KOSKITUKKI OY
FINANCIAL STATEMENTS
31 DECEMBER 2019

(Unofficial translation of Finnish original)

KOSKITUKKI OY

Business ID 0148241-9

FINANCIAL STATEMENTS 31 DECEMBER 2019

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KOSKITUKKI OY

THE BOARD OF DIRECTOR'S ANNUAL REPORT 1 JANUARY–31 DECEMBER 2019

Koskitukki Oy is the parent company of the Koskitukki Group. The Group comprises the following companies: Koskisen Oy, Kosava-Kiinteistöt Oy, OOO Koskiles, OOO Koskisilva and Koskisen Sp. z o.o. Koskitukki Oy is responsible for the Group's wood procurement and produces joint Group services for the needs of the business units.

The sales agencies are located in the following countries: China, Estonia, France, Germany, the Netherlands, Poland, Portugal, Spain, Sweden and the United Kingdom.

During the year under review, global economic growth continued, but both economic and political uncertainty increased significantly. The prolonged disagreement between the USA and China continued to have a negative impact on trade relations between the two countries. This decreased the level of industrial production, particularly in China, and was, therefore, reflected negatively in the world economy through the reduced demand for essential imported industrial raw materials.

On the other hand, increased protectionism supported the USA's own economy, which continued to grow strongly driven by domestic demand. In Europe, growth declined significantly during the year under review, when especially China's slowing demand and the increased uncertainty in the European Economic Area began to affect the economic outlook. The prolonged uncertainty in the Brexit negotiations in the UK contributed to the prospects for consumers and businesses and, thereby, to the demand for consumer goods and capital goods in the UK as well as elsewhere in Europe.

In 2019, the Koskitukki Group's business and product market environment was twofold. Environmental awareness and the debate on the wider use of wood increased significantly. This had a positive impact especially in wood construction on Koskisen's key markets, where the demand for sawn timber remained at the level of 2018. By contrast, the demand for plywood products on the Group's main markets in Europe weakened. In the plywood industry, the development of demand between the different segments differed significantly. The heavy-duty trailer industry, in particular, suffered from a shortage of orders. On the other hand, the construction, which remained at a good level, also supported the demand for plywood products in the segment.

The prices of the Group's main raw materials for production fell slightly from the very high levels of the previous year. However, the raw material price was not flexible in relation to the decrease in the prices of the final products and, therefore, only partially compensated for the lost profitability.

The development of the Group's panel industry was twofold. Demand for chipboard was strong, especially in the second half of the financial period. The profitability of the chipboard business was significantly weakened by the price of the main raw material, sawdust, which was considerably higher than in the comparison period. The revenue and result of the chipboard business were as expected, although weaker than in the previous year. The prolonged shortage of orders in the plywood industry, which began at the end of the previous year, continued. During the financial period, this led to layoffs in connection with the summer holidays and, later in the autumn, to the decision to adjust the production permanently. The operating time in the plywood industry was changed from uninterrupted three-shift work to five-day three-shift work for the main parts. The adjustment measures were carried out in the fourth quarter, when the non-recurring costs of the adjustment were also fully entered in the result. Revenue in the plywood industry was on level with the comparison period, but below expectations. The operating result was better than in the previous year, but clearly fell short of the targets set. During the financial period, the panel industry started an extensive programme to improve the efficiency of work, quality, raw material acquisition and quality, which will continue in 2020. The programme has progressed as planned.

The imbalance between the demand and supply of sawn timber led to a large increase in the level of market stocks in the first half of the financial period and, thereby, to a fall in market prices. As the price of raw materials did not flex accordingly, the profitability of the sawn timber industry decreased from the previous year's level. The production of sawn timber proceeded as planned. The demand for processed products, together with a well-performing production of processed products, supported the profitability of Koskisen's sawn timber industry. The market situation in China remained weak. This was due to both increased competition on the Chinese import market and reduced demand for sawn timber. In particular, the trade dispute between China and the USA reduced demand. The prices of spruce and pine logs fell slightly during the reporting period. The result of the sawn timber industry's Russian unit weakened clearly from the previous year. The result was particularly burdened by the reduced market-based transfer price for transferring the unit's production to further processing in Finland.

The Group divested its House Construction Industry unit by acquisition, as a result of which the business was transferred to the new owner on 1 July 2019. The financial figures of the unit for the prior period have been included in the Group's figures for the financial period.

The programme aimed at improving the profitability of the thin plywood industry was proceeding according to plan. Investments in sales began to show, and the order book for thin plywood products reached a historic high in the second half of the reporting period. Turnover and profitability in the last quarter were negatively affected by the intermittent shortage of wood due to harvesting conditions, which forced production to be limited. The unit underwent a renovation of the wood-turning lathe line in connection with the Christmas shutdown, which has a positive impact on both the acquisition and quality of the rotary-cut veneer.

All in all, the year of wood procurement went well. Revenue for the financial period was slightly below the comparison period and the target, but the result was better than these. Revenue was affected by the lower than planned delivery volumes, while profitability was supported by the result of the pulpwood business, which showed a stronger demand and price for pulpwood at the beginning of the financial year. The decline in the demand for and the fall in the price of wood pulp were also reflected in the falling price of pulpwood towards the end of the financial period. The new wood procurement information system was introduced in the Group in the fourth quarter of the financial period.

FINANCES AND INVESTMENTS

The Group's revenue decreased slightly from the previous year's level, the result for the financial period was better than in the comparison year. The revenue was EUR 264.2 million (2018: EUR 269.1 million), showing a decrease of 1.8%. The operating profit for the financial period was EUR 3.2 million, (2018: EUR 2.0 million). The operating profit includes non-recurring items of EUR -3.6 million arising from the acquisition of business during the period and from impairment entries on certain other fixed assets and variable assets. In the comparison period, the corresponding items were EUR -2.3 million. In addition, the result for the financial period is burdened by restructuring costs related to capacity adjustments in the panel industry.

The Group's result was EUR -1.0 million (EUR -2.4 million, 2018).

Pursuant to the decision of the Accounting Board in December 2016, the Group's currency and interest derivatives have been entered in the financial statements at their current value.

The value of Russia's net assets in the consolidated balance sheet is approximately EUR 0.9 million.

Key figures (EUR million), Group	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue	264.2	269.1	270.5	264.4	247.3
Operating profit (loss)	3.2	2.0	20.9	4.2	8.0
% of revenue	1.2%	0.8%	7.7%	1.6%	3.2%
ROI	4.0%	3.2%	21.7%	5.0%	6.0%
Equity ratio	23.5%	22.9%	25.0%	14.2%	15.8%
-including capital loan	29.0%	28.1%	30.2%	18.8%	20.5%

Key figures (EUR million), parent company	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue	108.0	115.8	114.0	116.5	109.4
Operating profit (loss)	0.7	0.5	0.5	0.4	1.4
% of revenue	0.7%	0.4%	0.4%	0.3%	1.3%
Equity ratio	-30.4%	-23.2%	-16.7%	-4.9%	-1.4%
- including capital loan	3.9%	1.9%	-4.9%	5.8%	9.9%

Investments

The investments amounted to EUR 4.8 million, the majority of which was used for replacement investments. The biggest investments were the new sawn timber industry’s debarker, a renovation of the unloading elevator of the grading plant, logistics renovations of the production equipment of the panel industry, investments related to camera technology and introduction of a new wood procurement system.

