Financial information

1 January–31 December 2017

Contents

Report by the Board of Directors 2017

Highlights of Suominen's financial year 2017

- Net sales grew, but operating profit decreased from the comparison period.
- Changes in the taxation in the US had a positive impact on Suominen's profit for the financial year 2017.
- The new manufacturing line at Bethune, SC plant was started up.
- Suominen launched a new strategy for the period 2017–2021 together with revised financial targets.
- The Board's proposal of the return of capital, EUR 0.11 per share, is in line with the company's dividend policy.

Net sales grew, operating profit decreased

In 2017, Suominen's net sales grew from the previous year by 2% to EUR 426.0 million (416.9) mainly thanks to improved sales volumes. Operating profit declined to EUR 15.0 million (25.6) due to the impacts of the costs related to the growth investments, unfavorable development of product mix and lower gross profit. There were no items affecting comparability of the operating profit during the reporting period. Profit before income taxes was EUR 12.4 million (22.4) and profit for the period EUR 14.5 million (15.2), thanks to the significant positive impact of the US tax reform on Suominen. The cash flow from operations remained healthy and amounted to EUR 22.2 million (28.5).

Earnings per share were EUR 0.27 (0.29) and cash flow from operations per share was EUR 0.39 (0.56).

Suominen's Board of Directors revised Suominen's medium-term financial targets in connection with the launch of the company's new Changemaker strategy. During the five-year strategic period ending in 2021, Suominen aims to

- reach an average return on investment (ROI) of 15% during the period
- reach an average annual net sales growth rate of 6% during the period
- operate with a gearing principally in the range of 40-80%.

In 2017, the targeted pace in net sales growth was not achieved and the return on investment, 6.6%, remained below the target level. The gearing was within the target range, at 59.8%.

Changes in the taxation in the US had a positive impact on Suominen's profit for the financial year 2017

The significant positive impact of the US tax reform, enacted in December 2017, turned Suominen's income taxes to positive and raised the company's profit for the period close to last year's level. On 28 December, the company announced its preliminary assessment on the impact of the tax reform and anticipated that the revaluation of Suominen's net deferred tax liabilities in the US will improve the profit for the period by approximately EUR 4 million. On top of that, the further analysis on the other impacts of the tax reform revealed that Suominen benefits also significantly from the revaluation of the deferred tax liabilities related to the accelerated tax depreciations of new investments. The total impact of the changes in US taxation in 2017 was EUR +8.3 million. In the future, the decrease of the federal corporate income tax rate from 35% to 21% in the USA will have a beneficial effect on Suominen's profit. Approximately half of Suominen's net sales is generated in the USA.

The new manufacturing line at Bethune, SC plant was started up

The new wetlaid production line at the Bethune plant in South Carolina, USA was started up in the second quarter of 2017. The start up of the line was delayed by one quarter and Suominen also faced certain technical challenges in the ramp up phase, slowing down the process. The total negative impact of the costs of the growth investments on Suominen's profitability was nearly EUR 5 million in 2017. The new line is expected to contribute positively to Suominen's gross profit as of the first quarter of 2018.

The new production line is unique in the industry, since it is partially tailored based on Suominen's own technological know-how. Once in full speed, it will add Suominen's manufacturing capacity significantly, and will focus fully on meeting the growing demand of nonwovens with high added value. Therefore, the investment creates conditions to the future transformation of Suominen's product portfolio and, ultimately, to the improvement of both net sales and profitability.

Originally, the total value of the Bethune investment was estimated to be close to EUR 50 million. This estimate was exceeded.

The Board's proposal on return of capital, EUR 0.11 per share, is in line with the company's dividend policy

Suominen's Board of Directors updated the company's dividend policy in April 2017, in connection with the launch of the new strategy and financial targets. Suominen's policy is to distribute at least 30% of its profit for the period in annual dividends. In assessing its proposal for the payment of dividends, the company's Board of Directors will also consider Suominen's future investment needs and the solidity of its financial position.

Suominen's Board of Directors proposes to the Annual General Meeting a EUR 0.11 per share return of capital from the financial year 2017. On 30 January 2018 the company had 57,382,939 issued shares, excluding treasury shares. With this number of shares, the total amount of return of capital would be EUR 6,312,123.29.

Net sales

In 2017, Suominen's net sales increased by 2% from the comparison period to EUR 426.0 (416.9) million, mainly thanks to improved sales volumes. The weakening of the USD compared to euro, Suominen's reporting currency, decreased the net sales of 2017 by approximately EUR 4.8 million.

Suominen has two business areas, Convenience and Care. Convenience business area supplies nonwovens as roll goods for household, personal care, workplace and baby wiping products. Care business area manufactures nonwovens for hygiene products and medical applications.

Net sales of the Convenience business area were EUR 388.6 (380.5) million and net sales of the Care business area EUR 37.5 (36.3) million. The main application areas for nonwoven materials supplied by Suominen were baby wipes (accounting for 41% of the sales), personal care wipes (21%), household wipes (19%), wipes for workplace use (9%), and hygiene and medical products (9%). The shares of nonwovens for baby wipes, home care wipes and hygiene and medical products increased in the product portfolio. All wiping products belong to the Convenience business area and all medical and hygiene products belong to the Care business area. Due to the reclassification of a customer between applications, the figures for the comparison period have been restated.

Operating profit and result

Operating profit decreased by 42% and amounted to EUR 15.0 million (25.6). The costs related to the growth investments, unfavorable development of product mix and lower gross profit affected the operating profit. The weakening of the US dollar compared to euro, Suominen's reporting currency, decreased the operating profit by EUR 0.3 million. There were no items affecting comparability in 2017 or 2016.

In 2017, profit before income taxes was EUR 12.4 (22.4) million. Income taxes were positive by EUR 2.0 million, which increased the profit for the period to EUR 14.5 (15.2) million.

The impact of the revaluation of the net deferred tax liabilities in the USA with the lower tax rate, due to the US tax reform, was exceptionally large. It had no cash flow impact. In addition to the revaluation of the net deferred tax liabilities, Suominen was able to benefit from the opportunity to utilize accelerated tax depreciations of new investments in the USA. Utilizing accelerated tax depreciations postpones the payment of income taxes to subsequent years. The total positive impact of the changes in US taxation in 2017 was EUR +8.3 million, which turned Suominen's income taxes positive.

Net sales and operating profit

EUR thousand	2017	2016	2015
Net sales	425,996	416,862	444,042
Operating profit	15,000	25,622	31,778
Comparable operating profit	15,000	25,622	31,249

Financing

The Group's net interest-bearing liabilities, calculated with the nominal value of the interest-bearing liabilities at the end of the review period, 31 December 2017, amounted to EUR 81.4 million (56.6). Gearing was 59.8% (39.6%) and equity ratio 41.8% (45.3%).

In 2017, net financial expenses were EUR -2.6 million (-3.2), or 0.6% (0.8%) of net sales. In 2017, net financial expenses were decreased by EUR 2.2 million (1.3) due to the capitalization of borrowing costs in fixed assets as required by IAS 23 Borrowing costs standard. Net foreign exchange losses in financial items were EUR -0.6 million (-0.2).

Cash flow from operations was EUR 22.2 million (28.5). Cash flow from operations per share in 2017 was EUR 0.39 (0.56). The financial items in the cash flow from operations, in total EUR -5.6 million (-3.9), were principally impacted by the interests paid during the reporting period as well as transactions cost related to the refinancing. In total EUR 8.0 million was tied up in working capital (2016: tied up 6.3). Cash flow from financing improved due to repayments of loan receivables (EUR 1.6 million) granted in connection with the divestment of the Flexibles business area in July 2014. Cash flow from financing decreased by EUR 5.2 million due to the tender and transaction costs from the partial repurchase of the bond issued in 2014 and the costs of the issuance of the new bond.

Refinancing in 2017

Suominen renewed its financing in 2017. On September 25, Suominen announced it will issue a new bond and on 6 October the company disclosed its new syndicated EUR 100 million revolving credit facility.

Suominen's new senior unsecured bond of EUR 85 million will mature on 3 October 2022, carries a fixed annual interest at the rate of 2.50% and had an issue price of 100.00%. The bond was subscribed by total of 75 investors. Based on the application made by Suominen, the bond was admitted to trading on Nasdaq Helsinki Ltd on 10 October 2017. The proceeds from the bond offering were partially used for the partial repurchase (totaling EUR 59.3 million) of Suominen Corporation's previous unsecured EUR 75 million 4.375% fixed-rate notes due in 2019 (ISIN: FI4000108576). The remaining proceeds may be used for general corporate purposes. Nordea Bank AB (publ) and Svenska Handelsbanken AB (publ) acted as Joint Lead Managers for the issue of the new bond.

In connection with issuing the bond, Suominen entered into a syndicated credit facility agreement consisting of a single-currency revolving credit facility of EUR 100 million with a maturity of four years. The lenders for the facility are Nordea Bank AB (publ) and Svenska Handelsbanken AB (publ). The new bank facility includes leverage ratio and gearing as financial covenants.

The new credit facility replaced the syndicated credit facilities agreement of Suominen from 2014 totaling EUR 55 million with Nordea Bank AB (publ), Finnish Branch (former Nordea Bank Finland plc) and OP Corporate Bank plc (former Pohjola Bank plc) as the lenders.

Capital expenditure

In 2017, the gross capital expenditure totaled EUR 37.2 million (53.3). Gross investments were mainly related to the investment in a new wetlaid production line at the Bethune plant in SC, USA. In addition, Suominen runs currently a group-wide renewal of ICT systems. The first implementation of the ICT renewal program was conducted successfully at the Alicante plant in Spain in April without major issues. The other investments were mainly for maintenance.

Depreciation and amortization for the review period amounted to EUR -19.3 million (-18.5).

Capital expenditure and depreciation, amortization and impairment

EUR thousand	2017	2016	2015
Gross capital expenditure	37,210	53,320	23,660
% of net sales	8.7	12.8	5.7
Depreciation and amortization	-19,349	-18,520	-17,975
Impairment losses and reversals of impairment losses, net	–	–	291

Key ratios	2017	2016	2015
Return on equity (ROE), %	10.6	11.6	14.4
Return on invested capital (ROI), %	6.6	11.6	15.9
Equity ratio, %	41.8	45.3	43.2
Interest-bearing net debt, EUR million(*	81.4	56.6	32.5
Capital employed, EUR million	246.6	237.3	222.6
Gearing, %	59.8	39.6	25.9

(*At nominal value

Key ratios per share	2017	2016	2015
Earnings per share, EUR, total, basic (*	0.27	0.29	0.32
Earnings per share, EUR, total, diluted (*	0.25	0.26	0.29
Cash flow from operations per share, EUR (*	0.39	0.56	0.54
Equity per share, EUR (*	2.37	2.81	2.50
Price per earnings per share (P/E) ratio	16.5	14.1	19.4
Dividend or return of capital per share, EUR (**	0.11	0.11	0.10
Dividend payout ratio / payout ratio for return of capital, %	41.0	37.6	31.3
Dividend yield, %	2.49	2.66	1.31

(* Figures for 2015 have been adjusted with the effect of the reverse share split.
(** 2017 the proposal of the Board of Directors to Annual General Meeting for return of capital.

Key ratios per share are share issue adjusted. Definition for key ratios per share is presented in the consolidated financial statements.

Quarterly development 2017

EUR thousand	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
Net sales	112,920	112,002	102,380	98,694	425,996
Comparable operating profit	6,258	4,391	4,618	-267	15,000
% of net sales	5.5	3.9	4.5	-0.3	3.5
Items affecting comparability	–	–	–	–	–
Operating profit	6,258	4,391	4,618	-267	15,000
% of net sales	5.5	3.9	4.5	-0.3	3.5
Net financial expenses	-157	-285	-1,139	-988	-2,570
Profit before income taxes	6,102	4,105	3,478	-1,256	12,430
% of net sales	5.4	3.7	3.4	-1.3	2.9

Research and development

In 2017, Suominen reorganized its research and development function. The former R&D function was merged with Technology & Investments function into a new function named Technology. Mr. Markku Koivisto was appointed to the new position of Senior Vice President, Chief Technology Officer to lead the new Technology function.

The Technology function had 21 (20) employees at the end of the year. Research and development expenses amounted to EUR 4.7 million (4.3), corresponding to 1.1% (1.0%) of net sales.

Suominen's vision is to change the way people think about nonwovens. In addition, one of the three cornerstones of the company's strategy is to be able to create nonwovens others cannot. These aspirations drive the company to focus on research and development in order to be able to offer its customers materials and solutions that have unique or superior functionalities. The strategic target for Suominen is to increase the share of products with higher added value in its portfolio.

Suominen Corporation owns all business-related patents and related technologies, know-how, processes, recipes and all other solutions developed by Suominen Corporation. The company is targeting to have extensive industrial rights to the nonwoven-based solutions and technologies thereto as well as test and pilot equipment needed. This way it can offer best possible support to the group companies to satisfy the current and future customer needs.

Employees

Suominen employed during 2017 in average 670 persons (646), and 663 (650) persons at the end of 2017. The new employees were hired primarily to Operations, Sales and Marketing functions.

Personnel related key ratios

	2017	2016	2015
Average number of personnel	670	646	614
Wages and salaries, EUR thousand	35,577	32,482	33,910

Environment

Suominen's goal is to reduce the environmental load caused by its operations and to minimize the environmental impacts of its products throughout their life cycle. In addition to continuously improving and enhancing its operations, Suominen's environmental efforts are guided by the principles of reusing and recycling materials. Suominen is committed to taking into consideration the environmental impacts of its operations in accordance with the principles of sustainable development of the International Chamber of Commerce (ICC).

Suominen complies with the local legislation and official guidelines wherever it operates. Separate environmental permits are required for operations in some of the Group's units. Of Suominen's eight production units, seven plants – Alicante, Bethune, Cressa, Green Bay, Mozzate, Nakkila and Windsor Locks – operate an ISO 14001 environmental management system.

The environmental impacts of Suominen's operations primarily stem from the raw materials, energy and water used in production and from the waste generated during the production process. Environmental requirements are incorporated into product and process development projects from the very beginning, with the aim of using raw materials, energy, water and other resources, such as packaging materials and transport services, as efficiently as possible. The Group focuses on systematically lowering its waste volumes and making its use of energy and water more efficient. Currently, Suominen's product range includes certified products made of renewable raw materials. In addition, the company is constantly developing its product offering, taking into account not only the environmental performance but also the social aspects.

The materials used in the manufacture of products mainly consist of viscose, pulp, polypropylene and polyester. There is the risk that production plants might release hazardous substances into the environment. Suominen strives to control environmental risks by means of the quality and environmental systems used in production operations.

In 2017, Suominen's production plants used a total of 139,514 tons of raw materials (136,387 in 2016), 1,738,424 gigajoules (1,663,509) of energy and 5 327 657 m^3 (5,202,914 m^3) of water. Landfill waste generated at the production plants amounted to 2,256 tons (1,400 tons).

The environmental performance of Suominen is presented more extensively in the Non-financial report included in the company's Annual Report 2017.

The environmental expenditure of the Group was EUR 2.2 million (2.2). No material environment-related investments were made.

Share information

Share capital

The number of Suominen's registered shares was 58,259,219 on 31 December 2017, equaling to a share capital of EUR 11,860,056.00. Suominen has one series of shares. Each share carries one vote in the Shareholders' Meeting and right to an equally-sized dividend. Suominen's shares are affiliated in a book-entry system.

The number of shares increased in 2017 in total by 6,593,577 shares due to the share conversions of the hybrid bond notes and accrued interests. The conversion of the hybrid bond to shares has been recorded into the reserve for invested unrestricted equity.

Treasury shares

At the end of review period, on 31 December 2017, Suominen Corporation held 876,280 treasury shares. In accordance with the resolution by the Annual General Meeting, in total 16,807 shares were transferred on 2 June 2017 to the members of the Board of Directors as their remuneration payable in shares.

Share trading and price

The number of Suominen Corporation shares (SUY1V) traded on Nasdaq Helsinki from 1 January to 31 December 2017 was 5,405,584 shares, accounting for 10.4% of the average number of shares (excluding treasury shares). The highest price was EUR 5.22, the lowest EUR 3.86 and the volume-weighted average price EUR 4.53. The closing price at the beginning of the review period, on 2 January 2017, was EUR 4.25 and the closing price at the end of review period, on 29 December 2017, was EUR 4.42.

The market capitalization (excluding treasury shares) was EUR 253.6 million on 31 December 2017.

Authorizations of the Board of Directors

The Annual General Meeting (AGM) held on 15 March 2017 authorized the Board of Directors to repurchase a maximum of 400,000 of the company's own shares. The shares shall be repurchased to be used in company's share-based incentive programs, in order to disburse the remuneration of the members of the Board of Directors, for use as consideration in acquisitions related to the company's business, or to be held by the company, to be conveyed by other means or to be cancelled. The company's own shares shall be repurchased otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through trading on regulated market organized by Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. The repurchase authorization is valid until 30 June 2018.

The AGM held on 16 March 2016 authorized the Board of Directors to decide on issuing new shares and/or conveying the company's own shares held by the company and/or granting special rights entitling to shares referred to in Chapter 10, Section 1 of the Finnish Limited Liability Companies Act. New shares may be issued and/or company's own shares held by the company or its group company may be conveyed at the maximum amount of 5,000,000 shares in aggregate. The maximum number of new shares that may be subscribed and own shares held by the company that may be conveyed by virtue of the options and other special rights granted by the company is 5,000,000 shares in total which number is included in the maximum number stated earlier. The authorization is valid until 30 June 2019.

Remuneration of the Board payable in shares

Suominen's Annual General Meeting held on 15 March 2017 decided that the remuneration payable to the members of the Board remains unchanged, with the exception of the remuneration of the Chair of the Board which will be increased by EUR 10,000. The Chair of the Board of Directors will be paid an annual fee of EUR 60,000, Deputy Chair of the Board an annual fee of EUR 37,500 and other Board members an annual fee of EUR 28,000. Further, the members of the Board will receive a fee of EUR 500 for each meeting held in the home country of the respective member and a fee of EUR 1,000 per each meeting held elsewhere than in home country of the respective member. 60% of the annual remuneration is paid in cash and 40% in Suominen Corporation's shares. Compensation for expenses is paid in accordance with the company's valid travel policy.

Of the remuneration payable in shares as described above, the number of shares transferred was determined based on the share value in the stock exchange trading maintained by Nasdaq Helsinki Ltd, and calculated as the trade volume-weighted average quotation of the share during the one month period immediately following the date on which the interim report of January–March 2017 of the company was published. Shares (in total 16,807 shares) were given out of the treasury shares held by the company by the decision of the Board of Directors on 2 June 2017. Since the decision taken by the Board of Directors was essentially an execution of a detailed resolution taken by the AGM, the Board did not exercise independent discretion when it decided on the transfer of the shares. The transferred shares are of the same class as the company's other shares.

Share-based incentive plans for the management and key employees valid in 2017

In 2017, Suominen had a share-based incentive plan for the Group management and Group key employees, which is divided into Performance Share Plan and Matching Share Plan.

Performance Share Plan

The Performance Share Plan includes three vesting periods, calendar years 2015–2017, 2016–2018 and 2017–2019. The Board of Directors will decide separately on new earnings periods. In addition, the Board of Directors will decide on the Plan's performance criteria and required performance levels for each criterion at the beginning of a vesting period. The Performance Share Plan is directed to approximately 15–20 people. The Board of Directors is entitled to reduce the rewards agreed in the Performance Share Plan if the limits set by the Board of Directors for the share price are reached.

The potential reward of the Plan from the period 2015–2017 will be based on the Suominen Group's net sales growth, earnings before interest and taxes (EBIT%) and return on invested capital (ROI%). The rewards to be paid on the basis of the performance period 2015–2017 correspond to the value of an approximate maximum total of 460,000 Suominen Corporation shares (including also the proportion to be paid in cash).

The potential reward of the Plan from the period 2016–2018 will be based on the Suominen Group´s net sales growth, earnings before interest and taxes (EBIT%) and return on invested capital (ROI%). The rewards to be paid on the basis of the performance period 2016–2018 correspond to the value of an approximate maximum total of 245,000 Suominen Corporation shares (including also the proportion to be paid in cash).

The potential reward of the Plan from the period 2017–2019 will be based on the Suominen Group´s net sales growth, earnings before interest and taxes (EBIT%) and return on invested capital (ROI %). The rewards to be paid on the basis of the performance period 2017–2019 correspond to the value of an approximate maximum total of 480,000 Suominen Corporation shares (including also the proportion to be paid in cash).

The potential rewards from the earnings periods 2015–2017, 2016–2018 and 2017–2019 will be paid partly in the company's shares and partly in cash in 2018, 2019 and 2020, respectively. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participant. As a rule, no reward will be paid if a participant´s employment or service ends before the reward payment.

The President & CEO of the company must hold 50% of the net number of shares given on the basis of the Plan, as long as his or her shareholding in total corresponds to the value of his or her annual gross salary. A member of the Corporate Executive Team must hold 50% of the net number of shares given on the basis of the Plan, as long as his or her shareholding in total corresponds to the value of half of his or her annual gross salary. Such number of shares must be held as long as the participant's employment or service in a group company continues.

Matching Share Plan 2015

The Matching Share Plan includes one three-year vesting period, calendar years 2015–2017. The prerequisite for receiving reward on the basis of this plan is that a person participating in the plan owns or acquires the company's shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant´s employment or service upon reward payment.

The members of the Corporate Executive Team and the Corporate Leadership Team belong to the target group of the Matching Share Plan. The rewards to be paid on the basis of the

Matching Share Plan correspond to the value of an approximate maximum total of 127,478 Suominen Corporation shares (including also the proportion to be paid in cash).

The terms and conditions of the share-based incentive plans were technically revised due to the reverse share split implemented on 21 March 2016.

New share-based incentive plans for the management and key employees approved in 2017

On 11 December 2017, the Board of Directors of Suominen approved a new share-based incentive plan for the Group management and Group key employees. The aim of the new plan is to combine the objectives of the shareholders and the persons participating in the plan in order to increase the value of the company in the long-term, to bind the participants to the company, and to offer them competitive reward plans based on earning and accumulating the company´s shares.

The new Performance Share Plan includes a three-year performance period, calendar years 2018–2020. The Performance Share Plan is directed to approximately 20 people, including President & CEO. The Plan includes share price cap mechanism which cuts the reward if the limits set by the Board of Directors for the share price are reached.

The potential reward of the Plan from the performance period 2018–2020 is based on the Relative Total Shareholder Return (TSR) and Earnings before Interest and Taxes margin (EBIT%). The potential rewards to be paid on the basis of the performance period 2018–2020 correspond to the value of an approximate maximum total of 502,000 Suominen shares (including also the proportion to be paid in cash).

The potential rewards from the performance periods 2018–2020 will be paid partly in the company's shares and partly in cash in 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participant. As a rule, no reward will be paid, if a participant´s employment or service ends before the reward payment.

A member of the Corporate Executive Team must hold 50% of the net number of shares given on the basis of the Plan, as long as his or her shareholding in total corresponds to the value of half of his or her annual gross salary. The President & CEO of the company must hold 50% of the net number of shares given on the basis of the plan, as long as his or her shareholding in total corresponds to the value of his or her annual gross salary. Such number of shares must be held as long as the participant's employment or service in a group company continues.

Hybrid bond and conversion of the bond notes into Suominen shares in 2017

In February 2014, Suominen Corporation issued a EUR 17.5 million convertible hybrid bond. In accordance with the terms and conditions of the bond, the bondholders have a right to convert the bond notes and the accrued interest related to the notes into Suominen shares. The conversion period started on 11 February 2014 and will end on 10 February 2018. Conversion rate of the bond was EUR 2.50 per share.

In 2017, bond notes and the accrued interest related to the notes have been converted to total of 6,593,577 new shares in Suominen Corporation. The conversion rate was recorded under the reserve for invested unrestricted equity of Suominen. All notes of the hybrid bond are now converted into new shares in Suominen Corporation and the number of shares in Suominen will no longer increase due to the conversion of hybrid bond notes.

Shareholders

At the end of the review period, on 31 December 2017, Suominen Corporation had in total 4,146 shareholders. Suominen is not aware of any shareholder agreements related with the shareholding or use of voting rights. Detailed information on the management shareholding and a table presenting the largest shareholders is available in the notes of the consolidated statements.

Notifications under Chapter 9, Section 5 of the Securities Market Act

On 13 December 2017, AC Invest Two BV (a group company of Ahlström Capital) notified Suominen that its shareholding in the company falls below the 25% flagging threshold. The shareholding of AC Invest Two BV in Suominen decreased from 25.92% to 23.95%. The decrease in the ownership was due to the increase in the number of Suominen shares to 58,259,219 shares in connection with the conversion of Suominen's hybrid bond notes into new shares. The number of shares owned by AC Invest Two BV remained unchanged.

On 2 June 2017, Oy Etra Invest Ab (a company under the controlling power of Mr Erkki Etola) notified Suominen that its shareholding in the company will cross the 10% flagging threshold due to the conversion of the bond notes and accrued interests of the hybrid bond issued by Suominen Corporation into Suominen shares.

Information Pursuant of Ordinance 1020/2012 by Ministry of Finance, not presented in the consolidated financial statements

There are no restrictions of transfer neither redemption or approval clauses related to the shares of Suominen Corporation or securities entitling to shares.

