

**Annual &  
Sustainability Report**

**2018**

**Ahlstrom-Munksjö Annual &  
Sustainability Report 2018**

Contact person:

**Johan Lindh**

Head of Investor Relations

+358 10 888 4994

johan.lindh@ahlstrom-munksjo.com

Read more at: [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com)



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# Imagine fiber

Fibers are one of the wonders of nature forming the structural components of all that's green. Modern technology has allowed man to harness the strength, durability and versatility of fibers and put them to work in everyday products and applications. New fibers have been created from materials like glass and carbon pushing the boundaries even further.

At Ahlstrom-Munksjö we make smart things out of fiber. We add value by combining fibers with our advanced technology and innovative and entrepreneurial culture, constantly exploring novel materials and new applications.

Sustainability, innovation and quality are central in all our solutions – compostable food and beverage processing and packaging materials, filter media, diagnostic materials, protective surgical fabrics and water filters are only the beginning.

This is why when we imagine the future, we imagine fiber.

# 01: Year in brief

We are the forerunner in plastic-free, biodegradable and compostable teabag materials and single-serve coffee pods.

## YEAR IN BRIEF

## 02: Highlights of 2018

- Hans Sohlström took over as President and CEO on April 16 after Jan Åström retired. Sohlström joined Ahlstrom-Munksjö from Ahlström Capital Group. He was also Chairman of Ahlstrom-Munksjö in 2017-2018.
- High investment activity to improve efficiency and capability as well as grow capacity. Investment decisions valued EUR 128 million were announced.
- Two major acquisitions were completed in October, Expera Specialty Solutions in the U.S. and the Caieiras specialty paper mill in Brazil. Together they will significantly strengthen Ahlstrom-Munksjö's capabilities and market positions in the Americas, providing both cost as well as dynamic synergy benefits.
- Pro forma 2018 annual net sales reached EUR 3 billion and comparable EBITDA of EUR 330 million.
- A EUR 150 million rights issue was successfully completed in December. The proceeds were used to partially finance the acquisitions and maintain a comfortable debt level.
- Ahlstrom-Munksjö renewed its EcoVadis Gold Standard. The Gold Rating is a result of performance in environment, labor practices, fair business practices and sustainable procurement.
- Parallel to ramping-up previous years' product line launches, several new products were introduced including ViroSēl, a next generation Breathable Viral Barrier and HighFlow Wind Energy which is glass and carbon fiber fabrics for wind mill blades.

Key figures (IFRS)	2018	2017***
Net sales, EUR million	2,438	1,960
Comparable EBITDA, EUR million	278	248
% of net sales	11.4	12.7
Net profit, EUR million	43	67
Net debt, EUR million	971	375
Gearing, %	84	36
EPS (basic), EUR	0.43	0.78
Dividend proposal, EUR	0.52**	0.52
Share price*, EUR	12.12	18.17
Shares outstanding, million*	115	96
Market capitalization, EUR million*	1,397	1,746

\*31.12.

\*\* Proposal

\*\*\* Excluding former Ahlstrom in January-March

blades. Trinitex® Advance W3200 filtration media specifically designed for pulse jet gas turbine applications was launched together with Extia® 1000, a filtration media that extends filtration life time for Air Pollution Control applications.

Pro forma 2018	2018	2017
Net sales, EUR million	2,997	2,962
Comparable EBITDA, EUR million	330	366
% of net sales	11.0	12.4
Net profit, EUR million	63	42
EPS (basic), EUR	0.54	0.36

The figures in the table above are presented on a pro forma basis to illustrate the financial impact of the acquisition of Expera Specialty Solutions, the acquisition of MD Papéis Caieiras and the merger between Ahlstrom and Munksjö as if they had been completed at the beginning of 2017

YEAR IN BRIEF

# 03: Letter from the CEO



In 2018 we took a great leap forward and strengthened our position as a global leader in our selected niche markets through strategic acquisitions and investments.

Building on the merger between Ahlstrom and Munksjö in 2017, our acquisitions of Expera Specialty Solutions in the U.S. and the Caieiras mill in Brazil together with increased organic investments came as natural next steps.

Since I started as CEO in April 2018 we have executed our strategy of global leadership and profitable growth with speed and determination. I have given priority to anchoring this across our organization in order to promote profit orientation, engagement and empowerment of our personnel.

Our mission is sustainable and innovative fiber-based solutions and our vision is global leadership in selected, attractive growth segments. We offer specialized and technically advanced custom-made materials. Quality and service are at the core of our value proposition.

## Profitable growth

We are making good progress towards our strategic targets. The acquisitions and our organic investments are together truly transformative and we now move forward as a global leader in solutions based on fibers, innovation and leading technologies.

In 2018, our top line grew by 5 percent in constant currencies. This was mainly thanks to higher sales prices which we implemented to compensate for significantly higher raw material prices.

Customer value is one of our strategic cornerstones. Thanks to our customer orientation and successful commercial strategy, our gross margin for products improved as the year progressed. The lower delivery volumes weighed however on the comparable EBITDA margin which was somewhat lower than the year before.

I believe our ability to compensate for higher raw material costs is evidence of the strength of our long-standing customer relationships, high degree of specialization and differentiation as well as the outstanding quality of our products and services. As a tangible evidence of this, we received the 3M Supplier of the Year Award.

*Our mission is sustainable and innovative fiber-based solutions*

## *Sustainability emerges as a key driver in most markets and provides many opportunities*

### **Local accountability**

Decision-making takes place at the appropriate level in the organization, empowering business unit leaders who are responsible for financial performance as well as local managers and employees. Each business is empowered while locally accountable for their operations and profitability.

At the same time, our worldwide group platform provides efficiency and economics of scale for instance through global sourcing, financing, joint processes and systems. Efficiency and agility are reflected in all our daily operations.

### **Good market growth**

Our key product segments are supported by solid fundamental demand drivers and we see further organic growth opportunities in coming years, not least supported by our strong product development capabilities and pipe-line of new innovations. In 2018, we introduced several new innovations to the market.

### **Sustainability key priority**

Sustainability is a key priority for us and it is integrated in our strategy, operations and product development. Sustainability emerges as an important driver in most markets and provides many opportunities. We contribute to a sustainable everyday life by providing renewable materials that are alternatives to non-renewables and solutions that make the end product more sustainable.

Our fiber-based materials and solutions reduce harmful emissions, purify air and drinking water, extend the lifetime

of furniture and backings of sanding paper, diagnose medical conditions, enable DNA analysis and pregnancy tests, provide protective barriers from bacteria and viruses and keep food and beverage safe and clean.

### **Looking to improve profitability**

We have set ambitious financial targets and although we did not reach the target of a group comparable EBITDA margin of 14 percent, we have measures in place to improve performance, targeting in particularly those parts of the group that lag behind. Our acquisitions and investments will also help us move towards this goal as synergies are extracted and increased capacity, business optimization, cross-selling and best practice sharing contribute to efficiency and sales growth.

The eventful and successful year we have behind us would of course not have been possible without the support from our shareholders, customers and dedicated employees. During my first year as CEO I have tried to meet with as many as possible of you around the world. I have been impressed by the skills, engagement and passion to continuously innovate and improve. I extend my gratitude to all our employees and welcome especially our new colleagues in the Americas. I also sincerely thank our shareholders and customers for your continuous trust, commitment and support. Your success is also our success.

### **Hans Sohlström**

President and CEO





# 01: The Company

As the global leader our filtration materials match ever tighter emission and air quality regulations and standards. Filters are designed to improve air quality inside vehicles by filtering particles and gases, protecting passengers and improving driving comfort.

THE COMPANY

# 02: This is Ahlstrom-Munksjö

## What we do

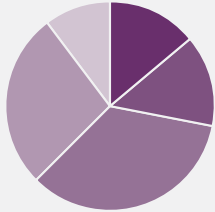
- Fibers are at the core of what we do and the common denominator for our products and solutions.
- Natural fibers represent 92% of our total fiber use.
- We offer custom-made specialized fiber based materials.
- Our value proposition is based on innovation, quality and service.
- In 2018, 11% of revenues came from new product launches during the last three years.
- Our offering contributes to a more sustainable everyday life by providing renewable materials that are alternatives to non-renewables, and solutions that make the end product more sustainable.





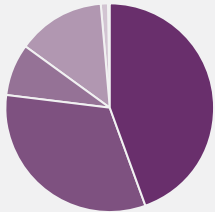
## A BALANCED SALES MIX

### SALES BREAKDOWN BY END-USE\*



- Industrial, 14%
- Transportation, 14%
- Consumer Goods, 34%
- Homebuilding and Furniture, 27%
- Health Care and Life Science, 10%

### GEOGRAPHICAL SALES BREAKDOWN\*\*



- Europe, 45%
- North America, 33%
- South America, 8%
- Asia-Pacific, 14%
- Rest of the world, 1%

\* Ahlstrom-Munksjö annual report 2018, management's estimate for Experia and Caieiras based on 2018 sales

\*\* Pro forma

## Our approach

- Ahlstrom-Munksjö holds a leading position in most of the segments where it operates.
- Ahlstrom-Munksjö's businesses operate in growing markets, serving a variety of consumer and industrial end-user segments with solid underlying demand drivers.
- Ahlstrom-Munksjö has a balanced geographical exposure to a broad range of end-uses with cycle-resilient demand characteristics.
- Ahlstrom-Munksjö manages its broad offering with a common global operating model and strong businesses with local accountability.

## Key facts

- Global network of sales offices, 45 plants and converting sites in 14 countries, approximately 8,000 employees.
- More than 7,000 customers in over 100 countries.
- Pro forma 2018 net sales of approximately EUR 3 billion, and comparable EBITDA of EUR 330 million.
- Approximately 13,000 shareholders.
- Shares listed on Nasdaq Helsinki and Stockholm.
- Head office in Helsinki, Finland.

## BUSINESS MODEL



THE COMPANY

# 03: Trends affecting us



Global product markets are quickly changing. The shift spans across technology, behavior and demographics and creates both opportunities and challenges.

In the past few decades the world has changed significantly. The pace has markedly accelerated in areas such as demographics, technology, business, innovation and consumer and investor behavior and preferences.

This is largely driven by a number of trends like urbanization, digitalization, globalization and sustainability.

We design and develop products and solutions that target selected niche markets in a wide range of uses. A common denominator is that they are fiber-based with a high degree of complexity and technical content. The products also face steadily increasing performance requirements. Our main end-use customer segments include for example the food and beverage processing and packaging, transportation, homebuilding and furniture, healthcare and life science industries.

A baseline for growth in our markets is the general economic growth, with potential further support from an increased value added. On top of that there are several powerful so called megatrends that are of particular importance.

## Sustainability and Climate Change

The shift towards a sustainable, mostly fossil-free and circular economy is a megatrend which impacts and drives us forwards on all levels. Both industrial buyers and end-use consumers today demand products with as little impact on the climate and environment as possible.

Replacing plastic and aluminum is a sub-trend which provides growing markets for products such as cooking and baking papers made from vegetable parchment as well as teabags and coffee pods from compostable fiber materials. There is a growing trend of prohibiting the use of plastics in many areas such as shopping bags, disposable drinking straws and food packaging.

This presents an opportunity for our products to gain market share, but at the same time we need to make sure all products are compliant with this trend.

*Our main end-use customer segments include for example the food and beverage processing and packaging, transportation, homebuilding and furniture and healthcare and life science industries.*



Our products often perform vital functions in value chains and have a positive impact as part of an end product or solution. Our high-end filtration solutions enable longer uptime for gas turbines and power plants. Automotive filtration solutions significantly reduce the need for changing the filter, due to the product durability and multilayer technology. Water filtration products using our ground-breaking technology can reduce the demand for bottled water by making tap water better and thus helping to achieve a significant positive end impact on the environment.

Chemicals and their impact on the environment and human health is an increasingly important topic. We and other companies in the industry use amounts of various chemicals to treat, bind or coat paper or other fiber tissues.

There is growing awareness that chemicals can be harmful over the longer period of time. We are working actively with the issue and to minimize the use of chemicals in the processes and to make sure handling and use is secure and safe.

### **Demographics and Urbanization**

Accelerating urbanization is having a great impact on construction and furniture as lighter, affordable and sustainable products are demanded. By 2050, the United Nations project that 68 percent of the world's population will live in urban areas, an increase from 54 percent in 2016.

For us this means growing demand but also a demand that by necessity will have to be met with truly sustainable products.

### **Globalization**

Increased global interaction and integration among people, companies and governments worldwide drive growth of international trade and the exchange of ideas and culture. Strong global economic growth has increased purchasing power in large portions of the population and given rise to a quickly expanding global middle class, which reinforces consumption and demand for consumer goods that before were out of reach for large parts of the population in emerging economies.

### **Digitalization, Electrification and Automation**

Digitalization facilitates a rapid spread of the latest trends and preferences, driving consumption patterns and a sharper sustainability focus worldwide. E-commerce and global trade increases demand for tracking of goods, product marking and labelling and more flexible packaging.

The electrification of mobility will impact one of our larger customer segments – the transportation industry – and new types of filters are needed for applications like battery cooling and air filtration. This transformation together with the increase in renewable energy production and need for energy storage applications also have ramifications for the power grid infrastructure where our products play an important role.



### Customer segments

Ahlstrom-Munksjö has a very diverse set of customers in multiple industries and geographies. Typically, our products and services form an important part of a final product or perform crucial tasks in a production process. Our key customer segments often use products from several of Ahlstrom-Munksjö's business areas.

#### HEALTHCARE AND LIFE SCIENCE

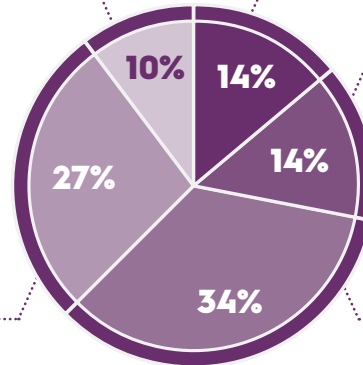
Aging population in developed markets and growing affluence in emerging markets create demand. Regulations call for new and safer products as well as functionality and performance of the fabrics.

- Medical fabrics for surgical gowns and drapes
- Sterilization wrap
- Laboratory and micro filtration
- Life science diagnostics and specimen collection

#### HOMEBUILDING AND FURNITURE

Urbanization and population growth increase demand for affordable furniture and housing. Demand for sustainable and lighter wood-based materials.

- Decor papers
- Abrasive backings
- Tape backings
- Wallcoverings
- Glass fiber tissue for flooring



#### INDUSTRIAL

Capital investments and expansion of power infrastructure.

- Electrotechnical paper
- Air and industrial filtration
- Glass fiber for wind mill blades
- Interleaving papers
- Nonwovens for construction

#### TRANSPORTATION

Mileage drives the after-market in filtration materials as well as tighter emission regulations, sales of new trucks and vehicles. Electrification creates demand for new types of filters.

- Engine filtration
- Abrasive backings
- Tape backings
- Nonwovens for car interiors

#### CONSUMER GOODS

Greater affluence and a growing population increase demand for consumer goods with increased sustainability focus. Willingness to replace plastics with renewable materials.

- Tea bag and coffee materials
- Fibrous meat casings
- Baking, cooking and food processing papers
- Coated flexible packaging papers
- Release liners

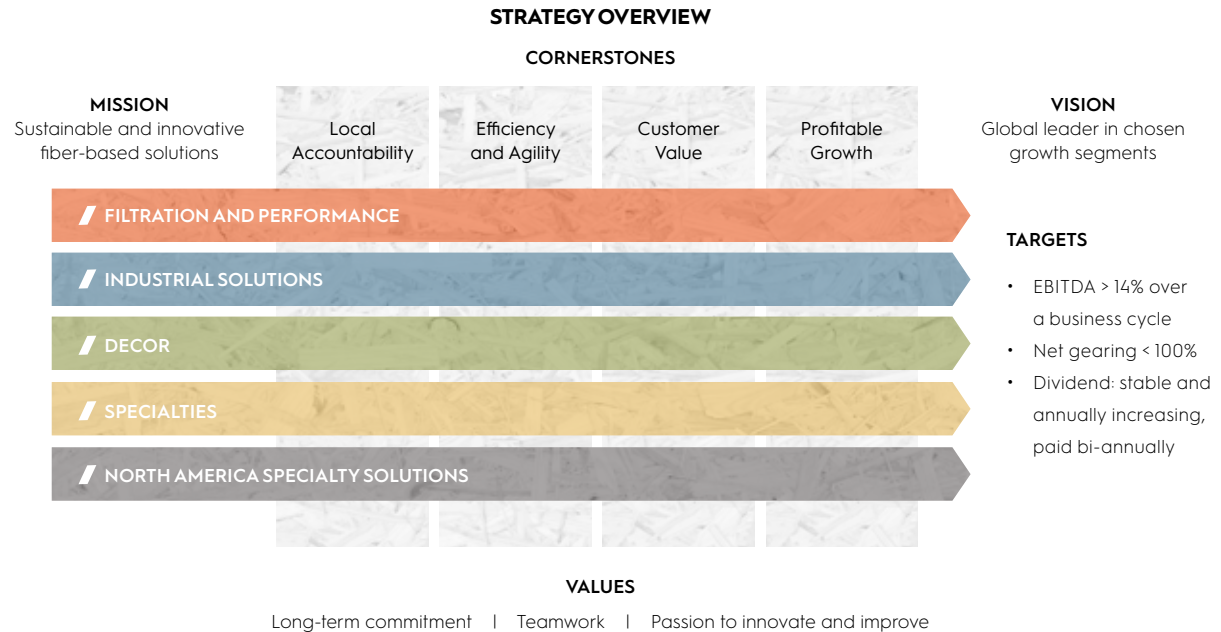
# 01: Strategy

The airline industry is shifting towards fiber composites in aircraft manufacturing to increase energy efficiency, boosting demand for our release liners that act as carriers for the composites.

STRATEGY

# 02: A strategy for growth

*The year 2018 was successful as we made good progress towards our strategic targets. Group strategy has been anchored across the organization to promote engagement and empowerment, and to provide focus.*



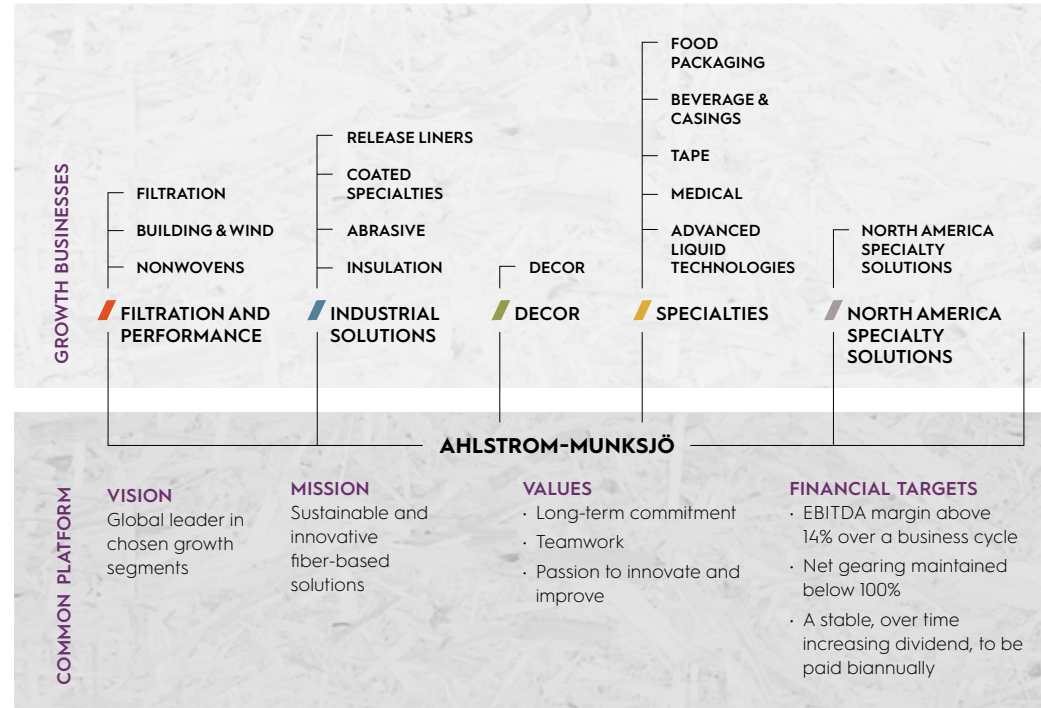


### Efficient platform for growth

Ahlstrom-Munksjö's growth businesses are supported by an efficient common platform.

Ahlstrom-Munksjö's overall strategic ambition is to achieve sustainable profitable growth in selected segments of the global fiber-based solutions market that have growth potential and are supported by sustainable market drivers. A leading global position provides the foundation for our strategic direction. Critical mass in the value chain enables efficient operations, a global reach and a readiness to better meet customer needs as well as strong focus on research and product development.

Ahlstrom-Munksjö manages its broad platform of businesses with lean group functions and strong businesses. The Group outlines the strategic direction, decides on priorities and resource allocation, provides strength and economies of scale for the businesses, while each business is accountable for its operational performance. Through its operating model Ahlstrom-Munksjö strives to create an organization that promotes entrepreneurial spirit and attracts, develops and retains engaged and dedicated personnel.





### Leading positions

Ahlstrom-Munksjö is a leader in many market segments where it can reap benefits from critical size. To leverage this advantage, Ahlstrom-Munksjö's ambition is to grow in response to customer demand and through acquisitions that add geographical scope, new technologies or customer categories.

Delivering customer value is important for securing both growth and competitiveness through improving existing products, designing new products and exploring emerging technologies to understand how they can deliver the products of the future. Long-term cooperation in product development with customers creates a foundation for advancing the capabilities of what fiber-based materials can do.

In order to strengthen its platform of businesses, Ahlstrom-Munksjö regularly assesses what is the best ownership of its businesses and systematically evaluates M&A opportunities.

### Differentiation drives value creation

Performance in most of our businesses is good. Our offering as well as value proposition is well aligned with our strategy of niche orientation into customized solutions. In certain segments where we face isolated challenges we are proceeding with targeted measures.

- In the coated one-sided product segment, part of the Food Packaging business, we realign targeted markets towards high-end, differentiated specialty applications and optimize production capacity.
- In Beverage & Casing we invest to improve manufacturing capability and efficiency in tea and coffee filter materials as well as in increased capacity.
- In Decor we proceed with a medium term action plan to defend and grow our leading position.

### CORNERSTONES SUPPORTING PROFITABLE GROWTH

Ahlstrom-Munksjö's overall strategic ambition is to achieve sustainable profitable growth in selected segments of the global fiber-based solutions market. A leading global position provides the foundation for this direction.



**Local accountability** - Using a business based operating model that locally promotes accountability, enables flexibility and is built on a shared common culture

**Efficiency and agility** - Efficiently utilizing the flexible and agile operating platform

**Customer value** - Deliver a clear customer value-add through a high-quality offering supported by advanced technology, deep know-how and tailored services

**Profitable growth** - Ability to grow in selected niches of the fiber-based solutions segment, with a positive growth outlook

## TRANSFORMATION IN PROGRESS



### Strategic transformation in progress

The combination of Ahlstrom and Munksjö created a global leader in fiber-based materials and laid a foundation for improved performance. A critical scale in the value chain enables operations on a global scale and a readiness to better meet customer needs. A stronger financial position enables larger, strategic acquisitions as well as increased organic investments, through which the company has created basis for growth, improved operational efficiency and the ability to deliver customer value also in the future.

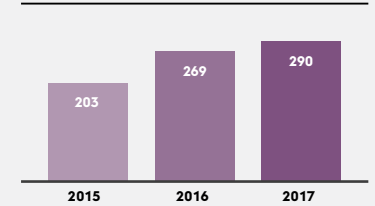
As an important step in further strengthening the global operating platform, Ahlstrom-Munksjö acquired Expera and Caieiras in October 2018. The acquisition of Expera significantly expands the company's presence in North America and strengthens its offering of advanced customer oriented fiber-based materials. Also, the transaction strengthens competences in R&D and product development, and provides opportunities for

cross-selling and best practice sharing. The acquisition of Caieiras strengthens Ahlstrom-Munksjö's offering and production platform in South America and provides regional growth opportunities and production optimization potential for the longer term. From the beginning of 2016 Ahlstrom-Munksjö has made also a string of substantial investments in the production platform in order to improve efficiency and capability as well as grow capacity.

The acquisition and the investments are well aligned with the company's growth strategy. To strengthen the balance sheet and provide capacity to take advantage of future acquisition opportunities, a rights issue of EUR 150 million was successfully completed in December 2018.

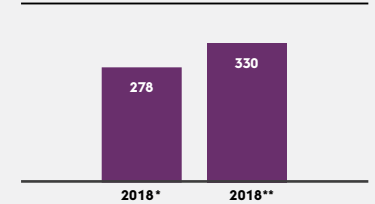
The synergies and benefits from the Ahlstrom and Munksjö merger, the strategic acquisitions and the organic investments, together create a strong platform to build on and further strengthen Ahlstrom-Munksjö's positions in selected segments of the global fiber-based solutions market.

### COMPARABLE EBITDA, EUR MILLION



Pro forma Ahlstrom-Munksjö excluding Expera and Caieiras

### COMPARABLE EBITDA, EUR MILLION



\* Actual Ahlstrom-Munksjö, including Expera and Caieiras as of October 10 and 17, respectively

\*\* Pro forma Ahlstrom-Munksjö including Expera and Caieiras as of January 1

- Pro forma 2018 comparable EBITDA marks a new significantly higher level compared to actual figures in 2018 due to the acquisitions of Expera and Caieiras
- Significant expansion of North American presence, including new product segments through the acquisition of Expera Specialty Solutions
- Strong growth platform in South America through the acquisition of Caieiras specialty paper mill

# 01: Business

Surgical gowns made out of our fabrics play an essential role in protecting the healthcare worker and maintaining sterile conditions. These fabrics must meet stringent performance standards for barrier protection, sterilization stability, breathability and comfort.





BUSINESS

# 02: Attractive growth businesses

Ahlstrom-Munksjö has a platform of solid businesses, operating in growing markets with good profitability.

Most of the businesses hold a leading position in their strategic segments - most have a global leadership position, others a more regional market. All our businesses are operating on growing markets and there are solid demand drivers in all segments. In 2018, many of our businesses performed in line with our profitability target of above 14% EBITDA margin over a business cycle. The fourteen businesses are organized in five business areas to facilitate reporting and governance.

### Our way of working

Ahlstrom-Munksjö has an operational model based on local accountability where each business is responsible for executing its own strategy, while the group outlines the strategic direction and offers a competitive platform:

- Lean group functions
- Common values and ethics, shared vision
- Technology knowhow and capability to innovate
- Sourcing
- Investments



## BUSINESS

# 03: Financial performance in business areas

Ahlstrom-Munksjö's businesses are organized into five business areas to facilitate reporting and governance.

## **/ Filtration and Performance**

The increase in net sales was mainly driven by higher selling prices and an improved mix, partly offset by unfavorable currencies. Comparable EBITDA fell slightly as higher selling prices and an improved product mix did not fully compensate for the increased variable costs. Fixed costs increased, mainly because of the expansion in the Filtration business.

EUR million	2018	2017
Net sales	672.5	665.3
Comparable EBITDA	114.7	120.6
Comparable EBITDA margin, %	17.0	18.1

## **/ Industrial Solutions**

Net sales rose as higher selling prices were partially offset by unfavorable currencies and lower sales volumes. Comparable EBITDA decreased as the result was impacted by lower sales volumes particularly at the Aspa pulp mill in the Insulation business. Deliveries also decreased in the Release Liner business. Higher selling prices more than offset increased variable costs.

EUR million	2018	2017
Net sales	691.2	678.4
Comparable EBITDA	99.7	112.1
Comparable EBITDA margin, %	14.4	16.5

## **/ Decor**

The increase in net sales was driven by higher selling prices and an improved product mix. Sales volumes were lower than in the comparison period. Comparable EBITDA decreased. Higher selling prices and an improved product mix had a positive impact on the result, more than compensating for a steep increase in variable costs such as titanium dioxide and pulp costs. Lower sales volumes and slightly higher fixed costs had a negative impact on the result.

EUR million	2018	2017
Net sales	451.9	431.8
Comparable EBITDA	37.1	43.8
Comparable EBITDA margin, %	8.2	10.2

## **/ Specialties**

Net sales rose as higher selling prices were offset by lower deliveries and an adverse currency effect. Sales volumes decreased in the coated one-sided product segment within the Food Packaging business, and in the Beverage & Casing business. Deliveries increased in the Medical, Tape and Advanced Liquid Technologies businesses. Comparable EBITDA decreased, mainly due to lower profitability in the coated one-sided business, a product segment within the Food Packaging business. This was the result of increased variable costs and lower volumes.

EUR million	2018	2017
Net sales	580.3	574.3
Comparable EBITDA	37.6	52.9
Comparable EBITDA margin, %	6.5	9.2

## **/ North American Specialty Solutions**

Net sales fell as lower deliveries more than offset higher selling prices. Comparable EBITDA decreased due to lower sales volumes. Higher variable costs, stemming mainly from higher pulp prices, were partially offset by selling price increases. Product mix improved.

EUR million	2018	2017
Net sales	626.0	637.9
Comparable EBITDA	57.0	62.2
Comparable EBITDA margin, %	9.1	9.7

FILTRATION AND PERFORMANCE

# Filtration

**KEY TAKE AWAYS**

Major investments in capacity and product capabilities in response to strong demand for filtration materials.

**DEMAND DRIVERS**

- Growing truck and passenger fleet
- More stringent emission regulation, new filter applications in electrical mobility
- Higher air quality standards

**STRENGTHS**

- Global leadership engine filtration
- Leading in industrial air filtration
- Unique know-how enabling tailor-made developments for engine filtration customers
- Wide and unique technology platform and strong R&D capabilities in industrial filtration

**Highlights of 2018**

There was solid demand globally across all product segments in 2018 with continuing growth in the truck and passenger vehicle fleets. Growth was particularly strong in the industrial end-use sector. In response to stricter emissions regulations and higher air quality standards, several new products and product improvements were successfully launched during the year. Work also continued to develop capabilities in new non-engine applications, such as energy storage, to benefit from opportunities in the electrification of the transportation sector.

Several steps were taken to grow capacity and strengthen the technical capabilities in the Filtration business. Production ramp-up of the new saturation line started in Madisonville, the U.S. The debottlenecking investment in Turin, Italy, was also completed. Ahlstrom-Munksjö decided to grow the industrial filtration product segment by investing in capacity and product capability at its plants in Turin, Italy; Malmedy, Belgium and Ställaldalen, Sweden.

**Going forward**

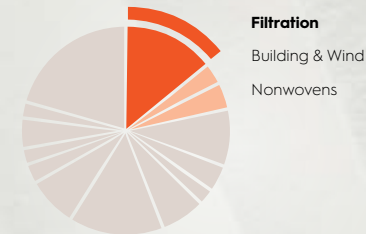
Filtration seeks to further reinforce its global leadership in engine filtration and grow in China and elsewhere. The industrial filtration will be expanded, and new filtration applications developed to capitalize from the electrification of mobility.

**Filtration** business develops and produces efficient filtration materials for engine oils, fuels and air, as well as industrial air, used in vehicles or for industrial purposes. The Filtration business also has applications and is further developing filtration solutions for hybrid and fully electric vehicles. Close to 20% of sales are generated in industrial applications and around 80% of sales derive from transportation applications, both for passenger cars and heavier duty applications such as truck and heavy machineries. In transportation applications, sales come primarily from the aftermarket.

**Market position** #1-2

**Average market growth** 2-5% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**





FILTRATION AND PERFORMANCE

## Building & Wind

### KEY TAKE AWAYS

Unique technical expertise in key areas of glass fiber tissue technology coupled with long-standing and close customer relationships has secured the global leadership in glass fiber tissue for vinyl flooring.

### DEMAND DRIVERS

- Building, construction and renovation activity
- Substitution from other flooring reinforcements such as mineral felt in North America
- Energy saving regulations and need for lighter building and transportation materials
- New and upgrade investments in wind turbines

### STRENGTHS

- Agile customer service and close customer relationships for all products
- Unique glass fiber tissue production technology

### Highlights of 2018

In the glass fiber tissue segment strong construction activity in Europe and North America translated into good demand for vinyl flooring in 2018. The ongoing transition in the North American market from mineral felt based flooring to glass fiber also continued.

Ahlstrom-Munksjö has a unique manufacturing technology, particularly suitable for the quality requirements of the flooring industry. Combined with good customer relationships and customer oriented service, Ahlstrom-Munksjö has established a solid market position in the glass fiber tissue based flooring applications globally. To address limited production capacity, evaluation of growth opportunities continued.

In 2018, the first product from the new product platform High Flow reinforcement fabric was launched, a carbon fiber fabric for high performance application in wind energy and marine end uses. Market demand for reinforcement fabrics stayed good, although markets for the standard quality fabrics segment, particularly for wind mill applications, remained very competitive. Together with the Filtration business, new glass fiber products have been developed, targeting growing demand in air filtration and battery applications.

### Going forward

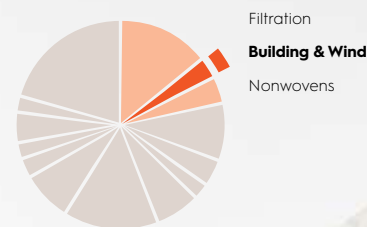
Defend global leadership in glass fiber tissue for flooring applications and expand portfolio of applications for glass fiber tissue. In fabrics, seek product differentiation, e.g. through the launch of HighFlow reinforcement for wind mill blades, and increased customization.

**The Building & Wind** business produces glass fiber tissue, mainly for flooring applications, and a range of building and transportation related end-uses. It also manufactures reinforcement fabrics to the wind turbine, boat hull and vehicle industries. In flooring applications Ahlstrom-Munksjö targets global markets.

**Market position** #1 in flooring

**Average market growth** 3-8% p.a.

### SALES BREAKDOWN BY BUSINESS, 2018



FILTRATION AND PERFORMANCE

## Nonwovens

### KEY TAKE AWAYS

Good opportunities for growth in areas like plasterboard and other construction related products.

### DEMAND DRIVERS

- Construction and consumer spending
- Shift from paper to nonwoven wallcoverings
- Need for energy efficient construction materials

### STRENGTHS

- In specialty materials: flexible and adaptable solutions with proven performance
- In wallcover: EMEA & Asian high-end supplier
- Superior customer relationships
  - Quality and service
  - Sustainable products

### Highlights of 2018

The market situation was diverse with solid demand in the specialty materials and wipes segments, while the wallcoverings market showed a decline compared to the previous year.

In the specialty materials segment, good construction activity boosted sales of plasterboard together with the ongoing shift towards dry construction techniques. Other segments like automotive, fabric care and hygiene remained stable. In the wipes segment, the market is driven by the increasing usage of flushable wipes.

Traditional wallcovers face stiff competition from painted surfaces, while the mid- to high-end segments where Ahlstrom-Munksjö is a market leader are more resilient than lower quality segments. A shift towards more high-value products is continuing with products like digital print wallcover and spray-up solutions, where wallcovers can easily be taken down and changed.

### Going forward

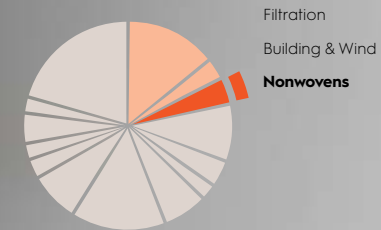
Grow significantly in the plasterboard segment and explore new niches in for example furniture laminates. To further strengthen the position in high-end and digital wallcoverings materials.

**Nonwovens** produces a wide range of products for various applications including automotive interiors, high-end wallcovers, plasterboard and flushable wipes.

**Market position** #1 in high-end wallcoverings

**Average market growth** 2-3% p.a.

### SALES BREAKDOWN BY BUSINESS, 2018



## INDUSTRIAL SOLUTIONS

# Release Liners

### KEY TAKE AWAYS

Growth in technical release liners for specialty applications and successful expansion of the production platform. Competition intensified in the labelling segment in Europe.

### DEMAND DRIVERS

- Economic growth, growing middle class
- E-commerce drives logistics and need for labels in tracking and identification
- In industrial segments growth is driven by tapes, medical and composites

### STRENGTHS

- Superior customer relationships
- Quality and service
- Sustainable products

### Highlights of 2018

The market for release liner products was good thanks to the robust growth in global demand for consumer goods. In Europe competition intensified through the year, as new capacity entered the market, particularly in the labeling segment. Demand moderated somewhat toward year end.

The market for technical release liners for specialty tape and industrial applications, such as composite materials, was relatively stronger.

Ahlstrom-Munksjö's solid market position makes it well placed to exploit further opportunities in this growing segment, also thanks to its patented Acti-V® technology.

### Going forward

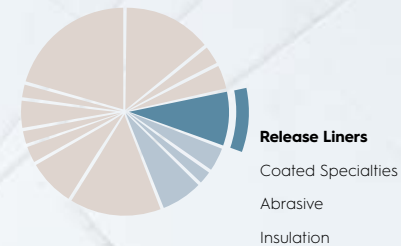
Focus is on operational excellence and continuous improvement in performance. Build on Ahlstrom-Munksjö's strong global platform, particularly in technical release liners for specialty industrial applications, will be leveraged to seize attractive opportunities. Expand geographically outside of Europe.

**The Release Liner** business produces papers that after coating can be used to carry self-adhesive labels or for manufacturing and assembling adhesive components in industrial processes. Key markets are Europe and selected export regions.

**Market position #2**

**Average market growth** 4% p.a.

### SALES BREAKDOWN BY BUSINESS, 2018





INDUSTRIAL SOLUTIONS

## Coated Specialties

### KEY TAKE AWAYS

Stronger South American platform after Caieiras acquisition. Further growth in high-value coated specialties through new investment.

### DEMAND DRIVERS

- Demographic and purchasing power development in Brazil and South America
- Growing middle class with an urban life style
- Increasing need of packaging, tracking and identification in supply chains

### STRENGTHS

- Strong local platform in the South American market
- Customer relations with both regional and global players
- Product range and development

### Highlights of 2018

Brazilian demand in 2018 was somewhat lower than in the previous year. Segments like self-adhesive labeling and packaging showed a higher growth while a weaker domestic demand for printing and writing papers was compensated by higher exports. Weakening of the Brazilian Real increased the cost of key raw materials.

New coated paper grades for flexible packaging and new lightweight offset printing paper for medical leaflets were developed.

Demand growth for high value-added coated specialty papers has been robust in the region during recent years and Ahlstrom-Munksjö intends to further strengthen its position by scaling up the mix of coated specialties papers. The company decided to invest to upgrade paper machine capabilities at the Jacarei plant in Brazil.

### Going forward

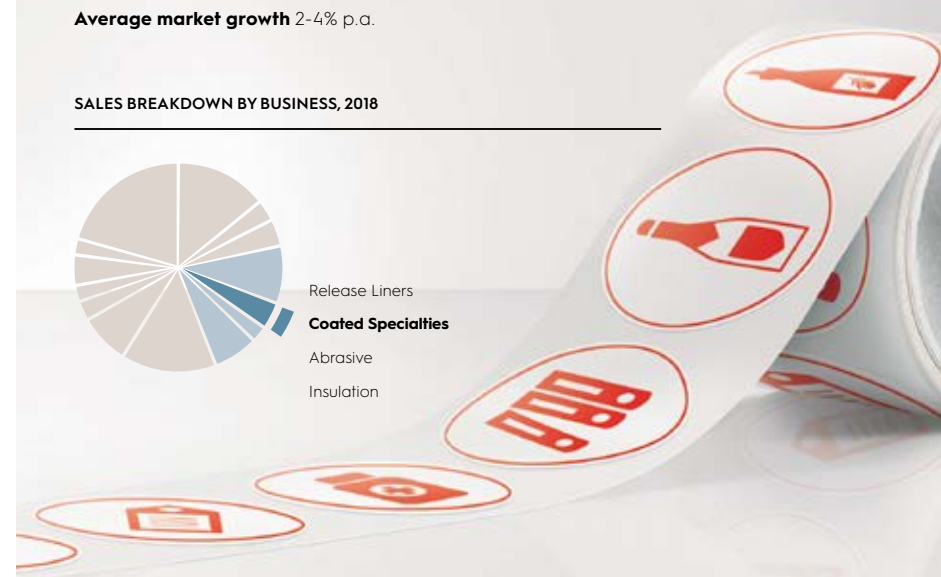
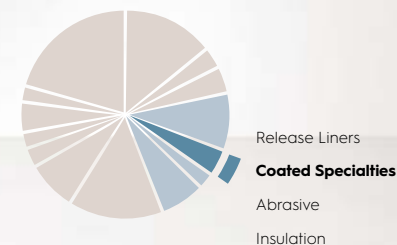
Further increase efficiency by continuous improvement and key investments supporting product mix strategy, capturing a larger part of the high-value coated specialties segment. To secure benefits from Caieiras integration in terms of market, operations, and competence sharing.

The Coated Specialties business manufactures coated label and flexible packaging papers, as well as printing and writing papers. Key market are Brazil and regional markets in South America.

**Market position** #1-2 in coated specialty papers

**Average market growth** 2-4% p.a.

### SALES BREAKDOWN BY BUSINESS, 2018



INDUSTRIAL SOLUTIONS

## Abrasive

**KEY TAKE AWAYS**

Opportunities in replacing cloth and film-based backings with innovative paper or composite alternatives.

**DEMAND DRIVERS**

- Demand is driven by automotive, wood, furniture and construction industries

**STRENGTHS**

- Only supplier offering full range of paper and composite backings for the production of abrasive shapes in do-it-yourself or industrial channels
- 100% formaldehyde free offering
- Innovative paper backings in Light Weight latex paper segment and in Heavy Weight paper segment

**Highlights of 2018**

Growing sales of new vehicles and a high construction activity supports demand for grinding and sanding products that require backings. After very strong demand in the previous year, partly driven by restocking, demand moderated during the course of 2018.

Products include a wide range of grades of paper and composite backings and new and innovative products like TEX-STYLE™ which was launched in 2018. TEX-STYLE™ is a composite backing capable of replacing cloth backings and is highly customizable. It is also a sustainable alternative, being 100% formaldehyde free and requiring significantly less chemicals and energy to produce. Commercialization of TEX-STYLE™ product is progressing and customer response so far has been positive. Steps to improve the product mix proceeded during the year.

The capacity expansion investment in Arches, France, decided in 2017, was completed in the first quarter of 2018. Production ramp-up proceeded as planned.

**Going forward**

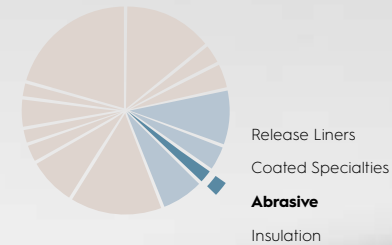
Profitable growth through innovative product differentiation and mix improvement as well as continuous improvement in production and value based pricing.

**The Abrasive** business produces specialty papers used as backings for abrasive products used in industrial and do-it-yourself sanding applications. In the Abrasive business Ahlstrom-Munksjö targets global markets. The Abrasive business also includes fine art papers under the brand name Arches™.

**Market position** #1-2

**Average market growth** 2-3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**



INDUSTRIAL SOLUTIONS

# Insulation

**KEY TAKE AWAYS**

Good demand for electrotechnical papers and very strong for pulp market. Investment decision to boost pulp mill efficiency and capacity.

**DEMAND DRIVERS**

- Extension and upgrade of power distribution networks
- Decentralization of power generation and power grids
- Urbanization and construction activity drives power equipment investments

**STRENGTHS**

- Broad portfolio of electrotechnical papers
- Internally sourced high quality, pure and clean pulp
- Technical knowledge of power equipment end-uses

**Highlights of 2018**

Demand for electrotechnical papers and thin papers was good during the year and a very strong demand for pulp along with rising pulp prices increased profitability. Trade tariffs imposed by the U.S. slowed demand for interleaves from the steel industry somewhat in the latter part of the year.

Production disruptions at the Aspa pulp mill had a negative impact on deliveries.

Additional wide crepped products for dry transformer bushings were introduced in 2018 and the development of several new semiconducting materials for potential use in batteries progressed well.

A new wood chipper was taken into production at the Aspa mill, Sweden and will increase productivity together with a new baling line which is being constructed. Ahlstrom-Munksjö decided also to invest in the Bilingsfors plant in Sweden, to rebuild the pulp line and the boiler to expand capacity and improve productivity while also ensuring that new environmental standards are met.

**Going forward**

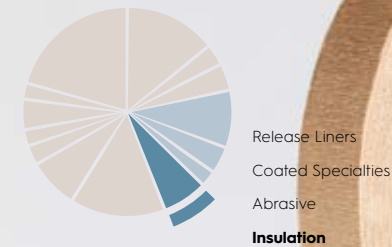
In electrotechnical insulation papers, converting capability and overall capacity will be expanded to drive profitable growth. In addition, continuous improvement for operational efficiency and value-based price management is pursued.

**The Insulation** business supplies electrotechnical insulation papers to manufacturers of transformers and high voltage cables globally. It also produces thin papers used as interleaves and specialty long fiber cellulose pulp.

**Market position** #1-2 in electrotechnical papers

**Average market growth** 2-3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**



## DECOR

## Decor

**KEY TAKE AWAYS**

Progressing with targeted measures to maintain and strengthen leading market position.

**DEMAND DRIVERS**

- Population and GDP growth.
- Rapidly growing middle class in developing markets driving construction and furniture demand
- Substitution from solid wood, veneer and plastic foils

**STRENGTHS**

- Industry leading brand with capabilities in service and quality
- Strong positions in Europe and North and South America
- Diverse, high-quality product and service offering
- Global leader in solid colors and pre-impregnated papers

**Highlights of 2018**

Work to mitigate impact of rising raw material costs continued in Decor.

Commercial efforts were concentrated on customer relationships that are service- and quality oriented with focus on specialized and customized products. This led to some volume loss in some export markets in the first half of the year. Thanks to a successful commercial strategy, the gross margin for products increased during the course of the year.

Decor proceeded with its medium term action plan to defend and grow its leading position and improve profitability. The measures include optimization of product and customer mix as well as improved cost competitiveness. Integration of Caieiras proceeded to secure benefits in terms of market, operations, and competence sharing. Ahlstrom-Munksjö decided on an investment at the Dettingen plant, Germany, to upgrade the production line. The line will come onstream at the beginning of 2019.

**Going forward**

The strong positions in Europe and North America will be maintained and strengthened. Decor has the ambition to be a forerunner in sustainability. To leverage benefits from the strong platform in South America and develop an entry plan for China.

**The Decor** business produces paper in a wide range of colors, grades and grammages for decorative applications mainly used in laminated furniture, flooring and interior applications both for technical and esthetical purposes. Key market is Europe and selected export markets.

**Market position** #2-4

**Average market growth** 3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**



## SPECIALTIES

## Food Packaging

**KEY TAKE AWAYS**

Solid parchment paper demand growth. Turn-around for one-sided coated under way with planned machine closure and capacity directed to parchment base paper.

**DEMAND DRIVERS**

- Private consumption, push towards sustainable alternatives
- Stricter food safety and chemical regulations
- Packaging functionality, innovations

**STRENGTHS**

- Capabilities helping customers to differentiate
- Leading brand and broad product portfolio
- Unique technical characteristics of parchment paper

**Highlights of 2018**

Growth in demand for genuine vegetable parchment papers continued and profitability of the product segment remained good. Ramp-up of the new parchmentizer line in September was successful at the Saint Severin plant in France. The new line meets the growing demand for sustainable alternatives for cooking and baking papers, pan liners, trays and molds. Ahlstrom-Munksjö's parchment papers are made out of cellulose fibers with no chemical additives and most of its variants are biodegradable and certified home compostable. Base paper for the new parchmentizer line is sourced internally, enabling a more favorable product mix within the Food Packaging business.

The coated one-sided segment used in flexible packaging products was clearly underperforming due to the deteriorating and highly competitive market environment. In October, Ahlstrom-Munksjö initiated a plan to permanently close one paper machine and rationalize the product offering in Stenay, France, in order to significantly improve the profitability. This is one of the few segments where Ahlstrom-Munksjö's offering and position is not optimally aligned with its strategy of a leading position, niche orientation into specialized materials and a high degree of customization.

**Going forward**

To leverage on the technical characteristics of parchment paper and consolidate and expand leadership in baking and cooking. Focus on adjacencies, adding customer value with the non-parchment platform.

**The Food Packaging** business produces sustainable vegetable parchment packaging and processing materials for hot and cold foods as well as flexible packaging paper. The product portfolio includes cooking and baking papers, pan liners, trays and molds as well as packaging paper products. Key markets are in Europe.

**Market position** #1 in baking and cooking

**Average market growth** 2-3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**

## SPECIALTIES

## Beverage & Casing

**KEY TAKE AWAYS**

Strong growth and position in plastic-free solutions. Decision to invest into a new production line at Chirnside allows for greater capabilities and capacity.

**DEMAND DRIVERS**

- Consumers increasingly seek sustainable alternatives
- Stricter food safety and chemical regulations
- More demanding packaging functionality and barrier properties

**STRENGTHS**

- Unique plastic-free biodegradable and compostable offering
- Forerunner in plastic-free coffee materials
- Unique viscose technology in casing materials

**Highlights of 2018**

In the tea bag materials market, where sustainable and plastic free alternatives are driving demand, Ahlstrom-Munksjö has a leading position with its certified compostable offering. Roll out of the plastic-free Fiber+ solution was successful and well received.

In the single-serve coffee market, Ahlstrom-Munksjö is a niche supplier with a leading position in the sustainable and compostable segment in Europe and making good progress on the U.S. market. Apart from Fiber+ for tea bags it was also launched in the coffee pod market. The fibrous meat casing market showed steady growth. The trend towards plastic-free, compostable and sustainable products accelerated in 2018.