FINANCING

The Group's financing was restructured during the financial period 2017, and the previous financing and covenant agreement was replaced by a new financing and security agreement. The new agreement guarantees stable financing for the Group over several years, as well as adequate account limits related to working capital financing. The financing agreement provides the company with better opportunities for growth-enhancing investments.

PERSONNEL

The number of employees decreased by 51 when compared to the previous financial period and stood at 1,013 at the end of the year. The number of employees was significantly affected by the sale of the House Construction Industry business at the end of June as well as by the change in operating hours in the panel industry, especially in plywood production, which was implemented in the autumn and adjusted the production capacity by moving from seven days' continuous shift work to a five-day continuous shift work model.

Of the personnel, 72% are men and 28% are women, 24% are salaried employees and 76% are workers The average age of personnel was 42.7 years. During the financial period, the pay system of employees in the panel industry was reformed in cooperation with personnel representatives.

Adequate training opportunities and improving the conditions for coping at work are key objectives of the company in ensuring the competence and well-being of the personnel. During the financial period, extensive supervisor training was implemented for all the Group's supervisors. There were 50 training courses of different content arranged for the employees, and 468 employees participated in them.

Long-term and systematic work to improve safety has yielded good results and the accident frequency has halved from the 2016 level. Nevertheless, the LTA [1] indicator measuring the accident frequency (accidents resulting in at least one day's absence per one million working hours) deteriorated from 12.58 in 2018 to 19.78.

The number of all accidents leading to a doctor's visit in 2019 (44) decreased when compared to the comparison year 2018 (50). The number of safety observations increased by 12% when compared to the previous year. In 2019, 2,740 safety observations were made (positive 33% and negative 67%) and, in 2018, 2,416 safety observations (positive 19% and negative 81%). Measures to improve safety will be continued throughout the Group.

Average number of personnel for the period

	2019	2018	2017	2016	2015
Koskitukki Group, total	992	1,064	1,075	1,082	1,042
share of the parent company	70	74	77	81	68

The wages and salaries paid during the financial period (EUR 1,000)

	2019	2018	2017	2016	2015
Koskitukki Group, total	38,564	39,873	40,098	38,004	35,424
share of the parent company	3,855	3,831	3,829	3,795	3,812

CAPITAL LOANS

At the time of the financial statements, Koskitukki Oy had the following capital loans from the owners of the Group and their family members as well as from Koskisen Oy:

Loan number	Loan principal	Loan interest	Loan maturity date
11	3,180,000.00	7.0	29 Dec. 2011
12	500,000.00	7.0	28 Apr. 2012
13	130,000.00	7.0	23 Nov. 2012
14	160,000.00	7.0	29 Dec. 2012
15	2,207,836.00	7.0	26 Apr. 2013
16	200,000.00	7.0	29 Oct. 2013
17	310,338.00	7.0	29 Dec. 2013
18	300,000.00	7.0	21 Feb. 2014
Total	**6,988,174.00**		

The other loan terms for the above-listed capital loans are as follows:

Interest is paid annually retrospectively. Interest may only be paid if the amount to be paid is available for distribution on the basis of a balance sheet for the last financial period. Interest is entered as an expense for the financial period in which the obligation to pay interest has arisen, if the requirement to pay interest in accordance with the Limited Liability Companies Act is met.

The accrued unrecognised interest expense on capital loans for the years 2012–2019 totals EUR 4,184 thousand and a total of EUR 489 thousand in 2019.

Liabilities are only repaid if the restricted capital and other non-distributable funds in accordance with the balance sheet for the last financial period are fully covered. In the event of liquidation or bankruptcy, the principal and interest may only be repaid on a subordinated basis. The financing agreement with the financiers limits the payment of interest.

At the time of the financial statements, Koskitukki Oy had a capital loan from Koskisen Oy as follows:

Loan number	Loan principal	Loan interest	Loan maturity date
1/2018	5,000,000.00	5.6	30 April 2023
1/2019	1,860,000.00	5.6	30 April 2025

Terms and conditions of capital loans 1/2018 and 1/2019:

Interest may only be paid in so far as the amount of the debtor's equity and all capital loans at the time of payment exceeds the amount of the debtor's loss as set out on the balance sheet for the last financial period or included in more recent financial statements. If the interest on the capital loan cannot be paid, the interest becomes payable on the basis of the first financial statements on the basis of which it can be paid. The principal of the loan may be paid at maturity on the same terms as the interest on the loan.

The accrued unrecognised interest expense from the capital loan in 2018–2019 was EUR 483 thousand.

COMPANY SHARES

Koskitukki Oy has one series of shares. The number of shares is 630. All shares carry the same number of votes and right to dividends and company assets. The shares are subject to a redemption clause in accordance with the Articles of Association.

THE ENVIRONMENT

In 2019, the Group continued its sustainable environmental development efforts. Company-level environmental targets have been set for 2018–2020. The relevant indicators pertaining to waste water developed nicely, with the environmental load caused by waste water reduced relative to the total production volume.

The amount of waste water per cubic metre produced was 0.137 m3, i.e. clearly below the target level of 0.155 m3/cubic metre produced. However, the total amount of waste water 86,989 m3 significantly exceeded the target level of 78,400 m3. This was mainly due to a significant fault in the condensate waste valve of the drying machine 3 at the plywood factory.

Energy consumption in relation to production volume did not reach the set 4% reduction when compared to the 2015 level. The layoffs in plywood production and the change in capacity in the autumn reduced the volume of production.

The percentage of biofuels used for heat production was 97.5%. The target level of 98% was narrowly missed. The situation is expected to improve in 2020, with the introduction of a new bioboiler in the Mäntsäläntie area.

Järvelä's groundwater purification, which was resumed in 2018, is still ongoing and has been carried out according to the phased pumping arrangement. The groundwater in the treatment area is currently about 84% cleaned. Groundwater status has been regularly monitored at a total of 21 sampling points. The groundwater area in question is not used for domestic water.

The Group’s public annual environmental report has been published. The report is available on Koskisen Group’s website.

FUTURE PROSPECTS

The expectations for 2020 are twofold. The global market situation is good for the Finnish wood product industry, at the forefront of sustainable development, and its products. This is also supported by ever-increasing environmental consciousness. In many applications, wood can be used to substitute many raw materials, which are not renewable or which place a heavier burden on nature. On the other hand, the generally increased uncertainty, both politically and in international trade, as well as the recent concern about the widespread pandemic, all contribute to economic growth and, thus, to the demand for wood product industry’s products.

Demand for sawn timber is expected to remain at the level of 2019. Weak harvesting conditions in the main producing countries and pests affecting trees make it difficult to obtain high-quality wood raw materials.

The industrial action that halted the Finnish sawn timber industry decreased the production of sawn timber significantly at the beginning of 2020. Due to the above, stocks of finished products have decreased significantly. The price of sawn timber is expected to rise when compared to the previous year. The price of logs, which has a significant impact on the profitability of the sawn timber industry, is expected to continue to fall slightly after a temporary price spike due to the weak harvesting conditions in the spring. The competitiveness of the Finnish sawn timber industry, compared to the main producing countries, remains weak, mainly due to the high price of wood raw material caused by undelivered wood on the timber market. The market situation of plywood is expected to strengthen from the current weak level, and the demand in the vehicle industry and construction, which are crucial for Koskisen, is expected to return to a more normal pre-2019 level. The weak harvesting conditions that have plagued the main producing countries as well as the strike in Finland in the early part of the year have affected the production volumes of birch plywood. Due to low production, producers' stocks are at a low level and prices of birch plywood are expected to rise through the course of the year. The order book for chipboard is also expected to remain at a good level with a positive price trend.