Suominen Corporation is not participating any arrangements where the financial rights related to a share or a security entitling to hold a share would have been separated.

In accordance with the Articles of Association of Suominen Corporation and the Limited Liability Companies Act, the Shareholders' Meeting elects the Board of Directors. In accordance with the Articles of Association, the Board of Directors decides on the nomination of the President & CEO. The Articles of Association includes no specific stipulation on altering the Articles of Association. Shareholders' Meeting decides on share issues and acquisition of own shares, in accordance with the Limited Liability Companies Act.

The members of the Board of Directors have no specific contracts with the company regarding compensation in case a member resigns, is dismissed or his/her task ceases to exist due to a public tender offer. The President & CEO has no separate contract to be applied if his/her contract would be terminated due to a public tender offer. In accordance with the employment contract made by the company and the President & CEO, should the company terminate the President & CEO's contract of employment, severance pay corresponding to 12 months' salary shall be paid. Other principal terms and conditions of the service contract of the President & CEO are presented in Note 32 of the consolidated financial statements and in the Remuneration Statement 2017 of Suominen Corporation.

Composition of the Nomination Board

In accordance with the decision taken by the Annual General Meeting of Suominen Corporation, the representatives notified by the company's three largest shareholders have been elected to Suominen Corporation's permanent Nomination Board. The shareholders entitled to appoint members to the Nomination Board during financial year 2017 were determined on the basis of the registered holdings in the Company's shareholder register on 1 September 2016 and on 1 September 2017.

During financial year of 2017, the members of the Nomination Board were:

- Thomas Ahlström, Managing Director of Antti Ahlström Perilliset Oy and member of the Board of Directors of Ahlström Capital, nominated by AC Invest Two B.V.;
- Erkki Etola, CEO of Oy Etra Invest Ab, nominated by Oy Etra Invest Ab;
- Reima Rytsölä, Executive Vice-President of Varma Mutual Pension Insurance Company, nominated by Varma Mutual Pension Insurance Company;
- Jorma Eloranta, Chair of Suominen's Board of Directors (until 15 March 2017) and
- Jan Johansson, Chair of Suominen's Board of Directors (as of 15 March 2017).

  The Nomination Board shall submit its proposals to the Board of Directors no later than 1 February prior to the Annual General Meeting.

Annual General Meeting

The Annual General Meeting (AGM) of Suominen Corporation was held on 15 March 2017. The AGM decided that a dividend or EUR 0.11 per share will be paid for the financial year 2016.

The AGM adopted the financial statements and the consolidated financial statements for the financial year 2016 and discharged the members of the Board of Directors and the President & CEO from liability.

The AGM decided that the number of Board members remains unchanged at six (6). Mr. Andreas Ahlström, Mr. Risto Anttonen, Mr. Hannu Kasurinen, Ms. Laura Raitio and Ms. Jaana Tuominen were re-elected as members of the Board of Directors. Mr. Jan Johansson was elected as a new member and as Chair of the Board of Directors. The decisions concerning the remuneration of the Board, the number of the members in the Board as well as the composition of the Board were in accordance with the proposals by the Shareholders' Nomination Board.

Ernst & Young Oy, Authorized Public Accountant Firm, was elected as auditor of Suominen Corporation, with Ms. Kristina Sandin, Authorized Public Accountant, as the principal auditor. The AGM decided that the auditor's fee would be paid according to the invoice accepted by the company. The decisions were in accordance with the proposal of the Board of Directors and the recommendation by the Audit Committee.

The AGM decided to authorize the Board of Directors to decide on the repurchase a maximum of 400,000 of the company's own shares. The shares shall be repurchased to be used in company's share-based incentive programs, in order to disburse the remuneration of the members of the Board of Directors, for use as consideration in acquisitions related to the company's business, or to be held by the company, to be conveyed by other means or to be cancelled. The company's own shares shall be repurchased otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through trading on regulated market organized by Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. The repurchase authorization is valid until 30 June 2018.

Constitutive meeting and permanent committees of the Board of Directors

In its constitutive meeting held after the AGM on 15 March 2017, the Board of Directors re-elected Risto Anttonen as Deputy Chair of the Board.

The Board of Directors elected from among its members the members for the Audit Committee and Personnel and Remuneration Committee. Hannu Kasurinen was re-elected as the Chair of the Audit Committee and Andreas Ahlström and Jaana Tuominen were re-elected as members. Jan Johansson was elected as the Chair of the Personnel and Remuneration Committee and Risto Anttonen and Laura Raitio were re-elected as members.

Changes in Group structure

On 1 September 2017, Suominen Italy Holding S.r.l., a 100% owned subsidiary of Suominen Corporation, merged into its subsidiary Mozzate Nonwovens S.r.l.

The closing of Suominen Corporation's branch in Vaulx-Milieu, France was registered with the French authorities on 20 December 2017.

Composition of the Corporate Executive Team in 2017

During 2017 and on 30 January 2018, the members of Suominen's Corporate Executive Team were:

Nina Kopola, President & CEO, Chair of the Corporate Executive Team

Tapio Engström, Senior Vice President, CFO

Lynda A. Kelly, Senior Vice President, Care business area

Larry Kinn, Senior Vice President, Operational Excellence (Senior Vice President, Operations Americas until 1 April 2017)

Markku Koivisto, Senior Vice President, Chief Technology Officer (as of 27 March 2017)

Ernesto Levy, Senior Vice President, Convenience business area

Mimoun Saïm, Senior Vice President, Global Operations (Senior Vice President, Operations EMEA until 1 April 2017)

Hannu Sivula, Senior Vice President, Human Resources

Business risks and uncertainties

The estimate on the development of Suominen's net sales is partially based on forecasts and delivery plans received from the company's customers. Changes in these forecasts and plans, resulting from changes in the market conditions or in customers' inventory levels, may affect Suominen's net sales.

Suominen's customer base is fairly concentrated, which adds to the customer-specific risk. This may affect Suominen's financial result if customers' purchasing habits become more cautious as a result of a changes in consumption, or as a result of sales losses. The Group's ten largest customers currently account for 63% (63%) of the Group net sales. Long-term contracts are preferred with the largest customers. In practice the customer relationships are long-term and last for several years. Customer-related credit risks are managed in accordance with a risk policy approved by the Board of Directors. Credit limits are confirmed for customers on the basis of credit ratings and customer history. Suominen also uses export credit guarantees and insures against customer risks to a limited extent.

The relevance of the United States in Suominen's business operations increases the significance of the exchange rate risk related to USD in the Group's total exchange risk position. Suominen hedges this foreign exchange position in accordance with its hedging policy.

The risks that are characteristic to South American region, including significant changes in business environment or exchange rates, could have an impact on Suominen's operations in Brazil.

Suominen purchases significant amounts of pulp- and oil-based raw materials annually. Raw materials are the largest cost item for operations. Rapid changes in the global market prices of raw materials have an impact on the company's profitability. Suominen's stocks equal to two to four weeks' consumption and passing on the price changes of these raw materials to the prices Suominen charges its contract customers takes two to five months.

Extended interruptions in the supply of Suominen's main raw materials could disrupt production and have a negative impact on the Group's overall business operations. As Suominen sources its raw materials from a number of major international suppliers, significant interruptions are unlikely.

Suominen has numerous regional, national and international competitors in its different product groups. There is currently oversupply in some product groups in Suominen's both principal market regions. Products based on new technologies and imports from countries of lower production costs may reduce Suominen's competitive edge. If Suominen is not able to compete with an attractive product offering, it may lose some of its market share. Competition may lead to increased pricing pressure on the company's products.

Suominen continuously invests in its manufacturing facilities. The deployment of the investments may delay from what was planned, the costs of the investments may increase from what has been expected or the investments may create less business benefits than anticipated. The deployment phase of investments may cause temporary interruptions in operations.

Suominen's operations are dependent on the integrity, security and stable operation of its ICT systems and software as well as on the successful management of cyber risks. If Suominen's ICT systems and software were to become unusable or significantly impaired for an extended period of time, or the cyber risks are realized, Suominen's reputation as well as ability to deliver products at the appointed time, order raw materials and handle inventory could be adversely impacted.

There could be a risk of Suominen's business operations being interrupted due to abrupt and unforeseen events, such as power outages or fire and water damage. Suominen may not be able to control these events through predictive actions, which could lead to interruptions in business. Risks of this type are insured in order to guarantee the continuity of operations. As Suominen has valid damage and business interruption insurance, it is expected that the damage would be compensated and the financial losses caused by the interruption of business would be covered.

Suominen uses certain technologies in its production. In the management's view, the chosen technologies are competitive and there is no need to make major investments in new technologies. However, it cannot be excluded that the company's technology choices could prove wrong, and the development of new or substitute technologies would then require investments.

Suominen aims to protect its business against product liability risks through the use of systematic quality assurance processes and products liability insurance. Technology function of the company is responsible for ensuring the underlying safety of the group´s products during their development. Continuous quality control is designed to guarantee product quality during production. Management considers it unlikely that the Group will face significant product liability related claims, and is unaware of any such claims.

Suominen is subject to corporate income taxes in numerous jurisdictions. Significant judgement is required to determine the total amount of corporate income tax at Group level. There are many transactions and calculations that leave room for uncertainty as to the final amount of the income tax. Tax risks relate also to changes in tax rates or tax legislation or misinterpretations, and materialization of the risks could result in increased payments or sanctions by the tax authorities, which in turn could lead to financial loss. Deferred tax assets included in the statement of financial position require that the deferred tax assets can be recovered against the future taxable income.

The Group is exposed to several financial risks, such as foreign exchange, interest rate, counterparty, liquidity and credit risks. The Group's financial risks are managed in line with a policy confirmed by the Board of Directors. The financial risks are described in Note 3 of the Financial Statements.

Suominen performs goodwill impairment testing annually. In impairment testing the recoverable amounts are determined as the value in use, which comprises of the discounted projected future cash flows. Actual cash flows can differ from the discounted projected future cash flows. Uncertainties related to the projected future cash flows include, among others, the long economic useful life of the assets and changes in the forecast sales prices of Suominen's products, production costs as well as discount rates used in testing. Due to the uncertainty inherent in the future, it is possible that Suominen's recoverable amounts will be insufficient to cover the carrying amounts of assets, particularly goodwill. If this happens, it will be necessary to recognize an impairment loss, which, when implemented, will weaken the result and equity. Goodwill impairment testing has been described in the consolidated financial statements.

Business environment

Suominen's nonwovens are, for the most part, used in daily consumer goods, such as wet wipes as well as in hygiene and medical products. In these target markets of Suominen, the general economic situation determines the development of consumer demand, even though the demand for consumer goods is not very cyclical in nature. North America and Europe are the largest market areas for Suominen. In addition, we operate in the South American markets. The growth in the demand for nonwovens has typically exceeded the growth of gross domestic product by a couple of percentage points.

Throughout 2017, the consumer confidence continued strong both in euro area and in the United States. Consumers' optimism was reflected in the demand of nonwoven products.

Suominen assesses the trend in the demand for its products on the basis of both the general market situation and, above all, on the basis of the framework agreements drawn up with its customers. The new manufacturing capacity that has come on stream has somewhat saturated the markets, primarily in nonwovens for baby wipes and flushables.

At large, the growth in the demand in Suominen's target markets is expected to continue in 2018, on average, at the pace of 2017.

Information on the separate financial statements of the parent company

Key ratios of the parent company

EUR thousand	2017	2016	2015
Net sales	21,574	19,729	22,594
Operating profit / loss	-1,804	-1,631	832
% of net sales	-8.4	-8.3	3.7
Net financial expenses	173	8,567	9,268
Profit / loss before appropriations and income taxes	-1,631	6,936	10,100
Profit / loss for the period	-463	7,723	9,990
Return on invested capital, %	1.8	2.4	3.7
Salaries	-2,880	-2,299	-3,921
Average number of personnel	30	27	27

Figures for 2015 have been adjusted to reflect the requirements of the amended Accounting Act.

The separate financial statements of Suominen Corporation have been prepared according to the Finnish Accounting Act, the Accounting Ordinance and other laws and regulations relating to financial statements (FAS). The consolidated financial statements of Suominen group have been prepared in compliance with the International Financial Reporting Standards (IFRS).

Net sales of Suominen Corporation were EUR 21.6 million (19.7) and operating loss EUR -1.8 million (-1.6). Net financial expenses were EUR +0.2 million (+8.6). Profit / loss for the period was EUR -0.5 million (7.7). There are no related party loans except loans to other Suominen group companies.

In financial year 2017, the parent company had on average 30 (27) employees and at the end of the year 28 (29) employees.

The parent company closed its French branch office in Vaulx-Milieu (reg. number 790118079) in 2017. The closing of the branch office was registered with the French authorities on 20 December 2017.

Outlook for 2018

Suominen expects that in 2018, its net sales and comparable operating profit will improve from 2017. In 2017, Suominen's net sales amounted to EUR 426.0 million and operating profit to EUR 15.0 million. In financial years 2017 and 2016 Suominen had no items affecting the comparability of the operating profit.

The calculation of comparable operating profit is defined in the Calculation of key figures.

Proposal on return of capital

The loss of the financial year 2017 of Suominen Corporation, the parent company of the Group, was EUR 462,886.34. The funds distributable as dividends, including the loss for the period, of the parent company were EUR 6,592,975 and total distributable funds were EUR 94,016,127. There have been no significant changes in the company's financial position after the end of the review period.

The Board of Directors proposes that a return of capital of EUR 0.11 per share shall be distributed for the financial year 2017 from the reserve for invested unrestricted equity and that the loss shall be transferred to retained earnings. The record date is 19 March 2018 and the distribution of funds will be paid on 28 March 2018.

Corporate Governance Statement, Renumeration Statement and Non-Financial Report

The Corporate Governance Statement 2017 of Suominen Corporation has been disclosed as a separate statement at www.suominen.fi > Investors > Corporate Governance. Also the Remuneration Statement of Suominen has been disclosed and can be retrieved from the same address. Both statements are included also in the company's Annual Report 2017.

Suominen's Non-Financial Report as required by Directive 2014/95/EU and the Finnish Accounting Act is disclosed as a separate statement at www.suominen.fi > Investors > Corporate Governance and it also forms the Sustainability section of the company's Annual Report 2017.

SUOMINEN CORPORATION
Board of Directors

Consolidated financial statements (IFRS)

Consolidated statement of financial position

EUR thousand

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Goodwill	5	15,496	15,496
Intangible assets	6	17,470	14,133
Property, plant and equipment	7	136,649	135,510
Loan receivables	11	3,072	6,836
Available-for-sale assets	10	777	777
Other non-current receivables	11	1,744	2,524
Deferred tax assets	28	5,142	3,424
Total non-current assets		**180,349**	**178,698**
Current assets			
Inventories	9	44,241	42,631
Trade receivables	11	57,560	53,946
Loan receivables	11	4,337	1,550
Other current receivables	11	4,236	7,274
Assets for current tax	28	7,703	2,008
Cash and cash equivalents		27,240	29,522
Total current assets		**145,318**	**136,929**
TOTAL ASSETS		325,666	315,628

	Note	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	15	11,860	11,860
Share premium account		24,681	24,681
Reserve for invested unrestricted equity		87,423	70,855
Treasury shares		-44	-44
Fair value and other reserves		264	10
Exchange differences	14	-3,151	12,613
Retained earnings		15,084	6,324
Total equity attributable to owners of the parent		**136,117**	**126,300**
Hybrid bond	16	–	16,525
Total equity		**136,117**	**142,824**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	28	14,558	11,195
Liabilities from defined benefit plans	20	984	1,081
Other non-current liabilities	21	350	364
Debenture bonds	17	95,192	75,000
Other non-current interest-bearing liabilities	17	162	11,574
Total non-current liabilities		**111,246**	**99,214**
Current liabilities			
Current interest-bearing liabilities	17	15,118	7,923
Liabilities for current tax	28	32	280
Trade payables and other current liabilities	21	63,154	65,388
Total current liabilities		**78,304**	**73,590**
Total liabilities		**189,550**	**172,804**
TOTAL EQUITY AND LIABILITIES		325,666	315,628

Consolidated statement of profit or loss

EUR thousand

	Note	1 January–31 December 2017	1 January–31 December 2016
Net sales	22	**425,996**	**416,862**
Cost of goods sold		-383,839	-364,636
Gross profit		**42,157**	**52,226**
Other operating income	23	1,764	1,909
Sales and marketing expenses		-7,262	-7,364
Research and development expenses		-4,739	-4,330
Administration expenses		-16,861	-16,191
Other operating expenses	23	-59	-629
Operating profit		**15,000**	**25,622**
Net financial expenses	27	-2,570	-3,190
Profit before income taxes		**12,430**	**22,432**
Income taxes	28	2,048	-7,199
Profit for the period		**14,478**	**15,233**
Earnings per share, EUR			
Basic	30	0.27	0.29
Diluted		0.25	0.26

Consolidated statement of comprehensive income

EUR thousand

	1 January– 31 December 2017	1 January– 31 December 2016
Profit for the period	14,478	15,233
Other comprehensive income:		
Other comprehensive income that will be subsequently reclassified to profit or loss:		
Exchange differences	-17,083	7,881
Fair value changes of cash flow hedges	267	245
Reclassified to profit or loss	13	116
Reclassified to property, plant and equipment	-35	-188
Income taxes related to other comprehensive income	1,328	-410
Total	-15,510	7,644
Other comprehensive income that will not be subsequently reclassified to profit or loss:		
Remeasurements of defined benefit plans	15	-110
Income taxes related to other comprehensive income	-4	16
Total	11	-93
Total other comprehensive income	-15,500	7,551
Total comprehensive income for the period	-1,022	22,784

Consolidated statement of changes in equity

EUR thousand

	Note	Share capital	Share premium account	Reserve for invested unrestricted equity	Treasury shares	Exchange differences	Fair value and other reserves	Retained earnings	Total	Hybrid bond	Total equity
Equity 1 January 2017		**11,860**	**24,681**	**70,855**	**-44**	**12,613**	**10**	**6,324**	**126,300**	**16,525**	**142,824**
Profit for the period		–	–	–	–	–	–	14,478	14,478	–	14,478
Other comprehensive income	14	–	–	–	–	-15,764	254	11	-15,500	–	-15,500
Total comprehensive income		**–**	**–**	**–**	**–**	**-15,764**	**254**	**14,489**	**-1,022**	**–**	**-1,022**
Share-based payments		–	–	–	–	–	–	338	338	–	338
Distribution of dividend		–	–	–	–	–	–	-5,585	-5,585	–	-5,585
Conveyance of treasury shares		–	–	84	–	–	–	–	84	–	84
Conversion of hybrid bond		–	–	16,484	–	–	–	–	16,484	-16,484	–
Hybrid bond		–	–	–	–	–	–	-481	-481	-41	-522
Equity 31 December 2017		**11,860**	**24,681**	**87,423**	**-44**	**-3,151**	**264**	**15,084**	**136,117**	**–**	**136,117**

	Note	Share capital	Share premium account	Reserve for invested unrestricted equity	Treasury shares	Exchange differences	Fair value and other reserves	Retained earnings	Total	Hybrid bond	Total equity
Equity 1 January 2016		**11,860**	**24,681**	**69,652**	**-44**	**5,097**	**-118**	**-3,076**	**108,052**	**17,664**	**125,716**
Profit for the period		–	–	–	–	–	–	15,233	15,233	–	15,233
Other comprehensive income	14	–	–	–	–	7,516	128	-93	7,551	–	7,551
Total comprehensive income		**–**	**–**	**–**	**–**	**7,516**	**128**	**15,140**	**22,784**	**–**	**22,784**
Share-based payments		–	–	–	–	–	–	190	190	–	190
Distribution of dividend		–	–	–	–	–	–	-5,030	-5,030	–	-5,030
Conveyance of treasury shares		–	–	80	–	–	–	–	80	–	80
Conversion of hybrid bond		–	–	1,124	–	–	–	–	1,124	-1,124	–
Hybrid bond		–	–	–	–	–	–	-899	-899	-16	-915
Equity 31 December 2016		**11,860**	**24,681**	**70,855**	**-44**	**12,613**	**10**	**6,324**	**126,300**	**16,525**	**142,824**

Consolidated statement of cash flows

EUR thousand

	Note	1 January–31 December 2017	1 January–31 December 2016
Cash flow from operations			
Profit for the period		14,478	15,233
Total adjustments to profit for the period	31	21,069	29,783
Cash flow before changes in net working capital		35,547	45,016
Change in net working capital		-8,028	-6,277
Financial items		-5,575	-3,895
Income taxes		207	-6,348
Cash flow from operations		**22,152**	**28,496**
Cash flow from investments			
Investments in property, plant and equipment and intangible assets		-33,839	-49,553
Adjustments of purchase consideration		–	161
Cash flow from disposed businesses		287	313
Sales proceeds from property, plant and equipment and intangible assets		5	8
Cash flow from investments		**-33,548**	**-49,072**
Cash flow from financing			
Drawdown of non-current interest-bearing liabilities	17	25,730	–
Drawdown of current interest-bearing liabilities	17	25,000	–
Repayment of current interest-bearing liabilities	17	-27,263	-3,359
Repayment of loan receivables		1,550	1,000
Tender and issuance costs of the bonds		-5,190	–
Distribution of dividends		-5,585	-5,030
Payment of hybrid bond interest		-642	-624
Cash flow from financing		**13,599**	**-8,013**
Change in cash and cash equivalents		**2,203**	**-28,588**
Cash and cash equivalents at the beginning of the period		29,522	55,570
Effect of changes in exchange rates		-4,485	2,540
Change in cash and cash equivalents		2,203	-28,588
Cash and cash equivalents at the end of the period		**27,240**	**29,522**

Notes to the consolidated financial statements (IFRS)

1. SIGNIFICANT ACCOUNTING POLICIES - CONSOLIDATED FINANCIAL STATEMENTS

Basic information

Suominen Corporation is a public limited liability company organized under the laws of the Republic of Finland and domiciled in Helsinki, Finland (Itämerentori 2, 00180 Helsinki, Finland). Suominen's shares are publicly traded in the Nasdaq Helsinki Ltd. (Mid Cap) in Helsinki, Finland. Suominen Corporation is the parent of the Group. The Group manufactures nonwovens mainly for consumer goods companies.

The Board of Directors of Suominen Corporation has in its meeting on 30 January 2018 approved these financial statements to be published. According to the Finnish Limited Liability Companies Act, the shareholders have a possibility to approve or reject or make a decision on altering the financial statements in a General Meeting to be held after the publication of the financial statements.

Basis for presentation

The consolidated financial statements of Suominen Group are prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (SIC and IFRIC). International Financial Reporting Standards are standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The Notes to the Financial Statements are also in accordance with the Finnish Accounting Act and Ordinance and the Finnish Limited Liability Companies Act.

The consolidated financial statements include the financial statements of Suominen Corporation and its subsidiaries. The functional and reporting currency of the parent is euro, which is also the reporting currency of the consolidated financial statements. Functional currencies of subsidiaries are determined by the primary economic environment in which they operate.

The financial year of Suominen Group as well as of the parent and subsidiaries is the calendar year ending 31 December.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies.

The figures in Suominen's consolidated financial statements are mainly presented in EUR thousands. Due to rounding differences the figures presented in tables do not necessarily add up to the totals of the tables.

New accounting standards

Suominen has applied the following new or revised or amended standards and interpretations from 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows, arising from the Disclosure Initiative, effective for reporting periods beginning on 1 January 2017 or later. The amendments require companies to provide disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as foreign exchange gains and losses. The amendments have no material effect on Suominen as the changes in liabilities arising from financing activities, including the changes arising from foreign exchange, have been disclosed in Suominen's consolidated financial statements before the application of the amendment.

Other new or amended standards or interpretations applicable from 1 January 2017 are not material for Suominen Group.

New and amended IFRS standards and IFRIC interpretations published but mandatory in 2018 or later:

Below are disclosed separately those new standards, amendments and interpretations which will have a material effect on Suominen. Other new or amended standards or interpretations applicable from 1 January 2018 or later are not material for Suominen Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is to be applied for the reporting periods beginning on or after 1 January 2018. The timing of the revenue recognition can take place over time or at a point of time, depending on the transfer of control. The new standard will have no material effect on revenue recognition in Suominen, but it will increase the disclosure information in the consolidated financial statements.

The goods Suominen sells are nonwoven rolls. The customer can benefit from each nonwoven roll either on its own or together with other resources readily available to the customer. The delivered goods have been identified in the contracts Suominen has made with the customer (for example the quality and measurements of the product have been defined). The contracts often define the target for quantities to be delivered, but the customer is not committed to the quantities. The supplied quantities are based on the customer's purchase orders and each supplied quantity is invoiced separately.

The performance obligation is satisfied when the goods have been delivered to the customer, ie. the performance obligation is satisfied at a point of time. In most cases the goods are handed over to the customer when the goods leave the production plant. If, in accordance with the terms of delivery, the risks and rewards of ownership of the goods as well as control over the goods are transferred to the customer only when the goods have been delivered to the customer, revenue is recognized only when the customer has received the goods. This does not change the current revenue recognition principles of Suominen.

The payment terms and times differ depending on the customer. The applied payment term and the length of the payment time are affected by, among other things, the credit risk and prior payment behavior of the customer. In addition, the geographical location of the invoicing production plant as well of the customer have an effect on the payment terms. Suominen has preferred payment terms defined in the credit policy, but for commercial reasons it is possible to deviate from these payment terms. For the most part trade receivables are due within 30–90 days from the invoicing date.