In order to improve the performance of the Beverage & Casing business, Ahlstrom-Munksjö decided on a machine investment at the Chirnside plant, UK. The new line improves manufacturing capability and efficiency in tea and coffee filter materials as well as increases capacity. It provides an opportunity to leverage competences and innovation capability, differentiate further the offering of custom-made fiber based materials. The line is expected to be fully commissioned in the second half of 2020.

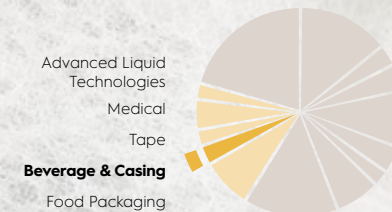
**Going forward**

To continue to differentiate with an unique plastic-free, biodegradable and compostable tea bag materials and single-serve coffee solutions offering. To further develop and grow in the fibrous casing material segment.

**The Beverage & Casing** business makes material for tea bags and coffee pods and casings with a focus on sustainability. Key markets are in Europe and North America, while the business is global.

**Market position** #1-2

**Average market growth** 2-8% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**

SPECIALTIES

# Tape

**KEY TAKE AWAYS**

Consistent growth and sales mix improvement.

**DEMAND DRIVERS**

- Home construction and renovation activity
- Growth in automotive and electronics industries

**STRENGTHS**

- Close customer relationships
- High and consistent quality in products and services
- Strong brand and comprehensive product range
- Cost competitive

**Highlights of 2018**

Global demand for tape backings was solid in all markets with the support of a strong global economy, and in particular the high activity in both the construction and renovation sectors. In Asia, Ahlstrom-Munksjö grew faster than the market and expanded its share.

In Europe efforts to improve the product mix by increasing the share of tape backings for specialty purposes continued.

Production plants in both Europe and China were certified by customers, thus providing enhanced flexibility and competitiveness of Ahlstrom-Munksjö's global operating platform. As a supplier with two certified plants, delivery security is also ensured for customers.

In China the share of specialty tape backings increased. Ahlstrom-Munksjö also entered India and new markets in South East Asia.

**Going forward**

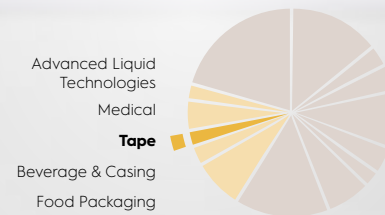
Grow in masking tape and expand global manufacturing footprint. Leverage the competitive manufacturing in China in general purpose masking tape segment globally. Continue product mix improvement with existing customers through a comprehensive offering in both general purpose and specialty masking tape.

**The Tape** business offers tape backings used by masking tape manufacturers. A variety of qualities are used in the construction and automotive industries and for specialty purposes. In the tape business Ahlstrom-Munksjö targets global markets.

**Market position** #1-2

**Average market growth** 5% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**



SPECIALTIES

# Medical

**KEY TAKE AWAYS**

Good growth in high-performance barriers. Investment decision to improve competitiveness in sterile wrap business.

**DEMAND DRIVERS**

- High-risk surgeries increasing
- Liabilities around infections and contamination
- Rigorous regulatory requirements.
- Increasing use of single-use protection.

**STRENGTHS**

- Leading in high protective fabrics for high risk surgeries
- Leading position in sterilization wrap market in Europe
- Experienced team and strong product development capabilities
- Multi-technology platform approach

**Highlights of 2018**

The market for high performance barrier protection continued to show strong growth while the market for commoditized sterilization wrap materials remained competitive. However, thanks to market expansion and renewed trust from an existing customer base, 2018 was a successful year for the sterilization wrap segment in Europe, showing growth above market levels.

Following the successful launch of PureArmor™ in 2017, Medical launched ViroSēl™ in 2018, a second-generation breathable viral barrier. It is designed for the most critical areas of a surgical gown and allows for robust seam seals.

An investment in the Pont-Audemer site in France to upgrade and automate the sterile wrap sheeting line was approved in 2018. The modernized line will come on-stream in the second quarter of 2019 and enables improved competitiveness through higher efficiency and shorter lead times.

Operational efficiency improved in the Mundra plant in India.

**Going forward**

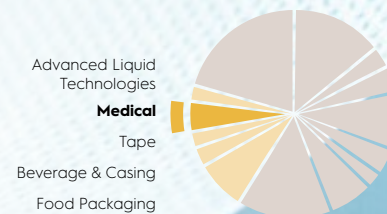
Expand in drapes and gowns in Europe and Asia, and in industrial end-uses such as laboratories and clean rooms. Strengthen leading position in Europe in sterile wraps and grow as a solutions provider through an enhanced service offering. Grow in Asia through improved customer service and local converting footprint.

**The Medical** business makes medical fabrics used in sterile barrier systems, drapes, gowns, facemasks and sterilization wraps, all used primarily in surgery but also in cleanrooms and laboratories. In the Medical business, Ahlstrom-Munksjö targets global markets.

**Market position** #1-3

**Average market growth** 3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**





## SPECIALTIES

## Advanced Liquid Technologies

**KEY TAKE AWAYS**

Growth in life science products and new customers in water purification.

**DEMAND DRIVERS**

- Increase in testing for environmental and health monitoring.
- Patient-friendly procedures, performed at home.
- Quick, cost-effective solutions for healthcare
- Safer drinking water and rising quality standards for food and liquids

**STRENGTHS**

- Disruptor proprietary technology in water purification
- Alternative solution to liquid sampling by avoiding cold chain and special transport of specimen to be used for i.e. diagnosis of genetic diseases and DNA screening. New components for rapid test kits that extend this technology into pregnancy tests, infectious diseases and drug monitoring.
- Full range service for laboratory filters; cost-effective solution to increase hot cooking oil quality

**Highlights of 2018**

The business experienced a varied market development. Demand growth was solid for life science products and patient-centric diagnostic devices. The portfolio of components for rapid test kits kept on growing. Responding to the market demand for very diversified diagnostics needs and applications and GenReleaz™, a new specimen collection card for rapid and cost-effective recovery of DNA, was launched towards the end of the year.

The market for laboratory consumable products remained stable. At the end of the year, the ReliaMAX™ syringe filter was launched, offering increased efficiency in laboratory microfiltration applications and reducing the number of steps needed to process samples and solutions.

Within the liquid purification product segment, progress has been particularly significant for water purification, as new technology adoption is growing among different end-use applications. Earlier in 2018, Disruptor® media for clean and safe water has become part of a new-to-market residential water purification device launched in Asia.

Investments were also completed to improve capacity of the production line and laminator in Mount Holly Springs, US.

**Going forward**

Market position in life science and laboratory product segment will be strengthened through further product development and partnerships with e.g. kit assemblers. In liquid purification the business will continue to penetrate the water purification market with its Disruptor technology through more end-use applications.

The **Advanced Liquid Technologies** business produces high-quality filters for laboratory sample preparation and life science diagnostics materials, used by laboratories and manufacturers of rapid test kits, in addition to high-performance media for water purification devices.

**Market position #2**

**Average market growth** 1-10% p.a.

**SALES BREAKDOWN BY BUSINESS, 2018**

NORTH AMERICA SPECIALTY SOLUTIONS

## North America Specialty Solutions

### KEY TAKE AWAYS

Continued growth in core product segments driven by a strong U.S. economy. Integration with Ahlstrom-Munksjö provides considerable synergy benefits.

### DEMAND DRIVERS

- Sustainable and safe food packaging.
- Increasing use of composite materials in the aerospace industry.
- U.S. construction activity, particularly homebuilding.
- Increased use of electronic displays as a communication medium.
- E-commerce drives demand for packaging tapes and labels.
- Growing need for surface protection during technical glass screen manufacturing.

### STRENGTHS

- Leading North American market position.
- Product portfolio has high degree of technical complexity and customization.
- Strong innovation and product development capabilities.

### Highlights of 2018

In October 2018, Ahlstrom-Munksjö acquired Expera Specialty Solutions and created the North America Specialty Solutions (NASS) Business Area. In 2018, a strong U.S. economy, an on-going shift towards renewable products, and trends toward higher performance products underpinned demand for NASS products. NASS has a leading position in its targeted segments in North America.

In 2018 several new products were launched such as AeroBak™, a customized casting sheet for fiber composites for the aerospace segment. NASS also continued to enhance its sustainable solutions offering through the TrulyNatural™ range. In addition, SOAR™ Sustainable Food Papers, including Wax Alternative papers were introduced and are manufactured without adding paraffin or other petroleum-based materials, offering a more sustainable alternative to traditional quick service restaurant packaging.

Investments were made to increase capabilities for several products and particularly increasing capacity for Grease-Gard®, FluoroFree®, AeroBak™ aerospace fiber composites and building products. Ramp-up of the new coater proceeded according to plan, trials-with customers continued.

### Going forward

Work proactively with customers, focus on brand owner and end-user collaborative innovation. Realize identified synergies, while continuing to strengthen the position in targeted growth markets.

**North America Specialty Solutions** provides highly specialized materials that protect and enhance the performance of a wide range of industrial and consumer applications. Key market is North America.

**One of the leading suppliers** in the relevant product segments  
**Average market growth** 1-8% p.a.


### SALES BREAKDOWN BY BUSINESS, 2018



## BUSINESS

# 04: Responsible value creation

Ahlstrom-Munksjö has a firm commitment to sustainability. We know that the people and communities who make our work possible, the environment and resources we all share, and our fiber innovation capabilities are critical to our long-term business success.

 This report has been prepared in accordance with the GRI standards: Core option. The flags indicate that the paragraph contains information related to a specific disclosure.

At Ahlstrom-Munksjö, we are always looking for that next idea. We secure growth and competitiveness through improving existing products, designing new ones and exploring emerging technologies to understand how they can deliver the products of tomorrow and contribute to a more sustainable everyday life.

Sustainable practices are important throughout the value chain. They are embedded in our R&D work, procurement, and production. In close cooperation with our customers,

we collaboratively innovate products that provide high performance and sustainability benefits for customers and end-users alike. We also seek to ensure that fibers, chemicals, and other inputs come from responsible partners. In our own operations, we strive to create a safe and healthy environment where our employees can thrive, effectively manage resources, and engage our host communities as long-term partners.

We are convinced that a strong social, environmental, and economic performance will help us manage risks, achieve cost-savings through resource efficiencies, strengthen our brand and reputation, and identify product and process innovation opportunities that can drive growth. To track and improve Ahlstrom-Munksjö's sustainability performance over time, we have identified nine material sustainability topics within the three sustainability areas; people, planet and prosperity.

Stakeholder engagement is a fundamental part of Ahlstrom-Munksjö's commitment to responsible business practices and an ongoing dialogue supports the value creation we can provide our key stakeholders into the future. We continuously work to strengthen our stakeholder consultation processes to better understand perspectives and incorporate that feedback into our work and priorities.



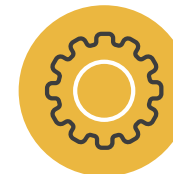
## PEOPLE

1. Human rights
2. Community engagement
3. Employee well-being



## PLANET

4. Supply chain
5. Energy, water, and waste
6. Carbon dioxide



## PROSPERITY

7. Profitability
8. Innovation
9. Business ethics

In 2018, Ahlstrom-Munksjö continued to develop and implement the sustainability strategy that was established after the merger between Ahlstrom Corporation and Munksjö Oyj in 2017. During the year, Expera Specialty Solutions in USA and Caieiras in Brazil were acquired, and the work to include these companies in Ahlstrom-Munksjö's sustainability framework was initiated. In 2019 and 2020, the integration and implementation of group sustainability policies and methods at the Caieiras and North America Specialty Solutions (NASS) sites will be a top priority alongside the general development and improvement of the group's sustainability efforts. In this report, the acquired plants of Caieiras or NASS are not included in the Environmental data.

### Governing our sustainability commitment

#### 102-16 | 102-18

The Ahlstrom-Munksjö sustainability policy defines the formal sustainability governance structure and includes commitment to continuous improvement in the nine material topics under people, planet, and prosperity. The Sustainability Policy is available on the company's website.

The company's sustainability work is governed by the Sustainable Business Council (SBC) with representatives from the Executive Management Team (EMT), the Business Areas and other functions such as legal and procurement. The Council, which convenes at least biannually, oversees the integration of sustainability practices into business operations.

The SBC sets targets and monitors progress set for the material topics. The Council also discusses deviations from targets and the introduction of new targets and how this has

## CASE

# Ahlstrom-Munksjö renews EcoVadis Gold Rating



In May 2018, Ahlstrom-Munksjö renewed its EcoVadis Gold rating level for the company's sustainability management and performance for the second consecutive year.

EcoVadis is one of the leading systems for evaluating suppliers' environmental aspects, working conditions, social responsibility, and procurement practices. The EcoVadis method is based on internationally adopted principles for sustainability reporting, such as the Global Reporting Initiative, United Nations Global Compact and ISO 26000. It is audited by independent sustainability experts.

The Gold Rating means that Ahlstrom-Munksjö's corporate social responsibility engagement level is assessed as advanced by EcoVadis. That places Ahlstrom-Munksjö in the top 1% of suppliers assessed, regardless of their industry.

Compared to the results from 2017, progress was especially made within the dimension fair business practices as new policies, processes, and trainings for the combined company were finalized following the merger of Ahlstrom Corporation and Munksjö Oyj in 2017.

Ahlstrom-Munksjö uses EcoVadis to meet customers' needs and support active cooperation with them to secure a more sustainable supply chain. The rating allows the company to communicate an independent view on its strong performance.



been managed. For 2018, the SBC found the management in each material topic in terms of targets to be satisfying.

The SBC's work is led by the Manager Group Sustainability and Capital Investments. In 2018, the role of VP Sustainability was combined with the role of investment manager into Manager Group Sustainability and Capital Investments. This new role marks Ahlstrom-Munksjö's ambition to have a long-term perspective and investments that are efficient and sustainable.

### Measuring performance

Sustainability attributes are incorporated throughout the business with the ambition to demonstrate strong performance and progress in this area across our supply chains, operations, and products.

A baseline for the material topics was established in 2017 making 2018 the inaugural year measuring performance against targets. During the year, a new data collection system was implemented across all businesses and production sites. The system is a cloud-based platform for collecting monthly environmental and energy data from all manufacturing sites, and may be expanded to other sustainability topics in the future.

Ahlstrom-Munksjö has also implemented an HR data collection and management system based on a system formerly used by Ahlstrom Corporation. The system was launched in 2018 and will encompass all employees in the first half of 2019. The system includes data on employment lifecycles and can identify success factors on recruiting, retaining, and developing talents. From 2019 the system will enable data analysis with a dash board interface.

The full implementation of the data collection system in 2018 gives us important input data to support investment decisions and better possibilities to track performance. After having more aggregated information at our disposal, we will refine our targets to ensure they are ambitious enough and support business goals.

### Alignment with international sustainable development initiatives

#### 102-91 102-12 | 102-13

Ahlstrom-Munksjö works to understand and effectively respond to upcoming global trends that will impact our business. We also seek to align with and contribute to a range of internationally recognized organizations and standards that help guide our strategy and activities. Alignment with global initiatives impacts each stage of our value chain.

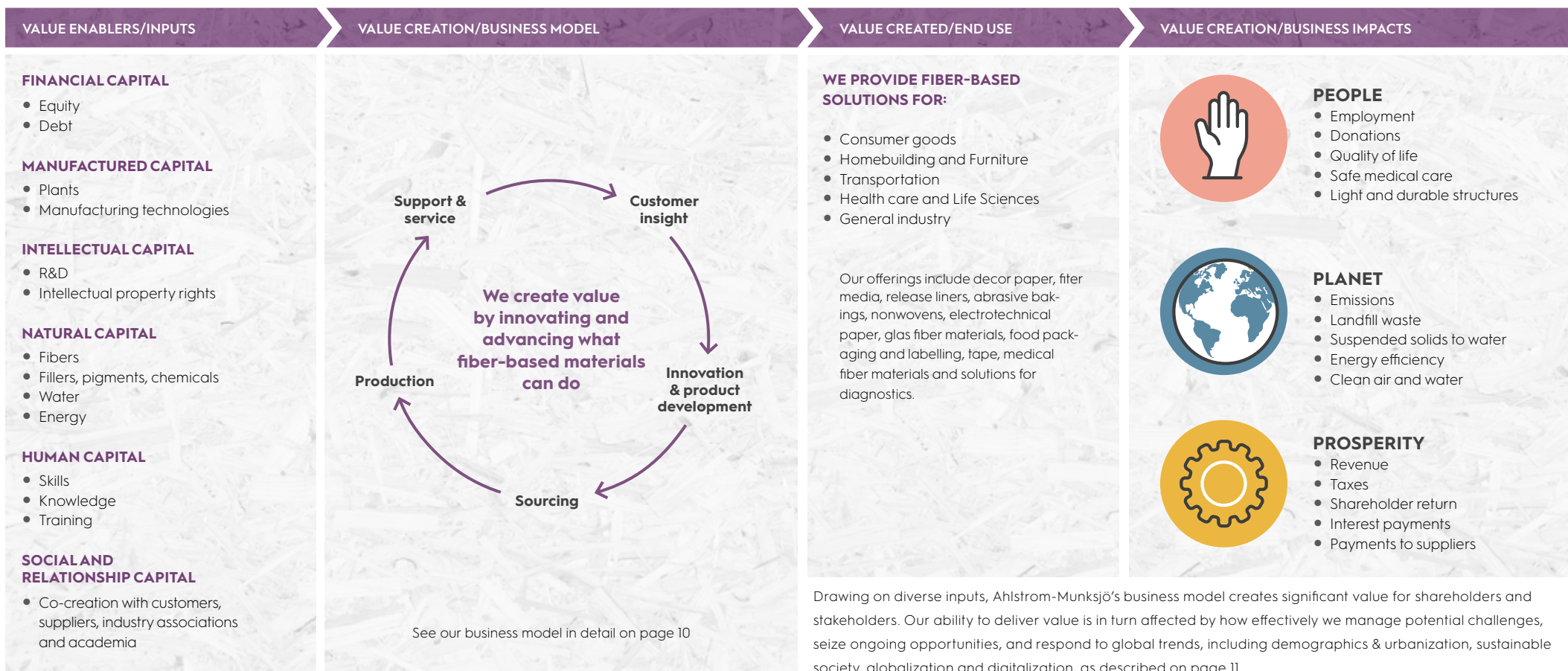
Ahlstrom-Munksjö is a participant of the United Nations Global Compact initiative. The ten foundational principles are core company values. As a participant, the company is dedicated to responsible practices from the highest level of leadership to the most local concern in a supply chain or at a production site.

We are committed to continuing our work to uphold the principles on respecting human rights, responsible labor practices, environmental quality, and anti-corruption practices. For Ahlstrom-Munksjö, these principles are essential in ensuring full compliance with all applicable laws and regulations, managing risks in procurement and operations, building a trusted brand and reputation, and identifying opportunities to contribute further to social and environmental outcomes.

*Ahlstrom-Munksjö is a participant of the United Nations Global Compact initiative. These foundational principles are core company values.*



## VALUE CREATION – OUR VALUE CHAIN



Drawing on diverse inputs, Ahlstrom-Munksjö's business model creates significant value for shareholders and stakeholders. Our ability to deliver value is in turn affected by how effectively we manage potential challenges, seize ongoing opportunities, and respond to global trends, including demographics & urbanization, sustainable society, globalization and digitalization, as described on page 11.

### Contributing to sustainable development across our value chain

Across the value chain, Ahlstrom-Munksjö seeks to advance the United Nations Sustainable Development Goals (SDGs) that comprise the United Nations Agenda 2030. Ahlstrom-Munksjö's nine material topics are part of the United Nations Sustainable Development Goals (SDGs) framework. We are committed to contributing to or reducing negative impact on a minimum of 11 SDGs across our value chain.

Ahlstrom-Munksjö is also currently assessing possible metrics, targets, and procedures to align with the Task Force on Climate-related Financial Disclosures (TCFD), as well as the Paris agreement to combat climate change, in our target-setting, reporting and evaluation.

### Adhering to certifications and standards

#### 102-11

Ahlstrom-Munksjö adheres to a range of internationally recognized, third-party audited standards that support our sustainability progress. For a full list, visit the sustainability section of our website.

Through the Forest Stewardship Council (FSC®) chain of custody certification at 27 of our 45 total production sites, we work to advance more responsible forestry and land use practices. Forest certification helps Ahlstrom-Munksjö achieve compliance with legal logging requirements. Our use of this robust, voluntary system for improving forest management contributes to our Supply Chain targets of responsible fiber supply. In addition several plants also carry certification through



People

**Material topics**

**Value chain phases/Boundary**

**United Nations Sustainable Development Goals**

1. Human rights	Sourcing, Production	SDG 8, 16
2. Community engagement	Production	SDG 8, 17
3. Employee well-being	Production	SDG 3, 5, 8
4. Supply chain	Sourcing	SDG 12, 14, 15
5. Energy, water, and waste	Sourcing, Production	SDG 6, 7, 12
6. Carbon dioxide	Sourcing, Production	SDG 7, 12
7. Profitability	Customer insight, Innovation & product development, Support & service	SDG 8
8. Innovation	Customer insight, Innovation & product development	SDG 9, 12
9. Business ethics	Sourcing, Production, Sales, Customer Insight	SDG 8, 16



Planet



Prosperity



the Sustainable Forestry Initiative (SFI®) and the Programme for the Endorsement of Forest Certification (PEFC®).

ISO standards ensure effective, well-designed environmental and energy management systems. Meeting these standards helps Ahlstrom-Munksjö identify opportunities for more efficient resource use and achieve cost savings, contributing to our Energy, Water, and Waste objectives.

By the end of 2018, 35 and 15 of our operating sites had achieved ISO 14001 and ISO 50001 certifications, respectively. Similarly, achieving Occupational Health and Safety Assessment Series (OHSAS) 18001 certification at 23 of our sites demonstrates our continued dedication to employee well-being. Improving health and safety practices is primarily about ensuring employee safety, but also helps Ahlstrom-Munksjö ensure legal compliance, manage risks, and support productivity across its businesses. 38 plants are certified according to the Quality Management System standard (ISO 9001 or similar) to ensure quality, helping to reduce waste and reliably meet customer needs. There is a reduction of one compared to the 39 quality certified plants reported in 2017 due to the closing of the Orleans plant in 2018. Other plants achieve certifications specific to their products, including quality management systems for medical devices (ISO 13485, EC), hygiene standards for food packaging materials (BRC, ISO 22000), and Kosher requirements for certain food-related products.

With the acquisitions of Caieiras and Expera Specialty Solutions, 5 new sites were added at the end of 2018. While many of the plants already carry ISO certification, continued work is in progress to achieve additional ISO standards at these sites and progress will be reported in 2019.

We provide transparent and timely information to our stakeholders by reporting on our performance in accordance

with the core requirements of the Global Reporting Initiative (GRI) Standards updated in 2016.

### **Involvement in partnerships and public affairs**

#### **102-13**

Ahlstrom-Munksjö is actively involved in several external partnerships that support the company's strategy.

The company is part of the UN Global Compact local network in Finland and a member of the Swedish and International Forest Stewardship Councils and we actively support their objectives. Through our involvement, we seek to support responsible forest practices and forest product supply chains that will be economically, environmentally, and socially sustainable over the long term.

Ahlstrom-Munksjö is also a member of the Finnish organization for sustainable business practices, FIBS, and EDANA, European Disposables and Nonwovens Association, and the Sustainable Packaging Coalition based in North America. Through several local Forest Industries Federations and Associations, the Wisconsin Paper Council, USA, and the Confederation of European Paper Industries (CEPI), Ahlstrom-Munksjö also engages in public affairs. Ahlstrom-Munksjö shares information with decision makers to ensure all aspects of specialty fiber sustainability are reflected in policies that may impact company operations and supply chains.

### **Engaging our stakeholders**

#### **102-40 | 102-42 | 102-43 | 102-44**

Stakeholder engagement is part of Ahlstrom-Munksjö's commitment to responsible business practices. A sincere, continuous dialogue with our key stakeholders is critical to our long-term business success. An ongoing exchange involves

*A sincere, continuous dialogue with our key stakeholders is critical to our long-term business success.*





sharing our progress with stakeholder groups in a timely and transparent way and understanding how their interests relate to the company.

Effective and transparent dialogue will also allow us to better prevent and manage risks by more quickly identifying and responding to stakeholder concerns, demonstrate improvements in our sourcing and operations to meet stakeholder expectations, and identify opportunities for new and more innovative products that can drive growth in areas of stakeholder interest. Ahlstrom-Munksjö focuses on engaging five key stakeholder groups; (1) our customers, (2) our investors, (3) our employees and the unions that in some cases represent them, (4) our suppliers and (5) the local communities that host our production sites. Our stakeholders are described further on page 184.

### Identifying what is important

#### 102-46 | 102-47

In order to identify and map out the most material issues on which the company will report and track progress, Ahlstrom-Munksjö undertook a materiality assessment in 2017. This assessment was reconfirmed in 2018, based on analysis of the stakeholder dialogue, trends in the company's operating environment, and the importance of the issue for future sustainable development.

Based on this materiality assessment, Ahlstrom-Munksjö focuses on nine material topics. These topics are Ahlstrom-Munksjö's strategic priority areas of focus for accurate data collection, management for performance, and transparent reporting on progress towards targets.

## *Ahlstrom-Munksjö focuses on engaging five key stakeholder groups.*

## CASE

# Ahlstrom-Munksjö and Metsä Fibre back safety award



Ahlstrom-Munksjö and Metsä Fibre, part of Metsä Group and a significant pulp supplier to Ahlstrom-Munksjö, took the initiative in 2018 for a new award in the safety area. The Safety Leadership Award will be awarded for the first time in March 2019.

The award forms a new category in the RISI PPI Awards which are the only global awards dedicated to recognizing the achievement of companies, production sites and individuals in the pulp and paper sector world-wide.

Ahlstrom-Munksjö and Metsä Fibre are the sole sponsors of the award. The companies aim is to promote safety within the pulp and paper industry by encouraging the continuous development and sharing of best practices in safety.

Apart from being an important part of employer branding and well-being at work it also creates a competitive advantage.

The target for the new safety award is to recognize a pulp or paper production plant for their consistent management and meritorious commitment to occupational safety and long term performance. Mills belonging to the two sponsors are not eligible for nomination. The judges that select the award winner are chosen by RISI PPI, the leading industry publication.

Apart from the award, Ahlstrom-Munksjö and Metsä Fibre already have an extensive safety collaboration.



People

Material topics	Metrics	Targets 2019-2020
1. Human rights	<p>Percentage of employees who confirm Code of Conduct awareness</p> <p>Development of group-wide Code of Conduct training program</p> <p>Percentage of chemical and fiber suppliers that have signed the Supplier Code of Conduct or are considered compliant</p> <p>Percentage of chemical and fiber suppliers that have undergone evaluation for Supplier Code of Conduct risks</p>	<p>All employees confirm Code of Conduct awareness</p> <p>All employees covered by training program on Code of Conduct</p> <p>All chemical and fiber suppliers have signed the Supplier Code of Conduct or are considered compliant</p> <p>All chemical and fiber suppliers have undergone evaluation for Supplier Code of Conduct</p>
2. Community engagement	<p>Percentage of production sites with an annually updated community engagement plan that considers how plant activities can improve company image, attract potential employees, and contribute to healthier living</p>	<p>All production sites have an annually updated community engagement plan that considers how plant activities can improve company image, attract potential employees, and contribute to healthier living</p>
3. Employee well-being	<p><i>Health &amp; safety</i></p> <p>Annual Total Recordable Incidents rate (TRIR, Total Recordable Incidents divided by total hours worked multiplied by 200,000)</p> <p>Annual Near Miss rate (NMR) (number of near miss incidents divided by hours worked over 1,800 hours worked)</p> <p>Average hours of tailored safety training per employee each year</p> <p><i>Employee development</i></p> <p>Percentage of employees who have had an annual performance and development discussion with their manager</p> <p>Employee Engagement Index and Leadership Index baseline definition</p> <p><i>Gender equality</i></p> <p>Gender targets and action plan defined</p> <p>Percentage of male vs. female managers</p>	<p><i>Health &amp; safety</i></p> <p>We believe zero accidents is possible and we are committed to pursuing a TRI rate of zero</p> <p>NMR higher than 2.9</p> <p>On average, at least 15 hours of tailored safety training per employee each year</p> <p><i>Employee development</i></p> <p>All employees have had an annual performance and development discussion with their manager by end of year 2020</p> <p>Employee Engagement Index and Leadership Index baseline defined by end of year 2019 through a common Employee Engagement Survey</p> <p><i>Gender equality</i></p> <p>By end of year 2019, short- and long-term gender targets defined and implementation of action plan for closing the gender gap begun</p> <p>Achieve gender representation in managerial roles at least proportional to the ratio of the total workforce by end of year 2020</p>



## Planet



## Prosperity

Material topics	Metrics	Targets 2019-2020
4. Supply chain	Percentage of chemical and fiber suppliers that have signed the Supplier Code of Conduct or are considered compliant	All chemical and fiber suppliers have signed the Supplier Code of Conduct or are considered compliant
	Percentage of chemical and fiber suppliers that have undergone evaluation for Supplier Code of Conduct risks	All chemical and fiber suppliers have undergone evaluation for Supplier Code of Conduct risks
	Development of targets to increase Forest Stewardship Council (FSC®) certified wood pulp sourcing	To continually increase share of FSC® certified wood pulp in sourcing
5. Energy, water, and waste	Percentage of plants with a third-party audited environmental management system such as ISO 14001	More than 95 percent of plants have a third-party audited environmental management system by end of year 2020
	<i>Energy</i> Percentage of company energy consumption certified under a third-party audited energy management system such as ISO 50001	<i>Energy</i> Increase percentage of the company's energy consumption certified under a third-party audited energy management system to 80% of total energy use by 2020
	Specific energy consumption per gross ton product	An annual 2 percent reduction of specific energy consumption from 2018 onward
	<i>Water</i> Water use per gross ton product	<i>Water</i> An annual 1.5 percent reduction in water use per gross ton from 2018 onward
	Water COD emissions per gross ton product	An annual 2 percent reduction in water COD emissions per gross ton product from 2018 onward
6. Carbon dioxide	<i>Waste</i> Tons of waste to landfill	<i>Waste</i> An annual 2 percent reduction in tons of waste to landfill from 2018 onward
	Scope 1 carbon dioxide emissions per gross tons product	2 percent annual reduction in Scope 1 carbon dioxide emissions per gross ton product from 2018 onward
	Scope 2 carbon dioxide emissions per gross tons product	Annual reduction of Scope 2 carbon dioxide emissions
7. Profitability	EBITDA margin over a business cycle	EBITDA margin above 14 percent over a business cycle
	Net gearing	Net gearing below 100 percent
	Dividend	A stable and annually increasing dividend, to be paid biannually
8. Innovation	Procedure in place for incorporating sustainability evaluation into new product development activities	From a baseline established in 2019, additional targets for the design process and new products will be developed
9. Business ethics	Percentage of employees who confirm Code of Conduct awareness	All employees confirm Code of Conduct awareness
	Development of group-wide Code of Conduct training program	All employees covered by training program on Code of Conduct

# People and communities

People are central to every aspect of sustainability at Ahlstrom-Munksjö. The company aims at the highest standards of human rights in its operations and supply chains, to build close, long-term relationships with the communities where production sites are located and provide safe and healthy work environments, free from discrimination and full of opportunities. Ahlstrom-Munksjö's continued progress in these areas is essential to our long-term success.

## 1. Human rights

### 412-2

Ahlstrom-Munksjö is highly committed to respecting fundamental human rights in all its activities and expects the same from suppliers. As laid out in the company Code of Conduct, this means for example that all employees must be treated with respect and given equal opportunities for personal growth and professional development regardless of their gender, age, race, ethnicity, disabilities, nationality, sexual orientation, religious beliefs, political affiliations, marital or economic status, or position within the company.

Ahlstrom-Munksjö also supports the United Nations' Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact. This commits to eradicating child labour and forced labour anywhere in the supply chain and recognizing employees' right to freedom of association and collective bargaining.



## PEOPLE



### Human rights

Respect fundamental human rights in our activities and expect the same from our suppliers.



### Community engagement

Have a positive impact in the community by supporting local and global initiatives that align with our values.



### Employee well-being

Create safe and inclusive work environments where all employees are given fair treatment and equal opportunity. Act as a responsible employer and provide fair remuneration to our employees.



The same level of commitment is expected from the company's suppliers. The Supplier Code of Conduct's key human rights provisions include fair and equal treatment in hiring and employment practices as well as wages, benefits, and working hours that at minimum comply with all local laws and binding collective agreements. It also mandates respecting freedom of association and collective bargaining rights in accordance to all applicable laws and regulations and prohibits child labor, harassment and abuse, and forced and compulsory labor. Finally, it requires suppliers to respect the traditional and customary rights of local communities affected by their operations.

To date, our management approach has been to focus on full legal compliance and investigate and resolve any reports of potential violations in a thorough and timely manner.

In 2017, an updated Code of Conduct was adopted by the Board of Directors. The updated Code of Conduct has been communicated throughout the organization, and a Code of Conduct awareness initiative has been launched. An e-learning training program was launched in 2018 and will involve all employees during 2019.

Any potential violations can be reported to a manager, the Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service where violations can be reported confidentially through a hotline or online.

The Supply Chain work, led by Procurement, includes human rights components through the Supplier Code of Conduct to ensure that sourcing reflects this commitment as well.

## CASE

### High marks for good conduct



In order to make sure that all employees are both aware of and understand Ahlstrom-Munksjö's Code of Conduct (CoC), an e-learning project was started in 2018.

E-learning is a very suitable method as Ahlstrom-Munksjö has a large number of sites spread across the world and there is a need to make sure the CoC is explained and communicated in the same way, regardless of location.

In a 20-minute tutorial with examples and cases, the participants are guided through Ahlstrom-Munksjö's CoC. It can be taken individually on a laptop or in a classroom setting which is more appropriate at the plants.

Topics and case examples include situations of possible conflicts of interest, unethical business practices and potential bribery. The cases are followed by questions and in the case of group sessions, the opportunity to discuss.

The CoC course comes in 12 different languages and was launched late 2018. Most employees are expected to have completed the course in the first quarter 2019 and it will then form part of Ahlstrom-Munksjö's introduction package for new hires.

## CASE

## Ahlstrom-Munksjö donates EUR 100,000 to local community projects



At the 2018 Ahlstrom-Munksjö annual shareholders' meeting, it was decided to set aside EUR 100,000 to be donated to charity projects that were proposed by the staff.

All Ahlstrom-Munksjö staff were invited to make proposals for projects or efforts to support and they had to meet certain criteria regarding links and relevance to Ahlstrom-Munksjö and local communities where the company operates.

In total, 73 high quality proposals were submitted from over 30 sites and they all connected well with Ahlstrom-Munksjö's sustainability goals.

The HR department made a first screening and the final selection was made by the CEO, CFO and EVP, People & Safety. The Eva Ahlström Foundation, a humanitarian organization started in 2010 by members of the Ahlström family which is also a shareholder in Ahlstrom-Munksjö, helped to evaluate and assess the various proposals.

The initiative was very well received among staff and ten projects were selected. A follow-up will be done to ensure the funds have been used correctly and to assess its impact.

### The selected projects

#### FRANCE / PONT EVEQUE / PROJECT SAINT-EXPRESS

Sponsor staff participation in a marathon run. EUR 10/km is donated to local chapter of Handicap International.

#### USA / MOUNT HOLLY SPRINGS / UNICEF

Improve the quality of life for girls through adolescent development, gender equality, social inclusion, child protection and environmental/culture change awareness.

#### UK / CHIRNSIDE / CONNECT BERWICKSHIRE YOUTH PROJECT

Support skills development activities in local communities which are also the main employee feeder towns for Ahlstrom-Munksjö Chirnside.

#### BRAZIL / LOUVEIRA / CRENDACC: GROUP HELPING

#### CHILDREN WITH CANCER

Guarantees free treatment and quality of life for children with cancer and other chronic diseases.

#### BRAZIL / CAIEIRAS / BILU PROJECT

A support center for children and adolescents in situations of vulnerability and social risk.

#### RUSSIA / TYVER / LOCAL SHELTER

Support a local shelter for children in difficult situations.

#### USA / RHINELANDER / STEM LAB

Support a local community college

#### USA / MADISONVILLE / DAWSON SPRINGS COMMUNITY SCHOOLS FRYSC CENTER

Helping to level the playing field for children who might otherwise have no opportunities available to them.

#### SWEDEN / JÖNKÖPING / INNOVATION CAMP

Competition workshop to design innovative and feasible solutions to real problems. Aimed at middle school children.

#### USA / KAUKANA / FOX-WOLFE WATERSHED CLEANUP

Annual volunteer effort to remove garbage and debris from local water resources.

## 2. Community engagement

### 413-1

To Ahlstrom-Munksjö, Community Engagement means having a positive impact in the community by supporting local and global initiatives that align with the company's values. By building long-term relationships with the communities where production sites are located, Ahlstrom-Munksjö can contribute to our employees' well-being and support local supply chains. Over time, effective community engagement reduces risks of potential conflict and opens up possibilities for productive collaborations and partnerships.

Currently, local community relationships are cultivated by plant managers and their teams at over 45 locations worldwide. Production sites have undertaken a diverse range of community engagement activities, such as hosting open houses and plant tours, providing educational or professional development opportunities for young people, contributing charitable donations and in-kind support to community enrichment activities, maintaining an open dialogue and quickly respond to community feedback related to regular plant activities. Some plants have undertaken formal stakeholder analyses, and based on them developed community engagement plans, whereas others work more on an ad hoc basis as opportunities or challenges arise.

The community activities are followed up by Group HR which reports Community Engagement Activities annually. There is also a group committee to support local plant managers and their teams in their community engagement efforts.

In addition, the AGM 2018 resolved to reserve a maximum of EUR 100,000 to be used for donations to charitable or corresponding purposes at the discretion of the Board of Directors. Suggestions for suitable donation targets were made by employees and involved local communities where Ahlstrom-Munksjö has operations.

Going forward, local plant leadership will remain essential. To build on already largely positive and productive relationships with local communities, all Ahlstrom-Munksjö plant management teams will take time each year to carefully consider their community engagement plan. Components of this plan will include how plant activities

can improve company image, attract potential employees, and contribute to healthier living in the area. By the end of 2018, 81 percent of sites had an updated community engagement plan. The target is that by 2020 all plants have an annually updated community engagement plan.

## 3. Employee well-being

Ahlstrom-Munksjö believes in creating safe and inclusive work environments where employees are given fair treatment and equal opportunity. Ahlstrom-Munksjö is committed to acting as a responsible employer and providing fair remuneration to our employees.

All of the company's efforts and long-term business success rely on strong performance in this area. Ahlstrom-Munksjö focuses on three dimensions of the Employee Well-Being topic: Health & Safety, Employee Development, and Gender Equality.

### HEALTH & SAFETY

Safety is our mindset throughout operations at Ahlstrom-Munksjö. The company works towards a zero-accident workplace by setting ambitious targets for continuous improvement, developing consistent safety practices and competencies at every level, and creating a culture of responsibility and accountability for all employees, contractors, and visitors at our sites.

This work is determined by the Occupational Health and Safety Policy, standards and guidelines, safety rules, and safety management systems are required to be certified by an external partner. Achieving results in this area ensures our employees, customers, and investors that we are continually reducing risks and creating a healthier and safer work environment. It also has positive effects on financial performance as fewer accidents means less waste, better housekeeping, higher productivity and no unwanted stoppages.

As highlighted in the company's Occupational Health and Safety Policy, the focus lies on preventative activities, behavior-based safety interactions, safety inspections and auditing, and tailored safety training to ensure a safe working environment. Local Health & Safety Managers lead these activities at each site in coordination with our Safety Network of leaders across business areas and sites, Human Resources team, and the VP Health & Safety. Safety is the opening topic at every Ahlstrom-Munksjö meeting, from the Board of Directors to regular morning meetings at the company's smallest site.

To measure our progress in this area, Ahlstrom-Munksjö tracks three priority metrics. The annual near miss rate had a 2018 target of 2.9, higher than the baseline target of 2.37 set in 2017. In 2018 the company achieved a near miss rate of 3.65, up from 2.71 in 2017, meaning that risks are being reported and responded to swiftly.

The main lagging indicator is the Total Recordable Incident Rate (TRI) where a baseline of 2.2 was established in 2017. In 2018 the TRI decreased substantially to 1.77.

The number of hours of tailored safety training per employee each year reached 15.2 in 2018, up from 13.35 in 2017. The target was 13.35.

We believe that zero accidents are possible, and this is our long-term aspiration.

Working with preventative activities like reviewing safety alerts and best practices, working diligently on the main leading indicators, drives safety in the correct direction, and the reduction of 20 percent in all recordable accidents in 2018 comes as a direct result of these efforts.

#### EMPLOYEE DEVELOPMENT

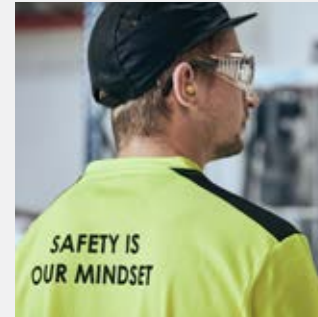
##### 404-3

As described in the Human Capital Policy, Ahlstrom-Munksjö is committed to continuously developing its employees based on individual aspirations, company values, and business needs.

The company provides on-the-job training as well as development programs within leadership and other strategic competence areas.

#### CASE

## Safety at work



Workplace safety is a key priority at Ahlstrom-Munksjö and the safety program of Ahlstrom-Munksjö supports 23 standards and guidelines, along with compulsory safety rules and life-saving rules.

Every plant has one or more safety managers, and they form part of the Safety Expert Network Organization. Some regions also have dedicated regional safety coordinators and they form a safety network where safety alerts and best practices are shared.

Following the annual safety coordinator meeting in Billingsfors in 2018 it was decided to improve safety and reduce severe accidents by implementing compulsory training in life-threatening and high-risk areas. In 2018 Ahlstrom-Munksjö conducted 145,954 preventative actions, an increase of 23 percent from 2017 and staff participated in 150,414 hours of safety training in 2018.

The need for a global management system for incidents and audit management to simplify the collection, monitoring and follow-up of activities was also identified. This will be implemented in 2019.

Severe accidents were down to 52 in 2018 from 53 in 2017, a result the company is not satisfied with. Consequently, there will be a focus in 2019 on critical areas such as Energy isolation (LOTO), Working at height, Confined space, Machine safety and Traffic management.

Ahlstrom-Munksjö also continually works to improve the physical guarding on older equipment and the company has set the target to comply with the European Machine safety standards.

In 2018, around 50 internal safety compliance audits were made in the 45 plants and some plants, so-called focus plants, had two internal audits conducted by the safety expert network audit team members.



Through these efforts, Ahlstrom-Munksjö can build valuable human capital across teams to achieve greater business, social, and environmental results throughout the company. The Ahlstrom-Munksjö people are the company's greatest asset, and investing in their growth will help to meet evolving challenges and take advantage of new opportunities in a dynamic operating context.

The Human Resources team leads this initiative and collects information on progress towards targets in this area. For this aspect of the Employee Well-Being materiality, progress will be measured by tracking what percentage of employees have had a performance and development discussion with their manager in the past year. These conversations are a critical opportunity for feedback, learning, and inspiring further growth.

A new HR data management system was implemented in 2018 and by 2020, all employees should have had an annual performance and development discussion with their manager so that they are empowered in their roles and have opportunities for further development.

An Employee Engagement Index and Leadership Index based on surveys will be established by end of year 2019. This target was pushed forward by one year due to ongoing integration following several acquisitions. Once baselines are established on employee perspectives, targets for further improvements on these important indicators of employee development will be set.

## GENDER EQUALITY

### 405-1

In addition to preventing discrimination based on gender in accordance with our Human Rights activities, Ahlstrom-Munksjö is working to proactively ensure equal opportunities and drawing on talent across the population.

The Human Resources team has led efforts to identify talented new hires regardless of gender. Moving forward, the company will continue to proactively support gender equality in the workplace. The ambition is to always have applicants of the underrepresented gender among final candidates in both internal and external recruitments and narrow any gender gaps in the company.

To track progress in this area, our HR team will measure the percentage of male and female managers at the company. A new HR data management system was implemented in 2018 to establish baselines and track progress. By end of year 2020, Ahlstrom-Munksjö seeks to achieve gender representation in managerial roles at least proportional to the ratio of the total workforce.

By the end of 2019, short- and long-term gender targets will be defined and implementation of an action plan for narrowing the gender gap in the overall workforce as well. Throughout these efforts, Ahlstrom-Munksjö will ensure compliance with our Code of Conduct and all applicable laws and regulations.

# Environment and natural resources

As part of a resource-intensive industry, Ahlstrom-Munksjö has a particular responsibility to advance environmental performance throughout its operations and supply chains. The company pursues continuous improvement in three areas: the environmental impacts of its supply chain practices, efficiencies and innovations in energy and water use and waste reduction and disposal, and carbon dioxide emissions reductions.

## 4. Supply chain

### 308-1

Ahlstrom-Munksjö works to ensure that raw materials are responsibly sourced and that the natural fiber supply chain policies promote sustainable forestry practices. Ahlstrom-Munksjö works with a large number of suppliers to secure the high quality and diverse inputs needed to create its portfolio of fiber based solutions for everyday life. The most important raw materials include fibers, particularly wood pulp, and chemicals used in the production process. The company also uses indirect suppliers, such as utilities, transportation services, and equipment providers.

The ambition is to use renewable materials wherever they can deliver the high product performance tailored to specific applications for which Ahlstrom-Munksjö is known. In 2018, our fiber raw materials were 92 percent renewable by volume, compared to 90 percent in 2017. Ahlstrom-Munksjö expects its suppliers to uphold high standards for ethical and socially and environmentally responsible business practices. Sound procurement practices also mitigate business risks for the company, our customers, and our investors.



### PLANET



#### Supply Chain

Ensure that our input raw materials are responsibly sourced and that our natural fiber sourcing policies promote sustainable forestry and agricultural practices.

#### Energy, Water, and Waste

Design products and manufacturing processes that use energy, water and raw materials more efficiently to minimize waste and emissions to water, air and soil.

#### Carbon dioxide

Reduce our contribution to climate change by decreasing our specific carbon dioxide emissions and our dependency on fossil fuels.

Ahlstrom-Munksjö's Supplier Code of Conduct establishes clear, non-negotiable minimum requirements related to legal compliance, human rights and the prevention of child labor, health and safety, responsible business practices, environmental impacts, and transparency. Ahlstrom-Munksjö's Procurement is ensuring that every supplier has signed or is in full compliance with these expectations through regular dialogue with suppliers as well as systems for risk assessment and field auditing.

Ahlstrom-Munksjö also supports more environmentally sustainable fiber production practices. The company's biggest impact is in its wood pulp procurement, which in 2018 accounted for 89 percent of our fiber use. In 2018, Ahlstrom-Munksjö purchased 47 percent of its wood pulp from Forest Stewardship Council (FSC®) mix credit certified sources, compared to 49 percent in 2017. The remainder meets FSC® Controlled Wood criteria. FSC® is widely recognized as the most respected and ambitious voluntary, third-party audited forest product certification systems for responsible forest management.

By using FSC® materials, Ahlstrom-Munksjö can meet growing customer demand for certified products while contributing to more sustainable forest practices in its supply chain.

Data on both these processes is collected by Procurement through a centralized, cloud-based information platform. Any potential violations to the Supplier Code of Conduct can be reported to a Procurement manager, Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service where violations can be reported confidentially through a hotline or online.

Ahlstrom-Munksjö has established metrics and targets to track progress in this area. At the end of 2018, 89 percent of chemical and 96 percent of fiber suppliers had signed the Supplier Code of Conduct or were considered compliant. For 2019 the target is that all of our suppliers are signatories or considered compliant.

Ahlstrom-Munksjö also creates accountability by evaluating Supplier Code of Conduct risks and following up with mitigation actions as needed.

The target for FSC® certified wood pulp sourcing is to continually increase the share of certified wood pulp.

## CASE

### More paper, less water



Producing paper of any kind is a manufacturing process which requires large amounts of water. Even though the amount needed has been reduced over the years due to technological advances and increasing environmental awareness the pulp and paper industry is still a heavy user of water.

When Ahlstrom-Munksjö decided to invest in a fourth vegetable parchment line at the Saint Severin plant in France, the question of reducing water usage and ensuring a secure water supply was high on the agenda.

Extensive measures were taken to reduce the amount of water needed in the production process and to recycle as much as possible. Today up to 90 percent of the water is recycled back to be used again and the amount of water used per produced ton of paper has been reduced significantly.

## 5. Energy, water, and waste

Ahlstrom-Munksjö is dedicated to designing products and manufacturing processes that use energy, water and raw materials as efficiently as possible to minimize waste and emissions. As part of a resource-intensive industry, the company has a particular responsibility in this area to continuously reduce its environmental impact. It will also help to ensure full legal compliance and achieve cost savings that benefit the bottom line, customers, and investors.

Many plants also advance effective resource management through third party audited, internationally recognized certification systems like standards set by the International Organization of Standardization, ISO. Ahlstrom-Munksjö is ISO 14001 certified in environmental management at more than 87 percent of the sites. 15 plants, representing 60 percent of our total energy use are ISO 50001 certified in energy management. The target is 80 percent by 2020. Ahlstrom-Munksjö also uses the European Union EMAS certification. A full list of certified plants is available on [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com)

Additionally, Ahlstrom-Munksjö promotes sharing best practices in resource management through internal collaborative efforts. The Energy Network, for example, gathers leaders across Business Areas and corporate functions to discuss energy efficiency targets, investment strategies, data collection practices, and opportunities for mutual learning to improve company-wide energy management.