The Group's strategy and business strategies for the new strategy period will be defined in 2020. The themes guiding the strategy work relate, in particular, to taking into account the challenges posed by climate change, improving overall quality and increasing the sensitivity to change and agility required by the ever-changing operating environment. During the strategy period, the focus will continue to be on increasing the well-being of the company, its employees and owners as well as the regional well-being. All operations aim at continuous improvement of profitability, productivity and safety.

Due to the adjustment of the plywood production capacity and the sale of the House Construction Industry business, the Group's revenue is expected to decrease. The profitability of the Group depends on the duration of the pandemic.

EVENTS FOLLOWING THE FINANCIAL PERIOD

The Industrial Union announced a strike concerning the mechanical forest industry on 10 January 2020. The four-week strike ended on 23 February 2020. The strike had a significant impact on the Group's operational activities, and the loss of production during the strike is placing a strain on the Group's results. During and after the strike, measures were taken to minimise lost production and possible customer losses in the Group.

The COVID-19 epidemic, which started in the first quarter of 2020, will have a particular impact on the activity of China's economy. If the epidemic is prolonged and expands, it may also have a direct impact on the world at large. In several countries that are central to the company's operations, governments made decisions restricting people's free movement and participation in normal everyday activities. International travel has also been restricted in many countries. These decisions increase the uncertainty in corporate financing, international market demand, logistics, and general economic activity. The prolongation of this exceptional situation may have a significant impact on the company's operations and profitability.

RISKS

The most significant risks affecting the Group's result are linked to the sales prices and delivery volume of the company's products as well as the costs of essential raw materials. Their trends are dependent on the general economic development.

The Group procures its main raw materials, such as wood and chemicals, from suppliers outside the Group's sphere of influence. Any major delivery disruptions may have a knock-on an effect on the Group's production operations and thereby its revenue and profitability. The availability and price level of essential raw materials may be influenced by factors such as difficult harvesting conditions resulting from climate change or variations in the global market prices of basic raw materials linked to global trends.

The Group's success hinges on the ability to obtain and maintain a professional workforce. The Group remains in active contact with several educational institutions and collaborates with them to develop training programmes aimed the development of management and professional skills to meet the organisation's different needs. Through active recruitment and a positive attitude towards education and training, the Group strives to ensure a sufficient number of employees with the required skills now and in the future.

In the last few years, the risks pertaining to the Russian operations have placed a considerable strain on the Group. The company will continue to develop a new operating model for Russian operations, which is expected to stabilise the situation and bring positive effects to the Group in the future.

The banks' stricter solvency requirements and the resulting limitations on available financing are seen as a risk in the company's investment-intensive sector. The financing agreement renewed in 2017 guarantees the Group stable long-term financing and sufficient investment opportunities for the maintenance and development of its operations.

The risks of damage to the Group's operations includes occupational safety and health risks, fire risks and corporate security risks. The company manages these risks by means of predetermined measures as well as training and programmes aimed at preventing risks of damage. The company has taken out comprehensive insurance for the interruption of operations and property damage.

The systematic development of operations in accordance with the principles of responsibility reduces the risk of unexpected events related to reputation or the quality of operations. All in all, operational risks have been reduced through our own development measures and a brighter financial outlook.

R&D

The Group's R&D operations continued, with an emphasis on close cooperation with customers and other partners.

ADMINISTRATION

The company's Board of Directors includes chairman Markku Pohjola and members Eva Wathen, Kari Koskinen, Hanna Sievinen and Hannu-Kalle Reponen.

The CEO of Koskitukki Oy and the Koskisen Group is Jukka Pahta.

The auditor has been audit firm Deloitte, with Authorised Public Accountant Hannu Mattila as the auditor in charge.

THE BOARD'S PROPOSAL REGARDING THE WAY PROFITS ARE HANDLED IN THE FINANCIAL STATEMENTS

The parent company has no distributable funds. The loss for the financial period was EUR -1,184,794.64. The Board of Directors proposes to the annual general meeting that the loss be left to reduce the company's retained earnings.

KOSKITUKKI GROUP	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
INCOME STATEMENT		
REVENUE	**264,161,634.33**	**269,090,606.54**
Change in inventories of finished goods and work in progress	-1,409,461.50	3,777,539.80
Production for own use	29,634.41	18,219.10
Other operating income	1,443,532.88	911,072.24
Materials and services		
Materials, supplies, goods		
Purchases during the period	-120,205,746.36	-135,605,940.07
Increase or decrease of inventories	-4,220,411.84	5,490,241.87
Materials, supplies, goods	**-124,426,158.21**	**-130,115,698.20**
External services	-37,793,723.04	-41,890,946.36
Materials and services	**-162,219,881.25**	**-172,006,644.56**
Employee expenses		
Wages and salaries	-38,711,930.54	-39,774,988.45
Social security costs		
Pension costs	-6,821,742.68	-7,214,881.22
Other social security costs	-1,519,693.61	-1,582,310.81
Personnel expenses	**-47,053,366.82**	**-48,572,180.48**
Depreciation, amortisation and impairment		
Depreciation and amortisation	-6,837,295.03	-7,072,940.79
Impairment losses on non-current assets	-1,221,592.20	-2,396,241.08
Depreciation, amortisation and impairment	**-8,058,887.23**	**-9,469,181.87**
Other operating expenses	-43,679,756.80	-41,700,361.43
OPERATING PROFIT (LOSS)	**3,213,448.02**	**2,049,069.34**
Finance income and expenses		
Gains on investments in other non-current assets	787.50	1,102.50
Other interest and finance income	1,050,841.23	1,055,178.01
Impairments of non-current asset	-402,086.07	0.00
Interest expenses and other finance expenses	-4,671,893.65	-5,515,559.56
Finance income and expenses	**-4,022,350.99**	**-4,459,279.05**
PROFIT (LOSS) BEFORE TAXES	**-808,902.97**	**-2,410,209.71**
Income taxes		
Income taxes for the current and prior periods	-970,187.22	-578,638.84
Change in deferred taxes	781,098.40	495,624.61
Income taxes	**-189,088.82**	**-83,014.23**
Minority interest	-39,982.32	127,221.96
PROFIT (LOSS) FOR THE PERIOD	**-1,037,974.11**	**-2,366,001.97**

KOSKITUKKI GROUP

BALANCE SHEET	**31 Dec. 2019**	**31 Dec. 2018**
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Intangible assets	0.00	132.80
Other long-term expense items	848,180.82	1,246,303.66
Intangible assets	**848,180.82**	**1,246,436.46**
Tangible assets		
Land and water areas	6,330,097.31	6,688,920.28
Buildings and structures	23,146,424.21	24,949,930.03
Machinery and equipment	25,539,818.01	27,156,516.41
Other tangible assets	1,688,983.68	1,844,231.36
Advance payments and work in progress	1,480,726.22	1,070,187.25
Tangible assets	**58,186,049.43**	**61,709,785.33**
Investments		
Other shares	108,224.60	208,521.74
Investments	**108,224.60**	**208,521.74**
NON-CURRENT ASSETS	**59,142,454.85**	**63,164,743.53**
CURRENT ASSETS		
Inventories		
Materials and supplies	14,984,388.40	20,309,066.79
Unfinished products	5,474,480.20	6,186,170.66
Finished products/materials	11,203,380.62	12,671,547.39
Inventories	**31,662,249.22**	**39,166,784.84**
Receivables		
Long-term receivables		
Deferred tax assets	546,408.04	441,535.51
Other receivables	2,205.98	10,023.34
Long-term receivables	**548,614.02**	**451,558.85**
Current receivables		
Trade receivables	20,034,343.93	26,905,970.86
Loan receivables	0.00	300,000.00
Other receivables	3,362,278.20	4,303,348.59
Accrued income	1,373,869.25	2,089,825.45
Current receivables	**24,770,491.38**	**33,599,144.90**
Cash and cash equivalents	**12,468,708.41**	**648,682.76**
CURRENT ASSETS	**69,450,063.03**	**73,866,171.35**
ASSETS	**128,592,517.88**	**137,030,914.88**

