

## AUDITOR'S REPORT (Translation of the Finnish original)

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, 2017. The financial statements comprise the consolidated balance sheet, 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.

Our opinion is consistent with the additional report submitted to the Board of Directors.

#### 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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

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.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Revenue Recognition</b> <i>We refer to the Group's accounting policies and the note 3</i></p> <p>Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer.</p> <p>The Group focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the risks and rewards have been transferred.</p> <p>Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2) due to the identified risk of material misstatement in timely revenue recognition.</p>	<p>Our audit procedures to address the risk of material misstatement relating to revenue recognition, included, among others:</p> <ul style="list-style-type: none"> <li>• assessing the Group's accounting policies over revenue recognition and comparing them with applicable accounting standards;</li> <li>• understanding the nature of revenues and unusual contractual terms;</li> <li>• 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.</li> <li>• performing substantive analytical review procedures on revenues; and</li> <li>• assessing the Group's disclosures in respect of revenues</li> </ul>

## 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 parent company or the group 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**

### **Information on our audit engagement**

We were first appointed as auditors by the Annual General Meeting on 19.3.2015, and our appointment represents a total period of uninterrupted engagement of 3 years. Kotkamills Group Oyj became a public interest entity on 13.3.2016. We have been the company's auditors since it became a public interest entity.

## **Other information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 28.3.2018

Ernst & Young Oy  
Authorized Public Accountant Firm

Kristina Sandin  
Authorized Public Accountant

*Unofficial translation from Finnish*

**Kotkamills Group Oyj**

**ANNUAL REPORT**

**1.1. - 31.12.2017**

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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 public 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 in 2017 had production in Finland. Further, Kotkamills Oy has a branch in Germany (Kotkamills Oy Filiale in Deutschland) and Kotkamills Absorbex Oy has branches in Germany (Kotkamills Absorbex Oy Filiale in Deutschland) and Spain (Kotkamills Absorbex Oy - Branch Office in Spain). The Group is specialised in consumer boards, saturating base kraft (laminating papers) and wood products. The Group is organised into two operating segments, which are Consumer Boards and Industrial Products.

The production of printing paper in Magazine Paper segment 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 in comparison year 2016.

In July 2017, the Company informed, that Stora Enso Oyj has notified Kotkamills Oy that the leasing agreement concerning Tainionkoski PM7 will be terminated in accordance with its terms to expire at the end of 2018. The Group has been producing saturating base kraft (laminating papers) in Tainionkoski, Imatra on Paper Machine 7 (PM 7) leased from Stora Enso Oyj since the separation of Kotkamills from Stora Enso in 2010. The operations are part of the Group's Industrial Products segment.

The discontinuation of the Group's operations in Imatra is not expected to have a material impact on the Group's financial position or results of operations.

To serve its existing customers and fulfill the needs arising from increasing demand for laminating papers, Kotkamills is planning to increase the production capacity of Paper Machine 1 (PM1) on Kotkamills' site in Kotka. In addition, Kotkamills has started preparations to procure external production capacity for laminating papers. The external capacity is planned to be available during the first half of 2018. The planned additional external capacity (excluding PM1 increased capacity) will be higher than the present capacity of Tainionkoski PM 7.

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

The enterprise value (on a debt and cash free basis) of Kotkamills Imprex Oy was EUR 27 million. The purchase price was subject to a customary closing accounts adjustment. The purchase price was paid to Kotkamills Oy in cash. The disposal improved Kotkamills Group's 2017 operating profit by EUR 19,6 million.

In accordance with the terms and conditions of the consent for the disposal of the Imprex Business granted by the holders of Kotkamills Group Oyj's EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN:

FI4000148705) (the "Bonds") on 16 January 2017, 50 per cent of the net disposal proceeds received by Kotkamills Oy from the sale of Kotkamills Imprex Oy was to be applied in partial repayment on outstanding Bonds. On that basis, the amount repaid for each Bond was EUR 11,732.00. The Record Date (as defined in the terms and conditions of the Bonds) for the repayment was 6 November 2017 and the repayment of EUR 12,5 million (including accrued interest) was disbursed to the bondholders on 7 November 2017. The repayment decreased non-current liabilities by EUR 12,3 million in Q4/2017.

The Group's revenue of continuing operations totaled EUR 287,7 million (EUR 219,1 million in 2016) in the reporting period 1.1.-31.12.2017.

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

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

Higher delivery volumes of Consumer Boards together with continuing good financial performance of Industrial Products improved the operating profit. Foreign exchange rate movements and higher variable costs mainly in energy and wood based raw materials had a negative effect on the operating profit.

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

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

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

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

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 represented 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 was EUR 1.00 and the aggregate subscription price for the New Shares and the Treasury Shares was EUR 2,142,427. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares were 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 were 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 represented 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 Oy obtained financing in the aggregate amount of EUR 20,049,100.

On July 5th, 2017 the Company informed that it's wholly owned subsidiary Kotkamills Oy ("Kotkamills") intends to transfer three of its existing business lines, namely the Imprex®, Absorbex® and Wood business lines, into wholly owned subsidiaries of Kotkamills ("the Reorganisation"). Kotkamills' fourth existing business line Consumer Boards would remain in Kotkamills Oy.

On September 1st, 2017 the Company informed that the Reorganisation was implemented and the Imprex®, Absorbex® and Wood business lines have been transferred to Kotkamills Oy's wholly owned subsidiaries Kotkamills Imprex Oy, Kotkamills Absorbex Oy and Kotkamills Wood Oy respectively, effective as of 1 September 2017.

The purpose of the Reorganisation was to optimize the group structure, increase efficiency and transparency and optimize the performance, profitability and development of each business line. In the Reorganisation, materially all assets and liabilities of the business lines were transferred to the relevant subsidiaries, including buildings and machines, current assets, receivables, working capital and intellectual property rights. The Reorganisation was primarily implemented by way of a contribution in kind against shares in the relevant subsidiary. The employees of the Imprex®, Absorbex® and Wood business lines have been transferred along with the relevant business line and the Reorganisation did not affect the rights and obligations of the employees.

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

As stated in the chapter *1 Significant events during the financial year* in October 2017, the Company informed that it's fully owned subsidiary Kotkamills Oy has signed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in Kotkamills Imprex Oy to Dongwha Enterprise Co. On October 31st, 2017 The Company informed that it's fully owned subsidiary Kotkamills Oy has completed the disposal of Kotkamills Imprex Oy. Kotkamills Imprex Oy was part of Group's Industrial Products segment.

During 2017 the Company distributed dividend of aggregate amount of EUR 68 812 for class B preference shares which equaled 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 February 20th, 2018 the shareholders of Kotkamills Group Oyj have on unanimously resolved to offer by a directed issue a maximum of 450,770 new series A shares (the "New A Shares") of the company for subscription to the holders of series A shares pro rata to their holding of series A shares, a maximum of 20,000 new series B shares (the "New Management Incentive Allocation") for subscription to certain directors of the Kotkamills group and a maximum of 49,230 new series B shares (the "New B Shares", together with the New A Shares and the New Management Incentive Allocation, the "New Shares") of the company for subscription to the holders of series B shares pro rata to their holding of series B shares, taking into account the New Management Incentive Allocation offered for subscription. The New Shares represent in aggregate approximately 3.82 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 24,376 new series B shares to key employees and directors of the company or its subsidiaries as part of the company's management incentive system in deviation from the shareholders' pre-emptive subscription rights.

The subscription period for subscription of the New Shares based on primary subscription rights expired on 26 February 2018. Based on the primary subscription rights and secondary subscription rights allocated by the board of directors, holders of series A shares subscribed the maximum number of 450,770 New A Shares offered for subscription, certain directors of the Kotkamills group subscribed the maximum number of 20,000 series B Shares offered for subscription in the New Management Incentive Allocation and holders of series B shares subscribed 47,493 of the in total 49,230 New B Shares offered for subscription. The subscribed New Shares represent in aggregate approximately 3.81 per cent of the total number of shares in the company.

