

Kotkamills Group Oyj

INTERIM REPORT

01.01. - 30.06.2016

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Interim report 01.01.-30.06.2016

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Kotkamills Group Oyj's Interim Report January 1– June 30, 2016

1. Events during April-June 2016

The conversion project of paper machine 2 to board machine continued in the second quarter of 2016. The delivery of the magazine paper will continue until the third quarter in 2016.

Demand of Industrial Products segment's products continued to stay at a good level. Consumer Boards had no deliveries during the reporting period.

On May 20, 2016 the Company informed, that Kotkamills Oy has signed a contract of approximately EUR 20 million with a Nordic financial institution concerning sale of trade receivables of the company to the financial institution (on an ongoing, non-recourse basis on customary market terms). The entry into the transaction is expected to increase the efficiency of the Kotkamills Group's working capital management.

On June 9, the Company informed, that it estimates that the total costs of the Board Machine project to be ca. 170 MEUR instead of the earlier estimation of 155 MEUR. The difference is mainly coming from civil and piping works and the slightly delayed start-up date.

2. Key performance indicators

Due to new group structure since March 2015, stopping Magazine paper production in January 2016 and preparations of entering into new Consumer Boards business different quarters (like Q2/2016 versus Q2/2015) are not fully comparable.

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

Q2/2016 (compared with Q2/2015)

The Group's revenue of continuing operations of EUR 49,5 million (EUR 49,1 million) was at the same level than a year ago.

The operating profit of continuing operations of EUR -6,1 million (EUR 0,6 million) was effected by annual maintenance shutdown (in 2015 maintenance shutdown in August) and fixed costs of Consumer Boards (no production nor deliveries in Q2 2016).

Cash flow from operating activities of EUR 23,8 million (EUR -5,5 million) was supported by both releasing working capital of stopped Magazine business and lower product inventories and trade receivables of continuing operations due to maintenance shutdown. Cash flow from investing activities was EUR -65,9 million (EUR -19,9 million) of which the largest investment was conversion project of the paper machine 2 to board machine.

Q1-Q2/2016 (compared with Q1-Q2/2015)

The Group's revenue of continuing operations of EUR 100,5 million (EUR 49,1 million) increased clearly because Q1/2015 does not include business activities of continuing operations (Kotkamills Group Oyj became the parent company on 24 March 2015, when the Company acquired the entire share capital of Kotkamills Oy).

The operating profit of continuing operations of EUR -8,2 million (EUR 29,4 million) was clearly lower due to maintenance shutdown in May 2016 (in 2015 in August), increased fixed costs of Consumer Boards and in Q1 2015 recognized gain, i.e. negative goodwill, of EUR 30,5 million on the acquisition of Kotkamills Oy.

Cash flow from operating activities of EUR 6,3 million (EUR -13,5 million) was supported by both releasing working capital of stopped Magazine business and lower product inventories and trade receivables of continuing operations due to maintenance shutdown. Cash flow from investing activities was EUR -96,9 million (EUR -52,6 million) of which the largest investment was conversion project of the paper machine 2 to board machine.

	2016	2015	2016	2015	2015
	1.4.-30.6	1.4.-30.6	1.1.-30.6	13.2.-30.6	13.2.-31.12
Continuing operations					
Revenue, EUR million	49,5	49,1	100,5	49,1	146,4
EBITDA, EUR million	-4,7	1,9	-5,4	30,7	46,0
Operating profit, EUR million	-6,1	0,6	-8,2	29,4	40,9
Operating profit / Revenue (%)	-12,3	1,2	-8,2	59,7	27,9
Group Total					
Return on equity (%)	-37,1	-4,3	-57,2	117,4	122,4
Equity ratio (%)	7,8	12,5	7,8	12,5	13,1
Equity ratio, adjusted (%)*	41,8	44,7	41,8	44,7	44,3

*Equity includes shareholder loans

The Group monitors capital using an equity ratio and an adjusted equity ratio based on the financial covenants, which is total equity added with shareholder loan and divided by total assets. The Group's policy is to keep the adjusted equity ratio above 30%. There have been no breaches of the financial covenants of equity ratio in the current period.