KOSKITUKKI GROUP

BALANCE SHEET	**31 Dec. 2019**	**31 Dec. 2018**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1,512,000.00	1,512,000.00
Revaluation reserve	1,044,954.49	1,044,954.49
Legal reserve	16,202.59	16,202.59
Retained earnings	13,357,544.81	15,589,182.07
Profit (loss) for the period	-1,037,974.11	-2,366,001.97
EQUITY	**14,892,727.78**	**15,796,337.18**
Minority interest	**15,241,813.49**	**15,203,497.11**
PROVISIONS		
Other mandatory provisions	2,732,040.11	2,207,677.48
PROVISIONS	**2,732,040.11**	**2,207,677.48**
LIABILITIES		
Non-current liabilities		
Capital loans	6,988,174.00	6,988,174.00
Loans from financial institutions	34,000,000.00	40,000,000.00
Deferred tax liabilities	4,856,196.74	5,532,422.61
Non-current liabilities	**45,844,370.74**	**52,520,596.61**
Current liabilities		
Loans from financial institutions	6,000,000.00	4,500,000.00
Deferred income	575,450.23	1,620,953.06
Trade payables	25,454,369.36	29,428,051.89
Other liabilities	7,571,774.41	5,545,333.80
Accrued liabilities, external	10,279,971.75	10,208,467.74
Current liabilities	**49,881,565.75**	**51,302,806.49**
TOTAL LIABILITIES	**95,725,936.49**	**103,823,403.10**
TOTAL EQUITY AND LIABILITIES	**128,592,517.88**	**137,030,914.88**

KOSKITUKKI GROUP

CASH FLOW STATEMENT, INDIRECT	31 Dec. 2019	31 Dec. 2018
Cash flow from operating activities		
PROFIT (LOSS) FOR THE PERIOD	-1,037,974.11	-2,366,001.97
Depreciation, amortisation and impairment	8,058,887.23	9,469,181.87
Gains(-) and losses(+) from sale of non-current assets	-87,734.10	-279,906.75
Unrealised exchange rate gains and losses	-6,113.57	0.00
Finance income and costs	4,028,464.56	4,459,279.05
Income taxes	189,088.82	83,014.23
Minority interests	39,982.32	-127,221.96
Other adjustments	1,807,785.31	0.00
Cash flow before change in working capital	12,992,386.46	11,238,344.47
Change in working capital		
Increase/decrease in inventories	5,697,061.27	-9,336,310.50
Increase/decrease in non-interest bearing receivables	6,394,588.86	-3,720,411.17
Increase/decrease in non-interest bearing liabilities	-2,436,910.15	8,586,210.69
Cash flow from operating activities before financial items and taxes	22,647,126.44	6,767,833.49
Interest paid from operating activities	-2,220,561.32	-2,704,629.51
Dividends received from operating activities	787.50	1,102.50
Interest received from operating activities	55,315.30	37,806.65
Other financial items from operating activities	-1,270,964.73	-1,413,031.17
Taxes paid on operations	-493,966.44	-1,732,614.59
Loans granted	2,859,336.83	1,061,260.21
Repayment of loan receivables	-430,187.14	-27,519.29
Cash flows from operating activities (A)	**21,146,886.45**	**1,990,208.29**
Cash flow from investing activities		
Investments in tangible and intangible assets	-4,937,430.84	-5,561,339.23
Income from sale of tangible and intangible assets	112,520.91	541,808.44
Investments in other investments	0.00	-110,000.00
Cash flows from investing activities (B)	**-4,824,909.94**	**-5,129,530.79**
Cash flow from financing activities		
Repayments of long-term loans	-4,500,000.00	-4,500,000.00
Cash flow from financing activities	**-4.500,000.00**	**-4,500,000.00**
Change in cash and cash equivalents	**11,821,976.51**	**-7,639,322.51**
Cash and cash equivalents, opening balance	648,682.76	8,289,857.31
Effects of exchange rate changes	-1,950.87	-1,852.04
Cash and cash equivalents	**12,468,708.41**	**648,682.76**

KOSKITUKKI OY	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
INCOME STATEMENT		
REVENUE	**108,020,956.25**	**115,794,373.20**
Other operating income	4,471,350.98	4,804,028.91
Materials and services		
Materials, supplies, goods		
Purchases during the period	-76,418,800.92	-85,983,597.48
Increase or decrease of inventories	-2,631,907.58	1,528,004.85
Materials, supplies, goods	**-79,050,708.50**	**-84,455,592.63**
External services	-17,599,525.39	-21,253,018.27
Materials and services	**-96,650,233.89**	**-105,708,610.90**
Employee expenses		
Wages and salaries	-4,042,064.69	-3,612,637.26
Social security costs		
Pension costs	-653,181.80	-695,821.54
Other social security costs	-81,090.59	-72,267.27
Personnel expenses	**-4,776,337.08**	**-4,380,726.07**
Depreciation, amortisation and impairment		
Depreciation and amortisation	-317,245.50	-316,611.16
Depreciation, amortisation and impairment	**-317,245.50**	**-316,611.16**
Other operating expenses	-10,028,150.97	-9,711,810.94
OPERATING PROFIT (LOSS)	**720,339.79**	**480,643.04**
Finance income and expenses		
Income from dividends	0.00	360.00
Other interest and finance income		
From other group companies	0.00	139,720.74
From others	63,103.15	768.93
Impairments of non-current asset	-401,658.75	0.00
Interest expenses and other finance expenses		
To other group companies	-1,345,418.65	-1,758,956.68
To others	-122,120.83	-66,866.78
Finance income and costs	**-1,806,095.08**	**-1,684,973.79**
PROFIT (LOSS) BEFORE PROFIT-ADJUSTING ENTRIES AND TAX	**-1,085,755.29**	**-1,204,330.75**
Profit-adjusting entries		
Increase(-) or decrease(+) in depreciation difference	-216.11	3,792.35
Income taxes		
Income taxes for the current and prior periods	-98,823.24	-32,798.28
Income taxes	**-98,823.24**	**-32,798.28**
PROFIT (LOSS) FOR THE PERIOD	**-1,184,794.64**	**-1,233,336.68**