There are no significant financing components in the transaction prices and the considerations are paid in cash.

Some of the customer contracts include a definition of a rebate, which is granted to the customer if the delivered quantities exceed the predefined level, i.e. in these cases the transaction price includes a variable consideration. The effect of the variable consideration on the transaction price is taken into account in revenue recognition by estimating the probability of the realization of the rebate for each contract. The estimation is based on the most likely amount. When estimating the probability, Suominen takes into account the historical information of the customer (such as whether the deliveries in the past have reached the level which entitles the customer to receive the rebate), the current situation at the time of the delivery of the goods as well as forecasts on future deliveries. The uncertainty inherent in estimating the variable consideration is considered to be so immaterial that the variable consideration has not been constrained. The estimated transaction price is reassessed latest at the end of each reporting period. This does not change the current revenue recognition principles of Suominen.

The receivable from the customer is recognized at the transaction price. This means in practice that both the invoiced trade receivable from the customer and recognized revenue are adjusted in accounting with an accrual based on the estimated rebate amount. This will change the current practice in recognizing amounts in the statement of financial position, as currently the rebate accrual is recognized in accrued expenses.

In some of the customer contracts the transaction price of the goods is tied to the raw material costs of Suominen. The effect of the raw material prices on transaction prices is, however, applied only to future transaction prices and they do not affect the prices of already delivered goods. As the delivered quantities are distinct performance obligations, raw material clauses are not applied retrospectively.

Sales prices are defined in the customer contracts separately for each product. The price for each customer is based on, among other things, quantities, transaction currency and the geographical location of the customer. Variable considerations (rebates) are allocated to the performance obligations which are included in the contract, unless otherwise agreed in the contract. In these cases the variable considerations are allocated only to those performance obligations they relate to.

Suominen has no material incremental costs of obtaining a contract which would fulfill the capitalization criteria. Any incremental costs are recognized as expense when incurred, as the amortization period of such capitalized incremental costs would be one year or less. Suominen has no such costs to fulfill a contract which would fulfill the capitalization criteria of IFRS 15.95–97.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments and its amendments are to be applied for the reporting period beginning on 1 January 2018 or later. IFRS 9 changes the classification and measurement of financial assets and includes a new model for assessing the impairment of the financial assets based on expected credit losses. The classification and measurement of financial liabilities do not materially change from IAS 39. Hedge accounting can be applied to a larger number of risk exposures than before and hedge accounting principles have been harmonized with those used in risk management.

IFRS 9 will change the classification and measurement of some financial assets of Suominen. Suominen has defined its business model for managing the financial assets and based on the model as well as the characteristics of the financial assets, determined the classification of the financial assets.

Certain loan receivables, which in accordance with IAS 39 have been classified as loans and other receivables and measured at amortized cost, will be under IFRS 9 financial assets at fair value through profit or loss, as they, among other things, include terms which are not basic terms for loan receivables. For these loan receivables the credit risk is taken into account when determining the fair value of the receivables. Some of the loan receivables will continue to be measured at amortized cost also under IFRS 9, as the their contractual cash flows consist solely of payments of principal and interest, and Suominen's aim is to hold the receivables until maturity in order to collect the contractual cash flows. For these loan receivables the credit risk and impairment losses are estimated based on 12-month expected credit losses, or if there has been an increase in the credit risk related to the receivable, based on lifetime expected credit losses. Based on the situation at the end of the reporting period, Suominen does not expect material negative fair value changes or credit losses arise from the loan receivables.

For investments in equity instruments, ie. shares, IFRS 9 enables the entity to make an irrevocable election of classification and measurement by equity instrument. Suominen classifies some of the investments in equity instruments at fair value through profit or loss. With the classification both the fair value changes and possible gains and losses on disposal are recognized in profit or loss. Some equity instruments are classified at fair value through other comprehensive income, and both fair value changes and possible gains and losses on disposal are recognized in other comprehensive income without subsequent recycling to profit or loss.

Cash and cash equivalents are measured under IFRS 9 at amortized cost. Under IFRS 9 also cash and cash equivalents are subject to credit loss assessment, and credit losses are recognized based on either 12-month expected credit losses, or if there has been a significant increase in the credit risk related to the receivable, based on lifetime expected credit losses. Based on the situation at the end of the reporting period and taking into account the counterparty credit risk related to deposits in banks, there are no credit losses from cash and cash equivalents.

Derivative instruments for which hedge accounting is not applied, are recognized also under IFRS 9 at fair value through profit or loss. During the reporting period Suominen has applied hedge accounting only to cash flow hedges, and applying IFRS 9 will not change the recognition or measurement of them.

Trade receivables are measured under IFRS 9 at amortized cost. Under IAS 39 they are classified as loans and other receivables and measured at amortized cost. The value of trade receivables depends on the transaction price of sold goods. Transaction price is measured in accordance with IFRS 15 Revenue from Contracts with Customers standard. In defining the transaction price, for example the variable considerations included in the contracts, such as volume rebates, are taken into account. This means that the transaction price can be lower than the sales amount invoiced from the customer. Suominen has recognized already before the application of IFRS 9 the estimated customer rebates and other potential variable considerations in profit or loss, so there are no result effects of applying IFRS 15 on transaction price. As the accruals for variable considerations are presented in the statement of financial position as accrued expenses before IFRS 9 is applied and under IFRS 9 as items decreasing trade receivables, the carrying amount of trade receivables will change under IFRS 9.

Suominen applies the practical expedient allowed by IFRS 9 for impairment losses arising from trade receivables and uses a provision matrix in estimating the impairment losses based on historical experience on realized credit losses. In accordance with the provision matrix, the impairment losses of trade receivables are based on lifetime expected credit losses. Trade receivables are categorized based on risk characteristics of the customers taking into account the customers' capability to pay all contractual amounts as agreed in the contracts. Risk characteristics include, among others, the geographical risk related to the customer.

In accordance with IFRS 9, the expected credit losses on trade receivables are a probability-weighted estimate of credit losses over the expected life. As historically Suominen's realized credit losses have mainly been immaterial and as approximately half of the trade receivables were at the end of the reporting period from international customers with high credit rating, Suominen estimates that recognizing credit losses from trade receivables in accordance with IFRS 9 will not have any material effect on profit or loss. The main change would be that credit losses will be recognized earlier than before.

Compared with IAS 39, IFRS 9 will not change the measurement or classification of financial liabilities.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2, effective for annual periods beginning on or after 1 January 2018, will change the recognition and measurement of share-based payment transactions which have net settlement features for withholding tax obligations. Under such transactions the entity withholds a number of shares that is equal to the monetary value of the employee's tax obligation from the total number of shares that would have otherwise been issued to the employee upon exercise or vesting, and transfers the amount in cash to tax authorities on behalf of the employee.

Currently the cash-settled share-based payment transactions are measured at fair value at the reporting date and recognized as a liability in the statement of financial position. After the application of the amendments of IFRS 2, the currently cash-settled portion of share-based payment transactions which have net settlement features for withholding tax obligations will be recognized and measured as equity-settled. At transition date, the cash-settled portion of any unvested share-based payment arrangement which has net settlement features will be remeasured and recognized as equity-settled at fair value and recognized in equity. The liability for the cash settled transaction will be derecognized from the statement of financial position, and any effect of the remeasurement will be recognized in equity.

As Suominen's share-based payment programs have net settlement features, the amendment will change Suominen's accounting and measurement for cash settled share-based payments. The change will increase consolidated equity by approximately EUR 0.7 million.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Considerations

When a non-monetary asset or liability arises from the payment or receipt of a foreign currency advance consideration before the related asset, expense or income is recognized, the non-monetary items are recognized in the statement of financial position using the transaction date exchange rate. The interpretation clarifies that when the non-monetary item related to the advance consideration is derecognized and the related asset, expense or income is recognized, the the exchange rate used is the rate used in the initial recognition of the advance consideration, and no revaluation due to changes in foreign exchange rates is made.

The interpretation is effective for reporting periods beginning on 1 January 2018 or later, and Suominen will apply it prospectively to transactions taking place on or after 1 January 2018. Application of the interpretation has no material effect on Suominen's consolidated financial statements.

Annual Improvements 2014–2016

Annual Improvements 2014–2016, partly effective for reporting periods beginning on 1 January 2018 or later. The impacts of the standards vary but are not material for Suominen's consolidated financial statements.

IFRS 16 Leases

IFRS 16 Leases will be effective for the reporting periods beginning on 1 January 2019 or later, if approved by European Union. In accordance with the new standard, the lessee will recognize assets and liabilities for the rights and obligations created by leases. The new standard will increase interest-bearing liabilities and property, plant and equipment as well as intangible assets in the consolidated financial statements of Suominen. In addition, the rental expenses recognized in profit or loss will decrease and depreciation and amortization as well as interest expenses will increase. This will affect operating profit.

Suominen owns the majority of its production facilities (ie. buildings and land) as well as all of its production lines. The most significant leasing agreements Suominen has consist of the leased production facilities in Italy and Windsor Locks, USA. Other leasing agreements are mainly leasing agreements on offices and smaller machinery and equipment.

The carrying amounts of the lease liabilities and right-of-use assets depend on, among other things, the length of the leasing contracts as well as the potential options and possibilities to lengthen or shorten the lease term. The carrying amounts are especially affected with the estimates made of the lease terms and possible renewals of the lease agreements of the production facilities. At the end of the reporting period Suominen estimates that the carrying amounts of lease liabilities and right-of-use assets arising from application of IFRS 16 will be approximately EUR 15–20 million.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

IFRIC 23 Interpretation clarifies the accounting of uncertainty in accounting for income taxes. Under IFRIC 23 the key test is whether it is probable the tax authority will accept the company's chosen tax treatment. If it is probable that the tax authority accepts the company's chosen tax treatment in the tax return, there is no uncertainty which would have to be recognized in the financial statements. If it is not probable, then the uncertainty is reflected in the measurement of current or deferred tax. The uncertainty is reflected in the measurement by using either the most likely amount of the expected value, which ever predicts the outcome better.

The judgements and estimates applied in estimating the uncertainty over an income tax treatment are reassessed if facts and circumstances change.

In accordance with the interpretation, the company has to determine, whether to consider each tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty in tax treatments has to be followed.

The interpretation is effective for reporting periods beginning on 1 January 2019 or later. The application is made either retrospectively by restating comparative information if possible without the use of hindsight or by adjusting equity on initial application without restating comparative information.

Consolidation principles

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are companies in which the parent has, based on its holding, more than half of the voting rights directly or via its subsidiaries or over which it otherwise has control. The Group has control over an entity when it has a participation in the entity and is exposed to or has right to its variable revenues and can influence the revenues by using its control over the entity.

Divested subsidiaries are included in the consolidated financial statements until the control is lost, and companies acquired during the reporting period are included from the date when the control has been transferred to Suominen. Acquisitions of subsidiaries are accounted for under the acquisition method under which the purchase consideration is allocated to the acquired identifiable assets and liabilities assumed, which are measured at fair value at the acquisition, and the residual is recognized as goodwill. The transaction costs related to a business combination are recognized in profit or loss.

All intra-group transactions are eliminated as part of the consolidation process. Unrealized losses are eliminated only to the extent that there is no evidence of impairment.

Foreign subsidiaries

In the consolidated financial statements, the statements of profit or loss, statements of comprehensive income and statements of cash flows of foreign subsidiaries have been translated into euros using the average exchange rates of the reporting period and the statements of financial positions have been translated using the closing exchange rates at the end of the reporting period.

The exchange difference arising from translating the statements of profit or loss, statements of comprehensive income and statements of financial position using the different exchange rates is recognized as other comprehensive income and included in equity as cumulative exchange difference. Exchange differences arising from the translation of the net investments in foreign subsidiaries in non-euro area are also recognized in other comprehensive income and included in equity as cumulative exchange difference (Note 14).

On the disposal of all or part of a foreign subsidiary, the cumulative amount or proportionate share of the exchange difference is reclassified from equity to profit or loss as a reclassification item in the same period in which the gain or loss on disposal is recognized.

Transactions in foreign currencies

In their own day-to-day accounting the Group companies translate transactions in foreign currencies into their own reporting or functional currency at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, the unsettled balances of foreign currency transactions are measured at the exchange rates prevailing at the end of the reporting period. Foreign exchange gains and losses arising from trade receivables are entered as adjustments of net sales and foreign exchange gains and losses related to trade payables are recorded as adjustments of costs of goods sold. Foreign exchange gains and losses arising from financial items are recorded as financial income and expenses.

Reportable segments

Suominen has no reportable segments.

The business of Suominen consists of one operating segment, Nonwovens. The net sales of Suominen consist entirely of net sales of the Nonwovens operating segment. All the products Suominen produces and sells are nonwoven products, and the production process and technology of all the products are similar, as they are produced using the same production lines. Also other resources, such as raw materials and production management, are common to all products. The customers are mainly converters of nonwovens, and the risks or profitability related to products or customers do not differ from each other. Also distribution of the products is similar.

The sales organization of Suominen is organized not only geographically but also as Convenience and Care business areas based on customers or end products of the customers. Account management of major customers ("Global Accounts") is, however, centralized and independent of the business areas. Suominen reports net sales not only by business areas but also by geographical areas.

As the resources are not dedicated to either Convenience or Care business areas, the allocation of production capacity or other resources either to Convenience or Care products depends at each moment of the orders received and unutilized production capacity.

The chief operating decision maker of Suominen is the President & CEO, who is assisted by the Corporate Executive Team. The President & CEO makes decisions on allocating the resources of the Group. However, material items, such as major investments, as well as items which are required by governing law to be decided by the Board of Directors, are presented to the Board for approval.

Entity-wide disclosures are presented in Note 22.

Research and development

Expenditure on research and development is recognized in profit or loss. Expenditure on product and process development is not capitalized as no separate assets are developed in the research and development activities or future economic benefits arising from the assets cannot be reliably assessed.

Government grants

Government or other grants are recognized in profit or loss in the same periods in which the corresponding expenses are incurred. The grants received are recognized as offsetting items of the expenses incurred. Government grants received to acquire property, plant and equipment or other assets are deducted from the acquisition cost of the assets in question.

Provisions

A provision is recognized when there is a present legal or constructive obligation arising from past events and it is probable, that the fulfillment of the obligation requires payment and generates outflow of economic benefits from the company, and when the amount of the obligation can be measured reliably. Provisions are recognized as liabilities in the statement of financial position. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the time value of money is material, provisions are discounted.

A restructuring provision is recognized only when a detailed and fully compliant plan has been prepared for it and the implementation of the plan has been started or notification of it has been made known to those whom the arrangement concerns.

Dividends and other distribution of funds

Dividends or other distribution of funds proposed by the Board of Directors are not recognized in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

Audit

Quarterly information as well as interim reports are not audited.

Other accounting principles

Accounting principles related to assets, liabilities and line items in the statement of profit or loss are presented in the disclosure information related to each item.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the end of the reporting period and the recognized amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The following items include critical accounting estimates: impairment testing of assets, especially of goodwill; estimated fair values of property, plant and equipment and intangible assets acquired in an acquisition and their estimated useful lives; useful lives of other intangible assets and property, plant and equipment; measurement of inventories and trade and loan receivables; recognition and measurement of deferred taxes and estimates of the amount and probability of provisions.

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgements are presented in the disclosure information related to each item.

3. FINANCIAL RISK MANAGEMENT

Suominen is exposed to customary financial risks relating to its global businesses such as foreign exchange and interest rate risks, counterparty risk, funding and liquidity risks, credit risk and commodity risk. The treasury policy approved by Suominen Corporation's Board of Directors defines the authorities, responsibilities and principles to be followed in the Group. Financial risk management is centralized within Suominen Group Treasury which acts as an in-house bank providing financial services for subsidiaries within the Group. In accordance with the treasury policy the President & CEO approves all major funding operations and the main principles to be followed when hedging financial risks. The CFO is responsible for ensuring that the policy is observed throughout the Group, and for individual financial operations concerning funding, managing liquidity and financial risks.

Foreign exchange risk

Suominen Group operates internationally and is therefore exposed to transaction and translation risks arising from fluctuations in foreign exchange rates which may have an effect on profit or loss and financial position of the Group. Transaction risks mainly arise from cash flows generated by purchase and sales activities while translation risks arise from converting items in the statements of profit or loss and the statements of financial position of non-euro subsidiaries as well as other currency-denominated assets and liabilities into the Group's functional currency euro. The aim of the Group's foreign exchange risk management is to hedge earnings from operations and to avoid exchange rate volatility in cash flows, profit or loss and in financial position.

In addition to US dollar, which generates the most significant currency impacts to Suominen, also Brazilian real affects the Group's foreign exchange risk.

The foreign exchange transaction exposure comprises of already known and estimated currency cash flows for the next 12 months. The transaction risks arise mainly from the USD transactions in the euro area and in Brazil and from EUR transactions in the USA and Brazil. The USD risk arises both from USD business and treasury transactions. The exchange rate risk related to the Brazilian unit is hedged case by case. In accordance with the hedging policy, the foreign currency hedging should hedge the cash flows arising from sales, purchases and interest payments in foreign currencies of the following 3 and 9 months.

Common derivative contracts are used in hedging to some extent, as their pricing can be verified on the markets. Suominen does not apply hedge accounting in currency hedging for the transaction risks. Changes in fair values of currency hedging instruments are recognized in profit or loss.

Suominen has applied hedge accounting for currency derivatives hedging foreign exchange risk arising from acquisition of property, plant and equipment. The amount arising from the foreign exchange hedge recognized in property, plant and equipment was EUR -35 thousand (EUR -188 thousand) during the reporting period.

The consolidated transaction exposure at the end of the reporting period is presented in the table below:

	Transaction exposure 2017		Transaction exposure 2016	
EUR thousand	12 months cash flow	Hedged with currency forwards	12 months cash flow	Hedged with currency forwards
USD/EUR	-5,317	-1,334	-6,646	3,927
EUR/BRL	-1,218	–	-1,406	–
USD/BRL	-8,409	–	-5,401	–

Correspondingly, the translation exposure at the end of the reporting period was as follows:

Translation exposure 2017 against EUR

EUR thousand	Granted loans	Cash and cash equivalents and internal loans taken	External loans taken	Equity of foreign subsidiaries	Hedged with currency derivatives	Open exposure
BRL	–	4,938	–	18,341	–	23,279
USD	47,883	7,632	–	84,237	–	139,752

Translation exposure 2016 against EUR

EUR thousand	Granted loans	Cash and cash equivalents and internal loans taken	External loans taken	Equity of foreign subsidiaries	Hedged with currency derivatives	Open exposure
BRL	–	3,897	–	19,533	–	23,430
USD	54,479	15,383	-19,110	71,874	–	122,626

Granted loans consist of intra-group loans granted to the foreign subsidiaries (+). The loans granted to subsidiaries in USD are in substance equity as the repayment is not anticipated in foreseeable future. These loans amounted to USD 57.4 million, equaling to EUR 47.9 million at the end of the reporting period. The exchange differences from these loans are recognized in exchange differences in other comprehensive income as they are in substance exchange differences arising from equity. Exchange rate differences arising from both internal and external loans taken are recognized in profit or loss.

The translation exposure arising from the US dollar was hedged in 2016 and also partly during 2017 with external USD loans amounting to USD 20.1 million, equaling to EUR 19.1 million at the end of 2016. These USD loans were repaid during 2017.

Sensitivity analysis of financial instruments

The international reporting standards require disclosing sensitivity analysis of financial instruments. The table in the following page summarizes the sensitivity of financial instruments on foreign exchange risk at the end of the reporting period. In the sensitivity analysis, the financial instruments include currency forward contracts, intra-group short-term and long-term currency denominated receivables and liabilities and external currency denominated borrowings. Sensitivities of the currency rates at the end of the reporting period are estimated based on the actual volatility of the currencies over the past 12 months. The exchange rate sensitivity is calculated for the following 12 months by using the rates at the end of the reporting period. The change in the exchange rate is the change of euro rate against US dollar rate.

2017

EUR thousand	Currency strengthens %	A. Effect on profit after tax	B. Effect on equity after tax (excluding A)	Currency weakens %	A. Effect on profit after tax	B. Effect on equity after tax (excluding A)
USD/EUR	7	-76	2,693	-7	76	-2,693

2016

EUR thousand	Currency strengthens %	A. Effect on profit after tax	B. Effect on equity after tax (excluding A)	Currency weakens %	A. Effect on profit after tax	B. Effect on equity after tax (excluding A)
USD/EUR	10	-1,767	3,907	-10	1,767	-3,907

Effectiveness and sensitivity analysis of currency hedging

The management has assessed the effectiveness of hedging by combining the estimated net cash flow for 12 months in foreign currencies with the compensating effect of the hedging instruments. The net effect from the change in exchange rates as described above on profit after taxes in 2017 is estimated to be EUR - / + 374 thousand (EUR - / + 179 thousand). Sensitivities of exchange rates at the end of the reporting period are estimated based on of the actual volatility of the currencies over the past 12 months. The exchange rate sensitivity is calculated for the following 12 months by using the currency rates at the end of the reporting period.

2017

EUR thousand	Currency strengthens / weakens %	Effect on 12 months' currency cash flow	Effect on hedging instruments	Net effect after tax
USD/EUR	+7 / -7	-374 / +374	-94 / +94	-374 / +374

Interest rate risk

Suominen is exposed to interest rate risk when it funds its operations with euro or currency denominated debt. The risk arises from the repricing of floating rate debt and with the raising of new floating rate debt. A fixed rate debt is subject to fair value risk. The aim of interest rate risk management is to bring predictability to interest expenses by keeping the duration within the agreed limits with an optimal mix of fixed and floating rate debt. The interest rate risk associated with Suominen's loan portfolio is diversified to ensure that the portfolio comprises both floating and fixed interest rate loans spread over a range of interest periods. Suominen's Board of Directors has determined the interest rate structure of the loan portfolio and the range in which it can vary. The average interest duration can vary between 12 and 48 months. At the end of 2017 it was 45 months (27 months in 2016).

At the end of the reporting period the carrying amount of the Group's loans with fixed interest rates was EUR 95.5 million (EUR 75.4 million) and with floating interest rates EUR 15.0 million (EUR 19.1 million). At the end of the reporting period the Group did not have any interest rate swaps.

The sensitivity of interest rate risk is calculated based on a 0.5 percentage point shift in the interest rate curve. The table below illustrates the sensitivity of floating interest rate loans and Suominen's result to a change of 0.5 percentage point in interest rates during a one year period:

	2017		2016	
EUR thousand	Change in interest rate, percentage points	Effect on profit after tax	Change in interest rate, percentage points	Effect on profit after tax
Floating rate loans	+ /- 0,5	- /+60	+ /- 0,5	- /+78

At the end of the reporting period the cash and cash equivalents of the Group were EUR 27.2 (EUR 29.5 million). Cash and cash equivalents have not been included in the sensitivity analysis.

Electricity price risk

Suominen's operational policy on electricity procurement covers purchases of electricity of the Group's Finnish unit and the principles to be followed in managing electricity price risks. Increases in the market price of electricity are managed through the use of fixed-price contracts and some immaterial electricity derivatives. At the end of 2017 reporting period Suominen had no electricity derivatives.

Hedge accounting was applied in accounting for electricity derivatives. Electricity derivatives were used in order to neutralize fluctuations in the price of electricity over specific periods. Hedging must have been effective both prospectively and retrospectively. The effectiveness of the hedges was documented at the beginning of hedging and tested for effectiveness during the hedging period. The effectiveness of hedging was tested based on an established regression. The changes in fair values of the effective hedging instruments were recognized in profit or loss when the hedged item is affecting profit or loss.

Credit risk

The most significant individual credit risks relate to trade receivables from international companies with high credit ratings. The credit risk policy approved by the Board of Directors governs the principles to be followed when granting credit to customers and the responsibilities of the organization in this area. Credit is granted to customers after a credit approval process has been completed. The credit exposure of customers is reported at least once a month to the persons responsible for sales. Impairment losses from trade receivables recognized in profit or loss totaled EUR 110 thousand in 2017 (EUR 318 thousand). The ageing structure of the trade receivables is disclosed in Note 12 to the consolidated financial statements. The maximum credit risk arising from trade receivables equals the carrying amount of the trade receivables. The Group has agreed on a supply chain financing program which covers one fourth of the sales at the end of the reporting period. In accordance with the supply chain financing agreement, the Group has transferred the rights and responsibilities of these receivables to the counterparty of the agreement.

In addition to trade receivables Suominen has credit risk arising from loan receivables granted in 2014 in connection with the sale of the Flexibles business unit. The collaterals securing the loan receivables are disclosed in Note 11 of the consolidated financial statements.

The Board of Directors of Suominen has approved a counterpart list of companies and financial institutions with good credit ratings. These companies are allowed counterparts in investment activities and derivative contracts. The amount which can be invested in a single counterpart is capped. Liquid funds can be invested with reputable banks with sufficient credit ratings or in commercial papers offering high liquidity and credit ratings. The Group's maximum exposure to credit risk equals to carrying amount of financial assets at the end of the reporting period.

Liquidity and refinancing risk

Suominen aims to use different sources of funding. With its house banks Suominen has long and trustworthy relations and acquires advisory and other services from them. Refinancing risk is managed by diversifying loan maturities.