3. Events after reporting date

On July 5, 2016, the Company informed, that it has utilized the EUR 20 million junior loan facility to complete the board machine conversion project. The summary of the material terms of the equity hybrid loan is presented in the listing prospectus available in the company website (www.kotkamills.com/fi/kotkamillsgroup/keyfinancials).

On July 22, 2016, the Company informed, that the new consumer board machine BM2 of Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has started production in Kotka, Finland. A range of folding boxboards will be produced under the brand name AEGLE and a range of food service boards under the brand name ISLA. BM2 has the capability to produce dispersion barrier coatings directly on the machine, producing barrier boards that can be recycled with normal paper waste due to having zero plastic content.

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

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

On July 27, 2016 the Company informed, that The shareholders of Kotkamills Group Oyj have on 27.7.2016 unanimously resolved to offer by a directed issue a maximum of 1,406,277 new series A shares (the "New A Shares") of the company for subscription to the holders of series A shares pro rata to their holding of series A shares and a maximum of 153,128 new series B shares (together with the New A Shares, the "New Shares") of the company for subscription to the holders of series B shares pro rata to their holding of series B shares. The subscription period expires on 24 August 2016. The New Shares represent in aggregate approximately 15.59 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 3,125 new series B shares as part of the company's share ownership program in deviation from the shareholders' pre-emptive subscription rights.

The subscription price for each New Share is EUR 1.00 and the aggregate subscription price for the New Shares is EUR 1,559,405. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares are in connection with their participation in the share issue required to grant shareholder loans to the company up to the aggregate amount of EUR 13,437,470. The terms of such shareholder loans would in material respects be equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans is to strengthen the company's cash position at the time of the start of the new board machine to fully utilise increased sales potential resulting from the start. As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj would obtain financing in the aggregate amount of EUR 15,000,000 assuming subscription of the New Shares in full.

If all New Shares are not subscribed based on the primary subscription rights, the board of directors is authorised to resolve on the secondary subscription right, the subscription period and the payment of subscription price of any shares not subscribed.

On August 26 the Company informed, that The holders of series A shares subscribed the maximum amount of 1,406,277 New A Shares offered for subscription on the directed issue of the company and the holders of series B shares subscribed 131,252 of the total 153,128 New B Shares offered for subscription on the directed issue of the company. The subscribed New Shares represent in aggregate approximately 13.33 per cent of the total number of the shares in the company.

The subscription price for each New Share is EUR 1.00 and the aggregate subscription price for the New Shares is EUR 1,537,529. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 13,437,470. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj will obtain financing in the aggregate amount of EUR 14,974,999.

4. Outlook for 2016

The revenue and the profit for the third quarter of 2016 is estimated to improve from the previous quarter although the start-up costs of the new board machine and Consumer Boards business are estimated to have negative effect on the profit of the third quarter.

Markets of the other continuing operations' businesses are expected to be at least at the same level as in the last year, but ongoing uncertain economic situation in Europe and geopolitical risks may have weakening impact on demand.

Present energy price levels are expected to support the Group's performance, but possible increases in raw material prices could adversely impact the Group's profit development.

5. Near-term risk review

There has not occurred material changes in near-term risks and uncertainties disclosed in the annual financial statement of 2015. The annual financial statement of 2015 is available on the Company's website at www.kotkamills.com/fi/kotkamillsgroup/keyfinancials.