KOSKITUKKI OY

BALANCE SHEET	**31 Dec. 2019**	**31 Dec. 2018**
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Other long-term expense items	404,522.20	690,503.80
Intangible assets	**404,522.20**	**690,503.80**
Tangible assets		
Land and water areas	386,967.00	386,967.00
Buildings and structures	554,863.51	584,195.47
Machinery and equipment	24,308.11	1,441.77
Other tangible assets	380,600.00	380,600.00
Advance payments and work in progress	327,676.27	263,050.77
Tangible assets	**1,674,414.89**	**1,616,255.01**
Investments		
Shares in other group companies	19,593,202.58	19,601,857.40
Other shares	11,481.88	111,481.88
Investments	**19,604,684.46**	**19,713,339.28**
NON-CURRENT ASSETS	**21,683,621.55**	**22,020,098.09**
CURRENT ASSETS		
Inventories		
Materials and supplies	6,183,770.44	8,815,678.02
Inventories	**6,183,770.44**	**8,815,678.02**
Receivables		
Long-term receivables		
Receivables from other group companies	16,057.72	22,565.23
Long-term receivables	**16,057.72**	**22,565.23**
Current receivables		
Trade receivables	4,026,911.17	5,264,000.69
Receivables from other group companies	6,842,002.98	9,619,103.38
Loan receivables	0.00	300,000.00
Other receivables	1,214,719.89	1,412,649.56
Accrued income	345,357.16	252,523.10
Current receivables	**12,428,991.20**	**16,848,276.73**
Cash and cash equivalents	**275.21**	**393.18**
CURRENT ASSETS	**18,629,094.57**	**25,686,913.16**
ASSETS	**40,312,716.12**	**47,707,011.25**

KOSKITUKKI OY

BALANCE SHEET	31 Dec. 2019	31 Dec. 2018
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1,512,000.00	1,512,000.00
Revaluation reserve	70,222.30	70,222.30
Legal reserve	16,202.59	16,202.59
Retained earnings	-12,672,867.03	-11,439,530.35
Profit (loss) for the period	-1,184,794.64	-1,233,336.68
EQUITY	**-12,259,236.78**	**-11,074,442.14**
APPROPRIATIONS		
Cumulative accelerated depreciation	209,773.27	209,557.16
TOTAL APPROPRIATIONS	**209,773.27**	**209,557.16**
LIABILITIES		
Non-current liabilities		
Capital loans	6,988,174.00	6,988,174.00
Loans from other group companies	18,145,059.24	28,375,659.66
Capital loans, internal	6,860,000.00	5,000,000.00
Deferred tax liabilities	17,555.57	17,555.57
Non-current liabilities	**32,010,788.81**	**40,381,389.23**
Current liabilities		
Deferred income	11,315.00	18,250.00
Trade payables	10,407,752.61	11,559,232.66
Loans from other group companies	692,952.45	391,760.92
Other liabilities	6,261,284.23	4,068,555.02
Accrued liabilities	2,978,086.53	2,152,708.40
Current liabilities	**20,351,390.82**	**18,190,507.00**
TOTAL LIABILITIES	**52,362,179.63**	**58,571,896.23**
TOTAL EQUITY AND LIABILITIES	**40,312,716.12**	**47,707,011.25**

KOSKITUKKI OY

CASH FLOW STATEMENT, INDIRECT	31 Dec. 2019	31 Dec. 2018
Cash flow from operating activities		
PROFIT (LOSS) FOR THE PERIOD	-1,184,794.64	-1,233,336.68
Depreciation, amortisation and impairment	317,245.50	316,611.16
Gains(-) and losses(+) from sale of non-current assets	-5,000.00	0.00
Finance income and costs	1,806,095.08	1,684,973.79
Profit-adjusting entries	216.11	-3,792.35
Income taxes	98,823.24	32,798.28
Other adjustments	142,339.63	0.00
Cash flow before change in working capital	1,174,924.92	797,254.20
Change in working capital		
Increase/decrease in inventories	2,631,907.58	-1,528,004.85
Increase/decrease in non-interest bearing receivables	4,125,793.04	-1,106,233.71
Increase/decrease in non-interest bearing liabilities	-312,593.12	2,916,095.11
Cash flow from operating activities before financial items and tax	7,620,032.42	1,079,110.75
Interest paid from operating activities	-1,311,650.65	-2,022,431.00
Dividends received from operating activities	0.00	360.00
Interest received from operating activities	63,103.15	8,731.18
Other financial items from operating activities	-13,177.19	-13,245.77
Tax paid on operations	-59,382.34	125,816.28
Loans granted	2,859,336.83	1,061,260.21
Repayment of loan receivables	-430,187.14	-669,675.29
Cash flow from operating activities (A)	**8,728,075.08**	**-430,073.64**
Cash flow from investing activities		
Investments in tangible and intangible assets	-231,763.41	-120,289.21
Income from sale of tangible and intangible assets	5,000.00	0.00
Sold subsidiary shares	6,996.07	0.00
Investments in other investments	0.00	-100,000.00
Cash flow from investing activities (B)	**-219,767.34**	**-220,289.21**
Cash flow from financing activities		
Proceeds from long-term loans	0.00	650,156.23
Repayment of long-term loans	-8,508,425.71	0.00
Cash flow from financing activities	**-8,508,425.71**	**650,156.23**
Change in cash and cash equivalents	**-117.97**	**-206.62**
Cash and cash equivalents at the beginning of the period	393.18	599.80
Cash and cash equivalents at the end of period	**275.21**	**393.18**

KOSKITUKKI GROUP

NOTES TO THE FINANCIAL STATEMENTS (EUR 1,000)

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Scope of the consolidated financial statements

The consolidated financial statements include the parent company KOSKITUKKI OY, in addition to its 100.00% owned OOOKOSKILES, OOO KOSKISILVA and 75.23% owned KOSKISEN OY and its subsidiaries.

Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared using the acquisition cost method.

The Group’s internal transactions, unrealised margins of internal deliveries, internal receivables and loans as well as internal distribution of profits have been eliminated.

Minority interests have been separated from the Group's equity and result, and presented as a separate item.

The profit and loss accounts of foreign group companies have been converted into EUR on the basis of the financial period’s average exchange rate, while the balance sheets have been converted on the basis of the exchange rate on the balance sheet date. Any translation differences have been presented in the “retained earnings”.

Valuation of inventories

In accordance with the FIFO (First In, First Out) method, inventories are measured at the acquisition cost of the financial period or a lower net realisable value.

The change in inventories in the income statement does not correspond to the change in inventories in the balance sheet due to an acquisition of a business during the period, as part of which inventories were sold at the net realisable value or a probable sales price.

Valuation of non-current assets

Intangible and tangible assets are recognised at acquisition cost less depreciation, amortisation and impairments, and increased by any revaluations.

The revaluations are based on an external assessment, and their existence is justified based on the assessment of the company’s management. The deferred tax liabilities arising from the revaluations have been deducted from the revaluation reserve in equity and presented on the balance sheet in the ‘Deferred tax liabilities’. The acquisition cost includes the variable costs resulting from procurement and manufacturing. The depreciation has been calculated on a straight-line basis over the economic life time of the intangible and tangible assets. The depreciation starts from the month the asset was commissioned.

An impairment is recognised if the future income accrued by the asset is permanently below the book value.

The depreciation periods are:

Other long-term expenses	5 years
Buildings	20–50 years
Structures	10 years
Machinery and equipment	5–20 years
Other assets	5–10 years
Consolidated goodwill	20 years

Valuation of financial instruments and derivatives

In accordance with section 5:2 of the Accounting Act, financial assets are valued at the acquisition cost or at the lower probable fair market value Financial liabilities are valued at their nominal value.

In accordance with the principles of risk management, the Group may use derivatives as protection from the price risks of goods, interest rates or currency. The derivative contracts in force at the time of the financial statements comprise both signed contracts and contracts that protect the bidding stage.