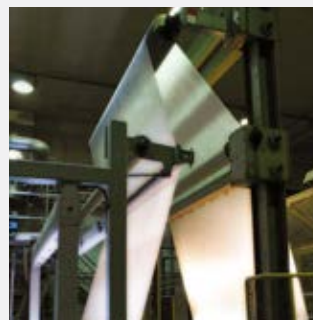
To track progress on energy, water, and waste for each production site, data is aggregated on a quarterly basis through a new cloud-based data collection system which was put into use in early 2018. The system is able to show plant level performance, as well as group wide performance, against set targets.

We measure what percentage of our plants have achieved certified environmental management systems and what percentage of our energy use comes from plants with certified energy management systems. We assess energy use, water use, and water emissions per gross ton of our production, as well as total tons of waste sent to landfill.

In 2018, the total energy use in GJ per gross ton production was 8.7, compared to 8.12 in 2017. Water use in cubic meters per gross ton production was 41.4, compared

## CASE

### New method recycles glass fibers at Karhula



When the Karhula plant in Finland produces glass fiber tissue to go into flooring all over the world there is a certain amount of excess glass fiber that results from the cutting and trimming of the material. Earlier this was dealt with by Ahlstrom-Munksjö's own waste disposal facility but since 2015 it has been transported to a communal waste disposal 35 kilometers away. This was far from ideal and never intended as a permanent way and in 2018 the Karhula plant started a capital investment project to invest on reducing the waste to landfill.

The hunt for a viable recycling method started in 2015 and part of the challenge is that the glass fiber tissue contains chemicals that bind the fibers together and to use the fibers again they must be removed. It was first attempted to dissolve the binder material with caustic soda which worked but proved to be costly and it would also have caused problems for the local water treatment plant. The second alternative was to burn the binder material without damaging the glass fiber. This can be done in a very controlled environment and the resulting fumes can be cleaned and filtered to remove any unwanted particles and substances. The new recycling equipment comes on stream during the third quarter of 2019. With this investment Karhula plant is making a significant step towards "zero to landfill". It calls for a substantial investment but delivers great sustainability benefits.



to 44.8 in 2017 and water chemical oxygen demand (COD) emissions in kilograms per gross ton production was 4.19 among 28 reporting plants, compared to 4.06 in 2017. In 2018, 12,321 tons of non-recoverable waste were sent to landfills, compared to 12,223 tons in 2017.

In 2018 targets for the metrics were set at an annual 2 percent reduction of specific energy consumption from 2018 onward; an annual 1.5 percent reduction in water use per gross ton production from 2018 onward; an annual 2 percent reduction in water COD emissions per gross ton production from 2018 onward and an annual 2 percent reduction in tons of waste to landfill from 2018 onward.

Plant managers and their teams will lead these efforts. Ahlstrom-Munksjö will also continue to strengthen internal networks and training opportunities to share best practices in resource management specific to the company's operations.

## 6. Carbon dioxide

### 305-1

Ahlstrom-Munksjö aims to continuously reduce its contribution to climate change by decreasing specific carbon dioxide emissions and the company's dependency on fossil fuels. Through these efforts, the company takes part in the global response to this ongoing challenge. This climate commitment also allows the company to proactively respond to an evolving regulatory environment, particularly in the European Union where many production sites are based. These activities also synergistically improve the company's efforts to save energy and cost where possible and meet growing stakeholder expectations that companies like Ahlstrom-Munksjö take action on climate change.

The company's energy strategy as a whole is the primary contributor to climate mitigation efforts. It is developed by the Energy Network which includes Procurement, Operations and Business functions and supports the long-term execution of mitigating and shifting towards a more sustainable energy landscape.

## CASE

# Ahlstrom-Munksjö joins Sherpack



In 2018 Ahlstrom-Munksjö joined five other partners in the European Sherpack project which aims to develop a new biodegradable flexible cellulose-based packaging material.

The project has three industrial partners; Ahlstrom-Munksjö, biorefinery Borregaard and global food supplier Cargill. In addition, three research institutes participate: research CTP in France, ITENE in Spain and ISOF-CNR in Italy. The project also has EU backing and funding.

The ambition is to have a flexible packaging material ready by 2021.

Flexible packaging is widely used in food wrapping, pet food and non-food packaging, and numerous other end-use applications that can be seen in any regular super-market.

Usually flexible packaging contains a plastic film and/or an aluminum foil to create a barrier to water vapor, oxygen, and contaminants. Plastic and aluminum tend however to be either burned or end up in landfills.

The new flexible packaging material will instead be 100 percent based on cellulose and recyclable and compostable.

There is also a significant market potential, as the size of the flexible plastic packaging market for dry food applications is evaluated at around EUR 3.7 billion a year in Europe alone.

Investments have, for example been approved for a solar panel implementation in one of the converting units in U.S. and several energy saving investments and Best Available Technology approaches have been completed during the year.

In 2018 the Scope 1 emissions were 0.402 tons carbon dioxide per gross ton production, compared to 0.381 tons in 2017. Scope 2 emissions were 0.233 tons carbon dioxide per gross ton production from 2018 onwards. The target for Scope 1 emissions is an annual reduction of 2 percent while the target for Scope 2 emissions is an annual reduction.

Scope 1 means direct greenhouse gas emissions like fuel combustion and company vehicles. Scope 2 covers emissions from purchased electricity, heat or steam.

Ahlstrom-Munksjö will continue to contribute to climate change mitigation efforts through improved energy efficiencies and sourcing, Plant managers and their teams will lead these efforts in coordination with Procurement and with support from the Energy Network. To monitor our progress, climate emissions data for each of production site will be aggregated on a quarterly basis through the new cloud-based data collection system.

## CASE

### Lower carbon footprint at Stenay



The Ahlstrom-Munksjö paper mill at Stenay in France replaced its coal fired boilers in 2018 with modern boilers using natural gas to produce the necessary steam. It is used in the paper-making process to, amongst other things, provide heat for the drying of the paper.

The switch from coal to natural gas is expected to reduce the CO2 emissions from the mill by around 28,000 tons annually, thus significantly reducing the plant's carbon footprint. The shift also reduces the need for road transport, as the gas is delivered through pipes.

Ahlstrom-Munksjö is also planning to upgrade from low-pressure boilers to high-pressure boilers within the next two years, something which would further improve efficiency and productivity.

The Stenay mill is one of Ahlstrom-Munksjö's larger sites and primarily produces one-side coated papers and waterleaf and other specialty papers for food and non-food flexible packaging, wet-glue or self-adhesive labels, metallizing, release liners and other industrial applications.

# Long-term success and innovation

Ahlstrom-Munksjö’s ability to create value for all stakeholders over the long term relies on continued financial sustainability. Building on a foundation of strong business ethics, the company pursues lasting profitability through new, innovative and sustainable fiber-based solutions. Success supports greater opportunities for team members and local communities, investments in environmental efficiencies and improvements, and the development of new products that can help customers advance their own sustainability journeys.

## 7. Profitability

Ahlstrom-Munksjö aims for long-term profitability through measures to increase operational efficiency, profitable growth, product and service leadership, and a strong innovation platform. Achieving strong financial returns helps meet stakeholder expectations, especially among shareholders. Company employees, local communities located near production sites, suppliers, and customers also depend on the company’s continued success as an engine of value creation and economic opportunities for these groups. Financial success also allows Ahlstrom-Munksjö to invest more in other aspects of social and environmental work and the innovation platform that can drive further growth and opportunity at Ahlstrom-Munksjö.

Ahlstrom-Munksjö will grow in selected niches of the innovative fiber-based solutions market. This will involve organic growth as well as acquisitions, optimizing the price and product mix, and moving up the value chain through new and innovative offerings. A clear customer value-add will be delivered through a high-quality offering supported by advanced technology, deep know-how, and tailored services.



### PROSPERITY



#### Profitability

Aim for long term profitability through measures to increase operational efficiency, profitable growth, product and service leadership, and a strong innovation platform.

#### Innovation

Increase our offering of products, services, applications, and solutions that incorporate sustainable functionality and design.

#### Business ethics

Conduct our business ethically and responsibly in the local and global communities. Uphold a zero-tolerance towards bribery and corruption. Conduct operations in a manner that meets highest environmental standards and ensure that we are in full compliance with applicable laws and regulations.

The role of fiber-based solutions will be expanded with improved sustainability performance through innovation. The company's agile production and service platform will be used to develop customer-specific solutions in a more sustainable manner. Operational excellence and flexible production capabilities achieve high operational and cost efficiencies. Finally, Ahlstrom-Munksjö uses a business unit operating model that promotes local accountability and flexibility. The company's global reach creates a diversified revenue and earnings base, while an experienced management team and lean group functions create efficiencies and a common global culture.

The Ahlstrom-Munksjö CEO and Executive Management Team lead these efforts, with guidance from the Board of Directors and support from corporate functions and production sites across the company. This approach is constantly evaluated and updated to respond to customer needs, market trends, and other opportunities. To assess progress in this area, focus is on EBITDA margin, net gearing, and dividend. In 2018, the EBITDA margin was 11 percent, the net gearing level was 84 percent and the proposed dividend was EUR 0.52 per share. The company's financial targets are a net gearing below 100 percent, a stable and annually increasing dividend and an EBITDA margin above 14 percent over a business cycle.

### 8. Innovation

Innovation enables Ahlstrom-Munksjö to continue to improve its offering of products, services, applications, and solutions that address sustainable functionality and design. A strong innovation platform allows Ahlstrom-Munksjö to select lower-impact materials in our sourcing, improve production processes, and empower customers to create more sustainable solutions using Ahlstrom-Munksjö products, generating benefits within and beyond Ahlstrom-Munksjö. One example are teabags and coffee pods where solutions from Ahlstrom-Munksjö using cellulose based materials make these products fully compostable.

## CASE

### Creating sustainable products



In 2018, Ahlstrom-Munksjö developed a new and much expanded version of its EcoDesign tool. The new tool will be implemented in 2019 as an important part of the company's sustainability strategy.

The principle is simple: new products should provide a more sustainable solution than the existing products. This is achieved by evaluating the performance of the potential new product against a set of criteria and by comparison with an existing product. The criteria include the functionality of the product itself; hazardous chemicals, raw materials, energy, water, emissions and end of life which is to say what happens to the product after it has been used.

The assessment also takes into account if it can improve the sustainability aspects of the end product of which it will be a part.

The ambition is that all new products in development will undergo the process in 2019 when a baseline will also be established.

Ahlstrom-Munksjö customizes a large part of products and solutions according to desires and needs from customers. The Eco-Design tool is a very useful instrument in those discussions, as it communicates in a very effective way our effort and commitment to provide our customers fully featured products with least possible environmental impact.



Ahlstrom-Munksjö pursues innovation through systems that translate in-depth knowledge of customer needs into high-quality products that are fit for purpose. Four aspects are considered for a sustainable design. First, where possible, lower-impact materials, such as renewable, recycled, recyclable, or biodegradable materials that have improved end-of-life outcomes in terms of sustainability are selected. Second, focus on responsible chemical use, including reducing or eliminating hazardous chemicals wherever possible. Third, seeking process efficiencies to make good use of raw materials, water, and energy. Finally, design for product efficiencies, including sustainability performance for customers all along the value chain and end of life disposal. One example is replacing cloth with paper-based solutions in abrasive backings, improving the final sanding products from a sustainability perspective. These efforts are led by our Group Research & Development team. In 2018, 11% of revenues came from new product launches during the last three years, for Ahlstrom-Munksjö excluding acquisitions this figure was 10% and for North American Specialty Solutions 17%.

In 2018, a new and expanded process to evaluate and assess every new product from a sustainability and product life-cycle perspective was developed. It is being introduced in 2019. From a baseline established in 2019, additional targets for the design process and new products will be developed. The Group Research & Development team will collect data to track progress in these areas.

## 9. Business ethics

### 205-2

Ahlstrom-Munksjö is committed to conducting our business ethically and responsibly in local and global communities. There is a zero-tolerance towards bribery and corrupt business practices as specified in the Anti-Bribery Policy and the company strives to conduct operations in a manner that meets the highest environmental standards and ensures full compliance with applicable laws and regulations. Adhering to ethical

## CASE

# Ahlstrom-Munksjö at the Nobel gala



Ahlstrom-Munksjö made an appearance at last year's Nobel Prize gala dinner in Stockholm in the form of a dress made from paper textile. The dress was worn by master of ceremonies Andrea Montano Montes and the fabric is a result of a cross-industry partnership between the Swedish paper and textile industries. The dress was produced by Svenskt Konstsilke.

The project in which Ahlstrom-Munksjö has participated during the past few years, aims to produce textiles from local raw materials like pine and spruce. Textiles made from wood fiber already exist, but the project included the possibility of recycling the material and challenged existing production and recycling technologies to achieve a circular flow.

The fabric has been made from the same raw material as Ahlstrom-Munksjö's electrotechnical insulation papers and the project opens further interesting research and development opportunities. The new textile can be used in the textile, interior design and furniture industries, which are looking for new materials with a smaller environmental footprint. Ahlstrom-Munksjö is exploring the possibility of a commercial launch, targeting these industries.

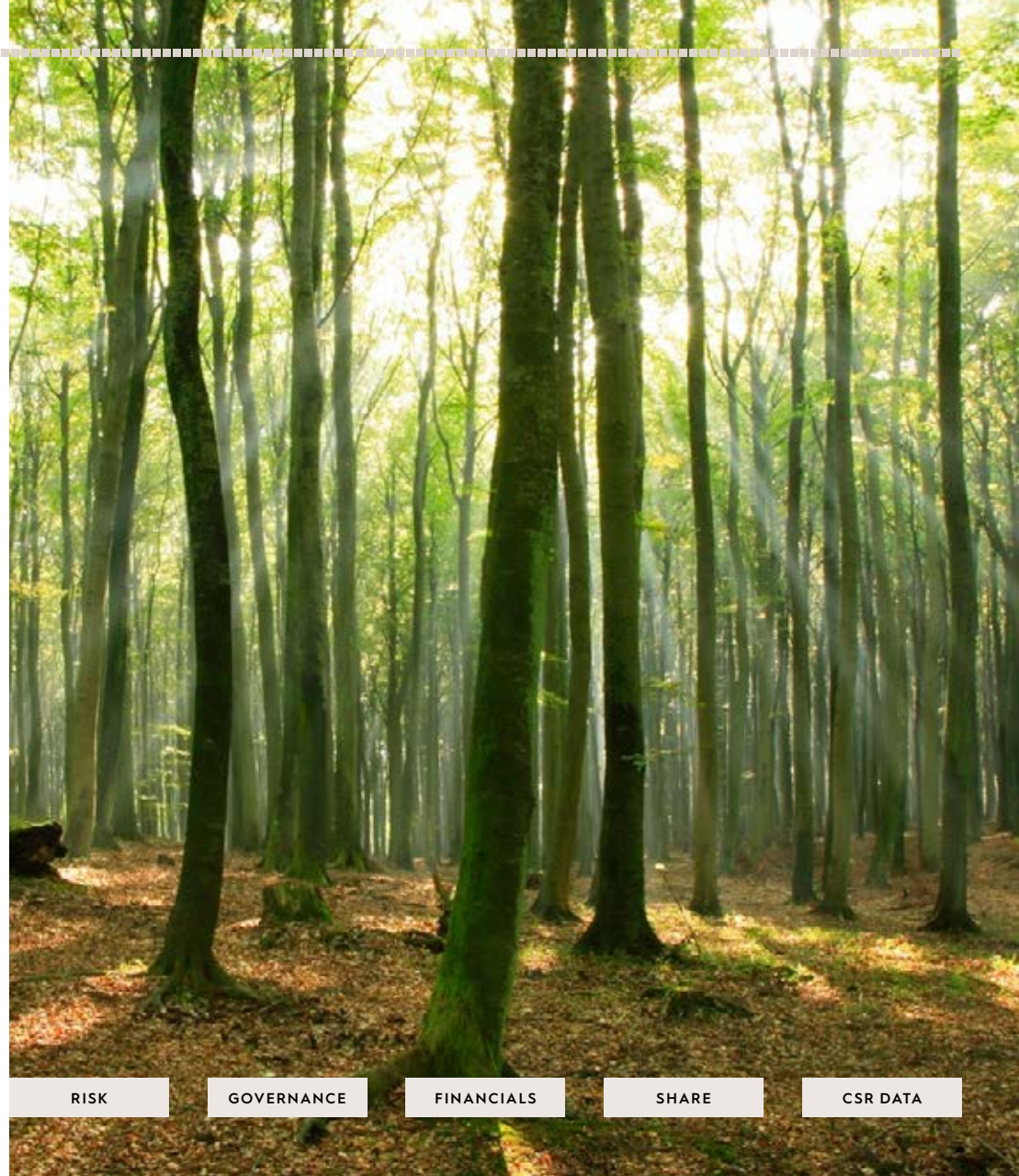
business practices is a fundamental principle for the company's work across the globe. This essential baseline is also a critical aspect of risk mitigation and ensuring full legal compliance.

Ahlstrom-Munksjö's Code of Conduct details expectations for integrity and ethical behavior throughout the operations, including compliance with all appropriate national and international laws and regulations and avoiding all conflicts of interest.

The company's Tax Policy is one example of our commitment to business ethics. Under the policy, Ahlstrom-Munksjö is to (1) report and pay taxes in a timely manner and in compliance with local regulations in the countries where the company operates and (2) prohibit aggressive tax planning and artificial arrangements or transactions purely aiming at achieving tax benefits.

In connection with the merger in April 2017, an updated Code of Conduct for the combined company was adopted by the Board of Directors. The updated Code of Conduct has during the course of the year been communicated throughout the organization. At the start of 2018 an e-learning program was developed and it was deployed by the end of the year. In 2019 all employees will have signed off on the Code of Conduct through online courses.

Any potential breaches can be reported to a manager, the Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service where violations can be reported confidentially through a hotline or online.



# 01: Risk

In our daily operations we face several key risks that may affect our ability to create value. Many of the risks can also have positive effects.

# 02: Risk and risk management

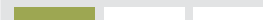
Ahlstrom-Munksjö is exposed to many risks that may significantly affect the Group. In this section, the principal factors that may have a material effect on Ahlstrom-Munksjö's capabilities to reach the goals set for the Group and the means of dealing with them, are briefly described. Ahlstrom-Munksjö's near-term risks are specified in the quarterly interim reports. Ahlstrom-Munksjö is actively working to reduce the effects of these risk factors through preventive measures. When preventive measures are not viable, the risk may be hedged or insured. Many of the risks can have both positive and negative effects. The processes of dealing with risks are overseen by the Board of Directors and the Audit Committee, and managed on the operational level by the CEO, Executive Treasury Committee, CFO, key management, and other employees. The risk assessment process is performed by the Executive Management Team, based on their objectives, and includes risk identification, risk driver analysis, identification of risk owner and assessment of potential impact, likelihood, trend and acceptability. An identification of preventive actions is also included. The likelihood described is based on 3–5 years and the impact relate to the estimated financial effect. Further comments about the risk management can be found in the section Corporate governance.

Low Medium High

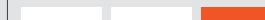
## Business and market risk – variations in market prices and volumes for Ahlstrom-Munksjö's products

Demand for Ahlstrom-Munksjö's products generally depend on the economic cycle in terms of both price and volume development. The global economic development (GDP) and changes in customer buying patterns affect the Group's business.

### LIKELIHOOD:



### FINANCIAL IMPACT:



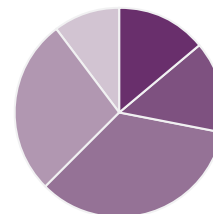
Global mega-trends like population growth, urbanization and digitalization affect most business areas, while the economic situation in different industries affect the Group's business areas in separate ways. For the group as a whole, the largest customer segments are Consumer Goods, 34%, Homebuilding and Furniture, 27%, Industrial, 14%, Transportation, 14%, Health Care and Life Science, 10%.

Increasing political instability, global protectionism, sanctions and other unfavorable macroeconomic conditions could have a material adverse effect on the business. The company operates in 14 countries and the share of sales in Europe is (45%), North America (33%), South America (8%), Asia-Pacific (14%) and the rest of the world (1%).

Interchangeable materials and products that can replace Ahlstrom-Munksjö's products, as well as new producers who establish themselves within Ahlstrom-Munksjö's product areas, can also impact both price and volume. Intensified competition from existing industry players may also affect Ahlstrom-Munksjö's financial results negatively.

Ahlstrom-Munksjö works continuously and in an integrated manner with its customers to provide flexible, customized and safe product solutions with high quality. Failure to comply with increased product safety requirements could impact the company negatively. In addition, the Group is continuously improving production and process efficiency and hence cost structure, to offset the negative impact that competition and the resulting lower market prices can have on the operating result.

## SALES BREAKDOWN BY END-USE\*



- Industrial, 14%
- Transportation, 14%
- Consumer Goods, 34%
- Homebuilding and Furniture, 27%
- Health Care and Life Science, 10%

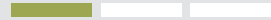
\* Ahlstrom-Munksjö annual report 2018, management's estimate for Expera and Caieiras based on 2018 pro forma sales



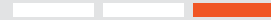
### Risk of damages and interruptions at the facilities

Globally, Ahlstrom-Munksjö has 45 production facilities located in several European countries, United States, Brazil and Asia. Production takes place in a chain of processes where possible disruptions or interruptions at any stage can cause production loss, which can result in delivery problems and reduction in customer satisfaction.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



Ongoing maintenance and investment in replacements are an essential part of ensuring technical development and operational efficiency of the facilities. The company has also undertaken substantial investments in order to improve its efficiency of its production processes and to increase capacity. Ahlstrom-Munksjö prevents disruption and interruption by having well developed controls and procedures, maintenance plans and personnel training. In addition, there is a long history of systematic ongoing work to improve safety in the production facilities. The facilities are insured by leading insurance companies, who conduct annual inspections and provide potential improvement measures. However, losses arising from events not covered by insurance policies could have a materially adverse effect on the company.

### Risk of failure of integration processes

Ahlstrom-Munksjö's strategy to also grow through acquisitions means that acquisition integration occurs from time to time. It is essential that the company can realize the synergies expected to arise from such acquisitions.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



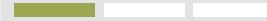
In the case of potential business combinations, substantial integration work is needed to realize expected synergies. The integrations of Expera and Caieiras are ongoing and according to plan, however the risk refers also to future potential acquisitions. The Group has extensive experience from successful integration processes and realized synergies. But adverse developments in general economic conditions or any conditions potentially imposed by regulatory authorities could limit, eliminate or delay the ability to realize estimated benefits.

Low Medium High

### Risk of customer dependence and customer credit

If Ahlstrom-Munksjö cannot meet the demands of its largest customers, or if the customers do not fulfil their payment obligations, this can affect the Group negatively.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



Customers come from a range of industries and include specialty paper processors, furniture and interior design makers, packaging manufacturers, consumer goods and the energy sector. For all these customer categories, it is important to have long-term relationships in terms of service, quality and development.

Customer credit varies depending on market and product. The Group has well-developed principles for customer credit management with regular follow-up.

At the end of December 2018, trade receivables stood at EUR 290.9 million. The average credit period was 40 days. A portion of the sales, corresponding to an average of EUR 156.7 million of trade receivables, has been credit insured and sold to financiers resulting in earlier payments received.

### Customer structure and customer credit

EUR million	2018	2017
Trade receivables not due	250.0	168.5
< 30 days	35.3	24.6
30-90 days	4.5	3.7
> 90 days	1.1	6.0
<b>Total trade receivables</b>	<b>290.9</b>	<b>202.8</b>



### Risk of variation in the price and the supply of raw materials

Raw materials are used in the manufacture of Ahlstrom-Munksjö's products. Volatility, price increase and the availability could have a material effect on the Group's results.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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The most important raw materials are pulp, wood fiber to produce pulp, titanium dioxide, certain chemicals and various synthetic fibers including glass fiber. The market price of pulp or wood may vary over time and affects the Group's result. Ahlstrom-Munksjö uses different types of pulp e.g. long, short fiber and specialty pulps in its production. In 2018, a total of 570 thousands of tons of short-fiber pulp and 304 thousands of tons of long-fiber pulp was consumed. Exposure is reduced by 300 thousands of tons of the company's own production of long-fiber pulp. For purchases, there is a structured method to ensure that the procurement process is complete and systematically designed.

Pulp, Ktonnes (actual)	2018
Own production	300
Usage long-fiber	304
Usage short-fiber	570
<b>Net exposure</b>	<b>574</b>

### Risk of price volatility and reduced supply of energy

Energy costs represent a significant portion of the production costs. Ahlstrom-Munksjö mainly consumes electricity, oil and gas. Higher prices as well as reduced availability of energy could result in an increase in the Group's operating costs and impact operating result negatively.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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Capital spending in internal energy efficiency is a priority. During 2018 the value of the energy consumed corresponded to EUR 161 million, representing 8% of the Group's operational costs.

Low Medium High

### Key employees

In the short run, Ahlstrom-Munksjö may be dependent on individual key employees. If the company is unable to recruit and retain key employees, this could have a materially adverse effect on the company.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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The company operates in a high-tech industry where qualified and experienced employees within production, operations and even more importantly in R&D constitute an important competitive advantage.

Ahlstrom-Munksjö's ability to retain and recruit employees is important for the company's future development. Development programs as well as succession planning are conducted to ensure a base for internal recruitment of future leaders and specialists.

### Risk of safety-related accidents or illnesses (Health and Safety)

Ahlstrom-Munksjö has a large material flow with many advanced manufacturing operations. A deviation from the established processes or inaccurate dealings can lead to dangerous incidents.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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Accidents or illnesses can lead to delays, quality issues and liability risks under applicable laws and regulations. Good and safe working environments are a prerequisite for attracting employees, enhancing efficiency and mitigating reputation risks. The Group conducts extensive work to strengthen occupational health and safety and to implement continuous improvements. For health and safety, Ahlstrom-Munksjö applies a vision of zero accidents.

### Environmental risk and the renewal of the production and emission permits

Ahlstrom-Munksjö's production generates emissions to air and water, waste to landfills and generates noise. Failure to comply with environmental regulation and permits could have a material adverse effect on the company.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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The Group's activities require permits and are also regulated by environmental legislation. The trend is moving toward more stringent and less flexible environmental regulations. For example, the Industrial Emissions Directive within the EU set sectorial emission limits based on what is considered possible to achieve using the best available technology without considering local conditions. This may result in new investments or other actions to meet future requirements. Environmental legislation also requires that the operator who caused the environmental damage has a strict and loyal responsibility to rectify and compensate for the damages and losses suffered. This also applies to properties that the company no longer owns or carries out operations in. The Group continuously monitors developments that may change the requirements for provisions regarding environmental liabilities.

There is also a risk that emissions, accidental spills and noise cause adverse sentiments in local communities that may negatively affect Ahlstrom-Munksjö's long-term ability to operate in those locations. Most production facilities have certified management systems for the environment and quality. There are environmental functions within the facilities that monitor and develop the sustainability efforts. In addition, they manage contacts with certifiers and supervisory authorities. Production facilities also cooperate in order to use the best knowledge regarding environmental issues

### Legal risks

Ahlstrom-Munksjö has operations in many countries, and sometimes disputes cannot be avoided in the daily operations.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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Ahlstrom-Munksjö is sometimes involved in legal actions, disputes, claims for damages and other procedures. The result of these cannot be predicted, but with respect to all the information that was available at the end of 2018, the results are not expected to affect the company's financial position to any significant extent.

The Group is also exposed to risks related to criminal activities such as internal and external fraud attempts.

Low Medium High

### Risk due to exchange rate fluctuations

Volatility of exchange rates for income and costs may affect Ahlstrom-Munksjö results or non-current assets' acquisition value positively or negatively (transaction risk). There is also exposure when the financial statements of foreign subsidiaries are translated into EUR.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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The Group's presentation currency is EUR. The net currency exposure is reasonable and mainly related to USD, SEK CNY, RUB and BRL. A large share of operating expenses is in EUR. In addition, purchase prices of pulp, chemicals and freight are primarily based on USD.

Ahlstrom-Munksjö's operative entities are normally affected by the rates applicable at any given time in order to achieve a continuous adjustment of the commercial conditions to the existing currency situation. The operating entities are monitored on operating margin excluding the result effects of currency-hedging. The Group's hedging sub-policy states that all exposure including indirect exposure shall be considered before hedging. If there is limited or no indirect exposure, 65-85% of the forecasted net flows in the upcoming 9-month period shall be hedged. The market value of outstanding forward contracts at December 31, 2018 was EUR 0.2 million. For more details on the currency exposure, see note 19.

Ahlstrom-Munksjö has assets in several foreign currencies and the Group equity is affected at the translation of equity of subsidiaries to EUR. The translation effect during 2018 amounted to EUR 13.5 million and is recognized in other comprehensive income. To mitigate FX exposure in the recent acquisitions of Expera and Caieiras, borrowings in local currency have been an important source of funding.

**Risk related to funding, liquidity and interest rates fluctuations**

Difficulty to raise new loans or significantly increased borrowing costs combined with insufficient liquidity may affect the ability to meet payment obligations. Access to additional financing depends on factors like market conditions, the general availability of credit and Ahlstrom-Munksjö's credit rating and credit capacity.

<b>LIKELIHOOD:</b> Low	<b>FINANCIAL IMPACT:</b> High
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To ensure that the Group has access to external financing the funding and liquidity sub-policy states that the loan portfolio should be allocated to multiple lenders and distributed maturing over time. The aim is that not more than 50% of the total debt portfolio should mature within a 12-month period. Ahlstrom-Munksjö's interest-bearing net debt at 31 December 2018 was EUR 971.3 million.

There is also a risk that the Company's balance sheet structure may limit the ability to finance future growth. For example, factoring and other similar arrangements currently constitute a significant source of funding to the Company. Adverse changes in the commercial terms for factoring, or the cancellation of such arrangements by the Company's counterparties, could have a material adverse effect on the Company's balance sheet and liquidity.

The interest rate risk consists of the profit and loss effect caused by an interest rate fluctuation. The speed with which an interest rate trend will impact the profit or loss depends on the fixed interest terms of the loan and investments.

To achieve a cost-efficient financing and avoid excessive impact on profit and loss of a large negative change in interest rates the policy states that the aim should be that the loan portfolio has an average fixed interest term of 24 months with a tolerance of +/-12 months.

**Risk relating to transactions with financial counterparties**

Ahlstrom-Munksjö is adversely affected if the counterparties in financial transactions cannot fulfil their obligations.

<b>LIKELIHOOD:</b> Low	<b>FINANCIAL IMPACT:</b> High
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To avoid this risk Ahlstrom-Munksjö's financial counterparty credit risk sub-policy states how any excess liquidity may be invested, and that careful monitoring is done. In 2018, there were no losses. Ahlstrom-Munksjö's maximum credit risk exposure corresponds to the fair values of the financial assets, in accordance with note 19.

Low Medium High

**The risk that the financial and operational reporting is inaccurate or misleading**

A misleading reporting can lead to wrong decisions / actions, which in turn may affect the company's results.

<b>LIKELIHOOD:</b> Low	<b>FINANCIAL IMPACT:</b> High
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The Group has control functions at unit level as well as at business area and Group level. Reporting is governed by a common regulatory framework in a common system, and continuous cooperation / exchange takes place within the controller organization concerning working methods, development and necessary controls.

**The risk of impairment of goodwill or other assets**

An impairment of goodwill or other asset could have a material adverse effect on the reported result.

<b>LIKELIHOOD:</b> Low	<b>FINANCIAL IMPACT:</b> High
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Impairment is recognized when an asset's or a cash-generating unit's carrying value exceeds the recoverable amount. The value in use for cash-generating units is calculated through discounting the future cash flows. The calculation of the value in use is based on assessments and estimates. If management's judgments, assumptions, estimates or market conditions change, the estimate of the recoverable amount of goodwill and other assets could fall significantly and result in an impairment.

**The risk of increased tax burden and not to be able to comply with changes in tax rules**

The Group's opinion regarding how to comply with the tax rules may meet different opinions from the authorities in different countries which may affect the company's result. Changes in tax laws could also increase the tax burden.

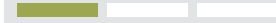
<b>LIKELIHOOD:</b> Low	<b>FINANCIAL IMPACT:</b> High
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The Group's financial function coordinates the tax issue and is seeking advice from leading tax advisors regarding complicated issues like Group structure and transfer price issues. Changes in tax laws or their applications as well as tax audits, or inability to utilize the deferred tax assets could have a material effect on the result.

### IT disruptions, information security and cyber-threats

Major IT disruptions, a breach of information security or external cyber-attacks could have a materially adverse effect on the business or financial results.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**

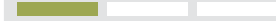


Ahlstrom-Munksjö's operations and increasingly also communication with customers and suppliers are highly dependent on internal and external IT infra-structure. Downtime in internal systems could impact Ahlstrom-Munksjö's ability to produce and deliver. Disruptions could also occur due to external security threats like cyber-attacks, resulting in identity theft, other types of information security breaches or impairment of Ahlstrom-Munksjö's IT capabilities. It is important for the Group to be able to withstand and effectively recover and resume regular performance in the event of a disruption caused by internal or external events.

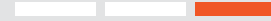
### Risks of lagging behind in technical development and R&D

Lagging in technical development and R&D as well as not being able to manage and protect the company's intellectual property rights could have a material adverse effect on the business.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



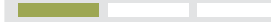
Ahlstrom-Munksjö depends on a continuous product and technology development in combination with long-term customer relationships. Future growth will depend on its continued ability to identify and respond to changes in consumer demand, develop its production and launch new and improved products. The speed to the market will be essential to be able to compete effectively in product development. The company may not be successful in launching new products on time or as expected. There can be no assurance that Ahlstrom-Munksjö will be successful in continuing to meet its customers' needs through innovation or in developing new products and technologies.

R&D and innovation may also play a key role in meeting coming environmental and safety standards for products and production processes. This could result in a loss of permits or the prohibition of certain products or loss of market share as customers may opt for more sustainable products.

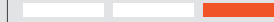
### Reputational risks

Reputational risk means possible damage to Ahlstrom-Munksjö's brands and reputation and the associated risk to earnings, sales, market share and shareholder value arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Group's values and commitments.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



These risks relate mainly to issues concerning sustainability including environmental risks, the supply chain, health & safety, human rights and business ethics. Failure to meet expectations and standards in these areas could lead to reputational damage, which can reduce brand value and cause economic loss.

To minimize such risks, Ahlstrom-Munksjö has a solid program for sustainability (see also pages 35-58 for the Sustainability Report) including robust environmental standards and a plan to reduce the carbon dioxide footprint over time. There are also clear rules and guidelines to prevent bribery and other unacceptable practices and to ensure a fair and unbiased treatment of all employees. There is a zero-tolerance policy on discrimination of any kind. We work to ensure our supply chain supports more sustainable land use and good working and employment conditions. If Ahlstrom-Munksjö fails to uphold standards in its supply chain and raise them over time, there is a risk of detrimental effects on the reputation and potential loss of customers.

Low Medium High

# 01: Governance

Governance at Ahlstrom-Munksjö is based on applicable laws and regulations, the Finnish Limited Liability Companies Act, the Finnish Securities Markets Act, the rules of Nasdaq Helsinki as well as the Company's Articles of Association. In addition, Ahlstrom-Munksjö complies with the Finnish Corporate Governance Code.



## 02: Corporate governance statement 2018

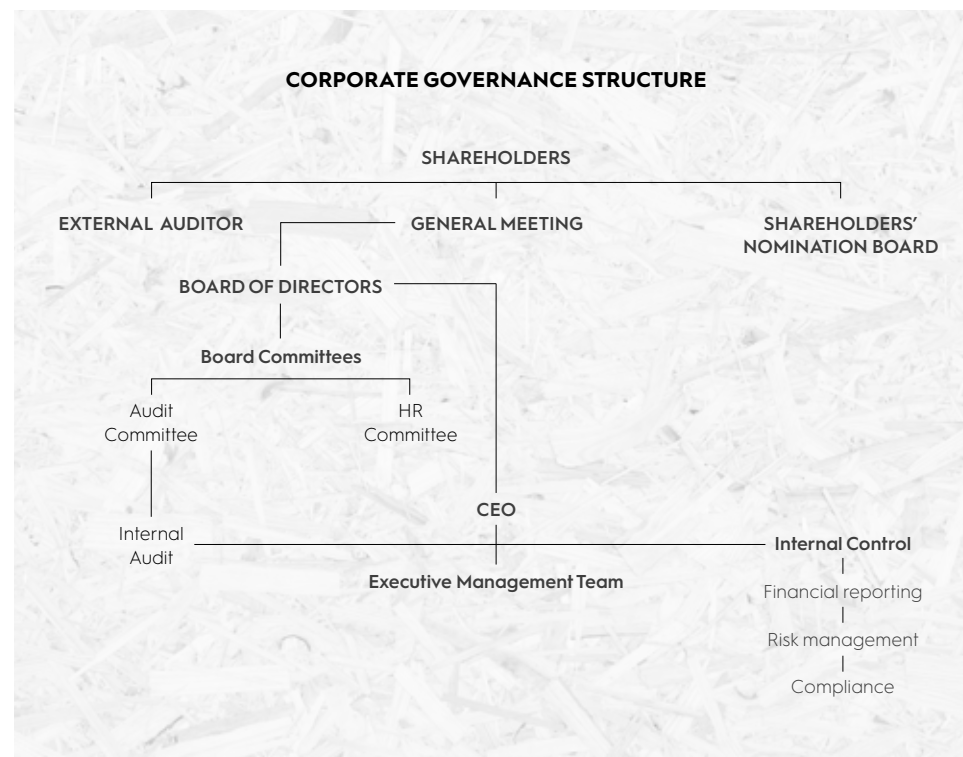
Ahlstrom-Munksjö Oyj (“Ahlstrom-Munksjö” or the “company”) is a Finnish public limited liability company, the shares of which are listed on Nasdaq Helsinki and Nasdaq Stockholm. In its corporate governance, Ahlstrom-Munksjö complies with applicable laws and regulations, including without limitation, the Finnish Limited Liability Companies Act (624/2006, as amended) (“Companies Act”), the Finnish Securities Markets Act (746/2012, as amended), the rules of Nasdaq Helsinki as well as the Company’s Articles of Association. In addition, Ahlstrom-Munksjö complies with the Finnish Corporate Governance Code issued by the Securities Market Association in 2015 (“Finnish Code”). The Finnish Code is available at <https://cgfinland.fi/en/>.

The company does not deviate from any of the recommendations of the Finnish Code. The company also complies with the Revised Swedish Corporate Governance Code (“Swedish Code”), which entered into force on December 1, 2016, with the exceptions listed in the Appendix of this corporate governance statement. The deviations are due to the differences between the Swedish and Finnish legislation, governance code rules and practices and the fact that the company follows the rules and practices in Finland. The Swedish Code is available on the Internet website [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

Ahlstrom-Munksjö’s corporate governance principles have been approved by the Board of Directors of Ahlstrom-Munksjö. This statement has been prepared in accordance with Chapter 7, Section 7 of the Securities Markets Act and the Finnish Code. The statement has been reviewed by the company’s Audit Committee and checked by the company’s auditor. This statement is presented as a separate report from the Board of Director’s Report.

### Corporate governance structure

Ahlstrom-Munksjö’s governance is based on a clear division of duties between the General Meeting, the Board of Directors and the CEO.



## General Meeting

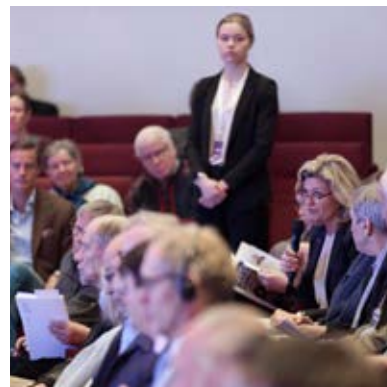
The General Meeting is Ahlstrom-Munksjö's highest decision-making body and normally convenes once a year. Its tasks and procedures are defined in the Companies Act and the company's Articles of Association. Certain important matters, such as amending the Articles of Association, adoption of the Financial Statements, approval of the dividend, return of equity to the shareholders, repurchase and distribution of company shares, election of the members of the Board of Directors and the auditors fall within the sole jurisdiction of the General Meeting.

The General Meeting is convened by the Board of Directors. The Annual General Meeting shall be held within six (6) months of the end of the financial year. An Extraordinary General Meeting shall be held whenever the Board of Directors deems necessary, the auditor of the company or shareholders with at least 10 per cent of the shares so demand in writing in order to deal with a given matter, or if this is otherwise required by law.

The General Meeting handles the matters presented on the agenda by the Board of Directors. According to the Companies Act a shareholder may also request that his/her proposal be handled at the next General Meeting.

Such a request shall be made in writing to the company's Board of Directors at the latest on the date specified by the company on its website. The date shall be published no later than by the end of the financial period immediately preceding the General Meeting. The request is always deemed to be on time if the Board of Directors has been notified of the request no later than four (4) weeks before the delivery of the notice of the General Meeting.

According to the company's Articles of Association notices of the General Meetings are published on the company's website no earlier than three (3) months and no later than three (3) weeks prior to the General Meeting. The notice shall in any event be published no later than nine (9) days before the record date of the General Meeting. In addition, the Board of Directors may decide to publish the notice in full or in part in an alternative manner as it deems appropriate. The notice shall



contain information on the matters to be handled at the General Meeting and other information required under the Companies Act and the Finnish Code.

The notice of the General Meeting, documents to be submitted to the General Meeting (e.g. financial statements, report by the Board of Directors, auditor's report) and the resolution proposals to the General Meeting are made available on the company's website at least three (3) weeks before the General Meeting.

The minutes of the General Meeting are published on the company's website within two (2) weeks after the General Meeting. In addition, the decisions of the General Meeting are also published by means of a stock exchange release immediately after the General Meeting. The documents related to the General Meeting are available on the company's website at least for a period of five (5) years after the General Meeting.

Shareholders may attend a General Meeting either in person or by proxy. Notification regarding attending a meeting must be made by the date mentioned in the notice to the General Meeting. Only shareholders, who are registered in Ahlstrom-

Munksjö's shareholders' register maintained by Euroclear Finland on the record date (i.e. eight 8 working days before the General Meeting) are entitled to attend a General Meeting. Holders of nominee registered shares may be registered temporarily in said shareholders' register and therefore they are advised to request from their custodian banks necessary instructions regarding such temporary registration and the issuing of proxy documents. A proxy representative shall produce a dated proxy document or otherwise in a reliable manner demonstrate his/her right to represent the shareholder.

The Board of Directors may decide that the shareholders may participate in the General Meeting by post or telecommunications or by other technical means.

Ahlstrom-Munksjö has one series of shares. Each share has one vote in all matters dealt with by a General Meeting.

A shareholder shall have the right to vote at the General Meeting, if he/she has registered to participate in the meeting by the date specified in the notice to the General Meeting, which date shall not be earlier than ten (10) days before the meeting. A shareholder may at the General Meeting vote with different shares in a different manner and a shareholder may also vote with only part of his/her shares. The Articles of Association of Ahlstrom-Munksjö include no redemption clauses or voting limitations.

Most resolutions by the General Meeting require a simple majority of the votes cast at the meeting. In an election, the person receiving the highest number of votes shall be deemed elected. The General Meeting may, however, prior to an election, decide that to be elected, a person shall receive more than half of the votes cast. However, there are several matters which according to the Companies Act require a two-third (2/3) majority of the votes cast and of the shares represented at the meeting.

The Annual General Meeting was held on March 21, 2018 with 170 shareholders of the company represented in the meeting.

An Extraordinary General Meeting ("EGM") of the company was held on September 19, 2018, with 192 shareholders of the company represented in the meeting. The EGM resolved to authorize the Board of Directors to resolve on the

issuance of a maximum of 20,000,000 new shares pursuant to the shareholders' pre-emptive subscription right (rights offering). The authorization included the right for the Board of Directors to resolve upon the issuance of shares that at the end of the subscription period of the rights offering may remain unsubscribed for pursuant to the shareholders' pre-emptive subscription right to parties determined by the Board of Directors (i.e. in derogation from the pre-emptive right of the shareholders). The Board of Directors was further authorized to determine all other terms and conditions of the issuance of new shares. The EGM also resolved in accordance with the proposal of the Nomination Board that the number of Board members be nine and to elect Lasse Heinonen as new member of the Board.

#### **Shareholders' Nomination Board**

Based on the proposal by the Board of Directors, the Annual General Meeting on May 13, 2013 resolved to establish a Shareholders' Nomination Board (the "Nomination Board") for an indefinite period to prepare proposals to the Annual General Meeting for the election and remuneration of the members of the Board of Directors (including a recommendation on who shall be elected as Chairman) and the remuneration of the Board committees and the Nomination Board. The Nomination Board shall also establish the principles of diversity that it applies.

The company's Annual General Meeting in 2016 approved a number of amendments to the Nomination Board Charter, mainly as a consequence of the entry into force on January 1, 2016 of the new Finnish Code.

According to the Charter of the Nomination Board, it shall comprise representatives of the three largest shareholders of the company and, in addition, the Chairman of the Board and a person nominated by the company's Board of Directors as expert members.

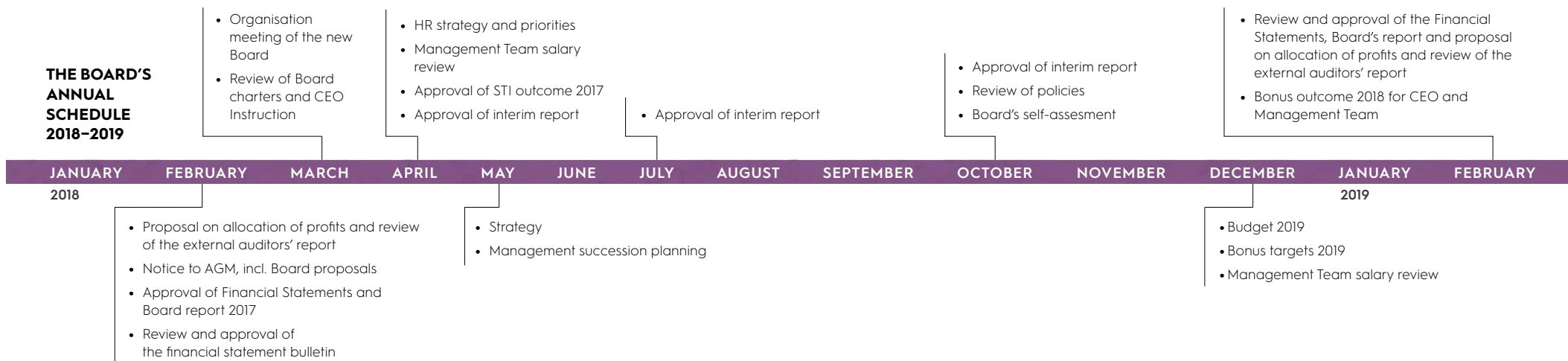
The right to nominate the shareholder representatives lies with those three shareholders whose share of all the voting rights in the company is on May 31 preceding the next Annual General Meeting the largest on the basis of the

shareholders' register of the company held by Euroclear Finland and the register of shareholders held by Euroclear Sweden. However, holdings by a shareholder who, under the Finnish Securities Market Act, has the obligation to disclose its shareholdings (flagging obligation) that are divided into several funds or registers, will be summed up when calculating the share of all the voting rights, provided that such shareholder presents a written request to that effect to the Chairman of the Board no later than on 30 May preceding the next Annual General Meeting.

Further, holdings by a group of shareholders who have agreed to nominate a joint representative to the Nomination Board will be summed up when calculating the share of all the voting rights, provided that the shareholders in question present a joint written request to that effect together with a copy of such an agreement to

the Chairman of the Board no later than on May 30 preceding the Annual General Meeting. Holdings by a holder of nominee registered shares will be considered when determining the three largest shareholders if the holder of the nominee registered shares presents a written request to that effect to the Chairman of the Board of Directors and General Counsel no later than on May 30 preceding the next Annual General Meeting. The written request shall be accompanied by documentation evidencing such shareholder's ownership of the nominee registered shares. Should a shareholder not wish to use its nomination right, the right transfers to the next largest shareholder who would otherwise not have a nomination right.

The shareholders appointed the following three (3) members as their representatives in the Nomination Board: Mikael Lilius , chairman (appointed by AC



Invest Five B.V. (fully owned subsidiary of Ahlström Capital Oy),, Alexander Ehrnrooth (appointed by Viknum AB and Belgrano Inversiones Oy) and Mikko Mursula (appointed by Ilmarinen Mutual Pension Insurance Company). The Chairman of the Board Peter Seligson and the Vice Chairman of the Board Elisabet Salander Björklund act as expert members of the Nomination Board. Since its appointment in June 2018, the Nomination Board has held four (4) meetings.

On January 29, 2018 the Nomination Board proposed to the Annual General Meeting to be held on March 21, 2018 that the number of Board members would be (8) and that the current members of the Board of Directors, Peter Seligson, Alexander Ehrnrooth, Johannes Gullichsen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen, Elisabet Salander Björklund and Pernilla Walfridsson would be re-elected. In addition, the Nomination Board proposed that Valerie A. Mars would be elected as new member of the Board of Directors. Due to his appointment as CEO of the company, Hans Sohlström was not available for re-election. The Nomination Board recommended that Peter Seligson was elected Chairman of the Board of Directors and Elisabet Salander Björklund elected Vice Chairman of the Board of Directors. Further, the Nomination Board proposed that the Board, Board Committee and Nomination Board remuneration would be as follows. The Chairman of the Board shall receive EUR 100,000 a year, the Vice Chairman EUR 80,000 and the ordinary members EUR 60,000 each. The Chairman of the Audit Committee shall annually receive EUR 12,000 and the ordinary members of such committee EUR 6,000. It was further proposed that the Chairman of the Human Resources Committee shall annually receive EUR 8,000 and the ordinary members EUR 4,000 each. The Chairman of the Shareholders' Nomination Board shall annually receive EUR 8,000 and the ordinary members EUR 4,000 each. Travel expenses were proposed to be reimbursed in accordance with the company's travel policy.