Consolidated statement of profit or loss

For the period 01.01.-30.06.2016

	01.04.- 30.6.2016	01.04.- 30.6.2015	01.01.- 30.6.2016	13.02.- 30.6.2015	13.02.- 31.12.2015
	€000	€000	€000	€000	€000
Continuing operations					
Revenue	49 504	49 142	100 503	49 142	146 375
Other operating income	177	162	249	30 676	30 896
Change in inventories of finished goods and work in progress	-1 246	1 653	-1 343	1 653	-3 384
Production for own use	575	120	1 063	120	594
Materials and supplies	-34 765	-35 859	-69 904	-35 859	-87 923
Employee benefit expenses	-11 402	-6 806	-20 602	-6 806	-20 889
Depreciation and amortisation	-1 438	-1 306	-2 825	-1 306	-5 170
Other operating expenses	-7 510	-6 540	-15 348	-8 262	-19 624
Total expenses	-55 786	-48 738	-108 960	-50 460	-136 396
Operating profit	-6 105	566	-8 208	29 358	40 876
Financial income	918	6 378	1 815	6 378	5 145
Financial expenses	-4 022	-6 957	-8 427	-9 090	-15 563
	-3 103	-579	-6 611	-2 712	-10 418
Profit before taxes	-9 209	-13	-14 820	26 646	30 458
Income taxes	-158	-150	-270	-150	-273
Deferred taxes	11	282	-558	282	937
Profit (loss) for the period from continuing operatios	-9 356	120	-15 648	26 779	31 122
Discontinued operations					
Profit (loss) after tax for the period from discontinued operations	-391	-1 610	-1 308	-1 610	-2 448
Profit (loss) for the period	-9 747	-1 490	-16 956	25 169	28 674

Consolidated statement of other comprehensive income

For the period 01.01.-30.06.2016

	01.04.- 30.6.2016	01.04.- 30.6.2015	01.01.- 30.6.2016	13.02.- 30.6.2015	13.02.- 31.12.2015
	€000	€000	€000	€000	€000
Profit (loss) for the period	-9 747	-1 490	-16 956	25 169	28 674
Other comprehensive income items:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Translation differences	-28	-287	463	-287	-863
Net other comprehensive income to be reclassified to profit or loss in subsequent periods after taxes	-28	-287	463	-287	-863
Other comprehensive income not to be reclassified to profit or loss in subsequent periods					
Actuarial gains (+) / losses (-) on defined benefit plans	0	0	0	0	93
Income taxes	0	0	0	0	-18
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods after taxes	0	0	0	0	75
Other comprehensive income for the period, net of tax	-28	-287	463	-287	-788
Total comprehensive income for the period, net of tax	-9 775	-1 777	-16 493	24 882	27 886

Consolidated statement of financial position

30.6.2016

	30.6.2016	31.12.2015	30.6.2015
	€000	€000	€000
Assets			
Non-current assets			
Property, plant and equipment	177 745	85 915	51 059
Other intangible assets	15 609	16 432	17 976
Investments	20	20	20
Non-current financial assets	576	526	543
	193 950	102 893	69 598
Current assets			
Inventories	28 317	39 971	37 450
Trade and other receivables	36 783	41 144	44 278
Other financial assets	1 374	1 698	1 593
Cash	12 369	103 157	118 170
	78 842	185 970	201 490
Total assets	272 793	288 863	271 089

Consolidated statement of financial position

30.6.2016

	30.6.2016	31.12.2015	30.6.2015
	€000	€000	€000
Equity and liabilities			
Equity			
Share capital	80	3	3
Reserve for invested non-restricted equity	9 920	9 978	8 998
Retained earnings	11 393	27 886	24 882
Total equity	21 393	37 866	33 882
Non-current liabilities			
Interest bearing loans and borrowings	181 615	185 985	189 067
Other non-current financial liabilities	21	63	11
Provisions	35	133	343
Pension obligations	715	712	745
Deferred tax liabilities	1 409	845	1 460
	183 795	187 738	191 626
Current liabilities			
Trade and other payables	49 761	52 910	41 439
Interest bearing liabilities	14 564	7 052	0
Other current financial liabilities	3 280	3 297	4 142
	67 605	63 259	45 580
Total liabilities	251 400	250 998	237 207
Total shareholders' equity and liabilities	272 793	288 863	271 089

