

## 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, 2019. 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 7 to the consolidated financial statements and note 5.1 to the parent company 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 at the point in time, when products are transferred to the customer, customer acceptance for the delivery has been received and the control of the products has 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 537/2014, 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 5 years.

## **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.

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 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. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

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

Helsinki 24.3.2020

Ernst & Young Oy  
Authorized Public Accountant Firm

Kristina Sandin  
Authorized Public Accountant

*Unofficial translation from Finnish*

**Kotkamills Group Oyj**

**ANNUAL REPORT**

**1.1. - 31.12.2019**

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## BOARD OF DIRECTORS' REPORT

### 1. Company

Kotkamills Group Oy (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 Oy 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 2019 had production in Finland. Further, Kotkamills Oy has a branch office in Germany (Kotkamills Oy Filiale in Deutschland) and Kotkamills Absorbex Oy has branch offices 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.

### 2. Events during the financial year

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

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

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

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

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

The Group's revenue totaled EUR 342,8 million (EUR 353,3 million in 2018) in the reporting period 1.1.-31.12.2019. Net sales decreased by EUR 10,5 million due to decreased sales volumes in Consumer Boards segment decreased sales volumes of saturating base kraft and decreased sales prices of wood products in the Industrial Products segment.

The Group's comparable EBITDA of EUR 26,4 million (EUR 23,2 million) improved 14% compared to the same period a year ago mainly due to increased sales prices and decreased operating costs.

The Group's operating profit was EUR 9,1 million (EUR 7,1 million).

The cash flows from operating activities of EUR 20,7 million (EUR 21,3 million).

The cash flows from investing activities were EUR -9,5 million (EUR -8,7 million). Capital expenditure of EUR 10,8 million was higher than previous year (EUR 8,7 million).

Cash flow from financing activities was EUR -16,9 million (EUR -10,7 million), including repayment of the bond loan of EUR -15,0 million and payment of leases EUR -1,8 million. Cash flow from financing activities from the same period a year ago includes repayment of the bond loan of EUR -15,0 million, repayment of financial leases EUR -1,7 million, shareholder loans of EUR 5,0 million and a direct share issue of EUR 1,1 million.

### **3. Structural and financial arrangements**

On December 20, 2018, the company's Board of Directors unanimously resolved to offer by a directed issue a total of 54,408 class B shares of the company for subscription to certain 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. Of the total amount of class B shares to be issued for subscription, 28,295 shares were shares held by the company and 26,113 shares were new class B shares.

On February 11, 2019, certain key personnel subscribed the maximum amount of 54,408 shares offered for subscription. The subscription price was EUR 2.00 for each share.

During 2019 the Company distributed dividend of aggregate amount of EUR 98 452 for class B preference shares, which equals 7% annual profit for subscription price calculated since the date the subscription price was paid.

### **4. Events after reporting date**

Kotkamills Group Oyj ("Kotkamills") as parent and, among others, Kotkamills' wholly owned subsidiary Kotkamills Oy as borrower, have entered into a senior facility agreement with a Nordic commercial bank on 28 February 2020 (the "SFA").

Kotkamills used the loan proceeds to repay the remaining outstanding amount (plus accrued interest thereon) of the EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705) (the "Bonds") on 13 March 2020 which was the final redemption date for the Bonds in accordance with the terms and conditions of the Bonds.

Kotkamills Group Oyj has on 13 March 2020 repaid in full the EUR 105,000,000 Senior Secured Callable Bonds due 2015/2020 which were issued on 13 March 2015. In connection with the repayment, the bonds have been delisted. Due to the delisting, Kotkamills is no longer subject to the provisions of the Finnish Securities Market Act regarding reporting, and thus is not anymore obligated to publish stock exchange releases.

### **5. Outlook**

Covid-19 coronavirus epidemic has spread rapidly around the world in recent weeks. It is currently difficult to predict the impact of the epidemic on the company's full-year 2020 earnings. Unfavorable developments in global economies, capital and financial markets as well as in geopolitical tensions, if materialized, could lead to weakening demand and lower prices of the company's products.



If, regardless of the above mentioned, the company's 2020 delivery volumes in both folding boxboard and food service boards increase from the previous year's level and the price level does not decline significantly from its current level, the Consumer Boards segment will improve its revenues and profits in 2020. In the Industrial Products segment, the coronavirus epidemic is likely to temporarily weaken the demand for both Saturating Base Kraft and wood products.

Possible unfavorable changes in exchange rates and increases in raw material prices, as well as the above mentioned uncertainties, may have a detrimental effect on the Group's revenue growth and profitability development. The company has prepared for the realization of such scenarios in its plans and the situation is constantly monitored.

## **6. Research and development**

In 2019 the Group's research and development activities focused especially on folding boxboards and barrier boards as well as laminating paper products. Expenditure on research and development (R&D) in 2019 was EUR 931 thousand (EUR 1.046 thousand in 2018 and EUR 878 thousand in 2017), equivalent to 0,3% (0,3% in 2018 and 0,3% in 2017) of sales.

## **7. Risk review**

General competition landscape and changes in the demand and supply of paper, board and wood products can impact the Group's profitability. Commercial ramp-up of Consumer Boards' food service board business includes risk of delivery volumes. Also the economic cycles, geopolitical tensions, impacts of the Covid19 pandemic and changes in consumer behavior can have a negative impact on the Group's profitability. These risks are monitored and assessed regularly as part of the ordinary business operations of the Group's business units.

The Group's global operating activities expose the Group to risks arising from foreign exchange rate fluctuations. The risks consist of the Group's cash flows from foreign currency sales and purchases.

The objective of the Group's risk management is to minimize 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 a centralized treasury department is responsible for the practical implementation. The Group's treasury department identifies and assesses the risks and acquires the required instruments to hedge the risks in co-operation with operative business 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 the Group's operational activities. The majority of the Group's financial assets consist of 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 uninsured receivables is limited by prepayments or documentary payments as well as 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 receivable 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 43,5 million with a Nordic financial institution concerning sale of trade receivables of the Group companies to the financial institution.

The Group's business units depend on the 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.

Increases in prices related to energy, fiber and other raw materials as well as transportation and personnel costs can weaken the Group's profitability. This risk is reduced by broadening the raw material base and the number of suppliers as well as by energy hedges 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 environmental laws and regulations may impact production and delivery costs. The profitability can be impacted by expenses related to compliance with the environmental permits following new environmental laws and regulations.

Retaining and developing competent personnel is an important success factor for the Company. The Company strives to actively follow and improve employee satisfaction. The objective is also to reduce accidents and sick leaves.

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

## 8. Key performance indicators

Due to the disposal of Imprex business during 2017, the reported figures for year 2017 are not fully comparable with year 2018 and 2019.

Year 2017 operating profit of EUR 5,7 million includes EUR 19,6 million profit of the disposal of Kotkamills Imprex Oy shares.

	2019	2018	2017
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
<b>Group Total</b>			
Revenue, EUR million	342,8	353,3	287,7
EBITDA, EUR million	26,4	23,2	28,8
<i>EBITDA / Revenue (%)</i>	7,7	6,6	10,0
Operating profit, EUR million	9,1	7,1	5,7
<i>Operating profit / Revenue (%)</i>	2,7	2,0	2,0
Profit (loss) of the period, EUR million	-9,3	-10,8	1,8
Return on equity (%)	-70,0	-47,4	7,0
Equity ratio (%)	3,0	5,9	8,8
Equity ratio, adjusted (%)*	64,4	60,4	58,2

\*Equity including shareholder loans and the junior term loan

## 9. Personnel

Key figures related to personnel are:

	<b>Group</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Average personnel	518	547	562
Wages and Salaries (EUR million)	31,7	33,0	32,7

The Company will publish a report on its non-financial key figures by the end of June 2020, which will be available on the Company's Internet site.

## 10. Environment

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.

	<b>Group</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Expenditure, EUR million	4,3	3,5	3,0
Depreciation and amortisation, EUR million	0,6	0,4	0,6
Total environmental costs, EUR million	4,9	3,9	3,6
Environmental investments, EUR million	0,9	1,6	0,4

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

The Board of Directors proposes to the Annual General Meeting that a dividend of 7% per annum on the subscription price, calculated from the date the subscription price was paid, totaling EUR 100 251,71 be paid for class B preference shares for 2019.

## 12. Share capital and shareholders

Kotkamills Group Oyj has two classes of shares, class A and class B. On 11 February 2019 the company has 12.732.464 A shares and 1.414.718 B shares, in total 14.147.182 shares.

Each class A and class B share is assigned with one vote in the Annual General Meeting. The 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 the 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 the 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.

### 13. Own shares

The company did not have own class B shares on 31.12.2019.

The company has offered own class B shares to certain key employees by a directed issue during 2019 as follows:

Date	Number	Value, EUR
11.2.2019	28 295	56 590
<b>Total</b>	<b>28 295</b>	<b>56 590</b>

### 14. Foreign branches

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

In addition, Kotkamills Oy has a branch office in Germany; Kotkamills Oy Filiale in Deutschland, Spaldingstraße 218, 20097 Hamburg, registration number 115516.

Kotkamills Absorbex Oy, subsidiary of Kotkamills Oy, has branch offices 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.