On August 20, 2018, the Nomination Board proposed to the Extraordinary General Meeting to be held on September 19, 2018 that the number of members of the Board of Directors would be increased to nine (9) and that Lasse Heinonen would be elected

new member of the Board, in addition to the eight (8) members of the Board elected at the Annual General Meeting held on March 21, 2018, for a period ending at the close of the next Annual General Meeting.

On October 6, 2016 the Nomination Board approved a Policy on the Diversity of the company's Board of Directors. Minor technical amendments to the Policy were decided by the Nomination Board on April 4, 2017. As further set forth in the Diversity Policy, the Nomination Board sees diversity at the Board level as an essential element in supporting the company's attainment of its strategic goals and ensuring that the Board of Directors fulfills its fiduciary responsibilities. Board work requires understanding of differences in culture, values and ways of conducting business.

Diversity of the Board is considered from a number of aspects, including, but not limited to gender, age, nationality and cultural background. The Nomination Board deems it is important to have a Board with an appropriate age mix with different experiential and educational backgrounds as well as work experiences. The Board composition should also take into account the ownership structure of the company and the Board shall ideally consist of members with experience from international businesses representing different industries, tasks, positions, cultures and countries. Having members from both genders on the Board is necessary. The Nomination Board strives to achieve its diversity targets by retaining professional advisors in recruiting members to the Board that meet the criteria set forth in the Diversity Policy. The Nomination Board believes it has been able to meet the criteria set in most respects. Both genders are well represented on the company's Board of Directors of which 44.4% are women.

On January 25, 2019, the Nomination Board proposed to the Annual General Meeting to be held on March 27, 2019 that the number of members of the Board of Directors shall be nine (9) and that the current members Peter Seligson, Elisabet Salander Björklund, Lasse Heinonen, Alexander Ehrnrooth, Johannes Gullichsen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen, Valerie A. Mars are to be re-elected. Pernilla Walfridsson was



not available for re-election. In addition, the Nomination Board proposed that Mr. Jaakko Eskola is to be elected new member of the Board. The Nomination Board has recommended that Peter Seligson is elected Chairman of the Board of Directors and Elisabet Salander Björklund is elected Vice Chairman of the Board of Directors.

Further, the Nomination Board proposed that the remuneration of the members of the Board of Directors, Board Committees and Nomination Board shall be as follows:

The Chairman of the Board shall annually receive EUR 130,000, the Vice Chairman EUR 90,000 and the ordinary members EUR 65,000 each. The Chairman of the Audit Committee shall annually receive EUR 15,000 and the ordinary members of the committee EUR 7,500 each. The Chairman of the Human Resources Committee shall annually receive EUR 10,000 and the ordinary members EUR 5,000 each. The Chairman of the Shareholders' Nomination Board shall annually receive EUR 8,000 and the ordinary members EUR 4,000 each. Travel expenses are proposed to be reimbursed in accordance with the company's travel policy.

The Nomination Board further proposed that each of the members of the Board of Directors shall have the right to abstain from receiving remuneration.

### The Board of Directors

The role of the Board is to manage the company's business in the best possible way and in its work protect the interests of the company and its shareholders. In accordance with the Articles of Association of Ahlstrom-Munksjö, as amended at the Extraordinary General Meeting held on January 11, 2017, the Board of Directors shall consist of a minimum of four (4) and a maximum of twelve (12) members elected by the General Meeting. The members of the Board of Directors shall be appointed for one year at a time. The Nomination Board prepares a proposal on the composition of the Board to the Annual General Meeting for its decision.

The composition of the company's Board of Directors shall reflect the requirements set by the company's operations and development stage. A person elected as a

director must have the competence required for the position and the ability to devote a sufficient amount of time to attending to the duties. The number of directors and the composition of the Board of Directors shall be such that they enable the Board of Directors to see to its duties efficiently. Both genders shall be represented in the Board of Directors.

The Board of Directors shall evaluate the independence of the directors. The majority of the directors shall be independent of the company. At least two directors who are independent of the company shall also be independent of the significant shareholders of the company.

The Board has general authority to decide on and act in any matters not reserved by law or under the provisions of the Articles of Association to any other governing body of the company. The Board of Directors is responsible for the management of the company and its business operations. Additionally, the Board is responsible for the appropriate arrangement of the bookkeeping and financial administration.

The operating principles and main duties of the Board of Directors have been defined in the Procedural Rules for the Board of Directors and include, among other things, to:

- establish business objectives and strategy,
- appoint, continuously evaluate and, if required, remove the CEO from office,
- ensure that there are effective systems in place for monitoring and controlling the Group's operations and financial position compared to its stated objectives,
- ensure that there is satisfactory control of the company's compliance with laws and other regulations applicable to the company's operations,
- ensure that guidelines to govern the company's and the Group's ethical conduct are adopted, and
- ensure that the company's external disclosure of information is marked by openness and is correct, timely, relevant and reliable, by way of, among other things, adopting a communication policy.

The Board of Directors makes a self-assessment of its performance, practices and procedures annually. In 2018, the self-assessment was performed via an external consultant and the findings were reported both to the Nomination Board and to the Board of Directors in their meetings. In addition a written report on the entire Board of Directors' performance as well as a written report on each individual's performance was submitted to each member of the Board of Directors.

The Annual General Meeting held on March 21, 2018 confirmed the number of Board members to be eight (8). The Annual General Meeting resolved in accordance with the proposal of the Nomination Board that, Peter Seligson, Elisabet Salander Björklund, Alexander Ehrnrooth, Harri-Pekka Kaukonen, Johannes Gullichsen, Hannele Jakosuo-Jansson and Pernilla Walfridsson were re-elected. Valerie A. Mars was elected as new member of the Board of Directors. The Board of Directors elected Peter Seligson as Chairman and Elisabet Salander Björklund as Vice Chairman of the Board. Information on the Board members and their shareholdings are set forth at the end of this statement.

The Extraordinary General Meeting held on September 19, 2018, resolved in accordance with the proposal of the Nomination Board that the number of members of the Board would be increased to nine (9) and that Lasse Heinonen would be elected new member of the Board, in addition to the eight (8) members of the Board elected at the Annual General Meeting held on March 21, 2018, for a period ending at the close of the next Annual General Meeting.

All Board members are independent of the company and of the significant shareholders of the company, except for Alexander Ehrnrooth and Lasse Heinonen, who are not independent of significant shareholders of the company. Alexander Ehrnrooth is not independent of the company's significant shareholder Viknum AB, in the parent company of which, Virala Corporation, he is the President and CEO and a member of the Board of Directors. Lasse Heinonen is not independent of the

company's significant shareholders AC Invest Five B.V., in the parent company of which, Ahlström Capital Oy, he is the President and CEO.

In 2018, the Board convened nineteen (19) times, including nine (9) meetings held as telephone meetings. The attendance of the individual board members is set forth in the table on page 75.

### Board Committees

The Board of Directors of Ahlstrom-Munksjö resolved on March 21, 2018 to appoint two permanent Board committees, being the Audit Committee and the Human Resources Committee. The composition, duties and working procedures of the committees shall be defined by the Board in the Charters confirmed for the committees. The Committees regularly report on their work to the Board. All Board members have the right to attend Board Committee meetings and have access to all information relating to the Board Committees' work regardless of whether he or she is a member of the Committee in question.

### Audit Committee

The Audit Committee consists of at least three (3) members, all of which shall be Board members who are independent of the company and shall have the qualifications necessary to perform the responsibilities of the Committee. At least one member shall be independent of the significant shareholders and at least one member shall have expertise specifically in accounting, bookkeeping or auditing. All members of the Committee shall be versed in financial matters.

According to its Charter, the Audit Committee assists the Board in fulfilling its supervisory responsibilities and also prepares certain accounting and auditing matters to be handled by the Board. In addition, the Audit Committee makes

**Board of directors' shareholding December 31, 2018**

Member	Title	Shares	Total
Peter Seligson	Chairman	1,074,576	1,304,061
Spouse		16,088	
<i>Shares held by controlled entities:</i>			
Baltiska Handel A.B. <sup>1</sup>		213,397	
Elisabet Salander Björklund	Vice Chairman	5,040	5,040
Alexander Ehrnrooth	Board member	1,200	14,717,714
<i>Shares held by organisations in which the person exercises influence (substantial economic interest, no control):</i>			
Viknum AB		14,048,006	
<i>Shares held by controlled entities:</i>			
Belgrano Inversiones Oy		668,508	
Johannes Gullichsen	Board member	415,955	415,955
Lasse Heinonen	Board member	0	0
Hannele Jakosuo-Jansson	Board member	3,600	3,600
Harri-Pekka Kaukonen	Board member	4,868	4,868
Valerie A. Mars	Board member	14,680	14,680
Pernilla Walfridsson	Board member	920	920

<sup>1</sup> On December 28, 2018, 205,128 shares held by Baltiska Handels A.B. were transferred to Baltiska Handels Sverige AB, which is also a controlled entity of Peter Seligson. The transaction was recorded in the respective book-entry accounts on January 3, 2019.

**Management Team's shareholding December 31, 2018**

Member	Title	Shares
Hans Sohlström	President and CEO	36,516
Sakari Ahdekivi	Deputy CEO and Executive Vice President Corporate Development	0
Pia Aaltonen-Forsell	Executive Vice President and CFO	15,519
Dan Adrianzon	Executive Vice President, People & Safety	30
Daniele Borlatto	Executive Vice President, Industrial Solutions	24,408
Fulvio Capusotti	Executive Vice President, Filtration & Performance	9,924
Andreas Elving	Executive Vice President Legal and General Counsel	3,860
Omar Hoek	Executive Vice President, Specialties	4,606
Tomas Wulkan	Executive Vice President, Decor	0
Russ Wanke	Executive Vice President, North America Specialty Solutions	34,857

**Board of Directors' and Committees' attendance 2018**

Member	Board member since	Board	Audit Committee	HR Committee	Strategy Committee
Hans Sohlström <sup>1</sup>	2017	3/3		1/1	2/2
Peter Seligson <sup>2</sup>	2012	19/19		5/5	2/2
Elisabet Salander Björklund (Vice chairman)	2013	19/19	8/8		
Alexander Ehrnrooth	2014	19/19	8/8		2/2
Johannes Gullichsen	2017	19/19		5/5	
Harri-Pekka Kaukonen	2017	19/19	7/8		
Hannele Jakosuo-Jansson	2013	18/19		5/5	
Pernilla Walfridsson	2017	19/19	8/8		
Valerie A. Mars <sup>3</sup>	2018	16/16	7/8		
Lasse Heinonen <sup>4</sup>	2018	4/4			

<sup>1</sup> Chair until March 21, 2018, member of HR committee until he took the position as CEO

<sup>2</sup> Chair from March 21, 2018

<sup>3</sup> Member from March 21, 2018

<sup>4</sup> Member from September 19, 2018

recommendations for the election and removal of the external auditors and for their compensation and approves the external auditors' audit plan based on the auditors' proposal. Among its other duties, the Audit Committee reviews and monitors the financial reporting process, the efficiency of the system of internal control and risk management, and the audit process. The Audit Committee monitors and approves the purchases of permissible non-audit services from the auditors and reviews the independence confirmation of the auditors.

The members of the Audit Committee are from March 21, 2018, Elisabet Salander Björklund (Chairman), Alexander Ehrnrooth, Harri-Pekka Kaukonen, Pernilla Walfridsson and Valerie A. Mars, who joined the Audit Committee upon her election to the Board of Directors on March 21, 2018. All of the members of the Audit Committee are independent of the company and its significant shareholders, except Alexander Ehrnrooth, who is not considered independent of a significant shareholder of the company. All the members have the expertise and experience required for the performance of the responsibilities of the Audit Committee. In 2018, the Audit Committee convened eight (8) times, including one (1) meeting held as a telephone meeting. The attendance of the individual committee members is set forth in the table on page 75.

**Human Resources Committee**

The Human Resources Committee consists of at least three (3) members, all of which shall be Board members who are independent of the company. Representatives of the company's senior management may not be members of the Committee.

According to its Charter, the Human Resources Committee assists the Board to ensure that all human capital related topics, such as ethics and values, resourcing strategy, competence and performance management as well as remuneration arrangements, support the strategic aims of the business and enable the recruitment, development, motivation and retention of key personnel while complying with regulatory and governance requirements, and satisfying the expectations of shareholders. The Committee further provides guidance in human capital related corporate social responsibility and diversity matters. The Human Resources Committee further assists the Board in the efficient preparation and handling of the matters pertaining to the appointment and dismissal of the CEO and other executives and their remuneration.

The members of the Human Resources Committee are Hannele Jakosuo-Jansson (Chair), Johannes Gullichsen and Peter Seligson. All of the current members of the Human Resources Committee are independent of the company and its significant shareholders.

In 2018, the Human Resources Committee convened five (5) times. The attendance of the individual Committee members is set forth in the table on page 75.

### Strategy Committee (until March 21, 2018)

A Strategy Committee consisting of at least three (3) members was established on April 6, 2017. According to its Charter, the Strategy Committee supported the Board of Directors in fulfilling its oversight responsibilities in relation to long-term strategy for the company, risks and opportunities relating to such strategy, and strategic decisions regarding investments, acquisitions and divestitures by the company. Following the Annual General Meeting on March 21, 2018, the Strategy Committee was discontinued.

The members of the Strategy Committee were Peter Seligson (Chair), Hans Sohlström and Alexander Ehrnrooth. Jan Inbarr was a member of the Strategy Committee from April 6, 2017 until June 24, 2017. Hans Sohlström replaced Jan Inbarr after his passing away. All the members of the Strategy Committee were independent of the company and its significant shareholders, except Hans Sohlström and Alexander Ehrnrooth, who were not independent of a significant shareholder of the company.

In 2018, the Strategy Committee convened two (2) times. The attendance of the individual committee members is set forth in the table on page 75.

### CEO

The CEO of Ahlstrom-Munksjö is appointed by the Board and his/her service contract is approved by the Board. The CEO is in charge of the day-to-day management of the company. The duties of the CEO are governed primarily by the Companies Act and the CEO instruction, and the CEO leads the operational activities and prepares information and decisions to support the Board and presents his findings at Board

meetings. The CEO shall not be elected Chairman of the Board of Directors.

In accordance with the Companies Act, the CEO has a right to decide himself on certain urgent matters which otherwise would have required a Board decision.

Hans Sohlström is the CEO of the company as of April 16, 2018. Biographical details of the CEO and his shareholdings are set forth on pages 74 and 86. Jan Åström was the CEO of the company up and until April 15, 2018.

### Management Team

The Management Team consists of the CEO, Deputy CEO, functional managers and business area managers. The members of the Management Team are proposed by the CEO and appointed by the Board. The members of the Management Team report to the CEO.

The CEO, Deputy CEO, and CFO meet with the business area leaders and other business area management monthly to discuss the business areas' performance and financial status. In addition, the Management Team meets to discuss issues concerning group performance, strategy, budget, forecasting, business development and other matters relating to the Group. In accordance with the policies and guidelines established by the Board, group functions are responsible for business development, distribution of financial resources between the Group's operations, capital structure and risk management. Their duties also include matters concerning group-wide research and development, acquisitions and disposals, purchasing coordination, consolidated financial reporting, Human Resources, internal and external communications, IT, legal matters and coordination and monitoring of safety, environment, sustainability, occupational health and quality and certain major projects.

At the end of 2018, the Management Team consisted of ten members. The composition of the Management Team, biographical details, the areas of responsibility of its members and the members' shareholdings in the company are described on pages 74 and 86-87.



## Remuneration

The remuneration of the members of the Board of Directors, the Board Committees and the Shareholders' Nomination Board is decided by the Annual General Meeting of Ahlstrom-Munksjö based on a proposal by the Shareholders' Nomination Board.

The Board of Directors decides on the remuneration of the CEO based on a proposal by the Human Resources Committee and on the remuneration of the senior executives based on a proposal by the CEO, which is reviewed by the Human Resources Committee.

The objective of remuneration is to promote the long-term financial success and competitiveness of the company and the favorable development of shareholder value. Remuneration is based on predetermined and measurable performance and result criteria.

In accordance with the Finnish Code the company publishes its Remuneration statement on the company's website.

## Auditor

The main function of the statutory audit is to verify that the financial statements provide true, accurate and sufficient information on the Ahlstrom-Munksjö Group's performance and financial position for the financial year. The Ahlstrom-Munksjö Group's financial year is the calendar year.

The auditor's responsibility is to audit the correctness of the Group's accounting in the respective financial year and to provide an auditor's report to the General Meeting. In addition, Finnish law requires that the auditor also monitors the lawfulness of the company's administration. The auditor reports to the Board of Directors at least once a year.

According to the Articles of Association, Ahlstrom-Munksjö shall have one auditor, which shall be an audit firm authorized by the Finnish Patent and Registration Office.

The Audit Committee prepares a proposal on the appointment of Ahlstrom-Munksjö's auditors, which is then presented to the Annual General Meeting for its decision. The compensation paid to the auditors is decided by the Annual General Meeting and assessed annually by the Audit Committee.

KPMG Oy Ab (KPMG) was appointed auditors of the company on March 21, 2018. KPMG has designated Anders Lundin, APA, as the responsible auditor. The company's subsidiaries are subject to local auditing under local regulations which are conducted by representatives of KPMG's network or other high standard audit companies in each country.

The fees of the statutory audit in 2018 were EUR 1.2 million in total in the Group. Other fees charged amounted to EUR 0.6 million. The other fees consisted of audit related services, tax and other advice.

## Risk Management

Ahlstrom-Munksjö Group has a Risk Management Policy, which is reviewed annually by the Board of Directors. The policy sets out the principles for the risk management process as well as the split of responsibilities and reporting within the Group, to ensure that risks are properly managed and monitored.

The Board of Directors, assisted by the Audit Committee, is responsible for the risk oversight within the Group while the CEO is responsible for assessing and reporting the Group's consolidated risk exposure to the Audit Committee.

Ahlstrom-Munksjö has defined a process for assessing, mitigating and monitoring risks to support the achievement of strategic goals and business objectives.

The risks are primarily identified by the business area and Group management teams in accordance with the Group Risk Management Policy. The Management Team is required to update the risk evaluation at least once a year.

In Ahlstrom-Munksjö, the main principle is to manage risks at their source, i.e. within the business area, plant or function where risks may occur. Risk treatment and monitoring actions for the assessed risks are defined and carried out by the appropriate management at different levels of the organization. To realize economies of scale and to ensure appropriate Group-level control, certain risk management activities such as the establishment of Group-wide insurance programs and management of the Group's financial risks are centralized.

### **Internal control and risk management systems in relation to financial reporting**

The Board of Directors and the CEO have the overall responsibility for the internal controls. The CEO is responsible for ensuring that processes and procedures are available to safeguard the internal controls and quality in financial reporting. The structure and steering documents in the form of policies, guidelines and instructions provide the basis for ensuring the maintenance of quality in the internal controls and financial reporting. The business areas and group functions are responsible for applying these policies and guidelines to achieve efficient and appropriate controls on the basis of their individual circumstances and operational contexts.

The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to assure compliance with applicable laws and regulations.

The internal control framework has been created using a risk based approach and it includes elements from the framework introduced by the Committee of Sponsoring Organizations (COSO). There are five principle components: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Financial procedures are carried out at the unit level and in country or regional teams. Most of the controls are carried out by the same teams.

Detailed financial reports are produced each month, on both a business area and Group level. The company's primary reporting segments are based on the company's business areas: Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties. An important part of the Group's internal control process are the meetings, which are held within each business area, where the CEO, Deputy CEO, CFO, functional management and the group business controller, together with the operational management of the business area, review the month's outcome in comparison with projections, etc. At these meetings, reviews and analysis are carried out on, among other things, the market situation, order bookings, earnings trend, cash flow and tied-up capital. In addition, improvement measures are initiated, if any.

Financial reporting is carried out in a harmonized manner in all Group companies. Ahlstrom-Munksjö's accounting principles are based on the International Financial Reporting Standards (IFRS). In addition to IFRS, more specific group policies and guidance are provided in Ahlstrom-Munksjö accounting manual (Digital Finance Manual). Ahlstrom-Munksjö's Finance function is responsible for maintaining the company's accounting policies and reporting systems, and also performs monitoring to ensure that these reporting policies are followed. The Group's business segments are consolidated at the Group Finance function. On a quarterly basis also local management provide their sign off and assurance for the correctness of the reported figures and for the adequate internal controls in place.

### **Internal Audit**

The Audit Committee has the ultimate responsibility to oversee that the Internal Audit has been properly organized. During 2018 Ahlstrom-Munksjö's Internal Audit Charter was reviewed and adopted by the Audit Committee. Since 2017, Ahlstrom-Munksjö's Internal Audit function has been outsourced to a global service provider, EY.

The role of the Internal Audit is to evaluate and improve the effectiveness of the control, risk management and governance processes, and to facilitate the implementation of best practices to ensure that various risk management, control and

governance processes, as designed and implemented by the company's management, are adequate and functioning as planned. In doing so, the Internal Audit reviews the effectiveness and efficiency of the business processes and the compliance with policies, standards, procedures, and applicable laws and regulations.

Administratively, the Internal Audit reports to the CEO and CFO as well as to the Audit Committee. The Internal Audit conducts regular process audits, site and subsidiary audits as well as audits at other Group units in accordance with the audit plan approved by the Board of Directors. The audit plan is developed by using appropriate risk-based methodology taking into account any risks or control concerns identified by the Group Controller, the Management Team, Group Risk Management function and the internal auditors. The Internal Audit reports regularly on its activities to the Audit Committee and to the CEO and CFO. The Internal Audit makes recommendations to the Management Team members and local management based on its observations. The Internal Audit also monitors the implementation of the action plans made based on its recommendations.

The Internal Audit is coordinated with the work of the external auditors and the company's other controlling and monitoring functions (Financial Accounting, Group Controlling, Taxation, Risk Management, Legal, IT, etc.).

To the extent permitted by law, the Internal Audit function has a free and unrestricted access to all relevant units, functions, records, physical properties and personnel.

### Related Party Transactions

The company evaluates and monitors transactions concluded between the company and its related parties to ensure that any conflicts of interest are taken into account appropriately in the decision-making process of the company. The company keeps a document on parties that are related to the company.

### Compliance

It is the policy of Ahlstrom-Munksjö to comply throughout the organisation with all applicable laws and regulations and to maintain an ethical workplace for its officers and employees as well as an ethical relationship with its customers, suppliers and other business partners.

Ahlstrom-Munksjö's Board of Directors has approved the Code of Conduct and the key compliance policies for Ahlstrom-Munksjö. Ahlstrom-Munksjö's compliance approach is based on the following elements:

- Ahlstrom-Munksjö's management's commitment and leadership to compliance
- Ahlstrom-Munksjö's Code of Conduct and other key compliance policies
- Compliance monitoring, communication, education and training
- Whistleblowing service
- Disciplinary actions

In addition to the Code of Conduct, the company's main compliance policies are the Approval and Signing Policy, the Competition Compliance Policy and Manual, the Anti-Bribery Policy, the Trade Compliance Policy, the Risk Management Policy, the Treasury Policy and the Insider Rules. In preparation for the EU General Data Protection Regulation, the company went through a Data Protection project to ensure compliance. The Board of Director adopted a group-wide Data Protection Policy based on which further guidelines and instructions were issued.

The Ahlstrom-Munksjö Board of Directors, assisted by its Audit Committee, is responsible for overseeing how compliance is organized and managed at Ahlstrom-Munksjö. The Chief Compliance Officer is responsible for supporting the Board and senior management in implementing compliance. Ahlstrom-Munksjö's EVP Legal and General Counsel acts as the Chief Compliance Officer.

In 2017 the company launched a new compliance training program to promote awareness and compliance with applicable laws and company policies. Ahlstrom-Munksjö lawyers have continued to hold compliance training sessions, with special focus in 2018 on Data Protection and Insider Rules. Compliance training was also held for the management of the acquired Expera Specialty Solutions and MD Papéis' Caieiras entities. The trainings will continue in 2019. A Code of Conduct eLearning was launched in December 2018 and a Data Protection eLearning is planned to be launched in the first quarter of 2019.

Ahlstrom-Munksjö has a group-wide externally maintained whistleblowing system, SpeakUp, where all employees may report unethical or unlawful behavior. Reports of violations may also be made confidentially to a dedicated and confidential mailbox at [codeviolation@ahlstrom-munksjo.com](mailto:codeviolation@ahlstrom-munksjo.com). Only the Chief Compliance Officer has access to said mailbox.

In its insider administration Ahlstrom-Munksjö follows the applicable EU regulations (especially the Market Abuse Regulation (EU 596/2014, "MAR") and any regulation and guidance given by the European Securities and Markets Authority (ESMA) or otherwise under MAR) and Finnish legislation (especially the Finnish Securities Markets Act (746/2012, as amended) and the Finnish Penal Code (39/1889, as amended)) as well as the insider guidelines of Nasdaq Helsinki Ltd ("Nasdaq Helsinki") and the guidance by the Finnish Financial Supervisory Authority ("FIN-FSA"). For the purposes of MAR, as regards the company, Management includes the members of the Board of Directors, the CEO, the Deputy CEO and the CFO.

Based on the company's governance structure, no other senior executives of the company are deemed to have regular access to inside information relating to the company and power to take managerial decisions affecting the future developments and business prospects of the company.

The Management is prohibited to trade (on its own account or for the account of a third party), directly or indirectly, in the financial instruments of the company after the end of each calendar quarter until the day after the announcement of the interim report or financial statements bulletin, as the case may be (the "Closed Window"). The Closed Window shall, however, always include at least 30 calendar days immediately preceding the announcement of the interim report or financial statement bulletin, as the case may be, and the day of publication of such report. The prohibition is in force regardless of whether such a person holds any inside information at that time.

An insider project and the related project-specific insider list are established when inside information arises, i.e. usually when the preparation of a set of measures or an arrangement has proceeded to a stage in which its realisation in the near future can be objectively expected and/or when the company makes a decision to continue preparations (or the relevant counterparty has started the execution of measures) aimed at the realisation of the set of measures or arrangement. Project-specific insiders are prohibited to trade, directly or indirectly, in the financial instruments of the company until the termination of the project.

Preparation of periodic disclosure (interim reports, financial statement bulletin) or regular access to unpublished financial information is not regarded as an insider project, nor does the company resolve to delay disclosure in relation thereto. However, due to the sensitive nature of the unpublished information on the company's financial results the persons determined by the company (based on their position or access rights) having authorized access to unpublished financial result information (each a "Financial Information Recipient") are entered in a list maintained and updated by the company on a continuous basis. The Closed Window as well as obligations on confidentiality and prohibition to disclose information or advice any person with respect to trade apply also to the Financial Information Recipients.

# 03: Appendix

## Refers to the Finnish Code

Due to differences between the Swedish and Finnish legislation, governance code rules and practices, Ahlstrom-Munksjö Oyj's corporate governance deviates from the Swedish Code in the following aspects:

### Rule 1.3

The company's nomination committee) is to propose a chair for the annual general meeting. The proposal is to be presented in the notice of the meeting.

- According to Finnish annual general meeting practice, the chairman of the board opens the meeting and proposes the chair, who is normally an attorney-at-law.

### Rule 1.4

If the ownership structure warrants it, and it is financially feasible given the financial situation of the company, the company is to offer simultaneous interpretation of the shareholders' meeting into other relevant languages than Swedish, as well as translation of all or parts of the meeting documentation. The same applies to the minutes of the meeting.

- The meeting is conducted in Finnish and partly in Swedish. The meeting materials are available in Finnish, Swedish and English. The minutes of the meeting are in Finnish.

### Rule 2.1

The company is to have a nomination committee. The nomination committee is to propose candidates for the post of chair and other members of the board, as well as fees and other remuneration to each member of the board. In its assessment of the board's evaluation and in its proposals in accordance with rule 4.1, the nomination committee is to give particular consideration to the requirements regarding breadth and versatility on the board, as well as the requirement to strive for gender balance.

The nomination committee is also to present proposals on the election and remuneration of the statutory auditor.

The nomination committee's proposal to the shareholders' meeting on the election of the auditor is to include the audit committee's recommendation (or that of the board of directors if it does not have an audit committee). If the proposal differs from the alternative preferred by the audit committee, the reasons for not following the committee's recommendation are to be stated in the proposal. The auditor or auditors proposed by the nomination committee must have participated in the audit committee's selection process if the company is obliged to have such a procedure.

- The nomination board) makes proposals to the shareholders' meeting, in accordance with its charter. As the chairman of the board, in accordance with the Finnish Companies' Act and articles of association of the company, is elected by the board, the nomination board cannot propose the chairman. The audit committee prepares the proposals on the election and remuneration of the statutory auditor in line with the Finnish Code.

## Rule 2.6

The nomination committee's proposals are to be presented in the notice of the shareholders' meeting where the elections of board members or auditors are to be held as well as on the company's website. When the notice of the shareholders' meeting is issued, the nomination committee is to issue a statement on the company's website explaining its proposals regarding the board of directors with regard to the requirements concerning the composition of the board contained in Code rule 4.1. The committee is to provide specific explanation of its proposals with respect to the requirement to strive for gender balance contained in rule 4.1. If the outgoing chief executive officer is nominated for the post of chair, reasons for this proposal are also to be fully explained.

The statement is also to include an account of how the nomination committee has conducted its work, and for certain companies, a description of the diversity policy applied by the nomination committee in its work.

The following information on candidates nominated for election or re-election to the board is to be posted on the company's website:

- the candidate's year of birth, principal education and professional experience,
- any work performed for the company and other significant professional commitments,
- any holdings of shares and other financial instruments in the company owned by the candidate or the candidate's related natural or legal persons,
- whether the nomination committee, in accordance with Code rules 4.4 and 4.5, deems the candidate to be independent of the company and its executive management, as well as of major shareholders in the company. Where circumstances exist that may call this independence into question, the nomination committee is to justify its position regarding candidates' independence,
- in the case of re-election, the year that the person was first elected to the board.

- Under the Finnish Code, the nomination board does not issue a statement explaining the composition of its proposal regarding the board of directors on the company's website. The share ownership of the candidates or related persons and companies are only published once the candidate has been elected board member



**Rule 6.1**

The chair of the board is to be elected by the shareholders' meeting. If the chair relinquishes the position during the mandate period, the board is to elect a chair from among its members to serve until a new chair has been elected by the shareholders' meeting.

- According to the Finnish Companies' Act, the chair of the board is elected by the board if not otherwise stated in the company's articles of association or otherwise decided when the board is elected.

**Rule 9.1**

The board is to establish a remuneration committee, whose main tasks are to

- prepare the board's decisions on issues concerning principles for remuneration, remunerations and other terms of employment for the executive management,
- monitor and evaluate programmes for variable remuneration, both ongoing and those that have ended during the year, for the executive management, and
- monitor and evaluate the application of the guidelines for remuneration that the annual general meeting is legally obliged to establish, as well as the current remuneration structures and levels in the company.
- According to Finnish law, the remuneration of the CEO and management is the responsibility of the Board of Directors. The guidelines and information on remuneration is presented in this corporate governance statement and on the company's website in the remuneration statement.

**Rule 9.6**

The shareholders' meeting is to decide on all share- and share-price related incentive schemes for the executive management. The decision of the shareholders' meeting is to include all the principle conditions of the scheme.

- The incentive plans are established by the board of directors. If the plan includes issuing new shares, options or repurchase of shares or disposal of shares, such disposal, issuance or repurchase of shares will be subject to shareholders approval or authorisation. Currently the board has an authorization to repurchase shares and dispose of them.

**Rule 10.2**

As well as the items stipulated by legislation, the following information is to be included in the corporate governance report if it is not presented in the annual report (below are only parts that are relevant for comparison):

- for the chief executive officer:
  - year of birth, principal education and work experience,
  - significant professional commitments outside the company, and
  - holdings of shares and other financial instruments in the company or similar holdings by related natural or legal persons, as well as significant shareholdings and partnerships in enterprises with which the company has important business relations, and
  - any infringement of the stock exchange rules applicable to the company, or any breach of good practice on the securities market reported by the relevant exchange's disciplinary committee or the Swedish Securities Council during the most recent financial year.

- Under the Finnish Code, shareholdings in companies with which the company has significant business do not have to be reported. Infringements of the stock exchange rules applicable to the company and similar do not need to be reported according to the Finnish Code.

**Rule 10.3**

The company is to have a section of its website devoted to corporate governance matters, where the company's three most recent corporate governance reports are to be posted, together with that part of the audit report which deals with the corporate governance report or the auditor's written statement on the corporate governance report.

The corporate governance section of the website is to include the company's current articles of association, along with any other information required by the Code. It is also to include up to date information regarding

- members of the board, the chief executive officer and the statutory auditor,
- a description of the company's system of variable remuneration to the board and executive management, and of each outstanding share- and share-price related incentive scheme.

No later than three weeks before the annual general meeting, the board is also to report the results of the evaluation required by bullets two and three of Code rule 9.1 on the company's website.

- According to the Finnish Code, the audit committee or some other competent committee shall review the corporate governance statement. The auditors shall check that the statement has been issued and that the descriptions of the main features of the internal control and risk management systems related to the financial reporting process included in it is consistent with the financial statement. The incentive plans are established by the board of directors. If the plan includes issuing new shares or repurchase of shares or disposal of shares, such disposal, issuance or repurchase of shares will be subject to shareholders approval or authorisation. Currently the board has an authorization to repurchase shares and dispose of them.

<sup>1)</sup> The Swedish Code uses the term nomination committee while in Finland the term nomination board is used for nomination bodies appointed by the shareholders.

GOVERNANCE

# 04: Board of Directors



**Peter Seligson**

Chairman of the Board

**Born:** 1964

**Citizenship:** Finnish

**Current position:** Partner, Seligson & Co Rahastoyhtiö Oyj  
**Chairman of the Board:** Johto Cafe Oy, Aschan Kahvila Oy,  
Broadius Partners Ltd, Baltiska Handels A.B.

**Board memberships:** Seligson & Co Rahastoyhtiö Oyj, Antti  
Ahlström Perilliset Oy

**Other positions of trust:** Chairman of Skatte- och  
Företagsekonomiska Stiftelsen; Member, Folkhälsan

**Previous positions:** 2001-2014 Board Member, Ahlstrom  
Corporation, 1991-1997 Managing Director, Alfred Berg Finland.  
1987-1991 Head of Sales and trading, Arctos Securities

**Education:** Lic. oec. (HSG)

Independent of the company and its significant shareholders.



**Elisabet Salander Björklund**

Vice Chairman of the Board

**Born:** 1958

**Citizenship:** Swedish

**Current position:** CEO, Bergvik Skog AB

**Chairman of the Board:** SweTree Technologies AB

**Board memberships:** Firefly AB, Gasum Ltd., Marcus Wallenberg Prize  
Foundation

**Previous positions:** 2005-2010 EVP, Stora Enso Oyj and member of  
Stora Enso's Group Executive team. 2000-2010 Board member, Claes  
Ohlson AB

**Education:** M.Sc. in Forestry

Independent of the company and its significant shareholders.



### Alexander Ehrnrooth

Board member

**Born:** 1974

**Citizenship:** Finnish

**Current position:** President and CEO of Virala Oy Ab

**Chairman of the Board:** Aleba Corporation

**Board memberships:** Virala Oy Ab, Belgrano Inversiones Oy, Atine Group Oy, Viknum AB, Vimpu Intressenter Ab, Al-Partners Oy

**Previous positions:** Board member of Wärtsilä Corporation 2010-2015, Ahlstrom Corporation 2015-2017 and Fiskars Corporation 2005-2018

**Education:** M.Sc. (Econ), MBA

Independent of the company, non-independent of its significant shareholders.



### Johannes Gullichsen

Board member

**Born:** 1964

**Citizenship:** Finnish

**Chairman of the Board:** RAM partners Oy, Antti Ahlström Perilliset Oy

**Board memberships:** GasEK Oy, Nukute Oy, Alfabemist Kapitalförvaltning Ab

**Previous positions:** Senior positions at RAM Partners Oy, eQ Bank Oy, Vice Chairman of Walter Ahlström Foundation, Board member of Ahlström Capital Oy, RAM Partners Oy and RAM Partners Alternative Strategies plc.

**Education:** B.Sc. (Engineering), MBA

Independent of the company and its significant shareholders.



### Lasse Heinonen

Board member

**Born:** 1968

**Citizenship:** Finnish

**Current position:** CEO of Ahlström Capital Oy

**Board memberships:** Destia Oy, Enics Oy, Terveystalo Oyj, Olvi Oyj, Are Oy

**Previous positions:** 2011-2018 Tieto Plc, CFO; 2015-2016 Tieto Plc, Head of Telecom, Media and Energy; 2004-2011 Leadership roles in Finnair as EVP Cargo & Aviation Services, Deputy CEO and CFO; 1992-2004 Various leadership roles in Novartis Pharma and Sandoz in Finland, Turkey and Switzerland in Finance and Supply chain management

**Education:** M.Sc. (Econ)

Independent of the company, non-independent of significant shareholders.



### Hannele Jakosuo-Jansson

Board member

**Born:** 1966

**Citizenship:** Finnish

**Current position:** SVP, Human Resources &

Safety, Neste Oil Corporation

**Board memberships:** Neste Engineering Solutions Oy, Nynas AB

**Previous positions:** 1998-2004 Laboratory and Research Manager at the Technology Center of Neste Oil Corporation, 2004-2005 Vice President Human Resources, Oil Refining Neste Oil Corporation

**Education:** M.Sc. (Eng.)

Independent of the company and its significant shareholders.



### Harri-Pekka Kaukonen

Board member

**Born:** 1963

**Citizenship:** Finnish

**Chairman of the Board:** YIT Oyj, Esperi Care Holding Oy, Suomen Asuntoneuvoja Oy, Suomen VAKA-Palvelut I and II Oy, and Lindström Oy

**Board memberships:** Tieto Oyj, UMNI Oy

**Previous positions:** President and CEO of Sanoma Corporation 2011-2015, various executive positions at Oy Karl Fazer Ab 2003-2011, a partner at McKinsey & Company 1999-2003

**Education:** Ph.D., Computational material physics, M.Sc. (Eng. Technical Physics)

Independent of the company and its significant shareholders



### Valerie A. Mars

Board member

**Born:** 1959

**Citizenship:** US

**Current position:** Senior Vice President & Head of Corporate Development for Mars, Incorporated

**Board memberships:** Fiat Chrysler Automobiles N.V., Royal Canin, Rabobank North America Advisory Board

**Previous positions:** Several positions within the Mars Group including Director of Corporate Development for Masterfoods Europe and General Manager of Masterfoods Czech and Slovak Republics; Board member at Celebrity Inc.; Mars, Incorporated, Audit Committee and Remuneration Committee member.

**Education:** BA, Yale University, MBA, Columbia Business School

Independent of the company and significant shareholders.



### Pernilla Walfridsson

Board member

**Born:** 1973

**Citizenship:** Swedish

**Current position:** CFO at Byggmax Group AB

**Board memberships:** NetonNet Group AB

**Previous positions:** CFO at Power Hemelektronik AB 2003-2005, managerial positions at IKEA 1998-2003

**Education:** M.Sc. (Business Administration)

Independent of the company and its significant shareholders

#### Change in the composition of the Board of Directors

Valerie Mars was elected on March 21, 2018 and Lasse Heinonen on September 19, 2018.

# 05: Executive Management Team



## Hans Sohlström

President and CEO

**Born:** 1964

**Citizenship:** Finnish

**Previous positions:** 2016-2018 President and CEO of Ahlström Capital Oy, 2012-2016 President and CEO of Rettig Group, 1990-2012 various executive and managerial positions at UPM-Kymmene Corporation, 2017-2018 Chairman of Ahlstrom-Munksjö Oyj.

**Education:** M.Sc. (Tech.), M.Sc. (Econ.)

Independent of the company, non-independent of its significant shareholders.



## Pia Aaltonen-Forsell

Executive Vice President, CFO and Communications & Investor Relations

**Born:** 1974

**Citizenship:** Finnish

**Board memberships:** Helapala Oy, Uponor Corporation

**Previous positions:** CFO, Vacon Plc., 2013-2015. Senior Vice President (SVP) Finance, IT and M&A, Building and Living Business Area, Stora Enso 2012-2013. SVP Group Controller, Stora Enso 2009-2012. Different positions within Stora Enso 2000-2009. Corenso United 1997-2000.

**Education:** M.Soc.Sc.in Economics



## Sakari Ahdekivi

Deputy CEO and Executive Vice President Corporate Development

**Born:** 1963

**Citizenship:** Finnish

**Board memberships:** Lehto Group Oyj

**Previous positions:** Interim CEO, CFO of Ahlstrom, CFO of Ahlstrom, Managing Director at Tamro Finland and Baltics. Ahdekivi has also held CFO positions at Tamro, YIT, and Huhtamäki as well as worked in various financial controlling positions at ABB.

**Education:** M.Sc. (Econ.)



## Dan Adrianzon

Executive Vice President, People & Safety

**Born:** 1960

**Citizenship:** Swedish

**Previous positions:** Several senior management positions in general management and in finance and control in Ahlstrom-Munksjö and prior to that in Munksjö since 1998. Between 1985 and 1997 he held various positions within the French Group Saint Gobain, both in Sweden and in France.





### Andreas Elving

Executive Vice President, Legal and General Counsel

**Born:** 1976

**Citizenship:** Swedish

**Previous positions:** Associate General Counsel, Autoliv 2015-2016; Senior Associate, Mannheimer Swartling, Shanghai and Stockholm 2004-2015; Law Clerk, District Court of Stockholm 2002-2004.

**Education:** Master of Laws



### Daniele Borlatto

Executive Vice President, Industrial Solutions

**Born:** 1969

**Citizenship:** Italian

**Previous positions:** President of Release Liners business area at Munksjö Oyj, Executive Vice President at Label and Processing business area for Ahlstrom Corporation 2011-2013; Senior Vice President at Release & Label Papers; Member of Corporate Executive Team in 2007-2010; Employed at Ahlstrom 1990-2013.

**Education:** Studies in Business and Administration



### Fulvio Capussotti

Executive Vice President, Filtration and Performance

**Born:** 1972

**Citizenship:** Italian

**Previous positions:** Executive Vice President of Filtration & Performance business area at Ahlstrom, Executive Vice President of Building and Energy business area at Ahlstrom, Executive Vice President of Advanced Filtration business area at Ahlstrom, Employed by Ahlstrom since 2002.

**Education:** M.Sc. (Chemical Eng.)



### Omar Hoek

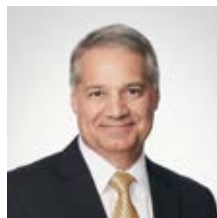
Executive Vice President, Specialties

**Born:** 1969

**Citizenship:** Dutch

**Previous positions:** Executive Vice President at Specialties business area of Ahlstrom, Executive Vice President at Food and Medical business area of Ahlstrom. Hoek joined Ahlstrom in 2011 and prior to that held several senior management roles at Newell Rubbermaid, Avery Dennison and Bell Textron / HESUSA.

**Education:** M.Sc. (Bus. Adm.)



### Russ Wanke

Executive Vice President, North America Specialty Solutions

**Born:** 1961

**Citizenship:** United States of America

**Previous positions:** 2013-2018 President and CEO of Expera Specialty Solutions, 2008-2013 Vice President and General Manager of Thilmany Papers, 2007-2008 Vice President of Publication Paper Operations at NewPage Corporation, 2003-2007 SVP Fine Papers Stora Enso North America, 2000-2003 VP & Mill Manager Kimberly Mill Stora Enso North America, 1985-2000 various production and technical leadership roles at Consolidated Papers including start-up responsibility for two new paper machine installations.

**Education:** B.S. University of Wisconsin Stevens Point



### Tomas Wulkan

Executive Vice President, Decor

**Born:** 1961

**Citizenship:** Swedish

**Previous positions:** Various leading positions within Svenska Cellulosa Aktiebolaget, SCA, 1992-2017, most recently as President, BU Middle East, India & Africa and before that President for BU Personal Care Europe, BU Americas, BU Containerboard and SVP Business development.

**Education:** Business administration, Umeå University, Sweden

#### Change in the Executive Management Team during the year

On October 10, 2018, Russ Wanke was appointed Executive Vice President, North America Solutions.

On November 9, 2018, Ahlstrom-Munksjö announced that Pia Aaltonen-Forsell will leave the company at the end of February 2019. Sakari Ahdekivi was appointed Deputy CEO and CFO as of March 1, 2019, in addition his current role.

# 01: Financials

Ahlstrom-Munksjö delivered a satisfactory profitability for 2018 in a challenging environment of escalating raw material costs.

# The Ahlstrom-Munksjö financial year 2018

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We use the following symbols throughout the financial statements



This symbol describes the accounting policy applied by the Group to the specific financial statement item.



This symbol is used when the specific item requires management to make judgements, estimates and assumptions that have a significant effect on the financial statements and estimates that may cause material adjustments to the financial statements.



This symbol highlights where additional unaudited information is displayed.



This symbol is used with a disclosure on a specific risk related to the financial statement item.

## FINANCIALS

# Board of Directors' report

In this Board of Directors' report, figures are presented also on pro forma basis to illustrate the financial impact of the acquisitions of Expera and Caieiras as well as the merger of Munksjö and Ahlstrom and the related financing and refinancing of the transactions on the business performance of Ahlstrom-Munksjö as if the transactions had taken place on January 1, 2017.

## Highlights of the year 2018

- Actual 2018 net sales rose by 24.4% to EUR 2,438.0 million and comparable EBITDA grew 11.9% to EUR 277.7 million (EUR 248.2 million), representing 11.4% (12.7%) of net sales
- Completion of the acquisitions of Expera Specialty Solutions and the Caieiras specialty paper mill have significantly strengthened our presence in the Americas
- A rights issue worth about EUR 150 million was successfully completed

## 2018 vs 2017 (proforma)

- Net sales EUR 2,996.9 million (EUR 2,961.5 million), an increase of 1.2%. In constant currency growth was 5.1%.

- Comparable EBITDA EUR 329.9 million (EUR 366.3 million), representing 11.0% (12.4%)
- Successful compensation of higher variable costs by increased selling prices. Profitability impacted mainly by lower sales volumes, partly due to the paper machine closure at the Stenay plant and operational issues at the Aspa pulp mill.
- Net profit EUR 63.2 million (EUR 41.9 million), significantly impacted by items affecting comparability related to the acquisitions and cost saving initiatives
- Earnings per share EUR 0.54 (EUR 0.36)
- Comparable EPS excluding depreciation and amortization from PPA EUR 1.15 (EUR 1.32)

## Dividend proposal

- The Board of Directors proposes that a dividend totaling EUR 0.52 per share, be paid in two installments. This corresponds to an increase of about 20% when taking into account the increase in the number of total shares as a result of the rights issue completed in December.

## FINANCIAL PERFORMANCE IN 2018 (PRO FORMA)

Net sales amounted to EUR 2,996.9 million, showing an increase of 1.2% from the EUR 2,961.5 million in January-December 2017. At constant currency rates, growth was 5.1%, driven by significantly higher selling prices. Lower delivery volumes in all business areas

had a negative impact on net sales. Volumes were impacted by the planned paper machine closure at the Stenay plant and operational issues at the Aspa pulp mill and a reduction of inventories in the supply chain.

Comparable EBITDA was EUR 329.9 million (EUR 366.3 million), representing 11.0% of net sales (12.4%). Profitability decreased, mainly due to lower sales volumes. Clearly higher selling prices almost mitigated increased variable costs. Higher raw material costs, such as for pulp and titanium dioxide, burdened the result by approximately EUR 145 million. An adverse currency effect had a negative impact on profitability. Targeted synergy benefits and cost reduction measures were achieved according to plan, however, these were offset by higher fixed costs in production.

#### Items affecting comparability (IAC) in operating result

The operating result was EUR 129.4 million (EUR 106.4 million). IACs totaled EUR -47.3 million (EUR -94.0 million) and were mainly related to the integration costs of the Ahlstrom-Munksjö merger, the Expera Specialty Solutions acquisition, as well as restructuring provision and an impairment loss related to the Stenay plant. The comparison IAC figure includes a pro forma adjustment related mainly to transaction costs presented in Q1/2017 pro forma income statement.

#### Earnings per share

The net profit for the period was EUR 63.2 million (EUR 41.9 million), and earnings per share were EUR 0.54 (EUR 0.36). Comparable earnings per share excluding depreciation and amortization arising from PPA were EUR 1.15 (EUR 1.32).

### FINANCING AND CASH FLOW (ACTUAL)

#### Net financial items

Net financial items amounted to EUR -25.3 million (EUR -26.2 million). The figure includes interest rate expenses of EUR -23.5 million, currency exchange rate gain of EUR 6.0 million and other financial expenses of EUR -7.9 million.

#### Tax, earnings per share

Profit before taxes was EUR 63.3 million (EUR 77.3 million). Taxes amounted to EUR 20.4 million (EUR 10.8 million). The net profit for the period was EUR 42.9 million (EUR 66.5 million), and earnings per share were EUR 0.43 (EUR 0.78).

#### Cash flow

Net cash flow from operating activities amounted to EUR 91.6 million (EUR 186.5 million). Cash flow was impacted by an increase in net working capital partly due to higher inventories and receivables.