The subscription price for each New Share was EUR 2.00 and the aggregate subscription price for the New Shares was EUR 1,036,526. Pursuant to the terms of the share issue of the New A Shares, holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 5 million. The terms of the shareholder loans were in material respects equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans is to ensure successful commercial launch of new food service board products and to secure the efficient working capital management of Kotkamills Group's further increasing consumer board products delivery volumes. As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj obtained financing in the aggregate amount of EUR 6 million.

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

The Company has decided to make a pre-feasibility study for an investment to increase the production of Saturating Base Kraft ("Laminating Papers"). In order to prepare Kotkamills Absorbex Oy, the fully owned subsidiary of Kotkamills Oy and the leading global supplier of Laminating Papers, to meet the increasing demand as well as to replace the discontinuing production volume of paper machine 7 in Tainionkoski,

Imatra (Stock Exchange release on the 3rd of July 2017), Kotkamills Oy has started the pre-feasibility study of a new paper machine 3 (a "New PM3") in Kotka. Kotkamills Absorbex Oy is part of Group's Industrial Products segment.

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

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

The commercial launch of new food service board products and increasing delivery volumes of folding box board will increase the full year revenues and improve the profitability of Consumer Boards.

The demand of Industrial Products is expected to stay at present healthy level, but changes in global economic situation and geopolitical risks may have weakening impact on demand.

The sales price increases will improve Group's profit but unfavorable currency exchange rates development and possible increases in energy and wood based raw material prices could adversely impact the Group's profit development.

#### **5. Research and development**

The Group focused in 2017 especially on folding boxboard and barrier board as well as laminating paper products. Expenditure on research and development (R&D) in 2017 was EUR 878 thousand (EUR 944 thousand in 2016 and EUR 350 thousand in 2015), equivalent to 0,3% (0,4% in 2016 and 0,2% in 2015) 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 and trade and other payables. 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. Group companies hold contracts of approximately EUR 30 million with a Nordic financial institution concerning sale of trade receivables of the Group companies to the financial institution.

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 in year 2016 the comparison years 2016 and 2015 are not fully comparable with the year 2017.

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 of EUR 5,7 million includes EUR 19,6 million profit of the disposal of Kotkamills Imprex Oy shares (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.

	2017	2016	2015
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
<b>Continuing operations</b>			
Revenue, EUR million	287,7	219,1	146,4
EBITDA, EUR million	28,8	9,5	46,0
Operating profit, EUR million	5,7	-0,4	40,9
Operating profit / Revenue (%)	2,0	-0,2	27,9

#### Group Total

Return on equity (%)	7,0	-53,2	122,4
Equity ratio (%)	8,8	7,8	13,1
Equity ratio, adjusted (%)*	58,2	50,1	44,3

\*Equity including shareholder loans and the junior term loan

## 8. Personnel

Figures related to personnel are:

	Group		
	2017	2016	2015
Average personnel	562	602	576
Wages and Salaries (EUR million)	32,7	32,6	29,1

The Company will publish a report on non-financial key figures by the end of June 2018, which will be available on the Company's Internet site.

## 9. Environment

Kotkamills Group has complied with the requirements of environmental legislation. The Company will publish a separate environmental report as a part of its report on non-financial key figures, which will be available on the Company's Internet site.

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

	Group	
	2017	2016
Expenditure, EUR million	3,0	2,9
Depreciation and amortisation, EUR million	0,6	0,2
Total environmental costs, EUR million	3,6	3,1
Environmental investments, EUR million	0,4	6,3

## 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 89 927.

## 11. Share capital and shareholders

The Company's number of shares is 13.602.806 shares corresponding to carrying amount of 13.602.806 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 13.616.831 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 did not have own shares on 31.12.2017.

The company has issued own serie B shares to certain key employees during 2017 as follows:

Date	Number	Value, EUR
28.2.2017	63 125	63 125
<b>Total</b>	<b>63 125</b>	<b>63 125</b>

### **13. Foreign branches**

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

In addition, Kotkamills Oy has branch in Germany; Kotkamills Oy Filiale in Deutschland, Spaldingstraße 218, 20097 Hamburg, registration number 115516. Kotkamills Absorbex Oy, subsidiary of Kotkamills Oy, has branches in Germany; Kotkamills Absorbex Oy Filiale in Deutschland, Spaldingstraße 218, 20097 Hamburg, tax number 17/079/07157 and in Spain; Kotkamills Absorbex Oy - Branch Office in Spain, registration number W0322164E, 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 17 May 2017 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.-31.12.2017

	Note	2017 €000	2016 €000
<b>Revenue</b>	3	<b>287 699</b>	<b>219 099</b>
<b>Other operating income</b>	7	<b>25 068</b>	<b>20 702</b>
Change in inventories of finished goods and work in progress		9 408	4 618
Production for own use		23	1 441
Materials and services		-206 365	-161 994
Employee benefit expenses	9	-39 923	-40 581
Depreciation and amortisation	13,14	-16 199	-9 927
Impairment		-6 830	0
Other operating expenses	8	-47 132	-33 784
<b>Total expenses</b>		<b>-307 018</b>	<b>-240 227</b>
<b>Operating profit</b>		<b>5 749</b>	<b>-426</b>
Financial income	10	8 671	4 132
Financial expenses	10	-19 450	-17 255
		-10 779	-13 123
<b>Profit before taxes</b>		<b>-5 030</b>	<b>-13 549</b>
Income taxes	12	-24	-572
Deferred taxes	12	6 855	23
		6 830	-549
<b>Profit after taxes</b>		<b>1 800</b>	<b>-14 098</b>
<b>Discontinued operations</b>			
Profit (loss) after tax for the period from discontinued operations	6, 17	0	-2 279
<b>Profit (loss) for the period</b>		<b>1 800</b>	<b>-16 377</b>



# Consolidated statement of other comprehensive income

For the period 1.1.-31.12.2017

		2017	2016
	Note	€000	€000
<b>Profit (loss) for the period</b>		<b>1 800</b>	<b>-16 377</b>
<b>Other comprehensive income items</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Translation differences		0	863
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes</b>	<b>11</b>	<b>0</b>	<b>863</b>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gains (+) / losses (-) on defined benefit plans		-57	-200
Income taxes		11	40
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes</b>	<b>11</b>	<b>-46</b>	<b>-160</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>-46</b>	<b>703</b>
<b>Total comprehensive income for the period</b>		<b>1 755</b>	<b>-15 674</b>

# Consolidated statement of financial position

31.12.2017

		2017	2016
	Note	€000	€000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	209 091	215 160
Other intangible assets	14	5 758	14 113
Non-current financial assets	15	1 513	2 138
Deferred tax assets	12	6 252	0
		<b>222 615</b>	<b>231 410</b>
<b>Current assets</b>			
Inventories	17	36 401	32 050
Trade and other receivables	18	34 558	22 221
Other financial assets	15	4 181	2 312
Cash	19	14 047	16 789
		<b>89 187</b>	<b>73 372</b>
<b>Total assets</b>		<b>311 801</b>	<b>304 783</b>

# Consolidated statement of financial position

31.12.2017

		<b>2017</b>	<b>2016</b>
	<b>Note</b>	<b>€000</b>	<b>€000</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		80	80
Reserve for invested non-restricted equity		13 523	11 458
Retained earnings		13 867	12 119
<b>Total equity</b>		<b>27 470</b>	<b>23 657</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	15	208 881	210 839
Other non-current financial liabilities	15	4 892	6 241
Pension obligations	22	875	837
Deferred tax liabilities	12	0	614
		<b>214 648</b>	<b>218 531</b>
<b>Current liabilities</b>			
Trade and other payables	23	52 468	44 237
Interest bearing liabilities	15	14 635	14 587
Other current financial liabilities	15	2 579	3 771
		<b>69 683</b>	<b>62 595</b>
<b>Total liabilities</b>		<b>284 331</b>	<b>281 126</b>
<b>Total shareholders' equity and liabilities</b>		<b>311 801</b>	<b>304 783</b>

