016</b>	<b>2 481</b>	<b>791</b>	<b>1 725</b>	<b>468</b>	<b>5 465</b>
<b>Carrying amount</b>					
31.12.2015	11 162	3 561	563	1 146	<b>16 432</b>
<b>31.12.2016</b>	<b>9 922</b>	<b>3 165</b>	<b>78</b>	<b>948</b>	<b>14 113</b>

Other intangible assets includes software and licences.

## Notes to the consolidated financial statements

### 15. Financial assets and liabilities

	2016		2015		Level of hierar chy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
<b>Financial assets</b>					
<b>Financial assets at fair value through profit or loss</b>					
Financial assets held for trading					
Foreign currency derivatives	438	438	556	556	2
Commodity derivatives	2 197	2 197	1 142	1 142	2
<b>Total</b>	<b>2 635</b>	<b>2 635</b>	<b>1 698</b>	<b>1 698</b>	
<b>Total financial assets at fair value through profit or loss</b>	<b>2 635</b>	<b>2 635</b>	<b>1 698</b>	<b>1 698</b>	
<b>Loans and other receivables</b>					
Trade receivables	10 526	10 526	26 190	26 190	
Cash	16 789	16 789	103 157	103 157	
<b>Total</b>	<b>27 315</b>	<b>27 315</b>	<b>129 347</b>	<b>129 347</b>	
<b>Total financial assets</b>	<b>29 950</b>	<b>29 950</b>	<b>131 045</b>	<b>131 045</b>	
<b>Total non-current</b>					
Non-current financial assets	1 815	1 815	546	546	

Foreign currency derivatives included in financial assets held for trading comprise of currency forward contracts, EURUSD and EURGBP options and option structures. Commodity derivatives comprise of cash-settled OTC commodity swap contracts of long fiber (NBSK) and short fiber (BHKP) pulp, dated Brent oil, API2 coal and electricity year, quarter and month products.

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	2016		2015		Level of hierar chy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities held for trading					
Foreign currency derivatives	1 030	1 030	425	425	2
Commodity derivatives	956	956	1 619	1 619	2
<b>Total</b>	<b>1 987</b>	<b>1 987</b>	<b>2 045</b>	<b>2 045</b>	
<b>Financial liabilities measured at amortised cost</b>					
Bond	96 352	96 352	103 067	103 067	
Shareholder loan	108 898	108 898	89 970	89 970	
Trade payables	27 479	27 479	36 329	36 329	
Junior term loan	20 175	20 175	0	0	
Leasing liabilities	7 676	7 676	945	945	
<b>Total</b>	<b>260 580</b>	<b>260 580</b>	<b>230 312</b>	<b>230 312</b>	
<b>Total financial liabilities</b>	<b>262 567</b>	<b>262 567</b>	<b>232 356</b>	<b>232 356</b>	
Financial liabilities held for trading	40	40	63	63	
Bond	81 765	81 765	96 014	96 014	
Shareholder loan	108 898	108 898	89 970	89 970	
Junior term loan	20 175	20 175	0	0	
Leasing liabilities	6 201	6 201	579	579	
<b>Total non-current</b>	<b>217 080</b>	<b>217 080</b>	<b>186 626</b>	<b>186 626</b>	
Financial liabilities held for trading	1 946	1 946	1 982	1 982	
Bond	14 587	14 587	7 052	7 052	
Trade payables	27 479	27 479	36 329	36 329	
Leasing liabilities	1 475	1 475	367	367	
<b>Total current</b>	<b>45 488</b>	<b>45 488</b>	<b>45 730</b>	<b>45 730</b>	

Foreign currency derivatives included in financial liabilities held for trading comprise of currency forward contracts, EURUSD and EURGBP options and option structures. Commodity derivatives comprise of cash-settled OTC commodity swap contracts of long fiber (NBSK) and short fiber (BHKP) pulp, dated Brent oil, API2 coal and electricity year, quarter and month products.

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.

#### Interest bearing loans and borrowings

	Effective interest rate	Maturity	2016 Loan principal	2015 Loan principal
	%		€000	€000
<b>Non-current interest bearing loans and borrowings</b>				
Finance lease liabilities	4,53 %	2018-2022	6 201	607
Bond	8,81 %	2 020	82 503	97 501
Shareholder loan	6,00 %	2 025	99 437	86 000
Junior term loan	9,75 %	2 021	20 175	0
<b>Total non-current interest bearing loans and borrowings</b>			<b>208 315</b>	<b>184 108</b>
<b>Current interest bearing loans and borrowings</b>				
Bond			14 998	7 499
Finance lease liabilities			1 475	367
<b>Total current interest bearing loans and borrowings</b>			<b>16 473</b>	<b>7 866</b>
<b>Total interest bearing loans and borrowings</b>			<b>224 789</b>	<b>191 973</b>

### Bond

The bond included in interest-bearing loans is a secured bond amounting to EUR 105 million and that has been issued by Kotkamills Group Oy. The bond has been split into shares with a nominal value of 100 000 eur for each share. Fixed interest of 8,25 per cent per annum is paid on principal of the loan semi-annually. Maturity of the bond is until 2020. Amount outstanding is EUR 97,5 million.

### Shareholder loan

Total of shareholder loan EUR 99,4 million has been borrowed from Kotkamills Group Oy's shareholders. Interest of 6 per cent per annum is paid on principal of the loan. Maturity of the loan is until 2025.

### Junior term loan

Junior term loan amounting to EUR 20 million is loan from Kotkamills Group Oy's shareholders and other investors.

### Fair value measurement

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

Fair value of the financial assets and liabilities is included at the amount at which the instrument would be received to sell or paid to transfer in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair values:

- Financial assets at fair value through profit or loss are either marketable or their valuation is based on participant's purchase price at the closing date, which has also been tested using widely used valuation techniques and available quoted prices.
- Investments in unquoted shares have been measured at cost less possible impairment, because fair values cannot be reliably measured. Unquoted shares have no active markets.
- The fair values of the Group's interest-bearing borrowings and loans are based on amortised cost using the effective interest method.