Suominen entered in September 2017 into a syndicated credit facility agreement consisting of a single-currency revolving credit facility of EUR 100 million with a maturity of four years. The lenders for the facility are Nordea Bank AB (publ), Finnish Branch and Svenska Handelsbanken AB (publ), Branch Operation in Finland. The new bank facility includes leverage ratio and gearing as financial covenants. The new credit facility replaced the syndicated credit facilities agreement of Suominen totalling EUR 55 million with Nordea Bank AB (publ), Finnish Branch (former Nordea Bank Finland plc) and OP Corporate Bank plc (former Pohjola Bank plc) as the lenders.

In September 2017, Suominen Corporation announced issuance of a EUR 85 million unsecured bond which carries a fixed annual interest at the rate of 2.50 percent and matures on 3 October 2022. The bond has been listed on Nasdaq Helsinki Ltd. since 10 October 2017.

In September 2017 Suominen Corporation announced a voluntary tender offer for its EUR 75 million bond issued in 2014. As a result of the tender offer, in total EUR 59,270,000 of the bond notes were repurchased.

The average maturity of drawn loans within the committed facility agreements was 3.7 years (2.4 years) at the end of the reporting period. At the end of the reporting period the unused revolving credit facility was EUR 81 million.

Suominen Group Treasury has established several cash pooling structures with Group's house banks in order to manage the liquidity of the Group.

The maturity of financial liabilities and derivatives is presented as undiscounted cash flows in the following table. The table includes both interest payments and repayments of capital.

Maturity analysis of financial liabilities 2017

EUR thousand			Falling due			
Financial liabilities	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years
Debentures	95,192	112,731	344	2,469	18,543	91,375
Loans from financial institutions	15,000	15,044	15,044	–	–	–
Finance lease liabilities	280	305	66	66	85	87
Other financial liabilities	301	301	301	–	–	–
Trade payables	52,145	52,145	52,047	98	–	–
Total	**162,918**	**180,526**	**67,802**	**2,633**	**18,629**	**91,462**

Maturity analysis of leasing obligations is disclosed in Note 33.

		Falling due			
Contingent liabilities	Total	Less than 6 months	6–12 months	1–2 years	2–5 years
Guarantees	9,865	3,000	1,500	163	5,202
Contractual commitments to acquire property, plant and equipment	86	86	–	–	–
Total	**9,951**	**3,086**	**1,500**	**163**	**5,202**

Maturity analysis of financial liabilities 2016

EUR thousand			Falling due			
Financial liabilities	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years
Debentures	75,000	84,844	1,641	1,641	3,281	78,281
Loans from financial institutions	19,106	19,688	2,575	5,629	11,484	–
Finance lease liabilities	391	437	66	66	132	173
Other financial liabilities	283	283	283	–	–	–
Trade payables	50,248	50,248	50,248	–	–	–
Total	**145,028**	**155,500**	**54,812**	**7,336**	**14,897**	**78,454**

			Falling due			
Derivative instruments	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years
Currency forward contracts	327					
Cash inflows (-)		-5,240	-5,240	–	–	–
Cash outflows (+)		5,540	5,540	–	–	–
Total	**327**	**300**	**300**	**–**	**–**	**–**

		Falling due			
Contingent liabilities	Total	Less than 6 months	6–12 months	1–2 years	2–5 years
Guarantees	17,773	6,785	200	163	10,625
Contractual commitments to acquire property, plant and equipment	5,517	5,517	–	–	–
Total	**23,290**	**12,302**	**200**	**163**	**10,625**

4. MANAGEMENT OF CAPITAL

Suominen's management of capital aims to support business activities by ensuring the conditions to operate by means of the Group's financial position and capital structure. In addition, the aim is to increase the shareholder value by targeting at a competitive return on invested capital. The capital structure must ensure debt financing of the Group. In the capital management planning process both current and future needs of the business are taken into consideration together with securing the competitive pricing of financing.

The Board of Directors of Suominen monitors the equity ratio and gearing. Gearing is calculated as the ratio between interest-bearing net debt to equity. Equity ratio is calculated as the ratio between equity to the total assets adjusted with advance payments received.

The capital structure can be influenced by distributing dividends or other funds and share issues. If there is a need, the Group can buy back own shares or issue new shares as authorized by the general meetings, or decide to sell assets or businesses to reduce liabilities.

The Group's equity ratio was 41.8% (45.3%) percent and gearing was 59.8% (39.6%) on 31 December 2017. Suominen has as a selected supplier -status a Supply Chain Financing program with certain customers. Under the program the trade receivables are sold on a non-recourse basis. The program releases capital employed.

The funding is managed by maintaining good relations with the financial institutions. The cooperation with the banks is built on long-lasting relationships.

Suominen plans to cover the loan amortization needs with its cash flow from operations and if needed, by disposal of non-core business operations and assets.

The Group's loan agreements include covenant terms which are linked to consolidated key figures. If the covenant terms are not fulfilled, negotiations with the lenders will be initiated.

Interest-bearing liabilities of Suominen are presented in Note 17 of the consolidated financial statements.

Equity ratio and gearing at the end of the reporting period

Reference	EUR million	2017	2016
Note 17	Nominal value of interest-bearing liabilities	116.0	94.5
Note 11	Interest-bearing receivables	-7.4	-8.4
Consolidated statement of financial position	Cash and cash equivalents	-27.2	-29.5
	Interest-bearing net debt	81.4	56.6
	Equity	136.1	142.8
	Assets total - advances received	325.7	315.6
	Gearing, %	59.8	39.6
	Equity ratio, %	41.8	45.3

5. GOODWILL

EUR thousand

Impairment testing of goodwill

In impairment testing the recoverable amount for the cash generating unit is determined as the value in use. Value in use comprises of the discounted projected future cash flows. Projected cash flows are based on actual performance, annual plans as well as five-year forecasts based on the Group's strategy. The main assumptions of forecasts are always reviewed during the impairment testing. Cash flows in the period beyond the five-year forecasted period are extrapolated using the growth rates for Suominen's business. The key assumptions used in the value in use are sales trend of the cash-generating unit, expense levels and the discount rate used.

The replacement investments needed for maintaining the existing production capacity have been estimated based on the planned depreciation during the useful lives of each asset in the cash-generating unit.

The annual growth rate for Suominen's net sales during the period covered by the forecast (2017–2021) has been estimated at 8.4%. In 2017, Suominen announced of a new strategy covering five years. The new strategy is building on the foundation that was built during the 2012–2014 and 2015–2017 strategy periods. The theme for the 2012–2014 period was to stabilize the company and for the 2015–2017 period to lay foundation for growth. This was supported with the growth investment program, particularly at Alicante, Paulinia and Bethune sites. These investments enable Suominen to produce more products with higher value add at these sites and the new line in Bethune increased also the capacity of the Suominen production platform.

The discount rate has been derived by using targeted capital structure at the time of impairment test. Gearing, or ratio of net debt to equity, is 70%. Cost of capital has been calculated as a weighted average pre-tax rate for equity and debt and taking into the consideration the risk-free rate and risk margins of equity and debt respectively. Discount rate used in the calculation is the weighted average of the risk-free 10-year government bond rates in the countries where Suominen operates.

Impairment testing is based on present estimates of future development at the time of impairment testing. The uncertainty in measuring the values in use is captured by analyzing variations in the amount or timing of cash flows. The element of uncertainty and risk has been accounted for in the discount rates and by taking into consideration experience from previous impairment tests.

The management does not foresee that any eventual changes in the critical assumptions would lead into impairment of goodwill.

The critical assumptions in impairment testing

	2017	2016
Discount rate	13.4%	11.6%
Growth in net sales 2018–2021 (2017–2020)	8.4%	4.4%
Annual terminal growth rate	1.0%	1.0%
Annual terminal operating profit percentage	11.0%	10.9%

Accounting principles

Goodwill represents the excess of the purchase consideration over the fair value of acquired net assets. Goodwill is allocated to those cash generating units which benefit from the acquired net assets as well as from synergies arising from the acquisition. The carrying amount of goodwill is tested at least annually for impairment. If the impairment testing indicates, that the recoverable amount of the cash generating unit which includes goodwill is lower than its carrying amount, an impairment loss of goodwill and of other assets, if applicable, is recognized in the statement of profit or loss. The impairment loss of goodwill will not be reversed during subsequent reporting periods.

Suominen has recognized goodwill from the acquisition of the business operations of Home and Personal business from Ahlstrom in 2011. At the end of the reporting period, the carrying amount of goodwill was EUR 15,495 thousand (EUR 15,495 thousand in 2016). The Group has one operating segment (Nonwovens), which is also a cash generating unit to which goodwill has been allocated in its entirety.

Critical accounting estimates and judgements

Goodwill is tested annually for possible impairment. The recoverable amounts have been determined based on the assets' value in use which require the use of estimates. The actual cash flows can differ from estimated discounted future cash flows. Uncertainties related to the projected future cash flows include, among others, the long economic useful lives of the assets, the estimated sales prices, production costs and changes in discount rate used in testing.

6. INTANGIBLE ASSETS

EUR thousand

Accounting principles

Intangible rights include patents, trademarks, software licences as well as customer relations which were identifiable assets at the business combination and are measured at fair value at the acquisition date. Other intangible assets are development and other costs which are directly attributable to the design and testing of identifiable and unique software or similar intangible assets. If an intangible asset is a qualifying asset as defined in IAS 23, i.e. an asset that necessarily takes a substantial period of time to get ready, the borrowing costs are capitalized into the initial acquisition cost of the asset.

Subsequent expenditure on intangible assets is capitalized only if the future economic benefits from the asset exceed the initially planned level. Otherwise the expenditure is recognized as an expense in the statement of profit or loss.

Intangible rights and other intangible assets are recognized in the statement of financial position at their initial acquisition cost less cumulative amortization and impairment losses, if any. They are amortized using planned straight-line amortization during of their estimated useful lives. Intangible assets from acquisition of a subsidiary are stated at their fair values at the date of the acquisition.

Suominen has no other intangible assets than goodwill which have indefinite useful life. Goodwill and intangible assets not yet available for use are tested annually for impairment. Disclosure information of goodwill is presented in Note 5 of the consolidated financial statements.

Other intangible assets are tested for impairment if there are indications that the asset may be impaired. Impairment testing is described in Note 26 of the consolidated financial statements.

Amortization periods for intangible assets

Goodwill	no amortization
Intangible rights	3–13 years
Customer relations	13 years
Other intangible assets	5–10 years
Advance payments and assets under construction	no amortization

Critical accounting estimates and judgements

If there is indication of impairment, the carrying amounts of intangible assets are compared with their recoverable amounts. The recoverable amount is the higher of fair value and value in use. Value in use is calculated by discounting the future cash flows arising from the the asset. If the recoverable amount of an asset is lower than the carrying amount, an impairment loss is recognized. Both the amounts and timing of the cash flows are based on management estimates.

Useful lives of intangible assets are based on management's best estimate of the period the asset is expected to be available for use by Suominen. The actual useful life can, however, differ from the expected useful life resulting in adjustment of annual amortization of the asset or in recognizing of an impairment loss.

	Intangible rights	Goodwill	Other intangible assets	Advance payments and assets under construction	Total 2017
Acquisition cost 1 January	**13,724**	**15,496**	**7,546**	**3,212**	**39,978**
Exchange difference	-43	–	-159	0	-202
Additions	139	–	–	5,823	5,962
Capitalized borrowing costs	–	–	–	65	65
Decreases and disposals	-90	–	–	-36	-126
Reclassifications	1,280	–	–	-1,350	-70
Acquisition cost 31 December	**15,010**	**15,496**	**7,386**	**7,714**	**45,606**
Accumulated amortization and impairment losses 1 January	**-7,348**	**–**	**-2,945**	**-56**	**-10,349**
Exchange difference	34	–	77	–	111
Amortization for the reporting period	-1,871	–	-622	–	-2,493
Decreases and disposals	90	–	–	–	90
Accumulated amortization and impairment losses 31 December	**-9,095**	**–**	**-3,490**	**-56**	**-12,640**
Carrying amount 31 December	**5,915**	**15,496**	**3,896**	**7,660**	**32,966**

	Intangible rights	Goodwill	Other intangible assets	Advance payments and assets under construction	Total 2016
Acquisition cost 1 January	**11,643**	**15,496**	**7,533**	**1,996**	**36,667**
Exchange difference	46	–	90	4	139
Additions	158	–	12	3,016	3,185
Capitalized borrowing costs	–	–	–	115	115
Decreases and disposals	–	–	-89	–	-89
Reclassifications	1,878	–	–	-1,918	-40
Acquisition cost 31 December	**13,724**	**15,496**	**7,546**	**3,212**	**39,978**
Accumulated amortization and impairment losses 1 January	**-5,587**	**–**	**-2,253**	**-56**	**-7,896**
Exchange difference	-30	–	-65	–	-95
Amortization for the reporting period	-1,731	–	-627	–	-2,358
Accumulated amortization and impairment losses 31 December	**-7,348**	**–**	**-2,945**	**-56**	**-10,349**
Carrying amount 31 December	**6,375**	**15,496**	**4,600**	**3,158**	**29,629**

In 2011, EUR 5,979 thousand of the purchase consideration related to the acquisition of Ahlstrom's Home and Personal business was allocated to customer relations. At the end of the reporting period, the carrying amount of these customer relations was EUR 3,143 thousand.

Assets under finance leases

Intangible rights included assets under finance lease. The carrying amount of the leased asset was EUR 0 thousand at the end of the reporting period (EUR 36 thousand) and amortization of the assets during the reporting period was EUR 36 thousand (EUR 31 thousand).

7. PROPERTY, PLANT AND EQUIPMENT

EUR thousand

Accounting principles

Property, plant and equipment consist mainly of land, buildings and structures and machinery and equipment. They are recognized in the statement of financial position at their acquisition cost less cumulative depreciation and impairment losses, if any. When an asset consists of major components with different useful lives, they are accounted for as separate items. Assets from acquisition of a subsidiary are stated at their fair values at the date of the acquisition.

When part of an asset in property, plant and equipment is replaced, the cost of the replacement is capitalized and the eventual remaining carrying amount of the replaced asset is derecognized. Other subsequent expenditure is capitalized only if the future economic benefits to the company from the asset are enhanced. Ordinary maintenance and repair charges are expensed as incurred.

Borrowing costs are capitalized as part of the acquisition cost of property, plant and equipment if the assets are qualifying assets as defined in IAS 23 Borrowing Costs.

Depreciation is recognized on a straight-line basis over expected useful lives. Depreciation begins when the asset is available for its intended use. Land is not depreciated since it is deemed to have indefinite useful life.

Gains and losses from the sales and disposals of property, plant and equipment are determined as a difference between the sales price and the carrying amount of the asset and they are recognized as other operating income or expenses.

Depreciation periods for property, plant and equipment

Land	no deprecation
Building and constructions	10–40 years
Machinery and equipment	4–20 years
Other intangible assets	3–5 years
Advance payments and assets under construction	no deprecation

Critical accounting estimates and judgements

If there is indication of impairment, the carrying amounts of property, plant and equipment are compared with their recoverable amounts. The recoverable amount is the higher of fair value and value in use. Value in use is calculated by discounting the future cash flows arising from the the asset. If the recoverable amount of an asset is lower than the carrying amount, an impairment loss is recognized. Both the amounts and timing of the cash flows are based on management estimates.

Useful lives of property, plant and equipment are based on management's best estimate of the period the asset is expected to be available for use by Suominen. The actual useful life can, however, differ from the expected useful life resulting in adjustment of annual depreciation of the asset or in recognizing of an impairment loss.

	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and assets under construction	Total 2017
Acquisition cost 1 January	**3,993**	**46,810**	**173,026**	**470**	**57,252**	**281,552**
Exchange difference	-469	-2,310	-11,883	-2	-6,760	-21,423
Additions	–	–	694	–	28,361	29,054
Capitalized borrowing costs	–	–	–	–	2,164	2,164
Capitalized cash flow hedges	–	–	–	–	-35	-35
Decreases and disposals	–	-33	-217	–	–	-250
Reclassifications	–	14,832	62,607	20	-77,388	70
Acquisition cost 31 December	**3,524**	**59,298**	**224,227**	**487**	**3,594**	**291,132**
Accumulated depreciation and impairment losses 1 January	**–**	**-29,953**	**-115,451**	**-445**	**-193**	**-146,042**
Exchange difference	–	734	7,407	1	23	8,166
Decreases and disposals	–	33	217	–	–	250
Depreciation for the reporting period	–	-1,918	-14,935	-4	–	-16,857
Accumulated depreciation and impairment losses 31 December	**–**	**-31,104**	**-122,762**	**-448**	**-170**	**-154,483**
Carrying amount 31 December	**3,524**	**28,194**	**101,465**	**41**	**3,424**	**136,649**

	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and assets under construction	Total 2016
Acquisition cost 1 January	**3,479**	**44,819**	**159,327**	**467**	**16,581**	**224,674**
Exchange difference	513	1,288	4,464	3	754	7,022
Additions	–	53	1,215	–	47,801	49,069
Capitalized borrowing costs	–	–	–	–	1,139	1,139
Capitalized cash flow hedges	–	–	–	–	-188	-188
Decreases and disposals	–	–	-36	–	–	-36
Reclassifications	–	649	8,056	–	-8,834	-129
Acquisition cost 31 December	**3,993**	**46,810**	**173,026**	**470**	**57,252**	**281,552**
Accumulated depreciation and impairment losses 1 January	**–**	**-27,822**	**-98,297**	**-437**	**-187**	**-126,744**
Exchange difference	–	-442	-2,877	-1	-6	-3,327
Decreases and disposals	–	–	36	–	–	36
Reclassifications	–	-1	154	–	–	154
Depreciation for the reporting period	–	-1,689	-14,467	-6	–	-16,162
Accumulated depreciation and impairment losses 31 December	**–**	**-29,953**	**-115,451**	**-445**	**-193**	**-146,042**
Carrying amount 31 December	**3,993**	**16,857**	**57,574**	**26**	**57,059**	**135,510**

	2017	2016
Carrying amount of production machinery and equipment	99,463	54,221

Contractual commitments to acquire property, plant and equipment are presented in Note 33.

Assets under finance leases

Machinery and equipment include assets under finance lease acquired during the reporting period. The carrying amount of the leased assets was EUR 266 thousand (EUR 383 thousand) at the end of the reporting period and depreciation of the assets during the reporting period was EUR 117 thousand (EUR 88 thousand).

8. GROUP COMPANIES

Company	Domicile	Ownership, %	Owned by parent company
Suominen Corporation	Helsinki, Finland		
Suominen Nonwovens Ltd.	Nakkila, Finland	100%	x
Mozzate Nonwovens S.r.l.	Mozzate, Italy	100%	x
Cressa Nonwovens S.r.l.	Mozzate, Italy	100%	
Suominen Spain Holding, S.A.U.	Alicante, Spain	100%	x
Alicante Nonwovens S.A.U.	Alicante, Spain	100%	
Suominen US Holding, Inc.	Delaware, USA	100%	x
Bethune Nonwovens, Inc.	Bethune, South Carolina, USA	100%	
Green Bay Nonwovens, Inc.	Green Bay, Wisconsin, USA	100%	
Windsor Locks Nonwovens, Inc.	Windsor Locks, Connecticut, USA	100%	
Suominen Brasil Indústria e Comercio de Não-Tecidos Ltda.	Paulínia, Brazil	100%	x

Suominen Italy Holding S.r.l. merged into its subsidiary Mozzate Nonwovens S.r.l. on 1 September 2017.

9. INVENTORIES

EUR thousand

Inventories	2017	2016
Raw materials and consumables	24,866	20,126
Work in progress	3,168	3,400
Finished goods	15,884	19,104
Advance payments for inventory	323	–
Total inventories	**44,241**	**42,631**
Write-down of inventory	-1,044	-675
Reversals of write-down of inventory	196	221
Inventories recognized as expense during the period	-319,590	-306,318

Accounting principles

Cost of inventories is measured using the FIFO (first-in-first-out) principle or weighted average cost. The value of inventory includes all direct and indirect costs associated with purchase. The cost of manufactured products includes the cost of materials, direct labour and other direct costs, including general manufacturing overheads. The cost of inventories excludes sales, administration and financing costs. Borrowing costs are not capitalized in inventory.

Inventories are valued at lower of cost or the probable net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Obsolete items in inventories are written down.

Inventories recognized as expense during the period are included in cost of goods sold in the statement of profit or loss.

Critical accounting estimates and judgements

Measurement of inventories includes some management estimates. Inventories are measured at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value is used in testing the recoverable amount of inventories in order to avoid the inventories being carried in excess of the amount expected to be realized from their sale or use.

10. AVAILABLE-FOR-SALE ASSETS

EUR thousand

	2017	2016
Carrying amount 1 January	777	777
Carrying amount 31 December	777	777

Available-for-sale assets consist of unlisted shares. At the disposal of its Flexibles business unit Suominen acquired shares in Bright Maze Oy. The ownership represents 19.9% of shares and votes in Bright Maze Oy.

Definition of available-for-sale assets is disclosed in Note 12 of the consolidated financial statements.

11. RECEIVABLES

EUR thousand

Non-current receivables	2017	2016
Loan receivables	3,072	6,836
Other non-current receivables	1,744	2,524
Total non-current receivables	**4,815**	**9,360**
Current receivables		
Trade receivables	57,560	53,946
Loan receivables	4,337	1,550
Other current receivables	1,535	1,662
Prepaid expenses and accrued income	2,701	5,612
Total current receivables	**66,134**	**62,770**

Prepaid expenses and accrued income consist mainly of accruals of financial items, accruals related to sales and other accruals. Other receivables, both non-current and current, include, among others, receivables related to indirect taxes.

Prepaid expenses and accrued income related to derivative instruments are disclosed in more detail in Note 19 of the consolidated financial statements.

Credit quality of other receivables is based on the debtors' payment history. Other receivables are not past due nor impaired.

At the disposal of the Flexibles business in 2014 it was agreed, that part of the consideration depends on the result of the sold business incurred after the disposal. This receivable is presented in other non-current receivables and it is measured at fair value through profit or loss.

Loan receivables

At the disposal of the Flexibles business in 2014 Suominen Corporation granted two loans to Bright Maze Oy, the acquiree: Vendor Loan Note and Subordinated Loan Note. The accrued interests of both loans are capitalized annually in December.

The interest rate of the Vendor Loan Note is 6% p.a. and it is has been repaid semiannually as from June 2015. The loan matures on 31 December 2018. The security for the loan includes some receivables of Bright Maze Oy, shares in Amerplast Oy as well as a mortgage over Bright Maze Oy.

The interest rate ot the Subordinated Loan Note is 9% p.a. and it is fully repaid at its maturity on 31 July 2024. The Subordinated Loan is not secured and it is the last in the ranking order. Prior to the maturity, Suominen has the right to convert the loan into equity at its sole discretion.

Should the ownership structure of Bright Maze Group change materially, both loan receivables with the accrued and capitalized interest will be repaid prematurely. The debtor may repay the loans at any time.

Each loan receivable is individually analyzed for a possible impairment loss. These analyses are based on the financial position and future cash flows of the debtor. Debtors have no external credit rating.

These loan receivables are measured at amortized cost, and at the end of the reporting period the carrying amounts of both loan receivables equal their fair values.

Trade receivables

Measurement of trade receivables is described in Note 12 of the consolidated financial statements.

Suominen has with a "selected supplier" status a Supply Chain Financing Program with certain customers. In accordance with the program, trade receivables are sold so that the contractual rights to receive the cash flows from the trade receivables cease.

Historically Suominen has had minimal realized credit losses. During the reporting period 2017 Suominen updated its recognition principles for impairment losses of trade recevaibles, which led into a larger bad debt provision than in the previous years. During the reporting period 2016 Suominen recognized an unexceptionally large bad debt provision arising from trade receivables from Venezuelan customers.

Ageing analysis of trade receivables	2017	2016
Not due	50,844	48,148
Overdue		
Less than 5 days	2,388	2,371
5–30 days	3,024	2,939
31–120 days	1,243	329
More than 120 days	485	516
Total overdue	7,140	6,156
Total	57,985	54,304
Allowance account	-424	-358
Carrying amount of trade receivables	**57,560**	**53,946**

Impairment losses of trade receivables and changes in allowance account of trade receivables

Allowance account 1 January	-358	-85
Exchange difference	44	-40
Utilized	0	85
Charge for the year	-111	-318
Allowance account 31 December	**-424**	**-358**
Impairment losses of trade receivables during the period, net	-110	-318

Currency analysis of trade receivables		
EUR	35,590	29,007
USD	18,424	20,941
BRL	3,347	3,350
Other currencies	199	648
Total	**57,560**	**53,946**

Critical accounting estimates and judgements

Measurement of trade and loan receivables includes some management estimates. If the management estimates that the carrying amount of a trade or loan receivable exceeds its fair value, an impairment loss is recognized. For example payment defaults or late payments can be considered as indications of impairment of the receivable.

12. FINANCIAL ASSETS

EUR thousand

Classification of financial assets

	Fair value through profit or loss	Loans and receivables	Available-for-sale assets	Derivatives, hedge accounting applied	Carrying amount	Fair value
Available-for-sale assets	–	–	777	–	777	777
Other non-current receivables	214	–	–	–	214	214
Loan receivables	–	7,409	–	–	7,409	7,409
Trade receivables	–	57,560	–	–	57,560	57,560
Interest and other financial receivables	–	670	–	–	670	670
Derivative receivables	24	–	–	–	24	24
Cash and cash equivalents	–	27,240	–	–	27,240	27,240
Total 31 December 2017	**238**	**92,880**	**777**	**–**	**93,894**	**93,894**

Other non-current receivables include a contingent consideration of EUR 214 thousand (EUR 501 thousand) arising from the disposal of the Flexibles business in 2014.