Consolidated statement of changes in equity

30.6.2016

€000	Share capital	Reserve for invested non- restricted equity	Retained earnings	Total equity
Equity as at 13.2.2015	3	0	0	3
Other comprehensive income				
Profit (loss) for the period	0	0	25 169	25 169
Other comprehensive income items (net of tax)				
Translation differences	0	0	-287	-287
Total comprehensive income	3	0	24 882	24 885
Transactions with shareholders				
Share issue	0	8 998	0	8 998
Total transactions with shareholders	0	8 998	0	8 998
Equity as at 30.6.2015	3	8 998	24 882	33 882
Equity as at 01.01.2016	3	9 978	27 886	37 866
Other comprehensive income				
Profit (loss) for the period	0	0	-16 956	-16 956
Other comprehensive income items (net of tax)				
Translation differences	0	0	463	463
Actuarial gains (+) / losses (-) on defined benefit plans				0
Total comprehensive income	3	9 978	11 393	21 373
Transactions with shareholders				
Share issue	0	20	0	20
Increase in share capital	78	-78	0	0
Total transactions with shareholders	78	-58	0	20
Equity as at 30.06.2016	80	9 920	11 393	21 393

Consolidated statement of cash flows

For the period 01.01.-30.06.2016

	01.04.- 30.6.2016	01.04.- 30.6.2015	01.01.- 30.6.2016	13.02.- 30.6.2015	13.02.- 31.12.2015
	€000	€000	€000	€000	€000
Cash flows from operating activities					
Profit (loss) for the period	-9 600	-1 622	-16 127	25 037	28 010
Adjustments:					
Transactions without payments	654	783	455	-56	752
Depreciation	1 136	1 398	2 874	1 398	5 443
Interest expenses and other financial expenses	4 022	6 957	8 427	9 090	15 563
Interest income	-918	-6 378	-1 815	-6 378	-5 145
Defined benefit plans, net	0	0	0	0	28
Other	0	917	0	-29 828	-38 205
	4 893	3 678	9 941	-25 774	-21 564
Change in working capital:					
Change in trade and other receivables	6 820	-1 597	4 361	-1789	1 345
Change in inventories	5 679	-2 844	11 654	-2 844	-1 284
Change in trade and other payables*	16 255	-2 526	1 347	-3 816	-3 908
Interests, paid	-80	-251	-4 602	-2052	-6 549
Interests, received	5	4	11	4	187
Other payments	0	-237	0	-2111	-2 111
Taxes, paid	-158	-150	-270	-150	-273
	28 521	-7 600	12 500	-12 758	-12 593
Net cash flows from operating activities (A)	23 814	-5 544	6 313	-13 495	-6 146
Cash flows from investing activities					
Acquisition of subsidiaries, net of cash	0	0	0	-32 815	-32 815
Investments in property, plant and equipment*	-65 919	-19 772	-96 873	-19 772	-42 923
Purchase of own shares	-5	0	-20	0	0
Change in non-current financial assets	-14	0	-14	0	0
Net cash flows from investing activities (B)	-65 938	-19 772	-96 907	-52 587	-75 739
Cash flows from financing activities					
Paid share capital	0	0	0	3	3
Proceeds received related to share issue	0	0	20	8 998	9 978
Proceeds from loans and borrowings	0	0	0	191 000	191 000
Repayment of loans and borrowings	0	0	0	-15 648	-15 648
Repayment of financial leases	-85	-100	-185	-100	-291
Dividends, paid	-30	0	-30	0	0
Net cash flows from financing activities (C)	-115	-100	-195	184 252	185 041
Change in cash (A+B+C)	-42 239	-25 416	-90 788	118 169	103 157
Cash and short term deposits at beginning of period	54 608	143 586	103 157	0	0
Cash and short term deposits at the end of period	12 369	118 170	12 369	118 170	103 157

*Reclassification of trade payables of 13.2.2015-31.12.2015 between Change in trade and other payables EUR - 3 908 thousand (earlier EUR 8 831 thousand in Annual report 2015) and Investments in property, plant and equipment EUR -42 923 thousand (earlier EUR -55 662 thousand) has been done in connection of Q1/16 reporting.