# Consolidated statement of changes in equity

31.12.2017

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

## Consolidated statement of cash flows

For the period 1.1.-31.12.2017

	2017	2016
	€000	€000
<b>Cash flows from operating activities</b>		
Profit (loss) for the period	-5 030	-15 828
Adjustments:		
Transactions without payments	-246	795
Depreciation and impairments	23 029	10 854
Interest expenses and other financial expenses	19 450	17 255
Interest income and other financial incomes	-8 671	-4 132
Defined benefit plans, net	57	107
Proceeds from disposal of subsidiary shares and business operations	-26 012	-23 263
	7 608	1 615
Change in working capital:		
Change in trade and other receivables	-11 741	21 235
Change in inventories	-4 350	7 393
Change in trade and other payables	8 599	-653
Interests and other financial expenses, paid	-10 311	-9 860
Interests and other financial income, received	5 230	41
Taxes, paid	-24	-572
	-12 597	17 584
<b>Net cash flows from operating activities (A)</b>	<b>-10 020</b>	<b>3 372</b>
<b>Cash flows from investing activities</b>		
Tangible and intangible assets sales profit	0	4
Proceeds from disposal of subsidiary shares and business operations	26 012	23 263
Investments in property, plant and equipment	-10 406	-138 582
Purchase of own shares	1	-63
Change in non-current financial assets	390	-1 269
<b>Net cash flows from investing activities (B)</b>	<b>15 997</b>	<b>-116 647</b>
<b>Cash flows from financing activities</b>		
Proceeds received related to share issue	2 065	1 558
Proceeds from loans and borrowings	17 921	33 437
Repayment of loans and borrowings	-27 317	-7 499
Sale of own shares	63	0
Repayment of financial leases	-1 383	-558
Dividends, paid	-69	-30
<b>Net cash flows from financing activities (C)</b>	<b>-8 719</b>	<b>26 908</b>
<b>Change in cash (A+B+C)</b>	<b>-2 742</b>	<b>-86 368</b>
Cash and short term deposits at beginning of period	16 789	103 157
<b>Cash and short term deposits at the end of period</b>	<b>14 047</b>	<b>16 789</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 which had 2017 production in Finland. In addition, Kotkamills Oy has branches in Germany (Kotkamills Oy Filiale in Deutschland and Kotkamills Absorbex Oy Filiale in Deutschland) and Spain (Kotkamills Absorbex Oy - Branch Office in Spain). The Group is specialised in cosumer boards, saturating base kraft (laminating papers) and wood products.

The consolidated financial statements of Kotkamills Group Oyj for the period ended December 31, 2017 were authorised for issue by the Board of Directors at the meeting held March 28, 2018. 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, 2017. 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.

#### 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.

The Group has signed contracts total of approximately EUR 30 million with a Nordic financial institution concerning sale of trade receivables of the Group 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.

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 reviewed the main customer contracts based on the five-step model for revenue recognition.

The first step was to evaluate whether the existing contracts meet the definition of contracts with customers as defined in IFRS 15. The customer contracts can be identified based on the customer orders with individual pricing and thus no significant differences compared to existing revenue recognition practises exist.

The second step was to identify the performance obligations included in sales contracts. The company's sales consist mainly of sales of products and performance obligations are normally defined as the products are delivered based on customer contracts and customer order confirmations. No separate performance obligations which would materially impact the revenue recognition under IFRS 15 compared to the present revenue recognition practises.

The third step was to determine the transaction price and the fourth step allocation of the transaction price. The prices received are divided into fixed and variable parts and do not include any financing components. The variable consideration includes different kind of payment discounts and volume based rebates. These are deducted from sales according to estimated amounts of the discounts as customer is entitled to them. A significant part of the Group's sales contracts contain performance obligations that are clearly identifiable with a defined price for each obligation and thus IFRS 15 does not materially change the principles applied regarding the determination and allocation of the transaction price.

The fifth step was recognising revenue in the period during which the control of goods transfers to the customers. The delivery terms applied in sales contracts determine the point of time when the control of goods is transferred to the customer. The applied revenue recognition and delivery terms will be generally unchanged by the adoption of IFRS 15.

In conclusion the Group has not noted factors that would materially change the amount and timing of the present revenue recognition practises.

The Group intends to adopt the modified retrospective application of IFRS 15 from 1 January 2018, without adjusting prior reporting periods.

**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 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 2018.

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 approximately EUR 30 million concerning sale of trade receivables of the Group 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 two 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 two active 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 saturating base kraft (laminating papers) as well as wood products for construction and transportation industry.

The production of printing paper in Magazine Paper segment 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 in comparison year 2016.

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

On October 12, 2017 Kotkamills Oy signed and completed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in Kotkamills Imprex Oy, the subsidiary of Kotkamills Oy, to Dongwha Enterprise Co. The ownership to Kotkamills Imprex Oy's shares was transferred to Dongwha Enterprise Co. on October 31, 2017. Kotkamills Imprex Oy 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
	€000	€000	€000	€000	€000
<b>2017</b>					
<b>Revenue</b>					
External customers	93 620	188 756	0	282 375	0
Inter-segment	109	5 494	-5 603	0	0
<b>Total revenue</b>	<b>93 728</b>	<b>194 250</b>	<b>-5 603</b>	<b>282 375</b>	<b>0</b>
Depreciation and amortisation	-9 080	-2 373	0	-11 454	0
<b>Segment operating profit</b>	<b>-29 518</b>	<b>23 706</b>	<b>0</b>	<b>-5 812</b>	<b>0</b>
	Consumer Boards	Industrial Products	Adjustments	Total	Magazine Papers
	€000	€000	€000	€000	€000
<b>2016</b>					
<b>Revenue</b>					
External customers	11 473	200 275	0	211 747	18 712
Inter-segment	93	3 090	-3 182	0	0
<b>Total revenue</b>	<b>11 566</b>	<b>203 364</b>	<b>-3 182</b>	<b>211 747</b>	<b>18 712</b>
Depreciation and amortisation	-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>

**Reconciliation of revenue**

	<b>2017</b>	<b>2016</b>
<b>Revenue</b>	<b>€000</b>	<b>€000</b>
Total segment revenue	282 375	211 747
Items not allocated to segments		
Sales of energy	6 258	6 673
Revenue recognition and other	-934	679
Total unallocated items	5 324	7 352
<b>Group's total revenue</b>	<b>287 699</b>	<b>219 099</b>

**Reconciliation of profit**

	<b>2017</b>	<b>2016</b>
<b>Operating profit</b>	<b>€000</b>	<b>€000</b>
Segment operating profit	-5 812	-15 113
Items not allocated to segments		
Unallocated administrative gains/expenses	-1 542	-365
Total unallocated items	-1542	-365
Sales of assets	23 679	18 907
Asset impairment	-6 830	0
Other IFRS adjustments	-3 745	-3 855
<b>Group's total operating profit</b>	<b>5 749</b>	<b>-426</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>2017</b>	<b>2016</b>
	<b>Revenue</b>	<b>Revenue</b>
	<b>€000</b>	<b>€000</b>
Finland	34 414	35 090
Germany	33 675	31 526
Poland	21 613	12 036
Italy	18 990	13 009
Turkey	17 781	13 397
France	15 607	9 918
Russia	14 751	10 885
Japan	10 650	10 917
Austria	9 961	8 727
Spain	9 573	6 583
Other countries	100 684	67 013
<b>Total</b>	<b>287 699</b>	<b>219 099</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 covenant. 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%.