	Fair value through profit or loss	Loans and receivables	Available-for-sale assets	Derivatives, hedge accounting applied	Carrying amount	Fair value
Available-for-sale assets	–	–	777	–	777	777
Other non-current receivables	501	–	–	–	501	501
Loan receivables	–	8,386	–	–	8,386	8,386
Trade receivables	–	53,946	–	–	53,946	53,946
Interest and other financial receivables	–	869	–	–	869	869
Derivative receivables	30	–	–	43	73	73
Cash and cash equivalents	–	29,522	–	–	29,522	29,522
Total 31 December 2016	**530**	**92,723**	**777**	**43**	**94,072**	**94,072**

Accounting principles

Financial assets have been classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition of the asset.

Trade day accounting is applied to regular purchases and sales of financial assets. Financial assets, which are not measured at fair value through profit or loss are initially recognized at fair value with transaction costs. Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are recognized as expenses in the statement of profit or loss. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred to an external party and the Group has transferred substantially all the risks and rewards related to the ownership of the assets to an external party. Available-for-sale assets and assets at fair value through profit or loss are subsequently measured at fair value. Loans and receivables are measured at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or assets which are initially classified as assets at fair value through profit of loss. A financial asset is classified at fair value through profit or loss if it has been acquired principally for the purpose of selling it in the near future. Derivatives for which hedge accounting is not applied are classified as held for trading.

Other non-current receivables measured at fair value through profit or loss are contingent sales considerations. The fair value of the receivables is based on estimated repayments in accordance with the terms of the agreement.

Gains or losses arising from changes in the fair value of assets at fair value through profit or loss are recognized in the statement of profit or loss either in other operative income and expenses or in financial items, depending on the nature of the asset.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. They are included in current assets, except if they mature after more than 12 months after the end of the reporting period, in which case they are classified as non-current assets. The Group's loans and receivables include loan receivables, trade and other receivables and cash and cash equivalents.

Each loan receivable is individually analyzed for a possible impairment loss. These analyses are based on the financial position and future cash flows of the debtor. Loan receivables are measured at amortized cost, and at the end of the reporting period the carrying amounts of loan receivables equal their fair values.

Trade receivables are carried at the original invoice amount less an estimate made for doubtful receivables. Estimate made for doubtful receivables is based on a periodic review of all outstanding amounts. For example payment defaults or late payments are considered as indications of impairment of the receivable. Impairment losses of trade receivables are recorded in a separate allowance account within trade receivables, and the impairment losses are recognized in profit or loss as other operating expenses. If the impairment loss is final, the trade receivable is derecognized from the allowance account. If a payment is later received from the impaired receivable, the received amount is recognized in profit or loss as a deduction of other operating expenses. If no impairment loss has been recognized in the allowance account and the impairment loss of the trade receivable is found to be final, impairment loss is recognized directly as deduction of trade receivables. The maximum credit risk arising from trade receivables equals the carrying amount of the trade receivables. Due to the short maturity the trade receivables are not discounted.

Cash and cash equivalents comprise cash and other financial assets, if any. Other financial assets are highly liquid investments with remaining maturities at the date of acquisition of three months or less. Bank overdrafts are included in current interest-bearing liabilities.

The carrying amounts of other receivables and cash and cash equivalents equal their fair values.

Available-for-sale assets

Available-for-sale assets are non-derivatives which are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose them within 12 months from the end of the reporting period. At the end of the reporting period Suominen held only non-current available-for-sale assets.

Changes in the fair value of available-for-sale assets, net of tax, are recognized in other comprehensive income. When available-for-sale assets are sold or an impairment loss is recognized, the cumulative fair value changes recognized in other comprehensive income are reclassified from equity to statement of profit or loss. Interest income on available-for-sale assets, calculated with the effective interest method, is recognized in financial items in the statement of profit or loss.

The Group assesses at the end of the reporting period whether there is objective evidence that an asset or a group of assets classified as available-for-sale is impaired. If the fair value of equity instruments classified as available-for-sale is significantly or has been for a prolonged period lower than the acquisition cost, it is considered as an indicator of impairment. The impairment loss is measured as the difference between the acquisition cost and the fair value, less any impairment loss on the asset previously recognized in profit or loss. The impairment loss is recognized in the statement of profit or loss.

The fair values of quoted securities are based on closing prices of the securities at the end of the reporting period. If there is no active market for the asset or if the securities are unlisted, the Group measures fair value with valuation techniques. If there is no asset-specific data available from transactions between independent parties, the fair values used for the asset are either the present value of discounted cash flows arising from the asset or fair values other instruments which are substantially identical than the asset. Some unlisted equity instruments are presented in the statement of financial position at acquisition cost less impairment losses, if any.

Derivatives

Disclosure information on derivative instruments is presented in Note 19 of the consolidated financial statements.

13. FAIR VALUE HIERARCHY

EUR thousand

Fair value hierarchy in 2017

Financial assets at fair value	Level 1	Level 2	Level 3
Other non-current receivables	–	–	214
Available-for-sale assets	–	–	777
Currency derivatives	–	24	–
Total in 2017	**–**	**24**	**990**

Fair value hierarchy in 2016

Financial assets at fair value	Level 1	Level 2	Level 3
Other non-current receivables	–	–	501
Available-for-sale assets	–	–	777
Currency derivatives	–	43	–
Electricity derivatives	–	30	–
Total in 2016	**–**	**73**	**1,277**

Financial liabilities at fair value	Level 1	Level 2	Level 3
Other current liabilities	–	–	253
Currency derivatives	–	327	–
Total in 2016	**–**	**327**	**253**

Fair value changes in Level 3

Financial assets at fair value	
Total 1 January 2016	1,590
Settlements	-313
Total 31 December 2016	**1,277**
Settlements	-287
Total 31 December 2017	**990**

Financial liabilities at fair value	
Total 1 January 2016	630
Settlements	-362
Recognized in profit or loss	-15
Total 31 December 2016	**253**
Settlements	-253
Total 31 December 2017	**–**

Items recognized in profit or loss have been recognized in financial items.

There were no transfers in the fair value measurement hierachy levels during the reporting periods.

Fair values in Level 1 are based on quoted prices (unadjusted) in active markets for identifical assets or liabilities.

The fair value for financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is applicable and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in Level 2.

Fair values for electricity forward contracts were determined by using the quoted forward prices in Nordpool for the same period and discounting them with relevant interest rates to the end of the reporting period.

Fair values for currency forward contracts are determined by using the spot rates and relevant swap points based on interest rate differences at the end of the reporting period.

The fair values of financial instruments on Level 3 are based on related inputs, which are not based on observable market information but significantly on management estimates which are used in generally accepted valuation methods.

The fair value of the shares in Bright Maze Oy on Level 3 is measured using an EBITDA multiplier and a comparable data analysis. The fair valued of other available-for-sale assets is the acquisition cost less impairment losses, if any.

14. OTHER COMPREHENSIVE INCOME

EUR thousand

2017	Exchange differences	Fair value and other reserves	Retained earnings	Total
Profit for the period	–	–	14,478	14,478
Exchange differences	-17,083	–	–	-17,083
Income tax on exchange differences	1,319	–	–	1,319
Fair value changes, cash flow hedges	–	267	–	267
Fair value changes, cash flow hedges, income taxes	–	11	–	11
Cash flow hedges, reclassified to profit or loss	–	13	–	13
Cash flow hedges, reclassified to profit or loss, income taxes	–	-3	–	-3
Cash flow hedges, reclassified to property, plant and equipment	–	-35	–	-35
Defined benefit plans, remeasurements	–	–	15	15
Defined benefit plans, remeasurement, income taxes	–	–	-4	-4
Total comprehensive income	**-15,764**	**254**	**14,489**	**-1,022**

2016	Exchange differences	Fair value and other reserves	Retained earnings	Total
Profit for the period	–	–	15,233	15,233
Exchange differences	7,881	–	–	7,881
Income tax on exchange differences	-365	–	–	-365
Fair value changes, cash flow hedges	–	245	–	245
Fair value changes, cash flow hedges, income taxes	–	-22	–	-22
Cash flow hedges, reclassified to profit or loss	–	116	–	116
Cash flow hedges, reclassified to profit or loss, income taxes	–	-23	–	-23
Cash flow hedges, reclassified to property, plant and equipment	–	-188	–	-188
Defined benefit plans, remeasurements	–	–	-110	-110
Defined benefit plans, remeasurement, income taxes	–	–	16	16
Total comprehensive income	**7,516**	**128**	**15,140**	**22,784**

Accounting principles - exchange differences

The exchange differences arising from translating the statements of profit or loss, statements of comprehensive income and statements of financial position into euro using the different exchange rates are recognized as other comprehensive income and included in equity as cumulative exchange difference. Exchange differences arising from the translation of the net investments in foreign subsidiaries in non-euro area are also recognized in other comprehensive income and included in equity as cumulative exchange difference.

Some loans granted to the subsidiaries are in substance part of a net investment in the subsidiary, as settlement of the loan is not likely to occur in the foreseeable future. The exchange differences arising from those loans are recognized in other comprehensive income and exchange differences in equity.

15. INFORMATION OF SUOMINEN SHARE

Share capital and number of shares

The registered share capital of Suominen Corporation totals EUR 11,860,056. The number of Suominen's registered shares on 31 December 2017 was 58,259,219 shares. The number of shares increased in the reporting period in total by 6,593,577 shares, due to the share conversions of the hybrid bond notes and accrued interests. The conversion of the hybrid bond into shares has been recorded into the reserve for invested unrestricted equity.

The Annual General Meeting of Suominen Corporation held on 16 March 2016 decided to reduce the number of shares in the company without reducing share capital in a reverse share split procedure pursuant to the Chapter 15, Section 9 of the Limited Liability Companies Act (624/2005) so that each five shares shall be merged as one share.

Before the reverse share split in 2016, Suominen Corporation had in total 252,425,616 shares. After the reverse share split, the total number of shares in Suominen Corporation was 51,216,232. The new number of shares was registered with the Trade Register on 22 March 2016 and trading with the merged shares commenced on the same day. The reverse split did not have an impact on the treasury shares held by Suominen (913,886 shares at the date of the reverse split).

Suominen has one series of shares. Each share has one vote in the General Meeting of the shareholders and all the shares have equal rights to dividend or other distribution of equity. Suominen share has no nominal value. Suominen Corporation shares are listed on Nasdaq Helsinki Ltd.

Treasury shares

The treasury shares acquired by Suominen and the related costs are presented as deductions of equity. At disposal of acquired treasury shares the consideration received is recognized in equity. In accordance with the Limited Liability Companies Act, treasury shares do not entitle to shareholder rights, such as right to receive dividend or other distribution of funds, or right to attend General Meeting.

At the end of the reporting period Suominen held 876,280 treasury shares. In accordance with the resolution by the Annual General Meeting, 16,807 shares were transferred on 2 June 2017 to the members of the Board of Directors as their remuneration payable in shares.

The share ownership of related parties in Suominen is disclosed in Note 32 of the consolidated financial statements.

Share-based plans

The share-based incentive plans are described in Note 29 of the consolidated financial statements.

Suominen has no option plans.

Share trading and price

The number of Suominen Corporation shares traded on Nasdaq Helsinki from 1 January to 31 December 2017 was 5,405,584 shares (13,611,634 shares), accounting for 10.4% (27.0%) of the average number of shares (excluding treasury shares). The highest price was EUR 5.22 (EUR 6.20), the lowest EUR 3.86 (EUR 3.49) and the volume-weighted average price EUR 4.53 (EUR 4.24). The closing price at the end of reporting period was EUR 4.42 (EUR 4.14). The market capitalization (excluding treasury shares) was EUR 253.6 million on 31 December 2017 (EUR 210.2 million).

Number of shares

Changes in number of shares

Number of shares 1 January 2016 (*	**51,216,232**
Conversions of the hybrid bond	449,410
Number of shares 31 December 2016	**51,665,642**
Conversions of the hybrid bond	6,593,577
Number of shares 31 December 2017	**58,259,219**

Changes in treasury shares

Number of shares 1 January 2016 (*	**913,886**
Conveyance of treasury shares, reward for the Board of Directors	-20,799
Number of treasury shares 31 December 2016	**893,087**
Conveyance of treasury shares, reward for the Board of Directors	-16,807
Number of shares 31 December 2017	**876,280**

(* Adjusted to reflect the effect of the reverse share split.

Number of shares	31 December 2017	31 December 2016
Number of shares excluding treasury shares	57,382,939	50,772,555
Share-issue adjusted number of shares excluding treasury shares	57,382,939	50,772,555
Average number of shares excluding treasury shares	52,145,416	50,343,806
Average share-issue adjusted number of shares excluding treasury shares	52,145,416	50,343,806
Average diluted share-issue adjusted number of shares excluding treasury shares	57,798,395	58,024,756

Notifications in 2017 under chapter 9, section 5 of the Securities Market Act

On 2 June 2017, Oy Etra Invest Ab (a company under the controlling power of Mr. Erkki Etola) notified Suominen that its shareholding in the company will cross the 10% flagging threshold due to the conversion of the bond notes and accrued interests of the hybrid bond issued by Suominen Corporation into Suominen shares.

Suominen Corporation received on 12 December 2017 a notification referred to in Chapter 9, Section 5 of the Securities Market Act. According to the notification, the shareholding of AC Invest Two BV (a group company of Ahlström Capital) in Suominen Corporation fell below the 25% flagging threshold. The shareholding of AC Invest Two BV in Suominen decreased from 25.92% to 23.95%. The decrease in the ownership was due to the increase in the number of Suominen share in connection with the conversion of Suominen's hybrid bond notes into new Suominen shares. Due to the conversion, the number of shares and votes in Suominen Corporation increased to 58,259,219. The number of shares owned by AC Invest Two BV remained unchanged.

Largest shareholders 31 December 2017

Shareholder	Number of shares	% of shares and votes
AC Invest Two BV	13,953,357	23.95%
Oy Etra Invest Ab	5,909,167	10.14%
Varma Mutual Pension Insurance Company	4,500,000	7.72%
Ilmarinen Mutual Pension Insurance Company	4,071,892	6.99%
Nordea Bank Finland Plc	3,219,884	5.53%
Pension Insurance Company Elo	3,024,651	5.19%
OP-Suomi Arvo Investment Fund	1,976,760	3.39%
Nissi Evald and Hilda	1,000,000	1.72%
Heikki Bergholm	998,417	1.71%
Mandatum Life Insurance Company	963,475	1.65%
Nordea Nordic Small Cap Fund	937,152	1.61%
H.Kuningas & Co. Ltd	920,081	1.58%
Nordea Life Assurance Finland Ltd	837,000	1.44%
Mikko Maijala	829,098	1.42%
Juhani Maijala	794,026	1.36%
15 largest total	43,934,960	75.41%
Other shareholders	9,589,312	16.46%
Nominee registered	3,854,618	6.62%
Treasury shares	876,280	1.50%
In joint account (not in the book-entry securities system)	4,049	0.01%
Total	**58,259,219**	**100.00%**

Ownership distribution 31 December 2017

	Number of shareholders	% of total	Number of shares	% of shares and votes
Corporations	168	4.1%	11,290,183	19.38%
Financial and insurance corporations	11	0.3%	5,846,598	10.04%
General government	6	0.1%	12,986,881	22.29%
Non-profit institutions	18	0.4%	1,505,211	2.58%
Households	3,913	94.6%	7,732,727	13.27%
Foreign countries	20	0.5%	14,162,672	24.31%
Total	4,136	100.0%	53,524,272	91.87%
Nominee registered	9		3,854,618	6.62%
In joint account (not in the book-entry securities system)			4,049	0.01%
Treasury shares	1		876,280	1.50%
Total	**4,146**		**58,259,219**	**100.00%**

Shareholders by share ownership 31 December 2017

Number of shares	Number of shareholders	% of total	Number of shares	% of shares and votes
1–100	1,201	29.0%	56,445	0.10%
101–500	1,493	36.0%	401,950	0.69%
501–1,000	590	14.2%	456,738	0.78%
1,001–5,000	633	15.3%	1,387,909	2.38%
5,001–10,000	99	2.4%	725,331	1.25%
10,001–50,000	76	1.8%	1,666,096	2.86%
50,001–100,000	14	0.3%	1,100,822	1.89%
100,001–500,000	19	0.5%	4,511,252	7.74%
more than 500,000	20	0.5%	47,072,347	80.80%
Total	4,145	100.0%	57,378,890	98.49%
In joint account (not in the book-entry securities system)			4,049	0.01%
Treasury shares	1		876,280	1.50%
Total	**4,146**		**58,259,219**	**100.00%**

16. HYBRID BOND

EUR thousand

Suominen issued on 10 February 2014 a convertible hybrid bond of EUR 17,500,000 to finance the acquisition of the nonwovens operations in Brazil. The bond consisted of 175 bond notes, each having the nominal value of EUR 100,000. The bond did not have a guarantee or other collateral.

A bond note entitled the bondholder to convert the bond note and the potential accrued interest for shares in Suominen at the conversion rate of EUR 2.50 per share (conversion rate changed due to the reverse share split in 2016). The period for converting started on 11 February 2014 and would have ended on 10 February 2018. In 2017 in total EUR 16.5 million of the bond principal and accrued interests were converted into shares. The number of shares in Suominen increased through the conversion by 6,593,577 shares. At the end of the reporting period, the hybrid bond was in its entirety converted into shares.

The value of the shares issued through conversion of the hybrid bond was recognized in the reserve for invested unrestricted equity, which increased in 2017 thanks to the conversion by EUR 16.5 million.

In accordance with the terms of the hybrid bond, if Suominen distributes dividend before 10 February 2018, the bondholders are entitled to a compensation equaling to the dividend. The compensation will be paid the same date as the dividend, and the paid compensation will be deducted from the interests accrued or to be accrued. The compensation deducted from interests accrued or to be accrued will decrease the amount of interests capitalized as principal of the bond and thus the number of shares to be converted with the bond. In 2017, interests totaling EUR 0.6 million were paid due to dividend distribution.

Changes in the hybrid bond

Hybrid bond 1 January 2016	**16,840**
Capitalization of interests	616
Conversion into shares	-1,119
Hybrid bond 31 December 2016	**16,337**
Capitalization of interests	285
Conversion into shares	-16,622
Hybrid bond 31 December 2017	**–**

Accounting principles

In accordance with IAS 32, the hybrid bond of Suominen was classified as an equity instrument instead of a financial liability as the interest and loan payments were fully controlled by the company and payments were not connected to any other loans. The hybrid bond was initially recognized at amortized cost. The accrued interests were capitalized and recognized in the retained earnings in the consolidated financial statements.

17. INTEREST-BEARING LIABILITIES

EUR thousand

In September 2017, Suominen Corporation announced issuance of an unsecured bond with a nominal value of EUR 85 million and which carries a fixed annual interest of 2.50% and matures on 3 October 2022. The bond has been listed on Nasdaq Helsinki Ltd. since 10 October 2017. The bond constitutes a direct and unsecured obligation of Suominen and it is guaranteed as for own debt by certain subsidiaries of Suominen Corporation.

In September 2017, Suominen Corporation also announced a voluntary tender offer for its EUR 75 million bond. As a result of the tender offer, in total EUR 59,270,000 of the bond notes were repurchased. In addition, some of the terms and conditions of the remaining bonds were changed in the Noteholders' meeting.

In connection with issuing the bond, Suominen entered into a syndicated credit facility agreement consisting of a single-currency revolving credit facility of EUR 100 million with a maturity of four years. The new bank facility includes leverage ratio and gearing as financial covenants. The credit facility has floating interest rates and it replaced previous syndicated credit facilities agreement of Suominen totalling EUR 55 million.

	2017			2016		
	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value	Nominal value
Non-current interest-bearing liabilities						
Loans from financial institutions	–	–	–	11,294	11,294	11,294
Finance lease liabilities	162	162	162	280	280	280
Debentures	95,192	102,647	100,730	75,000	78,503	75,000
Total	**95,354**	**102,809**	**100,892**	**86,574**	**90,076**	**86,574**
Current interest-bearing liabilities						
Current part of non-current loans from financial institutions	–	–	–	7,812	7,812	7,812
Current loans from financial institutions	15,000	15,000	15,000	–	–	–
Finance lease liabilities	118	118	118	111	111	111
Total	**15,118**	**15,118**	**15,118**	**7,923**	**7,923**	**7,923**
Total	**110,472**	**117,927**	**116,010**	**94,497**	**97,999**	**94,497**

It is the opinion of Suominen that presenting interest-bearing liabilities not only at amortized cost but also at nominal value gives relevant additional information to the investors.

Change in interest-bearing liabilities

	2017	2016
Total interest-bearing liabilities at the beginning of the period	**94,497**	**96,862**
Current liabilities at the beginning of the period	7,923	3,363
Repayment of current liabilities, cash flow items	-27,264	-3,359
Drawdown of current liabilities, cash flow items	25,000	–
Drawdown of current liabilities, non-cash flow items	–	102
Reclassification from non-current liabilities	11,412	7,899
Exchange rate difference	-1,953	-84
Current liabilities at the end of the period	15,118	7,923
Non-current liabilities at the beginning of the period	11,574	18,498
Drawdown of non-current liabilities, non-cash flow items	–	368
Reclassification to current liabilities	-11,412	-7,899
Exchange rate difference	–	607
Non-current liabilities at the end of the period	162	11,574
Debentures at the beginning of the period	75,000	75,000
Issuance of the new debenture bond, cash flow items	25,730	–
Periodization of debenture to amortized cost, non-cash flow items	-348	–
Tender and issuance costs of the debentures, cash flow items	-5,190	–
Debentures at the end of the period	95,192	75,000
Total interest-bearing liabilities at the end of the period	**110,472**	**94,497**

Maturity of interest-bearing liabilities		
2018 (2017)	15,118	7,923
2019 (2018)	15,708	11,412
2020 (2019)	67	75,078
2021 (2020)	17	67
2022– (2021–)	79,563	17
Total	**110,472**	**94,497**

Interest-bearing liabilities by currency		
EUR	110,472	75,391
USD	–	19,106
Total	**110,472**	**94,497**

Finance lease liabilities

Future minimum lease payments, maturing in	2017	2016
Not later than 1 year	132	132
Later than 1 year and not later than 5 years	173	305
Later than 5 years	–	–
Total future minimum lease payments	**305**	**437**
Future finance expense	-25	-46
Present value of future minimum lease payments	**280**	**391**

Present value of future minimum lease payments, maturing in		
Not later than 1 year	118	111
Later than 1 year and not later than 5 years	162	280
Later than 5 years	–	–
Present value of future minimum lease payments	**280**	**391**

Accounting principles

Interest-bearing financial liabilities are recognized initially at fair value. Interest-bearing financial liabilities are subsequently recognized at amortized cost using the effective interest method.

Fees paid on loan facilities are recognized as transaction costs of the loan to the extent that it is probable that the facility will be drawn down. In this case, the fee is recognized in the statement of financial position until the draw-down of the loan occurs, and it is recognized in profit or loss over the loan period. If it is not probable that the loan facility will be utilized, the fee will be immediately recognized in profit or loss.

Listed debentures are initially recognized at fair value, net of transaction costs. Debentures are subsequently recognized at amortized cost using the effective interest method. The fair value of a listed debenture is measured using the market price at the end of the reporting period.

18. CLASSIFICATION OF FINANCIAL LIABILITIES

EUR thousand

	Fair value through profit or loss	At amortized cost	Derivatives, hedge accounting applied	Carrying amount	Fair value	Nominal value
Loans from financial institutions	–	15,000	–	15,000	15,000	15,000
Debentures	–	95,192	–	95,192	102,647	100,730
Finance lease liabilities	–	280	–	280	280	280
Interest accruals	–	736	–	736	736	736
Other current liabilities	–	301	–	301	301	301
Trade payables	–	52,145	–	52,145	52,145	52,145
Total 31 December 2017	**–**	**163,654**	**–**	**163,654**	**171,109**	**169,192**

	Fair value through profit or loss	At amortized cost	Derivatives, hedge accounting applied	Carrying amount	Fair value	Nominal value
Loans from financial institutions	–	19,106	–	19,106	19,106	19,106
Debentures	–	75,000	–	75,000	78,503	75,000
Finance lease liabilities	–	391	–	391	391	391
Derivatives, hedge accounting applied	–	–	327	327	327	327
Interest accruals	–	912	–	912	912	912
Other current liabilities	253	30	–	283	283	283
Trade payables	–	50,248	–	50,248	50,248	50,248
Total 31 December 2016	**253**	**145,686**	**327**	**146,266**	**149,769**	**146,266**

Accounting principles

Financial liabilities are classified as current liabilities if they mature within 12 months from the end of the reporting period.

A financial liability or a part of a financial liability is removed from the statement of financial position when the liability is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Derivative instruments are presented in Note 19 of the consolidated financial statements.

Interest-bearing liabilities are presented in Note 17 of the consolidated financial statements.

Trade payables

Trade payables are measured at amortized cost. The carrying amount of trade payables equals to fair value based on their short maturity.

Other financial liabilities

Financial liabilities at fair value through profit or loss were liabilities which arose from acquisition of certain intangible assets. Their fair values were calculated by discounting the probable future cash flows to the end of the reporting period.