### 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 significant transfers between Level 1 and Level 2 during 2016.

### Finance lease liabilities

Finance lease liabilities mature as follows:

	2016	2015
	€000	€000
Within one year	1 715	386
Between one and five years	3 772	607
More than five years	2 189	0
<b>Total minimum lease payments</b>	<b>7 676</b>	<b>993</b>
Future finance charges	-652	-37
<b>Present value of minimum lease payments</b>	<b>7 024</b>	<b>956</b>

Present value of minimum lease payments:

	2016	2015
	€000	€000
Within one year	1 475	367
Between one and five years	3 434	590
More than five years	2 115	0
<b>Total present value of minimum lease payments</b>	<b>7 024</b>	<b>956</b>

The Group's financial lease liabilities mainly comprise of leased machinery and equipment.



# Notes to the consolidated financial statements

## 16. Financial risk management

### Financial risk management objectives

Under its normal business, the Group is exposed to several financial risks. The objective of the Group's risk management is to minimise the adverse impacts on the Group's profit due to changes in the financial markets. The main financial risks are market, credit and liquidity risks. The general principles of the Group's risk management are approved by the board and the centralised treasury department is responsible for the practical implementation. The Group's treasury department identifies and assesses the risks and acquires required instruments to hedge the risks in co-operation with the operative units. The hedging transactions are carried out in accordance with the written risk management principles approved by the Group's management. The Group uses the following financial instruments in its risk management: foreign currency derivatives (options and forward contracts) and commodity derivatives (commodity swaps). Based on the Group's risk management principles, derivatives are not used in speculative trading.

The majority of the Group's financial liabilities, excluding derivative instruments, consist of interest bearing liabilities, trade and other payables and financial obligations. The main purpose of the financial liabilities is to finance and support Group's operational activities. The majority of the Group's financial assets consist of loan receivables, trade and other receivables, cash and short-term deposits which have arisen directly from the Group's operational activities. The Group also has investments classified as available-for-sale and enters into derivative contracts.

The Group does not apply hedge accounting.

### Market risk

The market risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in the market prices. The market risk covers the following risk types: interest rate risk, foreign currency risk and other price risks such as, for example, the commodity price risk. The financial instruments impacted by the market risk are interest bearing liabilities, deposits, investments classified as available-for-sale and derivative instruments.

### Interest rate risk

The interest risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in the interest rates.

The Group's loans are fixed rate loans, thus the company is not exposed to changes in interest rates arising from changes in the income statement. The aggregate interest under the junior term loan will be 9.75 per cent per annum, part of which will be capitalised, added with a variable interest of 0.0 to 3.0 per cent per annum determined by the levels of certain financial key figures of the Group.

At 31 December 2016 100% of the Group's loans were fixed rate.

### Foreign currency risk

The foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in the foreign currencies. The Group's exposure to the changes in the exchange rates results mainly from the Group's operational activities when the income or expense item is denominated in foreign currency. The most important currencies in the Group are USD and GBP.

19 % of the Group companies' sales and less than 1% of the purchases are denominated in foreign currency. The most important sales currencies are USD and GBP. External receivables are mainly in euros.

### Sensitivity to the fluctuations in foreign currency rates

The following table describes the impact of a 10 % change in EUR/USD and EUR/GBP rates to the Group's profit and equity before taxes, with all other variables held constant. The impact on the Group's profit before taxes is due to changes in the fair values of the monetary assets and liabilities, including derivatives not classified as hedging instruments. Although derivatives are not classified under hedge accounting, they are an economic hedge by reversing the transactions of the underlying securities when they occur.

The Group's exposure to changes in other foreign currency rates is not material.

Change in EUR/USD currency rates		Effect on profit before tax	Effect on pre-tax equity
	%	€000	€000
31.12.2016	10 %	1 433	1 433
	-10 %	-2 840	-2 840
31.12.2015	10 %	1 043	1 043
	-10 %	-1 002	-1 002

  

Change in EUR/GBP currency rates		Effect on profit before tax	Effect on before tax equity
	%	€000	€000
31.12.2016	10 %	78	78
	-10 %	-71	-71
31.12.2015	10 %	-133	-133
	-10 %	62	62

### Commodity risk

The Group is exposed to commodity risk relating to the availability and changes in prices of the commodities. The Group aims to reduce these risks by entering into framework agreements with known counterparties and by obtaining certain commodity swap agreements. The Group has hedged 66 % of the following 12 months net position of electricity consumptions and electricity production, 30 % of pulp purchases and 7 % of oil risk in natural gas energy price. Hedge accounting is not applied to these hedging derivatives. Thus the changes in the fair values of these derivatives are recognised through profit and loss and presented in the financial income and expenses. The Group's exposure to the natural gas price risk of energy unit prices in Finland is determined based on the following price factors and weights: Brent-oil (40%), API2-coal (30%) and the domestic market basic price index's sub index D35 (30%), which describes the electricity, gas and heat supply and cooling business price development on the domestic market in Finland. The oil risk is hedged with a price hedge instrument of natural gas distribution in addition to commodity derivatives.

The below table presents the impact to the before tax profit of 10 % increase or decrease in prices of commodity derivatives outstanding at the end of the reporting period, with all other variables held constant.

	<b>Effect on profit before tax</b>	
	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Pulp commodity derivative	1 007	401
Oil commodity derivative	144	25
Electricity commodity derivative	81	823
Coal commodity derivative	25	0
<b>Total</b>	<b>1 257</b>	<b>1 249</b>

### Credit risk

Credit risk is a risk relating to credit loss due to that the counterparty does not fulfill its obligation towards the financial instrument or the customer contract. The Group is exposed to the credit risk through its operational activities (mainly trade receivables) and financing activities including bank deposits, foreign exchange transactions and other financial instruments.

#### Trade receivables

The credit risk of trade receivables is managed according to the Group's credit policy. The Group aims to identify all risks related to trade receivables. A part of the Group's receivable position is hedged with credit insurance. The risk of unsecured receivables is limited with prepayments or document payments and assessed and accepted internal risk.