	Equity ratio		<i>Financial covenant</i> Equity ratio, adjusted	
	2017	2016	2017	2016
	€000	€000	€000	€000
Equity	27 470	23 657	27 470	23 657
Added: Shareholder loans and the junior term loan			154 045	129 073
<b>Total</b>	<b>27 470</b>	<b>23 657</b>	<b>181 516</b>	<b>152 730</b>
<b>Total assets</b>	<b>311 801</b>	<b>304 783</b>	<b>311 801</b>	<b>304 783</b>
<b>Equity ratio</b>	<b>8,8 %</b>	<b>7,8 %</b>	<b>58,2 %</b>	<b>50,1 %</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 covenant. The equity ratio defines the capital structure requirements. Breaches in meeting the financial covenant would enable the creditor to immediately call loans and borrowings. There have been no breaches of the financial covenant of adjusted 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 (Kotkamills Imprex Oy 26.4.2017-31.10.2017):

Name of the entity	Principal business	Domicile	Ownership %	Parent company
			31.12.2017	
Kotkamills Oy	Production of consumer boards (folding boxboard and barrier board)	Finland	100 %	Kotkamills Group Oyj
Kotkamills Absorbex Oy	Saturating base kraft (laminating papers) products	Finland	100 %	Kotkamills Oy
Kotkamills Wood Oy	Wood products	Finland	100 %	Kotkamills Oy

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

On October 12, 2017 Kotkamills Oy signed and completed a share purchase agreement concerning the sale and purchase of all issued and outstanding shares in Kotkamills Imprex Oy, the subsidiary of Kotkamills Oy, to Dongwha Enterprise Co. The ownership to Kotkamills Imprex Oy's shares was transferred to Dongwha Enterprise Co. on October 31, 2017. Kotkamills Imprex Oy was part of Industrial Products segment.

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

### Entities which have significant influence over the Group

Entity MB Equity Fund IV Ky owns 51,9 % 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.-31.12.2017	1.1.-31.12.2016
	€000	€000
Revenue	0	18 824
Expenses	0	-21 103
Operating profit	0	-2 279
Profit (loss) before tax from discontinued operations	0	-2 279
<b>Profit (loss) after tax for the period from discontinued operations</b>	<b>0</b>	<b>-2 279</b>
<b>Total profit before tax</b>		
Profit (loss) before tax from discontinued operations	0	-2 279
<b>Total</b>	<b>0</b>	<b>-2 279</b>

#### Net cash flow of the discontinued operations

	1.1.-31.12.2017	1.1.-31.12.2016
	€000	€000
From operating activities	0	11 529
From investing activities	0	343
<b>Net cash flow</b>	<b>0</b>	<b>11 872</b>

## Notes to the consolidated financial statements

### 7. Other operating income

	<b>2017</b>	<b>2016</b>
	<b>€000</b>	<b>€000</b>
Gain on sale of subsidiary	23 478	18 960
Rental income	96	98
Government grants	106	99
Insurance claims	0	526
Sale of services	327	103
Other income items	1 061	916
<b>Total</b>	<b>25 068</b>	<b>20 702</b>

## Notes to the consolidated financial statements

### 8. Other operating expenses

	2017	2016
	€000	€000
Rental expenses	1 668	1 152
Shipping expenses of the products	31 370	20 411
Sales commissions	3 570	1 814
Administration and office services	4 872	4 723
Insurance payments	746	1 018
Other expenses	4 906	4 666
<b>Total other operating expenses</b>	<b>47 132</b>	<b>33 784</b>

### Fees to the auditors

	2017	2016
	€000	€000
Audit	102	110
Tax consultation	210	95
Other services	32	125
<b>Total</b>	<b>345</b>	<b>329</b>



# Notes to the consolidated financial statements

## 9. Employee benefit expenses

	2017	2016
	€000	€000
Wages and salaries	32 679	32 579
Pension expenses, defined contribution plans	5 941	6 144
Pension expenses, defined benefit plans	-60	-20
Other social security costs	1 363	1 878
<b>Total</b>	<b>39 923</b>	<b>40 581</b>

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

	2017	2016
Consumer Boards	120	106
Industrial Products	252	324
Magazine Papers	0	9
Common operations	190	163
<b>Total</b>	<b>562</b>	<b>602</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 322 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>2017</b>	<b>2016</b>
	<b>€000</b>	<b>€000</b>
Changes in fair values of financial items recognised through profit and loss		
Foreign currency derivatives	2 068	836
Commodity derivatives	6 559	3 278
Other financial income	44	17
<b>Total financial income</b>	<b>8 671</b>	<b>4 132</b>
<b>Financial expenses</b>		
Interest expenses from financial liabilities	17 493	13 268
Changes in fair values of financial items recognised through profit and loss		
Foreign currency derivatives	73	1 305
Commodity derivatives	1 448	2 292
Other financial expenses	435	390
<b>Total</b>	<b>19 450</b>	<b>17 255</b>
Capitalised borrowing costs of qualifying asset	0	2 442
<b>Total financial expenses</b>	<b>19 450</b>	<b>19 697</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 2017 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 68 thousand in 2017.

Other financial income and expenses consists of indirect taxation's tax-free interest income and other income of total EUR 44 thousand, interest on arrears EUR 65 thousand and financing expenses relating to factoring EUR 181 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:

	2017	2016
	Recognised to other comprehensive income items	Recognised to other comprehensive income items
	€000	€000
Actuarial gains (+) / losses (-) on defined benefit plans	-46	-160
Translation differences	0	863
<b>Total</b>	<b>-46</b>	<b>703</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

### Consolidated statement of profit or loss

	2017	2016
	€000	€000
Current income tax charge	-24	-572
Deferred taxes	6855	23
<b>Total</b>	<b>6830</b>	<b>-549</b>

### Consolidated statement of other comprehensive income

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

	2017	2016
	€000	€000
Actuarial gains (+) / losses (-) on defined benefit plans	11	40
<b>Total</b>	<b>11</b>	<b>40</b>

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

	2017	2016
	€000	€000
Profit before taxes	-5 030	-15 828
Tax calculated at parent's tax rate 20%	-1 006	-3 166
Effect of different tax rate in the foreign subsidiary	0	136
Tax-exempt income	-23	-15
Non-deductible expenses for tax purposes	1 619	18
The reporting period unrecognised deferred tax assets from tax losses	-142	2 125
Unused tax losses prior years	4 234	0
Impairment of purchase price allocation	1 926	0
Other temporary differences	222	330
<b>Income tax expense reported in the statement of profit or loss</b>	<b>6 830</b>	<b>-572</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
	2017	2017	2016	2016
	€000	€000	€000	€000
<b>Deferred tax assets</b>				
Excess of depreciation made in taxation	2 288	-23	2311	-53
Defined benefit plans	239	2	237	-1
Unused tax losses	6 689	4 234	2455	475
Other temporary differences	927	709	219	-551
<b>Deferred tax expense (/benefit)</b>		<b>4 921</b>		<b>-130</b>
<b>Total deferred tax assets</b>	<b>10 143</b>		<b>5222</b>	
<b>Deferred tax liabilities</b>				
	2017	2017	2016	2016
	€000	€000	€000	€000
Capitalised borrowing costs	725	-38	764	472
Purchase price allocation	3 146	-1 926	5 072	-625
Other temporary differences	20	20	0	0
<b>Deferred tax expense (/benefit)</b>		<b>-1 945</b>		<b>-153</b>
<b>Total deferred tax liabilities</b>	<b>3 891</b>		<b>5 836</b>	
Net deferred tax assets (/liabilities)	6 252		-614	
Reflected in the statement of financial position as follows:				
Deferred tax assets	10 143		5 222	
Deferred tax liabilities	-3 891		-5 836	
<b>Total</b>	<b>6 252</b>		<b>-614</b>	
<b>Reconciliation of deferred tax, net</b>	<b>2017</b>		<b>2016</b>	
	€000		€000	
<b>Deferred tax liabilities (/assets) at the beginning of the financial period</b>	<b>-614</b>		<b>-845</b>	
Tax income/(expense) recognised in profit or loss	6894		23	
Tax income/(expense) recognised in other comprehensive items	-28		21	
Deferred taxes of sold subsidiary	0		187	
<b>Deferred tax assets (/liabilities) at the end of the financial period</b>	<b>6252</b>		<b>-614</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, EUR 3 582 thousand available until 2025 and EUR 21 170 thousand until 2026, 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 been recognised from the reporting period loss of the parent company.