19. DERIVATIVE INSTRUMENTS

EUR thousand

Accounting principles

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged. Suominen designates derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction (cash flow hedge). The full fair value of a hedging derivative is classified as a current asset or liability. Trading derivatives are classified as a current assets or liabilities.

Fair values for electricity forward contracts are determined by using the quoted forward prices in Nordpool for the same period and discounting them with relevant interest rates to the end of the reporting period.

Fair values for currency forward contracts are determined by using the spot rates and relevant swap points based on interest rate differences at the end of the reporting period.

Hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income and presented in fair value reserve in equity.

Both the realized gain or loss as well as the ineffective portion of the hedging arising from electricity derivatives for which hedge accounting has been applied have been recognized through profit or loss as an adjustment of electricity expenses. At the end of the reporting period Suominen no longer had electricity derivatives for which hedge accounting is applied.

Currency forward contracts designated to hedge forecasted cash flows related to acquisition of certain assets in property, plant and equipment are classified as hedging instruments and thus hedge accounting is applied. The effective portion of changes in the fair value of these derivatives is recognized in other comprehensive income and presented in fair value reserve in equity until the liabilility related to acquisition of the asset is recognized in the statement of financial position. When the liability is recognized in the statement of financial position, the portion of the fair value of the derivative recognized in fair value reserve is reclassified to adjust the acquisition cost of the asset, and future changes in fair value of the derivative are recognized in profit or loss in financial items.

When a hedging instrument expires or is sold, or when a hedge no longer meets the hedge accounting criteria, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in profit or loss when the forecasted transaction is ultimately recognized in profit or loss. If a forecast transaction is no longer expected to incur, the cumulative gain or loss recognized in equity is immediately recognized in profit or loss in the same line item in statement of profit or loss where the forecasted transaction would have been recognized.

At the inception of hedge accounting, Suominen documents the relationship between the hedged item and the hedging instrument as well as the aim for the risk management and the hedging strategy. At the inception of the hedge the Group tests and documents the effectiveness of the hedging relationship by assessing the ability of the hedging instrument to offset the fair value changes arising from the hedged item. The Group tests effectiveness retrospectively also at the end of each reporting period.

Derivative instruments at fair value through profit or loss

Some of the Group's derivative transactions, while providing economic hedges, do not qualify for hedge accounting under IAS 39, and therefore changes in the fair values of these derivative instruments are recognized immediately in profit or loss.

Derivative receivables and liabilities in statement of financial position

	2017	2016
Receivables		
Derivatives, hedge accounting applied	–	43
Derivatives, hedge accounting not applied	24	30
Liabilities		
Derivatives, hedge accounting applied	–	327

The fair values of derivatives are recognized in the statement of financial position as gross amounts and they can be offset with each other only in case of breach of contractual terms or bankruptcy. If offset, the derivative receivables from counterparty would be EUR 24 thousand.

Nominal and fair values of derivative contracts	2017				2016			
	Nominal value	Fair value, net	Fair value, positive	Fair value, negative	Nominal value	Fair value, net	Fair value, positive	Fair value, negative
Currency forward contracts								
Hedge accounting applied	–	–	–	–	5,240	-327	–	-327
Hedge accounting not applied	1,334	24	24	–	2,396	30	30	–
Electricity forward contracts								
Hedge accounting applied	–	–	–	–	594	43	43	–

Derivative instruments in profit or loss	2017	2016
Cost of goods sold		
Currency derivatives, hedge accounting not applied	-68	88
Ineffective part of cash flow hedging, electricity derivatives	-39	59
Cash flow hedging, electricity derivatives, realized	-13	-116
Other operating expenses		
Currency derivatives, hedge accounting not applied	192	-73
Net financial expenses		
Currency derivatives, ineffective part of cash flow hedging	–	-34
Interest rate differences of currency derivatives	-61	-146
Interest rate swaps, hedge accounting not applied	-14	–

Derivative instruments in other comprehensive income		
Fair value changes of cash flow hedges, electricity derivatives	-56	108
Fair value changes of cash flow hedges, currency derivatives	323	137
Cash flow hedges, electricity derivatives, amounts reclassified to profit or loss	13	116
Cash flow hedges, currency derivatives, amounts reclassified to property, plant and equipment	-35	-188
Total	**245**	**173**

20. DEFINED BENEFIT PLANS

EUR thousand

Suominen has a defined benefit termination plan in Italy (TFR, Trattamento di Fine Rapporto). The plan is unfunded and closed for new entrants. The benefits paid are based, among other things, on service years and end salary of the participants. The obligation is determined based on calculation made by independent actuaries.

Accounting principles

The defined benefit obligations are measured as the present value of the estimated future cash flows using interest rates of government securities that have maturity terms approximating the terms of related liabilities or similar long-term interests. Plan assets, if any, are recognized at fair value at the end of the reporting period.

For the defined benefit plans, costs are assessed using the projected unit credit method. Under this method the cost is charged to profit or loss so as to spread over the service lives of employees. However, there are normally no other costs than the net interest arising from the defined benefit plan of Suominen in Italy.

Only past service costs due to plan amendments as well as net interest on net defined benefit liability can be recognized in profit or loss. Service costs, if any, are recognized in profit or loss as employee benefits and net interest in financial items. Remeasurements of net defined benefit liability, such as actuarial gains and losses, are recognized in other comprehensive income in the period in which they occur with no subsequent recycling to profit or loss.

	2017	2016
Defined benefit liabilities in the statement of financial position		
Present value of unfunded obligations	984	1,081
Deficit	984	1,081
Change in defined benefit obligation		
Present value of defined benefit obligation 1 January	1,081	1,105
Charged to profit or loss:		
Interest expenses	15	22
Total recognized in profit or loss (gain - / loss +)	15	22
Remeasurements:		
Actuarial gain (-) / loss (+) from change in financial assumptions	-15	110
Total remeasurments	-15	110
Benefits paid	-97	-155
Present value of defined benefit obligation 31 December	**984**	**1,081**
Changes in plan assets		
Plan assets 1 January	–	–
Employer contributions	97	155
Benefits paid	-97	-155
Plan assets 31 December	**–**	**–**
Remeasurements recognized in other comprehensive income		
Recognized in other comprehensive income 1 January (gain - / loss +)	516	405
Actuarial gain (-) / loss (+) on defined benefit obligation during the reporting period	-15	110
Recognized in other comprehensive income 31 December (gain - / loss +)	**501**	**516**
Significant actuarial assumptions		
Discount rate (%)	1.30	1.50
Rate of future price inflation (%)	1.80	1.80
Average remaining service period (years)	15.2	15.7
Sensitivity analysis of actuarial assumptions		
Decrease in discount rate by 0.25 percentage points		
Effect on defined benefit obligation	36	37
Increase in discount rate by 0.25 percentage points		
Effect on defined benefit obligation	-35	-36
Expected payments to plan participants in the future years from the defined benefit obligation		
Within 1 year	9	30
Between 1–2 years	57	51
Between 3–5 years	121	112
Between 6–10 years	424	378
Total	**611**	**572**

21. TRADE PAYABLES AND OTHER LIABILITIES

EUR thousand

Other non-current liabilities	2017	2016
Accrued expenses and deferred income	350	364
Total other non-current liabilities	**350**	**364**

Current liabilities		
Trade payables	52,145	50,248
Advances received	8	3
Other liabilities	1,750	1,674
Accrued expenses and deferred income	9,252	13,463
Total trade payables and other current liabilities	**63,154**	**65,388**

Accrued expenses and deferred income include, among others, accrued interest expenses, accruals for annual and other discounts, accrued personnel expenses and other accruals.

Other liabilities include, among others, liabilities from indirect taxes.

Currency analysis of trade payables		
EUR	29,449	23,859
USD	22,371	25,777
BRL	285	569
Other currencies	39	44
Total	**52,145**	**50,248**

22. ENTITY-WIDE DISCLOSURES

EUR thousand

The net sales of Suominen Group consist entirely of sales of nonwovens. Sales to two customers exceed each 10% of total net sales. Net sales to one of these customers amounted to EUR 85.5 million (82.1) and to the other EUR 57.7 million (54.5).

Net sales by geographical destination	2017	2016
Finland	2,510	2,386
Rest of Europe	160,817	158,118
USA	216,565	211,481
Rest of North and South America	35,610	34,807
Rest of the world	10,494	10,071
Total	**425,996**	**416,862**

Net sales by business area		
Convenience	388,562	380,539
Care	37,482	36,271
Unallocated exchange differences of sales	-47	52
Total	**425,996**	**416,862**

Due to the reclassification of a customer between business areas, the figures for the comparison period have been restated.

Property, plant and equipment and intangible assets by geographical location		
Finland	19,750	15,531
Rest of Europe	22,879	24,969
USA	119,355	114,910
Brazil	7,629	9,728
Total	**169,614**	**165,139**

Accounting principles - revenue recognition

Net sales include the total invoicing value of products less sales tax, discounts and rebates. Foreign exchange differences arising from trade receivables are recognized as sales adjustments.

Revenue is recognized after the risks and rewards of ownership of the goods have been transferred to the buyer. Normally, revenue recognition takes place at the date of the delivery in accordance with the delivery terms.

23. OTHER OPERATING INCOME AND EXPENSES

EUR thousand

Other operating income	2017	2016
Gains from disposal of intangible assets and property, plant and equipment	5	8
Indemnities	26	14
Rental income	252	256
Sales of recycled products	1,221	1,377
Other operating income	259	255
Total	**1,764**	**1,909**

Recycled products consist of waste generated in the manufacturing process as well as products which do not fulfill quality requirments. These products are sold for recycling.

The future non-cancellable minimum lease payments (rental income) are disclosed in Note 33 of the consolidated financial statements.

Other operating expenses		
Impairment losses of trade receivables during the period, net	-110	-318
Currency derivatives, hedge accounting not applied	192	-73
Other operating expenses	-141	-238
Total	**-59**	**-629**

Accounting principles

Gains from the disposal of property, plant and equipment and intangible assets, insurance compensations and revenues other than from product sales, such as rental income and proceeds from sale of recycled products, are recognized as other operating income.

Losses from the sales of assets as well other expenses not associated with ordinary operations are recognized as other operating expenses.

24. FEES PAID TO AUDITORS

EUR thousand

Fees paid to auditors are included in administration expenses.

Ernst & Young Oy has been acting as the principal auditor of the Group and the parent company since the Annual General Meeting of 2015.

Fees paid to auditors	2017	2016
Fees for statutory audit	-444	-459
Other services	-55	-24
Total	**-498**	**-484**

The fees paid by the parent company of the Group, Suominen Corporation, are presented below.

Fees paid to auditors, Suominen Corporation	2017	2016
Fees for statutory audit	-116	-145
Other services	-55	-24
Total	**-171**	**-169**

25. EMPLOYEE BENEFITS

EUR thousand

	2017	2016
Wages and salaries	-34,898	-32,217
Share-based payments	-680	-265
Pensions, defined contribution plans	-2,677	-2,298
Other personnel expenses	-16,594	-17,644
Total	**-54,849**	**-52,424**

	2017	2016
Average number of personnel	670	646
Number of personnel, end of reporting period	663	650
in Finland	127	128

Management remuneration is disclosed in detail in Note 32 of the consolidated financial statements.

Share-based payments are disclosed in more detail in Note 29 of the consolidated financial statements.

Defined benefit plans are disclosed in more detail in Note 20 of the consolidated financial statements.

Accounting principles - pension benefits

The Group has several pension plans in accordance with local conditions and practices in the countries where it operates. The plans are generally funded through premium payments to insurance companies or similar entities. The pension schemes are in accordance with local legislation and based on established local practice. Pension schemes may include additional pension benefits, options for early retirement, or compensation for disability.

Pension schemes are classified either as defined contribution pension plans or defined benefit pension plans. A defined contribution pension plan is a plan under which the Group pays fixed contributions into a separate entity and has no obligation to pay further contributions if the separate entity has no sufficient assets to pay all employee benefits. The contributions to defined contribution plans are charged to profit or loss in the period to which the contributions relate.

Suominen has a defined benefit termination plan in Italy (TFR) (Note 20). In other countries Suominen has defined contribution pension plans.

26. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand

Depreciation, amortization and impairment losses by function	2017	2017
Cost of goods sold	-16,603	-15,872
Sales and marketing expenses	-755	-688
Research and development	-828	-945
Administration expenses	-1,163	-1,016
Total	**-19,349**	**-18,520**

Depreciation and amortization by asset category		
Intangible rights	-1,871	-1,731
Other intangible assets	-622	-627
Buildings and constructions	-1,918	-1,689
Machinery and equipment	-14,935	-14,467
Other tangible assets	-4	-6
Total	**-19,349**	**-18,520**

Accounting principles

The amortization of intangible assets is described in Note 6 and the depreciation of property, plant and equipment in Note 7.

The carrying amounts of property, plant and equipment as well as of intangible assets are assessed to determine whether there are any indications that the carrying amounts of the assets exceed their recoverable amounts and an impairment loss should be recognized. Indications of the assets' possible impairment can be a significant decline in an asset's market value, adverse changes in the business environment, adverse changes in the extent to which or manner in which an asset is used or expected to be used, or a deterioration in financial performance below what was expected.

If such indications of impairment exist, the recoverable amounts are measured for those assets for which there are indications of impairment. Recoverable amount is the higher of fair value of the asset less costs of disposal and value in use. When measuring an asset's value in use, the future cash flows derived from the asset are discounted by using discount rates which reflect the average cost of capital before taxes of the asset or, if the asset belongs to a cash generating unit, of that cash generating unit. The risk inherent in the value in use is captured by analyzing variations in the amount or timing of cash flows.

An impairment loss of an asset can be reversed if a positive change in the estimates of the recoverable amount has occured. The impairment loss made in prior years is reversed no more than up to the value which would have been determined for the asset, net of amortization or depreciation, had no impairment loss been recognized in prior years.

Impairment testing of goodwill is presented in Note 5.

27. FINANCIAL INCOME AND EXPENSES

EUR thousand

Financial income	2017	2016
Interest income from loans and receivables	749	717
Other interest income	9	10
Currency derivatives, interest rate difference	8	–
Fair value changes of liabilities at fair value through profit or loss	–	15
Total	**767**	**743**
Financial expenses		
Interest expenses on liabilities at amortized cost	-1,634	-2,493
Interest expenses on defined benefit plans	-15	-22
Other interest expenses	0	-3
Interest rate swaps	-14	–
Currency derivatives, interest rate difference	-70	-146
Financial expenses on sale of trade receivables	-372	-169
Other financial expenses	-629	-877
Total	**-2,735**	**-3,710**
Net exchange rate differences	**-602**	**-222**
Total financial income and expenses	**-2,570**	**-3,190**

Currency differences in operating profit		
Net sales	-214	-46
Cost of goods sold	339	-87
Other operating expenses	-2	20

Accounting principles

Interest expenses are accrued for and mainly recognized in profit or loss for each period. If an asset is a qualifying asset as defined in IAS 23 Borrowing Costs, the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized to the acquisition cost of the asset. The capitalization applies mainly to property, plant and equipment and intangible assets.

Capitalized borrowing costs during the reporting period were EUR 2,228 thousand (1,254 thousand). The capitalization rate used was 5.12%.

28. INCOME TAXES

EUR thousand

Income tax charge in statement of profit or loss	2017	2016
Current income tax charge	6,475	-5,664
Adjustments in respect of current income tax of previous years	-45	-117
Change in deferred tax assets	701	-536
Change in deferred tax liabilities	-4,969	-108
Other income taxes	-114	-775
Total income tax charge	**2,048**	**-7,199**
Income taxes recognized in other comprehensive income		
Exchange differences	1,319	-365
Cash flow hedges, fair value changes	11	-22
Cash flow hedges, reclassified to profit or loss	-3	-23
Defined benefit plans, remeasurements	-4	16
Total taxes recognized in other comprehensive income	**1,324**	**-394**
Income taxes recognized in other equity		
Retained earnings, adjustment of interest expense on hybrid bond	120	-291
Total recognized in other equity	**120**	**-291**

The decrease in the federal corporate income tax rate in the USA from 35% to 21% had a significant positive effect on the Group's income taxes in 2017. The impact of the decrease in the US federal tax rate on the Group's income taxes was approximately EUR +8.3 million. Less than half of the total effect arose from the revaluation of net deferred tax liabilities with the new 21% tax rate and more than half from accelerated tax depreciations, as the related deferred tax liability is recognized with the lower tax rate.

Suominen was able to utilize in the 2017 income taxes in the USA the accelerated tax depreciations as allowed by the US federal tax laws. The accelerated tax depreciations were applied mainly to the Bethune production line investment but also to other investments. In accordance with the US federal tax laws, tax losses can be carried back against taxable profits of the previous years. The tax carry back has been recognized with the 35% tax rate which was applicable in 2017 and earlier.

The utilization of the accelerated tax depreciations postpones the payment of income taxes to subsequent years as tax depreciations which can utilized in the future decrease.

The Group companies have tax losses, totalling EUR 26.5 (20.6) million, which can be applied against future taxable income. A deferred tax asset has not been recognized for all tax losses, due to the uncertainty regarding the extent to which they can be used. When preparing the 2017 financial statements, the management has estimated that Suominen is able to utilize the unused tax losses for which deferred tax asset has been recognized. In addition, it will take several years before the tax losses expire or there is no expiry date for the losses.

Deferred tax liability has not been recognized in 2017 or 2016 of the undistributed earnings of Finnish or foreign subsidiaries, as the majority of such earnings can be transferred to the owner without any tax consequences.

Accounting principles

The consolidated financial statements include current taxes, which are based on the taxable results of the group companies for the reporting period together with tax adjustments for previous reporting periods, calculated in accordance with the local tax rules, and the change in deferred tax liabilities and assets.

Income taxes which relate to items recognized in other comprehensive income are also recognized in other comprehensive income.

Suominen has some uncertain tax positions due to local tax audits as the tax authorities have challenged the tax deductible expenses Suominen has declared in the income tax returns. Suominen has assessed for each tax audit whether the interpretations of the tax authorities are justified and adjusted the recognized amounts, if needed, in order to correspond the expected future payments. Even though the management estimates that the end results of the tax audits will not result in material additional costs exceeding the already recognized amounts, the actual results can differ from the estimates.

The Group's deferred tax liabilities and assets have been calculated for temporary differences, which have been obtained by comparing the carrying amount of each asset or liability item with their tax bases. Deferred tax assets are recognized for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available, against which tax credits and deductible temporary differences can be utilized. In calculating deferred tax liabilities and assets, the tax rate used is the tax rate in force at the time of preparing the financial statements or which has been enacted by end of the reporting period. Changes in tax rates have been taken into account when calculating deferred taxes. Corporate income tax rate in Finland is 20% (20%).

Principal temporary differences arise from depreciation and amortization of property, plant and equipment and intangible assets, defined benefit plans, recognition of net assets of acquired companies at fair value, measuring available-for-sale assets at fair value, share-based payments and confirmed tax losses.

Reconciliation of income tax expense calculated at statutory tax rates with income tax expense in the statement of profit or loss

	2017	2016
Profit before income taxes	**12,430**	**22,432**
Income taxes at the tax rate applicable to the parent	-2,486	-4,486
Difference due to different tax rates of foreign subsidiaries	-2,182	-2,469
Tax exempt income and non-deductible expenses	-177	364
Effect of changes in tax rates and tax laws	8,244	-1
Losses, for which no deferred tax asset is recognized	-1,430	-133
Deferred taxes recognized during the reporting period in respect of previous years' temporary differences	930	441
Deferred taxes reversed during the reporting period	-76	-74
Adjustments in respect of current income tax of previous periods and witholding and other income taxes	-159	-892
Use of losses, for which no deferred tax asset has been recognized	87	51
Minimum income tax	-702	–
Income taxes in the statement of profit or loss	**2,048**	**-7,199**
Effective tax rate, %	N/A	32.1
Tax assets and liabilities in the statement of financial position		
Deferred tax assets	5,142	3,424
Assets for current tax	7,703	2,008
Deferred tax liabilities	14,558	11,195
Liabilities for current tax	32	280

Critical accounting estimates and judgements

Recognition and measurement of deferred tax liabilities and assets include management estimates, especially deferred tax assets arising from confirmed tax losses of group companies or from other temporary differences. Deferred tax assets are recognized for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available against which tax credits and deductible temporary differences can be utilized. All tax liabilities and assets are reviewed at the end of the reporting period and changes are recognized in comprehensive income.

Group companies can be subjects of tax audits. In these tax audits the tax authorities can challenge Suominen's view of the taxable income and not fully accept it. In these cases the recognized amounts are adjusted, if needed, in order to correspond the expected future payments. The possible adjustments as well as the recognized income tax liability are based on estimates of the outcome of the tax audit.

Reconciliation of deferred tax assets	1 January 2017	Exchange difference	Recognized in profit or loss	Recognized in other comprehensive income or in equity	31 December 2017
Employee benefits	204	–	144	-4	344
Property, plant and equipment and intangible assets	1,188	-134	237	–	1,290
Tax losses	1,241	–	751	–	1,992
Other temporary differences	791	-163	-430	1,319	1,517
Total	**3,424**	**-298**	**701**	**1,315**	**5,142**

	1 January 2016	Exchange difference	Recognized in profit or loss	Recognized in other comprehensive income or in equity	31 December 2016
Employee benefits	235	–	-47	16	204
Cash flow hedging	47	–	-11	-36	–
Property, plant and equipment and intangible assets	1,252	193	-257	–	1,188
Tax losses	1,988	–	-747	–	1,241
Other temporary differences	970	73	527	-778	791
Total	**4,491**	**266**	**-536**	**-798**	**3,424**

Reconciliation of deferred tax liabilities	1 January 2017	Exchange difference	Recognized in profit or loss	Recognized in other comprehensive income or in equity	31 December 2017
Property, plant and equipment and intangible assets	8,902	-1,284	-5,509	–	13,127
Other temporary differences	2,219	-193	540	-120	1,365
Available-for-sale assets	65	–	–	–	65
Cash flow hedging	9	–	–	-9	–
Total	**11,195**	**-1,477**	**-4,969**	**-129**	**14,558**

	1 January 2016	Exchange difference	Recognized in profit or loss	Recognized in other comprehensive income or in equity	31 December 2016
Property, plant and equipment and intangible assets	8,821	247	166	–	8,902
Other temporary differences	2,004	63	-273	-122	2,219
Available-for-sale assets	65	–	–	–	65
Cash flow hedging	–	–	–	9	9
Total	**10,890**	**310**	**-108**	**-113**	**11,195**

29. SHARE-BASED PAYMENTS

Suominen has share-based incentive plans targeted to the key employees of the Group. In accordance with the terms of the plans, shares of Suominen Corporation are granted to the participants if vesting conditions are met. The rewards are partly settled in cash. The cash portion is intended to cover income taxes and tax-related costs arising from the reward to the participant. No reward will be paid, if a participant´s employment or service ends before the reward payment.

The Board of Directors is entitled to reduce the rewards agreed in the performance share plans if the limits set by the Board of Directors for the share price are reached.

The aim of the plans is to combine the objectives of the shareholders and the persons participating in the plans in order to increase the value of the company in the long-term, to bind the participants to the company, and to offer them competitive reward plans based on earning and accumulating the company´s shares.

A member of the Corporate Executive Team must hold 50% of the net number of shares given on the basis of the plans, as long as his or her shareholding in total corresponds to the value of half of his or her annual gross salary. The President & CEO must hold 50% of the net number of shares given on the basis of the plans until his or her shareholding in total corresponds to the value of his or her annual gross salary. Such number of shares must be held as long as the participant's employment or service in a group company continues

Share-based incentive plans 2015–2017

The Board of Directors of Suominen Corporation approved on 4 December 2014 two new share-based incentive plans for the Group management and key employees.

Performance share plan 2015–2017

The performance share plan includes one vesting period, calendar years 2015–2017. The Board of Directors of Suominen Corporation will decide on further vesting periods. The Board of Directors will decide on the plan's vesting conditions and required performance levels for each condition at the beginning of a vesting period. The rewards to be paid on the basis of the vesting period 2015–2017 correspond to the value of an approximate maximum total of 460,000 Suominen Corporation shares (including also the portion to be settled in cash).

Matching share plan 2015–2017

The matching share plan includes one three-year vesting period, calendar years 2015–2017. The prerequisite for receiving reward on the basis of this plan is that a person participating in the plan owns or acquires the company´s shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant´s employment or service upon reward payment.

The members of the Corporate Executive Team and the Corporate Leadership Team belong to the target group of the matching share plan. The rewards to be paid on the basis of the matching share plan correspond to the value of an approximate maximum total of 127,478 Suominen Corporation shares (including also the portion to be settled in cash).

Reward payment

The potential rewards from the vesting periods 2015–2017 will be settled partly in the company's shares and partly in cash in 2018.

Share-based incentive plan 2016–2018

The Board of Directors of Suominen Corporation approved on 8 December 2015 a new vesting period in the share-based incentive plan (performance share plan) for the Group management and key employees. The vesting period includes calendar years 2016–2018.

The rewards to be paid on the basis of the vesting period 2016–2018 correspond to the value of an approximate maximum total of 245,000 Suominen Corporation shares (including also the portion to be settled in cash). The Board of Directors will decide separately on new vesting periods. The Board of Directors will decide on the plan's vesting conditions and required performance levels for each condition at the beginning of a vesting period.