### 15. The Company's organization, management and audit

The annual general meeting of Kotkamills Group Oyj held on 16 April 2019 appointed Hannu Puhakka, Eero Niiva and Kari Rytönen as members of the Board. Hannu Puhakka has acted as the Chairman of the Board.

Authorized Public Accountant Firm Ernst & Young Oy has acted as auditor of the Company with APA Kristina Sandin as its principally 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.-31.12.2019

		2019	2018
	Note	€000	€000
<b>Revenue</b>	3	<b>342 798</b>	<b>353 317</b>
<b>Other operating income</b>	6	<b>1 566</b>	<b>2 956</b>
Change in inventories of finished goods and work in progress		-3 281	1 689
Production for own use		120	36
Materials and services		-225 808	-239 924
Employee benefit expenses	8	-38 123	-40 048
Depreciation and amortisation	12,13	-17 255	-16 114
Other operating expenses	7	-50 916	-54 823
<b>Total expenses</b>		<b>-335 262</b>	<b>-349 186</b>
<b>Operating profit</b>		<b>9 102</b>	<b>7 088</b>
Financial income	9	1 998	7 501
Financial expenses	9	-19 945	-22 967
		-17 947	-15 466
<b>Profit before taxes</b>		<b>-8 845</b>	<b>-8 379</b>
Income taxes	11	-60	-48
Deferred taxes	11	-377	-2 330
		-437	-2 378
<b>Profit (loss) for the period</b>		<b>-9 281</b>	<b>-10 757</b>

## Consolidated statement of other comprehensive income

For the period 1.1.-31.12.2019

		2019	2018
	Note	€000	€000
<b>Profit (loss) for the period</b>		<b>-9 281</b>	<b>-10 757</b>
<b>Other comprehensive income items</b>			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gains (+) / losses (-) on defined benefit plans		-14	239
Income taxes		3	-59
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes</b>	10	<b>-11</b>	<b>180</b>
Other comprehensive income for the period, net of tax		-11	180
<b>Total comprehensive income for the period</b>		<b>-9 293</b>	<b>-10 577</b>

# Consolidated statement of financial position

31.12.2019

		<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>€000</b>	<b>€000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	197 226	201 407
Other intangible assets	13	5 128	7 586
Non-current financial assets	14	1 429	1 429
Deferred tax assets	11	3 489	3 863
		<b>207 272</b>	<b>214 285</b>
<b>Current assets</b>			
Inventories	16	38 818	41 437
Trade and other receivables	17	27 518	33 053
Other financial assets	14	200	1 040
Cash	18	10 265	15 936
		<b>76 802</b>	<b>91 466</b>
<b>Total assets</b>		<b>284 074</b>	<b>305 751</b>

# Consolidated statement of financial position

31.12.2019

		<b>2019</b>	<b>2018</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		14 668	14 668
Retained earnings		-6 191	3 200
<b>Total equity</b>		<b>8 557</b>	<b>17 948</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	14	174 409	206 831
Other non-current financial liabilities	14	4 976	4 633
Pension obligations	21	675	680
		<b>180 060</b>	<b>212 145</b>
<b>Current liabilities</b>			
Trade and other payables	22	51 294	56 087
Refund liabilities	23	1 035	1 948
Interest bearing liabilities	14	40 135	14 705
Other current financial liabilities	14	2 993	2 917
		<b>95 456</b>	<b>75 658</b>
<b>Total liabilities</b>		<b>275 516</b>	<b>287 802</b>
<b>Total shareholders' equity and liabilities</b>		<b>284 074</b>	<b>305 751</b>



# Consolidated statement of changes in equity

31.12.2019

€000	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total equity
<b>Equity as at 1.1.2018</b>	<b>80</b>	<b>13 523</b>	<b>13 867</b>	<b>27 470</b>
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	-10 757	-10 757
Other comprehensive income items (net of tax)				
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	180	180
<b>Total comprehensive income</b>	<b>80</b>	<b>13 523</b>	<b>3 290</b>	<b>16 893</b>
<b>Transactions with shareholders</b>				
Share issue	0	1 093	0	1 093
Dividends, paid	0	52	-90	-38
<b>Total transactions with shareholders</b>	<b>0</b>	<b>1 145</b>	<b>-90</b>	<b>1 055</b>
<b>Equity as at 31.12.2018</b>	<b>80</b>	<b>14 668</b>	<b>3 200</b>	<b>17 948</b>
<b>Equity as at 1.1.2019</b>	<b>80</b>	<b>14 668</b>	<b>3 200</b>	<b>17 948</b>
<b>Other comprehensive income</b>				
Profit (loss) for the period	0	0	-9 281	-9 281
Other comprehensive income items (net of tax)				
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	-11	-11
<b>Total comprehensive income</b>	<b>80</b>	<b>14 668</b>	<b>-6 093</b>	<b>8 655</b>
<b>Transactions with shareholders</b>				
Dividends, paid	0	0	-98	-98
<b>Total transactions with shareholders</b>	<b>0</b>	<b>0</b>	<b>-98</b>	<b>-98</b>
<b>Equity as at 31.12.2019</b>	<b>80</b>	<b>14 668</b>	<b>-6 191</b>	<b>8 557</b>

## Consolidated statement of cash flows

For the period 1.1.-31.12.2019

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
<b>Cash flows from operating activities</b>		
Profit (loss) for the period	-8 845	-8 379
Adjustments:		
Transactions without payments	188	173
Depreciation and impairments	17 255	16 114
Interest expenses and other financial expenses	19 945	22 967
Interest income and other financial incomes	-1 998	-7 501
Defined benefit plans, net	11	-180
	<b>35 401</b>	<b>31 574</b>
Change in working capital:		
Change in trade and other receivables	6 587	1 477
Change in inventories	2 619	-5 036
Change in trade and other payables	-6 087	2 666
Interests and other financial expenses, paid	-10 792	-8 615
Interests and other financial income, received	1 875	7 620
Taxes, paid	-60	-48
	<b>-5 857</b>	<b>-1 937</b>
<b>Net cash flows from operating activities (A)</b>	<b>20 699</b>	<b>21 258</b>
<b>Cash flows from investing activities</b>		
Tangible and intangible assets sales profit	1 298	18
Investments in property, plant and equipment	-10 795	-8 729
Change in non-current financial assets	0	-4
<b>Net cash flows from investing activities (B)</b>	<b>-9 497</b>	<b>-8 715</b>
<b>Cash flows from financing activities</b>		
Proceeds received related to share issue	0	1 145
Proceeds from loans and borrowings	0	5 000
Repayment of loans and borrowings	-14 998	-14 998
Repayment of leases	-1 776	0
Repayment of financial leases	0	-1 712
Dividends, paid	-98	-90
<b>Net cash flows from financing activities (C)</b>	<b>-16 873</b>	<b>-10 654</b>
<b>Change in cash (A+B+C)</b>	<b>-5 671</b>	<b>1 889</b>
Cash and short term deposits at beginning of period	15 936	14 047
<b>Cash and short term deposits at the end of period</b>	<b>10 265</b>	<b>15 936</b>

## Notes to the consolidated financial statements

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

#### GENERAL INFORMATION

Kotkamills Group Oy 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 Oy and its subsidiaries form Kotkamills Group (hereinafter "Kotkamills" or "the Group").

Kotkamills is a Finnish forest industry group which in 2019 had production in Finland. In addition, Kotkamills Oy has a branch office in Germany (Kotkamills Oy Filiale in Deutschland) and Kotkamills Absorbex Oy has branch offices in Germany (Kotkamills Absorbex Oy Filiale in Deutschland) and in Spain (Kotkamills Absorbex Oy - Branch Office in Spain). The Group is specialised in consumer boards, saturating base kraft (laminating papers) and wood products.

The consolidated financial statements of Kotkamills Group Oy for the period ended December 31, 2019 were authorised for issue by the Board of Directors at its meeting held on March 24, 2020. According to the Finnish Companies Act, shareholders have the 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 are to be revised. A copy of the consolidated financial statements is available on the Internet at [www.kotkamills.com/company/financials](http://www.kotkamills.com/company/financials) 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 the International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS standards and SIC and IFRIC Interpretations effective on December 31, 2019. In accordance with the 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 mentioned 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 Oy (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 of Kotkamills Oy from the majority shareholder OpenGate Capital and 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 Oy 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 Note 5 Group information.

Subsidiaries are combined 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, on which the Group's control ceases. 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 each 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.

## **LEASES**

The group has adopted the new IFRS 16 Leases-standard in the beginning of 2019. Further information regarding to the implementation is given later under chapter New IFRS-standards.

### **Group as a lessee**

Kotkamills Group has leased machines, equipment and vehicles.

Leases are recognized in the balance sheet as a fixed asset and corresponding lease liability. Leases paid are divided into debt liability and financial expense. A fixed asset item is depreciated on a straight-line basis over the economic life of the item or during the lease term. Additional information on leases recognized in the balance sheet is presented in Note 12 Property, plant and equipment.

The leasing liability is measured at the present value of the lease payments in the beginning of the lease term. The lease liability consists of leases, which entitle the lessee to use the leased asset during the lease term and which have not been paid when the lease agreement is made. Leases are discounted using the internal interest rate method, if the interest rate can be easily determined. If the internal rate of return is not easy to determine, the upcoming lease payments are discounted using the interest rate applicable for the Group's additional debt. The Group recognizes a fixed asset item and a corresponding lease liability arising from a lease agreement on the date that the lessor makes the asset available to the Group.