# 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>						
31.12.2015	759	2 529	31 730	53 703	384	89 105
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
31.12.2016	755	11 221	209 665	1 715	3 360	226 716
Additions	0	261	9 557	8 915	241	18 974
Transfers	0	0	0	-10 027	0	-10 027
Disposals	0	0	-400	0	0	-400
<b>31.12.2017</b>	<b>755</b>	<b>11 482</b>	<b>218 822</b>	<b>603</b>	<b>3 601</b>	<b>235 262</b>
<b>Accumulated depreciation and impairment</b>						
31.12.2015	0	303	2 822	0	65	3 190
Depreciation charge for the year	0	258	7 658	0	148	8 064
Disposals	0	0	302	0	0	302
31.12.2016	0	561	10 782	0	213	11 557
Depreciation charge for the year	0	415	13 952	0	249	14 615
<b>31.12.2017</b>	<b>0</b>	<b>976</b>	<b>24 734</b>	<b>0</b>	<b>462</b>	<b>26 172</b>
<b>Carrying amount</b>						
31.12.2016	755	10 660	198 883	1 715	3 147	215 160
<b>31.12.2017</b>	<b>755</b>	<b>10 506</b>	<b>194 087</b>	<b>603</b>	<b>3 139</b>	<b>209 091</b>

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>Machinery and equipment</b>	<b>Total</b>
<b>Acquisition cost</b>	<b>€000</b>	<b>€000</b>
31.12.2016	8 500	8 500
Additions	142	142
Disposals	-57	-57
<b>31.12.2017</b>	<b>8 584</b>	<b>8 584</b>
<b>Accumulated depreciation</b>		
31.12.2016	1 269	1 269
Depreciations	1 906	1 906
<b>31.12.2017</b>	<b>3 175</b>	<b>3 175</b>
<b>Carrying amount</b>		
31.12.2016	7 231	7 231
<b>31.12.2017</b>	<b>5 409</b>	<b>5 409</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>					
31.12.2015	12 403	3 956	1 319	1 339	<b>19 017</b>
Additions	0	0	484	77	<b>561</b>
31.12.2016	12 403	3 956	1 803	1 416	<b>19 578</b>
Additions	0	0	767	0	<b>767</b>
<b>31.12.2017</b>	<b>12 403</b>	<b>3 956</b>	<b>2 570</b>	<b>1 416</b>	<b>20 345</b>
<b>Accumulated depreciation and impairment</b>					
31.12.2015	1 240	396	756	193	<b>2 584</b>
Depreciation charge for the year	1 240	396	969	276	<b>2 880</b>
31.12.2016	2 481	791	1 725	468	<b>5 465</b>
Depreciation charge for the year	944	365	708	274	<b>2 292</b>
Impairment	5 907	923	0	0	<b>6 830</b>
<b>31.12.2017</b>	<b>9 332</b>	<b>2 079</b>	<b>2 433</b>	<b>743</b>	<b>14 587</b>
<b>Carrying amount</b>					
31.12.2016	9 922	3 165	78	948	<b>14 113</b>
<b>31.12.2017</b>	<b>3 070</b>	<b>1 877</b>	<b>137</b>	<b>674</b>	<b>5 758</b>

Other intangible assets includes IT software and licences.



## Notes to the consolidated financial statements

### 15. Financial assets and liabilities

	2017		2016		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	809	809	438	438	2
Commodity derivatives	3 460	3 460	2 197	2 197	2
<b>Total</b>	<b>4 269</b>	<b>4 269</b>	<b>2 635</b>	<b>2 635</b>	
<b>Total financial assets at fair value through profit or loss</b>	<b>4 269</b>	<b>4 269</b>	<b>2 635</b>	<b>2 635</b>	
<b>Loans and other receivables</b>					
Trade receivables	15 194	15 194	10 526	10 526	
Cash	14 047	14 047	16 789	16 789	
<b>Total</b>	<b>29 241</b>	<b>29 241</b>	<b>27 315</b>	<b>27 315</b>	
<b>Total financial assets</b>	<b>33 510</b>	<b>33 510</b>	<b>29 950</b>	<b>29 950</b>	
<b>Total non-current</b>					
Non-current financial assets	1 425	1 425	1 815	1 815	

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	2017		2016		Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities held for trading					
Foreign currency derivatives	374	374	1 030	1 030	2
Commodity derivatives	402	402	956	956	2
<b>Total</b>	<b>776</b>	<b>776</b>	<b>1 987</b>	<b>1 987</b>	
<b>Financial liabilities measured at amortised cost</b>					
Bond	69 468	69 468	96 352	96 352	
Shareholder loan	133 689	133 689	108 898	108 898	
Trade payables	28 521	28 521	27 479	27 479	
Junior term loan	20 356	20 356	20 175	20 175	
Leasing liabilities	6 373	6 373	7 676	7 676	
<b>Total</b>	<b>258 408</b>	<b>258 408</b>	<b>260 580</b>	<b>260 580</b>	
<b>Total financial liabilities</b>	<b>259 184</b>	<b>259 184</b>	<b>262 567</b>	<b>262 567</b>	
Financial liabilities held for trading	91	91	40	40	
Bond	54 833	54 833	81 765	81 765	
Shareholder loan	133 689	133 689	108 898	108 898	
Junior term loan	20 356	20 356	20 175	20 175	
Leasing liabilities	4 801	4 801	6 201	6 201	
<b>Total non-current</b>	<b>213 770</b>	<b>213 770</b>	<b>217 080</b>	<b>217 080</b>	
Financial liabilities held for trading	685	685	1 946	1 946	
Bond	14 635	14 635	14 587	14 587	
Trade payables	28 521	28 521	27 479	27 479	
Leasing liabilities	1 572	1 572	1 475	1 475	
<b>Total current</b>	<b>45 414</b>	<b>45 414</b>	<b>45 488</b>	<b>45 488</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	2017 Loan principal	2016 Loan principal
	%		€000	€000
<b>Non-current interest bearing loans and borrowings</b>				
Finance lease liabilities	3,42 %	2018-2022	4 801	6 201
Bond	8,91 %	2 020	55 183	82 503
Shareholder loan	6,00 %	2 025	117 358	99 437
Junior term loan	9,75 %	2 021	20 356	20 175
<b>Total non-current interest bearing loans and borrowings</b>			<b>197 699</b>	<b>208 315</b>
<b>Current interest bearing loans and borrowings</b>				
Bond			14 998	14 998
Finance lease liabilities			1 572	1 475
<b>Total current interest bearing loans and borrowings</b>			<b>16 570</b>	<b>16 473</b>
<b>Total interest bearing loans and borrowings</b>			<b>214 269</b>	<b>224 789</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 Oyj. 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 70,2 million.

### Shareholder loan

Total of shareholder loan EUR 117,4 million has been borrowed from Kotkamills Group Oyj'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 Oyj'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 2017.

### Finance lease liabilities

Finance lease liabilities mature as follows:

	2017	2016
	€000	€000
Within one year	1 572	1 715
Between one and five years	4 801	3 772
More than five years	0	2 189
<b>Total minimum lease payments</b>	<b>6 373</b>	<b>7 676</b>
Future finance charges	-432	-652
<b>Present value of minimum lease payments</b>	<b>5 941</b>	<b>7 024</b>

Present value of minimum lease payments:

	2017	2016
	€000	€000
Within one year	1 406	1 475
Between one and five years	4 534	3 434
More than five years	0	2 115
<b>Total present value of minimum lease payments</b>	<b>5 941</b>	<b>7 024</b>

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

## Changes in liabilities arising from financing activities

	1.1.2017	Cash flows	New leases	Other	31.12.2017
	€000	€000	€000	€000	€000
Current interest-bearing loans and borrowings (excluding items listed below)	14 587	-27 317	0	27 366	14 635
Current obligations under finance leases and hire purchase contracts	1 475	-1 383	0	1 480	1 572
Non-current interest-bearing loans and borrowings (excluding items listed below)	210 838	17 921	0	-19 881	208 878
Non-current obligations under finance leases and hire purchase contracts	6 201	0	139	-1 539	4 801
<b>Total liabilities from financing activities</b>	<b>233 101</b>	<b>-10 779</b>	<b>139</b>	<b>7 425</b>	<b>229 887</b>

  

	1.1.2016	Cash flows	New leases	Other	31.12.2016
	€000	€000	€000	€000	€000
Current interest-bearing loans and borrowings (excluding items listed below)	7 052	-7 499	0	15 034	14 587
Current obligations under finance leases and hire purchase contracts	367	-558	0	1 667	1 475
Non-current interest-bearing loans and borrowings (excluding items listed below)	185 985	33 437	0	-8 583	210 838
Non-current obligations under finance leases and hire purchase contracts	579	0	7 289	-1 666	6 201
<b>Total liabilities from financing activities</b>	<b>193 982</b>	<b>25 380</b>	<b>7 289</b>	<b>6 451</b>	<b>233 101</b>

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and finance leases. Column also includes the effect of accrued but not yet paid interest of the interest-bearing loans.