#### Net debt, gearing and liquidity

The company's interest-bearing net debt amounted to EUR 971.3 million at the end of the reporting period (EUR 375.3 million). At the end of the reporting period, the weighted average interest rate was 3.3%. Gearing stood at 83.6%. Ahlstrom-Munksjö's liquidity continues to be good. At the end of the review period, the total cash position was EUR 151.0 million. In addition, the company had undrawn committed credit facilities and committed cash pool overdrafts of EUR 212.5 million available.

Please see note 17 in the consolidated financial statements on financing of Expera and Caieiras acquisitions.

#### Equity

On December 31, 2018, equity was EUR 1,162.2 million and total assets were EUR 3,234.9 million. The equity was positively impacted by a rights issue worth about EUR 150 million in December 2018.

### SYNERGY BENEFITS AND COST REDUCTION MEASURES

#### Ahlstrom and Munksjö merger

The merger creating Ahlstrom-Munksjö Oyj was completed on April 1, 2017 and the company has completed all the original integration initiatives. The successful combination

created a solid basis for improved performance and the company has continued efforts to improve operational efficiency.

Ahlstrom-Munksjö is targeting EUR 50 million annually in synergies and cost reduction measures by the end of the first quarter of 2019. Cost synergies comprise mainly lower fixed costs as well as lower variable costs through coordination of sourcing activities and optimization of production. The plan also includes business synergies from incremental sales and product mix improvement, predominantly related to the integration of the former Graphics and Packaging business area into the new Specialties business area.

The Group structure has been adjusted to our operating model, where businesses units have clear responsibility and local accountability. This also included the concentration and relocation of the company's head office to Helsinki from Stockholm. At the end of the reporting period, the annual synergy achievement run rate was approximately EUR 41 million. Costs related to the achievement of synergies and cost reduction measures are estimated to be EUR 30-35 million by the end of the first quarter of 2019.

Achieved synergy benefits and related costs, EUR million	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
Achieved annualized synergy benefits	13	17	19	26	32	38	41
Quarterly costs	4	7	8	2	3	2	2
Cumulative costs		11	19	21	24	26	28

### Acquisition of Expera Specialty Solutions

On October 10, 2018, Ahlstrom-Munksjö completed the acquisition of U.S. specialty paper producer Expera Specialty Solutions, forming a fifth business area and reporting segment named North America Specialty Solutions. The acquisition expands the company's presence in North America and further strengthens its offering. The transaction almost tripled net sales in the U.S.

Annual near-term synergy benefits of EUR 8 million, mainly arising from SG&A and procurement, are estimated to be achieved by the end of 2019. Costs related to the achievement of near-term cost synergies are estimated to be EUR 7 million by the end of 2019. At the end of the reporting period, the annual synergy achievement run rate was approximately EUR 4 million.

Ahlstrom-Munksjö expects additional earnings growth from a recently finalized investment in new silicone coating capacity. The new coater came on-line in September 2017 and is expected to contribute approximately EUR 9 million annually to EBITDA when fully commissioned in 2022.

The Expera acquisition is also expected to generate annual business synergies of at least EUR 10 million with a gradual impact from 2020 onwards. Cross-selling opportunities relate to the broader product offering and expanded presence, particularly in food processing and packaging, such as specialty paper to wrap and package processed and quick service restaurant prepared foods. Technology sharing is expected to generate benefits in the manufacture of e.g. interleaving papers and release liner. The expanded production platform provides production optimization opportunities e.g. in the tape products segment. Work to identify further business synergies continues.

### Acquisition of Caieiras Specialty Paper Mill

On October 17, 2018, Ahlstrom-Munksjö completed the acquisition of MD Papéis' Caieiras specialty paper mill in Brazil. For Ahlstrom-Munksjö, the acquisition strengthens the company's offering and production platform in South America, with opportunities for growth. In addition, product optimization, delivery capabilities and competitiveness are improved by combining operations in Caieiras with those in nearby Jacarei and Louveira. The business has been integrated into Decor and Industrial Solutions business areas.

Annual near-term cost synergies of up to EUR 6 million are estimated, mainly arising from the optimization of overlapping business and are expected to be achieved by the end of 2019. Costs related to the achievement of near-term cost synergies are estimated to be EUR 2 million by the end of 2019.



Please see note 3 in the consolidated financial statements for more information about the acquisitions of Expera and Caieiras.

### **CAPITAL EXPENDITURE**

Ahlstrom-Munksjö's actual capital expenditure excluding acquisitions totaled EUR 160.1 million in 2018 (EUR 84.6 million). The investments were related to maintenance, cost and efficiency improvements, as well as growth initiatives and improved environmental performance and safety.

Capital expenditure is expected to be approximately EUR 170 million in 2019 (pro forma EUR 176.3 million in 2018).

### **Investment decisions to improve financial and environmental performance**

#### **Insulation**

On April 10, 2018, Ahlstrom-Munksjö announced investments of about EUR 27 million in improved financial and environmental performance. The investments include rebuilding a recovery boiler at the Billingsfors plant and modernizing a bailing line at the Aspa pulp mill, both located in Sweden and part of the Industrial Solutions business area.

#### **Decor**

On April 23, 2018, the company announced an investment of EUR 5 million in the Decor business, where the company will invest to further enhance the quality of pre-impregnated decor papers produced at its Dettingen plant in Germany.

#### **Medical**

On April 23, 2018, Ahlstrom-Munksjö announced an investment of about EUR 4 million in the Medical business, where it will rebuild a converting line for sterilization wrap, produced at its Pont-Audemer plant in France.

#### **Filtration**

On June 18, 2018, Ahlstrom-Munksjö announced an investment of about EUR 28 million to expand manufacturing capacity and the product capabilities of industrial filtration

applications in Turin, Italy as well as in Ställdalen, Sweden and Malmedy, Belgium. The project will start in 2018 and is expected to be completed during the first half of 2020.

#### **Beverage & Casing**

On July 18, 2018, the company announced an investment of about EUR 28 million to reinforce its market position in biodegradable and compostable tea bag, coffee and meat casing materials in the Beverage & Casing business. The project includes the purchase of a secondhand paper making line to be dismantled and transferred to the Chirnside manufacturing site in the UK. The machine is expected to be fully commissioned in the second half of 2020.

#### **Coated Specialties**

On August 30, 2018, Ahlstrom-Munksjö announced an investment of EUR 21 million in its Coated Specialties business to improve capabilities and flexibility at its Jacarei plant in Brazil and better serve customers in South America with a broader offering. The project is expected to be completed in the third quarter of 2019, and will expand the site's capabilities in coating and calendaring on the paper machine.

#### **Release Liners, Filtration**

On December 18, 2018 Ahlstrom-Munksjö announced an investment of approximately EUR 15 million to install a new co-generation plant at its Turin site in Italy. The investment allows the combined and efficient generation of power and steam needed for site processes. The project will begin in the first half of 2019 and is expected to be completed by the first half of 2020.

### **INNOVATION**

Ahlstrom-Munksjö has extensive research and development capabilities in each business area. R&D in the business areas is carried out in the production processes at the various plants and in collaboration with customers. The company also operates two R&D facilities in France, one in Pont-Evêque and one in Apprieu. The innovation and product development resources have been significantly strengthened through the

merger of Ahlstrom and Munksjö as well as through the recent acquisitions of Expera and Caieiras. In addition, marketing, sales and customer service organizations all form integral parts of the R&D process by supporting the understanding of what areas of development to give priority to, what improvements in qualities are needed, and what new applications are sought after by customers.

The company's areas of research include improved sustainability, which involves making existing products more environmentally friendly by, for example, making them compostable, recyclable or using lower amounts or different chemicals. One of the strategic directions of the company is to develop barrier papers based on biopolymers to offer biodegradable packaging media. Other areas of research include various forms of nanocellulose, the range of application of which is wide. Nanocellulose is also renewable and biodegradable and will compete with plastics and other non-degradable materials in many areas. Another cellulosic research activity focuses on the phenomena involved in the aging of cellulose. The ambition is to conceive new materials for electrotechnical insulation to manufacturers of transformers and high voltage cables. The Company also focuses on researching biopolymers, which are bi-products of the pulp used in production. Biopolymers are used for enhancing current paper products.

In 2018, the company's expenditure on R&D was approximately EUR 30 million (pro forma), representing 1% of net sales. The figure does not include technical product development costs carried out in close cooperation with customers.

## MAJOR EVENTS DURING THE REPORTING PERIOD

### Changes in the Executive Management Team (EMT)

Hans Sohlström started as President and CEO on April 16, 2018 following the retirement of Jan Åström.

Pia Aaltonen-Forsell, Executive Vice President and CFO, assumed responsibility for Communications and Investor Relations in addition to her CFO role as of April 24, 2018.

Dan Adrianzon was appointed Executive Vice President, People and Safety and a member of the Executive Management Team as of April 24, 2018. Åsa Jackson, former Executive Vice President, Human Resources and Health & Safety and Anna Selberg,

former Executive Vice President, Communications and Investor Relations, agreed to leave the company.

On October 10, 2018, Russ Wanke, the former President and CEO of Expera, was appointed Executive Vice President, North America Specialty Solutions and a member of Ahlstrom-Munksjö's Executive Management Team.

On November 9, 2018, Sakari Ahdekivi, currently Deputy CEO and Executive Vice President Corporate Development, was appointed Deputy CEO and CFO as of March 1, 2019, in addition to his current role. Ahdekivi replaces Aaltonen-Forsell, who decided to leave Ahlstrom-Munksjö to take on new responsibilities outside the company.

The members of the EMT and Board of Directors are introduced on pages 83-87 in the Annual Report. Their shareholdings and remuneration are presented in note 7 in the consolidated financial statements. The remuneration statement is available at [www.ahlstrom-munksjo.com/fi/Investors](http://www.ahlstrom-munksjo.com/fi/Investors).

### Completion of the Expera acquisition

On October 10, 2018, Ahlstrom-Munksjö completed the acquisition of U.S. specialty paper producer Expera Specialty Solutions for a purchase price of USD 604 million (EUR 525 million) on a cash-and-debt-free basis. Expera formed the company's fifth business area and financial reporting segment, named North America Specialty Solutions.

### Completion of the Caieiras acquisition

On October 17, 2018, Ahlstrom-Munksjö completed the acquisition of MD Papéis' Caieiras specialty paper mill in Brazil for a debt-free purchase price of about EUR 95 million. The business has been divided between Decor and Industrial Solutions business areas.

### Ahlstrom-Munksjö proceeds with the project to significantly improve competitiveness in one-side coated paper products segment

On October 30, 2018 Ahlstrom-Munksjö announced its project to significantly improve the competitiveness of its one-side coated paper segment. The project includes optimizing production capacity and product offering to meet the profitable demand as well as closure of one paper machine (PM1) in Stenay, France.

Employee consultation processes started on October 30, 2018, and are expected to be completed in February 2019. According to the project, permanent machine closure is expected by end of March 2019.

One-side coated product segment, a part of the Food Packaging business in the Specialties business area, is a segment where the markets have significant overcapacity globally, especially in Europe and the company's offering is not optimally aligned with the strategy of niche orientation in customized solutions. While Ahlstrom-Munksjö has proceeded with key measures to improve the situation, the operating environment has further deteriorated mainly due to increased raw material costs.

By concentrating orders to the larger paper machine (PM3) at the Stenay plant, cost savings can also be achieved from higher raw material-, energy- and waste-efficiency, as well as improved inventory management. Annual impact of the planned turnaround program would be approximately EUR 13 million. Restructuring provision of EUR 11.2 million and an impairment loss of EUR 7.7 million were booked as items affecting comparability in the fourth quarter of 2018.

### Rights issue

Ahlstrom-Munksjö successfully conducted a rights issue in December 2018. The company received EUR 150.1 million in gross proceeds. Direct costs related to the issue amounted to EUR 5.9 million net of tax. The proceeds were used to partly finance the acquisition of Expera.

As a result of the offering, the total number of shares in Ahlstrom-Munksjö increased by 19,214,742 to 115,653,315 from 96,438,573. The subscription price was EUR 7.81 for the shares registered with Euroclear Finland and listed on Nasdaq Helsinki, and SEK 80.15 for the shares registered with Euroclear Sweden and listed on Nasdaq Stockholm.

## BUSINESS AREAS AND STRUCTURE

In 2018, Ahlstrom-Munksjö had five business areas and financial reporting segments. More information about the company's structure and business areas can be found in note 4 of the consolidated financial statements.

### Decor

*The Decor business area develops and produces paper-based surfacing for wood-based materials such as laminate flooring, furniture and interiors.*

#### Market review 2018

Demand for decor products softened in Europe during the year, mainly due to an inventory reduction across the industry. In South and North America as well as in Asia demand remained at a good level. Competition has intensified, particularly in markets outside Europe, due to new suppliers.

#### 2018 compared with 2017 (pro forma)

Net sales rose by 4.7% to EUR 451.9 million, compared with EUR 431.8 million in the comparison period. The increase was driven by higher selling prices and an improved product mix. Sales volumes were lower than in the comparison period.

Comparable EBITDA decreased to EUR 37.1 million (EUR 43.8 million), representing 8.2% (10.2%) of net sales. Higher selling prices and an improved product mix had a positive impact on the result, more than compensating for a steep increase in variable costs such as titanium dioxide and pulp costs. Lower sales volumes and slightly higher fixed costs had a negative impact on the result.

### Filtration and Performance

*The Filtration and Performance business area develops and produces filtration materials for engine oils, fuels and air as well as industrial filtration. It also produces glass fiber for flooring products and wind turbine blades and makes nonwoven materials for automotive, construction, textile and hygiene applications and wallcovering materials.*

#### Market review 2018

Demand for filtration products softened somewhat towards the end of the year in Europe and Asia, while it remained stable in North America. In construction-related

markets, demand for flooring and other glass fiber tissue materials remained good whereas the wallcoverings market continued to decline in Europe.

#### **2018 compared with 2017 (pro forma)**

Net sales rose by 1.1% to EUR 672.5 million, compared with EUR 665.3 million in the comparison period. The increase was mainly driven by higher selling prices and an improved mix, partly offset by unfavorable currencies.

Comparable EBITDA declined to EUR 114.7 million (EUR 120.6 million), representing 17.0% (18.1%) of net sales. Higher selling prices and an improved product mix did not fully compensate for the increased variable costs. Fixed costs increased, mainly because of the expansion in the Filtration business.

#### **Industrial Solutions**

*The Industrial Solutions business area develops and produces abrasive backings, electrotechnical insulation papers, release liners and coated specialty papers. The business area also supplies fine art and printing papers, as well as thin papers, specialty pulp and balancing foil paper.*

#### **Market review 2018**

After stable demand for most of the year, the markets for abrasive backings, electrotechnical insulation papers, release liners and specialty pulp witnessed a slowdown toward the year end. This was partly driven by a reduction in inventories in the supply chain. The markets for release liners in Europe were competitive. The domestic market for coated specialties products in Brazil remained stable at a low level.

#### **2018 compared with 2017 (pro forma)**

Net sales rose by 1.9% to EUR 691.2 million, compared with EUR 678.4 million in the comparison period. Higher selling prices were partially offset by unfavorable currencies and lower sales volumes.

Comparable EBITDA decreased to EUR 99.7 million (EUR 112.1 million), representing 14.4% (16.5%) of net sales. The result was impacted by lower sales volumes particularly at

the Aspa pulp mill in the Insulation business. Volumes also decreased in Release Liner business. Higher selling prices more than offset increased variable costs.

#### **North America Specialty Solutions**

*The North America Specialty Solutions business area develops and produces a wide range of specialized materials that protect and enhance the performance of industrial and consumer applications, such as tape and interleaving papers, specialty paper to wrap and package processed and quick service restaurant prepared foods as well as release liners.*

#### **Market review 2018**

Demand for food processing and packaging papers remained stable with some softening materializing at year end, mainly driven by a reduction in inventories in the value chain. Demand for industrial and technical-related specialty papers remained robust, except for a slowdown in steel interleaving papers primarily impacting sales outside the U.S. In the release liner segment, demand weakened in commodity grades whereas it remained strong in technical products for industrial fiber composites.

#### **2018 compared with 2017 (pro forma)**

Net sales fell 1.9% to EUR 626.0 million compared with EUR 637.9 million in the comparison period, as lower deliveries more than offset higher selling prices.

Comparable EBITDA decreased to EUR 57.0 million (EUR 62.2 million), representing 9.1% (9.7%) of net sales, due to lower sales volumes. Higher variable costs, stemming mainly from higher pulp prices, were partially offset by selling price increases. Product mix improved

#### **Specialties**

*The Specialties business area develops and produces materials for food and beverage processing, laboratory filters and life science diagnostics, water filtration, tape products and medical fabrics. The business area also supplies hot cooking oil*

and milk filtration materials, graphics paper for sticky notes and envelopes as well as metallized labels and flexible packaging papers.

### Market review 2018

In the Food Packaging business growth in parchment papers for food processing and packaging continued. The market remained stable in the Beverage & Casing business as demand for fibrous meat casing materials showed steady growth, while in coffee and tea the trend toward plastic-free, compostable and sustainable products accelerated. Demand for tape backings was solid in all markets with some softening materializing toward year end, mainly driven by a reduction in inventories in the supply chain. In the Medical and Advanced Liquid Technologies businesses demand remained mostly robust.

### 2018 compared with 2017 (pro forma)

Net sales rose 1.0% to EUR 580.3 million compared with EUR 574.3 million in the comparison period. Higher selling prices were offset by lower deliveries and an adverse currency effect. Sales volumes decreased in the coated one-sided product segment within the Food Packaging business, and in the Beverage & Casing business. Deliveries increased in the Medical, Tape and Advanced Liquid Technologies businesses.

Comparable EBITDA decreased to EUR 37.6 million (EUR 52.9 million), representing 6.5% (9.2%) of net sales, mainly due to lower profitability in the coated one-sided business, a product segment within the Food Packaging business. This was the result of increased variable costs and lower volumes.

### SHARES AND SHARE CAPITAL

Ahlstrom-Munksjö's shares are listed on Nasdaq Helsinki and on Nasdaq Stockholm. All shares carry one vote and have equal voting rights. The trading code is AMI in Helsinki and AMIS in Stockholm.

On December 31, 2018, Ahlstrom-Munksjö's share capital amounted to EUR 85 million, and the total number of shares since December 28, 2018 has been 115,653,315. As a result of a rights issue, the total number of shares in Ahlstrom-Munksjö increased by 19,214,742 from 96,438,573 during the reporting period.

The company had 12,095 shareholders at the end of the reporting period (11,526 as of Dec. 31, 2017) according to Euroclear Finland Ltd. Ahlstrom-Munksjö held a total of 364,862 of its own shares, corresponding to approximately 0.4% of total shares and votes.

### Share price performance and trading

	Nasdaq Helsinki		Nasdaq Stockholm	
	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>
Share price at the end of the period, EUR/SEK	12.12	18.17	124.40	177.30
Highest share price, EUR/SEK	20.10	20.49	197.40	199.50
Lowest share price, EUR/SEK	10.68	13.75	110.00	131.50
Market capitalization at the end of the period <sup>2</sup> , EUR million	1,397.3	1,745.7	N/A	N/A
Trading value, EUR/SEK million	192.0	263.7	335.2	398.8
Trading volume, shares million	12.8	15.0	2.2	2.3
Average daily trading volume, shares	51,343	59,978	8,825	9,339

<sup>1</sup> January-March 2017 Munksjö Oyj only

<sup>2</sup> Excluding the shares held by Ahlstrom-Munksjö

Ahlstrom-Munksjö's shares are also traded on alternative exchanges, such as Cboe, Liquidnet, Turquoise and Posit. Those exchanges represented about 38% of the total trading value during the reporting period (source: Fidessa Fragmentation Index).

### GENERAL MEETINGS OF SHAREHOLDERS

#### Annual General Meeting

Ahlstrom-Munksjö Oyj's Annual General Meeting (AGM) was held on March 21, 2018. The Annual General Meeting adopted the Financial Statements for 2017 and discharged

the members of the Board of Directors and the President and CEO from liability for the financial year 2017.

The AGM resolved to distribute a dividend of EUR 0.52 per share for the fiscal year that ended on December 31, 2017 in accordance with the proposal of the Board of Directors. The dividend was paid in two instalments. The first instalment of EUR 0.26 per share was paid on April 3, 2018 and the second instalment of EUR 0.26 per share on September 19, 2018.

The AGM resolved that the number of Board members to be eight. Peter Seligson, Elisabet Salander Björklund, Alexander Ehrnrooth, Johannes Gullichsen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen and Pernilla Walfridsson were re-elected. Valerie A. Mars was elected as new member of the Board. The Board members were elected for a period ending at the close of the next AGM.

The AGM resolved in accordance with the proposal of the Board to re-elect KPMG Oy Ab as the company's auditor. KPMG Oy Ab has designated Authorized Public Accountant Anders Lundin as the Responsible Auditor.

#### **Authorization to repurchase own shares**

The AGM authorized the Board of Directors to resolve to repurchase and to distribute the company's own shares as well as to accept them as pledge, in one or more instalments.

The number of shares to be repurchased or accepted as pledge by virtue of the authorization shall not exceed 8,000,000 own shares in the company, subject to the provisions of the Finnish Companies' Act on the maximum amount of shares owned by or pledged to the company or its subsidiaries. The shares may be repurchased or accepted as pledge in one or several instalments and in a proportion other than that of the existing shareholdings of the shareholders in the company. The shares shall be repurchased in public trading at the prevailing market price using unrestricted shareholders' equity.

The authorizations are valid until the close of the next Annual General Meeting, however, no longer than eighteen (18) months from the close of the Annual General Meeting.

#### **Decisions taken by the Board of Directors after the AGM**

The organization meeting of the Board of Directors, which was held immediately after the Annual General Meeting, elected Peter Seligson as Chairman of the Board and Elisabet Salander Björklund as Vice Chairman.

The Board of Directors appointed two permanent committees; the Audit Committee and the Human Resources Committee. The members of the Audit Committee are Elisabet Salander Björklund (Chair), Alexander Ehrnrooth, Harri-Pekka Kaukonen, Valerie A. Mars and Pernilla Walfridsson.

The members of Human Resources Committee are Hannele Jakosuo-Jansson (Chair), Johannes Gullichsen and Peter Seligson.

#### **Extraordinary general meeting**

Ahlstrom-Munksjö Oyj's Extraordinary General Meeting ("EGM") was held on September 19, 2018 in Helsinki.

#### **Authorization of the Board of Directors to resolve on a share issue**

To finance part of the acquisition of Expera, Ahlstrom-Munksjö planned to conduct a share issue of approximately EUR 150 million.

The EGM authorized the Board of Directors to resolve on the issuance of a maximum of 20,000,000 new shares pursuant to the shareholders' pre-emptive subscription right (rights offering). The authorization includes the right for the Board of Directors to resolve upon the issuance of shares that at the end of the subscription period of the rights offering may remain unsubscribed for pursuant to the shareholders' pre-emptive subscription right to parties determined by the Board of Directors (i.e. in derogation from the pre-emptive right of the shareholders). The Board of Directors is authorized to determine all other terms and conditions of the issuance of new shares.



### Resolution on the number of members of the Board of Directors and election of a new member of the Board

The EGM resolved in accordance with the proposal of the Nomination Board that the number of Board members be nine. The EGM resolved in accordance with the proposal of the Nomination Board to elect Lasse Heinonen as a new member of the Board.

### PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The distributable funds on the balance sheet of Ahlstrom-Munksjö Oyj as of December 31, 2018 amounted to EUR 777,405,417.67.

The Board of Directors proposes that the Annual General Meeting resolves, based on the financial statements of the company for 2018, on the dividend payment in the amount of EUR 0.52 per share.

The dividend will be paid in two instalments. The first instalment of EUR 0.26 per share will be paid to a shareholder who on the record date of the payment, March 29, 2019, is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB. The payment date proposed by the Board for this instalment is April 5, 2019.

The second instalment of EUR 0.26 per share will be paid in October 2019 to a shareholder who on the record date of the payment is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB, which, together with the payment date, will be resolved by the Board of Directors in its meeting scheduled for September 25, 2019. The record date of the payment would be September 27, 2019 and the payment date October 4, 2019, at the latest.

In addition, the Board of Directors proposes that EUR 100,000 will be reserved for donations at the discretion of the Board.

### RISKS AND RISK MANAGEMENT

Information about major risk faced by Ahlstrom-Munksjö and how they are mitigated can be found on pages 59-65 in the Annual report. Financial risks are described in notes 17 and 19 of the consolidated financial statements.

### Short-term risks

Ahlstrom-Munksjö is exposed to changing market conditions and uncertainty caused by both macroeconomic and industry related events and is exposed to risks that may arise from its operations, changes in the business environment, developments in the global economy or potential changes in the legislative framework. The materialization of such risks could have a material adverse effect on the company's operations, earnings and financial position.

The company's significant risks and uncertainty factors mainly consist of developments in demand for and prices of sold products, the cost and availability of significant raw materials, financial risks, as well as other business factors including developments in the financial markets. The cost of key raw materials such as pulp and titanium dioxide has stayed at a high level and the company's financial performance may be impacted by its ability to raise selling prices and the timing of possible raw material price rises to mitigate cost inflation. On-going trade disputes and the outcome of the Brexit increases uncertainty in the global economic outlook and this may have an effect on Ahlstrom-Munksjö's markets.

Ahlstrom-Munksjö has recently acquired Expera and Caieiras and it may not be able to realize some or any of the anticipated benefits from those acquisitions. In addition, the company may not be able to successfully integrate the acquired operations into its existing businesses.

The company's key financial risks include interest rate and currency risks, liquidity risk and credit risk. The Group has exposure to tax risks due to potential changes in tax laws or regulations or their application, or as a result of on-going or future tax audits or claims.

The company has operations in many countries, and sometimes disputes cannot be avoided in daily operations. The company is sometimes involved in legal actions, disputes, claims for damages and other procedures. The result of these cannot be predicted, but taking into account all available information to date, the impact is not expected to have a significant impact on the financial position of the company.

## REPORT ON NON-FINANCIAL INFORMATION

Ahlstrom-Munksjö is a global leader in fiber-based materials, supplying sustainable and innovative solutions to customers worldwide. Our offerings include decor paper, filter media, release liners, abrasive backings, nonwovens, electrotechnical paper, glass fiber materials, food packaging and labelling, tape, medical fiber materials and solutions for diagnostics. We operate in 45 production and converting sites in 14 countries, serving more than 7,000 customers in 100 countries.

Ahlstrom-Munksjö is the result of the merger between Ahlstrom Corporation and Munksjö Oyj, which was completed April 1, 2017. In 2018, Ahlstrom-Munksjö acquired MD Papéis' Caieiras specialty paper mill in Brazil and Expera Specialty Solutions in the United States. The acquired operations in the U.S. formed Ahlstrom-Munksjö's fifth business area and financial reporting segment, named North America Specialty Solutions. The business of Caieiras has been integrated into Decor and Industrial Solutions business areas.

Ahlstrom-Munksjö employed an average of 8,204 people in January-December 2018 (8,196) in full-time equivalents (Pro forma). As of December 31, 2018, the highest numbers of employees were in the United States (31%), France (20%), Sweden (10%), Brazil (9%) and Germany (7%).

Our pro forma net sales were EUR 2,997 million and EBITDA EUR 330 million.

Ahlstrom-Munksjö's organization and businesses are also described on pages 18-34.

### Business model

Ahlstrom-Munksjö's value creation is based on innovating and advancing the capabilities of fiber-based materials, providing our customers with solutions that make their businesses more efficient and sustainable.

By collecting and building on continuous and in-depth customer insight, we can tailor products to individual customer needs and sustainability interests, innovating and advancing the capabilities of what fiber-based materials can do. By sourcing the right quality and mix of materials, we can run efficient production processes based on our specialized equipment and deep know-how, while providing our customers with tailored services and pre-sales, sales, and after-sales support.

The Ahlstrom-Munksjö business model is also presented on page 9 and our value creation model on page 38.

### Ahlstrom-Munksjö's sustainability areas and material topics

The company has identified nine material topics.

#### People

1. Human rights
2. Community engagement
3. Employee well-being

#### Planet

4. Supply chain
5. Energy, water and waste
6. Carbon dioxide

#### Prosperity

7. Profitability
8. Innovation
9. Business ethics

These topics are Ahlstrom-Munksjö's strategic areas of focus for accurate data collection, management for performance, and transparent reporting on progress towards targets.

Ahlstrom-Munksjö's sustainability priorities and material topics are also described on pages 35-58.

### Sustainability Policy and Management approach

The Ahlstrom-Munksjö sustainability policy defines the formal sustainability governance structure and includes commitment to continuous improvement in the nine material topics under people, planet, and prosperity. The company's sustainability work is governed by the Sustainable Business Council (SBC) with representatives from the Executive Management Team (EMT), the Business Areas and other functions such as

legal, procurement and communication. The Council, which convenes at least biannually, oversees the integration of sustainability practices into business operations.

The SBC sets targets and monitors progress set for the material topics. The council also discusses deviations from targets and the introduction of new targets and how this has been managed. For 2018, the SBC found the management in each material topic in terms of targets to be satisfying.

The SBC's work is led by the Manager Group Sustainability and Capital Investments. In 2018, the role of VP Sustainability was combined with the role of investment manager into Manager Group Sustainability and Capital Investments. This new role marks Ahlstrom-Munksjö's ambition to have a long-term perspective and investments that are efficient and sustainable.

### **Metrics, targets and comparability**

The sustainability report is based on Ahlstrom-Munksjö's materiality analysis, which was completed in 2017, and on the results of a review of the analysis in 2018. The materiality analysis is based on our dialogue with stakeholders and it is designed to identify the issues that are most critical to Ahlstrom-Munksjö's social, environmental and economic value creation. Our general ambition for the report is to be transparent, relevant and comparable.

During 2018, the Ahlstrom-Munksjö Sustainable Business Council worked to refine metrics and targets that support business success through improved sustainability outcomes.

## **People**

### **Human rights**

Ahlstrom-Munksjö is highly committed to respecting fundamental human rights in all its activities and expects the same from suppliers. As laid out in the company Code of Conduct, this means for example that all employees must be treated with respect and given equal opportunities for personal growth and professional development regardless of their gender, age, race, ethnicity, disabilities, nationality, sexual

orientation, religious beliefs, political affiliations, marital or economic status, or position within the company.

Ahlstrom-Munksjö also supports the United Nations' Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact. This commits to eradicating child labour and forced labour anywhere in the supply chain and recognizing employees' right to freedom of association and collective bargaining.

The same level of commitment is expected from the company's suppliers. The Supplier Code of Conduct's key human rights provisions include fair and equal treatment in hiring and employment practices as well as wages, benefits, and working hours that at minimum comply with all local laws and binding collective agreements. It also mandates respecting freedom of association and collective bargaining rights in accordance to all applicable laws and regulations and prohibits child labor, harassment and abuse, and forced and compulsory labor. Finally, it requires suppliers to respect the traditional and customary rights of local communities affected by their operations.

To date, our management approach has been to focus on full legal compliance and investigate and resolve any reports of potential violations in a thorough and timely manner.

In 2017, an updated Code of Conduct for was adopted by the Board of Directors. The updated Code of Conduct has been communicated throughout the organization, and a Code of Conduct awareness initiative has been launched. An e-learning training program was launched in 2018 and will involve all employees during 2019.

Any potential violations can be reported to a manager, the Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service where violations can be reported confidentially through a hotline or online.

The Supply Chain work, led by Procurement, includes human rights components through the Supplier Code of Conduct to ensure that sourcing reflects this commitment as well.

Our dedication to human rights helps us ensure our employees have a safe and respectful workplace and our suppliers have fair and ethical practices. By enforcing the Codes of Conduct, our customers and investors can feel confident we are in full compliance with all applicable regulations. Mitigating risks of violations can also counteract negative impacts to sustainable development at large.

### Community engagement

To Ahlstrom-Munksjö, Community Engagement means having a positive impact in the community by supporting local and global initiatives that align with the company's values. By building long-term relationships with the communities where production sites are located, Ahlstrom-Munksjö can contribute to our employees' well-being and support local supply chains. Over time, effective community engagement reduces risks of potential conflict and opens up possibilities for productive collaborations and partnerships.

Currently, local community relationships are cultivated by plant managers and their teams at over 45 locations worldwide. Production sites have undertaken a diverse range of community engagement activities, such as hosting open houses and plant tours, providing educational or professional development opportunities for young people, contributing charitable donations and in-kind support to community enrichment activities, maintaining an open dialogue and quickly respond to community feed-back related to regular plant activities. Some plants have undertaken formal stakeholder analyses, and based on them developed community engagement plans, whereas others work more on an ad hoc basis as opportunities or challenges arise.

The community activities are followed up by Group HR which reports Community Engagement Activities annually. There is also a group committee to support local plant managers and their teams in their community engagement efforts.

In addition, the AGM 2018 resolved to reserve a maximum of EUR 100,000 to be used for donations to charitable or corresponding purposes at the discretion of the Board of Directors. Suggestions for suitable donation targets were made by employees and involved local communities where Ahlstrom-Munksjö has operations.

Going forward, local plant leadership will remain essential. To build on already largely positive and productive relationships with host communities, all Ahlstrom-Munksjö plant management teams will take time each year to carefully consider their community engagement work. Components of this plan will include how plant activities can improve company image, attract potential employees, and contribute to healthier living in the area. By the end of 2018, 81 percent of sites had an updated community engagement plan. The target is that by 2020 all plants have an annually updated community engagement plan.

Over time, effective community engagement reduces risks of potential conflict, strengthens local economy, helps attract employees and opens up possibilities for productive collaborations and partnerships.

### Employee well-being

Ahlstrom-Munksjö believes in creating safe and inclusive work environments where employees are given fair treatment and equal opportunity. Ahlstrom-Munksjö is committed to acting as a responsible employer and providing fair remuneration to our employees.

All of the company's efforts and long-term business success rely on strong performance in this area. Ahlstrom-Munksjö focuses on three dimensions of the Employee Well-Being topic: Health & Safety, Employee Development, and Gender Equality.

Health & Safety – Safety is our mindset throughout operations at Ahlstrom-Munksjö. The company works towards a zero-accident workplace by setting ambitious targets for continuous improvement, developing consistent safety practices and competencies at every level, and creating a culture of responsibility and accountability for all employees, contractors, and visitors at our sites.

This work is determined by the Occupational Health and Safety Policy, standards and guidelines, safety rules, and that safety management systems are required to be certified by an external partner. Achieving results in this area ensures our employees, customers, and investors that we are continually reducing risks and creating a healthier

and safer work environment. It also has positive effects on financial performance as fewer accidents means less waste, better housekeeping, higher productivity and no unwanted stoppages.

As highlighted in the company's Occupational Health and Safety Policy, focus lies on preventative activities, behavior-based safety interactions, safety inspections and auditing, and tailored safety training to ensure a safe working environment. Local Health & Safety Managers lead these activities at each site in coordination with our Safety Network of leaders across business areas and sites, Human Resources team, and the VP Health & Safety. Safety is the opening topic at every Ahlstrom-Munksjö meeting, from the Board of Directors to regular morning meetings at the company's smallest site.

To measure our progress in this area, Ahlstrom-Munksjö tracks three priority metrics: total recordable incidents (TRI)<sup>1</sup> rate, near miss rate, and hours of tailored safety training. The annual near miss rate had a 2018 target of 2.9, higher than the baseline target of 2.37 set in 2017. In 2018 the company achieved a near miss rate of 3.65, up from 2.71 in 2017, meaning that risks are being reported and responded to swiftly.

The main lagging indicator is the Total Recordable Incident Rate (TRI) where a baseline of 2.2 was established in 2017. In 2018 the TRI decreased substantially to 1.77. The number of hours of tailored safety training per employee each year reached 15.2 in 2018, up from 13.35 in 2017. The target was 13.35. We believe that zero accidents are possible, and this is our long-term aspiration. Working with preventative activities like reviewing safety alerts and best practices, working diligently on the main leading indicators, drives safety in the correct direction, and the reduction of 20 percent in all recordable accidents in 2018, comes as a direct result of these efforts.

Achieving results in this area is a fundamental value for Ahlstrom-Munksjö. It ensures we are continually supporting a healthy, productive team whose contributions are essential to our company success and reducing the risks of accidents or illnesses that can lead to delays, quality issues and liability. People are our most central success factor.

<sup>1</sup> TRI: sum of all recorded occupational accidents; lost time accidents, occupational diseases, light duty cases, and other recordable incident. Total recordable Incidents Rate (TRIR); (TRI/Total hours worked) x 200,000.

Employee Development – As described in the Human Capital Policy, Ahlstrom-Munksjö is committed to continuously developing its employees based on individual aspirations, company values, and business needs.

The company provides on-the-job training as well as development programs within leadership and other strategic competence areas. Through these efforts, Ahlstrom-Munksjö can build valuable human capital across teams to achieve greater business, social, and environmental results throughout the company. Ahlstrom-Munksjö's people is the company's greatest asset and investing in their growth will help to meet evolving challenges and take advantage of new opportunities in a dynamic operating context.

The Human Resources team leads this initiative and collects information on progress towards targets in this area. For this aspect of the Employee Well-Being materiality, progress will be measured by tracking what percentage of employees have had a performance and development discussion with their manager in the past year. These conversations are a critical opportunity for feedback, learning, and inspiring further growth.

A new HR data management system was implemented in 2018 and by 2020, all employees should have had an annual performance and development discussion with their manager so that they are empowered in their roles and have opportunities for further development.

An Employee Engagement Index and Leadership Index based on surveys will be established by end of year 2019. This target was pushed forward by one year due to ongoing integration following several acquisitions. Once baselines are established on employee perspectives, targets for further improvements on these important indicators of employee development will be set.

Continuous learning and growing are essential components of a vibrant company and can contribute to societal wellbeing and growth. By investing in our team, we can mitigate risks associated with stagnation in a dynamic operating context.

Gender Equality – In addition to preventing discrimination based on gender in accordance with our Human Rights activities, Ahlstrom-Munksjö is working to proactively ensure equal opportunities and drawing on talent across the population.

The Human Resources team has led efforts to identify talented new hires regardless of gender. Moving forward, the company will continue to proactively support gender equality in the workplace. The ambition is to always have applicants of the underrepresented gender among final candidates in both internal and external recruitments and narrow any gender gaps in the company.

To track progress in this area, our HR team will measure the percentage of male and female managers at the company. A new HR data management system was implemented in 2018 to establish baselines and track progress. By end of year 2020, Ahlstrom-Munksjö seeks to achieve gender representation in managerial roles at least proportional to the ratio of the total workforce.

By the end of 2019, short- and long-term gender targets will be defined and implementation of an action plan for narrowing the gender gap in the overall workforce as well. Throughout these efforts, Ahlstrom-Munksjö will ensure compliance with our Code of Conduct and all applicable laws and regulations.

Drawing on talent from across all groups of population and enriches our team and enhances our products and solutions. By working with gender equality, we can mitigate legal risks as well as reputational risks.

Please see additional information on our commitment, metrics, targets and outcome for material topics in the people section of our sustainability work in our GRI report on page 44 and our risk assessment on page 59.

### Board diversity

Ahlstrom-Munksjö has a Diversity Policy for the Board of Directors, aiming to cultivate a broad spectrum of demographic attributes and characteristics in the board room.

Please see the complete description of our work with board diversity in the governance report on page 71.

### Planet

As part of a resource-intensive industry, Ahlstrom-Munksjö has a particular responsibility to advance environmental performance throughout its operations and supply chains. The company pursues continuous improvement in three areas: the

environmental impacts of its supply chain practices, efficiencies and innovations in energy and water use and waste reduction and disposal, and carbon dioxide emissions reductions.

### Supply chain

Ahlstrom-Munksjö works to ensure that raw materials are responsibly sourced and that the natural fiber supply chain policies promote sustainable forestry practices. Ahlstrom-Munksjö works with a large number of suppliers to secure the high quality and diverse inputs needed to create its portfolio of fiber-based solutions. The most important raw materials include fibers, particularly wood pulp, and chemicals used in the production process. The company also uses indirect suppliers, such as utilities, transportation services, and equipment providers.

The ambition is to use renewable materials wherever they can deliver the high product performance tailored to specific applications for which Ahlstrom-Munksjö is known. In 2018, our fiber raw materials were 92 percent renewable by volume, compared to 90 percent in 2017. Ahlstrom-Munksjö expects its suppliers to uphold high standards for ethical and socially and environmentally responsible business practices. Sound procurement practices also mitigate business risks for the company, our customers, and our investors. Ahlstrom-Munksjö's Supplier Code of Conduct establishes clear, non-negotiable minimum requirements related to legal compliance, human rights and the prevention of child labor, health and safety, responsible business practices, environmental impacts, and transparency. Ahlstrom-Munksjö's Procurement is ensuring that every supplier has signed or is in full compliance with these expectations through regular dialogue with suppliers as well as systems for risk assessment and field auditing.

Ahlstrom-Munksjö also supports more environmentally sustainable fiber production practices. The company's biggest impact is in its wood pulp procurement, which in 2018 accounted for 89 percent of our fiber use. In 2018, Ahlstrom-Munksjö purchased 47 percent of its wood pulp from Forest Stewardship Council (FSC®) mix credit certified sources, compared to 49 percent in 2017. The remainder meets FSC® Controlled Wood criteria, or is procured from another responsible source. FSC® is widely recognized as



the most respected and ambitious voluntary, third-party audited forest product certification systems for responsible forest management.

By using FSC® materials, Ahlstrom-Munksjö can meet growing customer demand for certified products while contributing to more sustainable forest practices in its supply chain.

Data on both these processes is collected by Procurement through a centralized, cloud-based information platform. Any potential violations to the Supplier Code of Conduct can be reported to a Procurement manager, Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service where violations can be reported confidentially through a hotline or online.

Ahlstrom-Munksjö has established metrics and targets to track progress in this area. At the end of 2018, 89 percent of chemical and 96 percent of fiber suppliers had signed the Supplier Code of Conduct or were considered compliant. For 2019 the target is that all of our suppliers are signatories or considered compliant.

Ahlstrom-Munksjö also creates accountability by evaluating Supplier Code of Conduct risks and following up with mitigation actions as needed. At the end of 2018, 89 percent of chemical suppliers and 96 percent of fiber suppliers had undergone evaluation for Supplier Code of Conduct risks.

The target for FSC® certified wood pulp sourcing is to continually increase the share of certified wood pulp.

By supporting partners who adhere to overall responsible practices, Ahlstrom-Munksjö can avoid negative impacts on our operation and reputation and contribute to sustainable development across our value chain.

### Energy, water and waste

Ahlstrom-Munksjö is dedicated to designing products and manufacturing processes that use energy, water and raw materials efficiently as possible to minimize waste and emissions. As part of a resource-intensive industry, the company has a particular responsibility in this area to continuously reduce its environmental impact. It will also help

to ensure full legal compliance and achieve cost savings that benefit the bottom line, customers, and investors.

Many plants also advance effective resource management through third party audited, internationally recognized certification systems like standards set by the International Organization of Standardization, ISO. Ahlstrom-Munksjö is ISO 14001 certified in environmental management at more than 87 percent of the sites. 15 plants, representing 60 percent of our total energy use are ISO 50001 certified in energy management. The target is 80 percent by 2020. Ahlstrom-Munksjö also uses the European Union EMAS certification. A full list of certified plants is available on [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com)

Additionally, Ahlstrom-Munksjö promotes sharing best practices in resource management through internal collaborative efforts. The Energy Network, for example, gathers leaders across Business Areas and corporate functions to discuss energy efficiency targets, investment strategies, data collection practices, and opportunities for mutual learning to improve company-wide energy management.

To track progress on energy, water, and waste for each production site, data is aggregated on a quarterly basis through a new cloud-based data collection system which was put into use in early 2018. The system is able to show plant level performance, as well as group wide performance, against set targets.

We measure what percentage of our plants have achieved certified environmental management systems and what percentage of our energy use comes from plants with certified energy management systems. We assess energy use, water use, and water emissions per gross ton of our production, as well as total tons of waste sent to landfill.

In 2018, the total energy use in GJ per gross ton production was 8.7, compared to 8.12 in 2017. Water use in cubic meters per gross ton production was 41.4, compared to 44.8 in 2017 and water chemical oxygen demand (COD) emissions in kilograms per gross ton production was 4.19 among 28 reporting plants, compared to 4.06 in 2017. In 2018, 12,321 tons of non-recoverable waste were sent to landfills, compared to 12,223 tons in 2017.

In 2018 targets for the metrics were set at an annual 2 percent reduction of specific energy consumption from 2018 onward; an annual 1.5 percent reduction in water use per gross ton from 2018 onward; an annual 2 percent reduction in water COD emissions per gross ton product from 2018 onward and an annual 2 percent reduction in tons of waste to landfill from 2018 onward.

Plant managers and their teams will lead these efforts. Ahlstrom-Munksjö will also continue to strengthen internal networks and training opportunities to share best practices in resource management specific to the company's operations.

Ahlstrom-Munksjö's production generates emissions to air and water, waste to landfills and generates noise. Failure to comply with environmental regulation and permits or to continuously improve our production processes and our products could have a material adverse effect on the company as well as reducing environmental quality.

### Carbon dioxide

Ahlstrom-Munksjö aims to continuously reduce its contribution to climate change by decreasing specific carbon dioxide emissions and the company's dependency on fossil fuels. Through these efforts, the company takes part in the global response to this ongoing challenge. This climate commitment also allows the company to proactively respond to an evolving regulatory environment, particularly in the European Union where many production sites are based. These activities also synergistically improve the company's efforts to save energy and cost where possible and meet growing stakeholder expectations that companies like Ahlstrom-Munksjö take action on climate change.

The company's energy strategy as a whole is the primary contributor to climate mitigation efforts. It is developed by the Energy Network which includes Procurement, Operations and Business functions and supports the long-term execution of mitigating and shifting towards a more sustainable energy landscape.

Investments have, for example been approved for a solar panel implementation in one of the converting units in US, and energy saving investments and decisions as well as Best Available Technology approaches have been completed during the year.

In 2018 the Scope 1 emissions were 0.402 tons carbon dioxide per gross ton production, compared to 0.381 tons in 2017. Scope 2 emissions were 0.233 tons carbon dioxide per gross ton production in 2018. The target for Scope 1 emissions is an annual reduction of 2 percent while the target for Scope 2 emissions is an annual reduction.

Scope 1: means direct greenhouse gas emissions like fuel combustion and company vehicles. Scope 2 covers emissions from purchased electricity, heat or steam.

Ahlstrom-Munksjö will continue to contribute to climate change mitigation efforts through improved energy efficiencies and sourcing. Plant managers and their teams will lead these efforts in coordination with Procurement and with support from the Energy Network. To monitor our progress, climate emissions data for each of production site will be aggregated on a quarterly basis through the new cloud-based data collection system.

Ahlstrom-Munksjö is committed to participate in the global collective efforts to mitigate climate change and associated risks to sustainable development.

Please see in more detail our commitment, metrics, targets and outcome for material topics in the planet section of our sustainability work in our GRI report on page 50 and risk assessment on page 59.

### Prosperity

Ahlstrom-Munksjö's ability to create value for all stakeholders over the long term relies on continued financial sustainability. Building on a foundation of strong business ethics, the company pursues lasting profitability through new, innovative and sustainable fiber solutions. Success supports greater opportunities for team members and local communities, investments in environmental efficiencies and improvements, and the development of new products that can help customers advance their own sustainability journeys.

### Profitability

Ahlstrom-Munksjö aims for long-term profitability through measures to increase operational efficiency, profitable growth, product and service leadership, and a strong innovation platform. Achieving strong financial returns helps meet stakeholder

expectations, especially among shareholders. Company employees, local communities that have production sites, suppliers, and customers also depend on the company's continued success as an engine of value creation and economic opportunities for these groups. Financial success also allows Ahlstrom-Munksjö to invest more in other aspects of social and environmental work and the innovation platform that can drive further growth and opportunity at Ahlstrom-Munksjö.

Ahlstrom-Munksjö will grow in selected niches of the innovative fiber-based solutions market that have growth potential and are supported by sustainable market drivers. The ambition is to grow in response to customer demand and through acquisitions that add geographical scope, new technologies or customer categories. A clear customer value-add will be delivered through a high-quality offering supported by advanced technology, deep know-how, and tailored services. The role of fiber-based solutions will be expanded with improved sustainability performance through innovation. The company's agile production and service platform will be used to develop customer-specific solutions in a more sustainable manner. Operational excellence and flexible production capabilities achieve high operational and cost efficiencies. Ahlstrom-Munksjö has an operational model based on local accountability where each business is responsible for executing its own strategy, while the group outlines the strategic direction and offers a competitive platform. The company's global reach creates a diversified revenue and earnings base, while an experienced management team and lean group functions create efficiencies and a common global culture.

The Ahlstrom-Munksjö CEO and Executive Management Team lead these efforts, with guidance from the Board of Directors and support from corporate functions and production sites across the company. This approach is constantly evaluated and updated to respond to customer needs, market trends, and other opportunities. To assess progress in this area, focus is on comparable EBITDA margin, gearing, and dividend. In 2018, the pro forma comparable EBITDA margin was 11%, the gearing level was 84 percent and the proposed dividend was EUR 0.52 per share. The company's financial targets are a gearing below 100%, a stable and annually increasing dividend, paid bi-annually, and an EBITDA margin above 14% over a business cycle.

Long-term economic stability allows us to continue providing economic, social and environmental value for our stakeholders.

### Innovation

Innovation enables Ahlstrom-Munksjö to continue to improve its offering of products, services, applications, and solutions that address sustainable functionality and design. A strong innovation platform allows Ahlstrom-Munksjö to select lower-impact materials in our sourcing, improve production processes, and empower customers to create more sustainable solutions using Ahlstrom-Munksjö products, generating benefits within and beyond Ahlstrom-Munksjö. One example are teabags and coffee pods where solutions from Ahlstrom-Munksjö using cellulose based materials make these products fully compostable.