The Group does not recognize low-value tangible assets or leases with a lease term less than 12 months on the balance sheet. These leases are recorded as rental expenses in the income statement. Low-value assets include mainly office equipment such as laptops and printers. Additional information on low-value and short-term leases is presented in Note 24 Liabilities and contingent liabilities.

### **Group as a lessor**

The Group has rental agreements for buildings and land areas, where substantially all the risks and rewards related to the ownership remain with the lessor, ie. Kotkamills. Such 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. The rental income relating to other rental agreements is recognised as other operating income in the income statement. Additional information on rental agreements is presented in Note 24 Liabilities and contingent liabilities.

## GOVERNMENT GRANTS

Government grants are recognised as a reduction of the carrying amount of the property, plant and equipment when there is reasonable certainty 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 the asset as reduced depreciation expenses. 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 acquired assets 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 and development costs are recognised as expenses when they occur. Development costs may be 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 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 emission 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 allowance equivalent to the actual emissions to the European Union emissions trading registry. In order to fulfil the obligation to return allowances, a provision is recognised based on actual emissions if the available allowances do not cover actual emissions. The provision is measured at market price at the end of the reporting period.

### **IMPAIRMENT**

On each reporting date the Group assesses 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.

### **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 wider liability for 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 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 re-measurements 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**

Taxes recognised in the consolidated income statement include the Group companies' income taxes accounted for on an accrual basis, adjustments to prior years' 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 however, 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 the 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**

The Group is specialised in producing consumer boards, laminating papers and wood products. The Group has only one revenue stream, which is the sale of goods. The Group is acting as principal in all of the customer contracts as the Group provides the goods and services itself to a customer and controls the specified goods and services before they are transferred to a customer.

**Performance obligation.** Sale of goods. The sale of goods includes products such as consumer boards, laminating papers and wood products. In sale of goods, each good provided to the customer is a separate



performance obligation. The adoption of IFRS 15 did not have any impact on the identified performance obligations.

**Variable consideration.** The amount of consideration that the Group is entitled to may vary due to items of variable consideration. Relevant variable consideration for the Group includes different kind of payment discounts and volume based rebates. These are deducted from sales according to the estimated amounts of the discounts as customer is entitled to them.

**Significant financing component.** The Group's contracts with customers do not include significant financing components.

**Non-cash consideration.** The Group's contracts with customers do not include non-cash consideration. The Group provides free of charge items such as free samples before actual order. The Group does not consider the free of charge items as a performance obligation but considers them to be normal sales and marketing activity. Therefore, the Group is not providing distinct goods or service for free to the customer. The amount of free of charge items and options for additional goods and services is considered immaterial. However, in case the amount of these items would be considered material, the Group would evaluate the activity and adjust the timing of the revenue deferral accordingly.

**Allocation of the transaction price to the performance obligations.** In general, the allocation of transaction prices is not relevant in terms of the Group's contracts with customers as the contracts are based on the stand-alone selling prices of the goods provided. Variable consideration is allocated to the performance obligation or to a specific good that forms a part of performance obligation when the terms of variable consideration relate specifically to the performance obligation or to a specific good or service and allocated transaction price reflects the amount that the Group is entitled to. If the contract includes free of charge items, these items will be allocated.

**Timing of revenue recognition.** The Group recognises the revenue for the goods at a point in time once the asset is delivered to the customer, the customer has accepted the delivery and control over the asset is transferred to the customer. The Group analyses the exact timing of the control being transferred contract by contract taking into account the delivery terms, customer acceptance clauses and customer's ability to benefit from the goods delivered. The adoption of IFRS 15 did not have any impact on the timing of revenue recognition.

## **Contract balances**

**Trade receivables.** A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

**Refund liabilities.** A refund liability is the obligation to refund some or all of the consideration received from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities at the end of each reporting period. Refer to above accounting policy on variable consideration. The Groups' refund liabilities comprise of rebates and discounts given.

**Cost to obtain a contract.** In general, there are no costs that the Group incurs in obtaining a contract to provide goods and services to customers in sale of goods and in rendering services including project business.

**The Group applied the following judgments that significantly affect the determination and amount of revenue from contracts with customers.**

**Principal versus agent considerations.** In general, the Group is considered as a principal in its contracts with customers as the Group controls the specified goods or services before they are transferred to a customer.

**Determining the method to estimate variable consideration and assessing the constraint.** The Group estimates the amount of variable consideration at the contract inception. The amount of variable consideration is estimated by using either the expected value method or the most likely amount method depending on which

method better predicts the amount of consideration to which the Group will be entitled. The Group selects and applies one method consistently for similar types of contracts when estimating the variable consideration amount.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with cash discounts options, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of goods with volume rebates, the Group determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

The Group has signed contracts total of approximately EUR 43,5 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 classifies its financial assets based on the recognition method either at amortized cost, at fair value through other comprehensive income items or at fair value through profit or loss. The classification is made on the basis of the purpose of the acquisition of the financial assets at initial recognition. The classification depends on the contractual terms of the business model and cash flows used in managing the Group's financial assets. The transaction cost is included in the original carrying amount of the financial asset in the case of an item that is not measured at fair value through the income statement. Transaction costs related to financial assets recognised at fair value through profit or loss are recorded immediately in the income statement.

The Group recognizes financial assets in the balance sheet when it becomes a party to the contractual terms of an instrument. All purchases and sales of financial assets are recorded on the trade date. Financial assets are derecognised when the contractual right to the cash flows of a financial asset ceases to exist or when the Group has transferred substantially all the risks and rewards of a financial asset outside the Group.

A financial asset is measured at amortized cost if the financial asset is held in accordance with a business model that aims to hold financial assets to collect contractual cash flows and the contractual terms of the financial assets provide for cash flows at certain times that are exclusively interest on the principal and the remaining principal. The Group's trade and other receivables and cash and cash equivalents are measured at amortized cost. They are recorded in the balance sheet according to their nature either as current or non-current assets: the latter, if they mature more than 12 months after the end of the financial year.

Cash and cash equivalents consist of cash and cash equivalents and other short-term, highly liquid investments. Items classified as cash and cash equivalents have a maximum maturity of three months from the acquisition date. Available credit limits are included in current interest-bearing liabilities.

A financial asset is measured at fair value through other comprehensive income if the financial asset is held in accordance with a business model whose objective is achieved by collecting contractual cash flows as well as by selling financial assets and the contractual terms of a financial asset provide for cash flows at certain times, which are exclusively the payment of interest on the principal and the remaining amount of capital.

However, at initial recognition, an entity may make an irrevocable choice that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss are treated in such a way that subsequent changes in fair value are presented in other comprehensive income. This group includes shares in the electricity subscription agreement.

A financial asset item shall be measured at fair value through profit or loss unless it is measured at amortized cost or fair value through other comprehensive income. Financial assets recognised at fair value through profit or loss are financial assets held for trading or, for example, derivatives. In the case of Kotkamills, this group includes foreign currency and commodity derivatives related to business operations. After initial recognition, the Group values derivative assets at fair value. Derivatives are non-current assets with a maturity of over 12 months and current assets with a remaining maturity of less than 12 months. Derivatives may also be debt, and their accounting principles are described later in "Financial Liabilities".

Realized and unrealized losses and gains arising from changes in fair value are recognized in the income statement on the period in which they incur in the income or expenses of the income statement.

### **Impairment of financial assets**

The increase in the credit risk of financial assets classified at amortized cost is assessed on the balance sheet date. Applicable method is determined by the potential increase in the credit risk. When there is no significant increase in the credit risk, the estimated amount of credit losses is based on the expected credit losses for a 12 month period.

On each balance sheet date, the Group assesses whether there is objective evidence of impairment of an individual financial asset or group of financial assets. The triggering factors for an impairment may include, but are not limited to, the financial difficulties of the counterparty. The value of financial assets is considered to be impaired if their carrying amount is greater than the estimated recoverable amount. An impairment loss is recognized through profit or loss.

The assessment of the Group's credit loss provision is based on the expected credit losses over the entire life of the trade receivables in accordance with IFRS 9. The simplified procedure for expected credit losses is applied to trade receivables. The expected loss of the Group's trade receivables' credit risk is based on historical loss amounts. The expected credit losses are calculated by multiplying the book value of the outstanding trade receivables with the expected loss rate for each receivable age group.

### **Financial liabilities**

Financial liabilities are recognized in the balance sheet on the trade date. Financial liabilities are initially recognized at fair value, which is the amount of cash minus transaction costs. After initial recognition, liabilities are measured at amortized cost using the effective interest rate method except for derivatives. Financial liabilities are derecognised when the related obligations under the contracts expire or are transferred away from the Group.

The Group's financial liabilities are mainly trade payables, MFI loans and derivatives, for which the Group does not apply hedge accounting.

Financial liabilities are classified as non-current liabilities if their due date is more than 12 months after the end of the financial year and current liabilities if they mature less than 12 months after the financial statements.

Foreign currency and commodity derivatives related to business and financing are recorded under financial liabilities at fair value through profit or loss.