# 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 2017 100% of the Group's loans were fixed rate. (excluding above mentioned variable interest component of junior loan).

### 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.

18 % 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
31.12.2017	10 %	-369	-369
	-10 %	414	414
31.12.2016	10 %	1 433	1 433
	-10 %	-2 840	-2 840

  

	Change in EUR/GBP currency rates	Effect on profit before tax	Effect on before tax equity
	%	€000	€000
31.12.2017	10 %	-125	-125
	-10 %	22	22
31.12.2016	10 %	78	78
	-10 %	-71	-71

### 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 102 % of the following 12 months net position of electricity consumptions and electricity production, 43 % of pulp purchases and 38 % 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 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.

	Effect on profit before tax	
	2017	2016
	€000	€000
Pulp commodity derivative	2 168	1 007
Oil commodity derivative	319	144
Electricity commodity derivative	32	81
Coal commodity derivative	313	25
<b>Total</b>	<b>2 833</b>	<b>1 257</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 23,9 %. 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 24,2 %. 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. The Group holds contracts of approximately EUR 30 million with a Nordic financial institution concerning sale of trade receivables of the Group to the financial institution.

The impairment of outstanding trade receivables is assessed at each reporting period. During the reporting period EUR 6 565 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 2017 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 2017 approximately 8% 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:

	31.12.2017	31.12.2016
	€000	€000
Cash at bank	14 047	16 789
<b>Total</b>	<b>14 047</b>	<b>16 789</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).

31.12.2017	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	10 239	10 085	19 242	41 845	0	81 411
Shareholder loan	0	0	0	0	0	184 638	184 638
Junior term loan	0	0	0	1 600	31 267	0	32 867
Finance leases	0	296	1 276	1 085	3 716	0	6 373
Trade and other payables	0	52 468	0	0	0	0	52 468
Derivative contracts	0	378	307	91	0	0	776
	<b>0</b>	<b>63 381</b>	<b>11 668</b>	<b>22 018</b>	<b>76 828</b>	<b>184 638</b>	<b>358 534</b>

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	30 235	0	30 235
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>107 237</b>	<b>160 223</b>	<b>361 157</b>

\*Added partly missing cash interest of amount 5 773 thousand euro in From 2 to 5 years column, in Annual report 2016 presented figure was 24 462 thousand euro.

# Notes to the consolidated financial statements

## 17. Inventories

	2017	2016
	€000	€000
Materials and supplies	11 730	15 413
Work in progress	701	957
Finished goods	23 970	15 680
<b>Total</b>	<b>36 401</b>	<b>32 050</b>

## Impairments

During the reporting period there was not recognised any inventory impairment charge. In 2016 527 thousand euro of inventory impairment charge was recognised in profit or loss and presented in 'Impairment' in the income statement. Impairment loss was included in Magazine Paper segment. Impairment was recognised due to materials and spare parts which could not be utilised.



# Notes to the consolidated financial statements

## 18. Trade and other receivables

	2017	2016
	€000	€000
Trade receivables	15 194	10 526
Accrued income	7 428	5 635
Other receivables	16 117	6 060
<b>Total</b>	<b>38 739</b>	<b>22 221</b>

The most significant items of the other receivables are EUR 5 213 thousand from the Nordic financial institution, VAT receivables EUR 6 020 thousand and derivatives EUR 4 181 thousand.

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 6 565 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 24,2 % at the reporting date. The Group does not obtain collaterals to other receivables. The Group holds contracts of approximately EUR 30 million with a Nordic financial institution concerning sale of trade receivables of the Group to the financial institution.

The ageing analysis of trade receivables is as follows

	2017	2016
	€000	€000
Not due	13 659	9 835
Due		
< 30 days	1 399	592
30-60 days	37	62
61-90 days	90	11
> 90 days	10	26
<b>Total</b>	<b>15 194</b>	<b>10 526</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

	2017	2016
	€000	€000
Cash at banks and on hand	14 047	16 789
<b>Total</b>	<b>14 047</b>	<b>16 789</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:

	2017	2016
	€000	€000
Cash at banks and on hand	14 047	16 789
<b>Cash</b>	<b>14 047</b>	<b>16 789</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	Total
	A	B	Total			
	(1 000)	(1 000)	(1 000)	€000	€000	€000
<b>1.1.2016</b>	9 000	980	<b>9 980</b>	3	9 978	<b>9 980</b>
Increase in share capital	0	0	<b>0</b>	78	-78	<b>0</b>
Issuance of share capital	1 406	151	<b>1 558</b>	0	1 558	<b>1 558</b>
<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>
<b>1.1.2017</b>	<b>10 406</b>	<b>1 131</b>	<b>11 538</b>	<b>80</b>	<b>11 458</b>	<b>11 538</b>
Issuance of share capital	1 875	190	<b>2 065</b>	0	2 065	<b>2 065</b>
<b>31.12.2017</b>	<b>12 282</b>	<b>1 321</b>	<b>13 603</b>	<b>80</b>	<b>13 523</b>	<b>13 603</b>

Kotkamills Group Oyj 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 13.616.831 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 did not have own serie B shares on 31.12.2017.

The company has issued own serie B shares to certain key employees during 2017 as follows:

Date	Number	Value, EUR
28.2.2017	63 125	63 125
<b>Total</b>	<b>63 125</b>	<b>63 125</b>

### Share issues

On 16 February 2017 the shareholders of the Company unanimously resolved on a directed issue of maximum 1.875.417 new series A shares, a maximum of 63.125 series B shares held by the company for subscription to certain key employees and a maximum of 203.885 new series B shares. 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 B shares held by the company and 189.860 of the total 203.885 new B shares offered for subscription in the directed issue of the company. The subscription price of all shares was EUR 1,00 per share.

### Dividend

During 2017 the Company distributed dividend of aggregate amount of EUR 68 812 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 89 927.

# Notes to the consolidated financial statements

## 21. Provisions

### **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 2017 were 238 655 tons. The allocation of received emission allowances for the year amounted to 124 000 tons and the amount of purchased allowances in 2017 was 155 000 tons. Emission allowances are returned to the Union registry latest on April 30, 2018.