Notes to the interim report

1. Accounting principles for the interim report

This Interim Report has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Interim Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The accounting policies adopted in the preparation of the Interim Report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015

This interim report is unaudited.

Notes to the interim report

2. Segment information

	Continuing operations			Discontinued operations	
	Consumer Boards	Industrial Products	Adjustments	Total continuing operations	Magazine Papers
01.04.-30.6.2016	€000	€000	€000	€000	€000
Revenue					
External customers	0	48 262	0	48 262	6 259
Inter-segment	0	0	0	0	0
Total revenue	0	48 262	0	48 262	6 259
Depreciation and amortisation	-38	-504	0	-542	-15
Segment operating profit	-8 471	2 964	0	-5 507	-391

	Consumer Boards	Industrial Products	Adjustments	Total	Magazine Papers
	€000	€000	€000	€000	€000
Revenue					
External customers	0	47 032	0	47 032	19 931
Inter-segment	0	1 312	-1 404	-92	92
Total revenue	0	48 344	-1 404	46 940	20 023
Depreciation and amortisation	0	-422	0	-422	-93
Segment operating profit	-338	4 215	0	3 877	-1 610

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

Reconciliation of revenue

	01.04.- 30.6.2016	01.04.- 30.6.2015	13.02.- 31.12.2015
	€000	€000	€000
Revenue			
Total segment revenue	48 262	46 940	142 135
Items not allocated to segments			
Sales of energy	954	648	1 739
Other and exchange rate differences	400	-61	-745
Total unallocated items	1 354	587	994
IFRS adjustments	-112	1615	3 247
Group's total revenue	49 504	49 142	146 375

Reconciliation of profit

	01.04.- 30.6.2016	01.04.- 30.6.2015	13.02.- 31.12.2015
	€000	€000	€000
Operating profit			
Segment operating profit	-5 507	3 877	15 631
Items not allocated to segments			
Unallocated administrative expenses	-16	-496	-452
Unallocated non-recurring items related to the business combination	0	-852	-2 574
Total unallocated items	-16	-1348	-3026
Gain from bargain purchase	0	0	30 514
Other IFRS adjustments	-582	-1964	-2 243
Group's total operating profit	-6 105	566	40 876

Notes to the interim report

3. Discontinued operations

According to the plan, the production of magazine paper was discontinued on January 23, 2016 and the conversion of paper machine 2 to board machine began. The delivery of the magazine paper is expected to continue until the third quarter in 2016.

The business of Magazine Papers was classified as a discontinued operation on January 23, 2016. The business represented the entirety of the Group's Magazine Papers operating segment until the production was discontinued on January 23, 2016.

The net result of the business of Magazine Papers is presented in the statement of profit or loss under

"Profit (loss) from discontinued operations" separately from continuing operations for all periods presented.

The results of discontinued operations for the period are presented below:

	<u>1.4.-30.6.2016</u>	<u>1.4.-30.6.2015</u>
	<u>€000</u>	<u>€000</u>
Revenue	6 261	20 037
Expenses	-6 652	-21 647
Operating profit	-391	-1 610
Profit (loss) before tax from discontinued operations	-391	-1 610
Profit (loss) after tax for the period from discontinued operations	-391	-1 610
Total profit before tax		
Profit (loss) before tax from discontinued operations	-391	-1 610
Total	-391	-1 610

Net cash flow of the discontinued operations:

	<u>1.4.-30.6.2016</u>	<u>1.4.-30.6.2015</u>
	<u>€000</u>	<u>€000</u>
Operating	6 440	-4846
Investing	851	-88
Net cash flow	7 291	-4935

The statement of financial position 30.6.2016 includes the following items related to the discontinued operations:

Trade receivables EUR 3 005 thousand and other receivables EUR 32 thousand, inventories EUR 742 thousand, account payables EUR -240 thousand and other liabilities EUR 570 thousand.