## **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 Note 6. Other operating income.

## **NEW IFRS STANDARDS**

In the beginning of 2019 the Group has adopted the following new standard:

### **IFRS 16 Leases**

In January 2016 IASB issued a new leasing standard, IFRS 16 Leases, which will replace IAS 7 standard and the related interpretations. 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 lease liability.

According to the new standard, the Group has recorded lease agreements related to machines, equipment and vehicles on the balance sheet. The Group uses two exemptions provided by the IFRS 16 standard. The Group does not recognize low-value tangible assets or leases with a lease term of less than 12 months. These agreements are recognized in the income statement as rental expenses.

The Group has applied the definition of a new lease in IFRS 16 to new leases entered into on or after 1 January 2019.

The Group has adopted IFRS 16 using the simplified retrospective application method without adjusting prior reporting periods. Instead, the Group has recognized the cumulative impact of IFRS 16 in the opening balance sheet on property, plant and equipment and financial liabilities that were affected by the adoption of the new standard.

As of 1 January 2019, instead of rental expenses previously recognized in the income statement, depreciation and interest expenses of an asset are recognized in the income statement. The change has a minor effect on the Group's result. Instead of rental expenses of EUR 1,913 thousand, depreciation of EUR 1,897 thousand on fixed assets and EUR 137 thousand interest expenses in financial expenses have been recognized in the income statement.

The adoption of IFRS 16 changes also the presentation of the cash flow statement. Previously, lease payments were included in the cash flow from operating activities, while now only the interest expenses of the lease agreements are included in cash flows from operating activities. The remaining part of the lease payment is recorded as repayment of the lease liability, presented in financing cash flow. Cash flow statement has not been adjusted for earlier reporting periods.

In the consolidated cash flow statement, the lease liability repayments of EUR 1,776 thousand are presented in financing cash flows and interest expenses of EUR 137 thousand in cash flows from operating activities.

The Group has not changed the items classified as finance leases according to IAS 1, but IFRS 16 has been applied to them as of 1 January 2019.

	31.12.2019	31.12.2018
	€000	€000
<b>Assets</b>		
Carrying value at 1 January	4 865	0
Finance lease assets	0	4 865
Right-of-use assets	0	0
Additions in right-to use asset due to adoption of IFRS 16	1 001	0
Additions	354	0
Depreciation	-1 897	0
Right-of-use assets at 31 December	<u>4 323</u>	
<b>Liabilities</b>		
Carrying value at 1 January	5 954	
Finance lease liabilities		5 954
Additions in lease liabilities due to adoption of IFRS 16	1 001	
Additions	354	
Repayment of leases	-1 776	
Lease liabilities at 31 December	<u>5 533</u>	
Deferred tax liabilities	242	218

No other already issued, but not yet effective new standards, amendment to standard or IFRIC interpretation are expected to have material impact on the Group's consolidated financial statements.

## 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:

### Estimating volume rebates and discounts

The Group applies a statistical model for estimating volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing pattern and rebates entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group. The Group updates its assessment of expected refund liabilities quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding rebates entitlements may not be representative of customer's actual rebate entitlements in the future.

### 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 21. 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 43,5 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.

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
	€000	€000	€000	€000
<b>2019</b>				
<b>Revenue</b>				
External customers	176 363	157 798	0	334 161
Inter-segment	2	6 177	-6 178	0
<b>Total revenue</b>	<b>176 365</b>	<b>163 974</b>	<b>-6 178</b>	<b>334 161</b>
Depreciation and amortisation	-9 555	-2 122	0	-11 677
<b>Segment operating profit</b>	<b>-2 711</b>	<b>14 034</b>	<b>0</b>	<b>11 323</b>
	Consumer Boards	Industrial Products	Adjustments	Total
	€000	€000	€000	€000
<b>2018</b>				
<b>Revenue</b>				
External customers	181 690	162 257	0	343 947
Inter-segment	6	5 830	-5 836	0
<b>Total revenue</b>	<b>181 696</b>	<b>168 087</b>	<b>-5 836</b>	<b>343 947</b>
Depreciation and amortisation	-9 272	-1 791	0	-11 063
<b>Segment operating profit</b>	<b>-6 219</b>	<b>14 243</b>	<b>0</b>	<b>8 024</b>

Revenues from both of Kotkamills revenue streams *Consumer Boards* and *Industrial Products* are recognised at point in time.

**Reconciliation of revenue**

	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	<b>€000</b>	<b>€000</b>
Total segment revenue	334 161	343 947
Items not allocated to segments		
Sales of energy	8 637	8 315
Revenue recognition and other	0	1 054
Total unallocated items	8 637	9 370
<b>Group's total revenue</b>	<b>342 798</b>	<b>353 317</b>

**Reconciliation of profit**

	<b>2019</b>	<b>2018</b>
<b>Operating profit</b>	<b>€000</b>	<b>€000</b>
Segment operating profit	11 323	8 024
Items not allocated to segments		
Unallocated administrative gains/expenses	360	105
Total unallocated items	360	105
Other IFRS adjustments	-2 581	-1 041
<b>Group's total operating profit</b>	<b>9 102</b>	<b>7 088</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>2019</b>	<b>2018</b>
	<b>Revenue</b>	<b>Revenue</b>
	<b>€000</b>	<b>€000</b>
Finland	31 919	33 137
Germany	48 951	43 172
Italy	27 223	23 426
Poland	24 851	23 991
Russia	19 903	17 689
Turkey	17 479	22 202
UK	15 108	19 059
France	11 412	14 847
Japan	10 009	10 662
Austria	8 014	9 996
Other countries	127 930	135 137
<b>Total</b>	<b>342 798</b>	<b>353 317</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%.

	<b>Equity ratio</b>		<i>Financial covenant</i> <b>Equity ratio, adjusted</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€ 000</b>	<b>€ 000</b>	<b>€ 000</b>	<b>€ 000</b>
Equity	8 557	17 948	8 557	17 948
Added: Shareholder loans and the junior term loan			174 409	166 698
<b>Total</b>	<b>8 557</b>	<b>17 948</b>	<b>182 966</b>	<b>184 647</b>
<b>Total assets</b>	<b>284 074</b>	<b>305 751</b>	<b>284 074</b>	<b>305 751</b>
<b>Equity ratio</b>	<b>3,0 %</b>	<b>5,9 %</b>	<b>64,4 %</b>	<b>60,4 %</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:

Name of the entity	Principal business	Domicile	Ownership %	Parent company
			31.12.2019	
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.

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 51,7 % of the shares of Kotkamills Group Oyj.

# Notes to the consolidated financial statements

## 6. Other operating income

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Profit from sales of non-current assets	30	0
Rental income	187	183
Government grants	3	1 109
Insurance claims	814	8
Sale of services	58	661
Other income items	474	996
<b>Total</b>	<b>1 566</b>	<b>2 956</b>

# Notes to the consolidated financial statements

## 7. Other operating expenses

	2019	2018
	€000	€000
Rental expenses	1 850	2 406
Shipping expenses of the products	34 524	38 323
Sales commissions	4 465	4 747
Administration and office services	4 497	4 023
Insurance payments	758	753
Other expenses	4 822	4 572
<b>Total other operating expenses</b>	<b>50 916</b>	<b>54 823</b>

## Fees to the auditors

	2019	2018
	€000	€000
Audit	138	155
Tax consultation	212	149
Other services	50	56
<b>Total</b>	<b>400</b>	<b>360</b>

# Notes to the consolidated financial statements

## 8. Employee benefit expenses

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Wages and salaries	31 698	32 951
Pension expenses, defined contribution plans	5 636	5 948
Pension expenses, defined benefit plans	-67	29
Other social security costs	856	1 121
<b>Total</b>	<b>38 123</b>	<b>40 048</b>

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

	<b>2019</b>	<b>2018</b>
Consumer Boards	149	142
Industrial Products	170	208
Common operations	199	196
<b>Total</b>	<b>518</b>	<b>547</b>

The defined benefit pension plan is described more in detail in the note 21. 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 292 thousand of service retention liability has been recognised in the balance sheet.

# Notes to the consolidated financial statements

## 9. Financial income and expenses

<b>Financial income</b>	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Changes in fair values of financial items recognised through profit and loss		
Foreign currency derivatives	434	491
Commodity derivatives	1 492	6 994
Other financial income	72	16
<b>Total financial income</b>	<b>1 998</b>	<b>7 501</b>
<b>Financial expenses</b>		
Interest expenses from financial liabilities	15 425	16 463
Changes in fair values of financial items recognised through profit and loss		
Foreign currency derivatives	469	187
Commodity derivatives	3 014	5 537
Other financial expenses	1 037	780
<b>Total</b>	<b>19 945</b>	<b>22 967</b>
<b>Total financial expenses</b>	<b>19 945</b>	<b>22 967</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 2019 reporting period. The information regarding the derivatives is presented in the note 14. Financial assets and liabilities.

The foreign currency exchange rate differences has been recognized in income statement's finance expenses total EUR 16 thousand in 2019.

Other financial income and expenses consists of indirect taxation's tax-free interest income and other income of total EUR 15 thousand, interest on arrears EUR 58 thousand, financing expenses relating to factoring EUR 404 thousand and non-deductible interest expenses EUR 125 thousand.