The Group does not have significant concentrations of credit risk since it has a broadly segmented customer base. The accounts receivables do not include any significant concentrations of credit risk by customer. The customers operate mainly in the independent markets. The maximum exposure to the credit risk at the end of the reporting period for trade receivables is 30,5 %. The proportion of insured trade receivables at the reporting date is 51,9 % after considering the own liability. Trade receivables with payment terms limiting the customer risk at the reporting date is 17,6 %. Terms of payment limiting customer risk are advance payment, letter of credit and documentary collections where the customer receives documents entitling the goods against payment. Kotkamills Oy, the subsidiary of Kotkamills Group Oy, has signed two contracts of approximately EUR 20 million each with Nordic financial institutions concerning sale of trade receivables of the company to the financial institutions.

The impairment of outstanding trade receivables is assessed at each reporting period. During the reporting period, eur 12 981 of impairment was expensed. Impairment losses are all related to trade receivables and are due to unexpected changes in the customer's economic environment. The Group has not renegotiated the payment terms on receivables during the reporting period of which would otherwise be overdue or which value may be impaired.

The ageing analysis of trade receivables is presented in the note 18. Trade and other receivables.

### Financial instruments and cash deposits

Credit risk related to cash deposits in the banks and financial institutions is managed by the treasury department in accordance with the Group's risk management principles. The Group aims to minimise the risk concentration and thus mitigates the possible finance losses which occur if the counterparties cannot fulfill their obligations. The Group enters into derivative contracts and investing transactions only with counterparties with minimum A credit rating.

The Group's maximum exposure to credit risk through balance sheet items at 31 December 2016 is the carrying amount of those items presented in the note 15. Financial assets and liabilities, excluding guarantees and derivative instruments. The Group's maximum exposure to guarantees and derivative instruments is presented below in the liquidity-table. There is no significant credit risk concentration relating to cash and derivatives.

### Liquidity risk

The Group monitors the adequacy of assets using the tools designed to planning and assessing of liquidity. Availability and flexibility of the Group's financing is aimed at assuring sufficient loan reserves and long term loans.

At the end of the reporting period at 31 December 2016 approximately 7% of the Group's interest bearing liabilities will mature during the next year, based on the carrying amounts presented in the financial statements.

Availability of the short-term financing is presented in the table below:

	31.12.2016	31.12.2015
	€000	€000
Undisbursed loans	0	20 000
Cash at bank	16 789	103 157
<b>Total</b>	<b>16 789</b>	<b>123 157</b>

General competition and changes in demand and supply can impact the Group's profitability. Additionally commercial ramp-up of Consumer Boards business includes risk of delivery volumes. To secure liquidity the Group has obtained after the closing date additional financing, which is described in the note 26. Events after reporting period. Additionally the Group has available unutilized limit of the sale of the trade receivables.

The most important covenants are reported to the debtors quarterly. If the Group breaches the loan covenants, the debtor may demand accelerated repayment of the loans. During the reporting period, the Group has been able to fulfill the covenants of the loans related to equity ratio (loan covenant described in the note 4. Capital management).

Table below presents the maturity profile of the Group's financing liabilities based on contractual undiscounted cash flows (including both interest payments and repayment of the principal).

31.12.2016	On demand	Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
	€000	€000	€000	€000	€000	€000	€000
Bond	0	11 521	11 212	21 495	74 930	0	119 158
Shareholder loan	0	0	0	0	0	158 034	158 034
Junior term loan	0	0	0	0	24 462	0	24 462
Finance leases	0	373	1 342	1 700	2 072	2 189	7 676
Trade and other payables	0	44 237	0	0	0	0	44 237
Derivative contracts	0	454	1 323	40	0	0	1 817
	<b>0</b>	<b>56 585</b>	<b>13 877</b>	<b>23 236</b>	<b>101 463</b>	<b>160 223</b>	<b>355 383</b>

31.12.2015	On demand	Less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
	€000	€000	€000	€000	€000	€000	€000
Bond	0	4 331	11 831	22 734	96 422	0	135 319
Shareholder loan	0	0	0	0	0	137 642	137 642
Finance leases	0	100	267	291	299	0	957
Trade and other payables	0	52 910	0	0	0	0	52 910
Derivative contracts	0	484	1 497	63	0	0	2 045
	<b>0</b>	<b>57 825</b>	<b>13 595</b>	<b>23 088</b>	<b>96 721</b>	<b>137 642</b>	<b>328 872</b>

# Notes to the consolidated financial statements

## 17. Inventories

	2016	2015
	€000	€000
Materials and supplies	15 413	15 424
Work in progress	957	670
Finished goods	15 680	23 877
<b>Total</b>	<b>32 050</b>	<b>39 971</b>

### Impairments

During the reporting period, EUR 527 (comparative data 363) thousand of inventory impairment charge was recognised in profit or loss and presented in 'Impairment' in the income statement. Impairment loss is included in Magazine Paper segment. Impairment was recognised due to materials and spare parts which cannot be utilised.

# Notes to the consolidated financial statements

## 18. Trade and other receivables

	2016	2015
	€000	€000
Trade receivables	10 526	26 190
Accrued income	5 635	7 285
Other receivables	6 060	7 669
<b>Total</b>	<b>22 221</b>	<b>41 144</b>

Terms relating to the receivables from the related parties are presented in the note 25. Related party transactions.

Trade receivables are interest-free and the terms of payment are mainly 30-90 days.

The Group has recognised total amount of EUR 12 981 credit losses during the period.

Part of the Group's trade receivables are hedged with a credit insurance. Open receivables hedged with credit insurance amount to 51,9 % at year-end. Trade receivables with payment term limiting the customer risk amount to 17,6 % at the reporting date. The Group does not obtain collaterals to other receivables. Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has signed two contracts of approximately EUR 20 million each with a Nordic financial institutions concerning sale of trade receivables of the company to the financial institutions.