Reward payment

The potential rewards from the vesting periods 2016–2018 will be settled partly in the company's shares and partly in cash in 2019.

Share-based incentive plan 2017–2019

The Board of Directors of Suominen Corporation approved on 9 December 2016 a new vesting period in the share-based incentive plan (performance share plan) for the Group management and key employees. The vesting period includes calendar years 2017–2019. The plan is directed to approximately 20 people.

The rewards to be paid on the basis of the vesting period 2017–2019 correspond to the value of an approximate maximum total of 480,000 Suominen Corporation shares (including also the portion to be settled in cash). The Board of Directors will decide separately on new vesting periods. The Board of Directors will decide on the plan's vesting conditions and required performance levels for each condition at the beginning of a vesting period.

Reward payment

The potential rewards from the vesting period 2017–2019 will be settled partly in the company's shares and partly in cash in 2020.

Share-based incentive plan 2018–2020

The Board of Directors of Suominen Corporation approved on 11 December 2017 a new share-based incentive plan (performance share plan) for the Group management and key employees. The vesting period includes calendar years 2018–2020. The plan is directed to approximately 20 people.

The rewards to be paid on the basis of the vesting period 2018–2020 correspond to the value of an approximate maximum total of 502,000 Suominen Corporation shares (including also the portion to be settled in cash). The Board of Directors will decide separately on new vesting periods. The Board of Directors will decide on the plan's vesting conditions and required performance levels for each condition at the beginning of a vesting period.

Reward payment

The potential rewards from the vesting period 2018–2020 will be settled partly in the company's shares and partly in cash in 2021.

Measurement of instruments granted during the reporting period

Share price at grant date, EUR	4.60
Expected annual dividends, EUR	0.10
Share price at the end of the reporting period, EUR	4.42

Accounting principles

The granted amount of the incentive plans settled in shares is measured at fair value at the grant date, and the cash-settled part of the plans is measured at fair value at the reporting or payment date.

The expenses arising from the incentive plans have been recognized in profit or loss during the vesting period. The cash-settled portion of the incentive plans is recorded as a liability in the statement of financial position, if it has not been paid, and the portion settled in shares has been recorded in retained earnings in equity. Suominen has recognized other personnel costs arising from the share-based incentive plans to the extent it is liable to pay them.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which Suominen will apply from 1 January 2018, will change the measurement and recognition of the cash-settled part. The amendment is described in Note 1 of the consolidated financial statements.

Effect on the profit for the period and on financial position in 2017

EUR thousand	Share-based incentive plans 2015–2017	Share-based incentive plan 2016–2018	Share-based incentive plan 2017–2019	Share-based incentive plan 2018–2020	Total
Expense for the reporting period	254	173	273	20	**721**
Recognized in equity in 2017	110	97	122	10	**338**
Recognized as liability	413	162	161	11	**747**

Information on share-based incentive plans	Matching share plan 2015–2017	Share-based incentive plan 2015–2017	Share-based incentive plan 2016–2018	Share-based incentive plan 2017–2019	Share-based incentive plan 2018–2020	Total / weighted average
Maximum number of shares, including the portion to be settled in cash	127,478	460,000	245,000	480,000	502,000	**1,814,478**
Initial grant date	30 January 2015	30 January 2015	8 December 2015	9 December 2016	11 December 2017	
Vesting date	31 May 2018	31 May 2018	31 May 2019	31 May 2020	31 May 2021	
Vesting conditions	Share ownership	Net sales growth, EBIT%, ROI%	Net sales growth, EBIT%, ROI%	Net sales growth, EBIT%, ROI%	EBIT%, total shareholder return (TSR)	
	Employment precondition until reward payment	Employment precondition until reward payment	Employment precondition until reward payment	Employment precondition until reward payment	Employment precondition until reward payment	
Maximum contractual life, years	3.3	3.3	3.5	3.5	3.5	
Remaining contractual life, years	0.4	0.4	1.4	2.4	3.4	**1.9**
Number or persons at the end of reporting period	14	13	10	18	21	
Payment method	Shares and cash	Shares and cash	Shares and cash	Shares and cash	Shares and cash	

Changes in 2017	Matching share plan 2015–2017	Share-based incentive plan 2015–2017	Share-based incentive plan 2016–2018	Share-based incentive plan 2017–2019	Share-based incentive plan 2018–2020	Total
Outstanding at the beginning of the period	105,478	428,500	245,000	466,000	–	**1,244,978**
Granted	22,000	–	–	–	502,000	**524,000**
Forfeited	–	–	-27,000	-45,000	–	**-72,000**
Outstanding at the end of the period	**127,478**	**428,500**	**218,000**	**421,000**	**502,000**	**1,696,978**

30. EARNINGS PER SHARE

Calculation of earnings per share

Basic earnings per share are calculated by dividing the net result attributable to owners of the parent (adjusted with interest on hybrid bond, net of tax) by the weighted share-issue adjusted average number of shares outstanding during the reporting period, excluding shares acquired by the Group and held as treasury shares.

When calculating diluted earnings per share, the weighted share-issue adjusted average number of shares outstanding during the year is adjusted by the effect of the hybrid bond on the number of shares.

The dilutive effect of the hybrid bond on the number of shares has been calculated by assuming that the remaining amount of the bond is fully converted into shares at the issuance date. In addition, the cumulative accrued interest during the whole loan period on the remaining loan amount is assumed to have been converted into shares at the issuance date. At the end of the 2017 reporting period, the hybrid bond in its entirety was converted into shares.

When calculating diluted earnings per share the number of shares is adjusted also with the effects of the share-based incentive plans.

Profit for the period

EUR thousand	2017	2016
Profit for the period	**14,478**	**15,233**
Interest on hybrid bond net of tax	-481	-486
Total	**13,997**	**14,747**

Number of shares

Average share-issue adjusted number of shares	52,145,416	50,343,806
Average diluted share-issue adjusted number of shares excluding treasury shares	57,798,395	58,024,756

Earnings per share

EUR		
Basic	0.27	0.29
Diluted	0.25	0.26

31. ADJUSTMENTS TO STATEMENT OF CASH FLOWS

EUR thousand

Adjustments to cash flow from operations	2017	2016
Adjustments to profit for the period		
Income taxes	-2,048	7,199
Financial income and expenses	2,570	3,190
Depreciation, amortization and impairment losses	19,349	18,520
Gains and losses from disposal of property, plant and equipment and intangible assets	5	8
Other non-cash flow items in profit for the period	1,193	865
Total	21,069	29,783

32. RELATED PARTIES

Accounting principles

Parties are considered to be related parties if a party is able to exercise control over the other or substantially influence its decision-making concerning its finances and business operations.

Suominen Group's related parties include the parent of the Group (Suominen Corporation) and subsidiaries. In addition, the related parties of Suominen include the members of the Board of Directors, President & CEO and the members of the Corporate Executive Team as well as their family members and their controlled companies. In addition, shareholders who have a significant influence in Suominen through share ownership are included in related parties. Suominen has no associated companies.

In its transactions with related parties Suominen follows the same commercial terms as in transactions with third parties.

No loans, guarantees or other collaterals have been given on behalf of related parties, with the exception of subsidiaries.

Management remuneration

Remuneration of Board of Directors

	2017		2016	
EUR	annual fee	meeting fee	annual fee	meeting fee
Jan Johansson, Chair of the Board of Directors (from 15 March 2017)	60,001	–	–	–
Jorma Eloranta, Chair of the Board of Directors (until 15 March 2017)	–	5,500	50,319	4,500
Risto Anttonen, Deputy Chair of the Board	37,502	5,500	37,740	4,500
Hannu Kasurinen	27,998	5,500	28,178	4,500
Jaana Tuominen	27,998	5,500	28,178	4,500
Andreas Ahlström	27,998	5,500	28,178	4,500
Laura Raitio	27,998	5,500	28,178	4,000
Total	209,495	33,000	200,771	26,500

The Annual General Meeting held on 15 March 2017 resolved that 40% of the annual remuneration for the Board of Directors is paid in Suominen Corporation's shares. The number of shares transferred to the members of the Board of Directors as their remuneration payable in shares for 2017 was 16,807 shares. The shares were transferred on 2 June 2017 and the value of the transferred shares totaled EUR 83,795, or approximately EUR 4.98574 per share.

The members of the Board of Directors have no pension arrangements with Suominen.

The members of the Board of Directors have no specific agreements related to termination of the membership in the Board due to a public tender offer.

Remuneration of the President & CEO
as paid

EUR	2017	2016
Salaries	312,392	312,280
Bonuses	49,586	94,473
Total salaries	361,978	406,753
Fringe benefits	18,660	18,840
Total	**380,638**	**425,593**
Statutory pensions	55,497	30,643
Supplementary pensions	38,497	45,892

A written contract has been made with the President & CEO, under which she has a six-month period of notice. Should the company terminate the contract, additional compensation corresponding to the 12 months' salary will also be paid. The President & CEO has a supplementary pension plan, with a cost of 11.5% of her annual salary as defined in the Finnish Pension Law. The supplementary pension arrangement grants pension benefits at the age of 63. The President & CEO has no specific agreement related to termination of contract due to a public tender offer.

Remuneration of other members of the Corporate Executive Team
as paid

EUR	2017	2016
Salaries	1,301,474	1,190,889
Bonuses	31,960	188,119
Total salaries	1,333,434	1,379,008
Fringe benefits	60,690	43,618
Total	**1,394,124**	**1,422,626**
Statutory pensions	172,177	118,205
Supplementary pensions	58,497	73,102

The members of the Corporate Executive Team have normally no other pension arrangements than statutory pensions. Supplementary pension arrangements are arrangements in countries without statutory pensions. The retirement age of other members of the Corporate Executive Team is according to the normal local legislation.

Share-based incentives plans are disclosed in Note 29 of the consolidated financial statements. The accrual based on the new share-based incentive plan for the related parties was EUR 621 thousand at the end of the reporting period.

Managements' share ownership

number of shares

Board of Directors	31 December 2017	31 December 2016
Jan Johansson, Chair of the Board of Directors (from 15 March 2017)	4,814	–
Jorma Eloranta, Chair of the Board of Directors (until 15 March 2017)	–	40,030
Risto Anttonen, Deputy Chair of the Board	31,839	28,830
Hannu Kasurinen	21,456	19,210
Jaana Tuominen	11,552	9,306
Andreas Ahlström	7,606	5,360
Laura Raitio	7,606	5,360
Total	**84,873**	**108,096**
Total % of shares and votes	0,15%	0,21%

Corporate Executive Team		
Nina Kopola, President & CEO	85,172	85,172
Tapio Engström	33,266	33,266
Larry L. Kinn	6,348	6,348
Lynda A. Kelly	10,000	10,000
Ernesto Levy	12,000	12,000
Mimoun Saïm	21,525	21,525
Hannu Sivula	29,345	29,345
Markku Koivisto	10,000	–
Total	**207,656**	**197,656**
Total % of shares and votes	0.36%	0.39%

33. CONTINGENT LIABILITIES

EUR thousand

Guarantees and other commitments	2017	2016
On own committments	9,865	16,810
Other own commitments	3,484	4,069
On behalf of others	–	963
Total	**13,349**	**21,841**

Other contingencies		
Contractual commitments to acquire property, plant and equipment	86	5,517
Total	**86**	**5,517**

Guarantees on own commitments are guarantees given to suppliers. Guarantees on behalf of others were guarantees given on behalf of the Flexibles business unit disposed in 2014.

Some subsidiaries of Suominen have guaranteed the external loans of Suominen Corporation. The maximum guaranteed amount is the unpaid principal of the loans and unpaid accrued interest expenses at the end of the reporting period.

Rental and leasing expenses

Total rental and leasing expenses	-4,305	-3,988

Minimum lease payments under non-cancellable operating leases in future periods		
Within one year	3,756	3,808
Between 1–5 years	3,113	3,853
After 5 years	1,745	5,427
Total	**8,614**	**13,088**

Minimum non-cancellable lease payments (rental income) in future periods		
Within one year	183	204
Between 1–5 years	52	59
After 5 years	–	–
Total	**235**	**262**

Accounting principles - contingent liabilities

A contingent liability is a possible obligation which is not recognized as a liability in the statement of financial position as, for example, its existence is not yet confirmed and is not in control of the company. The management uses estimates to assess the amount of contingent liabilities.

Accounting principles - leases

Suominen Group has entered into various operating leases, the payments under which are treated as rentals and charged to profit or loss over the lease term.

Leases of property, plant and equipment where Suominen has substantially all the rewards and risks of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between liability and finance charges. The lease liabilities net of finance charges are included in interest-bearing liabilities with the interest element charged to profit or loss over the lease period.

Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset or the lease period.

IFRIC 4 Determining Whether an Arrangement Contains a Lease is applied to such agreements, which are not leases in legal form, but which in substance convey the right to use an asset for an agreed period of time in return for a payment. If an arrangement or part of it is determined to be a lease, it or part of it is classified as finance or operating lease and accounted for under the guidance in IAS 17 Leases.

Long-term leasing contracts on premises are classified as an operating leases as the risks and benefits related to ownership have not been transferred to the lessee and Suominen has no major obligations at the end of the lease period.

Rental income is recognized in accordance with the lease agreement during the lease period. Rental income is recognized as other operating income (Note 23).

Key ratios per share

	2017	2016	2015
Earnings per share, EUR	0.27	0.29	0.32
Earnings per share, EUR, total, diluted	0.25	0.26	0.29
Cash flow from operations per share, EUR	0.39	0.56	0.54
Equity per share, EUR	2.37	2.81	2.50
Price per earnings per share (P/E) ratio	16.47	14.13	19.41
Dividend or return of capital per share, EUR (*	0.11	0.11	0.10
Dividend payout ratio / payout ratio for return of capital, %	41.0	37.6	31.3
Dividend yield, %	2.49	2.66	1.61
Number of shares, end of period, excluding treasury shares	57,382,939	50,772,555	50,302,346
Average number of shares excluding treasury shares	52,145,416	50,343,806	50,119,433
Average share-issue adjusted number of shares excluding treasury shares	52,145,416	50,343,806	50,183,437
Share price, end of period, EUR	4.42	4.14	6.20
Share price, period low, EUR	3.86	3.49	3.75
Share price, period high, EUR	5.22	6.20	6.65
Volume weighted average price during the period, EUR	4.53	4.24	5.05
Market capitalization, EUR million	253.6	210.2	311.9
Number of traded shares during the period	5,405,584	13,611,634	19,502,550
Number of traded shares during the period, % of average number of shares (share turnover)	10.4	27.0	38.9

Key ratios per share are share-issue adjusted.

Key ratios for 2015 have been adjusted with the effect of the reverse share split made in 2016.

(* 2017 the proposal of the Board of Directors to Annual General Meeting for return of capital.

Calculation of key ratios per share

Key ratios per share are either IFRS key ratios (earnings per share) or required by Ordinance of the Ministry of Finance in Finland or alternative performance measures (cash flow from operations per share).

Earnings per share

$$\text{Basic earnings per share (EPS)} = \frac{\text{Profit for the period adjusted with interest on hybrid bond, net of tax}}{\text{Share-issue adjusted average number of shares excluding treasury shares}}$$

$$\text{Diluted earnings per share (EPS)} = \frac{\text{Profit for the period}}{\text{Average diluted share-issue adjusted number of shares excluding treasury shares}}$$

Calculation of earnings per share is disclosed in Note 30.

Cash flow from operations per share

$$\text{Cash flow from operations per share} = \frac{\text{Cash flow from operations}}{\text{Share-issue adjusted number of shares excluding treasury shares, end of reporting period}}$$

Reference		2017	2016
Consolidated statement of cash flows	Cash flow from operations, EUR thousand	22,152	28,496
Note 15	Share-issue adjusted number of shares excluding treasury shares, end of reporting period	57,382,939	50,772,555
	Cash flow from operations per share, EUR	0.39	0.56

Equity per share

$$\text{Equity per share} = \frac{\text{Total equity}}{\text{Share-issue adjusted number of shares excluding treasury shares, end of reporting period}}$$

Reference		2017	2016
Consolidated statement of financial position	Total equity, EUR thousand	136,117	142,824
Note 15	Share-issue adjusted number of shares excluding treasury shares, end of reporting period	57,382,939	50,772,555
	Equity per share, EUR	2.37	2.81

Dividend / return of capital per share

$$\text{Dividend / return of capital per share} = \frac{\text{Dividend paid / return of capital for the reporting period}}{\text{Number of issued shares at end of the period excluding treasury shares}}$$

Reference		2017	2016
The proposal by the Board for return of capital	Dividend paid / return of capital for the reporting period, EUR thousand	6,312	5,585
Note 15	Number of issued shares at end of the period excluding treasury shares	57,382,939	50,772,555
	Dividend / return of capital per share, EUR	0.11	0.11

Dividend payout ratio / payout ratio for return of capital, %

$$\text{Dividend payout ratio / payout ratio for return of capital, \%} = \frac{\text{Dividend / return of capital per share x 100}}{\text{Basic earnings per share}}$$

Reference		2017	2016
	Dividend / return of capital per share x 100	11.00	11.00
Note 30	Basic earnings per share, EUR	0.27	0.29
	Dividend payout ratio / payout ratio for return of capital, %	41.0	37.6

Dividend yield, %

$$\text{Dividend yield, \%} = \frac{\text{Dividend / return of capital per share x 100}}{\text{Share price at end of the period}}$$

Reference		2017	2016
	Dividend / return of capital per share x 100	11.00	11.00
Note 15	Share price at end of the period, EUR	4.42	4.14
	Dividend yield, %	2.49	2.66

Price per earnings per share (P/E)

Price per earnings per share (P/E) = $\frac{\text{Share price at end of the period}}{\text{Basic earnings per share}}$

Reference		2017	2016
Note 15	Share price at end of the period, EUR	4.42	4.14
Note 30	Basic earnings per share, EUR	0.27	0.29
	Price per earnings per share (P/E)	16.47	14.13

Market capitalization

Market capitalization = Number of shares at the end of reporting period excluding treasury shares x share price at the end of period

Reference		2017	2016
Note 15	Number of shares at the end of reporting period excluding treasury shares	57,382,939	50,772,555
Note 15	Share price at end of the period, EUR	4.42	4.14
	Market capitalization, EUR million	253.6	210.2

Share turnover

Share turnover = The proportion of number of shares traded during the period to weighted average number of shares excluding treasury shares

Reference		2017	2016
Note 15	Number of shares traded during the period	5,405,584	13,611,634
Note 15	Average number of shares excluding treasury shares	52,145,416	50,343,806
	Share turnover, %	10.4	27.0

Parent company financial statements (FAS)

Income statement

EUR	Note	1 January– 31 December 2017	1 January– 31 December 2016
Net sales		**21,573,935.06**	**19,729,199.83**
Cost of goods sold		-1,791,147.75	-909,309.26
Gross profit		**19,782,787.31**	**18,819,890.57**
Other operating income	2	215,554.78	216,060.82
Sales and marketing expenses		-1,628,136.59	-1,359,124.38
Research and development		-2,603,629.41	-2,570,894.24
Administration expenses		-7,970,353.16	-8,759,412.87
Other operating expenses	2	-9,600,500.36	-7,977,953.34
Operating profit / loss		**-1,804,277.43**	**-1,631,433.44**
Financial income	6	12,663,887.68	13,749,791.41
Financial expenses	6	-12,490,660.91	-5,182,830.65
Total financial income and expenses		**173,226.77**	**8,566,960.76**
Profit / loss before changes in untaxed reserves and income taxes		**-1,631,050.66**	**6,935,527.32**
Change in depreciation difference	7	1,223,080.72	-36,670.79
Group contributions	7	–	1,150,000.00
Income taxes	8	-54,916.40	-326,046.03
Profit / loss for the period		**-462,886.34**	**7,722,810.50**

Balance sheet

EUR	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets	5,9	12,026,782.06	8,602,156.93
Tangible assets	5,10	117,977.93	157,299.00
Investments			
Shares in subsidiaries	11	107,869,783.56	107,869,783.56
Other investments	11	28,500.46	28,500.46
Loan receivables			
Loan receivables from group companies		77,149,424.47	54,479,146.19
Loan receivables from others		3,071,859.89	6,835,828.18
Total non-current assets		**200,264,328.37**	**177,972,714.32**
Current assets			
Loan receivables		4,337,383.76	1,550,000.00
Trade receivables	12	–	6,830.61
Other current receivables	12	44,727,899.80	82,208,873.29
Cash and cash equivalents		18,890,446.78	24,246,408.43
Total current assets		**67,955,730.34**	**108,012,112.33**
TOTAL ASSETS		**268,220,058.71**	**285,984,826.65**

EUR	Note	31 December 2017	31 December 2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	11,860,056.00	11,860,056.00
Share premium account		24,680,587.83	24,680,587.83
Reserve for invested unrestricted equity		87,423,152.11	70,855,390.30
Fair value reserve		–	42,885.00
Other equity		7,055,861.65	4,918,032.20
Profit / loss for the period		-462,886.34	7,722,810.50
Total shareholders' equity	**13**	**130,556,771.25**	**120,079,761.83**
Untaxed reserves			
Depreciation difference		155,402.07	1,378,482.79
Liabilities			
Non-current liabilities			
Interest-bearing liabilities			
Debentures	15	100,730,000.00	75,000,000.00
Hybrid bond	15	–	16,337,133.39
Loans from financial institutions	15	–	11,293,988.95
Other non-current liabilities	16	–	187,386.61
Total non-current liabilities		**100,730,000.00**	**102,818,508.95**
Current liabilities			
Interest-bearing liabilities			
Loans from financial institutions	15	15,000,000.00	7,811,567.31
Current loans from group companies	15	18,724,132.58	51,666,116.54
Trade payables and other non-current liabilities	16	3,053,752.81	2,230,389.23
Total current liabilities		**36,777,885.39**	**61,708,073.08**
Total liabilities		**137,507,885.39**	**164,526,582.03**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**268,220,058.71**	**285,984,826.65**

Cash flow statement

EUR thousand	Note	1 January– 31 December 2017	1 January– 31 December 2016
Cash flow from operations			
Profit / loss for the period		**-463**	**7,723**
Adjustments to profit / loss for the period	19	1,293	-6,885
Cash flow from operations before change in net working capital		830	838
Increase (-) or decrease (+) in trade and other receivables		1,460	739
Increase (+) or decrease (-) in interest-free current liabilities		-203	-572
Cash flow from operations before payments of financial items and income taxes		2,087	1,005
Paid and received interests and other financial items		1,222	3,313
Paid income taxes		-43	-600
Cash flow from operations		**3,267**	**3,718**
Cash flow from investments			
Capital expenditure	9,10	-4,823	-3,546
Proceeds from disposal of tangible and intangible assets		70	–
Investments in subsidiaries, previous years		–	76
Dividend income from subsidiaries		5,921	4,046
Cash flow from investments		**1,167**	**575**

EUR thousand	Note	1 January– 31 December 2017	1 January– 31 December 2016
Cash flow from financing			
Change in non-current interest-bearing liabilities	15	25,730	–
Change in current interest-bearing liabilities	15	-29,535	5,685
Change in non-current loan receivables		-937	4,122
Change in current loan receivables		8,393	-37,153
Issuance and tender costs of the bonds		-5,190	–
Distribution of dividends	13	-5,585	-5,030
Cash flow from financing		**-7,124**	**-32,377**
Change in cash and cash equivalents		**-2,690**	**-28,083**
Cash and cash equivalents 1 January		24,246	51,112
Exchange difference on cash and cash equivalents		-2,666	1,218
Change in cash and cash equivalents		-2,690	-28,083
Cash and cash equivalents 31 December		**18,890**	**24,246**

1. ACCOUNTING POLICIES

Suominen Corporation is a public limited liability company organized under the laws of the Republic of Finland and domiciled in Helsinki, Finland (Itämerentori 2, 00180 Helsinki, Finland). Suominen's shares are publicly traded on Nasdaq Helsinki Ltd. (Mid Cap) in Helsinki, Finland. Suominen Corporation is the parent company of the Group.

The financial statements of Suominen Corporation are prepared in accordance with Finnish Accounting Standards (FAS). The consolidated financial statements of Suominen Group are prepared in accordance with International Financial Reporting Standards (IFRS), and Suominen Corporation applies in its separate financial statements the same accounting principles as Suominen Group to the extent it is possible within the framework of Finnish accounting practice. The accounting principles of Suominen Group are presented in the notes to the consolidated financial statements (Note 1).

The main differences in the accounting principles between Suominen Corporation's separate financial statements and Suominen Group's consolidated financial statements are presented below.

Net sales
Net sales consist of sales of services to group companies and of royalty income.

Financial assets and liabilities and derivative instruments
Financial assets and liabilities with the exception of derivative instruments are recognized at cost or at cost less impairment losses. Derivatives are recognized at fair value. Currency derivatives, if not hedging financial items, are recognized in other operating income and expenses. If hedge accounting as defined in IAS 39 is applied, the effective portion of changes in the fair value of derivatives is recognized in fair value reserve in equity. Both fair value measurement of derivatives as well as hedge accounting are presented in Note 19 of the consolidated financial statements.

Finance leasing
Lease payments are recognized as lease expenses. Leasing obligations are presented as contingent liabilities.

Untaxed reserves
Untaxed reserves consist of a depreciation difference. This difference between scheduled depreciation and amortization and the depreciation and amortization deducted in arriving to taxable profit is presented as a separate item in the income statement and in the balance sheet.