# Notes to the consolidated financial statements

## 10. 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:

	2019	2018
	Recognised to other comprehensive income items	Recognised to other comprehensive income items
	€000	€000
Actuarial gains (+) / losses (-) on defined benefit plans	-11	180
<b>Total</b>	<b>-11</b>	<b>180</b>

The taxes related to other comprehensive income items are presented in the note 11. Income taxes.

# Notes to the consolidated financial statements

## 11. Income taxes

### Consolidated statement of profit or loss

	2019	2018
	€000	€000
Current income tax charge	-60	-48
Deferred taxes	-377	-2330
<b>Total</b>	<b>-437</b>	<b>-2378</b>

### Consolidated statement of other comprehensive income

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

	2019	2018
	€000	€000
Actuarial gains (+) / losses (-) on defined benefit plans	3	-59
<b>Total</b>	<b>3</b>	<b>-59</b>

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

	2019	2018
	€000	€000
Profit before taxes	-8 845	-8 379
Tax calculated at parent's tax rate 20%	-1 769	-1 676
Tax-exempt income	-1	0
Non-deductible expenses for tax purposes	2 196	2 289
The reporting period unrecognised deferred tax assets from tax losses	-583	0
Amendment of unused tax losses prior years	-697	-1 777
Impairment of purchase price allocation	440	440
Other temporary differences	-22	-1 605
<b>Income tax expense reported in the statement of profit or loss</b>	<b>-437</b>	<b>-2 330</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
	2019	2019	2018	2018
	€000	€000	€000	€000
<b>Deferred tax assets</b>				
Excess of depreciation made in taxation	2 288	0	2 288	0
Defined benefit plans	193	40	198	-41
Unused tax losses	4 215	-697	4 912	-1 777
Other temporary differences	243	16	227	0
<b>Deferred tax expense (/benefit)</b>		<b>-641</b>		<b>-1819</b>
<b>Total deferred tax assets</b>	<b>6 939</b>		<b>7 625</b>	
<b>Deferred tax liabilities</b>				
	2019	2019	2018	2018
	€000	€000	€000	€000
Capitalised borrowing costs	649	-38	687	-38
Purchase price allocation	2 267	-440	2 706	-440
Other temporary differences	534	214	368	0
<b>Deferred tax expense (/benefit)</b>		<b>-264</b>		<b>-478</b>
<b>Total deferred tax liabilities</b>	<b>3 450</b>		<b>3 762</b>	
Net deferred tax assets (/liabilities)	3 489		3 863	
Reflected in the statement of financial position as follows:				
Deferred tax assets	6 939		7 625	
Deferred tax liabilities	-3 450		-3 762	
<b>Total</b>	<b>3 489</b>		<b>3 863</b>	
<b>Reconciliation of deferred tax, net</b>	<b>2 019</b>		<b>2 018</b>	
	€000		€000	
<b>Deferred tax assets (/liabilities) at the beginning of the financial period</b>	<b>3 863</b>		<b>6 252</b>	
Tax income/(expense) recognised in profit or loss	-377		-2 330	
Tax income/(expense) recognised in other comprehensive items	3		-59	
<b>Deferred tax assets (/liabilities) at the end of the financial period</b>	<b>3 489</b>		<b>3 863</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 2 126 thousand available until 2022, EUR 2 998 thousand available until 2025, EUR 15 242 thousand available until 2026 and EUR 708 thousand until 2027, 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.

# Notes to the consolidated financial statements

## 12. Property, plant and equipment

	Land and water areas owned	Buildings and constructions owned	Machinery and equipment owned	Machinery and equipment leased	Advance payments and construction in progress owned	Other tangible assets owned	Total
	€000	€000	€000	€000	€000	€000	€000
<b>Acquisition cost</b>							
31.12.2017	755	11 482	218 822	0	603	3 601	235 262
Additions	0	111	7 339	0	6 240	67	13 756
Transfers	0	0	0	0	-6 295	0	-6 295
Disposals	0	0	-31	0	0	0	-31
31.12.2018	755	11 593	226 130	0	548	3 667	242 693
Adoption of IFRS 16 standard 1.1.2019	0	0	0	4 865	0	0	4 865
Adoption of IFRS 16 standard 1.1.2019	0	0	-4 865	1 001	0	0	-3 864
Additions	0	2 968	7 598	354	11 937	680	23 536
Transfers	0	0	0	0	-11 144	0	-11 144
Disposals	0	0	-1 298	0	0	0	-1 298
<b>31.12.2019</b>	<b>755</b>	<b>14 561</b>	<b>227 565</b>	<b>6 220</b>	<b>1 340</b>	<b>4 347</b>	<b>254 788</b>
<b>Accumulated depreciation and impairment</b>							
31.12.2017	0	976	24 734	0	0	462	26 172
Depreciation charge for the year	0	425	14 446	0	0	262	15 133
Disposals	0	0	-18	0	0	0	-18
31.12.2018	0	1 401	39 162	0	0	724	41 286
Depreciation charge for the year	0	773	13 373	1 897	0	233	16 275
<b>31.12.2019</b>	<b>0</b>	<b>2 174</b>	<b>52 535</b>	<b>1 897</b>	<b>0</b>	<b>956</b>	<b>57 562</b>
<b>Carrying amount</b>							
31.12.2018	755	10 192	186 968	0	548	2 944	201 407
<b>31.12.2019</b>	<b>755</b>	<b>12 387</b>	<b>175 030</b>	<b>4 323</b>	<b>1 340</b>	<b>3 391</b>	<b>197 226</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.

**Right-of-use assets**

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

	<b>Machinery and equipment</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>
<b>Acquisition cost</b>		
31.12.2018	9 919	9 919
Additions due to adoption of IFRS 16 standard	1 001	1 001
Additions	354	354
<b>31.12.2019</b>	<b>11 274</b>	<b>11 274</b>
<b>Accumulated depreciation</b>		
31.12.2018	5 054	5 054
Depreciations	1 897	1 897
<b>31.12.2019</b>	<b>6 951</b>	<b>6 951</b>
<b>Carrying amount</b>		
31.12.2018	4 865	4 865
<b>31.12.2019</b>	<b>4 323</b>	<b>4 323</b>

# Notes to the consolidated financial statements

## 13. Intangible assets

	Customer relationships	Trademarks	Emission allowances	Other intangible assets	Total
	€000	€000	€000	€000	€000
<b>Acquisition cost</b>					
31.12.2017	12 403	3 956	2 570	1 416	20 345
Additions	0	0	3 921	79	4 000
31.12.2018	12 403	3 956	6 490	1 495	24 345
Additions	0	0	2 401	169	2 570
Disposals	0	0	-1 620	0	-1 620
<b>31.12.2019</b>	<b>12 403</b>	<b>3 956</b>	<b>7 271</b>	<b>1 664</b>	<b>25 294</b>
<b>Accumulated depreciation and impairment</b>					
<b>31.12.2017</b>	9 332	2 079	2 433	743	14 587
Depreciation charge for the year	439	268	1 189	276	2 171
31.12.2018	9 771	2 347	3 622	1 018	16 759
Depreciation charge for the year	439	268	2 428	273	3 407
<b>31.12.2019</b>	<b>10 210</b>	<b>2 616</b>	<b>6 050</b>	<b>1 291</b>	<b>20 166</b>
<b>Carrying amount</b>					
31.12.2018	2 632	1 609	2 868	477	7 586
<b>31.12.2019</b>	<b>2 193</b>	<b>1 341</b>	<b>1 222</b>	<b>373</b>	<b>5 128</b>

Other intangible assets includes IT software and licences.

# Notes to the consolidated financial statements

## 14. Financial assets and liabilities

	2019		2018		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	36	36	2	2	2
Commodity derivatives	164	164	1 037	1 037	2
<b>Total</b>	<b>200</b>	<b>200</b>	<b>1 040</b>	<b>1 040</b>	
<b>Total financial assets at fair value through profit or loss</b>	<b>200</b>	<b>200</b>	<b>1 040</b>	<b>1 040</b>	
<b>Loans and other receivables</b>					
Trade receivables	9 437	9 437	15 567	15 567	
Cash	10 265	10 265	15 936	15 936	
<b>Total</b>	<b>19 703</b>	<b>19 703</b>	<b>31 503</b>	<b>31 503</b>	
<b>Total financial assets</b>	<b>19 903</b>	<b>19 903</b>	<b>32 542</b>	<b>32 542</b>	
<b>Total non-current</b>					
Non-current financial assets	1 429	1 429	1 429	1 429	