The ageing analysis of trade receivables is as follows

	2016	2015
	€000	€000
Not due	9 835	23 351
Due		
< 30 days	592	2 313
30-60 days	62	208
61-90 days	11	291
> 90 days	26	26
<b>Total</b>	<b>10 526</b>	<b>26 190</b>

Note 16. Financial risk management includes a description of how the Group manages and assesses the quality of those trade receivables which are not due and not impaired.

# Notes to the consolidated financial statements

## 19. Cash

	2016	2015
	€000	€000
Cash at banks and on hand	16 789	103 157
<b>Total</b>	<b>16 789</b>	<b>103 157</b>

The banks pay a floating rate on the bank deposits according to the the daily deposit rates.

### Cash in the statement of cash flows

Cash in the statement of cash flows consists of:

	2016	2015
	€000	€000
Cash at banks and on hand	16 789	103 157
<b>Cash</b>	<b>16 789</b>	<b>103 157</b>

Items classified as cash in the statement of cash flows has the maturity of maximum three months from the acquisition date.

# Notes to the consolidated financial statements

## 20. Equity

### Changes in share capital

	Number of shares			Share capital	Reserve for invested non-restricted equity	
	A	B	Total			Total
	(1 000)	(1 000)	(1 000)	€000	€000	€000
<b>13.2.2015</b>	3	0	3	3	0	3
Issuance of share capital	8 998	980	9 978	0	9 978	9 978
<b>31.12.2015</b>	<b>9 000</b>	<b>980</b>	<b>9 980</b>	<b>3</b>	<b>9 978</b>	<b>9 980</b>
<b>1.1.2016</b>	<b>9 000</b>	<b>980</b>	<b>9 980</b>	<b>3</b>	<b>9 978</b>	<b>9 980</b>
Increase in share capital	0	0	0	78	-78	0
Issuance of share capital	1 406	151	1 558	0	1 558	1 558
<b>31.12.2016</b>	<b>10 406</b>	<b>1 131</b>	<b>11 538</b>	<b>80</b>	<b>11 458</b>	<b>11 538</b>

Kotkamills Group has two classes of shares, class A and class B. Each class A and class B share entitles to one vote in the Annual General Meeting. Maximum number of shares is 11.559.405 shares. Shares do not have a nominal value. The shares have a redemption clause. Kotkamills Group Oyj's fully paid and registered share capital is EUR 80 thousand.

Equity reserves are described as following:

### Share capital

The share subscription price is credited to the share capital, unless it is provided in the decision to credit the reserve for invested unrestricted equity.

### Reserve for invested non-restricted equity

The reserve of invested non-restricted equity includes share subscription prices designated to be included in reserve of invested non-restricted equity.

### Own shares

The company 31.12.2016 had own serie B shares as follows:

Number	Share of shares %	Share of votes %
63 125	0,55	0,55

The company has purchased own serie B shares from certain key employees who have left the Group as follows:

Date	Number	Value, EUR
8.4.2016	20 000	20 000
30.9.2016	20 000	20 000
30.12.2016	23 125	23 125
<b>Total</b>	<b>63 125</b>	<b>63 125</b>

The purchased shares during the reporting period represents 0,55% of the total number of shares and votes respectively. The purchase of the own shares didn't have a material impact on the spread of ownership nor voice in the company.

### Share issues

On 12 February 2016, the board of the directors made a decision to issue 20.0000 class B preference shares based on the authorization given by the shareholder on 23.2.2015. The subscription price of the shares was EUR 1,00 per share.

On 27 July 2016 the shareholders of the Company unanimously resolved on a directed issue of maximum 1.406.277 new series A shares and a maximum of 153.128 new series B shares. The holders of series A shares subscribed the maximum amount of 1.406.277 new A shares offered for subscription on the directed issues of the company and the holders of series B shares subscribed 131.252 of the total 153.128 new B shares offered for subscription on the directed issue of the company. The subscription price of all shares was EUR 1,00 per share.

### Dividend

During 2016 the Company distributed dividend of aggregate amount of EUR 30 041 for class B preference shares which equalled with the amount of 7% annual profit for subscription price calculated since the date the subscription price was paid. After the balance sheet date, the Board of Directors has proposed dividend for class B preference shares which amount would reflect 7% annual profit for subscription price calculated since the date the subscription price was paid, resulting in a total dividend amount of EUR 68 812.



# Notes to the consolidated financial statements

## 21. Provisions

	Tax provision	Obligation to buy emission allowances	Unemployment insurance liability component	Total
	€000	€000	€000	€000
<b>13.2.2015</b>	0	0	0	<b>0</b>
Provisions in the business combination	0	471	369	<b>840</b>
Provisions arising during the year	15	0	0	<b>15</b>
Utilised provisions	0	0	-250	<b>-250</b>
Reversal of unused provisions	0	-471	0	<b>-471</b>
<b>31.12.2015</b>	15	0	119	<b>133</b>
Reduction provision	-15	0	0	<b>0</b>
Utilised provisions	0	0	-119	<b>-119</b>
<b>31.12.2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Non-current provisions 31.12.2016	0,0	0,0	0,0	0,0
Current provisions 31.12.2016	0,0	0,0	0,0	0,0
Total	0,0	0,0	0,0	0,0
Non-current provisions 31.12.2015	0	0	119	<b>119</b>
Current provisions 31.12.2015	15	0	0	<b>15</b>
<b>Total</b>	<b>15</b>	<b>0</b>	<b>119</b>	<b>133</b>

### Obligation to buy emission allowances

The Group has not recognised a provision to cover the obligation to buy emission allowances as the received and purchased allowances exceeded the obligation to return emission allowances equivalent to the actual emissions. The actual amount of CO<sub>2</sub> emissions in 2016 were 205 715 tons. The allocation of received emission allowances for the year amounted to 130 017 tons and the amount of purchased allowances in 2016 was 47 000 tons. Emission allowances are returned to the Union registry latest on April 30, 2017.

# Notes to the consolidated financial statements

## 22. Pension obligations

Most of the Group's employees are located in Finland and the pension scheme is covered by a defined contribution plan.