Ahlstrom-Munksjö pursues innovation through systems that translate in-depth knowledge of customer needs into high-quality products that are fit for purpose. Four aspects are considered for a sustainable design. First, where possible, lower-impact materials, such as renewable, recycled, recyclable, or biodegradable materials that have improved end-of-life outcomes in terms of sustainability are selected. Second, focus on responsible chemical use, including reducing or eliminating hazardous chemicals wherever possible. Third, seeking process efficiencies to make good use of raw materials, water, and energy. Finally, design for product efficiencies, including sustainability performance for customers all along the value chain and end of life disposal. One example is replacing cloth with paper-based solutions in abrasive backings, improving the final sanding products from a sustainability perspective. These efforts are led by our Group Research & Development team.

In 2018, a new and expanded process to evaluate and assess every new product from a sustainability and product life-cycle perspective was developed. It is being introduced in 2019. From a baseline established in 2019, additional targets for the design process and new products will be developed. The Group Research & Development team will collect data to track progress in these areas.

During the year, the foundation for a sustainability assessment process was initiated. Going forward, we will determine additional targets for our design process and new products. The Group Research & Development team will collect data to track our progress in these areas.

The risk of lagging in technical development and R&D could have a material adverse effect on the business as well as reducing or inhibiting the possibilities for more sustainable products and solutions.

### Business ethics

Ahlstrom-Munksjö is committed to conducting our business ethically and responsibly in local and global communities. There is a zero-tolerance towards bribery and corrupt business practices as specified in the Anti-Bribery Policy and the company strives to conduct operations in a manner that meets the highest environmental standards and ensures full compliance with applicable laws and regulations. Adhering to ethical business practices is a fundamental principle for the company's work across the globe. This essential baseline is also a critical aspect of risk mitigation and ensuring full legal compliance.

Ahlstrom-Munksjö's Code of Conduct details expectations for integrity and ethical behavior throughout the operations, including compliance with all appropriate national and international laws and regulations and avoiding all conflicts of interest.

The company's Tax Policy is one example of our commitment to business ethics. Under the policy, Ahlstrom-Munksjö is to (1) report and pay taxes in a timely manner and in compliance with local regulations in the countries where the company operates and (2) prohibit aggressive tax planning and artificial arrangements or transactions purely aiming at achieving tax benefits.

In connection with the merger in April 2017, an updated Code of Conduct for the combined company was adopted by the Board of Directors. The updated Code of Conduct has during the course of the year been communicated throughout the organization. In 2018 an e-learning program was developed and was started to be deployed by the end of the year. In 2019 all employees will have signed off on the CoC through online courses.

Any potential breaches can be reported to a manager, the Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service where violations can be reported confidentially through a hotline or online.

Any shortcomings in behaving ethically can result in possible damage to Ahlstrom-Munksjö's brand and reputation and the associated risk to earnings, sales, market share and shareholder value. Counteracting unethical behaviour is a corner stone of ensuring a healthy functioning society.

Please see in more detail our commitment, metrics, targets and outcome for material topics in the prosperity section of our sustainability work in our GRI report on page 55 and risk assessment on page 59.

### OUTLOOK FOR 2019

Ahlstrom-Munksjö's pro forma comparable EBITDA reached EUR 330 million in 2018. As we entered 2019, customers have reacted to signs of a slowing economic outlook. Although demand growth has slowed somewhat in certain product segments, and customers have reduced inventories market fundamentals remain relatively solid. Ahlstrom-Munksjö will continue its efforts to improve performance and competitiveness. The gross margin for products increased during the course of 2018 and the targeted synergy benefits and cost reduction measures are expected to contribute positively to earnings in 2019.

### EVENTS AFTER THE BALANCE SHEET DATE

The Group has no knowledge of any significant events after the end of the reporting period that would have a material impact on the financial statements for 2018.

**Ahlstrom-Munksjö Oyj**  
*Board of Directors*

# Key figures

Years 2018 and 2017 were transformative years for Ahlstrom-Munksjö. Ahlstrom-Munksjö acquired Expera Specialty Solutions Holdings, Inc., an U.S. based specialty paper producer (“Expera”) and MD Papéis’ Caieiras specialty paper mill in Brazil (“Caieiras”) in October 2018. Ahlstrom and Munksjö merged on April 1, 2017 (the “merger”) creating a global leader in innovative and sustainable fiber-based materials. Considering the magnitude of the acquisitions of Expera and Caieiras as well as the merger of Ahlstrom and Munksjö and the impact on the combined company’s performance and financial position, stand-alone historical information for the periods presented does not provide comparable information for our operating performance and historical financial position.

Accordingly, we present certain key figures on our business performance for the years 2018 and 2017 on a pro forma basis to illustrate the effect to the acquisitions of Expera and Caieiras and the merger and the related financing and refinancing transactions as if the acquisitions and the merger had taken place at an earlier date as of January 1, 2017. The pro forma key figures have been presented for illustrative purposes only and address a hypothetical situation and therefore do not represent the Group’s actual historical results of operations as such historical data comprise Ahlstrom-Munksjö stand-alone information only. For a detailed basis of presentation and notes disclosures for the additional unaudited pro forma information please see our stock exchange release dated February 14, 2019 available on our website at [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com).

Certain of our key figures are not accounting measures defined or specified under IFRS and therefore are considered as alternative performance measures. We present these alternative performance measures as additional information to the financial measures presented in the consolidated financial statements prepared in accordance with IFRS. The Group believes that the alternative performance measures provide significant additional information on Ahlstrom-Munksjö’s results of operations, financial position and cash flows, and are widely used by our analysts, investors and other parties and provide additional information to analyze our performance and capital structure.

Following the acquisitions of Expera and Caieiras in October 2018, Ahlstrom-Munksjö has renamed the alternative performance measures previously named as “excluding depreciations arising from mergers” to be as “excluding depreciation and amortization arising from PPA” and updated the definition of depreciation and amortization arising from PPA to include all depreciation and amortization charges from fair value adjustments relating to the business combinations starting from the year 2013. Ahlstrom-Munksjö believes that the changed names better reflect the updated content and definitions of these alternative performance measures.

Alternative performance measures should not be viewed in isolation or as a substitute to measures presented in our audited IFRS financial statements. Companies do not calculate alternative performance measures in a uniform way, and therefore Ahlstrom-Munksjö’s alternative performance measures may not be comparable with similarly named measures presented by other companies.

Alternative performance measures and pro forma key figures are unaudited.

## Financial key figures for 2018–2016

EUR million, or as indicated	2018	2017	2016	pro forma 2018	pro forma 2017
<b>Performance indicators</b>					
Net sales	2,438.0	1,959.9	1,142.9	2,996.9	2,961.5
Operating result	88.7	103.5	74.9	129.4	106.4
Operating result margin, %	3.6	5.3	6.6	4.3	3.6
EBITDA	222.6	210.1	130.1	290.3	272.2
EBITDA margin, %	9.1	10.7	11.4	9.7	9.2
Comparable EBITDA	277.7	248.2	136.7	329.9	366.3
Comparable EBITDA margin, %	11.4	12.7	12.0	11.0	12.4
Items affecting comparability in EBITDA	-55.1	-38.1	-6.6	-39.6	-94.0
Comparable operating result	151.4	141.7	81.5	176.6	200.4
Comparable operating result margin, %	6.2	7.2	7.1	5.9	6.8
Items affecting comparability in operating result	-62.7	-38.1	-6.6	-47.3	-94.0
Comparable operating result excluding depreciation and amortization arising from PPA	186.1	166.1	n/a	225.5	251.7
Net profit	42.9	66.5	43.3	63.2	41.9
Earnings per share (basic and diluted), EUR	0.43	0.78	0.85	0.54	0.36
Comparable net profit	89.7	93.3	n/a	97.2	115.9
Comparable earnings per share, EUR	0.91	1.09	n/a	0.83	1.00
Comparable net profit excluding depreciation and amortization arising from PPA	115.6	110.3	n/a	133.4	152.6
Comparable earnings per share excluding depreciation and amortization arising from PPA, EUR	1.18	1.29	n/a	1.15	1.32
Cash generated from operating activities	91.6	186.5	114.3	n/a	n/a
Operating cash flow per share	0.95	2.20	2.25	n/a	n/a
Capital expenditure	160.1	84.6	39.2	176.3	124.7
Payment of acquisition of subsidiary, net of cash acquired	608.0	-	-	n/a	n/a
Average number of employees, FTE	6,480	5,109	2,755	8,204	8,196
<b>Capital structure</b>					
Capital employed average for 12 months	1,819.0	1,436.4	n/a	n/a	n/a
Total equity	1,162.2	1,038.0	437.7	n/a	n/a
Net debt	971.3	375.3	169.5	n/a	n/a
Gearing ratio, %	83.6	36.2	38.7	n/a	n/a
Comparable return on capital employed, rolling 12 months, %	8.3	9.9	n/a	n/a	n/a
Equity/assets ratio, %	35.9	43.3	36.8	n/a	n/a
Net debt/Comparable EBITDA, rolling 12 months	3.5	1.5	n/a	n/a	n/a

## Reconciliation of certain key performance measures

EUR million	2018	2017	2016	pro forma 2018	pro forma 2017
<b>Items affecting comparability</b>					
Transaction costs	-10.9	-5.8	-4.1	-1.3	-59.2
Integration costs	-20.4	-17.2	-	-22.0	-17.2
Inventory fair valuation	-7.5	-11.1	-	-	-18.6
Restructuring costs	-15.9	-1.0	-0.4	-15.9	-2.9
Environmental provision	-0.2	-1.5	-	-0.2	-1.5
Gain on business disposal	-	0.7	-	-	6.4
Other	-0.1	-2.3	-2.1	-0.1	-1.1
<b>Total items affecting comparability in EBITDA</b>	<b>-55.1</b>	<b>-38.1</b>	<b>-6.6</b>	<b>-39.6</b>	<b>-94.0</b>
Impairment loss	-7.7	-	-	-7.7	-
<b>Total items affecting comparability in operating result</b>	<b>-62.7</b>	<b>-38.1</b>	<b>-6.6</b>	<b>-47.3</b>	<b>-94.0</b>
<b>Comparable EBITDA</b>					
Operating result	88.7	103.5	74.9	129.4	106.4
Depreciation, amortization and impairment	133.9	106.6	55.2	161.0	165.9
<b>EBITDA</b>	<b>222.6</b>	<b>210.1</b>	<b>130.1</b>	<b>290.3</b>	<b>272.2</b>
Total items affecting comparability in EBITDA	55.1	38.1	6.6	39.6	94.0
<b>Comparable EBITDA</b>	<b>277.7</b>	<b>248.2</b>	<b>136.7</b>	<b>329.9</b>	<b>366.3</b>
<b>Comparable operating result excl. depreciation and amortization arising from PPA</b>					
Operating result	88.7	103.5	74.9	129.4	106.4
Total items affecting comparability in operating result	62.7	38.1	6.6	47.3	94.0
<b>Comparable operating result</b>	<b>151.4</b>	<b>141.7</b>	<b>81.5</b>	<b>176.6</b>	<b>200.4</b>
Depreciation and amortization arising from PPA <sup>1</sup>	34.7	24.4	n/a	48.9	51.3
<b>Comparable operating result excl. depreciation and amortization arising from PPA</b>	<b>186.1</b>	<b>166.1</b>	<b>n/a</b>	<b>225.5</b>	<b>251.7</b>
<b>Comparable net profit excl. depreciation and amortization arising from PPA</b>					
Net profit	42.9	66.5	n/a	63.2	41.9
Total items affecting comparability in operating result	62.7	38.1	n/a	47.3	94.0
Taxes relating to items affecting comparability in operating result	-15.9	-11.4	n/a	-13.3	-20.0
<b>Comparable net profit</b>	<b>89.7</b>	<b>93.3</b>	<b>n/a</b>	<b>97.2</b>	<b>115.9</b>
Depreciation and amortization arising from PPA <sup>1</sup>	34.7	24.4	n/a	48.9	51.3
Taxes relating to depreciation and amortization arising from PPA	-8.9	-7.3	n/a	-12.6	-14.6
<b>Comparable net profit excl. depreciation and amortization arising from PPA</b>	<b>115.6</b>	<b>110.3</b>	<b>n/a</b>	<b>133.4</b>	<b>152.6</b>

EUR million	2018	2017	2016	pro forma 2018	pro forma 2017
<b>Comparable earnings per share, EUR</b>					
Comparable net profit	89.7	93.3	n/a	97.2	115.9
Profit attributable to non-controlling interest	-1.4	-0.6	n/a	-1.4	-0.7
Comparable net profit attributable to parent company shareholders	88.4	92.7	n/a	95.8	115.2
Weighted average number of outstanding shares	96,758,002	84,941,326	n/a	115,288,453	115,344,915
<b>Comparable earnings per share, EUR</b>	<b>0.91</b>	<b>1.09</b>	<b>n/a</b>	<b>0.83</b>	<b>1.00</b>
<b>Comparable earnings per share excl. depreciation and amortization arising from PPA, EUR</b>					
Comparable net profit excl. depreciation and amortization arising from PPA	115.6	110.3	n/a	133.4	152.6
Profit attributable to non-controlling interest	-1.4	-0.6	n/a	-1.4	-0.7
Comparable net profit excl. depreciation and amortization arising from PPA attributable to parent company shareholders	114.2	109.8	n/a	132.1	151.9
Weighted average number of outstanding shares	96,758,002	84,941,326	n/a	115,288,453	115,344,915
<b>Comparable earnings per share excl. depreciation and amortization arising from PPA, EUR</b>	<b>1.18</b>	<b>1.29</b>	<b>n/a</b>	<b>1.15</b>	<b>1.32</b>
<b>Comparable return on capital employed, rolling 12 months, %</b>					
Comparable operating result for the last 12 months	151.4	141.7	n/a	n/a	n/a
Capital employed, average for the last 12 months	1,819.0	1,436.4	n/a	n/a	n/a
<b>Comparable return on capital employed, rolling 12 months, %</b>	<b>8.3</b>	<b>9.9</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Net debt</b>					
Cash and cash equivalents	151.0	245.9	146.0	n/a	n/a
Non-current borrowings	1,023.4	542.3	293.5	n/a	n/a
Current borrowings	142.6	78.9	22.0	n/a	n/a
Securitization liability	-43.7	-	-	n/a	n/a
<b>Net debt</b>	<b>971.3</b>	<b>375.3</b>	<b>169.5</b>	<b>n/a</b>	<b>n/a</b>

<sup>1</sup> Depreciation and amortization relating to the business combinations starting from the year 2013.



## Definitions

The definitions of financial key performance indicators are described below:

Key figure	Definitions	Reason for use of the key figure
<b>Operating result</b>	Net profit before taxes and net financial items	Operating result shows result generated by the operating activities
<b>Operating result margin, %</b>	Operating result / net sales	
<b>EBITDA</b>	Operating result before depreciation, amortization and impairment	EBITDA is the indicator to measure the performance of Ahlstrom-Munksjö.
<b>EBITDA margin, %</b>	EBITDA / net sales	EBITDA margin is a key measure in our long-term financial targets.
<b>Comparable EBITDA</b>	EBITDA excluding items affecting comparability in EBITDA	
<b>Comparable EBITDA margin, %</b>	Comparable EBITDA / net sales	
<b>Comparable operating result</b>	Operating result excluding items affecting comparability in operating result	
<b>Comparable operating result margin, %</b>	Comparable operating result / net sales	
<b>Comparable operating result excluding depreciation and amortization arising from PPA<sup>1</sup></b>	Operating result excluding items affecting comparability in operating result and depreciation and amortization arising from PPA Depreciation and amortization arising from PPA comprise depreciation and amortization charges from fair value adjustments relating to the business combinations starting from the year 2013.	
<b>Comparable net profit</b>	Net profit excluding items affecting comparability in operating result, net of tax	
<b>Comparable earnings per share, EUR</b>	Comparable net profit - net profit attributable to non-controlling interests / weighted average number of shares outstanding	
<b>Comparable net profit excluding depreciation and amortization arising from PPA<sup>1</sup></b>	Net profit excluding items affecting comparability in operating result, net of tax, and depreciation and amortization arising from PPA net of tax	Comparable EBITDA, comparable EBITDA margin, comparable operating result, comparable operating result margin, comparable operating result excluding depreciation and amortization arising from PPA, comparable net profit, comparable earnings per share, comparable net profit excluding depreciation and amortization arising from PPA and comparable earnings per share excluding depreciation and amortization arising from PPA are presented in addition to EBITDA, operating result, net profit and earnings per share to reflect the underlying business performance and to enhance comparability from period to period. Ahlstrom-Munksjö believes that these comparable performance measures provide meaningful supplemental information by excluding items outside ordinary course of business including PPA related depreciation and amortization, which reduce comparability between the periods.
<b>Comparable earnings per share excluding depreciation and amortization arising from PPA<sup>1</sup></b>	Comparable net profit excluding depreciation and amortization arising from PPA - net profit attributable to non-controlling interests / weighted average number of shares outstanding	
<b>Items affecting comparability in operating result</b>	Material items outside ordinary course of business, such as gains and losses on business disposals, direct transaction costs related to business acquisitions, costs for closure of business operations and restructurings including redundancy payments, impairment losses, one-off items arising from purchase price allocation such as inventory fair value adjustments, compensation related to environmental damages arising from unexpected or rare events and other items including fines (such as VAT tax audit fines) or other similar stipulated payments and litigations.	
<b>Items affecting comparability in EBITDA</b>	Items affecting comparability in operating result excluding impairment losses.	
<b>Net debt</b>	Non-current and current borrowings less securitization liability less cash and cash equivalents	Net debt and total debt are indicators to measure the total external debt financing of Ahlstrom-Munksjö
<b>Total debt</b>	Non-current and current borrowings less securitization liability	
<b>Capital employed average for 12 months</b>	Total equity and total debt (average of the last 12 months)	
<b>Comparable return on capital employed, rolling 12 months, %</b>	Comparable operating result (for the last 12 months) / capital employed (average of the last 12 months)	Capital employed average for 12 months and Comparable return on capital employed, rolling 12 months measure capital tied up in operations and return on capital tied up in operations. These ratios replace the previously used ratio Operating capital and Return on operating capital respectively. Ahlstrom-Munksjö believes that the new ratios better reflect the capital tied up in operations.
<b>Gearing ratio, %</b>	Net debt / total equity	Ahlstrom-Munksjö believes that Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Ahlstrom-Munksjö's indebtedness. Gearing ratio is also one of Ahlstrom-Munksjö's long-term financial targets measure.
<b>Equity/assets ratio, %</b>	Total equity / total assets	Ahlstrom-Munksjö believes that Equity/assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Ahlstrom-Munksjö's capital used in the operations.
<b>Net debt/ Comparable EBITDA, rolling 12 months</b>	Net debt / comparable EBITDA (for the last 12 months)	Net debt to EBITDA is a useful measure for management to monitor the level of Ahlstrom-Munksjö's indebtedness.
<b>Capital expenditure</b>	Purchases for property, plant and equipment and intangible assets as presented in the cash flow statement.	Capital expenditure provides additional information of the cash flow needs of the operations.
<b>Operating cash flow per share, EUR</b>	Operating cash flow / weighted average number of shares outstanding	

<sup>1</sup> Ahlstrom-Munksjö has renamed the alternative performance measures previously named as "excluding depreciations arising from mergers" to be as "excluding depreciation and amortization arising from PPA" and updated the definition of depreciation and amortization arising from PPA to include all depreciation and amortization charges from fair value adjustments relating to the business combinations starting from the year 2013.

## Share related indicators for 2018–2016

	2018	2017	2016
Earnings per share (basic), EUR	0.43	0.78	0.85
Equity per share, EUR	10.0	10.7	8.6
Dividend per share, EUR	0.52 <sup>1</sup>	0.52	0.47 <sup>2</sup>
Dividend per earnings, %	120.9	66.7	55.3
Effective dividend yield, %	4.3	2.9	3.0
Price/earnings ratio, %	28.2	23.3	18.6
Share price development			
Lowest quotation, EUR	10.68	13.75	7.60
Highest quotation, EUR	20.10	20.49	16.38
Average quotation for the period, EUR	14.96	17.58	11.39
Closing share price at the reporting date, EUR	12.12	18.17	15.80
Market capitalization, EUR million	1,397.3	1,745.7	802.0
Shares traded (1,000 shares)	12,836	15,002	6,872
Shares traded, % of all shares	13.3	17.7	13.5
Weighted average number of shares during the period (1,000 shares)	96,758	84,941	50,762
Number of shares at the end of the period (1,000 shares)	115,653	96,439	51,062
of which treasury shares	365	365	300

<sup>1</sup> Board's proposal subject to shareholder approval

<sup>2</sup> Dividend per share has been converted by using the same number of shares as in 2017

Share related indicator	Definition
<b>Earnings per share (EPS), basic, EUR</b>	Net profit for the period attributable to parent company's shareholders / weighted average number of shares outstanding
<b>Equity per share, EUR</b>	Equity attributable to parent company's shareholders / number of shares outstanding at the end of the period
<b>Dividend per share, EUR</b>	Dividends paid for the period / number of shares outstanding at the end of the period
<b>Dividend per earnings, %</b>	Dividend per share / earnings per share, basic.
<b>Effective dividend yield, %</b>	Dividend per share / closing share price at the reporting date
<b>Price/Earnings ratio, %</b>	Closing share price at the reporting date / earnings per share, basic
<b>Market capitalization</b>	Total number of shares outstanding multiplied by the share price at the reporting date
<b>Average share price</b>	Total value of shares traded / number of shares traded during the period

# Consolidated financial statements, IFRS

## Income statement

EUR million	NOTE	2018	2017
Net sales	4, 5	2,438.0	1,959.9
Other operating income	5	9.6	12.7
<b>Total operating income</b>		<b>2,447.7</b>	<b>1,972.6</b>
<b>Operating costs</b>			
Changes in inventories of finished goods and work in progress		25.0	-6.4
Materials and supplies		-1,208.2	-920.2
Other operating expenses	6	-589.5	-472.0
Employee benefit expenses	7	-452.4	-363.7
Depreciation, amortization and impairment	8	-133.9	-106.6
<b>Total operating costs</b>		<b>-2,359.0</b>	<b>-1,868.9</b>
Share of profit in equity accounted investments	21	0.0	-0.2
<b>Operating result</b>		<b>88.7</b>	<b>103.5</b>
Financial income	9	8.9	9.5
Financial expenses	9	-34.3	-35.7
<b>Net financial items</b>		<b>-25.3</b>	<b>-26.2</b>
<b>Profit before tax</b>		<b>63.3</b>	<b>77.3</b>
Income taxes	10	-20.4	-10.8
<b>Net profit</b>		<b>42.9</b>	<b>66.5</b>

## Additional unaudited pro forma information

EUR million	2018	2017
Net sales	2,996.9	2,961.5
Other operating income	10.9	21.2
<b>Total operating income</b>	<b>3,007.8</b>	<b>2,982.6</b>
<b>Operating costs</b>		
Changes in inventories of finished goods and work in progress	24.7	-6.0
Materials and supplies	-1,445.7	-1,344.4
Other operating expenses	-715.3	-770.2
Employee benefit expenses	-581.2	-589.6
Depreciation, amortization and impairment	-161.0	-165.9
<b>Total operating costs</b>	<b>-2,878.5</b>	<b>-2,876.1</b>
Share of profit in equity accounted investments	0.0	-0.2
<b>Operating result</b>	<b>129.4</b>	<b>106.4</b>
Financial income	9.4	14.5
Financial expenses	-51.9	-73.7
<b>Net financial items</b>	<b>-42.5</b>	<b>-59.2</b>
<b>Profit before tax</b>	<b>86.9</b>	<b>47.2</b>
Income taxes	-23.6	-5.3
<b>Net profit</b>	<b>63.2</b>	<b>41.9</b>

## Statement of comprehensive income

EUR million	NOTE	2018	2017
<b>Net profit</b>		<b>42.9</b>	<b>66.5</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translation of foreign operations for the period	19	-13.5	-53.6
Hedges of net investments in foreign operations		0.0	0.1
Change in cash flow hedge reserve	19	0.3	0.8
Cash flow hedge transferred to this year's result	19	0.4	-0.7
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial gains and losses on defined benefit plans	15	0.6	5.9
<b>Tax attributable to other comprehensive income</b>		<b>-1.1</b>	<b>-1.7</b>
<b>Comprehensive income</b>		<b>29.8</b>	<b>17.2</b>
<b>Net profit attributable to:</b>			
Parent company's shareholders		41.6	65.9
Non-controlling interests		1.4	0.6
<b>Comprehensive income attributable to:</b>			
Parent company's shareholders		28.4	16.8
Non-controlling interests		1.3	0.4
<b>Earnings per share</b>			
Weighted average number of outstanding shares		96,758,002	84,941,326
Basic earnings per share, EUR	11	0.43	0.78
Diluted earnings per share, EUR	11	0.43	0.78



### Additional unaudited pro forma information

Earnings per share	2018	2017
Weighted average number of outstanding shares	115,288,453	115,344,915
Basic earnings per share, EUR	0.54	0.36

## Balance Sheet

EUR million	NOTE	Dec 31, 2018	Dec 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,117.2	841.7
Goodwill	12	630.6	429.4
Other intangible assets	12	505.1	309.2
Equity accounted investments	21	1.1	1.2
Other non-current assets	19	15.4	7.6
Deferred tax assets	10	7.5	15.1
<b>Total non-current assets</b>		<b>2,276.9</b>	<b>1,604.2</b>
<b>Current assets</b>			
Inventories	13	429.6	282.3
Trade and other receivables	14	374.0	259.3
Income tax receivables	10	3.3	5.1
Cash and cash equivalents	17	151.0	245.9
<b>Total current assets</b>		<b>957.9</b>	<b>792.6</b>
<b>TOTAL ASSETS</b>		<b>3,234.9</b>	<b>2,396.8</b>

EUR million	NOTE	Dec 31, 2018	Dec 31, 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Equity attributable to parent company's shareholders</i>			
Share capital	18	85.0	85.0
Reserve for invested unrestricted equity	18	661.8	517.6
Other reserves and treasury shares	18	302.0	314.9
Retained earnings	18	103.5	111.7
<b>Total equity attributable to parent company's shareholders</b>		<b>1,152.3</b>	<b>1,029.1</b>
Non-controlling interests		9.9	8.9
<b>Total equity</b>		<b>1,162.2</b>	<b>1,038.0</b>
<b>Non-current liabilities</b>			
Non-current borrowings	17	1,023.4	542.3
Other non-current liabilities		1.7	0.5
Employee benefit obligations	15	92.7	98.1
Deferred tax liabilities	10	150.6	105.5
Non-current provisions	16	25.9	17.7
<b>Total non-current liabilities</b>		<b>1,294.3</b>	<b>764.1</b>
<b>Current liabilities</b>			
Current borrowings	17	142.6	78.9
Trade and other payables	14	615.3	502.9
Income tax liabilities	10	8.1	4.1
Current provisions	16	12.3	8.8
<b>Total current liabilities</b>		<b>778.4</b>	<b>594.6</b>
<b>Total liabilities</b>		<b>2,072.6</b>	<b>1,358.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,234.9</b>	<b>2,396.8</b>

## Statement of changes in equity

EUR million	Equity attributable to parent company's shareholders									
	Share capital	Reserve for invested unrestricted equity	Other reserves	Treasury shares	Cumulative translation adjustment	Hedging reserve	Retained earnings	Total equity attributable to parent company's shareholders	Non-controlling interests	TOTAL EQUITY
<b>BALANCE AT JANUARY 1, 2017</b>	<b>15.0</b>	<b>254.1</b>	<b>384.9</b>	<b>-3.1</b>	<b>-9.9</b>	<b>-0.5</b>	<b>-206.8</b>	<b>433.7</b>	<b>4.0</b>	<b>437.7</b>
Net profit for the period	-	-	-	-	-	-	65.9	65.9	0.6	66.5
Other comprehensive income before tax	-	-	-	-	-53.3	0.0	5.9	-47.4	-0.2	-47.6
Tax on other comprehensive income	-	-	-	-	0.0	0.0	-1.7	-1.7	-	-1.7
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-53.4</b>	<b>0.1</b>	<b>70.1</b>	<b>16.8</b>	<b>0.4</b>	<b>17.2</b>
Merger consideration	70.0	311.8	-	-	-	-	250.8	632.6	4.8	637.4
Changes in own shares	-	-	-	-5.6	-	-	-	-5.6	-	-5.6
Return of capital and dividends	-	-44.9	-	-	-	-	-	-44.9	-0.3	-45.2
Transaction costs on share issue	-	-3.4	-	-	-	-	-	-3.4	-	-3.4
Long term incentive plans	-	-	-	2.4	-	-	-2.4	-	-	-
<b>BALANCE AT DECEMBER 31, 2017</b>	<b>85.0</b>	<b>517.6</b>	<b>384.9</b>	<b>-6.3</b>	<b>-63.3</b>	<b>-0.4</b>	<b>111.7</b>	<b>1,029.1</b>	<b>8.9</b>	<b>1,038.0</b>
Restatement due to IFRS 9	-	-	-	-	-	-	-1.6	-1.6	-	-1.6
<b>BALANCE AT JANUARY 1, 2018</b>	<b>85.0</b>	<b>517.6</b>	<b>384.9</b>	<b>-6.3</b>	<b>-63.3</b>	<b>-0.4</b>	<b>110.1</b>	<b>1,027.5</b>	<b>8.9</b>	<b>1,036.5</b>
Net profit for the period	-	-	-	-	-	-	41.6	41.6	1.4	42.9
Other comprehensive income before tax	-	-	-	-	-13.4	0.8	0.6	-12.0	-0.1	-12.1
Tax on other comprehensive income	-	-	-	-	0.0	-0.2	-0.9	-1.1	-	-1.1
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-13.4</b>	<b>0.6</b>	<b>41.3</b>	<b>28.4</b>	<b>1.3</b>	<b>29.8</b>
Rights issue	-	150.1	-	-	-	-	-	150.1	-	150.1
Dividends and other	-	-	-	-	-	-	-50.1	-50.1	-0.3	-50.4
Transaction costs on rights issue	-	-5.9	-	-	-	-	-	-5.9	-	-5.9
Long term incentive plans	-	-	-	-	-	-	2.2	2.2	-	2.2
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>85.0</b>	<b>661.8</b>	<b>384.9</b>	<b>-6.3</b>	<b>-76.7</b>	<b>0.2</b>	<b>103.5</b>	<b>1,152.3</b>	<b>9.9</b>	<b>1,162.2</b>



## Cash flow statement

EUR million	NOTE	2018	2017
<b>Cash flow from operating activities</b>			
<b>Net profit</b>		<b>42.9</b>	<b>66.5</b>
Adjustments:			
Non-cash transactions and transfers to cash flow from other activities			
Depreciation, amortization and impairment	8	133.9	106.6
Gains and losses on sale of non-current assets		-0.1	-2.2
Change in employee benefit obligations	15	-4.9	-3.3
Non-cash transactions and transfers to cash flow from other activities, total			
		129.0	101.0
Interest and other financial income and expense		25.3	26.4
Taxes	10	20.4	10.8
Changes in net working capital:			
Change in trade and other receivables	14	-46.6	3.5
Change in inventories	13	-43.1	-1.5
Change in trade and other payables	14	5.2	23.2
Change in provisions		2.5	9.5
Interest received		2.4	2.2
Interest paid		-19.8	-16.1
Other financial items		-5.6	-3.4
Income taxes paid	10	-21.0	-35.6
<b>Net cash from operating activities</b>		<b>91.6</b>	<b>186.5</b>

EUR million	NOTE	2018	2017
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment and intangible assets	12	-160.1	-84.6
Payment for acquisition of subsidiary, net of cash acquired	3	-608.0	-
Proceeds from disposal of shares in Group companies and businesses and associated companies		-	0.7
Change in other investments		-0.7	1.0
Proceeds from disposal of property, plant and equipment		0.6	3.1
<b>Net cash from investing activities</b>		<b>-768.3</b>	<b>-79.7</b>
<b>Cash flow from financing activities</b>			
Sale/repurchase of own shares		-	-5.6
Rights issue		148.5	-
Interest on hybrid bond		-	-6.9
Repurchase of hybrid bond		-	-100.0
Change in non-current borrowings	17	470.7	250.7
Change in current borrowings	17	18.7	-151.7
Change in finance leases		-1.8	-1.6
Dividends and return of capital		-50.3	-48.5
<b>Net cash from financing activities</b>		<b>585.9</b>	<b>-63.6</b>
<b>Net change in cash and cash equivalents</b>			
		<b>-90.9</b>	<b>43.2</b>
Cash and cash equivalents at the beginning of the period			
		245.9	146.0
Cash and cash equivalents received in the merger			
		-	66.6
Foreign exchange effect on cash			
		-4.0	-9.9
<b>Cash and cash equivalents at the end of the period</b>	17	<b>151.0</b>	<b>245.9</b>

## Notes to the consolidated financial statements

### Ahlstrom-Munksjö's business and basis of preparation

#### 1 INFORMATION ABOUT AHLSTROM-MUNKSJÖ

##### General

Ahlstrom-Munksjö is a global leader in fiber-based materials, supplying innovative and sustainable solutions to customers worldwide. Our offerings include filter materials, release liners, food and beverage processing materials, decor papers, abrasive and tape backings, electro technical paper, glass fiber materials, medical fiber materials and solutions for diagnostics as well as a range of specialty papers for industrial and consumer end-uses.

Ahlstrom-Munksjö Oyj, a Finnish public limited liability company with a corporate identity number, 2480661-5, is the parent company ("parent company", "Ahlstrom-Munksjö Oyj") of the Ahlstrom-Munksjö Group (the "Group", "Ahlstrom-Munksjö"). Ahlstrom-Munksjö is registered in Helsinki, Finland. Ahlstrom-Munksjö's registered address is Alvar Aallon katu 3 C, 00101 Helsinki, Finland. Ahlstrom-Munksjö's shares are listed on Nasdaq Helsinki and Nasdaq Stockholm.

#### 2 BASIS OF PREPARATION



##### Basis of preparation and accounting policies in our audited financial statements

##### Basis of preparation

Ahlstrom-Munksjö's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee as approved by the Commission of the European Communities (EU) for application in the European Union.

The following general principles have been applied to our financial statements:

- The parent company's functional and presentation currency is the euro ("EUR") and financial statements are presented in millions of euros ("EUR million"), unless otherwise indicated.
- Financial statements are prepared on a historical cost basis, except for derivative financial instruments, unlisted shares and interests and defined benefit pension plan assets, which are measured at fair value.
- Non-current assets and non-current liabilities consist of amounts that are expected to be recovered or paid more than 12 months after the reporting period. Current assets and current liabilities consist of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.
- All financial data in the financial statements have been rounded and consequently the sum of individual figures can deviate from the total sum. Percentages are subject to possible rounding differences.
- The accounting policies outlined in these financial statements have been applied consistently throughout the Group and comparative information has been reclassified where required to ensure consistency.

##### Foreign currency translation

Figures representing the financial result and position of each subsidiary in the Group are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency).

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary balance sheet items denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date.

Foreign exchange differences arising from the currency translation are recognized in the income statement. Foreign exchange gains and losses arising from operating business transactions are included in operating profit, and those arising from financial transactions are included as a net amount in financial income and expenses. The foreign exchange gains and losses arising from the qualifying cash flow hedges and qualifying hedges of a net investment in foreign operations are recorded in the statement of other comprehensive income and accumulated currency differences are recognized in equity.

**Cont. note 2**

The balance sheets of foreign subsidiaries are translated into euros at the exchange rates prevailing at the balance sheet date while the income statements are translated at the average exchange rates for the period. Translating the result of the period using different exchange rates on the balance sheet and income statement causes a translation difference to be recognized in equity and its change is recorded in the statement of other comprehensive income.

Translation differences arising from the elimination of the acquisition price of foreign subsidiaries and from the translation differences in equity items since the acquisition date as well as the effective portion of hedging instruments that hedge the currency exposures on net investments are recognized in the statement of other comprehensive income. When a subsidiary is disposed or sold wholly or partially, translation differences arising from the net investment and related hedges are recognized in the income statement as part of the gain or loss on sale.

**Adopted IFRS standards, amendments and improvements**

Ahlstrom-Munksjö has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurements of Share-based Payment Transactions – Amendments to IFRS 2
- Annual improvements 2014-2016 cycle
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group has changed its accounting policies following the adoption of IFRS 9 and IFRS 15.

**IFRS 9**

IFRS 9 was adopted without restating the comparative financial information. Under IFRS 9, the classification and measurement of financial assets are based on the cash flow characteristics and the business model they are managed in. The Group has categorized its financial assets to financial assets measured at amortized cost and at fair value through profit and loss. The reclassification has not had any impact on equity.

The classification of the financial assets under IFRS 9:

	Classification under IAS 39	Classification under IFRS 9
Trade and other receivables	Loans and receivables	Amortized cost
Other investments	Available-for-sale financial assets	Fair value through income statement (or other comprehensive income)
Derivatives under hedge accounting	Derivatives under hedge accounting (fair value changes through other comprehensive income)	Derivatives under hedge accounting (fair value changes through other comprehensive income)
Derivatives, non hedge accounting	Fair value through income statement	Fair value through income statement

The new rules of IFRS 9 for hedge accounting align more closely with common risk management practices and, among others, allow net position hedging. The Group applies the new hedge accounting requirements prospectively. The Group hedges the foreign currency flows on a net exposure basis. The cash flow hedging is applied against the expected net cash flows, consisting of related sales proceeds and purchases in the same currency. The new rules of IFRS 9 for hedge accounting did not impact the Group's hedging result.

According to IFRS 9 the impairment assessment of financial assets is based on expected credit loss model. The impairment is based on forward-looking information as well as past experience and current expectations. The Group estimates the credit risk for financial assets, mainly trade receivables, measured at amortized cost at the end of each reporting period.

The Group applies the simplified approach to assess the expected credit loss for trade receivables. The loss allowance is measured at the estimate of the lifetime expected credit losses, which are recognized based on ageing categories of trade receivables. The Group has historically low levels for realized credit losses in trade receivables and the Group also has a credit insurance program in place. Due to the new expected credit loss model the Group has made an adjustment of EUR -1.6 million in retained earnings and trade receivables for the opening balance of January 1, 2018. Comparatives for 2017 are not restated.

**IFRS 15**

The Group adopted IFRS 15 using the full retrospective method and there were no significant accounting changes compared to the previous practice and thus there was no impact to the financial statements (see note 5). IFRS 15 defines a five-step model to recognize revenue arising from contracts with customers.

**Other**

Other amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The financial statements were authorised for issue by Ahlstrom-Munksjö's Board of Directors on February 13, 2019 and are expected to be adopted by the Annual General Meeting on March 27, 2019.

## Cont. note 2

**Notes disclosures**

Ahlstrom-Munksjö renewed the structure of its financial statements in 2017 following the merger of Ahlstrom and Munksjö and included selected unaudited pro forma information, in addition to the condensed pro forma information required under IFRS, that management considers relevant for a reader to understand the impact of the merger in the Group's performance, financial position and geographical coverage.

Considering the continued transformation of the Group in 2018 through the acquisitions of Expera Specialty Solutions Holdings, Inc. and MD Papéis' Caieiras specialty paper mill, both completed in October, Ahlstrom-Munksjö has continued to present unaudited pro forma income statement information, which is required under IFRS for significant acquisitions, complemented with selected additional pro forma data. Such additional unaudited pro forma financial information is referred and labelled as pro forma information. To understand how this pro forma information has been compiled (see note 2).

Notes to the financial statements include information required under IFRS to understand the financial statements and is material and relevant to Ahlstrom-Munksjö's operations, financial position and performance. Information is considered material and relevant if, for example:

- The amounts are significant because of size or nature;
- Disclosure is important for understanding the results of the Group;
- Disclosure helps to explain the impact of significant changes in the composition of the Group, operations or significant events such as acquisitions, impairments, major refinancing transactions; or
- The disclosure relates to an aspect of Ahlstrom-Munksjö's operations that is important to its future performance.

Where an accounting policy is applicable to a specific note, it is described within that note with the related disclosures including estimates and judgements of material nature made by management. Certain of our accounting policies that relate to the financial statements as a whole, are disclosed above. New IFRS standards and amendments or interpretations that will be adopted post-balance sheet date are described in note 23.

Financial statement disclosures are organised into the following sections:

- Performance – This section focuses on the results and performance of the Group including a description of changes in our group structure. This section includes disclosures that explain the Group's performance on a consolidated level as well on a business area level, sources of revenue, other operating expenses, employee benefits, finance items as well as information about our tax footprint and earnings per share.

- Operating capital – Disclosures in this section focus on our operating assets and liabilities including information on our investments in long-lived assets, trade receivables and payables, inventories, benefit obligations towards our current and former employees and provisions.
- Net debt and capital management – This section outlines the Group's net debt and how Ahlstrom-Munksjö manages its capital and liquidity. Net debt is an important indicator for Ahlstrom-Munksjö's to measure the external debt financing of the Group.
- Financial risk management – This section discusses the Group's exposure to various financial risks, explains how these affect Ahlstrom-Munksjö's financial position and performance and how risk is managed.
- Other notes – this section provides the additional information required to be disclosed under IFRS and Finnish statutory requirements. However, these are not considered critical in understanding the financial performance or the financial position of Ahlstrom-Munksjö.

**Additional unaudited pro forma information**

Ahlstrom-Munksjö acquired Expera Specialty Solutions Holdings, Inc. ("Expera") on October 10, 2018 and MD Papéis' Caieiras specialty paper mill in Brazil ("Caieiras") on October 17, 2018 (see note 3). For financial reporting purposes, these acquisitions are consolidated to the Group's financial statements and presented as part of the Group's performance, financial position and geographical coverage from the acquisition dates onwards. The 2017 merger of Ahlstrom and Munksjö was accounted for as an acquisition where Munksjö acquired Ahlstrom. Accordingly, Ahlstrom has been consolidated from the merger date of April 1, 2017 onwards.

Considering the magnitude of the acquisitions and the merger of Ahlstrom and Munksjö and the impact on the combined Group's performance and financial position stand-alone historical information does not provide a reader of our financial statements a reasonable basis to compare the operating results or to understand the changes in our financial position.

Accordingly, the Group has presented as pro forma information selected combined pro forma financial data for illustrative purposes to give effect to the acquisitions and the merger and the related financing and refinancing transactions as if the acquisitions and the merger had taken place at an earlier date. Pro forma information has been presented as if the acquisitions had taken place at the beginning of the comparative financial period as of January 1, 2017. For a detailed basis of presentation and notes disclosures for the pro forma information please see our stock exchange release dated February 14, 2019 and the Unaudited Pro Forma Financial Information published in the Rights Issue Prospectus dated November 19, 2018, both available at [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com).

## Cont. note 2

We use the following symbols throughout the financial statements



This symbol describes the accounting policy applied by the Group to the specific financial statement item.



This symbol is used when the specific item requires management to make judgements, estimates and assumptions that have a significant effect on the financial statements and estimates that may cause material adjustments to the financial statements.



This symbol highlights where additional unaudited information is displayed.



This symbol is used with a disclosure on a specific risk related to the financial statement item.

The following matrix outlines the notes structure and where our accounting policies, estimates, judgements and risks disclosures are included within the footnotes to our main statements:

Note	Topic				
<b>Ahlstrom-Munksjö's business and basis of preparation</b>					
1	Information about Ahlstrom-Munksjö	X			
2	Basis of preparation	X		X	
<b>Performance</b>					
3	Changes in Ahlstrom-Munksjö group structure	X	X	X	
4	Business area information	X	X	X	
5	Sources of revenue	X		X	
6	Other operating expenses	X			
7	Employee and Board of Directors remuneration <sup>1</sup>	X	X		
8	Depreciation, amortization and impairment	X	X	X	
9	Net financial items	X			
10	Taxes	X	X		

Note	Topic				
11	Earnings per share	X		X	

**Operating capital**

12	Intangible assets and property, plant and equipment	X	X		
13	Inventories	X	X		
14	Trade and other receivables and trade and other payables	X			X
15	Defined benefit obligations	X	X		X
16	Provisions	X	X		

**Net debt and capital management**

17	Net debt	X			X
18	Equity	X			

**Financial risk management**

19	Financial risk management	X	X		X
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**Other notes**

20	Off-balance sheet commitments	X			
21	Ahlstrom-Munksjö subsidiaries, associates and joint operations and related party transactions <sup>1</sup>	X			
22	Auditor remuneration	X			
23	New accounting standards	X			
24	Post-balance sheet events	X			

<sup>1</sup> Related party transactions are presented separately for the Board of Directors and key management remuneration in note 7 and other related parties are presented in note 21.

## Performance

This section focuses on the results and performance of the Group including a description of changes in our group structure. This section includes disclosures that explain the Group's performance on a consolidated level as well on a business area level, employee benefits, operating expenses, finance items as well as information about our tax footprint and earnings per share.

### 3 CHANGES IN AHLSTROM-MUNKSJÖ GROUP STRUCTURE

#### 2018

##### Acquisition of Expera and Caieiras

On October 10, 2018, Ahlstrom-Munksjö completed the acquisition of U.S. specialty paper producer Expera Specialty Solutions. Ahlstrom-Munksjö acquired 100 % of the shares. The transformative acquisition will expand the Group's presence in North America and further strengthen its offering of advanced custom-made fiber-based materials. The transaction will almost triple Ahlstrom-Munksjö's net sales in the U.S. and provide a platform for growth.

On October 17, 2018, Ahlstrom-Munksjö completed the acquisition of MD Papéis' Caieiras specialty paper mill in Brazil. Ahlstrom-Munksjö acquired 100 % of the shares. The acquisition significantly strengthens Ahlstrom-Munksjö's offering in South America and provides further growth opportunities. Prior to the closing date of the acquisition, three new companies were created to facilitate the demerger of an existing business unit into multiple legal entities and provide a legal entity that holds the assets and liabilities that have been acquired by Ahlstrom-Munksjö.

##### Provisional purchase consideration

The acquisitions were paid in cash and financed with credit facility agreements, term loan and issuance of shares. Further details on the financing of the transactions are described in note 17 and 18.

EUR million	Expera Specialty Solutions	MD Papéis' Caieiras
Provisional cash consideration	525.0	95.0

The provisional cash considerations are subject to completion of the closing accounts in accordance with the terms of the share purchase agreements.

##### Provisional purchase price allocation and cash flow

The following table presents the provisional fair values of the net assets acquired and the amount of goodwill arising from the acquisitions as of the dates of acquisitions. The provisional purchase price allocations are subject to final approval of the balance sheet at the date of acquisition in accordance with the terms of the share purchase agreements

EUR million	Expera Specialty Solutions	MD Papéis' Caieiras
<b>Non-current assets</b>		
Property, plant and equipment	198.7	44.9
Other intangible assets	179.0	28.1
Other investments	0.1	-
Other non-current assets	0.6	0.2
<b>Current assets</b>		
Inventories	90.8	14.3
Trade and other receivables	67.7	11.4
Income tax receivable	0.0	-
Cash and cash equivalents	7.7	-
<b>Non-current liabilities</b>		
Non-current borrowings	-10.7	-
Other non-current liabilities	0.0	-
Deferred tax liabilities	-45.3	-13.4
Non-current provisions	-9.1	-
<b>Current liabilities</b>		
Current borrowings	-46.5	-
Trade and other payables	-83.0	-20.7
Income tax liabilities	-0.1	-
Current provisions	-0.1	-
<b>Total net assets acquired</b>	<b>349.7</b>	<b>64.8</b>
<b>Goodwill</b>	<b>171.8</b>	<b>30.1</b>
Gain on hedge, net of tax	3.5	-
<b>Provisional purchase consideration</b>	<b>525.0</b>	<b>95.0</b>



Cont. note 3

EUR million	Expera Specialty Solutions	MD Papéis' Caieiras
<b>Cash flow</b>		
Provisional purchase consideration	525.0	95.0
Gain on hedge	-4.4	-
Cash and cash equivalents of the acquired entities	-7.7	-
Liability / receivable related to purchase consideration adjustments	-1.8	1.9
<b>Consideration paid</b>	<b>511.2</b>	<b>96.9</b>

In both acquisitions, the preliminary considerations were paid at closing based on the estimated closing balance sheets. The liability / receivable related to purchase consideration adjustments presented in the table above are based on the provisional closing balance sheets and they are subject to completion of the closing accounts in accordance with the terms of the share purchase agreements. The liability / receivable related to purchase consideration adjustments have been recognized in current other receivable and payable.

#### Expera Specialty Solutions

The fair values of acquired identifiable intangible assets at the date of acquisition were EUR 179.0 million comprising of customer relationships of EUR 120.8 million, technology based asset, comprising of process and product technology, know-how and trade secrets, of EUR 49.6 million and economic value of the landfill rights of EUR 8.6 million.

The fair value of the acquired trade receivables is EUR 62.8 million. The gross contractual amount for trade receivables is EUR 62.9 million of which EUR 0.1 million is expected to uncollectable.

Ahlstrom-Munksjö hedged a nominal of USD 300.0 million for foreign exchange risk related to the purchase consideration paid in USD which resulted in a gain of EUR 4.4 million (EUR 3,5 million net of tax) reducing goodwill at consolidation.

The goodwill of EUR 171.8 million arising from the acquisition of Expera Specialty Solutions is attributable to workforce, synergies and expanding the North American platform for future growth. Acquired goodwill has been allocated to Ahlstrom-Munksjö's North America Specialty Solutions business area. For more information about goodwill allocation and our annual goodwill impairment tests, see note 12. Ahlstrom-Munksjö expects that EUR 12.4 million of the goodwill will be deductible for tax purposes.