Notes to the interim report

4. Changes in property, plant and equipment

	Land and water areas	Buildings and constructions	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total
	€000	€000	€000	€000	€000	€000
Acquisition cost						
31.12.2015	759	2 529	31 730	53 703	384	89 105
Additions	0	42	804	93 618	0	94 463
Transfers	0	0	0	-607	0	-607
Exchange differences	0	64	137	0	0	201
30.6.2016	759	2 636	32 671	146 714	384	183 163
Depreciation and impairment						
31.12.2015	0	303	2 822	0	65	3 190
Depreciation charge for the year	0	75	1 808	0	43	1 926
Disposals	0	0	302	0	0	302
30.6.2016	0	378	4 932	0	108	5 418
Carrying amount						
30.6.2016	759	2 258	27 739	146 714	276	177 745

Notes to the interim report

5. Financial assets and liabilities

Financial assets	30.6.2016	30.6.2016	31.12.2015	31.12.2015	Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
Financial assets at fair value through profit or loss					
Financial assets held for trading					
Foreign currency derivatives	722	722	556	556	2
Commodity derivatives	689	689	1 142	1 142	2
Total	1 411	1 411	1 698	1 698	
Total financial assets at fair value through profit or loss	1 411	1 411	1 698	1 698	
Loans and other receivables					
Trade receivables	20 080	20 080	26 190	26 190	
Cash	12 369	12 369	103 157	103 157	
Total	32 449	32 449	129 347	129 347	
Total financial assets	33 860	33 860	131 045	131 045	
Total non-current					
Non-current financial assets	576	576	526		

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	30.6.2016	30.6.2016	31.12.2015	31.12.2015	Level of hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
	€000	€000	€000	€000	
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading					
Foreign currency derivatives	563	563	425	425	2
Commodity derivatives	1 596	1 596	1 619	1 619	2
Total	2 159	2 159	2 045	2 045	
Financial liabilities measured at amortised cost					
Bond	103 628	103 628	103 067	103 067	
Shareholder loan	92 550	92 550	89 970	89 970	
Trade payables	33 357	33 357	36 329	36 329	
Total	229 536	229 536	229 366	229 366	
Total financial liabilities	231 694	231 694	231 411	231 411	
Financial liabilities held for trading	20	20	63	63	
Bond	89 064	89 064	96 014	96 014	
Shareholder loan	92 550	92 550	89 970	89 970	
Total non-current	181 635	181 635	186 048	186 048	
Financial liabilities held for trading	2 139	2 139	1 982	1 982	
Bond	14 564	14 564	7 052	7 052	
Trade payables	33 357	33 357	36 329	36 329	
Total current	50 060	50 060	45 363	45 363	

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

Fair value measurement hierarchy for financial assets and liabilities measured at fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1 that, however, are observable for the asset or liability, either directly or indirectly.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability, which are to a significant extent based on management's judgement and use of the assumptions as inputs for widely used valuation techniques.

There were no transfers between Level 1 and Level 2 during Q2 / 2016.

Notes to the interim report

6. Commitments and contingencies

	30.6.2016	31.12.2015
	€000	€000
Operating lease commitments		
Operating leases, within one year	335	188
Operating leases, more than one year	430	192
Guarantees		
Securities given on own behalf		
Mortgages	750 000	750 000
Shares of Kotkamills Oy	39 653	39 653
Total	944 653	944 653

Litigations and disputes

In a pending litigation a claimant claims Kotkamills Oy for compensation of EUR 190 thousand for termination of an agent contract. The legal action has been taken in Turkey and the claimant has based its claim on Turkish law. The court has dismissed the lawsuit based on the grounds that it lacks competence since the parties have agreed to settle all disputes arising out of the agency agreement by arbitration. The claimant appealed the decision of the court of first instance with a petition dated 19 April 2016 and hence, the lawsuit file has been sent to the Court of Appeals on 15.6.2016 for review. Kotkamills Oy has not recognised any provision because of the claim.