Hybrid bond
Hybrid bond was presented as a liability in the separate financial statements of the parent company.

2. OTHER OPERATING INCOME AND EXPENSES

EUR thousand

	1 January–31 December 2017	1 January–31 December 2016
Other operating income		
Gains from currency derivatives	206	122
Other operating income	9	94
Total	**216**	**216**
Other operating expenses		
Services purchased from group companies	-9,545	-7,781
Losses from currency derivatives	-15	-196
Other operating expenses	-41	-1
Total	**-9,601**	**-7,978**

3. PERSONNEL EXPENSES

EUR thousand

Salaries	-2,880	-2,299
Pension expenses	-485	-479
Other personnel costs	-143	-89
Total	**-3,508**	**-2,866**
Average number of personnel	30	27
Number of personnel, end of period	28	29

Management remuneration

Management remuneration is presented in Note 32 of the consolidated financial statements.

4. AUDIT FEES

EUR thousand

	1 January–31 December 2017	1 January–31 December 2016
Statutory audit	-116	-145
Tax consulting	-22	-7
Other services	-33	-17
Total	**-171**	**- 169**

Ernst & Young Oy has been acting as the principal auditor of the Group and the parent company since the Annual General Meeting of 2015.

5. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

EUR thousand

Depreciation, amortization and impairment by function		
Cost of goods sold	-360	-205
Sales and marketing expenses	-197	-116
Research and development	-1,416	-1,650
Administration expenses	-537	-473
Total	**-2,510**	**-2,444**
Depreciation, amortization and impairment by asset category		
Machinery and equipment	-79	-59
Intangible rights	-2,432	-2,385
Total	**-2,510**	**-2,444**

6. FINANCIAL INCOME AND EXPENSES

EUR thousand

	1 January–31 December 2017	1 January–31 December 2016
Interest income from group companies	6,088	7,539
Interest income from others	606	595
Dividend income from group companies	5,921	4,046
Other financial income from group companies	48	175
Other financial income from others	–	44
Net currency exchange differences	-6,839	1,351
Interest expenses to group companies	-88	-258
Interest expenses to others	-4,285	-4,361
Other financial expenses to others	-1,278	-564
Total	**173**	**8,567**

7. APPROPRIATIONS

EUR thousand

Increase (-) or decrease (+) in cumulative accelerated depreciation	1,223	-37
Received group contributions	–	1,150
Total	**1,223**	**1,113**

8. INCOME TAXES

EUR thousand

Withholding taxes and other direct taxes	-55	-341
Income taxes from previous years	–	15
Total	**-55**	**-326**

9. INTANGIBLE ASSETS

EUR thousand

	Intangible rights	Advance payments and construction in progress	**Total 2017**	Total 2016
Acquisition cost 1 January	15,040	3,066	**18,106**	14,973
Additions	139	5,823	**5,962**	3,173
Decreases and disposals	-90	-105	**-196**	–
Reclassifications	1,261	-1,261	**–**	-40
Acquisition cost 31 December	**16,349**	**7,523**	**23,872**	18,106
Accumulated amortization 1 January	-9,504	–	**-9,504**	-7,118
Amortization for the period	-2,432	–	**-2,432**	-2,385
Decreases and disposals	90	–	**90**	–
Accumulated amortization 31 December	**-11,845**	**–**	**-11,845**	-9,504
Carrying amount 31 December	**4,504**	**7,523**	**12,027**	8,602

10. TANGIBLE ASSETS

EUR thousand

	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	**Total 2017**	Total 2016
Acquisition cost 1 January	542	18	–	**560**	478
Additions	1	–	38	**39**	41
Decreases and disposals	-137	–	–	**-137**	–
Reclassifications	38	–	-38	**–**	40
Acquisition cost 31 December	**444**	**18**	**–**	**462**	560
Accumulated depreciation 1 January	-402	–	–	**-402**	-343
Depreciation for the period	-79	–	–	**-79**	-59
Decreases and disposals	137	–	–	**137**	–
Accumulated depreciation 31 December	**-344**	**–**	**–**	**-344**	-402
Carrying amount 31 December	**100**	**18**	**–**	**118**	157

11. INVESTMENTS

EUR thousand

	Shares in group companies	Other investments	**Total 2017**	Total 2016
Carrying amount 1 January	107,870	29	**107,898**	107,974
Additions	22,730	–	**22,730**	–
Decreases and disposals	-22,730	–	**-22,730**	-76
Carrying amount 31 December	**107,870**	**29**	**107,898**	107,898

Group companies are presented in Note 8 of the consolidated financial statements.

The fully owned subsidiary Suominen Italy Holding S.r.l. merged into its subsidiary Mozzate Nonwovens S.r.l. on 1 September 2017. Due to the merger Suominen Corporation now owns directly the shares in Mozzate Nonwovens S.r.l.

In 2016, in accordance with the purchase agreement, the purchase price of the Brazilian subsidiary, Suominen Brasil Indústria e Comercio de Não-Tecidos Ltda. (acquired in 2014) was adjusted.

	Share of shares and votes, %	Number of shares	Nominal value of shares, EUR thousand	Carrying amount of shares, EUR thousand	Equity of the company, EUR thousand	Profit/loss in the latest financial statements, EUR thousand
Kiinteistö Oy Killinpolku, Virrat, Finland	25.0	1	8	8	–	–
Bright Maze Oy, Helsinki, Finland	19.9	19,900	20	20	-2,514	-745

12. OTHER CURRENT RECEIVABLES

EUR thousand

	31 December 2017	31 December 2016
Trade receivables	**–**	**7**
Other receivables	**390**	**212**
Prepaid expenses and accrued income		
Indirect taxes	–	127
Income taxes	397	402
Receivables from sale of subsidiary shares	214	501
Transaction costs of loans	5,600	869
Unrealized gain from currency derivatives	24	–
Other	6	91
Total prepaid expenses and accrued income	**6,241**	**1,990**
Receivables from group companies		
Trade receivables	320	–
Interest-bearing receivables	36,957	77,248
Interest-free receivables	820	2,759
Total	**38,097**	**80,007**
Total other current receivables	**44,728**	**82,209**

13. SHAREHOLDERS' EQUITY

EUR thousand

	31 December 2017	31 December 2016
Share capital 1 January and 31 December	11,860	11,860
Share premium account 1 January and 31 December	24,681	24,681
Treasury shares 1 January and 31 December	-44	-44
Reserve for invested unrestricted equity 1 January	70,855	69,652
Conveyance of treasury shares	84	80
Conversion of hybrid bond	16,484	1,124
Reserve for invested unrestricted equity 31 December	87,423	70,855
Fair value reserve 1 January	43	–
Fair value changes	-43	43
Fair value reserve 31 December	–	43
Retained earnings 1 January	12,684	9 992
Dividend distribution	-5,585	-5,030
Retained earnings 31 December	7,099	4,962
Profit / loss for the period	-463	7,723
Shareholders' equity 31 December	**130,557**	**120,080**

Distributable funds EUR	**31 December 2017**
Retained earnings 31 December	7,099,481
Reserve for invested unrestricted equity 31 December	87,423,152
Treasury shares 31 December	-43,619
Profit / loss for the period	-462,886
Distributable funds	**94,016,127**

Funds available for dividend distribution EUR	
Retained earnings 31 December	7,099,481
Treasury shares 31 December	-43,619
Profit / loss for the period	-462,886
Funds available for dividend distribution	**6,592,975**

14. SHARE CAPITAL

Share capital and shares are presented in Note 15 of the consolidated financial statements.

15. INTEREST-BEARING LIABILITIES

EUR thousand

	31 December 2017	31 December 2016
Non-current interest-bearing liabilities		
Debentures	100,730	75,000
Loans from financial institutions	–	11,294
Hybrid bond	–	16,337
Total non-current interest-bearing liabilities	**100,730**	**102 631**
Current interest-bearing liabilities		
Loans from financial institutions	15,000	7,812
Loans from group companies	18,724	51 666
Total current interest-bearing liabilities	**33,724**	**59 478**
Total interest-bearing liabilities	**134,454**	**162 109**

Hybrid bond is presented in Note 16 of the consolidated financial statements.

Repayments of external non-current interest-bearing liabilities

	2018	2019	2020	2021	2022
Loans from financial institutions	15,000	–	–	–	–
Debentures	–	15,730	–	–	85,000
Total	**15,000**	**15,730**	**–**	**–**	**85,000**

16. INTEREST-FREE LIABILITIES

EUR thousand

	31 December 2017	31 December 2016
Non-current interest-free liabilities		
Accrued interest on hybrid bond	–	187
Total non-current interest-free liabilities	**–**	**187**
Current interest-free liabilities		
Trade payables	1,692	549
Other current liabilities	134	357
Accrued expenses		
Accrued interest expenses	736	912
Accrued personnel expenses	484	411
Other accrued expenses	8	1
Total accrued expenses	**1,228**	**1,324**
Total current interest-free liabilities	**3,054**	**2,230**
Total interest-free liabilities	**3,054**	**2,417**

17. CONTINGENT LIABILITIES

EUR thousand

	31 December 2017	31 December 2016
Guarantees		
On behalf of group companies	12,490	18,385
On behalf of others	–	963
On own behalf	61	61
Total	**12,551**	**19,409**

Guarantees on behalf of group companies are guarantees given to suppliers. Guarantees on behalf of others were guarantees given on behalf of the Flexibles business which was disposed in 2014.

Rental and leasing obligations		
Falling due within next 12 months	239	216
Falling due later	365	516
Total	**604**	**732**

18. DERIVATIVE INSTRUMENTS

EUR thousand

Nominal and fair values of derivative instruments	31 December 2017	
	Nominal value	Fair value
Currency forward contracts		
External	1,334	24

Nominal and fair values of derivative instruments	31 December 2016	
	Nominal value	Fair value
Currency forward contracts		
External	2,396	30
Electricity derivatives		
Electricity forward contracts	594	43

19. ADJUSTMENTS TO CASH FLOW STATEMENT

EUR thousand

	1 January–31 December 2017	1 January–31 December 2016
Adjustment to profit / loss for the period		
Change in depreciation difference	-1,223	37
Group contributions	–	-1,150
Financial income and expenses	-173	-8,567
Income taxes	55	326
Depreciation and amortization	2,510	2,444
Other non-cash items in profit for the period	124	25
Total adjustments to profit / loss for the period	**1,293**	**-6,885**

Proposal by the Board of Directors for return of capital

The loss of the financial year 2017 of Suominen Corporation, the parent company of Suominen Group, was EUR 462,886.34. The funds distributable as dividends, including the loss for the period, were EUR 6,592,975 and total distributable funds were EUR 94,016,127.

The Board of Directors proposes that a return of capital of EUR 0.11 per share shall be distributed for the financial year 2017 from the reserve for invested unrestricted equity and that the loss shall be transferred to retained earnings. On 30 January 2018 the company had 57,382,939 issued shares, excluding treasury shares. With this number of shares, the total amount of the return of capital would be EUR 6,312,129.29.

There have been no significant changes in the company's financial position after the end of the review period.

Helsinki 30 January 2018

Jan Johansson Chair of the Board	Risto Anttonen	Andreas Ahlström
Hannu Kasurinen	Laura Raitio	Jaana Tuominen
	Nina Kopola President & CEO	

Auditor's report

To the Annual General Meeting of Suominen Corporation

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Suominen Corporation (business identity code 1680141-9) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

• the consolidated financial statements give a true and fair view of the Group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

• the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 24 to the consolidated financial statements.

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

Key Audit Matters

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

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

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

Revenue recognition

We refer to the Group's accounting policies and Note 22

Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer.

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

Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2) due to the identified risk of material misstatement in timely revenue recognition.

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

• assessing the Group's accounting policies over revenue recognition and comparing them with applicable accounting standards;

• understanding the nature of revenues, degree of automation and unusual contractual terms;

• testing revenue recognition including testing the associated internal controls where applicable. Our testing included obtaining third party confirmations, agreeing recognized amounts to customer contracts and verifying the customer acceptance of delivery, where relevant.

• performing substantive analytical audit procedures on revenues; and

• assessing the Group's disclosures in respect of revenues

Tangible fixed assets – Production line investment in Bethune

Refer to the Significant accounting policies, the Critical accounting estimates and judgements and Note 7

The Group has multiple production facilities located in several countries requiring significant investments. Property, plant and equipment were significant to our audit as a consequence of significant production line investment. Carrying value of tangible fixed assets in the financial statements is EUR 136,7 million (42 % of total assets). The production line has been completed during the year and taken into production.

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

• the decision to capitalise or expense costs;

Our audit procedures included among others:

• evaluating the capitalization policies;

• performing tests of details on costs capitalized;

• assessing the timeliness of transfers from assets under construction to completed assets; and

• assessing the appropriateness of assets´ economical lives applied in the depreciation calculations

• the annual asset life review and review of depreciation methodology including the impact of changes in the Group's strategy; and

• the timeliness of the transfer from assets under construction to completed assets and booking of depreciations is started

Income taxes

Refer to the Critical accounting estimates and judgements and Note 28

The Group operates in a number of jurisdictions around the world, with differing tax regimes, resulting in different subjective interpretation of local tax laws especially relating to complex tax matters. The Group has extensive international operations, which requires judgements and estimates in relation to tax matters and exposures resulting in the recognition of tax assets and liabilities. These judgements and estimates are open to assessment from multiple tax authorities. The future actual outcome of the decisions concerning these tax exposures may result in materially higher or lower realized taxes than what has been preliminary included in the accompanying financial statements.

We included in our audit team local and international tax specialists to analyse and assess the assumptions used to determine tax positions and corroborating the assumptions with supporting evidence. We tested the amounts recognized as current and deferred tax, including the assessment of other judgemental tax positions. This area of our audit procedures included, among others, assessment of the impact of the Group's correspondence with relevant tax authorities and the evaluation of tax exposures. In addition with respect to deferred tax assets we assessed management's assumptions to determine the probability that deferred tax assets recognised in the statement of financial position will be recovered through taxable income in future years and available tax planning strategies. We also assessed the Group's disclosures in the consolidated financial statements.

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

OTHER REPORTING REQUIREMENTS

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 19.3.2015, and our appointment represents a total period of uninterrupted engagement of 3 years.

Other information

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

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

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

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

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

Helsinki January 30, 2018

Ernst & Young Oy
Authorized Public Accountant Firm

Kristina Sandin
Authorized Public Accountant

Key ratios

	2017	2016	2015
Net sales, EUR million	426.0	416.9	444.0
Comparable operating profit, EUR million	15.0	25.6	31.2
% of net sales	3.5	6.1	7.0
Operating profit, EUR million,	15.0	25.6	31.8
% of net sales	3.5	6.1	7.2
Profit before income taxes, EUR million	12.4	22.4	26.5
% of net sales	2.9	5.4	6.0
Profit for the period, EUR million	14.5	15.2	17.0
% of net sales	3.4	3.7	3.8
Cash flow from operations, EUR million	22.2	28.5	27.3
Total assets, EUR million	325.7	315.6	291.7
Return on equity (ROE), %	10.6	11.6	14.4
Return on invested capital (ROI), %	6.6	11.6	15.9
Equity ratio, %	41.8	45.3	43.2
Interest-bearing net debt, EUR million	81.4	56.6	32.5
Capital employed, EUR million	246.6	237.3	222.6
Gearing, %	59.8	39.6	25.9
Gross capital expenditure, EUR million	37.2	53.3	23.7
% of net sales	8.7	12.8	5.3
Depreciation, amortization, impairment losses and reversals of impairment losses, EUR million	-19.3	-18.5	-17.7
Expenditure on research and development, EUR million	4.7	4.3	3.5
as % of net sales	1.1	1.0	0.8
Average number of personnel	670	646	614

Calculation of key ratios

Some of Suominen's key ratios are alternative performance measures. An alternative performance measure is a key ratio which has not been defined in IFRS standards. Suominen believes that the use of alternative performance measures provides useful information for example to investors regarding the Group's financial and operating performance and makes it easier to make comparisons between the reporting periods.

Operating profit and comparable operating profit

Operating profit, or earnings before interest and taxes (EBIT) is an important measure of profitability as by ignoring income taxes and financial items it focuses solely on the company's ability to generate profit from operations. Operating profit is presented as a separate line item in the consolidated statement of profit or loss.

Operating profit (EBIT)	=	Profit before income taxes + net financial expenses
Comparable operating profit (EBIT)	=	Profit before income taxes + net financial expenses, adjusted with items affecting comparability

In order to improve the comparability of result between reporting periods, Suominen presents comparable operating profit as an alternative performance measure. Operating profit is adjusted with material items that are considered to affect comparability between reporting periods. These items include, among others, impairment losses or reversals of impairment losses, gains or losses from the sales of property, plant and equipment or intangible assets or other assets and restructuring costs. Suominen did not have any items affecting comparability in 2017 or 2016.

EBITDA

EBITDA is an important measure that focuses on the operating performance excluding the effect of depreciation and amortization, financial items and income taxes, in other words what is the margin on net sales after deducting operating expenses.

EBITDA	=	EBIT + depreciation, amortization and impairment losses

Reference	EUR thousand	2017	2016
Consolidated statement of profit or loss	Operating profit	15,000	25,622
Note 26	+ Depreciation, amortization and impairment losses	19,349	18,520
	EBITDA	34,349	44,142

Gross capital expenditure

Suominen considers gross capital expenditure as a relevant measure in order to understand for example how the Group maintains and renews its production machinery and facilities.

Gross capital expenditure includes also capitalized borrowing costs and capitalized cash flow hedges.

Reference	EUR thousand	2017	2016
Note 6	Increases in intangible assets	6,027	3,300
Note 7	Increases in property, plant and equipment	31,183	50,020
	Gross capital expenditure	37,210	53,320

Cash and cash equivalents

Cash and cash equivalents	=	Cash + other financial assets

Interest-bearing net debt

Suominen considers interest-bearing net debt to be an important measure for investors to be able to understand the Group's indebtedness. It is the opinion of Suominen that presenting interest-bearing liabilities not only at amortized cost but also at nominal value gives relevant additional information to the investors.

Interest-bearing net debt	=	Interest-bearing liabilities at nominal value – interest-bearing receivables – cash and cash equivalents

Reference	EUR thousand	2017	2016
Note 17	Interest-bearing liabilities	110,472	94,497
	Tender and issuance costs of the debentures	5,538	–
Note 11	Interest bearing receivables	-7,409	-8,386
Consolidated statement of financial position	Cash and cash equivalents	-27,240	-29,522
	Interest-bearing net debt	81,360	56,589
Note 17	Interest-bearing liabilities	110,472	94,497
	Tender and issuance costs of the debentures	5,538	–
Note 17	Nominal value of interest-bearing liabilities	116,010	94,497

Return on equity (ROE), %

The return on equity is one of the most important profitability ratios used by owners and investors. The ratio measures the ability of a company to generate profits from its shareholders' investments in the company and it defines the yield on the company's equity during the reporting period.

$$\text{Return on equity (ROE), \%} = \frac{\text{Profit for the reporting period (rolling 12 months) x 100}}{\text{Total equity (quarterly average)}}$$

Reference	EUR thousand	2017	2016
Consolidated statement of profit or loss	Profit for the reporting period (rolling 12 months)	14,478	15,233
	Total equity 31 December 2016 / 2015	142,824	125,716
	Total equity 31 March 2017 / 2016	139,902	120,806
	Total equity 30 June 2017 / 2016	134,074	130,712
	Total equity 30 September 2017 / 2016	132,564	135,186
Consolidated statement of financial position	Total equity 31 December 2017 / 2016	136,117	142,824
	Average	137,096	131,049
	Return on equity (ROE), %	10.6	11.6

Invested capital

Invested capital = Total equity + interest-bearing liabilities

Reference	EUR thousand	2017	2016
Consolidated statement of financial position	Total equity	136,117	142,824
Note 17	Interest-bearing liabilities	110,472	94,497
	Invested capital	246,589	237,321

Return on invested capital (ROI), %

Return on invested capital is one of the most important key ratios.It measures the relative profitability of the company, ie. the yield on the capital invested in the company.

$$\text{Return on invested capital (ROI), \%} = \frac{\text{Operating profit + financial income (rolling 12 months) x 100}}{\text{Invested capital, quarterly average}}$$

Reference	EUR thousand	2017	2016
Consolidated statement of profit or loss	Operating profit (rolling 12 months)	15,000	25,622
Note 27	Financial income (rolling 12 months)	758	727
	Total	15,758	26,349
	Invested capital 31 December 2016 / 2015	237,321	222,578
	Invested capital 31 March 2017 / 2016	244,103	217,181
	Invested capital 30 June 2017 / 2016	234,892	227,594
	Invested capital 30 September 2017 / 2016	229,735	228,648
	Invested capital 31 December 2017 / 2016	246,589	237,321
	Average	238,528	226,664
	Return on invested capital (ROI), %	6.6	11.6

Financial income does not include fair value changes of liabilities at fair value through profit or loss.

Equity ratio, %

Equity ratio is an important key ratio as it measures the solidity of the company, the company's tolerance for losses and ability to cover its long-term commitments. The performance measure shows how much of the company's assets are financed with equity. The equity creates a buffer against potential losses, and equity ratio represents the level of this buffer.

$$\text{Equity ratio, \%} = \frac{\text{Total equity x 100}}{\text{Total assets - advances received}}$$

Reference	EUR thousand	2017	2016
Consolidated statement of financial position	Total equity	136,117	142,824
Consolidated statement of financial position	Total assets	325,666	315,628
Note 21	Advances received	-8	-3
		325,659	315,625
	Equity ratio, %	41.8	45.3

Gearing, %

Gearing represents the ratio between the equity invested by the owners of the company and the interest-bearing liabilities borrowed from financiers. Gearing is an important performance measure in assessing the financial position of a company. A high gearing is a risk factor which might limit the possibilities for growth of a company and narrow its financial freedom.

$$\text{Gearing, \%} = \frac{\text{Interest-bearing net debt x 100}}{\text{Total equity}}$$

Reference	EUR thousand	2017	2016
	Interest-bearing net debt	81,360	56,589
Consolidated statement of financial position	Total equity	136,117	142,824
	Gearing, %	59.8	39.6

Information for shareholders

Financial information

In 2018, Suominen Corporation discloses financial information on quarterly basis and will publish the following financial releases:

Interim Report January–March on Thursday 26 April approximately at 8.00 am

Half Year Report January–June on Friday 3 August approximately at 8.00 am

Interim Report January–September on Thursday 25 October approximately at 8.00 am.

Suominen's Financial Statement Release of 2017 was published on 30 January 2018.

All times are Eastern European Time (EET/EEST).

Financial reports and other Stock Exchange Releases are published in Finnish and English and are available on the company's website www.suominen.fi immediately after their publication. The English editions are translations of the Finnish originals, which will prevail in the event of any dispute.

The Annual General Meeting

Notice is given to the shareholders of Suominen Corporation to the Annual General Meeting to be held on Wednesday 15 March 2018 at 10.00 am at Finlandia Hall (Mannerheimintie 13 e, 00100 Helsinki). The reception of persons registered for the meeting will commence at 9.00 am. During the coffee service after the Annual General Meeting, shareholders will have the opportunity to meet the management of the company.

Notice of the Annual General Meeting has been announced as stock exchange release on 30 January 2018. All materials to the Annual General Meeting are available on the company's website www.suominen.fi > Investors > Corporate Governance > General Meetings of Shareholders > AGM 2018.

Each shareholder who is registered on 5 March 2018 in the shareholders' register of the company held by Euroclear Finland Ltd has the right to participate in the Annual General Meeting. A shareholder, who wishes to participate in the Annual General Meeting, shall register for the meeting no later than 9 March 2018 before 4.00 p.m. by giving a prior notice of participation, which shall be received by the company no later than on the above-mentioned date and time. Such notice can be given:

a) by e-mail to agm@suominencorp.com

b) by telephone +358 (0)10 214 3551, Monday–Friday between 8.00 a.m. and 4.00 p.m.

c) by regular mail to Suominen Corporation, Itämerentori 2, FI-00180 Helsinki, Finland

d) by fax +358 (0)9 773 1109

In connection with the registration, a shareholder shall notify his/her name, personal identification number, address, telephone number and the name of a possible assistant or proxy representative and the personal identification number of the proxy representative.

Payment of the return of capital

The Board of Directors proposes that a return of capital corresponding to 0.11 euros per share shall be distributed regarding the financial year of 2017. The record date for the payment is 19 March 2018 and the return of capital shall be paid on 28 March 2018.

Investor relations

For investors, the primary point of contact at Suominen is Anu Heinonen, Vice President, Corporate Communications & IR, tel. +358 10 214 3555.

Requests for management appointments shall be addressed to Eeva Oinonen, Executive Assistant, PA to President & CEO, tel. +358 (0)10 214 3551.

E-mail addresses follow the format firstname.lastname@suominencorp.com.

Closed and silent period

Suominen applies the principle of closed period before the publications of its financial reports. The time frame of the closed period is 30 calendar days. During the closed period, defined Directors and Core persons of Suominen may not trade or conduct other transactions relating to the share or another financial instrument of the company. In 2018, the closed periods are scheduled as follows:

28 March–26 April

5 July–3 August

26 September–25 October.

Additionally, Suominen applies the principle on silent period. It commences 30 days prior to the publishing of a financial report and ends on the date publishing thereof. No investor meetings are organized during the silent period nor are the Group's financial results or development commented.

Suominen Corporation

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