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	2019		2018		Level of hierar chy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities held for trading					
Foreign currency derivatives	7	7	14	14	2
Commodity derivatives	62	62	1 272	1 272	2
<b>Total</b>	<b>69</b>	<b>69</b>	<b>1 286</b>	<b>1 286</b>	
<b>Financial liabilities measured at amortised cost</b>					
Bond	40 135	40 135	54 837	54 837	
Shareholder loan	153 321	153 321	145 979	145 979	
Trade payables	27 983	27 983	32 323	32 323	
Junior term loan	21 088	21 088	20 719	20 719	
Lease liabilities	5 533	5 533	0	0	
Leasing liabilities	0	0	5 954	5 954	
<b>Total</b>	<b>248 060</b>	<b>248 060</b>	<b>259 814</b>	<b>259 814</b>	
<b>Total financial liabilities</b>	<b>248 128</b>	<b>248 128</b>	<b>261 100</b>	<b>261 100</b>	
Bond	0	0	40 133	40 133	
Shareholder loan	153 321	153 321	145 979	145 979	
Junior term loan	21 088	21 088	20 719	20 719	
Lease liabilities	3 866	3 866	0	0	
Leasing liabilities	0	0	4 633	4 633	
<b>Total non-current</b>	<b>178 275</b>	<b>178 275</b>	<b>211 464</b>	<b>211 464</b>	
Financial liabilities held for trading	69	69	1 286	1 286	
Bond	40 135	40 135	14 705	14 705	
Trade payables	27 983	27 983	32 323	32 323	
Lease liabilities	1 667	1 667	0	0	
Leasing liabilities	0	0	1 322	1 322	
<b>Total current</b>	<b>69 853</b>	<b>69 853</b>	<b>49 636</b>	<b>49 636</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	2019 Loan principal	2018 Loan principal
			€000	€000
<b>Non-current interest bearing loans and borrowings</b>				
Lease liabilities	2,32 %	2020-2025	3 866	0
Leasing liabilities	2,86 %	2019-2024	0	4 633
Bond	8,91 %	2020	0	40 188
Shareholder loan	6,00 %	2025	122 358	122 358
Junior term loan	9,75 %	2021	21 088	20 719
<b>Total non-current interest bearing loans and borrowings</b>			<b>147 312</b>	<b>187 898</b>
<b>Current interest bearing loans and borrowings</b>				
Bond			40 188	14 998
Lease liabilities			1 667	0
Leasing liabilities			0	1 322
<b>Total current interest bearing loans and borrowings</b>			<b>41 855</b>	<b>16 320</b>
<b>Total interest bearing loans and borrowings</b>			<b>189 167</b>	<b>204 218</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 40,2 million.

### Shareholder loan

Total of shareholder loan EUR 122,4 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 2019.

### Lease liabilities

Book values of lease liabilities and changes during period

	<b>2019</b>
	<b>€000</b>
1.1.2019	6 955
Additions	354
Repayment of leases	-1 776
<b>31.12.2019</b>	<b>5 533</b>

Lease liabilities mature as follows:

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Within one year	1 667	0
Between one and five years	3 861	0
More than five years	4	0
Total minimum lease payments	5 533	0
Future finance charges	-177	0
<b>Present value of minimum lease liabilities</b>	<b>5 356</b>	<b>0</b>

Present value of minimum lease payments:

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Within one year	1 570	0
Between one and five years	3 786	0
<b>Present value of minimum lease payments</b>	<b>5 356</b>	<b>0</b>

**Finance lease liabilities**

Finance lease liabilities mature as follows:

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Within one year	0	1 322
Between one and five years	0	4 542
More than five years	0	90
<b>Total minimum finance lease payments</b>	0	5 954
Future finance charges	0	-283
<b>Present value of minimum finance lease payments</b>	<b>0</b>	<b>5 671</b>

Present value of minimum finance lease payments:

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Within one year	0	1 204
Between one and five years	0	4 468
<b>Total present value of minimum finance lease payments</b>	<b>0</b>	<b>5 671</b>

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



**Changes in liabilities arising from financing activities**

	<b>1.1.2019</b>	<b>Cash flows</b>	<b>New leases</b>	<b>Other</b>	<b>31.12.2019</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Current interest-bearing loans and borrowings (excluding items listed below)	14 705	-14 998	0	40 430	40 136
Current obligations under finance leases and hire purchase contracts	1 322	-1 776	0	2 122	1 667
Non-current interest-bearing loans and borrowings (excluding items listed below)	206 831	0	0	-32 424	174 407
Non-current obligations under lease liabilities and hire purchase contracts	4 633	0	354	-2 122	2 865
Non-current lease liabilities, Adoption of IFRS 16 standard 1.1.2019	0	0	1 001	0	1 001
<b>Total liabilities from financing activities</b>	<b>227 490</b>	<b>-16 775</b>	<b>1 355</b>	<b>8 006</b>	<b>220 077</b>

  

	<b>1.1.2018</b>	<b>Cash flows</b>	<b>New leases</b>	<b>Other</b>	<b>31.12.2018</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Current interest-bearing loans and borrowings (excluding items listed below)	14 635	-14 998	0	15 067	14 705
Current obligations under finance leases and hire purchase contracts	1 572	-1 712	0	1 461	1 322
Non-current interest-bearing loans and borrowings (excluding items listed below)	208 878	5 000	0	-7 047	206 831
Non-current obligations under finance leases and hire purchase contracts	4 801	0	1 335	-1 503	4 633
<b>Total liabilities from financing activities</b>	<b>229 887</b>	<b>-11 710</b>	<b>1 335</b>	<b>7 978</b>	<b>227 490</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 2019 100% of the Group's loans were fixed rate. (excludig 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.

20 % 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 foreing 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
31.12.2019	10 %	-215	-215
	-10 %	293	293
31.12.2018	10 %	-338	-338
	-10 %	383	383

  

	Change in EUR/GBP currency rates	Effect on profit before tax	Effect on before tax equity
	%	€000	€000
31.12.2019	10 %	162	162
	-10 %	-198	-198
31.12.2018	10 %	-119	-119
	-10 %	148	148

## 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 derivative agreements. The Group has hedged 29 % of the following 12 months net position of electricity consumptions and electricity production. The Group did not have open pulp derivatives on 31.12.2019. Natural gas market in Finland opened for competition on 1.1.2020. The Group's exposure to the natural gas price risk is determined both in natural gas futures market and based on Brent-oil (40%), API2-coal (30%) and the domestic market basic price index's sub index D35 (30%) price factors and weights. The Group did not have open commodity derivatives related to natural gas price risk on 31.12.2019. 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 below table presents the impact to the profit (loss) before taxes 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	
	2019	2018
	€000	€000
Pulp commodity derivative	0	698
Oil commodity derivative	0	60
Electricity commodity derivative	-45	-216
<b>Total</b>	<b>-45</b>	<b>542</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 17,9 %. The proportion of insured trade receivables at the reporting date is 43,7 % after considering the own liability. Trade receivables with payment terms limiting the customer risk at the reporting date is 38,4 %. 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 43,5 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 60 thousand 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 17. 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 3B credit rating.

The Group's maximum exposure to credit risk through balance sheet items at 31 December 2019 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 2019 approximately 20 % 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:

	31.12.2019	31.12.2018
	€000	€000
Cash at bank	10 265	15 936
<b>Total</b>	<b>10 265</b>	<b>15 936</b>

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).

31.12.2019	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	41 845	0	0	0	0	41 845
Shareholder loan	0	0	0	0	0	199 019	199 019
Junior term loan	0	872	728	30 860	0	0	32 460
Lease liabilities	0	431	1 236	1 429	2 432	4	5 533
Trade and other payables	0	51 294	0	0	0	0	51 294
Derivative contracts	0	65	4	0	0	0	69
	<b>0</b>	<b>94 507</b>	<b>1 968</b>	<b>32 288</b>	<b>2 432</b>	<b>199 023</b>	<b>330 219</b>

31.12.2018	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	9 776	9 466	41 845	0	0	61 087
Shareholder loan	0	0	0	0	0	194 972	194 972
Junior term loan	0	856	744	1 600	30 348	0	33 548
Finance leases	0	353	968	1 187	3 356	90	5 954
Trade and other payables	0	56 087	0	0	0	0	56 087
Derivative contracts	0	323	963	0	0	0	1 286
	<b>0</b>	<b>67 396</b>	<b>12 141</b>	<b>44 632</b>	<b>33 704</b>	<b>195 062</b>	<b>352 935</b>

# Notes to the consolidated financial statements

## 16. Inventories

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Materials and supplies	15 738	15 077
Work in progress	552	757
Finished goods	22 528	25 604
<b>Total</b>	<b>38 818</b>	<b>41 437</b>

# Notes to the consolidated financial statements

## 17. Trade and other receivables

	2019	2018
	€000	€000
Trade receivables	9 437	15 567
Accrued income	9 675	9 380
Other receivables	8 406	8 106
<b>Total</b>	<b>27 518</b>	<b>33 053</b>

The most significant items of the other receivables are EUR 3 922 thousand from the Nordic financial institution, VAT receivables EUR 4 143 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.

Expected credit losses of trade receivables are EUR 4 thousand at the year-end.