Part of the Group's personnel is, in addition to statutory pension scheme, entitiled to pension schemes classified as defined benefit plans. At the closing date the arrangement covers 83 active employees, 5 employees that have free-form pension and 52 retired persons. The Group has two arrangements, a supplementary pension and a group pension insurance. The benefits include old-age pension, early old-age pension, disability pension and other benefits agreed in the insurance contract.

Pension schemes are covered by local external insurance companies.

### Summary of post-employment benefit plan's impact on the consolidated financial statements

	2016	2015
	€000	€000
Present value of funded obligations	4 725	4 498
Fair value of plan assets	-3 888	-3 786
<b>Net defined benefit liabilities</b>	<b>837</b>	<b>712</b>
Pension expenses, defined contribution plans	-6 144	-3 658
Pension expenses, defined benefit plans and other post-employment benefits	20	75
<b>Expenses included in income statement</b>	<b>-6 124</b>	<b>-3 583</b>
Actuarial gains (+) / losses (-) on defined benefit plans and other post-employment benefits	-103	93
<b>Remeasurements in other comprehensive income</b>	<b>-103</b>	<b>93</b>

### Changes in the defined benefit obligations:

	Present value of defined benefit obligation	Fair value of plan assets	Total
	€000	€000	€000
<b>13.2.2015</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current service cost	281	0	281
Interest cost (+) / income (-)	65	-56	9
The return on plan assets, excluding amounts included in net interest	0	27	27
Actuarial gain (-) / loss (+) arising from changes in demographic assumptions	14	0	14
Actuarial gain (-) / loss (+) arising from changes in financial assumptions	-491	0	-491
Experience adjustment, gain (+) / loss (-)	358	0	358
Contributions by employer	0	-262	-262
Benefits paid	-273	273	0
Acquisitions and disposals	4 545	-3 767	778
<b>31.12.2015</b>	<b>4 498</b>	<b>-3 786</b>	<b>712</b>
Current service cost	244	0	244
Interest cost (+) / income (-)	89	-77	12
The return on plan assets, excluding amounts included in net interest	0	-101	-101
Actuarial gain (-) / loss (+) arising from changes in demographic assumptions	306	0	306
Experience adjustment, gain (+) / loss (-)	-102	0	-102
Contributions by employer	0	310	310
Benefits paid	-310	-234	-544
<b>31.12.2016</b>	<b>4 725</b>	<b>-3 888</b>	<b>837</b>

## Defined benefit obligation by persons

	31.12.2016	31.12.2015
	€000	€000
Active employees	1 559	1 470
Inactive employees, paid up policies	60	78
Inactive employees, pensions	3 106	2 950
	<u>4 725</u>	<u>4 498</u>

## Significant actuarial assumptions

	2016	2015
Discount rate	1,49 %	2,04 %
Future salary increases	1,50 %	1,50 %
Future pension cost increase	1,74 %	1,67 %
Inflation	1,50 %	1,43 %

Interest rate risk: Present value of pension obligations are measured using interest rates of high quality corporate bonds. Therefore pension obligations are highly sensitive to changes in the interest rate.

Inflation risk: Changes in defined benefit plans are measured based on changes in pension index. Pension index is calculated as weighted average of the changes in wages and salaries (20%) and changes in prices (80%). Changes in wages and salaries as well as inflation impacts benefits paid.

Changes in the life expectancy for pensioners: If pensioners live longer than expected, the pension obligation might be understated.

## Quantitative sensitivity analysis for significant assumptions

### The effect of changes on the defined benefit obligation December 31, 2016:

Assumption	Change in assumption	Impact on increase in assumption	Impact on decrease in assumption
	0,5%-unit	Obligation decreases	Obligation increases
Discount rate		5,32%	5,89%
	0,50 %	Obligation increases	Obligation decreases
Future salary increases		2,91%	2,89%
	0,50 %	Obligation increases	Obligation decreases
Future pension cost increase		30,87%	29,27%
Life expectancy		<b>Increase by one year</b>	<b>Decrease by one year</b>
		Obligation increases	Obligation decreases
		2,62%	2,55%

### The effect of changes on the defined benefit obligation December 31, 2015:

Assumption	Change in assumption	Impact on increase in assumption	Impact on decrease in assumption
	0,5%-unit	Obligation decreases	Obligation increases
Discount rate		5,02%	5,52%
	0,50 %	Obligation increases	Obligation decreases
Future salary increases		3,70%	3,68%
	0,50 %	Obligation increases	Obligation decreases
Future pension cost increase		32,01%	30,46%
Life expectancy		<b>Increase by one year</b>	<b>Decrease by one year</b>
		Obligation increases	Obligation decreases
		2,70%	2,63%

The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation.

The financial assumptions which have the most significant effect on pension obligation are changes in discount rate or inflation. Expected return on funds is based on analysis of historical return and market expectations of future return on long-term investments.

As at 31 December 2016, expected benefits to be paid during 2017 is EUR 248 thousand.

#### **Maturity profile of defined benefit plans**

	Within one year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	€000	€000	€000	€000
<b>31.12.2016</b>	<b>456</b>	<b>608</b>	<b>934</b>	<b>3 183</b>
<b>31.12.2015</b>	275	467	1 235	3 544

# Notes to the consolidated financial statements

## 23. Trade and other payables

	2016	2015
	€000	€000
Trade payables	27 479	36 329
Accrued expenses	15 991	15 646
Other payables	767	935
<b>Total</b>	<b>44 237</b>	<b>52 910</b>

Trade payables are interest-free and are paid mainly during 30 days.

The ageing analysis of trade and other payables is presented in the note 16. Financial risk management.

Terms relating to the transactions with related parties are presented in the note 25. Related party transactions.

The process of how the Group manages credit risk is presented in the note 16. Financial risk management.