Acquisition related costs of EUR 9.7 million, that were not attributable to the share issue, are included in Other operating expenses in income statement and in net cash from operating activities in cash flow statement.

#### MD Papéis' Caieiras

The fair values of acquired identifiable intangible assets at the date of acquisition were EUR 28.1 million comprising of customer relationships of EUR 24.0 million and energy contracts of EUR 4.0 million.

The fair value of the acquired trade receivables is EUR 10.4 million. The gross contractual amount for trade receivables is EUR 11.5 million of which EUR 1.1 million is expected to uncollectable.

The goodwill of EUR 30.1 million arising from the acquisition of MD Papéis' Caieiras specialty paper mill in Brazil is attributable to synergies and assembled workforce and it has been allocated to Ahlstrom-Munksjö's Decor and Industrial Solutions business areas. For more information about goodwill allocation and our annual goodwill impairment tests, see note 12. It is expected that the goodwill will not be deductible for tax purposes.

Acquisition related costs of EUR 1.2 million are included in other operating expenses in the income statement and in net cash from operating activities in the cash flow statement.

#### Revenue and profit contributions

The acquired businesses contributed revenues from the acquisition dates as described on the table below.

EUR million	Expera Specialty Solutions Oct. 11–Dec. 31, 2018	MD Papéis' Caieiras Oct. 18–Dec. 31, 2018
Net sales	140.2	18.7
Net loss	-1.8	-0.8

The consolidated pro forma net sales and net profit for the year ended December 31, 2018, as though the acquisition dates had been as of the beginning of the financial year were EUR 2,996.9 million and EUR 63.2 million, respectively.

**Merger of Ahlstrom and Munksjö**

The combination of Ahlstrom and Munksjö was announced publicly in November 2016 and structured as a statutory absorption merger whereby Ahlstrom merged into Munksjö became effective on April 1, 2017. Following the resolutions of the Extraordinary General Meetings of both companies on January 11, 2017, the European Commission approved the merger and all pre-closing competition approvals required for completing the merger were received on March 13, 2017.

The execution of the merger was registered with the Finnish Trade Register on April 1, 2017, and the name of the combined company was changed to Ahlstrom-Munksjö Oyj. Ahlstrom's shareholders received as merger consideration 0.9738 new shares in Munksjö for each share in Ahlstrom owned by them and a total of 45,376,992 new shares in Ahlstrom-Munksjö were issued as merger consideration. Trading in the new shares commenced on the Nasdaq Helsinki and Nasdaq Stockholm stock exchanges on April 3, 2017.

For accounting purposes, Munksjö was determined to gain control over Ahlstrom and as such being the accounting acquirer based on the merger structure and facts and circumstances including the relative voting rights received by both shareholders groups, composition of the board of directors and senior management and the structure of the transaction whereby Munksjö is the surviving entity post-combination. Accordingly, the merger has been accounted for in the consolidated accounts as a business combination where Munksjö acquired Ahlstrom on April 1, 2017.

**Purchase consideration**

The purchase consideration has been determined based on the fair value of Ahlstrom-Munksjö's shares that were issued to Ahlstrom's shareholders as merger consideration in exchange for their shareholding in Ahlstrom as follows:

Number of new Ahlstrom-Munksjö shares issued as merger consideration	45,376,992
Closing share price of Munksjö shares on March 31, 2017 on Nasdaq Helsinki (EUR)	13.94
<b>Fair value of merger consideration (EUR million)</b>	<b>632.6</b>

Cash portion paid to Ahlstrom's shareholders due to fractional entitlements to the merger consideration was immaterial. The total costs for issuance of merger consideration amounted to EUR 4.6 million (net of taxes) and have been deducted from the reserve for invested unrestricted equity in the balance sheet and have been deducted from the reserve for invested unrestricted equity in the balance sheet.

**Purchase price allocation**

Ahlstrom-Munksjö has finalized the valuation of the acquired assets and assumed liabilities. The following table presents the fair values of the net assets acquired and the amount of goodwill arising from the merger as of the date of acquisition:

	EUR million
<b>Non-current assets</b>	
Property, plant and equipment	452.9
Other intangible assets	288.8
Other non-current assets	19.8
Deferred tax assets	39.8
<b>Current assets</b>	
Inventories	131.8
Trade and other receivables	124.5
Current tax asset	0.9
Cash and cash equivalents	66.6
<b>Non-current liabilities</b>	
Non-current borrowings	-105.5
Employee benefit obligations	-55.0
Deferred tax liabilities	-117.7
Non-current provisions	-1.7
<b>Current liabilities</b>	
Current borrowings	-211.2
Trade and other payable	-202.5
Current tax liabilities	-5.9
Current provisions	-2.0
<b>Total net assets acquired</b>	<b>423.7</b>
Non-controlling interests	-4.8
<b>Goodwill</b>	<b>213.7</b>
<b>Purchase consideration</b>	<b>632.6</b>

## Cont. note 3

Off-balance sheet commitments of EUR 62.9 million were transferred to Ahlstrom-Munksjö in the merger comprising mainly of guarantees on behalf of Ahlstrom's subsidiaries.

The fair values of acquired identifiable intangible assets at the date of acquisition were EUR 288.8 million, comprising of customer relationships valued using the excess-earnings method, acquired technology based assets comprising of process and product technology, know-how and trade secrets valued using the relief-from-royalty method and trademarks and tradenames which have been also been valued using the relief-from-royalty method.

The goodwill arising from the merger amounted to EUR 213.7 million and reflects the value of acquired assembled workforce and synergies raising from the merger e.g. reduction of overhead costs, reduced costs of procurement and improved operational efficiency. Acquired goodwill has been allocated to Ahlstrom-Munksjö's year 2017 four business areas: Decor, Filtration and Performance, Industrial Solutions and Specialties. Goodwill is not deductible for tax purposes.

The amount of non-controlling interest recognized amounted to EUR 4.8 million and was recognized on the proportionate goodwill method at the merger date.

The transaction and integration costs related to the merger that were not directly attributable to the share issue amounted to EUR 14.7 million in 2017 and EUR 4.1 million in 2016.



### Accounting policies

#### Business acquisitions

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the fair value of consideration transferred comprising of the following:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued as purchase consideration
- fair value of any contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary, if applicable.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values and any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred and presented as other operating expenses in the income statement with the exception of costs directly attributable to the issuance of equity instruments that are deducted from equity, net of tax. Any excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.



### Accounting estimates and judgements

The application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the acquired intangible assets, property, plant and equipment and the liabilities assumed at the acquisition date, and the useful lives of the acquired intangible assets and property, plant and equipment.

Measurement is based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may materially affect the Group's future results of operations. In particular, the estimation of discounted cash flows for e.g. customer relationships, technology based assets as well as trademarks and tradename are based on assumptions concerning, for example:

- Assumptions related to long-term sales projections and margin development
- Determination of appropriate discount rates
- Estimates related to customer retention rates
- Estimates related to appropriate market based royalty rates

For significant acquisitions, the fair valuation exercise on the acquired assets and assumed liabilities is carried out with assistance from independent third-party valuation specialists. The valuations are based on the information available at the acquisition date taking into account the provisional adjustment period allowed under IFRS of 12 months.

## 4 BUSINESS AREA INFORMATION

Following the acquisitions of Expera and Caieiras, Ahlstrom-Munksjö is organized into five business areas which are Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties. North America Specialty Solutions business area includes the operations and business of Expera Specialty Solutions. Business of MD Papéis' Caieiras has been divided into two segments: Decor and Industrial Solutions. These five business areas form the Group's reportable segments. Ahlstrom-Munksjö's business areas are described below:

<p><b>Decor</b> The Decor business area develops and produces paper-based surfacing for wood-based materials such as laminate flooring, furniture and interiors.</p>	<p><b>Filtration and Performance</b> The Filtration and Performance business area develops and produces filtration materials for engine oils, fuels and air as well as industrial filtration. It also produces glass fiber for flooring products and wind turbine blades and makes nonwoven materials for automotive, construction, textile and hygiene applications and wallcover materials.</p>
<p><b>Industrial Solutions</b> The Industrial Solutions business area develops and produces abrasive backings, electrotechnical insulation papers, release liners and coated specialty papers. The business area also supplies fine art and printing papers, as well as thin papers, specialty pulp and balancing foil paper.</p>	<p><b>North America Specialty Solutions</b> North America Specialty Solutions business area comprises the acquired business of Expera and it develops and produces specialized materials that protect and enhance the performance of a wide range of industrial and consumer applications, such as tape and interleaving papers, specialty paper to wrap and package processed and quick service restaurant prepared foods as well as release liners.</p>
<p><b>Specialties</b> The Specialties business area develops and produces materials for food and beverage processing, laboratory filters and life science diagnostics, water filtration, tape products and medical fabrics. The business area also supplies hot cooking oil and milk filtration materials, graphics paper for sticky notes and envelopes as well as metallized labels and flexible packaging papers.</p>	<p><b>Other and eliminations</b> Other and eliminations include head office costs comprising the following functions: CEO, Group Finance, Treasury, Investor Relations, Strategy, Legal, Communication, and Group HR. The head office costs comprise mainly salaries, rent and professional fees. Other and eliminations include holding and sales companies' income and expenses. Other and eliminations also include certain other exceptional costs not used in the assessment of business area performance.</p>

### Business area key measures

Financial performance by business area, EUR million, 2018	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties	Other and eliminations	Group
Net sales, external	407.9	662.1	662.6	135.4	564.8	5.1	2,438.0
Net sales, internal	3.7	10.4	0.6	-	15.5	-30.2	-
Pro forma net sales impact	40.3	-	28.1	490.6	-	-	558.9
<b>Pro forma net sales</b>	<b>451.9</b>	<b>672.5</b>	<b>691.2</b>	<b>626.0</b>	<b>580.3</b>	<b>-25.1</b>	<b>2,996.9</b>
Pro forma net sales impact							-558.9
<b>Net sales</b>							<b>2,438.0</b>
Comparable EBITDA	32.3	114.7	96.1	13.1	37.6	-16.2	277.7
Pro forma comparable EBITDA impact	4.8	-	3.6	43.8	-	-	52.2
<b>Pro forma comparable EBITDA</b>	<b>37.1</b>	<b>114.7</b>	<b>99.7</b>	<b>57.0</b>	<b>37.6</b>	<b>-16.2</b>	<b>329.9</b>
Pro forma comparable EBITDA impact							-52.2
Items affecting comparability in EBITDA							-55.1
Depreciation, amortization and impairments							-133.9
<b>Operating result</b>							<b>88.7</b>

Cont. note 4

**Additional business area information**

Additional business area information, EUR million, 2018	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties	Other and eliminations	Group
Capital expenditure	14.4	38.7	56.0	7.6	31.8	11.7	160.1
Pro forma capital expenditure impact	1.2	-	0.9	14.0	-	-	16.1
<b>Pro forma capital expenditure</b>	<b>15.5</b>	<b>38.7</b>	<b>57.0</b>	<b>21.6</b>	<b>31.8</b>	<b>11.7</b>	<b>176.3</b>
Depreciation, amortization and impairment	-6.3	-42.1	-34.0	-5.9	-38.2	-7.6	-133.9
Pro forma depreciation, amortization and impairment impact	-3.1	-	-2.4	-21.5	-	-	-27.0
<b>Pro forma depreciation, amortization and impairment</b>	<b>-9.4</b>	<b>-42.1</b>	<b>-36.4</b>	<b>-27.4</b>	<b>-38.2</b>	<b>-7.6</b>	<b>-161.0</b>
Operating working capital <sup>1</sup>	61.0	97.1	89.6	109.2	92.8	-11.1	438.7

<sup>1</sup> 2017 operating working capital does not include the operating working capital of Expera and Caieras and is not therefore comparable to 2018 operating working capital.

Financial performance by business area, EUR million, 2017	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties	Other and eliminations	Group
Net sales, external	375.4	488.1	638.7	-	454.9	2.9	1,959.9
Net sales, internal	2.9	8.2	2.2	-	11.1	-24.4	-
Pro forma net sales impact	53.4	169.0	37.6	637.9	108.3	-4.7	1,001.5
<b>Pro forma net sales</b>	<b>431.8</b>	<b>665.3</b>	<b>678.4</b>	<b>637.9</b>	<b>574.3</b>	<b>-26.2</b>	<b>2,961.5</b>
Pro forma net sales impact							-1,001.5
<b>Net sales</b>							<b>1,959.9</b>
Comparable EBITDA	33.9	88.8	109.3	-	35.0	-18.7	248.2
Pro forma comparable EBITDA impact	10.0	31.8	2.9	62.2	17.9	-6.5	118.1
<b>Pro forma comparable EBITDA</b>	<b>43.8</b>	<b>120.6</b>	<b>112.1</b>	<b>62.2</b>	<b>52.9</b>	<b>-25.3</b>	<b>366.3</b>
Pro forma comparable EBITDA impact							-118.1
Items affecting comparability in EBITDA							-38.1
Depreciation, amortization and impairment							-106.6
<b>Operating result</b>							<b>103.5</b>

Cont. note 4

**Additional business area information**

Additional business area information, EUR million, 2017	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties	Other and eliminations	Group
Capital expenditure	9.0	24.2	33.9	-	13.1	4.4	84.6
Pro forma capital expenditure impact	2.2	3.3	1.8	31.0	1.5	0.4	40.1
<b>Pro forma capital expenditure</b>	<b>11.2</b>	<b>27.4</b>	<b>35.7</b>	<b>31.0</b>	<b>14.6</b>	<b>4.8</b>	<b>124.7</b>
Depreciation, amortization and impairment	-5.8	-32.7	-36.2	-	-25.9	-6.0	-106.6
Pro forma depreciation, amortization and impairment impact	-4.9	-12.1	-3.9	-31.0	-4.1	-3.4	-59.3
<b>Pro forma depreciation, amortization and impairment</b>	<b>-10.6</b>	<b>-44.8</b>	<b>-40.1</b>	<b>-31.0</b>	<b>-30.0</b>	<b>-9.4</b>	<b>-165.9</b>
Operating working capital <sup>1</sup>	47.2	69.0	76.5	-	80.0	-4.8	267.8

<sup>1</sup> 2017 operating working capital does not include the operating working capital of Expera and Caieras and is not therefore comparable to 2018 operating working capital.

**Accounting policies****Business areas**

Ahlstrom-Munksjö's CEO assisted by the Management Team is the Group's chief operating decision maker ("CODM") and operating segments are determined on the basis of information reviewed by the CEO for the purposes of allocating resources and assessing the business area's performance. The business area's performance is assessed internally based on pro forma net sales and pro forma comparable EBITDA (see note 2).

Pro forma net sales measure is defined as reported net sales and pro forma net sales impact of the acquisitions of Expera and Caieras and the merger of Ahlstrom and Munksjö. Pro forma comparable EBITDA measure is defined as reported EBITDA excluding items affecting comparability and pro forma comparable EBITDA impact of the acquisitions of Expera and Caieras and the merger. Pro forma impact is presented as if the acquisitions and the merger had taken place at the beginning of the comparative financial period on January 1, 2017.

In addition to pro forma comparable EBITDA, the CODM also follows the segment's net asset position based on the operating working capital which is defined as inventories plus operative receivables before factoring less operating payables.

Sales between the business areas are invoiced at market prices. None of Ahlstrom-Munksjö's individual customers accounts for more than 10% of the Group's revenues.



## 5 SOURCES OF REVENUE

Ahlstrom-Munksjö's revenue comprise the sale of manufactured products through its five business areas including filter materials, release liners, food and beverage processing materials, decor papers, abrasive and tape backings, electrotechnical paper, glass fiber materials, medical fiber materials and solutions for diagnostics as well as a range of specialty papers for industrial and consumer end-uses.

### Net sales by geography

Net sales by geography, EUR million	2018	2017
USA	457.5	251.0
Germany	285.9	249.4
France	183.6	95.3
China	146.8	119.6
Italy	132.9	126.0
Brazil	130.2	119.8
Poland	115.4	97.0
Spain	108.1	108.3
United Kingdom	76.8	61.2
Turkey	65.4	66.0
Finland	17.4	12.1
Other	718.0	654.0
<b>Total</b>	<b>2,438.0</b>	<b>1,959.9</b>

Net sales in the table above are presented based on the customers' geographical location. Ahlstrom-Munksjö recognizes revenue at a point in time.

### Additional unaudited pro forma information

Net sales by region, EUR million	2018	2017	2018	2017
Europe	1,324.5	1,161.3	1,333.9	1,289.8
North America	529.3	299.6	976.4	972.9
South America	171.1	159.7	240.1	263.1
Asia-Pacific	376.7	304.5	409.3	392.4
Rest of the world	36.5	34.8	37.2	43.2
<b>Total</b>	<b>2,438.0</b>	<b>1,959.9</b>	<b>2,996.9</b>	<b>2,961.5</b>

### Contract assets and liabilities

The Group has advance payments received from customers EUR 1.9 million (EUR 1.6 million), see note 14.

### Non-current assets by geography

Non-current assets by geography, EUR million	2018	2017
USA	793.4	217.9
France	333.4	325.5
Italy	240.7	246.5
Germany	215.7	211.4
Brazil	172.1	77.1
Finland	146.4	149.6
Sweden	149.0	142.7
China	80.4	85.8
South Korea	43.4	46.6
Spain	32.6	33.5
Other	69.8	67.6
<b>Total</b>	<b>2,276.9</b>	<b>1,604.2</b>

### Other operating income

Other operating income mainly includes government grants and sale of scrap products and materials.

Other operating income, EUR million	2018	2017
Government grants	1.8	4.8
Sale of scrap	2.3	2.1
Gains/losses on fixed assets	0.3	2.2
Rental and lease income	0.1	0.1
Insurance compensation	1.4	0.2
Other	3.8	3.4
<b>Total</b>	<b>9.6</b>	<b>12.7</b>

**Accounting policies****Revenue recognition**

The Group has adopted the new IFRS 15 Revenue from Contracts with Customers standard as of January 1, 2018. IFRS 15 defines a five-step model to recognize revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the good or service underlying the particular performance obligation is transferred to the customer.

The Group is delivering goods to the customers where each good provided to the customer is distinct from the other goods provided to the customer. A typical good consist of a packed sheet of paper, a roll of paper or a cube of pulp, which each represent a distinct performance obligation. The Group does not provide material services. Sale of goods is the revenue stream of the Group that consists of the following business areas: Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties.

A typical contract with customer consists of purchase order and order confirmation, including the general terms and conditions of the arrangement. Compared to the previous accounting standard, the new standard does not entail any change in identification of the performance obligations and accounting for the delivery of goods.

The Group provides standard assurance-type warranties only and consequently the customer contracts do not include any service-type warranties that should be accounted for as a separate performance obligation.

The transaction price may include variable consideration components, including volume and cash discounts and refunds. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts and refunds. Accumulated experience is used and provide for the discounts and customer refunds, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Revenue is recognised at a point in time when control of goods has been transferred to the customer based on Incoterms.

The Group adopted IFRS 15 using the full retrospective method and there were no significant accounting changes compared to the previous practice and thus there was no impact to the financial statements.

**6 OTHER OPERATING EXPENSES**

Other operating expenses represents the costs of production incurred by the Group in the manufacture and sale of its product offerings excluding the cost of materials and supplies and employee benefit expenses. Depreciation, amortization and any impairment charges are reported separately from these operating expenses.

The largest component of other operating expenses is energy costs, which are incurred in the production process. The Group obtains a part of its energy requirements from co-generation power plants and in-house power facilities. Energy is generally purchased from regional suppliers, and the Group aims to decrease its risk of price sensitivity through coordinated purchasing, fixed-price contracts and energy savings in mills.

Other operating expenses, EUR million	2018	2017
Energy costs	-172.8	-136.1
Other production costs	-106.3	-85.3
Freights and other delivery costs	-87.4	-73.5
Repair and maintenance costs	-66.7	-58.7
External services	-31.2	-19.5
Leasing and rental costs	-12.4	-10.5
Local and property taxes	-12.0	-10.4
Insurance	-6.2	-6.2
Other	-94.6	-71.9
<b>Total</b>	<b>-589.5</b>	<b>-472.0</b>

External services include auditor remuneration to the Group's auditors. See more information in note 22. Other consist of IT costs, travel costs, communications costs and office supplies.

Cont. note 6

**Operating lease commitments**

Ahlstrom-Munksjö has entered into operating lease contracts which mainly relate to premises.

The table below displays the future operating lease commitments of the Group and when these fall due.

Future operating lease commitments, EUR million	2018		2017	
	Future minimum leasing fees	Of which, premises	Future minimum leasing fees	Of which, premises
Within 1 year	13.3	5.1	11.3	4.5
2-5 years	25.7	12.3	22.2	11.8
More than 5 years	8.4	7.5	6.4	5.0
<b>Total</b>	<b>47.5</b>	<b>25.0</b>	<b>39.9</b>	<b>21.2</b>

The increase of operating lease commitment is mainly due to the acquisitions of Expera Specialty Solutions.

**Accounting policies****Repair and maintenance**

Ordinary repairs and maintenance activities are performed to maintain the buildings and equipment in operating condition. Ordinary repairs usually benefit only the period when such repairs are done and accordingly are expensed in the period incurred.

**Leasing and rental costs**

Leases in which a significant part of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Operating lease and rental payments are recognized as an expense in profit and loss over the lease period on a straight-line basis.

**7 EMPLOYEE AND BOARD OF DIRECTORS REMUNERATION**

Ahlstrom-Munksjö has over 8,000 employees working in 45 production and converting facilities and offices in 24 different countries. These employees represent the company's most important resources. The following section outlines the benefits granted to our employees, to our Executive Management Team including the CEO and to the Board of Directors. The section also provides information on shareholdings of the Board of Directors and Executive Management, and details of the long-term incentive plan that the company operates to align the objectives of the shareholders with the Group's key personnel.

**Employee benefit expenses (including members of the Board of Directors)****Wages, salaries and other remuneration**

Employee benefit expenses for all employees, EUR million	2018	2017
Wages and salaries	-343.6	-287.7
Pension expenses, defined contribution plans	-23.0	-18.5
Pension expenses, defined benefit plans (note 15)	-2.5	-3.8
Share based payments	-2.2	0.3
Other indirect employee costs <sup>1</sup>	-81.0	-54.2
<b>Total</b>	<b>-452.4</b>	<b>-363.7</b>

<sup>1</sup> Other indirect employee costs mainly include other statutory social expenses, excluding pension expenses.

**Executive Management**

Ahlstrom-Munksjö's Executive Management consists of the CEO, Deputy CEO, Business Area Executive Vice Presidents (EVPs) and EVPs responsible for Group Functions.

**Remuneration and benefits**

Management, EUR thousand, 2018	Salaries <sup>1</sup>	Short term incentives	Share based payments	Other benefits	Pension costs <sup>2</sup>	Total
CEO - Hans Sohlström (starting from April 16, 2018)	428	-	-	-	85	513
CEO - Jan Åström (up until April 15, 2018)	160	302	-	3	71	536
Executive Management Team	2,259	838	-	61	365	3,523
<b>Total</b>	<b>2,847</b>	<b>1,140</b>	<b>-</b>	<b>64</b>	<b>521</b>	<b>4,572</b>

<sup>1</sup> Not including social costs.

<sup>2</sup> Includes only additional, non obligatory pensions costs

Cont. note 7

Remuneration and benefits paid to Executive Management, EUR thousand, 2017

	Salaries <sup>1</sup>	Short term incentives	Share based payments	Other benefits	Pension costs <sup>2</sup>	Total
CEO – Jan Åström	569	235	1,207	11	201	2,223
Executive Management Team	2,063	608	1,524	74	133	4,402
<b>Total</b>	<b>2,632</b>	<b>843</b>	<b>2,731</b>	<b>85</b>	<b>334</b>	<b>6,625</b>

Executive Management remuneration and benefits recognized in income statement, EUR thousand	Salaries and other short-term employee benefits <sup>1</sup>	Share based payments	Pension costs <sup>2</sup>	Total
2018	3,413	817	521	4,751
2017	3,857	-	334	4,191

<sup>1</sup> Not including social costs.

<sup>2</sup> Includes only additional, non obligatory pensions costs

#### Executive Management Team remuneration

The CEOs monthly fixed total salary is EUR 50,000. He is also entitled to the short term incentive (bonus) plan, with a maximum annual bonus opportunity of 80% of his annual fixed salary. He is also part of the ongoing LTI programs. The remuneration of the Executive Management Team comprises of both fixed salaries, including personal benefits such as a company car, telephone etc. and short term incentives which is calculated in proportion to the fixed salary and is based on the Group's and/or Business Area's strategic and financial targets as well as safety and some customized targets. The Board of Directors authorize the final resolution on the payment of short term incentives for the Executive Management Team and the CEO.

#### Pensions

Pension arrangements for the Executive Management Team include customary occupational pensions and in some cases individually agreed arrangements, consisting of defined contribution plans. The CEO is part of the Finnish obligatory pension plan (TyeL) and in addition he belongs to an additional Group Pension Plan according to which Ahlstrom-Munksjö shall contribute 20 per cent of the CEO's monthly fixed salary per annum to said Group Pension. The CEO can retire at the age of 63 according to the additional Group Pension.

#### Other benefits

To the extent that other benefits are paid, they consist of company cars, housing, schooling fees and health insurances.

#### Specific termination clauses for the CEO

The CEO's employment agreement may be terminated by Ahlstrom-Munksjö Oyj with a twelve (12) months' notice and by the CEO with six (6) months' notice. If the company terminates the current CEO agreement for any other reason than material breach Ahlstrom-Munksjö shall, in addition to the salary for the period of notice, pay the CEO severance compensation equal to the amount of his fixed salary for the 6 months immediately preceding the delivery of notice.

#### Average number of employees

Average number of employees (FTE) by business area	2018	2017
Decor	870	815
Filtration and Performance	1,587	1,146
Industrial Solutions	1,510	1,477
North America Specialty Solutions	468	-
Specialties	1,673	1,316
Other	372	355
<b>Total</b>	<b>6,480</b>	<b>5,109</b>



#### Additional unaudited pro forma information

Average number of employees (FTE)	2018	2017
<b>Total</b>	<b>8,204</b>	<b>8,196</b>

Cont. note 7

**Remuneration of the Board of Directors and Board Committees**

Ahlström-Munksjö's Annual General Meeting ("AGM") makes resolutions each year on the compensation for the members of the Board of Directors remuneration. The 2018 AGM resolutions were as follows (the 2017 remuneration resolutions are presented in brackets as comparatives):

- Annual compensation for the Chairman of the Board of EUR 100,000 (EUR 100,000)
- Other Board Members appointed by the AGM will receive annual fees of EUR 60,000 (EUR 60,000) with the exception of the Vice Chairman whose remuneration is EUR 80,000 (EUR 80,000)
- Chairman of the audit committee will receive EUR 12,000 (EUR 12,000) and other members will receive EUR 6,000 (EUR 6,000).
- The chairman of the human resources committee (previously the remuneration committee) will receive EUR 8,000 (EUR 8,000) and other members will receive EUR 4,000 (EUR 4,000).
- The chairman of the Nomination board will receive EUR 8,000 (EUR 8,000) and the ordinary members EUR 4,000 (EUR 4,000).
- In year 2017 the chairman of the Strategy Committee received EUR 12,000 and other members received EUR 6,000.

Total remuneration for the members of the Board of Directors and/or board committees and/or shareholders' nomination board was as follows for the years ended 31 December 2018 and 2017:

Current members of the Board of Directors and/or board committees  
and/or shareholders' nomination board, EUR thousand

		2018	2017
Peter Seligson	Chairman of the Board	102	88
Elisabet Salander Björklund	Vice-Chairman of the Board	92	81
Alexander Ehrnrooth		72	71
Johannes Gullichsen		64	50
Lasse Heinonen		17	-
Hannele Jakosuo-Jansson		68	56
Harri-Pekka Kaukonen		66	54
Valerie A. Mars		-	-
Pernilla Walfridsson		66	41
Mikael Lilius	Nomination board member	5	-
Mikko Mursula	Nomination board member	4	4

Former members of the Board of Directors and/or board committees and/  
or shareholders' nomination board, EUR thousand

		2018	2017
Hans Sohlström	Up until March 21, 2018	27	89
Thomas Ahlström	Up until June 11, 2018 (nomination board)	4	7
Sebastian Bondestam	Up until May 16, 2017	-	16
Jan Inbör	Up until June 24, 2017	-	21
Mats Lindstrand	Up until May 16, 2017	-	16
Anna Ohlsson-Leijon	Up until May 16, 2017	-	16

**Shareholding of the Board of Directors and Executive management**

Board of Directors shareholding, December 31, 2018	Title	Shares
Peter Seligson	Chairman of the Board	1,304,061
Elisabet Salander Björklund	Vice-Chairman of the Board	5,040
Alexander Ehrnrooth	Board member	14,717,714
Johannes Gullichsen	Board member	415,955
Lasse Heinonen	Board member	0
Hannele Jakosuo-Jansson	Board member	3,600
Harri-Pekka Kaukonen	Board member	4,868
Valerie A. Mars	Board member	14,680
Pernilla Walfridsson	Board member	920

Cont. note 7

Executive management shareholding, December 31, 2018		Shares
	Title	
Hans Sohlström	President and CEO	36,516
Sakari Ahdekivi	Deputy CEO and EVP Corporate Development	0
Pia Aaltonen-Forsell	EVP, CFO and Communications & Investor Relations	15,519
Dan Adrianzon	EVP, People & Safety	30
Daniele Borlatto	EVP, Industrial Solutions	24,408
Fulvio Capusotti	EVP, Filtration and Performance	9,924
Andreas Elving	EVP, Legal and General Counsel	3,860
Omar Hoek	EVP, Specialties	4,606
Tomas Wulkan	EVP, Decor	0
Russ Wanke	EVP, North America Specialty Solutions	34,857

#### Share-based payments

Ahlstrom-Munksjö's CEO, Executive Management Team members and a number of key employees participate in share-based long-term incentive plans ("LTI"s) which are established on a recurring basis to align the interests of the shareholders and management.

#### Ahlstrom-Munksjö Long-term Incentive Share-based Plan

Ahlstrom-Munksjö's Board of Directors decided on October 24, 2017 to introduce a new rolling long-term share-based incentive plan for approximately 65 members of the Group's key personnel with the aim of aligning the objectives of the owners and key personnel to increase the Group's value and to commit the key personnel to the Group.

The plan includes a rolling structure of individual plans, each with a three-year performance period. The first performance period started in 2017. The commencement of performance periods is subject to the Board of Director's annual decision and Ahlstrom-Munksjö's Board of Directors decided on February 12, 2018 a second performance period. The first performance period is 2017-2019 and the possible reward will be paid out in 2020 in the form of shares, provided that certain performance and service conditions are met. The second performance period is 2018-2020 and the possible reward will be paid out in 2021.

Depending on which levels of the performance and service condition thresholds are met, the gross EUR value of the reward paid will be within a minimum and maximum range, with the final number of shares being determined based on Ahlstrom-Munksjö's share price at the end of the performance period.

#### Performance conditions

In order for the rewards to qualify for vesting, both of the following performance conditions will need to be met over the performance periods. Both performance conditions are taken into account when determining the grant date fair value and accordingly, the expense is recognized irrespectively of whether the conditions are satisfied.

- Total shareholder return (TSR) is a market condition and is based on the share price at the end of the performance period. This will need to exceed the minimum threshold set by the Group in order for the condition to be met. TSR is determined against Ahlstrom-Munksjö's volume weighted average share price over a certain period
- Ahlstrom-Munksjö's cumulative comparable EBITDA over the performance period will need to exceed an underlying comparable EBITDA requirement. This is a non-market performance condition.

#### Service condition

In addition to the performance conditions, in order for the rewards to vest, the participant will need to be employed by Ahlstrom-Munksjö at the time when the reward is paid.

#### Long-term Incentive Share-based Plan - Second performance period 2018-2020 ("LTI 2018-2020")

Ahlstrom-Munksjö's Board of Directors decided on February 12, 2018 a new performance period under the long-term share-based incentive plan announced in October 2017. The second performance period is 2018-2020 and the possible reward will be paid out in 2021.

The minimum gross value of the reward has been fixed to EUR 0.5 million and the maximum gross value has been fixed to EUR 9.4 million, and the final reward EUR value will be converted into an equivalent number of shares based on the trade volume weighted average price of the Ahlstrom-Munksjö share during the period of January-February of the calendar year immediately following the last year of the performance period.

#### Rewards granted and the fair value of reward

The fair value of the reward at the grant date was EUR 1.5 million. The fair value is calculated based on the probability of achieving each individual TSR threshold at the end of the performance period between the minimum and maximum thresholds set by the Group and estimated rate of realization of EBITDA criteria.

Cont. note 7

The following inputs have been used in the fair valuation model to determine the fair value:

Inputs used in determining fair value of rewards	LTI 2018-2020
Share price at grant date	EUR 15.46
Grant date	July 6, 2018
Expiry date	February 28, 2021
Average yearly volatility	33.2%
Expected rate of return	8.0%
Estimated rate of realization of EBITDA criteria	60.0%

The average annual volatility has been estimated based on the historic volatility of the Group's share price.

Service condition is used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme. The input used is set out in the table below and are reviewed on an annual basis:

Service condition	LTI 2018-2020
Estimated retention rate of participants	95.0%

No rewards were exercised or forfeited during the period for this plan.

#### Expenses arising from LTI 2018-2020 share-based payment transactions

The share-based expense relating to the period from the grant date (July 6, 2018) to the balance sheet date was EUR 0.3 million.

#### Long-term Incentive Share-based Plan – First performance period 2017-2019 (“LTI 2017-2019”)

Ahlstrom-Munksjö's Board of Directors decided on October 24, 2017 to introduce a new rolling long-term share-based incentive plan. The plan includes a rolling structure of individual plans, each with a three-year performance period. The performance period for the first reward is 2017-2019 and the possible reward will be paid out in 2020 in the form of shares, provided that certain performance and service conditions are met.

The minimum gross value of the reward has been fixed to EUR 0.3 million and the maximum gross value has been fixed to EUR 6.9 million, and the final reward EUR value will be converted into an equivalent number of shares based on the trade volume weighted average price of the Ahlstrom-Munksjö share during the period of January-February of the calendar year immediately following the last year of the performance period.

#### Rewards granted and the fair value of reward

The fair value of the reward at the grant date was EUR 2.1 million. The fair value is calculated based on the probability of achieving each individual TSR threshold at the end of the performance period between the minimum and maximum thresholds set by the Group and estimated rate of realization of EBITDA criteria.

The following inputs have been used in the fair valuation model to determine the fair value:

Inputs used in determining fair value of rewards	LTI 2017-2019
Share price at grant date	EUR 18.08
Grant date	December 22, 2017
Expiry date	February 28, 2020
Average yearly volatility	33.2%
Expected rate of return	8.0%
Estimated rate of realization of EBITDA criteria	80.0%

The average annual volatility has been estimated based on the historic volatility of the Group's share price.

Service condition is used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme. The input used is set out in the table below and are reviewed on an annual basis:

Service condition	LTI 2017-2019
Estimated retention rate of participants	95.0%

No rewards were exercised or forfeited during the period for this plan.

#### Expenses arising from LTI 2017-19 share-based payment transactions

The share-based expense relating to the period from the grant date (December 22, 2017) to the balance sheet date was EUR 1.1 million.



Cont. note 7

**Bridge plan**

In addition to the long-term share-based incentive plan, the Board of Directors decided to establish a bridge plan to cover the term in the former LTI structure, which results from the Ahlstrom-Munksjö merger and the transition to the new plan as described above.

The bridge plan covers the most critical leadership resources of Ahlstrom-Munksjö and will be a one-off plan. The bridge plan includes one performance period comprising years 2017-2018. The reward will be paid out in spring 2019 in the form of shares, provided that certain performance and service conditions are met. The payment of the reward is followed by a one-year restriction period.

Depending on which levels of the performance and service condition thresholds are met, the gross EUR value of the reward paid will be within a minimum and maximum range, with the final number of shares being determined based on Ahlstrom-Munksjö's share price at the end of the performance period. The minimum gross value of the reward has been fixed to EUR 0.2 million and the maximum gross value has been fixed to EUR 4.1 million, and the final reward EUR value will be converted into an equivalent number of shares based on the trade volume weighted average price of the Ahlstrom-Munksjö share during the period of January-February of the calendar year immediately following the last year of the performance period.

The performance conditions for the bridge plan are the same as those for the LTI plan. Both of the performance conditions will need to be met over the 2017-2018 performance period in order for the rewards to qualify for vesting.

**Rewards granted and the fair value of rewards**

The fair value of the rewards at the grant date was EUR 1.3 million. The fair value is calculated based on the probability of achieving each individual TSR threshold at the end of the performance period between the minimum and maximum thresholds set by the Group and estimated rate of realization of EBITDA criteria.

The following inputs have been used in the fair valuation model to determine the fair value:

Inputs used in determining fair value of rewards	Bridge plan
Share price at grant date	EUR 18.08
Grant date	December 22, 2017
Expiry date	February 28, 2019
Average yearly volatility	33.2%
Expected rate of return	8.0%
Estimated rate of realization of EBITDA criteria	80.0%

The average annual volatility has been estimated based on the historic volatility of the Group's share price.

Service condition is used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme. The input used is set out in the table below and are reviewed on an annual basis:

Service condition	Bridge plan
Estimated retention rate of participants	95.0%

No rewards were exercised or forfeited during the period for this plan.

**Expenses arising from Bridge plan**

The share-based expense relating to the period from the grant date (December 22, 2017) to the balance sheet date was EUR 0.8 million.

**Predecessor Munksjö LTI plans**

Munksjö had prior to the effective date of the merger, two separate long-term incentive plans in place, LTI 2014-2016 and LTI 2016-2018. Participants were awarded Matching and Performance Rights, based on an initial investment of saving shares. Under the original terms and conditions, the Matching and Performance Rights would have vested conditional on specific performance criteria, holding of investment shares and continued employment of the participant. The vesting period for both programs was originally three year. The LTI 2014-2016 plan vested in accordance with the original terms and conditions of the plan and a total of 126,371 shares were delivered to the participants on vesting. The total cost for the LTI recorded in 2017 comprised of EUR 0.7 million of the equity-settled payment recorded against the Group equity and EUR 3.3 million of a cash-settled compensation cost representing the cash portion to the participants to cover the tax portion and social security costs for the employees.

On December 16, 2016, the Board of Directors decided to terminate the Munksjö 2016-2018 LTI's. The 2016-2018 LTI terminated on the completion of the merger, on 1 April 2017 on a pro rata basis, thereby cancelling 7/12 of the program (the original award period would have terminated at the end of 2018 and the award would have been payable in the spring of 2019). The participants in the program received shares and cash. The termination was accounted for as a cancellation. A total of 108,767 shares in Ahlstrom-Munksjö were transferred to the participants during April 2017 equaling to a compensation expense on the equity-settled portion of EUR 2.1 million and a cash payment of EUR 0.7 million was made to compensate the employee tax implications and social security costs.

The total cost recognized in the 2016 income statement for LTI 2014-2016 amounted to EUR 2.9 million and at December 31, 2016, the cash settled liability amounted to EUR 2.2 million and the amount recognized in equity amounted to EUR 0.7 million.

**Accounting policies****Share-based payments**

The LTI 2017-2019 and the bridge plan are accounted for as share-based payments whereby employees in exchange for providing services receive Ahlstrom-Munksjö shares. Ahlstrom-Munksjö has classified these programs as equity-settled as it is the Group's intention to settle the rewards in the form of shares. Ahlstrom-Munksjö has granted the participants with the right to receive a variable number of shares which will ultimately depend on the achievement of the performance conditions.

Ahlstrom-Munksjö's share-based payments include both market and non-market performance conditions. The Group calculates the grant-date fair value using a probability weighted value model to reflect the probability of not achieving the TSR (market) conditions and estimated rate of realization of EBITDA criteria (non-market condition). Both performance conditions are taken into account when determining the grant date fair value and accordingly, the expense is recognized irrespectively of whether the conditions are satisfied. The requirement to stay in service is not factored into the grant date fair value. If the service condition is not met, the cumulative share-based payment cost will be trued-up accordingly.

The share-based cost related to equity-settled schemes is recognized by the Group under Employee benefit expenses in the income statement. The total cost is determined by reference to the fair value at grant-date and is recognized over the expected vesting period. At each balance sheet date, Ahlstrom-Munksjö revises the cumulative share-based cost expected to be paid out based on the estimated retention rate of participants at the end of the performance period.

The rewards will be settled by the Group, net of taxes that will be withheld. From January 1, 2018 onwards, new guidance has been introduced that enables net settled schemes to be treated as equity settled.

**Accounting estimates and judgements**

The LTI and bridge plan have been accounted for as equity settled share-based payments. This is based on a judgment made by the Group that the plans will be rewarded in the form of shares and not settled in cash.

The fair value of the rewards granted in the LTI and bridge plan have been estimated at the grant-date based on the probability of TSR reaching specific thresholds at the end of the performance period and estimated rate of realization of EBITDA criteria. In order to calculate the probabilities, the most important assumptions that have been made in the probability weighted value model comprise of required rate of return of 8.0% and annual TSR volatility of 33.2%. The estimated rate of realization of EBITDA criteria is based on management's estimates of the probability of achieving the comparable EBITDA performance criteria. In order to estimate the likelihood of achieving the comparable EBITDA criteria management consider the Group's comparable EBITDA performance against the forecast for the vesting period.

The expense recognized in Employee benefit expenses is based on management's estimates of the estimated number of participants remaining in the scheme when the vesting period ends.

At the end of each period, management estimates the expected retention rate for participants to calculate the expense for the current period and the change in the amount recognized in equity in relation to the share-based payments.

Management estimate the number of participants that they expect to remain in the scheme at the end of the vesting period by reviewing the number of participants remaining at the end of each period, and the expected number of these participants who will remain at the pay-out date, considering the historic rate of staff retention in the Group.

## 8 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Intangible assets and property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation, amortization and impairment.

Depreciation and amortization, EUR million	2018	2017
<b>Intangible assets</b>		
Customer relationships	-9.5	-6.7
Patents and trademarks	-1.7	-1.7
Other	-13.1	-9.8
<b>Property, plant and equipment</b>		
Land and buildings	-12.7	-10.2
Machinery and equipment and other	-89.2	-78.2
<b>Total</b>	<b>-126.2</b>	<b>-106.6</b>

Depreciation and amortization arising from PPA adjustments recognized in the acquisitions and in the merger was EUR 34.7 million in 2018 and EUR 24.4 million in 2017.

Impairment, MEUR	2018	2017
<b>Property, plant and equipment</b>		
Machinery and equipment	-7.7	-
<b>Total</b>	<b>-7.7</b>	<b>-</b>

### Impairment losses

Impairment losses relate to restructuring of one-side coated product segment, a part of the Specialties business area, where the markets have significant overcapacity globally and the Group's offering is not optimally aligned with the strategy of niche orientation in customized solutions. The operating environment has further deteriorated mainly due to increased raw material costs. The Group contemplates a plan to optimize its production capacity and product offering to meet the profitable demand and investigates the closure of one paper machine (PM1) in Stenay, France.

The following table represents annual charge arising from PPA adjustments recognized in the acquisitions and in the merger.

### Additional unaudited pro forma information

PPA amortization and depreciation, EUR million	2018	2017
Customer relationships	-14.9	-15.8
Patents and trademarks	-1.7	-1.7
Other intangible assets	-12.5	-13.0
Property, plant and equipment	-19.7	-20.8
<b>Total</b>	<b>-48.9</b>	<b>-51.3</b>

Other intangible assets mainly comprises of favourable contracts (e.g. economic value of the landfill rights) and technology related intangible assets identified in business combinations.

### Accounting policies

Depreciation and amortization is recognized in the income statement on a straight-line basis based on estimated useful life of intangible assets and property, plant and equipment, adjusted in appropriate cases by impairments. The useful lives are estimated as the period over which the Group will derive a benefit from the asset.

Goodwill and other intangible assets with an indefinite useful life are considered as non-depreciable assets. For non-depreciable assets, impairment tests are performed annually, as well as if there are any indications of impairments during the year, by calculating the assets recovery value. For more information on the impairment of goodwill and other intangible assets see note 12.

### Depreciation and amortization periods

#### Intangible assets

Customer relationships	15-25 years
Patents and trademarks	20-30 years
Other	10-40 years

#### Property, plant and equipment

Land improvements	20 years
Buildings	20-50 years
Machinery and equipment	2-20 years

## 9 NET FINANCIAL ITEMS

Net financial items outlines the components of financial income and financial expenses included in the income statement. The Group's financial income is mainly comprised of exchange rate gains on financing items. Financial costs mainly consist of interest expense on bank loans and bonds.

Net financial items, EUR million	2018	2017
Interest income from loans and receivables	2.4	2.2
Exchange rate gains	6.5	7.3
<b>Financial income</b>	<b>8.9</b>	<b>9.5</b>
Interest expense from Bank loans and bonds	-25.0	-15.3
Interest expenses on finance leases	-0.2	-0.2
Loss on interest rate swap	-0.2	-0.9
Unwinding of discount on provisions and net interest cost on defined benefit plans	-2.3	-2.7
Extinguished borrowings (Net gain or loss)	-0.6	-3.0
Exchange rate losses	-0.5	-10.2
Other financial costs <sup>1</sup>	-5.5	-3.4
<b>Financial expenses</b>	<b>-34.3</b>	<b>-35.7</b>
<b>Net financial items</b>	<b>-25.3</b>	<b>-26.2</b>

<sup>1</sup> Other financial costs include waiver costs and back-stop facility fees related to the already existing financing and the bridge facilities.

Exchange rate gains and losses in the income statement, EUR million

	2018	2017
<b>Exchange gains and losses</b>		
Operating result	1.5	-0.2
Financial income and expenses	6.6	-4.9
<b>Foreign exchange derivatives</b>		
Operating result	-4.7	0.3
Financial income and expenses	-0.6	2.0
<b>Total</b>	<b>2.9</b>	<b>-2.7</b>



### Accounting policies

#### Financial income and expenses

Financial income in the income statement consists of interest income from financial asset measured at amortized cost, exchange rate gains, and gains from foreign exchange derivatives on financial items.

Financial expenses consist of interest expenses on borrowings, commitment fees, net interest costs of defined benefit plans, the interest related to discounted provisions, and exchange rate losses on exchange, interest rate swaps and foreign exchange derivatives. These costs are reported in the income statement in the period in which they were incurred using the effective interest method, except for the interest rate swaps.

Fair value changes of interest rate swaps are recognized as financial income or expenses in the period in which they arise. Exchange gains and losses and foreign exchange derivatives on operative items are recorded in operating result.

**10 TAXES**

This note explains Ahlstrom-Munksjö's income tax expense and tax related balances in the consolidated financial statements. The deferred tax section provides information on expected future tax payments.

Income tax expense, EUR million	2018	2017
<b>Profit before taxes</b>	<b>63.3</b>	<b>77.3</b>
<b>Current tax income/expense</b>		
Current tax on profits for the year	-25.2	-18.3
Adjustments in respect of prior years	-1.3	-1.9
<b>Total</b>	<b>-26.5</b>	<b>-20.2</b>
<b>Deferred tax</b>		
Relating to tax loss carry forwards	-7.3	-15.6
Relating to other temporary differences	13.4	25.0
<b>Total</b>	<b>6.1</b>	<b>9.4</b>
<b>Total income taxes</b>	<b>-20.4</b>	<b>-10.8</b>

Reconciliation of effective tax rate, EUR million	2018	2017
<b>Profit before taxes</b>	<b>63.3</b>	<b>77.3</b>
Income tax at Finnish tax rate (20%)	-12.7	-15.5
Effect of other tax rates for foreign subsidiaries	2.3	-3.9
Regional, minimum and foreign withholding taxes	-1.1	-1.8
Effect on deferred tax from change in tax rate <sup>1</sup>	-4.4	15.0
Adjustments to current tax in respect of prior years	-1.3	-1.9
Current year losses for which no deferred tax asset recognized	-3.0	-2.4
Revaluation of deferred tax assets and liabilities	-0.6	-3.0
Non-deductible expenses and tax exempt income	0.4	2.6
Other	0.0	0.1
<b>Income taxes in the income statement</b>	<b>-20.4</b>	<b>-10.8</b>

<sup>1</sup> Impact of US tax rate reduction in the income statement was EUR 12,1 million in 2017.

Change in deferred tax on temporary differences and loss carry forwards, EUR million, 2018	Opening	Translation difference/ other	Business combination	Recognized in profit/loss	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	-156.1	0.8	-83.2	14.2	0.0	-224.3
Employee benefit obligations	16.0	0.2	0.0	-0.4	-0.9	14.9
Provisions	8.8	-0.1	4.3	3.3	0.2	16.5
Tax losses carried forward	37.1	-0.9	5.7	-7.3	0.0	34.6
Other	3.8	0.2	14.5	-3.8	0.4	15.2
<b>Net of deferred tax liabilities (-) and deferred tax assets (+)</b>	<b>-90.4</b>	<b>0.2</b>	<b>-58.7</b>	<b>6.1</b>	<b>-0.3</b>	<b>-143.1</b>
Assets	15.1					7.5
Liabilities	-105.5					-150.6

The changes in the deferred tax assets and liabilities during 2018 relate primarily to deferred tax in respect of the acquisition of Expera and Caieiras, in particular deferred tax in respect of purchase price allocations.