## 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, entitled to pension schemes classified as defined benefit plans. At the closing date the arrangement covers 64 active employees, 12 employees that have free-form pension and 63 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

	2017	2016
	€000	€000
Present value of funded obligations	4 630	4 725
Fair value of plan assets	-3 755	-3 888
<b>Net defined benefit liabilities</b>	<b>875</b>	<b>837</b>
Pension expenses, defined contribution plans	-5 941	-6 144
Pension expenses, defined benefit plans and other post-employment benefits	60	20
<b>Expenses included in income statement</b>	<b>-5 881</b>	<b>-6 124</b>
Actuarial gains (+) / losses (-) on defined benefit plans and other post-employment benefits	-21	-103
<b>Remeasurements in other comprehensive income</b>	<b>-21</b>	<b>-103</b>

#### Changes in the defined benefit obligations:

	Present value of defined benefit obligation	Fair value of plan assets	Total
	€000	€000	€000
<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 financial 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>
Current service cost	174	0	174
Interest cost (+) / income (-)	68	-57	11
Acquisitions	-83	64	-19
The return on plan assets, excluding amounts included in net interest	0	-119	-119
Actuarial gain (-) / loss (+) arising from changes in financial assumptions	36	0	36
Experience adjustment, gain (+) / loss (-)	104	0	104
Contributions by employer	0	-148	-148
Benefits paid	-394	394	0
<b>31.12.2017</b>	<b>4 630</b>	<b>-3 755</b>	<b>875</b>

**Defined benefit obligation by persons**

	31.12.2017	31.12.2016
	€000	€000
Active employees	1 212	1 559
Inactive employees, paid up policies	75	60
Inactive employees, pensions	3 343	3 106
	<u>4 630</u>	<u>4 725</u>

**Significant actuarial assumptions**

	2017	2016
Discount rate	1,52 %	1,49 %
Future salary increases	1,60 %	1,50 %
Future pension cost increase	1,84 %	1,74 %
Inflation	1,60 %	1,50 %

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, 2017:**

Assumption	Change in assumption	Impact on increase in assumption	Impact on decrease in assumption
	0,5%-unit	Obligation decreases	Obligation increases
Discount rate		5,41%	5,99%
	0,50 %	Obligation increases	Obligation decreases
Future salary increases		1,52%	1,51%
	0,50 %	Obligation increases	Obligation decreases
Future pension cost increase		29,77%	28,19%
Life expectancy		<b>Increase by one year</b>	<b>Decrease by one year</b>
		Obligation increases	Obligation decreases
		2,64%	2,57%

**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 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 2017, expected benefits to be paid during 2018 is EUR 176 thousand.

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

	<b>Within one year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>31.12.2017</b>	<b>410</b>	<b>594</b>	<b>820</b>	<b>3 702</b>
<b>31.12.2016</b>	456	608	934	3 183



# Notes to the consolidated financial statements

## 23. Trade and other payables

	<b>2017</b>	<b>2016</b>
	<b>€000</b>	<b>€000</b>
Trade payables	28 521	27 479
Accrued expenses	22 527	15 991
Other payables	1 420	767
<b>Total</b>	<b>52 468</b>	<b>44 237</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. 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:

	2017	2016
	€000	€000
Within one year	52	153
Between 1 and 5 years	105	153
<b>Total</b>	<b>157</b>	<b>306</b>

The Group has in 2017 recognised as expense total lease payments EUR 223 thousand of operating leases including contingent rents of EUR 160 thousand.

### Operating lease commitments – Group as lessor

The Group has entered into operating leases on two properties and one land area. The lease terms of properties are for an indefinite period with three months notice period. The lessees of the properties have no right or obligation to redeem the leased assets. The land lease agreement is valid until 31 August 2067. The tenant has the right to terminate the lease to expire on 31 August 2017 or thereafter. The tenant has also the right to extend the land lease agreement by another 50 years. Upon termination of the land lease the lessor has the right to redeem the properties on the leased land area.

### Guarantees

	2017	2016
	€000	€000
Securities given on own behalf		
Mortgages	950 000	750 000
Shares of Kotkamills Oy	39 653	39 653
Intercompany loan	175 000	175 000
<b>Total</b>	<b>1 164 653</b>	<b>964 653</b>

Mortgages include Kotkamills Oy's real estate mortgages amounting to EUR 700 million and enterprise mortgages totalling to EUR 250 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

At the closing date there was not any pending litigations.

#### Disputes

At the closing date there was not any unsettled disputes.

# Notes to the consolidated financial statements

## 25. Related party transactions

The management of the Group including the Board members of Kotkamills Group Oyj 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:

### 2017

	Sales	Purchases	Receivables	Liabilities
	€000	€000	€000	€000
Entities with significant influence over the Group	0	0	0	77 382

### 2016

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

### Terms relating to the related party transactions

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

### Management's employee benefits

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

	2017			2016		
	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	211	859	1 070	268	1 114	1 382
Company-paid cars and mobilephones	12	4	16	12	14	26
Bonuses	0	63	63			
<b>Total</b>	<b>223</b>	<b>926</b>	<b>1148</b>	<b>280</b>	<b>1 128</b>	<b>1408</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 55 862 in 2017 (EUR 70 341 in 2016).

### Remuneration of the Board of Directors

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

	2017	2016
	€000	€000
The Board members of Kotkamills Oy, remuneration	125	120
<b>Total</b>	<b>125</b>	<b>120</b>

# Notes to the consolidated financial statements

## 26. Events after the reporting period

On February 20th, 2018 the shareholders of Kotkamills Group Oyj have on unanimously resolved to offer by a directed issue a maximum of 450,770 new series A shares (the "New A Shares") of the company for subscription to the holders of series A shares pro rata to their holding of series A shares, a maximum of 20,000 new series B shares (the "New Management Incentive Allocation") for subscription to certain directors of the Kotkamills group and a maximum of 49,230 new series B shares (the "New B Shares", together with the New A Shares and the New Management Incentive Allocation, the "New Shares") of the company for subscription to the holders of series B shares pro rata to their holding of series B shares, taking into account the New Management Incentive Allocation offered for subscription. The subscription period expired on 26 February 2018. The New Shares represent in aggregate approximately 3.82 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 24,376 new series B shares to key employees and directors of the company or its subsidiaries as part of the company's management incentive system in deviation from the shareholders' pre-emptive subscription rights.

The subscription period for subscription of the New Shares based on primary subscription rights expired on 26 February 2018. Based on the primary subscription rights and secondary subscription rights allocated by the board of directors, holders of series A shares subscribed the maximum number of 450,770 New A Shares offered for subscription, certain directors of the Kotkamills group subscribed the maximum number of 20,000 series B Shares offered for subscription in the New Management Incentive Allocation and holders of series B shares subscribed 47,493 of the in total 49,230 New B Shares offered for subscription. The subscribed New Shares represent in aggregate approximately 3.81 per cent of the total number of shares in the company.

The subscription price for each New Share was EUR 2.00 and the aggregate subscription price for the New Shares was EUR 1,036,526. Pursuant to the terms of the share issue of the New A Shares, holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 5 million. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans is to ensure successful commercial launch of new food service board products and to secure the efficient working capital management of Kotkamills Group's further increasing consumer board products delivery volumes. As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj obtained financing in the aggregate amount of EUR 6 million.

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

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

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

# Parent company's financial statements

## KOTKAMILLS GROUP OYJ

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

For the period 1.1.-31.12.2017		1.1.-31.12.2017	13.2.-31.12.2016
	Note	€000	€000
<b>Net Sales</b>	1	<b>709</b>	<b>709</b>
Other operating income	2	0	23
Personnel expenses	3	-422	-455
Depreciation, amortisation and impairments	4	-6	-6
Other operating expenses	5	-222	-796
		<b>-651</b>	<b>-1 234</b>
<b>Operating profit (loss)</b>		<b>59</b>	<b>-525</b>
Financial income and expenses	6	-771	-1 144
<b>Profit (loss) before appropriations and taxes</b>		<b>-712</b>	<b>-1 668</b>
<b>Profit (loss) for the period</b>		<b>-712</b>	<b>-1 668</b>

## KOTKAMILLS GROUP OYJ

## Parent company's balance sheet

31.12.2017

<b>ASSETS</b>	Note	<b>2017</b> €000	<b>2016</b> €000
<b>Non-current assets</b>			
Tangible assets	7	13	19
Investments	8	39 653	39 653
<b>Non-current assets total</b>		<b>39 667</b>	<b>39 673</b>
<b>Current assets</b>			
Long-term receivables			
Loan receivable	9	190 000	190 000
Short-term receivables			
Current receivables	10	11 435	11 259
Cash and bank		433	235
<b>Current assets total</b>		<b>201 868</b>	<b>201 495</b>
		<b>241 535</b>	<b>241 168</b>