According to Accounting Board's statement 1963/13.12.2016, the negative current value of interest rate and currency derivative contracts has been recorded in retained earnings and as a mandatory provision in 2016. The change in 2019 (EUR -524 thousand) has been entered in the income statement and as mandatory provisions. The corresponding change in deferred tax assets (EUR -105 thousand) has been entered in the income statement as well as the deferred tax assets.

Electricity derivatives are used as protection against the price risk of highly probable current supply at market prices. The derivatives used will protect 25% to 95% of the current supply required for the operations of the next four years.

The current values of the electricity derivative contracts are treated as off-balance sheet liabilities to the degree that the electricity derivative contracts can be deemed to meet the preconditions set forth in statement 1963/2016 of the Accounting Board for treatment as an off-balance sheet liability. The electricity derivative contracts are established and paid on a monthly basis in accordance with the contracts.

The electricity derivative contracts have been deemed to meet the preconditions for treatment as an off-balance sheet liability.

Events following the financial period

The Industrial Union announced a strike concerning the mechanical forest industry on 10 January 2020. The four-week strike ended on 23 February 2020. The strike had a significant impact on the Group's operational activities, and the loss of production during the strike is placing a strain on the Group's results. During and after the strike, measures were taken to minimise lost production and possible customer losses in the Group.

The COVID-19 epidemic, which started in the first quarter of 2020, will have a particular impact on the activity of China’s economy. If the epidemic is prolonged and expands, it may also have a direct impact on the world at large. In several countries that are central to the company's operations, governments made decisions restricting people's free movement and participation in normal everyday activities. International travel has also been restricted in many countries. These decisions increase the uncertainty in corporate financing, international market demand, logistics, and general economic activity. The prolongation of this exceptional situation may have a significant impact on the company's operations and profitability

The comparability of information from the previous period

When comparing the data for the financial period 2019 with the previous financial period, it should be noted that a total of EUR 1.4 million of assets and sales receivables belonging to Koskisen Oy's non-current assets has been written down. On the sale of the House Construction Industry, a loss of EUR 1.7 million is recognised in other operating expenses. A total of EUR 0.5 million has been written down in Koskitukki Oy's loan and sales receivables as well as other shares.

In the comparison year 2018, the Group entered a write-down of EUR 2.3 million for an asset included in Koskisen Oy's non-current assets.

Foreign currency items

Receivables and liabilities in foreign currency have been converted into EUR subject to the exchange rate on the balance sheet date. The exchange rate gains or losses arising from the valuation of receivables or liabilities are entered in the profit and loss account according to their nature, either as a sales/purchase adjustment item or financial exchange difference.

Deferred tax

A deferred tax liabilities or assets have been calculated for temporary differences between taxation and the financial statements on the basis of the tax rate of the next years confirmed at the time of the financial statements. The balance sheet includes the total deferred tax liabilities as well as the deferred tax assets corresponding with the amount of the estimated probable receivable.

Notes to the profit and loss account EUR thousand

Net sales by industry and market area	**Parent company**		**Group**	
	31 Dec. 2019	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Distribution by industry				
Panel industry			125,248	127,010
Sawn timber industry			93,062	92,058
House Construction industry			8,732	15,168
Log and pulpwood sales	107,657	115,282	36,118	34,036
Other sales	364	512	1,002	818
Total	**108,021**	**115,794**	**264,162**	**269,090**
Geographical distribution				
Domestic	108,021	115,703	120,115	119,339
EU countries	0	19	90,760	101,118
Other countries	0	72	53,287	48,633
Total	**108,021**	**115,794**	**264,162**	**269,090**
Other operating income				
Gains on sale of current assets	5	0	95	280
Insurance claims	0	0	19	
Grants received	0	0	68	53
Sale of emission allowances	0	0	616	282
External lease income	0	0	127	0
Service charges and rents from subsidiaries	4,238	4,797	0	0
Other operating income	228	7	519	295
Total	**4,471**	**4,804**	**1,444**	**911**

	Parent company		Group	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Other operating expenses				
Sales freight, forwarding and chipping	6,519	6,014	23,658	23,497
IT expenses	1,365	1,343	2,001	1,865
Leasing payments and rents	407	344	5,075	5,102
Property maintenance	44	55	2,779	2,683
Sales commissions	0	0	1,040	1,130
Business acquisition, House Construction Industry	0	0	1,735	0
Other	1,693	1,956	7,392	7,423
Total	**10,028**	**9,712**	**43,680**	**41,700**
Auditor remuneration				
Audit	4	21	87	104
Tax advisory	1	4	20	20
Other services	4	0	77	0
Total	**9**	**25**	**184**	**124**

During the financial period, the Group had an average of

	Parent company		Group	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Salaried employees	69	69	240	255
Workers		3	752	809
Total	**70**	**72**	**992**	**1,064**
Salaries and remuneration of the management				
Members of the Board of Directors and CEO	396	426	396	426
Income tax				
Taxes for the financial period	99	55	970	494
Taxes for the previous financial period	0	-22	0	85
Change in deferred tax liabilities			-781	-496
Total	**99**	**33**	**189**	**83**
Finance income				
Income from dividends	0	0	0	
Interest income	63	140	55	38
Exchange rate gains	0	0	748	698
Other finance income	0	0	248	319
Total	**63**	**140**	**1,051**	**1,056**
Finance costs				
Interest costs	1,455	1,799	3,004	2,621
Exchange rate losses	0	0	600	1,436
Other finance costs	13	27	1,068	1,459
Total	**1,468**	**1,826**	**4,672**	**5,516**

The exchange differences result from the exchange rate changes of the Russian rouble and USD.

Notes to the balance sheet

Acquisition cost of the parent company's non-current assets, additions and disposals and accumulated depreciation and amortisation

Only the acquisition costs of fixed assets for which the acquisition cost has not yet been fully entered as an expense according to the plan have been reported as an acquisition cost.

	Intangible	Tangible assets						
	Other long-term expense items	Other tangible assets	Land areas	Buildings	Machinery and equipment	Total	Acquisitions in progress	Investments
Acquisition cost on 1Jan. 2019	1,429	381	387	880	10	1,658	263	25,013
Additions					25		328	
Disposals								108
Reclassifications							-263	
Increases/decreases due to revaluation								
Acquisition cost on 31 Dec. 2019	1,429	381	387	880	35	1,683	328	24,905
Accumulated depreciation and amortisation and impairment on 1 Jan.2019	739			296	9	305		5,300
Accumulated depreciation on disposals								
Depreciation and amortisation and impairment for the financial period	286		387	29	2	31		
Accumulated depreciation and amortisation and impairment on 31 Dec. 2019	1,025				11	336		5,300
Book value on 31 Dec. 2019	404	381	387		24	1,347	328	
Revaluations			88				328	19,605

The acquisition cost of the Group's non-current assets, additions and disposals as well as the accumulated depreciation and amortisation

	Intangible	Tangible assets			
	Intangible assets	Land areas	Buildings	Machinery and equipment	Total
Acquisition cost on 1 Jan. 2019	8	6,689	69,120	87,517	163,326
Additions		185	108	3,193	3,486
Disposals		553	3,755	2,912	7,220
Exchange differences		9	677	433	1,119
Reclassifications			263	491	754
Acquisition cost on 31 Dec. 2019	8	6,330	66,413	88,722	161,465
Accumulated depreciation and amortisation and impairment on 1 Jan. 2019	8		44,170	60,360	104,530
Exchange differences			375	332	707
Accumulated depreciation on disposals			2,903	1,937	4,840
Depreciation and amortisation and impairment for the financial period			1,625	4,427	6,052
Accumulated depreciation and amortisation and impairment on 31 Dec. 2019	8		43,267	63,182	106,449
Book value on 31 Dec. 2019	0	6,330	23,146	25,540	55,016
Revaluations		2,498	2,766		
Book value of production machinery and equipment on 31 Dec. 2019				25,324	