# Notes to the consolidated financial statements

## 24. Commitments and contingencies

### Operating lease commitments – Group as lessee

The Group has entered into operating leases on machinery and equipment as well as properties. Lease term for half of the agreements will end during 2016. The agreements include option to continue the lease after the initial lease term.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	€000	€000
Within one year	153	188
Between 1 and 5 years	153	174
More than 5 years	0	18
<b>Total</b>	<b>306</b>	<b>379</b>

The Group has in 2016 recognised as expense total lease payments EUR 315 thousand of operating leases including contingent rents of EUR 128 thousand.

### Operating lease commitments – Group as lessor

The Group has entered into operating leases on two properties. The lease terms are for an indefinite period with three months notice period. The lessees have no right or obligation to redeem the leased assets.

### Guarantees

	2016	2015
	€000	€000
Securities given on own behalf		
Mortgages	750 000	750 000
Shares of Kotkamills Oy	39 653	39 653
Intercompany loan	175 000	155 000
<b>Total</b>	<b>964 653</b>	<b>944 653</b>

Mortgages include Kotkamills Oy's real estate mortgages amounting to EUR 600 million and enterprise mortgages totalling EUR 150 million.

Mortgages, shares of Kotkamills Oy owned by the company and internal loan to Kotkamills Oy are collateral for the bond totalling to EUR 105 million and the junior term loan of EUR 20 million is considered as second lien debt to the first mortgage.

Securities given on behalf of a related party have been specified in note 25. Related party transactions.

## **Litigations and disputes**

### **Litigations**

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. Kotkamills Oy has disputed the claim as well as the jurisdiction and the applicable law. It has been agreed in the contract that any disputes will be settled in arbitration and that the applicable law shall be Finnish law. Kotkamills Oy has not recognised any provision because of the claim.

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

### **Disputes**

At the closing date the Kotkamills Oy has one unsettled contractual dispute.

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

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

## Notes to the consolidated financial statements

### 25. Related party transactions

The management of the Group including the Board members of Kotkamills Group Oy and Kotkamills Oy and the Senior Management Group members of Kotkamills Oy including managing director are considered as related parties. The entities with significant influence over the Group are also a part of related party.

The parent company and the subsidiaries belonging to the same group are considered to be related parties. The information about the group structure is presented in the note 5. Group information.

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

#### 2016

	Sales	Purchases	Receivables	Liabilities
	€000	€000	€000	€000
Entities with significant influence over the Group	0	0	0	63 033

#### 2015

	Sales	Purchases	Receivables	Liabilities
	€000	€000	€000	€000
Personnel belonging to the management of the Group	0	541	0	0
Entities with significant influence over the Group	0	66	0	52 134

#### Terms relating to the related party transactions

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

#### Management's employee benefits

The total of employee benefits paid to the members of the Senior Management Group.

	2016			2015		
	Managing director	Other members	Senior Management Group, total	Managing director	Other members	Senior Management Group, total
	€000	€000	€000	€000	€000	€000
Wages and salaries	268	1 114	1 382	205	1 007	1 212
Company-paid cars and mobilephones	12	14	26	12	5	16
<b>Total</b>	<b>280</b>	<b>1 128</b>	<b>1408</b>	<b>216</b>	<b>1 012</b>	<b>1228</b>

The transactions relating to management's employee benefits presented in the table are expensed during the reporting period.

The managing director is entitled to a statutory pension and the retirement age is determined within the framework of the statutory pension scheme. The statutory pension expenses of the managing director was EUR 70 341 in 2016 (EUR 70 341 in 2015).

#### Remuneration of the Board of Directors

No remuneration has been paid for the Board of Directors of Kotkamills Group Oy during the reporting period.

	2016	2015
	€000	€001
The Board members of Kotkamills Oy, remuneration	120	69
<b>Total</b>	<b>120</b>	<b>69</b>



# Notes to the consolidated financial statements

## 26. Events after the reporting period

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

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

The subscription price for each New Share and each Treasury Share is EUR 1.00 and the aggregate subscription price for the New Shares and the Treasury Shares is EUR 2,142,427. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares are in connection with their participation in the share issue required to grant shareholder loans to the company up to the aggregate amount of EUR 17,920,698. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

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

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

The aggregate subscription price for the New Shares and the Treasury Shares was EUR 2,128,402. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 17,920,698.

As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj obtained financing in the aggregate amount of EUR 20,049,100.

# Parent company's financial statements

## KOTKAMILLS GROUP OYJ

### Parent company's statement of profit or loss

For the period 1.1.-31.12.2016		1.1.-31.12.2016	13.2.-31.12.2015
	Note	€000	€000
<b>Net Sales</b>	1	<b>709</b>	<b>45</b>
Other operating income	2	23	0
Materials and services	3	0	0
Personnel expenses	4	-455	-194
Depreciation, amortisation and impairments	5	-6	-5
Other operating expenses	6	-796	-467
		<b>-1 234</b>	<b>-667</b>
<b>Operating profit (loss)</b>		<b>-525</b>	<b>-622</b>
Financial income and expenses	7	-1 144	2 031
<b>Profit (loss) before appropriations and taxes</b>		<b>-1 668</b>	<b>1 409</b>
<b>Profit (loss) for the period</b>		<b>-1 668</b>	<b>1 409</b>

## KOTKAMILLS GROUP OYJ

## Parent company's balance sheet

31.12.2016

<b>ASSETS</b>	Note	<b>2016</b> €000	<b>2015</b> €000
<b>Non-current assets</b>			
Tangible assets	8	19	26
Investments	9	39 653	39 653
<b>Non-current assets total</b>		<b>39 673</b>	<b>39 679</b>
<b>Current assets</b>			
Non-current receivables	10	190 000	147 500
Current receivables	11	11 259	12 916
Cash and bank		235	9 049
<b>Current assets total</b>		<b>201 495</b>	<b>169 465</b>
		<b>241 168</b>	<b>209 144</b>