**EQUITY AND LIABILITIES**

<b>Equity</b>	11		
Share capital		80	80
Reserve for invested non-restricted equity		13 523	11 458
Retained earnings		-359	1 316
Profit (loss) for the period		-712	-1 668
<b>Equity total</b>		<b>12 532</b>	<b>11 185</b>
<b>Liabilities</b>			
Non-current liabilities	12	209 229	211 574
Current liabilities	13	19 774	18 409
<b>Liabilities total</b>		<b>229 003</b>	<b>229 982</b>
		<b>241 535</b>	<b>241 168</b>

## KOTKAMILLS GROUP OYJ

## Parent company's cash flow statement

For the period 13.2.-31.12.2017

	1.1.-31.12.2017	1.1.-31.12.2016
	€000	€000
<b>Cash flow from operating activities</b>		
Profit (loss) before taxes	-712	-1 668
Adjustments for		
Depreciation, amortisation and impairment	6	6
Financial income and expenses	771	1 144
Changes in working capital:		
Change in current assets, non-interest bearing gain(-)/loss(+)	200	4 988
Change in current liabilities, non-interest bearing gain(+)/loss(-)	-82	12
Cash flow from operating activities before financial items and taxes	183	4 481
Interest received from operating activities	15 300	3 188
Interest paid and financial expenses paid for operating activities	-7 947	-8 886
<b>Cash flow from operating activities (A)</b>	<b>7 535</b>	<b>-1 217</b>
<b>Cash flow from investing activities</b>		
Purchase of own shares	-1	-63
Change in non-current receivables	0	-35 000
<b>Cash flow from investing activities (B)</b>	<b>-1</b>	<b>-35 063</b>
<b>Cash flow from financing activities</b>		
Dividend paid	-69	-30
Proceeds from long-term loans	17 921	33 437
Repayment of long-term loans	-27 317	-7 499
Sales of own shares	63	0
Proceeds from investments in invested non-restricted equity	2 065	1 558
<b>Cash flow from financing activities (C)</b>	<b>-7 337</b>	<b>27 466</b>
<b>Change in cash and cash equivalents (A+B+C)</b>	<b>198</b>	<b>-8 814</b>
Cash and cash equivalents at beginning of period	235	9 049
Cash and cash equivalents at end of period	<b>433</b>	<b>235</b>

## 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.

### 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	2017 €000	2016 €000
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**1 Sales by segment**

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

**2 Other operating income**

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

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

Wages and salaries	359	368
Pension costs	65	65
Other personnel expenses	-2	22
Personnel expenses, total	<b>422</b>	<b>455</b>

Wages and salaries paid by the Group to managing director during the reporting period.	<b>223</b>	<b>280</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>

**4 Depreciation, amortisation, and impairments**

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

**5 Other operating expenses**

Consulting services	38	515
Administrative services and facility services	20	14
Audit services	73	181
Insurance fees	14	11
Other operating expenses	77	75
Other operating expenses, total	<b>222</b>	<b>796</b>

<b>Notes to the statement of profit and loss</b>		<b>2017</b>	<b>2016</b>
		<b>€000</b>	<b>€000</b>
<b>5.1. Auditors' fees</b>			
Ernst & Young Oy			
Audit fees	42	48	
Tax consultancy	12	8	
Other services	20	125	
Audit fees, total	<b>73</b>	<b>181</b>	
<b>6 Financial income and expenses</b>			
Other interest income			
From Group companies	15 675	14 019	
Interest income, total	<b>15 675</b>	<b>14 019</b>	
Interest expenses and other financial expenses			
To others	-16 446	-15 163	
Interest expenses and other financial expenses, total	<b>-16 446</b>	<b>-15 163</b>	
Financial income and expenses, total	<b>-771</b>	<b>-1 144</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	2017	2016
	€000	€000

**Non-current assets****7 Machinery and equipment**

Acquisition cost, beginning of period	31	31
Acquisition cost, end of period	31	31
Accumulated depreciation	-11	-5
Depreciation	-6	-6
Book value 31.12.	13	19

<b>Tangible assets, total</b>	<b>13</b>	<b>19</b>
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**8 Investments****Shares in group companies**

Acquisition cost 1.1.	39 653	39 653
Acquisition cost 31.12.	39 653	39 653
Book value 31.12.	39 653	39 653

<b>Investments, total</b>	<b>39 653</b>	<b>39 653</b>
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**Current assets****9 Long-term receivables**

Receivables from Group companies	190 000	190 000
Total	190 000	190 000

<b>Long-term receivables, total</b>	<b>190 000</b>	<b>190 000</b>
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**10 Short-term receivables**

Receivables from Group companies		
Accounts receivable	0	73
Prepayments and accrued income	11 416	11 182
Total	11 416	11 255

Receivables from other companies		
Prepayments and accrued income	18	5
Yhteensä	18	5

<b>Short-term receivables, total</b>	<b>11 435</b>	<b>11 259</b>
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Significant items included in prepaid and accrued income		
Prepaid and accrued interest, Group	11 416	11 041
Prepayments and accrued income	18	145
Total	11 435	11 187

## KOTKAMILLS GROUP OYJ

## Notes to parent company's financial statements

Notes to parent company's balance sheet	2017 €000	2016 €000
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## 11 Equity

<b>Restricted equity</b>		
Share capital 1.1.	80	3
Increase of share capital 10.2.2016	0	78
Share capital 31.12.	80	80
<b>Restricted equity, total</b>	<b>80</b>	<b>80</b>
<b>Non-restricted equity</b>		
Reserve for invested non-restricted equity 1.1.	11 458	9 978
Increase of share capital 10.2.2016	0	-78
Increase	2 065	1 558
Reserve for invested non-restricted equity 31.12.	13 523	11 458
Retained earnings 1.1.	-352	1 409
Purchase of own shares	-1	-63
Sale of own shares	63	0
Dividend paid	-69	-30
Retained earnings 31.12.	-359	1 316
Profit (loss) for the financial year	-712	-1 668
<b>Non-restricted equity, total</b>	<b>12 452</b>	<b>11 105</b>
<b>Equity, total</b>	<b>12 532</b>	<b>11 185</b>
Calculation of Distributable equity 31.12.		
Reserve for invested non-restricted equity	13 523	11 458
Retained earnings	-359	1 316
Profit (loss) for the financial year	-712	-1 668
Total	12 452	11 105
<b>Non-restricted equity, total</b>	<b>12 452</b>	<b>11 105</b>

## 12 Non-current liabilities

From others		
Bond	55 184	82 501
Junior loan	20 356	20 175
Other liabilities		
Other non-current liabilities	133 689	108 898
Total	209 229	211 574
<b>Non-current liabilities, total</b>	<b>209 229</b>	<b>211 574</b>

<b>Maturity profile</b>	<b>Over 5 years</b>	<b>Over 5 years</b>
Bond	0	22 510
Junior loan	0	20 175
Total	0	42 685

Notes to parent company's balance sheet		2017	2016
		€000	€000
<b>13 Current liabilities</b>			
Liabilities to other parties			
Bond	15 000	15 000	
Accounts payable	14	18	
Other liabilities	38	32	
Accruals	4 722	3 359	
Total	19 774	18 409	
<b>Current liabilities, total</b>	<b>19 774</b>	<b>18 409</b>	
Significant items included in accruals			
Interest expenses	4 633	3 186	
Accrued personnel expenses	80	89	
Insurance fees related to personnel expenses	0	11	
Other accrued liabilities	9	73	
Total	4 722	3 359	
<b>Notes</b>			
		2017	2016
		€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	175 000	

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

Helsinki, March , 2018

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 , 2018

Ernst & Young Oy  
Authorised Public Accountant Firm

Kristina Sandin  
Authorised Public Accountant

**List of account books:**

General journal and general ledger	CD
Ledger specifications	CD
Purchase ledger vouchers	CD
Sales ledger vouchers	CD
Memo vouchers	CD

**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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