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

Disputes

At the closing date the Company didn't have any unsettled contractual dispute.

The dispute where Kotkamills Oy has claimed for payments totalling to about EUR 150 thousand (at 31.12.2015 EUR 260 thousand) according to credit note related to deliveries of by-products has been settled in the negotiations between the counterparties.

Notes to the interim report

7. Related party transactions

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

	30.6.2016			
	Sales	Purchases	Receivables	Liabilities
	€000	€000	€000	€000
Entities with significant influence over the Group				53 629

Terms relating to the related party transactions

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

Notes to the interim report

8. Events after the reporting period

On July 5, 2016, the Company informed, that it has utilized the EUR 20 million junior loan facility to complete the board machine conversion project. The summary of the material terms of the equity hybrid loan is presented in the listing prospectus available in the company website (www.kotkamills.com/fi/kotkamillsgroup/keyfinancials).

On July 22, 2016, the Company informed, that the new consumer board machine BM2 of Kotkamills Oy, the subsidiary of Kotkamills Group Oyj, has started production in Kotka, Finland. A range of folding boxboards will be produced under the brand name AEGLE and a range of food service boards under the brand name ISLA. BM2 has the capability to produce dispersion barrier coatings directly on the machine, producing barrier boards that can be recycled with normal paper waste due to having zero plastic content.

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

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

On July 27, 2016 the Company informed, that The shareholders of Kotkamills Group Oyj have on 27.7.2016 unanimously resolved to offer by a directed issue a maximum of 1,406,277 new series A shares (the "New A Shares") of the company for subscription to the holders of series A shares pro rata to their holding of series A shares and a maximum of 153,128 new series B shares (together with the New A Shares, the "New Shares") of the company for subscription to the holders of series B shares pro rata to their holding of series B shares. The subscription period expires on 24 August 2016. The New Shares represent in aggregate approximately 15.59 per cent of the existing shares in the company. In addition, the board of directors was authorised to issue a maximum of 3,125 new series B shares as part of the company's share ownership program in deviation from the shareholders' pre-emptive subscription rights.

The subscription price for each New Share is EUR 1.00 and the aggregate subscription price for the New Shares is EUR 1,559,405. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares are in connection with their participation in the share issue required to grant shareholder loans to the company up to the aggregate amount of EUR 13,437,470. The terms of such shareholder loans would in material respects be equivalent to the terms of the existing shareholder loans.

The purpose of the share issue and the utilisation of the shareholder loans is to strengthen the company's cash position at the time of the start of the new board machine to fully utilise increased sales potential resulting from the start. As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj would obtain financing in the aggregate amount of EUR 15,000,000 assuming subscription of the New Shares in full.

If all New Shares are not subscribed based on the primary subscription rights, the board of directors is authorised to resolve on the secondary subscription right, the subscription period and the payment of subscription price of any shares not subscribed.

On August 26 the Company informed, that The holders of series A shares subscribed the maximum amount of 1,406,277 New A Shares offered for subscription on the directed issue of the company and the holders of series B shares subscribed 131,252 of the total 153,128 New B Shares offered for subscription on the directed issue of the company. The subscribed New Shares represent in aggregate approximately 13.33 per cent of the total number of the shares in the company.

The subscription price for each New Share is EUR 1.00 and the aggregate subscription price for the New Shares is EUR 1,537,529. Pursuant to the terms of the share issue of the New A Shares, the holders of series A shares granted in connection with their participation in the share issue shareholder loans to the company in the aggregate amount of EUR 13,437,470. The terms of the shareholder loans are in material respects equivalent to the terms of the existing shareholder loans.

As a result of the share issue and the utilisation of the new shareholder loans, Kotkamills Group Oyj will obtain financing in the aggregate amount of EUR 14,974,999.