**EQUITY AND LIABILITIES**

<b>Equity</b>	12		
Share capital		80	3
Reserve for invested non-restricted equity		11 458	9 978
Retained earnings		1 316	0
Profit (loss) for the period		-1 668	1 409
<b>Equity total</b>		<b>11 185</b>	<b>11 389</b>
<b>Liabilities</b>			
Non-current liabilities	13	211 574	187 470
Current liabilities	14	18 409	10 285
<b>Liabilities total</b>		<b>229 982</b>	<b>197 755</b>
		<b>241 168</b>	<b>209 144</b>

## KOTKAMILLS GROUP OYJ

## Parent company's cash flow statement

For the period 13.2.-31.12.2016

	1.1.-31.12.2016	13.2.-31.12.2015
	€000	€000
<b>Cash flow from operating activities</b>		
Profit (loss) before taxes	-1 668	1 409
Adjustments for		
Depreciation, amortisation and impairment	6	5
Financial income and expenses	1 144	-2 031
Changes in working capital:		
Change in current assets, non-interest bearing gain(-)/loss(+)	4 988	-206
Change in current liabilities, non-interest bearing gain(+)/loss(-)	12	210
Cash flow from operating activities before financial items and taxes	4 481	-613
Interest received from operating activities	3 188	9 634
Interest paid and financial expenses paid for operating activities	-8 886	-6 268
<b>Cash flow from operating activities (A)</b>	<b>-1 217</b>	<b>2 753</b>
<b>Cash flow from investing activities</b>		
Investments in intangible and tangible assets	0	-31
Acquisition of subsidiaries	0	-39 653
Purchase of own shares	-63	0
Change in non-current receivables	-35 000	-155 000
<b>Cash flow from investing activities (B)</b>	<b>-35 063</b>	<b>-194 684</b>
<b>Cash flow from financing activities</b>		
Proceeds of issuance of share capital	0	3
Dividend paid	-30	0
Proceeds from long-term loans	33 437	191 000
Repayment of long-term loans	-7 499	0
Proceeds from investments in invested non-restricted equity	1 558	9 978
<b>Cash flow from financing activities (C)</b>	<b>27 466</b>	<b>200 980</b>
<b>Change in cash and cash equivalents (A+B+C)</b>	<b>-8 814</b>	<b>9 049</b>
Cash and cash equivalents at beginning of period	9 049	0
Cash and cash equivalents at end of period	235	9 049

## KOTKAMILLS GROUP OYJ

# Notes to the parent company's financial statements

### General information

Kotkamills Group Oyj is a public limited company founded under Finnish legislation which domicile is Helsinki, registered address Norskankatu 6 48100 Kotka and business-ID 2673676-1. Kotkamills Group Oyj (former Eagle Industries Oy) was established on February 5, 2015 and registered on February 13, 2015. The reporting period is a calendar year. The comparison year, the first reporting period for Kotkamills Group Oyj, covers the period 13.2.-31.12.2015, and hence does not cover 12 months.

### Accounting Policies

The Parent Company Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in Finland (Finnish GAAP).

### Foreign currency translation

Transactions in foreign currencies are recorded in euro by applying the exchange rates at the dates of the individual transactions. At the end of accounting period, the unsettled balances of foreign currency receivables and liabilities are translated using the exchange rates at the end of the accounting period. Foreign exchange gains and losses resulting from translation of foreign currency transactions are recognised through statement of profit and loss.

### Measurement of receivables, financial assets and liabilities

Receivables are measured at face value, however, not in excess of their probable value. Financial assets are measured according to Finnish accounting act (FAA) 5:2§ to the lower of acquisition costs or estimated realisable value. Financial liabilities are measured according to FAA 5:2§ at face value.

### Pension costs

Employees' statutory pension scheme is covered by an external insurance company. Pension costs are accrued based on paid salaries of the accounting period.

### Intangible and tangible assets and depreciation

Intangible and tangible assets are measured at cost less accumulated depreciation and possible impairments. Assets are depreciated using straight-line depreciation method over the remaining useful life of the related asset.

The estimated useful lives are:

Vehicles 3-5 years

### Taxes

The taxes recognised in the income statement include company's taxes accounted for on an accrual basis based on taxable income according to local tax regulations. Deferred taxes are not recognized in the parent company.

## KOTKAMILLS GROUP OYJ

## Notes to the parent company's financial statements

Notes to the statement of profit and loss	2016 €000	2015 €000
-------------------------------------------	--------------	--------------

**1 Sales by segment**

EU	709	45
Sales, total	<b>709</b>	<b>45</b>

**2 Other operating income**

Travel expenses	23	0
Other operating income, total	<b>23</b>	<b>0</b>

**3 Materials and services**

Raw materials and consumables		
Purchases during the financial year	0	0
Materials and services, total	<b>0</b>	<b>0</b>

**4 Personnel expenses and number of employees****Personnel expenses in the income statement**

Wages and salaries	368	153
Pension costs	65	30
Other personnel expenses	22	11
Personnel expenses, total	<b>455</b>	<b>194</b>

Wages and salaries paid by the Group to managing director during the reporting period.	<b>280</b>	<b>216</b>
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No remuneration for the Board of Directors has been paid during the reporting period.

The number of employees at the end of the financial period

Number of employees	2	2
At the end of period	<b>2</b>	<b>2</b>

**5 Depreciation, amortisation, and impairments**

Depreciation and amortisation according to plan	6	5
Depreciation and amortisation, total	<b>6</b>	<b>5</b>

**6 Other operating expenses**

Consulting services	515	357
Administrative services and facility services	14	17
Audit services	181	72
Insurance fees	11	14
Other operating expenses	75	6
Other operating expenses, total	<b>796</b>	<b>467</b>