	Other long-term expense items	Other tangible assets	Work in progress	Other investm ents
Acquisition cost on 1 Jan. 2019	3,148	6,199	1,070	208
Additions	63	48	1,461	0
Disposals		34		100
Exchange differences		165	1	
Reclassifications	33	0	-1,051	
Acquisition cost on 31 Dec. 2019	3,244	6,378	1,481	108
Accumulated depreciation and amortisation and impairment on 1 Jan. 2019	1,902	4,355		
Exchange differences		71		
Accumulated depreciation on disposals		28		
Depreciation for the period	494	291		
Accumulated depreciation and amortisation and impairment on 31 Dec. 2019	2,396	4,689		
Book value on 31 Dec. 2019	848	1,689	1,481	108

Group companies	Domicile	Parent company's shareholding %	Group's shareholding %
Koskisen Oy	Kärkölä	75.2%	75.2%
OOO Koskiles	St. Petersburg, Russia	100.0%	100.0%
OOO Koskisilva	Sheksna, Russia	100.0%	100.0%
Koskisen Oy's subsidiaries			
Kosava-Kiinteistöt Oy	Kärkölä	75.2%	
Koskisen Sp. z o.o.	Warsaw	75.2%	

Receivables from other group companies

The main bank accounts of the Group's Finnish companies are connected to the Group account system, the main owner of which is Koskisen Oy.

	Parent company	
	2019	2018
Trade receivables:		
Koskisen Oy	6,450	9,223
Kosava Oy	5	4
Total	**6,455**	**9,227**
Other receivables:		
OOO Koskiles	257	157
OOO Koskisilva	147	206
Total	**404**	**363**
Accrued income:		
Koskisen Oy	**0**	**52**

Essential items included in the accrued income

	Parent company		Group	
	2019	2018	2019	2018
Difference between withholding taxes and final taxes	0	0	235	652
Social contribution receivables	0	66	0	140
Prepaid rents+licenses	288	158	410	217
Refund of electricity tax	0	0	273	401
KELA reimbursement on the costs of the occupational health clinic	15	16	171	181
Other	42	13	285	499
Total	**345**	**253**	**1,374**	**2,090**

Deferred tax assets	**Group**	
Negative current value of interest and currency derivatives	546	442

Restricted equity

		Parent company		Group	
		2018	2019	2018	2019
Share capital	1 Jan.	1,512	1,512	1,512	1,512
Share capital	31 Dec.	**1,512**	**1,512**	**1,512**	**1,512**
Revaluation reserve	1 Jan.	70	70	1,045	1,045
Revaluation reserve	31 Dec.	**70**	**70**	**1,045**	**1,045**
Legal reserve	1 Jan.	16	16	16	16
Legal reserve	31 Dec.	**16**	**16**	**16**	**16**
Restricted equity total		**1,598**	**1,598**	**2,573**	**2,573**

Unrestricted equity

Profit from previous periods	1 Jan.	12,672	-11,439	15,904	18,270
Profit from previous periods	31 Dec.	**-12,672**	**-11,439**	**15,904**	**18,270**
Conversion difference				-2,546	-2,681
Profit/loss for the period		**-1,185**	**-1,233**	**-1,038**	**-2,366**
Total unrestricted equity		**-13,857**	**-12,672**	**12,320**	**13,223**
Total equity:		**-12,259**	**-11,074**	**14,893**	**15,796**

The increase in the conversion difference is due to a change in the exchange rate of the Russian ruble.
Of the accumulated depreciation difference, EUR 18,059 thousand have been entered in equity in the consolidated balance sheet (31 December 2018: EUR 20,764 thousand).

Calculation of the distributable funds on 31 December	Parent company	
Profit from previous periods	-12,672	-11,439
Profit/loss for the period	-1,185	-1,233
Total	-13857	-12672

Koskitukki Oy's equity in total	-12,259
Capital loan from shareholders	6,988
Capital loan from Koskisen Oy	6,860
Total	**1,589**

The fair value of Koskisen Oy's shares owned by Koskitukki Oy exceeds the balance sheet value of the shares in question.

Mandatory provisions	Parent company		Group	
	2019	2018	2019	2018
Negative current value of interest and currency derivatives	0	0	2,732	2,208

Liabilities to other group companies	Parent company	
Liabilities based on the cash pooling arrangement:	2019	2018
Koskisen Oy	18,059	28,427
Koskisen Oy capital loan	6,860	5,000
Total	**24,919**	**33,427**
Trade payables:		
Koskisen Oy	396	323
Accrued liabilities:		
Koskisen Oy	383	18
All in total	**25,698**	**33,768**

Essential items included in the accrued liabilities:

	Parent company		Group	
	2019	**2018**	**2019**	**2018**
Uninvoiced transport charges for December and forest contracting	1,470	881	1,470	881
Income tax	83	43	164	43
Interest accrual	393	388	632	627
Holiday pay expenses	621	613	5,011	6,102
Outstanding salaries for December and bonus provisions	334	100	1,672	717
Social contribution liabilities	31	2	1,099	746
Other	47	212	396	1,092
Total	**2,978**	**2,196**	**10,444**	**10,208**

	Parent company		Group	
Deferred tax liabilities	**2019**	**2018**	**2019**	**2018**
From revaluations	18	18	342	342
From profit-adjusting entries	0	0	4,514	5,190
Total	**18**	**18**	**4,856**	**5,532**

Capital loans

At the time of the financial statements, Koskitukki Oy had the following capital loans from the owners of the Group and their family members:

Loan number	Loan principal	Loan interest	Loan maturity date
11	3,180,000.00	7.0	29 Dec. 2011
12	500,000.00	7.0	28 Apr. 2012
13	130,000.00	7.0	23 Nov. 2012
14	160,000.00	7.0	29 Dec. 2012
15	2,207,836.00	7.0	26 Apr. 2013
16	200,000.00	7.0	29 Oct. 2013
17	310,338.00	7.0	29 Dec. 2013
18	300,000.00	7.0	21 Feb. 2014
Total	6,988,174.00		

The other loan terms for the above-listed capital loans are as follows:

Interest is paid annually retrospectively. Interest may only be paid if the amount to be paid is available for distribution on the basis of a balance sheet to be adopted for the last financial period. Interest is entered as an expense for the financial period in which the obligation to pay interest has arisen, if it is possible according to the Limited Liability Companies Act.

Liabilities are repaid only if the capital employed and other non-distributable assets in accordance with the balance sheet to be adopted for the last financial period are fully covered. In the event of liquidation or bankruptcy, the principal and interest may be repaid only on a subordinated basis.
The financing agreement with the financiers limits the payment of interest.

The accrued unrecognised interest expense on capital loans for the years 2013–2019 totals EUR 4,184 thousand and a total of EUR 489 thousand in 2019.

At the time of the financial statements, Koskitukki Oy had a capital loan from Koskisen Oy:

Loan number	Loan capital	Loan interest	Maturity of the loan
1/2018	5,000,000.00	5.6	30 April 2023
1/2019	1,860,000.00	5.6	30 April 2025

Terms and conditions of the capital loan: Interest may be paid only in so far as the amount of the debtor's equity and all capital loans at the time of payment exceeds the amount of the debtor's loss as set out on the balance sheet for the last financial period or included in more recent financial statements. If the interest on the capital loan cannot be paid, the interest becomes payable on the basis of the first financial statements on the basis of which it can be paid.