The Group has recognised total amount of EUR 60 thousand 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 43,7% at year-end. Trade receivables with payment term limiting the customer risk amount to 38,4% at the reporting date. The Group does not obtain collaterals to other receivables. The Group holds contracts of approximately EUR 43,5 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

	2019	2018
	€000	€000
Not due	9 190	13 762
Due		
< 30 days	127	978
30-60 days	61	421
61-90 days	17	100
> 90 days	43	306
<b>Total</b>	<b>9 437</b>	<b>15 567</b>

Note 15. 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

## 18. Cash

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Cash at banks and on hand	10 265	15 936
<b>Total</b>	<b>10 265</b>	<b>15 936</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:

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Cash at banks and on hand	10 265	15 936
<b>Cash</b>	<b>10 265</b>	<b>15 936</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

## 19. Equity

### Changes in share capital

	Number of shares			Share	Reserve for invested non- restricted equity	
	A	B	Total	capital		Total
	(1 000)	(1 000)	(1 000)	€000	€000	€000
<b>1.1.2018</b>	<b>12 282</b>	<b>1 321</b>	<b>13 603</b>	<b>80</b>	<b>13 523</b>	<b>13 603</b>
Share issue	451	67	518	0	1 093	1 093
Share issue, unregistered	0	26	26	0	52	52
<b>31.12.2018</b>	<b>12 732</b>	<b>1 415</b>	<b>14 147</b>	<b>80</b>	<b>14 668</b>	<b>14 748</b>
<b>1.1.2019</b>	<b>12 732</b>	<b>1 415</b>	<b>14 147</b>	<b>80</b>	<b>14 668</b>	<b>14 748</b>
<b>31.12.2019</b>	<b>12 732</b>	<b>1 415</b>	<b>14 147</b>	<b>80</b>	<b>14 668</b>	<b>14 748</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 14.147.182 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 31.12.2019.

The company has issued own serie B shares to certain key employees during 2019 as follows:

Date	Number	Value, EUR
11.2.2019	28 295	56 590
<b>Total</b>	<b>28 295</b>	<b>56 590</b>

### Share issues

On December 20, 2018, the company's Board of Directors unanimously resolved to offer by a directed issue a total of 54,408 class B shares of the company for subscription to certain 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. Of the total amount of class B shares to be issued for subscription, 28,295 shares were shares held by the company and 26,113 shares were new class B shares.

On February 11, 2019, certain key personnel subscribed the maximum amount of 54,408 shares offered for subscription. The subscription price was EUR 2.00 for each share.

### Dividend

During 2019 the Company distributed dividend of aggregate amount of EUR 98.452,27 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 102.251,71.

# Notes to the consolidated financial statements

## 20. Provisions

### **Obligation to buy emission allowances**

The Group has not recognised a provision to cover the obligation to buy emission allowances as the allocated 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 2019 were 244 053 tons. The allocation of emission allowances for the year amounted to 128 207 tons and the amount of purchased allowances in 2019 was 212 316 tons. Emission allowances are returned to the Union registry latest on April 30, 2020.

## Notes to the consolidated financial statements

### 21. 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 16 active employees, 8 employees that have free-form pension and 90 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

	2019	2018
	€000	€000
Present value of funded obligations	4 275	4 057
Fair value of plan assets	-3 600	-3 377
<b>Net defined benefit liabilities</b>	<b>675</b>	<b>680</b>
Pension expenses, defined contribution plans	-5 636	-5 948
Pension expenses, defined benefit plans and other post-employment benefits	67	-29
<b>Expenses included in income statement</b>	<b>-5 569</b>	<b>-5 977</b>
Actuarial gains (+) / losses (-) on defined benefit plans and other post-employment benefits	-14	239
<b>Remeasurements in other comprehensive income</b>	<b>-14</b>	<b>239</b>

#### Changes in the defined benefit obligations:

	Present value of defined benefit obligation	Fair value of plan assets	Total
	€000	€000	€000
<b>31.12.2017</b>	<b>4 630</b>	<b>-3 755</b>	<b>875</b>
Current service cost	131	0	131
Interest cost (+) / income (-)	67	-55	12
The return on plan assets, excluding amounts included in net interest	0	80	80
Actuarial gain (-) / loss (+) arising from changes in financial assumptions	-207	0	-207
Experience adjustment, gain (+) / loss (-)	-112	0	-112
Contributions by employer	0	-99	-99
Benefits paid	-452	452	0
<b>31.12.2018</b>	<b>4 057</b>	<b>-3 377</b>	<b>680</b>
Current service cost	60	0	60
Interest cost (+) / income (-)	68	-57	11
The return on plan assets, excluding amounts included in net interest	0	-551	-551
Actuarial gain (-) / loss (+) arising from changes in financial assumptions	375	0	375
Experience adjustment, gain (+) / loss (-)	189	0	189
Contributions by employer	0	-91	-91
Benefits paid	-475	475	0
<b>31.12.2019</b>	<b>4 275</b>	<b>-3 600</b>	<b>675</b>

**Defined benefit obligation by persons**

	31.12.2019	31.12.2018
	€000	€000
Active employees	623	640
Inactive employees, paid up policies	539	477
Inactive employees, pensions	3 113	2 940
	<u>4 275</u>	<u>4 057</u>

**Significant actuarial assumptions**

	2019	2018
Discount rate	0,77 %	1,77 %
Future salary increases	1,21 %	1,40 %
Future pension cost increase	1,45 %	1,64 %
Inflation	1,21 %	1,40 %

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, 2019:**

Assumption	Change in assumption	Impact on increase in assumption	Impact on decrease in assumption
	0,5%-unit	Obligation decreases	Obligation increases
Discount rate		5,59%	6,2%
	0,50 %	Obligation increases	Obligation decreases
Future salary increases		1,05%	1,05%
	0,50 %	Obligation increases	Obligation decreases
Future pension cost increase		37,69%	35,57%
		<b>Increase by one year</b>	<b>Decrease by one year</b>
Life expectancy		Obligation increases	Obligation decreases
		3,17%	3,07%

**The effect of changes on the defined benefit obligation December 31, 2018:**

Assumption	Change in assumption	Impact on increase in assumption	Impact on decrease in assumption
	0,5%-unit	Obligation decreases	Obligation increases
Discount rate		5,17%	5,71%
	0,50 %	Obligation increases	Obligation decreases
Future salary increases		1,18%	1,18%
	0,50 %	Obligation increases	Obligation decreases
Future pension cost increase		32,67%	30,97%
		<b>Increase by one year</b>	<b>Decrease by one year</b>

	Obligation increases	Obligation decreases
Life expectancy	2,68%	2,61%

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 2019, expected benefits to be paid during 2019 is EUR 88 thousand.

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

	Within one year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	€000	€000	€000	€000
<b>31.12.2019</b>	<b>500</b>	<b>556</b>	<b>779</b>	<b>2 828</b>
31.12.2018	460	499	854	2 997

# Notes to the consolidated financial statements

## 22. Trade and other payables

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Trade payables	27 983	32 323
Accrued expenses	21 547	22 137
Other payables	1 764	1 627
<b>Total</b>	<b>51 294</b>	<b>56 087</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 15. 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 15. Financial risk management.

# Notes to the consolidated financial statements

## 23. Refund liabilities

	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
Annual rebates	950	1 890
Cash discounts	86	58
<b>Yhteensä</b>	<b>1 035</b>	<b>1 948</b>

# Notes to the consolidated financial statements

## 24. Commitments and contingencies

### Operating lease commitments – Group as lessee

IFRS 16 Leases, low-value tangible assets and leases with lease term of less than 12 months

Future minimum lease payments as follows:

	2019	2018
	€000	€000
Within one year	299	247
Between 1 and 5 years	139	153
<b>Total</b>	<b>438</b>	<b>400</b>

The Group has in 2019 recognised as expense total lease payments EUR 549 thousand of operating leases including contingent rents of EUR 185 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 2027 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

	2019	2018
	€000	€000
Securities given on own behalf		
Mortgages	950 000	950 000
Shares of Kotkamills Oy	39 653	39 653
Intercompany loan	175 000	175 000
<b>Total</b>	<b>1 164 653</b>	<b>1 164 653</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 material 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:

### 2019

	Sales	Purchases	Receivables	Liabilities
	€000	€000	€000	€000
Entities with significant influence over the Group	0	0	0	88 745

### 2018

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

### Terms relating to the related party transactions

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

### Management's employee benefits

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

	2019			2018		
	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	250	1 216	1 465	226	986	1 212
Company-paid cars and mobilephones	0	4	4	1	13	14
Bonuses	20	47	67	0	0	0
<b>Total</b>	<b>270</b>	<b>1 266</b>	<b>1536</b>	<b>227</b>	<b>999</b>	<b>1226</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 66 865 in 2019 (EUR 57 113 in 2018).

### Remuneration of the Board of Directors

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

	2019	2018
	€000	€000
The Board members of Kotkamills Oy, remuneration	146	120
<b>Total</b>	<b>146</b>	<b>120</b>

# Notes to the consolidated financial statements

## 26. Events after the reporting period

Kotkamills Group Oyj ("Kotkamills") as parent and, among others, Kotkamills' wholly owned subsidiary Kotkamills Oy as borrower, have entered into a senior facility agreement with a Nordic commercial bank on 28 February 2020 (the "SFA").

Kotkamills used the loan proceeds to repay the remaining outstanding amount (plus accrued interest thereon) of the EUR 105,000,000 Senior Secured Callable Bonds 2015/2020 (ISIN: FI4000148705) (the "Bonds") on 13 March 2020 which was the final redemption date for the Bonds in accordance with the terms and conditions of the Bonds.

Kotkamills Group Oyj has on 13 March 2020 repaid in full the EUR 105,000,000 Senior Secured Callable Bonds due 2015/2020 which were issued on 13 March 2015. In connection with the repayment, the bonds have been delisted. Due to the delisting, Kotkamills is no longer subject to the provisions of the Finnish Securities Market Act regarding reporting, and thus is not anymore obligated to publish stock exchange releases.