Notes to the statement of profit and loss		2016	2015
		€000	€000
<b>6.1. Auditors' fees</b>			
Ernst & Young Oy			
Audit fees	48	10	
Tax consultancy	8	0	
Other services	125	63	
Audit fees, total	<b>181</b>	<b>73</b>	
<b>7 Financial income and expenses</b>			
Distribution from reserve for invested non-restricted equity			
From Group companies	0	5 000	
Reserve for invested non-restricted equity, total	<b>0</b>	<b>5 000</b>	
Other interest income			
From Group companies	14 019	9 667	
From others	0	178	
Interest income, total	<b>14 019</b>	<b>9 845</b>	
Interest expenses and other financial expenses			
To others	-15 163	-12 813	
Interest expenses and other financial expenses, total	<b>-15 163</b>	<b>-12 813</b>	
Financial income and expenses, total	<b>-1 144</b>	<b>2 031</b>	
Net exchange gains (+) / losses (-) included in the financial items	<b>0</b>	<b>0</b>	

## KOTKAMILLS GROUP OYJ

## Notes to parent company's financial statements

Notes to parent company's balance sheet	2016 €000	2015 €000
<b>Non-current assets</b>		
<b>8 Machinery and equipment</b>		
Acquisition cost, beginning of period	31	0
Additions	0	31
Acquisition cost, end of period	31	31
Kertyneet poistot	-5	0
Depreciation	-6	-5
Book value 31.12.	19	26
<b>Tangible assets, total</b>	<b>19</b>	<b>26</b>
<b>9 Investments</b>		
<b>Shares in group companies</b>		
Acquisition cost, beginning / end of period	39 653	0
Increase	0	39 653
Book value 31.12.	39 653	39 653
<b>Investments, total</b>	<b>39 653</b>	<b>39 653</b>
<b>Current assets</b>		
<b>10 Non-current receivables</b>		
Receivables from Group companies	190 000	147 500
Total	190 000	147 500
<b>Non-current receivables, total</b>	<b>190 000</b>	<b>147 500</b>
<b>11 Current receivables</b>		
Receivables from Group companies		
Accounts receivable	73	206
Prepayments and accrued income	11 182	5 210
Loan receivables	0	7 500
Total	11 255	12 916
Receivables from other companies		
Prepayments and accrued income	5	0
Yhteensä	5	0
<b>Current receivables, total</b>	<b>11 259</b>	<b>12 916</b>
Significant items included in prepaid and accrued income		
Reserve for invested non-restricted equity, Group	0	5 000
Prepaid and accrued interest, Group	11 041	210
Prepayments and accrued income	145	0
Total	11 187	5 210



## KOTKAMILLS GROUP OYJ

## Notes to parent company's financial statements

Notes to parent company's balance sheet	2016 €000	2015 €000
-----------------------------------------	--------------	--------------

## 12 Equity

<b>Restricted equity</b>		
Share capital 1.1.	3	3
Increase of share capital 10.2.2016	78	
Share capital 31.12.	80	3
<b>Restricted equity, total</b>	<b>80</b>	<b>3</b>
<b>Non-restricted equity</b>		
Reserve for invested non-restricted equity 1.1.	9 978	0
Increase of share capital 10.2.2016	-78	0
Increase	1 558	9 978
Reserve for invested non-restricted equity 31.12.	11 458	9 978
Retained earnings 1.1.	1 409	0
Purchase of own shares	-63	0
Dividend paid	-30	0
Retained earnings 31.12.	1 316	0
Profit (loss) for the financial year	-1 668	1 409
<b>Non-restricted equity, total</b>	<b>11 105</b>	<b>11 387</b>
<b>Equity, total</b>	<b>11 185</b>	<b>11 388</b>
Calculation of Distributable equity 31.12.		
Reserve for invested non-restricted equity	11 458	9 978
Retained earnings	1 316	0
Profit (loss) for the financial year	-1 668	1 409
Total	11 105	11 387
<b>Non-restricted equity, total</b>	<b>11 105</b>	<b>11 387</b>

## 13 Non-current liabilities

From others		
Bond	82 501	97 500
Junior loan	20 175	0
Other liabilities		
Other non-current liabilities	108 898	89 970
Total	211 574	187 470
<b>Non-current liabilities, total</b>	<b>211 574</b>	<b>187 470</b>
<b>Matyrity profile</b>	<b>Over 5 years</b>	<b>Over 5 years</b>
Bond	22 510	37 508
Junior loan	20 175	0
Total	42 685	37 508

Notes to parent company's balance sheet		2016	2015
		€000	€000
<b>14 Current liabilities</b>			
Liabilities to other parties			
Bond	15 000	7 500	
Accounts payable	18	13	
Other liabilities	32	37	
Accruals	3 359	2 734	
Total	18 409	10 285	
<b>Current liabilities, total</b>	<b>18 409</b>	<b>10 285</b>	
Significant items included in accruals			
Interest expenses	3 186	2 575	
Accrued personnel expenses	89	148	
Insurance fees related to personnel expenses	11	11	
Other accrued liabilities	73	0	
Total	3 359	2 734	
<b>Notes</b>			
		2016	2015
		€000	€000
<b>Guarantees and contingent liabilities</b>			
<b>Liabilities guaranteed with a pledge</b>			
Bond	105 000	105 000	
Junior bond	20 000	20 000	
<b>Pledged assets (book value)</b>			
Shares of Kotkamills Oy	39 653	39 653	
Intercompany loan	175 000	155 000	

**SIGNATURES AND DATE OF FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT**

Helsinki, March , 2017

Hannu Puhakka  
Chairman of the Board

Eero Niiva  
Member of the Board

Kari Rytönen  
Member of the Board

Markku Hämäläinen  
Managing Director

**THE AUDITOR'S NOTE**

A report on the audit performed has been issued today.

Helsinki, March , 2017

Ernst & Young Oy  
Authorised Public Accountant Firm

Kristina Sandin  
Authorised Public Accountant

**List of ledgers:**

Balance book	Book in paper
Subledger specifications	In paper
Accounts payable	In paper
Accounts receivable	In paper
Journals	In paper
Fixed asset ledger	In paper
Salary entries	In paper

**Calculation of key ratios:**

Equity ratio:	100x	$\frac{\text{Equity + non-controlling interest}}{\text{Total assets - advances received}}$
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Equity ratio, adjusted:	100x	$\frac{\text{Equity + non-controlling interest + shareholder loan + junior term loan}}{\text{Total assets - advances received}}$
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