The principal of the loan may be paid at maturity on the same terms as the interest on the loan. The accrued unrecognised interest expense from the capital loans in 2018–2019 was EUR 483 thousand.

Liabilities

The shares of the subsidiaries have been pledged as security for Koskisen Oy's loans.

	Parent company		Group	
Liabilities secured by real estate or business mortgages	2019	2018	2019	2018
Loans from financial institutions	0	0	40,000	44,500
Account and guarantee limits (EUR 15 million), of which in use at the time of the financial statements:				
Account limit	0	0	0	2,356
Guarantee limit	0	0	705	684
Real estate mortgages	0	0	1,689,600	1,843,200
Company mortgages	0	0	181,552	161,552
Securities provided on behalf of Group companies:				
Real estate mortgages	153,600	153,600	0	0
Company mortgages	79,071	79,071	0	0
Guarantees				
Advance payment, delivery and other guarantees	470	0	1,145	684

Koskitukki Oy has given a general guarantee payable at demand for all Koskisen Oy's loans and commitments to financial institutions.

	Parent company		Group	
Amounts paid on leasing contracts	2019	2018	2019	2018
Payable next year	10	10	998	1,028
Payable later	4	14	1,108	987
Total	**14**	**24**	**2,106**	**2,015**
Residual value of leasing contracts				
Payable next year	0	0	0	0
Payable later	0	2	2	2
Total	**0**	**2**	**2**	**2**

Koskisen Oy’s power plants sold to Lahti Energia include a repurchase obligation following the end of the contract period in 10/2032. The repurchase price is estimated at approximately EUR 15 million.

Liabilities related to the cash pooling arrangement

The Group uses a cash pooling arrangement, the owner of which is Koskisen Oy. Koskisen Oy’s non-current internal Group receivable of EUR 25 million is a receivable based on the cash pooling arrangement from Koskitukki Oy, including a capital loan of EUR 6.9 million.
The Group receivables have been pledged as security for Koskisen Oy's loans.

The audit obligation of real estate investments in the financial statements

	2015	2016	2017	2018	2019	TOTAL
Deducted VAT	143	28	36	16	7	230
Annual percentage of the deducted VAT	14	3	4	2	1	23
Remaining years included in the audit period	5	6	7	8	9	
Amount of deduction subject to refund	**72**	**17**	**25**	**13**	**6**	**133**

Derivative contracts

In accordance with the principles of risk management, the Group may use derivatives as protection from the price risks of goods, interest rates or currency. The derivative contracts in force at the time of the financial statements comprise both signed contracts and contracts that protect the bidding stage.

The negative current value of interest and currency derivative contracts on the financial statements date is entered as an obligatory reserve. The electricity derivative contracts have been deemed to meet the preconditions for treatment as an off-balance sheet liability.

Derivative contracts valid on the financial statements date

	2019 current value EUR thousand	2018 current value EUR thousand	2019 nominal value EUR thousand	2018 nominal value EUR thousand
Interest rate swaps				
Matures on 27 February 2025	-784	-551	10,000	10,000
Matures on 25 February 2020	-22	-97	10,000	10,000
Matures on 7 March 2022	-443	-539	10,000	10,000
Matures on 25 February 2025	-582	-396	10,000	10,000
Matures on 1 July 2020	-911	-639	10,000	10,000
Total interest rate swaps	**-2,743**	**-2,223**	**50,000**	**50,000**
Deferred tax assets	549	444		

Foreign currency forward contracts				
EUR–USD: end date on 29 March 2020	0		221	
EUR–USD: end date on 31 March 2020	7		449	
EUR–USD: end date on 30 June 2020	4		224	
EUR–USD: end date on 29 March 2019		-21		1,064
EUR–USD: end date on 28 June 2019		-11		635
EUR–USD: end date on 30 September 2019		-6		422
Total foreign currency forward contracts	**11**	**-38**	**895**	**2,121**
Deferred tax assets	-2	8		

Electricity forward contracts				
Matures in 2019		1,185		1,577
Matures in 2020	405	554	1,536	1,141
Matures in 2021	101	148	1,351	920
Matures in 2022	40	28	970	257
Matures in 2023				
Total electricity forward contracts	**546**	**1,916**	**3,858**	**3,895**

Timber reserve

The company has entered into binding agreements with forest owners related to the future acquisition of timber (timber reserve). Commitments at the time of the financial statements are approximately EUR 21.5 million, of which the parent company's share is EUR 21.5 million (EUR 26.5 million on 31 December 2018, of which the parent company's share is EUR 25.3 million).

Covenants

The Group’s financial institution loans include covenants. In accordance with the financial agreements, the lender can accelerate loans to fall due prematurely if the covenant terms are not met. The financial institution loans are presented in the balance sheet according to the payment schemes of financial agreements valid at the time of the financial statements. The covenant terms are reviewed on a quarterly basis during the financial period. The covenant levels for 2019 and Q1/2020 were redefined. The covenants to be tested have been met in 2019.

Signatures of the financial statements and the annual report

in Helsinki on 19 March 2020

Kari Koskinen,
member of the
Board

Markku Pohjola,
chairman of the Board

Eva Wathen,
member of the
Board

Hanna Sievinen,
member of the
Board

Kalle Reponen,
member of the
Board

Jukka Pahta, CEO

Auditor’s note

Today, a report has been issued with regard to the performed audit.

Deloitte Oy
Audit firm

Hannu Mattila,
Authorised Public Accountant

KOSKITUKKI OY

A list of the accounting journals and receipt types as well as the storage methods

Balance sheet book	two separately
Share register ledgers	bound copies
Accounts ledgers	
- Accounts payable	Digital/Printed
- Accounts receivable	Digital/Printed
General ledger	Digital
Day book	Digital
Cash journal	Printed
Fixed assets accounting	Digital/Printed
Inventory accounting	
- Sawn timber inventory accounting	Digital/Printed
- Planed timber inventory accounting	Digital/Printed
- Plywood inventory accounting	Digital/Printed
- Chipboard inventory accounting	Digital/Printed
- Birch product inventory accounting	Digital/Printed
- Accessories store accounting	Digital/Printed
- Coating store accounting	Digital/Printed
Receipt types	
Financial account receipts	Printed
Adjusting journal entries	Printed
Memo vouchers	Printed
Payroll accounting	Digital
Withdrawals from the accessories store	Digital
Arrivals in the accessories store	Digital
Sales invoices	Digital
Purchase invoices	Digital
Payments in accounts receivable	Printed
Payments in accounts payable	Printed
Balance brought forward	Digital
Depreciation	Digital/Printed
Accrual	Digital

Järvelä, 29 February 2020

Kari Kontula, Accounts Manager

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AUDITOR'S REPORT (Unofficial translation of the Finnish Original)

To the Annual General Meeting of Koskitukki Oy

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Koskitukki Oy (business identity code 0148241-9) for the year ended 31 December, 2019. The financial statements comprise the balance sheets, the income statements, cash flow statements and notes for the group as well as for the parent company.

In our opinion, the financial statements give a true and fair view of the group's and the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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 in the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

Other reporting requirements

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.

Tampere, March 20th, 2020

Deloitte Oy
Audit Firm

Hannu Mattila
APA