# Parent company's financial statements

## KOTKAMILLS GROUP OYJ

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

For the period 1.1.-31.12.2019		1.1.-31.12.2019	1.1.-31.12.2018
	Note	€000	€000
<b>Net Sales</b>	1	<b>720</b>	<b>720</b>
Other operating income	2	0	5
Personnel expenses	3	-519	-452
Depreciation, amortisation and impairments	4	0	-1
Other operating expenses	5	-312	-200
		<b>-832</b>	<b>-648</b>
<b>Operating profit (loss)</b>		<b>-112</b>	<b>72</b>
Financial income and expenses	6	508	115
<b>Profit (loss) before appropriations and taxes</b>		<b>396</b>	<b>187</b>
<b>Profit (loss) for the period</b>		<b>396</b>	<b>187</b>

## KOTKAMILLS GROUP OYJ

## Parent company's balance sheet

31.12.2019

<b>ASSETS</b>	Note	<b>2019</b> €000	<b>2018</b> €000
<b>Non-current assets</b>			
Tangible assets	7	0	0
Investments	8	60 375	39 653
<b>Non-current assets total</b>		<b>60 375</b>	<b>39 653</b>
<b>Current assets</b>			
Long-term receivables			
Loan receivable	9	175 000	190 000
Short-term receivables			
Current receivables	10	1 229	12 781
Cash and bank		78	426
<b>Current assets total</b>		<b>176 307</b>	<b>203 207</b>
		<b>236 682</b>	<b>242 860</b>

**EQUITY AND LIABILITIES**

<b>Equity</b>	11		
Share capital		80	80
Reserve for invested non-restricted equity		14 668	14 668
Retained earnings		-1 072	-1 161
Profit (loss) for the period		396	187
<b>Equity total</b>		<b>14 072</b>	<b>13 774</b>
<b>Liabilities</b>			
Non-current liabilities	12	174 409	206 884
Current liabilities	13	48 201	22 202
<b>Liabilities total</b>		<b>222 610</b>	<b>229 086</b>
		<b>236 682</b>	<b>242 860</b>

## KOTKAMILLS GROUP OYJ

## Parent company's cash flow statement

For the period 1.1.-31.12.2019

	1.1.-31.12.2019	1.1.-31.12.2018
	€000	€000
<b>Cash flow from operating activities</b>		
Profit (loss) before taxes	396	187
Adjustments for		
Depreciation, amortisation and impairment	0	1
Tangible assets sales profit	0	-5
Financial income and expenses	-508	-115
Changes in working capital:		
Change in current assets, non-interest bearing gain(-)/loss(+)	86	-71
Change in current liabilities, non-interest bearing gain(+)/loss(-)	42	51
Cash flow from operating activities before financial items and taxes	17	48
Interest received from operating activities	5 620	14 400
Interest paid and financial expenses paid for operating activities	-5 888	-5 530
<b>Cash flow from operating activities (A)</b>	<b>-251</b>	<b>8 918</b>
<b>Cash flow from investing activities</b>		
Tangible and intangible assets sales profit	0	18
Change in non-current receivables	15 000	0
<b>Cash flow from investing activities (B)</b>	<b>15 000</b>	<b>18</b>
<b>Cash flow from financing activities</b>		
Dividend paid	-98	-90
Proceeds from long-term loans	0	5 000
Repayment of long-term loans	-14 998	-14 998
Proceeds from investments in invested non-restricted equity	0	1 145
<b>Cash flow from financing activities (C)</b>	<b>-15 097</b>	<b>-8 943</b>
<b>Change in cash and cash equivalents (A+B+C)</b>	<b>-348</b>	<b>-7</b>
Cash and cash equivalents at beginning of period	426	433
Cash and cash equivalents at end of period	78	426

## KOTKAMILLS GROUP OYJ

# Notes to the parent company's financial statements

### 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	2019	2018
	€000	€000

**1 Sales by segment**

EU	720	720
Sales, total	<b>720</b>	<b>720</b>

**2 Other operating income**

Other operating income	0	5
Other operating income, total	<b>0</b>	<b>5</b>

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

Wages and salaries	435	381
Pension costs	72	66
Other personnel expenses	13	5
Personnel expenses, total	<b>520</b>	<b>452</b>

Wages and salaries paid by the Group to managing director during the reporting period.	<b>270</b>	<b>227</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	0	1
Depreciation and amortisation, total	<b>0</b>	<b>1</b>

**5 Other operating expenses**

Consulting services	99	28
Administrative services and facility services	21	13
Audit services	76	75
Insurance fees	7	9
Other operating expenses	109	76
Other operating expenses, total	<b>312</b>	<b>200</b>

<b>Notes to the statement of profit and loss</b>	<b>2019</b>	<b>2018</b>
	<b>€000</b>	<b>€000</b>
<b>5.1. Auditors' fees</b>		
Ernst & Young Oy		
Audit fees	67	44
Other services	9	31
<b>Audit fees, total</b>	<b>76</b>	<b>75</b>
<b>6 Financial income and expenses</b>		
Other interest income		
From Group companies	14 876	15 675
<b>Interest income, total</b>	<b>14 876</b>	<b>15 675</b>
Interest expenses and other financial expenses		
To others	-14 368	-15 560
<b>Interest expenses and other financial expenses, total</b>	<b>-14 368</b>	<b>-15 560</b>
<b>Financial income and expenses, total</b>	<b>508</b>	<b>115</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	2019	2018
	€000	€000

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

Acquisition cost, beginning of period	0	31
Disposals	0	-13
Acquisition cost, end of period	0	18
Accumulated depreciation	0	-17
Depreciation	0	-1
Book value 31.12.	0	0
<b>Tangible assets, total</b>	<b>0</b>	<b>0</b>

**8 Investments****Shares in group companies**

Acquisition cost 1.1.	39 653	39 653
Increase	20 721	0
Acquisition cost 31.12.	60 375	39 653
Book value 31.12.	60 375	39 653
<b>Investments, total</b>	<b>60 375</b>	<b>39 653</b>

**Current assets****9 Long-term receivables**

Receivables from Group companies	175 000	190 000
Total	175 000	190 000
<b>Long-term receivables, total</b>	<b>175 000</b>	<b>190 000</b>

**10 Short-term receivables**

Receivables from Group companies		
Accounts receivable	0	74
Prepayments and accrued income	1 226	12 691
Total	1 226	12 766

Receivables from other companies		
Prepayments and accrued income	3	15
Yhteensä	3	15

<b>Short-term receivables, total</b>	<b>1 229</b>	<b>12 781</b>
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Significant items included in prepaid and accrued income		
Prepaid and accrued interest, Group	1 226	12 691
Prepayments and accrued income	3	15
Total	1 229	12 706

## KOTKAMILLS GROUP OYJ

## Notes to parent company's financial statements

Notes to parent company's balance sheet	2019	2018
	€000	€000

## 11 Equity

**Restricted equity**

Share capital 1.1.	80	80
Share capital 31.12.	80	80

<b>Restricted equity, total</b>	<b>80</b>	<b>80</b>
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**Non-restricted equity**

Reserve for invested non-restricted equity 1.1.	14 668	13 523
Increase	0	1 093
Increase, not registered	0	52

Reserve for invested non-restricted equity 31.12.	14 668	14 668
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Retained earnings 1.1.	-974	-1 071
Dividend paid	-98	-90

Retained earnings 31.12.	-1 072	-1 161
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Profit (loss) for the financial year	396	187
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<b>Non-restricted equity, total</b>	<b>13 992</b>	<b>13 694</b>
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<b>Equity, total</b>	<b>14 072</b>	<b>13 774</b>
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## Calculation of Distributable equity 31.12.

Reserve for invested non-restricted equity	14 668	14 668
Retained earnings	-1 072	-1 161
Profit (loss) for the financial year	396	187

Total	13 992	13 694
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<b>Non-restricted equity, total</b>	<b>13 992</b>	<b>13 694</b>
-------------------------------------	---------------	---------------

## 12 Non-current liabilities

From others		
Bond	0	40 186
Junior loan	21 088	20 719
Other liabilities		
Other non-current liabilities	153 321	145 979
Total	174 409	206 884

<b>Non-current liabilities, total</b>	<b>174 409</b>	<b>206 884</b>
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Notes to parent company's balance sheet	2019 €000	2018 €000
<b>13 Current liabilities</b>		
Liabilities to other parties		
Bond	40 188	15 000
Accounts payable	17	23
Other liabilities	39	36
Accruals	7 957	7 143
Total	48 201	22 202
<b>Current liabilities, total</b>	<b>48 201</b>	<b>22 202</b>
Significant items included in accruals		
Interest expenses	7 779	7 010
Accrued personnel expenses	136	113
Other accrued liabilities	42	20
Total	7 957	7 143

Notes	2019 €000	2018 €000
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#### Guarantees and contingent liabilities

##### Liabilities guaranteed with a pledge

Bond	105 000	105 000
Junior bond	20 000	20 000

##### Pledged assets (book value)

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 24th, 2020

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 24th, 2020

Ernst & Young Oy  
Accounting 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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