Change in deferred tax on temporary differences and loss carry forwards, EUR million, 2017	Opening	Translation difference/ other	Merger	Recognized in profit/loss	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	-69.1	1.0	-121.3	33.3	0.0	-156.1
Employee benefit obligations	8.2	0.4	15.3	-6.1	-1.8	16.0
Provisions	3.8	-0.3	6.0	-0.7	0.0	8.8
Tax loss carried forward	23.4	-0.2	29.4	-15.6	0.0	37.1
Other	7.9	0.0	-3.7	-1.4	1.1	3.8
<b>Net of deferred tax liabilities (-) and deferred tax assets (+)</b>	<b>-25.8</b>	<b>0.9</b>	<b>-74.3</b>	<b>9.4</b>	<b>-0.7</b>	<b>-90.4</b>
Assets	40.8					15.1
Liabilities	-66.6					-105.5

The changes in the deferred tax assets and liabilities during 2017 relate primarily to the merger of Ahlstrom and Munksjö, in particular deferred tax in respect of purchase price allocations.

Cont. note 10

Tax losses and related deferred tax assets, EUR million	Tax losses carried forward		Recognized deferred tax assets		Unrecognized deferred tax assets	
	2018	2017	2018	2017	2018	2017
Expiry within one year	4.0	3.4	0.0	0.0	1.0	0.9
Expiry within two-five years	50.0	57.5	0.9	1.9	12.0	12.6
Expiry after five years	13.2	34.1	1.5	6.5	1.7	2.3
No expiry	212.4	185.1	32.2	28.7	22.9	21.5
<b>Total</b>	<b>279.6</b>	<b>280.1</b>	<b>34.6</b>	<b>37.1</b>	<b>37.6</b>	<b>37.3</b>



### Accounting policies

#### Current and deferred tax expense

The income tax expense is comprised of current tax and deferred tax. Tax is recognised in the income statement except when underlying transactions are reported in other comprehensive income, or directly in equity, in which case the associated tax effect is reported in other comprehensive income or directly in equity.

Current taxes are based on the results of group companies and are calculated using the local tax laws and tax rates that are enacted or substantively enacted as of each reporting date. Adjustments in respect of prior year or uncertain tax treatments are recorded based on the probable outcome.

Deferred tax is calculated using the liability method on temporary differences between the carrying amounts and taxable values of assets and liabilities. Deferred tax is not recognised for temporary differences that arise on initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction other than a business combination that do not affect either the accounting or taxable profit at the time of the transaction.

Deferred tax is not recognized for temporary differences that arise on investments in subsidiaries where the reversal is in the Group's control and not expected in the foreseeable future.

The valuation of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets for tax-deductible temporary differences and loss carry forwards are recognized only to the extent it is likely that they will be utilized.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities, and when the deferred tax assets and tax liabilities are attributable to taxes charged by the same tax authority and relate to either the same tax entities or different tax entities, where there is an intention to settle the balances on a net basis.



### Accounting estimates and judgements

The utilization of deferred tax assets is dependent on the reversal of deferred tax liabilities and generation of future taxable profits. The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It makes a revaluation of the amounts recorded, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

**11 EARNINGS PER SHARE**

In December 2018, in connection with the share issue, 19,214,742 new shares were issued. In April 2017, in connection with the merger of Ahlstrom and Munksjö, 45,376,992 new shares were issued as merger consideration to Ahlstrom's shareholders. The total number of shares at the end of December 2018 is 115,653,315. The comparative period presented, doesn't represent a like-for-like comparative. In order to aid comparability, additional unaudited pro forma earnings per share information has been included below.

Earnings per share	2018	2017
Net profit attributable to the parent company's shareholders, EUR million	41.6	65.9
Weighted average number of outstanding shares before dilution	96,758,002	84,941,326
Dilution effect from share based incentive plans	-	-
Weighted average number of outstanding shares after dilution	96,758,002	84,941,326
<b>Basic earnings per share, EUR</b>	<b>0.43</b>	<b>0.78</b>
<b>Diluted earnings per share, EUR</b>	<b>0.43</b>	<b>0.78</b>

**Additional unaudited pro forma information**

Pro forma earnings per share	2018	2017
Net profit attributable to the parent company's shareholders, EUR million	61.9	41.2
Weighted average number of outstanding shares	115,288,453	115,344,915
<b>Basic earnings per share, EUR</b>	<b>0.54</b>	<b>0.36</b>

**Accounting policies**

Earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period. The dilutive effect of equity settled share based payments is included in the computation of diluted earnings per share.

**Operating capital**

Disclosures in this section focus on our operating assets and liabilities including information on our investments in long-lived assets, trade receivables and payables, inventories, benefit obligations towards our current and former employees and provisions.

**12 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT****Intangible assets**

Intangible assets, EUR million, 2018	Other intangible assets				
	Goodwill	Customer relationships	Patents and trademarks	Other	Other intangible assets in total
<b>Historical cost</b>					
Opening	429.4	142.4	50.2	210.8	403.4
Business combination	201.9	144.7	-	62.2	207.0
Additions	-	-	-	10.2	10.2
Disposals	-	-	-	-0.3	-0.3
Reclassifications and other	-	-	-	1.4	1.4
Translation differences	-0.7	1.1	-	1.4	2.5
<b>Closing</b>	<b>630.6</b>	<b>288.2</b>	<b>50.2</b>	<b>285.8</b>	<b>624.2</b>
<b>Accumulated amortization</b>					
Opening	-	17.5	7.3	69.4	94.2
Amortization	-	9.5	1.7	13.2	24.4
Disposals	-	-	-	-0.3	-0.3
Translation differences and other	-	-0.2	-	1.1	0.9
<b>Closing</b>	<b>-</b>	<b>26.8</b>	<b>9.1</b>	<b>83.3</b>	<b>119.2</b>
<b>Net book value at year end</b>	<b>630.6</b>	<b>261.4</b>	<b>41.1</b>	<b>202.5</b>	<b>505.1</b>

Other intangible assets as at December 31, 2018 mainly comprise of customer relationships, favourable contracts (e.g. economic value of the landfill rights) and technology related intangible assets identified in business combinations. Increase in intangible assets for year ended December 31, 2018 relate to acquired customer contracts, technology based assets and economic value of the landfill rights (see note 3 for more information).



Cont. note 12

Intangible assets, EUR million, 2017	Other intangible assets				Other intangible assets in total
	Goodwill	Customer relationships	Patents and trademarks	Other	
<b>Historical cost</b>					
Opening	226.1	33.6	5.8	33.0	72.4
Merger	213.7	113.2	44.2	177.2	334.6
Additions	-	-	0.1	2.2	2.3
Disposals	-	-	-	-0.7	-0.7
Reclassifications and other	-	-	-	6.4	6.4
Translation differences	-10.4	-4.4	0.1	-7.3	-11.6
<b>Closing</b>	<b>429.4</b>	<b>142.4</b>	<b>50.2</b>	<b>210.8</b>	<b>403.4</b>
<b>Accumulated amortization</b>					
Opening	-	11.3	4.8	13.2	29.3
Merger	-	0.0	0.8	50.2	51.0
Amortization	-	6.7	1.7	9.8	18.2
Disposal	-	0.0	0.0	0.0	0.0
Translation differences and other	-	-0.5	0.0	-3.8	-4.3
<b>Closing</b>	<b>-</b>	<b>17.5</b>	<b>7.3</b>	<b>69.4</b>	<b>94.2</b>
<b>Net book value at year end</b>	<b>429.4</b>	<b>124.9</b>	<b>42.9</b>	<b>141.4</b>	<b>309.2</b>

## Goodwill 2018

The carrying value of goodwill amounted to EUR 630.6 million as of December 31, 2018. The goodwill of EUR 201.9 million arising from the acquisition of Expera Specialty Solutions and MD Papéis' Caieiras during 2018 is attributable to workforce, synergies and expanding the platform for future growth. Acquired goodwill from Expera Specialty Solutions has been allocated to North America Specialty Solutions business area and goodwill from MD Papéis' Caieiras to Decor and Industrial Solutions business areas. The carrying value of goodwill amounted to EUR 429.4 million as of December 31, 2017 following the merger of Munksjö and Ahlstrom. The goodwill of EUR 213.7 million recorded in 2017 from the merger represents the value of acquired workforce and synergies.

Ahlstrom-Munksjö is organized into five business areas which are Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties. North America Specialty Solutions business area includes the operations and business of Expera Specialty Solutions. Business of Caieiras has been divided into two segments: Decor and Industrial Solutions. These five business areas are the Group's reportable segments. Goodwill was allocated to the new business areas reflecting their share of the deemed fair values of the acquired assembled workforce, expected synergies and other benefits. These five business areas correspond to the groups of cash-generating units (CGU) and the lowest level at which goodwill is monitored for internal management purposes. See note 3 for more information about the acquisitions of Expera Specialty Solutions and MD Papéis' Caieiras and merger of Ahlstrom and Munksjö, and note 4 for business area information.

The following table presents the allocation of goodwill to Ahlstrom-Munksjö's business areas (groups of CGUs) as of the annual impairment testing date:

Allocation of goodwill by business area, EUR million	2018	2017
Decor	175.8	160.0
Filtration and Performance	57.9	57.8
Industrial Solutions	135.7	123.1
North America Specialty Solutions	172.6	-
Specialties	88.6	88.4
<b>Total</b>	<b>630.6</b>	<b>429.4</b>

Cont. note 12

**Impairment tests for goodwill**

The recoverable amounts of each group of cash-generating units are determined using a discounted cash flow model (value-in-use). Key assumptions used in the determination include short-term and long-term growth rate for net sales, development of EBITDA, annual capital expenditure, changes in operative working capital and pre-tax discount rate.

The cash flows are based on business plans approved by the Board of Directors covering a period of three years. Cash flows beyond this three-year period are based on the terminal value and have been extrapolated using an estimated long-term sales growth rate of 1.5% considering inflation. All cash flow projections reflect the past performance of the Group's business operations and management expectations for future market development considering the external sources of information when available.

The discount rate used in the calculation is based on weighted average cost of capital (WACC) based on the market view of the time-value of money and reflect specific risks related to each business area.

The following table sets out the key assumptions for the groups of CGUs:

Key assumptions, 2018	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties
Average net sales growth % in the testing period	6.1	2.5	4.2	7.8	4.8
Long-term growth-%	1.5	1.5	1.5	1.5	1.5
Average EBITDA margin in the testing period, %	9.9	16.6	13.5	9.1	9.2
Pre-tax discount rate %	8.2	8.0	8.7	7.8	7.3

Key assumptions, 2017	Decor	Filtration and Performance	Industrial Solutions	Specialties
Average net sales growth % in the testing period	1.8	2.8	1.5	4.9
Long-term growth-%	0.3	0.3	0.3	0.3
Average EBITDA margin in the testing period, %	10.2	16.7	13.6	10.4
Pre-tax discount rate %	6.6	7.5	7.0	7.1

The impairment tests for 2018 indicated that the recoverable amount of the groups of CGUs exceeded their carrying value and goodwill is not been impaired.

Goodwill impairment tests for 2017 were carried out for Ahlstrom-Munksjö group's segments at December 31, 2017: Decor, Filtration and Performance, Industrial solutions and Specialties. The impairment tests did not result in a recognition of any impairment.

**Sensitivity analysis**

As a part of the performance reviews, management has performed sensitivity analysis regarding the key assumptions. The parameters used in the impairment tests, which were the most sensitive for changes were EBITDA margin and pre-tax discount rate. The table below shows the percentage change in the key parameters used in the calculations that would result in the value in use being equal to the carrying value (keeping other parameters constant). The recoverable amount of the assets tested in 2018 exceeds their carrying value by EUR 288 million for Decor, EUR 956 million for Filtration and Performance, EUR 482 million for Industrial Solutions, EUR 209 million for North America Specialty Solutions and EUR 541 million for Specialties.

Key assumptions, 2018	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties
Annual average change % in EBITDA in the testing period	-34	-50	-32	-18	-40
Pre-tax discount rate % change in percentage points	5	12	6	2	6

Management has considered and assessed reasonable possible changes for other key assumptions and has not identified any instances that would result in a carrying amount that exceed the recoverable amount of the groups of CGUs.

**Research and development**

Ahlstrom-Munksjö has product and process development activities focusing mainly on meeting customer requirements in relation to product properties and adaptations. Research and development costs are expensed except those development expenses that meet the capitalization criteria. Development costs that met capitalization criteria and were capitalized amounted to EUR 3.6 million in December 31, 2018.

**Emission rights**

Ahlstrom-Munksjö participates in the European Union emission trading scheme in which it has received free emission allowances for a defined period. Ahlstrom-Munksjö was granted 418,206 units of CO<sub>2</sub> emission rights for the year 2018. The rights in excess of the Group's needs have been transferred to 2019. As of December 31, 2018, the remaining CO<sub>2</sub> credits amounted to 245,324 units and their market value was approximately EUR 5.5 million.

In 2018, Ahlstrom-Munksjö has sold emission rights for EUR 2.7 million and bought emission rights for EUR 0.8 million. In 2017, there were no transactions relating to emission rights purchases or sales.

**Accounting policies****Intangible assets****Goodwill**

Goodwill arises from business combinations and represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable net assets acquired at the acquisition date. Goodwill is an intangible asset with an indefinite useful life. It is not amortized, but it is subject to impairment testing annually, or more frequently, if events or changes in circumstances indicate that goodwill might be impaired.

For impairment testing purposes, goodwill is allocated to groups of cash-generating units reflecting the lowest levels at which the goodwill is monitored for internal management purposes. A cash-generating unit, as determined for the purposes of the impairment testing, is the smallest group of assets generating separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The carrying value of a cash generated unit includes its share of relevant corporate assets allocated to it on a reasonable and consistent basis.

Ahlstrom-Munksjö conducts its impairment testing by determining the recoverable amount for a group of CGUs. The recoverable amount is defined as value-in-use according to a present value of the estimated future cash flows. The recoverable amount is compared to the group of CGUs' carrying value. If the carrying value exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount. If an impairment loss is recognized, the loss is first allocated to reduce goodwill and then to reduce other assets.

Impairment is recognized as an expense in the income statement. An impairment loss recognized for goodwill is not reversed in a subsequent period.

**Other intangible assets**

Customer relationships, patents and trademarks, technology related assets and other intangible assets acquired in business combinations are recorded at fair value at the acquisition date and are subsequently amortized on a straight-line basis over estimated useful lives.

Computer software and separately acquired patents and trademarks are recorded at historical cost and amortized on a straight-line basis over their expected useful lives.

Other intangible assets with definite useful lives are tested for impairment if there are indicators of impairment, see more information on triggering events in Accounting policy of Property, plant and equipment below.

**Research and development**

Ahlstrom-Munksjö has product and process development activities focusing mainly on meeting customer requirements in relation to product properties and adaptations. Activities are divided into a research phase and a development phase. Research costs are expensed as incurred and recorded in the income statement. Expenditures on development activities are also expensed as incurred except those development expenses that meet the capitalization criteria. Development costs arising from the development of new or significantly improved products are capitalized as intangible assets when the costs of the development stage can be reliably determined, the product is technically feasible and economically viable, the product is expected to produce economic benefits and the Group has the intention and the required resources to complete the development effort. Capitalized development costs include the costs of material, labor and testing that are directly attributable to creating, producing and preparing the asset to be capable of operating in the manner intended by management. Amortization period for capitalized development costs is 10 years.

**Emission rights**

Ahlstrom-Munksjö participates in the European Union's Emissions Trading Scheme aimed at reducing greenhouse gas emission and receives allowances for a defined period to emit a fixed tonnage carbon dioxide. The Group receives allowances either free of charge from the scheme or acquires them from other participants. The allowances received and the liability based on the actual emissions are netted. A provision is recognized if the allowances received do not cover the actual emissions. No intangible asset is recognized for the excess of allowances received free of charge. Gains arising from the sale of the emission right allowances are recorded in energy costs in the income statement.

**Accounting estimates and judgements****Key assumptions used in goodwill impairment testing**

The management makes significant estimates and judgements in determining the level at which the goodwill is tested and whether there are any indications of impairment.

The calculations of the value-in-use are based on cash flow projections, which require assessments and estimates from the management. The most significant estimates concern development of net sales and EBITDA including estimates for market prices of pulp and cost levels of main raw materials and energy as well as determination of the weighted average cost of capital (WACC) used to discount cash flows. Management tests the impacts of changes in significant estimates used in forecasts by sensitivity analyses as described in this note.

**Estimates and judgements related to other intangible assets**

For more information on the estimation of useful economic life of an intangible asset, see Accounting estimates and judgements in note 8.

Cont. note 12

**Property, plant and equipment**

Property, plant and equipment, EUR million, 2018	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
<b>Historical cost</b>						
Opening	53.5	366.9	2,056.8	14.9	67.7	2,559.8
Business combination	17.9	26.8	181.7	-	17.2	243.6
Additions	-	1.3	23.4	0.8	126.1	151.5
Disposals	-	-4.4	-36.2	-0.1	0.0	-40.7
Reclassifications and other	1.7	6.2	57.1	1.0	-67.4	-1.4
Translation differences	-1.0	-2.0	-12.4	-0.1	0.2	-15.2
<b>Closing</b>	<b>72.1</b>	<b>395.0</b>	<b>2,270.4</b>	<b>16.5</b>	<b>143.6</b>	<b>2,897.5</b>
<b>Accumulated depreciation</b>						
Opening	8.3	233.1	1,467.2	9.1	0.4	1,718.1
Depreciation	0.1	12.5	88.2	1.0	-	101.9
Disposals	-	-4.3	-35.8	-0.1	-	-40.2
Impairment	-	-	7.7	-	-	7.7
Translation differences and other	-0.3	-0.8	-6.1	0.0	0.0	-7.1
<b>Closing</b>	<b>8.2</b>	<b>240.5</b>	<b>1,521.3</b>	<b>10.0</b>	<b>0.3</b>	<b>1,780.4</b>
<b>Net book value</b>	<b>63.9</b>	<b>154.5</b>	<b>749.1</b>	<b>6.4</b>	<b>143.3</b>	<b>1,117.2</b>

Increase in property, plant and equipment for the year ended December 31, 2018 were mainly related to the assets transferred in business combination (see note 3) and investments in Madisonville, U.S. EUR 20.7 million, in Billingsfors, Sweden EUR 11.2 million, in Arches, France EUR 13.0 million, in Chirnside, UK EUR 11.5 million, in Aspa, Sweden EUR 9.9 million and in Jacarei, Brazil EUR 8.9 million.

See note 20 for information on capital expenditure commitments and note 8 for information on impairment losses.

Property, plant and equipment, EUR million, 2017	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
<b>Historical cost</b>						
Opening	40.4	175.7	979.7	5.0	22.0	1,222.8
Merger	14.4	191.7	1,073.3	8.3	13.9	1,301.6
Additions	0.0	1.0	14.6	0.8	71.6	88.0
Disposals	-0.4	-1.7	-1.9	-0.2	-0.4	-4.6
Reclassifications and other	0.0	5.5	24.9	1.3	-38.1	-6.4
Translation differences	-0.9	-5.3	-33.8	-0.3	-1.3	-41.6
<b>Closing</b>	<b>53.5</b>	<b>366.9</b>	<b>2,056.8</b>	<b>14.9</b>	<b>67.7</b>	<b>2,559.8</b>
<b>Accumulated depreciation</b>						
Opening	8.2	114.2	677.0	2.0	0.3	801.7
Merger	0.2	111.1	734.9	6.4	0.0	852.6
Depreciation	0.1	10.1	77.1	1.0	0.0	88.3
Disposals	0.0	-0.2	-1.8	-0.1	0.0	-2.1
Reclassifications and other	-	-	-	0.0	0.1	0.1
Translation differences	-0.2	-2.1	-20.0	-0.2	0.0	-22.5
<b>Closing</b>	<b>8.3</b>	<b>233.1</b>	<b>1,467.2</b>	<b>9.1</b>	<b>0.4</b>	<b>1,718.1</b>
<b>Net book value</b>	<b>45.2</b>	<b>133.9</b>	<b>589.6</b>	<b>5.8</b>	<b>67.3</b>	<b>841.7</b>

**Accounting policies****Property, plant and equipment*****Impairment of property, plant and equipment, goodwill and other intangible assets***

Ahlstrom-Munksjö assesses the recoverability of the carrying amount of property, plant and equipment and intangible assets with definite useful lives if events or changes in circumstances indicate that the carrying amount may be impaired (a triggering event). Factors that the Group considers when it reviews indicators of impairment include, but are not limited to:

- Observable indications for decrease in value
- Significant adverse changes that have taken place in the technological, market, economic or legal environment
- Increases in interest rates
- Obsolescence or physical damage affecting the asset
- Deterioration in the expected level of the asset's performance or adverse changes impacting the way the asset is used or expected to be used
- Where management's own forecasts of future net cash inflows or operating profits show a significant decline from previous budgets and forecasts

The carrying amount of an asset is written down immediately to the asset's recoverable amount if the carrying value exceeds the recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell or its value-in-use. Value-in-use is determined by discounting future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit).

The impairment of assets is reversed if there is an indication that it is no longer necessary, and there has been a change in the assumptions which formed the basis of the calculation of the recoverable amount. A reversal is only made to the extent that the asset's carrying value after reversal does not exceed the carrying value that the asset would have had, with a deduction for depreciation, if no impairment had been carried out.

***Property, plant and equipment***

Land and land improvements include the Group's freehold land and the landfills that the Group operates at or near certain of its facilities in the United States. The operation of these landfills require state, federal and local permits for construction, operation and closure and the landfills are subject to constructing final capping and continued monitoring.

The freehold land and land improvements are recognized at cost. The cost of land improvements include the cost of landfill preparation and excavation, construction of liners, related costs for environmental permits and studies and the initial estimate to close, cap and care the landfill, for which the Group has made the environmental provision (see note 16).

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment. The cost includes the purchase price and expenditure directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Interest on borrowings directly attributable to the purchase, construction or production of assets that take considerable time to complete are capitalized.

Property, plant and equipment comprising parts with different useful lives are treated as separate components of the asset. The costs incurred for replacing the part are recognized in the carrying amount of the asset which is depreciated over the useful life of replacement. The carrying value of a property, plant and equipment is derecognized from the balance sheet on scrapping or sale, or when no future economic benefits are expected from use of the asset. Ordinary repair and maintenance costs are expensed as incurred.

Gains and losses arising from the sale of property, plant and equipment are recognized as other operating income or other operating expenses.

***Government grants***

Government grants are recognized at fair value when there is a reasonable assurance that the grant will be received. Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the assets and accordingly reduce the depreciation of the underlying asset. Other government grants are recognized in the income statement in the same period than the costs they are intended to compensate on a net basis unless the grant compensates an item which has been expensed in prior years.

Cont. note 12

**Finance lease agreements**

Ahlstrom-Munksjö leases certain property, plant and equipment. Leasing agreements of property, plant and equipment where the Group retains the economic risks and benefits associated with ownership, are classified as financial leases. At the start of the leasing period, financial leases are reported in the balance sheet at the lower of the leased asset's fair value and the net present value of the minimum lease payments. Each leasing payment is apportioned between the repayment of liability and financial costs. The corresponding payment obligations, after deductions for financial costs, are included in the balance sheet, in non-current and current borrowings. The interest is recognized in the income statement over the lease term so that each accounting period is assigned an amount corresponding to a fixed interest rate for the liability in the respective period. Financial leased fixed assets are depreciated over the shorter of the asset's useful life and lease term.

**Accounting estimates and judgements****Estimates and judgements related to property, plant and equipment as well as other intangible assets**

The Group has tangible and other intangible assets with definite useful lives which values are presented above. The assets are tested for impairment when there are events or changes in circumstances indicate that the carrying value may be impaired (a triggering event). The recoverability of these assets is based on market assumptions and managements estimate of future cash flows. Changes in assumptions and failure to meet certain earnings targets could result in impairment.

**13 INVENTORIES**

Inventories consist of products from the Group's five business areas – Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties – in varying stages of the production process.

Inventories, EUR million	2018	2017
Materials and supplies	99.4	56.0
Work in progress	53.6	27.2
Finished products	234.2	153.7
Consumables and spare parts	62.4	45.4
<b>Total</b>	<b>429.6</b>	<b>282.3</b>

**Change in allowance for inventory obsolescence for Finished products and Work in progress, EUR million**

	2018	2017
<b>Opening</b>	<b>-16.9</b>	<b>-8.5</b>
Business combination and merger	-3.2	-5.8
Change in allowance for inventory obsolescence	-1.2	0.7
Inventory write-downs through profit and loss	-2.1	-3.4
Translation differences	0.0	0.1
<b>Closing</b>	<b>-23.4</b>	<b>-16.9</b>

### Accounting policies

Inventories are recognized at the lower of cost and net realizable value. Net realizable value is calculated as the selling price less costs attributable to the sale.

The methodology for determining the cost of inventories varies depending on the inventory class.

#### Materials and supplies

Materials and supplies are valued using the weighted average cost method. Under the weighted average cost method, the cost of each item remaining in inventories at the period end is determined from the weighted average of the cost of similar items at the beginning of the period and the cost of similar items purchased during the period.

#### Finished products and Work in progress

Finished products and work in progress are valued on a first-in, first-out basis. Costs comprise all costs that are directly attributable to the manufacturing process, including direct material and labour, and production related overheads (based on normal operating capacity and normal consumption of material, labour and other production costs) and depreciation charges.

### Accounting estimates and judgements

#### Inventory obsolescence

If the net realizable value of inventory is deemed lower than the cost, then allowance is established for inventory obsolescence. The amount to be allocated to inventory obsolescence is based on an estimation of the net realizable value of inventory.

## 14 TRADE AND OTHER RECEIVABLES AND TRADE AND OTHER PAYABLES

Trade and other receivables represent amounts that Ahlstrom-Munksjö expects to collect from other parties. Trade and other payables mainly consist of amounts owed to suppliers, employees and customers.

#### Trade and other receivables

Current trade and other receivables, EUR million	2018	2017
Trade receivables	290.9	202.8
Value added tax	19.0	17.9
Escrow cash account	0.7	1.5
Prepaid expenses and accrued income	29.4	16.3
Current derivative assets (note 19)	0.8	1.4
Other receivables	33.2	19.4
<b>Total</b>	<b>374.0</b>	<b>259.3</b>

Trade receivables consists mainly of receivables from contracts with customers. The increase of contract liabilities is due to the acquisitions of Expera Specialty Solutions and MD Papéis' Caieiras.

#### Ageing of trade receivable

The Group applies the simplified approach to assess the credit risk of trade receivables. The loss allowance is measured at the estimate of the lifetime expected credit losses. The Group uses a bad debt provision matrix to determine the expected credit loss rates. It considers historical loss rates for each ageing category and region. The calculated loss percentage is then adjusted with the forward looking macroeconomic data. For trade receivables not due or maximum 180 days overdue, an impairment of 0.0%-10.0% is made. The trade receivables, which are overdue 181-360 days will be impaired with 60% and more than 360 days old will be impaired with 100%. The trade receivables are partly insured and the amount that will be received from the insurer is excluded from the calculation of the trade receivables impairment.

In the prior years, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.



Cont. note 14

The ageing of trade receivable, both gross and the impaired amount, is shown in the following table.

2018, EUR million	Not due	1-30	31-180	181-360	>361	Total
Trade receivable	250.1	35.8	4.6	1.3	6.6	298.4
Of which impaired	-0.1	-0.5	-0.1	-0.7	-6.1	-7.5
<b>Accounts receivable</b>	<b>250.0</b>	<b>35.3</b>	<b>4.5</b>	<b>0.6</b>	<b>0.5</b>	<b>290.9</b>
2017, EUR million	Not due	1-30	31-180	181-360	>361	Total
Trade receivable	169.2	24.6	6.3	4.0	4.9	209.0
Of which impaired	-0.7	0.0	0.1	-1.6	-4.0	-6.2
<b>Accounts receivable</b>	<b>168.5</b>	<b>24.6</b>	<b>6.4</b>	<b>2.4</b>	<b>0.9</b>	<b>202.8</b>

### Recoverability of trade receivables

Change in allowance for trade receivable, EUR million

<b>Opening at January 1, 2017</b>	<b>-5.4</b>
Merger	-1.8
Increase in allowance recognized in profit or loss during the year	-2.0
Reversal of allowance charged to income	2.8
Translation differences	0.2
<b>December 31, 2017 – calculated under IAS 39</b>	<b>-6.2</b>
Amounts restated through opening retained earnings	-1.6
<b>January 1, 2018 – calculated under IFRS 9</b>	<b>-7.8</b>
Business combination	-1.2
Increase in allowance recognized in profit or loss during the year	-0.4
Reversal of allowance charged to income	1.9
Translation differences	0.1
<b>Closing at December 31, 2018</b>	<b>-7.5</b>



### Credit risk

Financial instruments that could potentially expose Ahlstrom-Munksjö to counterparty risk consist primarily of trade receivables, cash and cash equivalents and derivative financial instruments. The Group is exposed to counterparty credit risks from financial transactions and customer credit risks.

#### Financial transactions counterparty credit risk

Financial transactions counterparty credit risk refers to the Group's exposure under financial contracts arising from the deterioration of the counterparties' financial position. In order to minimize this risk, Ahlstrom-Munksjö have the following guidelines in place in the Group Finance Policy:

- Only entering into transactions with leading financial institutions and with industrial companies that have a high credit rating (preferably BBB or higher).
- Investing in liquid cash funds only with financially secure institutions or companies (preferably BBB or higher).
- Requiring parent company guarantees when dealing with any subsidiary of a rated company.

#### Customer credit risk

Customer credit risk is applied centrally and managed locally in each subsidiary.

### Factoring

When seeking to finance the Group's receivables, this shall be limited to 50% of the total accounts receivables before factoring calculated as a rolling average for three month's ends. Group companies may enter into factoring, supplier finance or other corresponding financing arrangements subject to CFO approval and according to the criteria defined in the credit exposure policy approved by the Board. All factoring or similar arrangements are made on non-recourse basis. At the end of the reporting period the outstanding amount under the factoring or similar arrangements was EUR 151.1 million (EUR 152.6 million).

### Trade and other payables

Trade and other payables, EUR million	2018	2017
Accounts payable	464.3	371.5
Accrued expenses	119.1	104.6
Liabilities to equity accounted investments	4.2	3.8
Current derivative liabilities (note 19)	0.8	1.6
Advances received from customers	1.9	1.6
Other liabilities	25.0	19.7
<b>Total</b>	<b>615.3</b>	<b>502.9</b>

Cont. note 14

Accrued expenses, EUR million	2018	2017
Accrued wages and salaries	22.8	25.1
Accrued vacation pay	27.9	22.4
Accrued social security costs	16.2	16.2
Accrued customer bonuses	17.3	17.9
Other	34.8	23.0
<b>Total</b>	<b>119.1</b>	<b>104.6</b>

Accrued expenses include rebates from contracts with customers amounting to EUR 17.3 million (EUR 17.9 million).

Liabilities to equity accounted investments comprise of accounts payables to Sydved AB. More details on Ahlstrom-Munksjö's associate investee can be found in note 21.



### Accounting policies

#### Trade and other receivables

Trade and other receivables are recognized at amortized cost, using the effective interest rate method, less any impairment losses, with the exception of fair value of unrealized hedges whose treatment is discussed in note 19. The credit quality of receivables that are neither past due nor impaired has been deemed sufficient and payments are expected to be received when the receivables are due. Any changes to the allowance for doubtful accounts receivable are recognized as an expense in the income statement.

#### Trade and other payables

Trade and other payables represent liabilities for goods and services and are recognized at amortized cost, using the effective interest rate method. The amounts are unsecured and are usually paid within 30 days from initial recognition.

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## DEFINED BENEFIT OBLIGATIONS

The Group has defined benefit plans in several countries, of which the most significant are the United States 44% of Group's total defined benefit pension liability, United Kingdom 24%, France 11%, Germany 7% and Sweden 6%. The plans are in accordance with local laws and practices and are funded to satisfy the local statutory funding requirements.

Ahlstrom-Munksjö's most significant funded defined benefit plans are in the United States and the United Kingdom. The assets are managed by external fund managers. The funds are allocated between equities and fixed income instruments in order to provide return at target level and limited risk profile. The valuations of the obligations are carried out by independent qualified actuaries.

In the United States, a part of Ahlstrom-Munksjö's employees are members Group Retirement Plan for U.S. Employees, which is a funded defined benefit plan and the largest of the Group's schemes in the United States. The plan is managed by Ahlstrom-Munksjö USA Inc.'s Pension Committee. The scheme has been closed to new members since 2006. In addition to the Group Retirement Plan for U.S. Employees, Ahlstrom-Munksjö also operates a number of other post-employment benefit plans in the United States, including providing post-employment medical and life insurance benefits, retirement plans for hourly paid employees, and State Earnings Related Pension Schemes (SERPS). These plans are predominantly unfunded.

In the United Kingdom, the Group operates a funded defined benefit plan. The pension plan is designed according to the Definitive Trust Deed and Rules and complies with the guidelines of the UK Pension Regulator. The pension scheme has been closed to new members since 2006 and is managed through Ahlstrom-Munksjö Chirnside Ltd.

In France the main funded defined benefit plans operated by the group is the termination indemnity plan. Termination indemnity plans are designed to finance the severances paid to the employees who leave the company for retirement. Ahlstrom-Munksjö still operates other post-employment benefit plans in France which are closed to new members for many years.

The Group's main unfunded defined benefit plans are in Germany, Italy (TFR Trattamento di Fine Rapporto, termination indemnity plan) and in Sweden. The pension schemes in Germany and Italy are closed for new entrants. In Sweden, the pension cover is organized through unfunded defined benefit plans (ITP system, Industrins och handels tilläggspension).



### Risks associated with defined benefit plans

Through its defined benefit pension plans the Group is exposed to a number of risks.

#### Changes in bond yields

The employer's defined benefit obligations pension liability are calculated using a discount rate which is determined with reference to corporate bond yield as at the balance sheet date. A decrease (increase) in used discount rates increase (decrease) the defined benefits obligations. However, a decrease (increase) in the used discount rate yield also increases (decreases) the fair value of the assets partially offsetting the total impact of the change in yield on the net defined benefit pension liability.

Cont. note 15

**Inflation risk**

The benefit of the plans is tied to the future pension increase, which depends on inflation and common salary index. Higher inflation increases the benefit increase, which leads to an increase in liabilities and annual payments to the insurance company.

If the active employee's salary increases more than the common salary index, the amount of promised benefit and the benefit obligation increases together with annual payments to life insurance company.

**Life expectancy**

Longevity risk arises in case the actual timing of mortality differs from the assumed. Possible adjustments in mortality assumption have an effect on the employer's liability.

**Post-employment and other long-term benefit plans**

Employee benefits liability recognized in the balance sheet, EUR million	2018	2017
Present value of funded benefit obligations	189.4	211.2
Present value of unfunded benefit obligations	60.8	64.5
Fair value of plan assets	-167.4	-183.6
Deficit/Surplus	82.8	92.1
Effect of asset ceiling	5.0	2.3
<b>Net defined benefit liability – closing</b>	<b>87.9</b>	<b>94.4</b>
Other long-term employee benefits	4.8	3.7
<b>Total net liability</b>	<b>92.7</b>	<b>98.1</b>

Changes in the present value of obligations, EUR million	2018	2017
<b>Present value of defined obligation – opening</b>	<b>275.7</b>	<b>67.7</b>
Merger	-	231.1
Current and past service cost	2.5	3.4
Interest cost	7.1	6.9
Remeasurement gain/loss on pension scheme liabilities	-14.4	10.7
Gains and losses on settlement	-	0.5
Benefits paid	-23.4	-21.4
Other changes	-1.6	-3.5
Translation differences	4.4	-19.7
<b>Present value of defined benefit obligation – closing</b>	<b>250.2</b>	<b>275.7</b>

Changes in the fair value of the plan assets, EUR million	2018	2017
<b>Opening fair value of plan assets</b>	<b>183.6</b>	<b>13.7</b>
Merger	-	184.7
Interest income on plan assets	5.4	5.0
Remeasurement gain/loss on pension scheme assets	-11.1	11.8
Contributions by employer	9.1	8.4
Benefits paid	-23.4	-21.4
Other changes	-0.2	-3.7
Translation differences	3.9	-14.9
<b>Closing fair value of plan assets</b>	<b>167.4</b>	<b>183.6</b>

Changes in the effect of asset ceiling, EUR million	2018	2017
<b>Effect of asset ceiling – opening</b>	<b>2.3</b>	<b>0.0</b>
Merger	-	7.4
Changes in asset ceiling	2.7	-4.8
Translation differences	0.0	-0.3
<b>Effect of asset ceiling – closing</b>	<b>5.0</b>	<b>2.3</b>

Amounts recognized in income statement, EUR million	2018	2017
<b>Personnel costs</b>		
Current service cost	-3.5	-3.4
Past service cost	1.0	0.1
Gains and losses on settlement	0.0	-0.5
<b>Finance costs</b>		
Net interest cost	-1.8	-2.2
<b>Cost recognized in income statement</b>	<b>-4.3</b>	<b>-6.0</b>

Cont. note 15

Remeasurement effects recognized in other comprehensive income (OCI), EUR million	2018	2017
Remeasurement gain/loss on pension scheme assets	-11.1	11.8
Remeasurement gain/loss on pension scheme liabilities	14.4	-10.8
Remeasurement gain/loss on change in asset ceiling	-2.7	5.0
<b>Remeasurement effects before tax</b>	<b>0.6</b>	<b>5.9</b>
Income tax relating to remeasurement effects	-0.9	-1.7
<b>Remeasurement effects recognized in OCI</b>	<b>-0.3</b>	<b>4.2</b>

The Group expects to contribute EUR 8.7 million to its defined benefit plans in 2019.

Plan asset categories, EUR million	2018	2017
Equity instruments (listed)	34.2	62.6
Debt instruments	109.2	92.9
Property	0.3	0.1
Other	23.7	28.0

Principal actuarial assumptions	2018	2017
<b>USA</b>		
Discount rates	4.2	3.5
Future salary increases	n/a	n/a
Future pension increases	n/a	n/a
<b>UK</b>		
Discount rate	3.0	2.6
Future salary increases	n/a	n/a
Future pension increases	3.7	3.6
<b>France</b>		
Discount rate	1.5	1.1
Future salary increases	2.8	2.4
Future pension increases	n/a	n/a

Principal actuarial assumptions	2018	2017
<b>Sweden</b>		
Discount rate	2.3	2.3
Future salary increases	3.0	3.0
Future pension increases	3.0	3.0
<b>Germany</b>		
Discount rate	1.4	1.3
Future salary increases	2.5	2.5
Future pension increases	1.8	1.8

The actuarial assumptions in other countries are immaterial.

Assumptions regarding future mortality are based on actuarial guidelines in accordance with published statistics and experience in each region.

The sensitivity of the defined benefit obligation to changes in discount rate, future salary growth and future pension growth is presented in the following tables.

Sensitivity analyses: Discount rate impact	2018	2017
Discount rate change +0.50%	-14.3	-17.6
Discount rate change -0.50%	15.9	19.4

Sensitivity analyses: Future salary growth	2018	2017
Future salary growth +0.50%	2.3	2.9
Future salary growth -0.50%	-2.1	-2.6

Sensitivity analyses: Future pension growth	2018	2017
Future pension growth +0.50%	6.0	7.2
Future pension growth -0.50%	-5.4	-6.6

Sensitivities are calculated by changing one assumption while keeping other variables constant.

**Accounting policies****Defined benefit obligation**

The Group has various pension schemes in accordance with local practices in different countries. The pension arrangements are classified as either defined contribution plans or defined benefit plans. The schemes are mostly funded through payments to insurance companies or trustee-administered funds according to local regulations. A defined contribution plan is a pension plan under which the Group and usually also the employees pay fixed contributions to an insurance company. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay the pension benefits to the employees. Contributions to defined contribution pension plans are recognized as expense in the period when they incur. All pension plans which do not meet the criteria for defined contribution plans are defined benefit plans. Defined benefit plans typically define a fixed amount of benefit that an employee will receive after retirement and which the Group is responsible for.

The Group's net obligation of defined benefit plans is calculated and recorded separately for each pension scheme based on calculations prepared by independent actuaries. The present value of defined benefit obligations is determined using the projected unit credit method. The net liability recognized in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The discount rate used to determine the present value of the defined benefit obligation is equal to the yield on high quality corporate bonds or, if not available, government bonds.

The interest rates of the high quality corporate bonds are determined in the currency in which the benefits will be paid with a similar maturity to the obligation.

The Group's net obligation in respect of long-term service benefits, other than pension benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

**Accounting estimates and judgements**

Pension calculations under defined benefit plans include several factors that rely on management estimates: the discount rate used in calculating pension expenses and obligations for the period, the rate of salary increase and the rate of future discretionary bonuses decided by the insurance company. Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses.

**16 PROVISIONS**

Provisions are estimated liabilities with uncertainty over the timing and amount that will be paid by Ahlstrom-Munksjö in the future.

Provisions, EUR million, 2018	Environmental reserves	Restructuring	Other	Total
<b>Opening</b>	<b>11.2</b>	<b>6.2</b>	<b>9.1</b>	<b>26.4</b>
Business Combination	9.1	-	0.1	9.2
Unwinding of discount	0.3	-	-	0.3
Provisions made during the year	0.2	14.1	2.0	16.2
Provisions used during the year	-1.8	-4.9	-5.7	-12.4
Provisions reversed	0.0	-0.3	-0.7	-1.1
Reclassification	-0.1	-0.2	0.2	-
Translation differences	0.1	0.0	-0.4	-0.3
<b>Closing</b>	<b>18.8</b>	<b>14.8</b>	<b>4.6</b>	<b>38.2</b>
Non-current provisions				25.9
Current provisions				12.3

Provisions, EUR million, 2017	Environmental reserves	Restructuring	Other	Total
<b>Opening</b>	<b>11.0</b>	<b>0.9</b>	<b>4.1</b>	<b>16.0</b>
Merger	0.1	0.2	3.4	3.6
Unwinding of discount	0.2	-	-	0.2
Provisions made during the year	1.3	6.9	4.7	13.0
Provisions used during the year	-0.8	-1.5	-1.8	-4.1
Provisions reversed	-	-0.3	-0.8	-1.2
Reclassification	-0.1	-	0.1	0.0
Translation differences	-0.6	0.0	-0.6	-1.1
<b>Closing</b>	<b>11.2</b>	<b>6.2</b>	<b>9.1</b>	<b>26.4</b>
Non-current provisions				17.7
Current provisions				8.8

## Cont. note 16

Environmental provisions of EUR 18.8 million mainly relate to landfill related provisions in the U.S. EUR 8.9 million and future restoration costs of old Fitchburg mill in the U.S., and old buildings in Sweden .

On October 30, 2018 Ahlstrom-Munksjö announced it plans to significantly improve the competitiveness of its one-side coated paper segment, a part of the Specialties business area. The Group plans to optimize its production capacity and product offering to meet the profitable demand and investigates the closure of one paper machine (PM1) in Stenay, France. Employee consultation processes started on October 30, 2018. A restructuring provision recognized for this at year end was EUR 11.2 million and is reported in the restructuring provisions. Other restructuring provisions and other provisions mainly consist of severance costs and legal claims.



### Accounting policies

A provision is recognized when a present legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are split between amounts expected to be settled within 12 months on the balance sheet (current) and amounts expected to be settled later (non-current).

### Restructuring

A provision for restructuring is only recognized when a formal plan has been approved and the implementation of the plan has either commenced or the plan has been announced.

### Environmental

Environmental provisions are recorded based on current interpretations of environmental laws and regulations. Such provisions are recognized when it is probable that an obligation has arisen and that the amount of the obligation can be reliably measured. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.



### Accounting estimates and judgements

#### Environmental

The estimates used in determining the provisions for environmental costs are based on management's expectations of, for example:

- Timing and scope
- Future cost levels
- Laws and regulations enacted at time of the restoration works

The timing of the environmental costs depends on the expected useful lives of the Group's sites. These range from 50 – 70 years. In measuring the future cost levels, the Group estimates future costs and adjusts these for the effect of inflation, cost-base development and discounting. The estimated costs are based on current laws and regulations in place at the time of making the provision.

The Group utilizes a third party consultant to estimate both the closure and long-term care costs for the landfills. The estimate is based on the area finally to be capped and the capping materials and activities required along with the permit and regulatory requirements for closure and post-closure maintenance. These costs are reviewed periodically by the Group's environmental experts and by a third party consultant.

Because actual outflows can differ from estimates due to changes in law, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take into account any such changes. The discount rate used is reviewed annually.

## Net debt and capital management

This section outlines the Group's net debt and how Ahlstrom-Munksjö manages its capital including liquidity management. The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the Group's capital structure, the Group uses different means such as adjust the amount of dividends paid to shareholders, issue new shares, refinance its debt or sell assets to reduce debt. Ahlstrom-Munksjö's monitors capital based on the gearing ratio with a target below 100%. At the end of 2018 the ratio was 83.6% (36.2%).

### 17 NET DEBT

Net debt is Ahlstrom-Munksjö's key measure to evaluate the total external debt financing of the Group. Net debt is defined as borrowings less cash and cash equivalents and the securitization liability. The Group's sources of borrowing for funding and liquidity purposes are primarily bank loans and bonds. The Group has also entered into a number of finance leases to secure the availability of assets used in the production process.

Net debt, EUR million	2018	2017
Bonds	248.8	248.5
Bank loans	853.1	367.4
Securitization liability	43.7	-
Finance lease liabilities	4.2	5.2
Other financial liabilities	16.2	0.1
<b>Gross borrowings</b>	<b>1,166.0</b>	<b>621.2</b>
<b>Less: Cash and cash equivalents</b>	<b>151.0</b>	<b>245.9</b>
<b>Less: Securitization liability</b>	<b>43.7</b>	<b>-</b>
<b>Net debt</b>	<b>971.3</b>	<b>375.3</b>

#### Reconciliation of net debt

An analysis of the changes in net debt is provided below.

Reconciliation of net debt, EUR million, 2018	Opening	Business Combinations	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	621.2	57.2	487.7	-2.6	2.6	1,166.0
Securitization liability	-	-43.5	-	-	-0.2	-43.7
Cash and cash equivalents	245.9	-	-90.9	-	-4.0	151.0
<b>Net debt</b>	<b>375.3</b>	<b>13.7</b>	<b>578.5</b>	<b>-2.6</b>	<b>6.3</b>	<b>971.3</b>

Reconciliation of net debt, EUR million, 2017	Opening	Merger	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	315.5	316.7	-2.5	5.5	-14.0	621.2
Cash and cash equivalents	146.0	66.6	43.2	-	-9.9	245.9
<b>Net debt</b>	<b>169.5</b>	<b>250.1</b>	<b>-45.7</b>	<b>5.5</b>	<b>-4.1</b>	<b>375.3</b>

#### Borrowings

In 2016 the Group entered into a facilities agreement consisting of several facilities (A-E and revolving facility) consisting of app. EUR 560 million multicurrency term and revolving credit facilities with maturities ranging between three and five years and a EUR 200 million bridge facility later reduced to EUR 100 million. Following the merger of Ahlstrom and Munksjö in 2017, new financing was arranged for the combined company, consisting of multicurrency term facilities and a revolving credit facility, as well as a bridge facility. Outstanding term facilities under this agreement and the revolving facility terminate on April 1, 2022.

On May 3, 2017, Ahlstrom-Munksjö redeemed the EUR 100 million hybrid bond with a fixed annual interest rate of 7.875% in accordance with its terms and conditions. The redemption value was EUR 106.9 million. In addition, Ahlstrom-Munksjö made a voluntary tender offer for cash of its EUR 100 million 4.125% notes originally maturing in September 2019. The aggregate principal amount of notes validly offered for purchase by noteholders was EUR 89.2 million. On September 15, 2017, Ahlstrom-Munksjö Oyj exercised its right to fully redeem the outstanding 2019 notes. On June 9, 2017, the company issued a EUR 250 million unsecured callable bond with an annual coupon of 1.875%. The notes are callable before maturity and shall be repaid in full at their nominal principal amount on June 9, 2022. The proceeds from the issue were used to repay and refinance the 2019 bond and certain other borrowings of the company.

To finance the Expera acquisition that took place on October 10, 2018 (see note 3), the company withdrew a EUR 155.2 million bridge-to-equity facility and a EUR 167.0 million bridge-to-loan facility under the Bridge Facilities Agreement, and a USD 260.0 million facility ("Facility B") and a EUR 108.0 million facility ("Facility A") under the Term Facilities Agreement. The latter one was used to prepay the outstanding loans under the existing Facility C under the Facilities Agreement and the facility C was cancelled in full. On November 1, 2018 the Group entered into a EUR 200.0 million term facility agreement with Nordea and SEB as lenders which was used to repay the EUR 167.0 million bridge-facility under the Bridge Facilities Agreement and the revolving loan of EUR 40.0 million withdrawn under the facilities agreement complemented with a cash payment. Facility A will be repaid in semi-annual instalments of EUR 5 million starting on May 31, 2019 and the Facility B will be repaid in full at maturity, which is October 10, 2023 for both. The bridge-to-equity was repaid on December 27, 2018 using the proceeds from the rights issue (see note 18).

In addition, Ahlstrom-Munksjö assumed in the Expera acquisition a securitization liability presented within current borrowings in the balance sheet. The financing received under this arrangement amounts to EUR 43.7 million as at December 31, 2018.

To finance the Caieiras acquisition, the Group withdrew a BRL 330.0 million loan (see note 3). The loan will mature in 2023.

At the balance sheet date, the weighted average interest rate for the Group was approximately 3.3% (2.2%). Net debt amounted to EUR 971.3 million (EUR 375.3 million) at December 31, 2018, resulting in



Cont. note 17

a gearing of 83.6% (36.2%). According to Ahlstrom-Munksjö's current financial covenants 2018, the consolidated net debt to consolidated EBITDA needs to be 3.5 or less and the consolidated senior net debt to adjusted equity shall not exceed 100%. Throughout the reporting period the Group was in full compliance with the covenants of its financing agreements and management expects such compliance to continue.

The tables below provide further detail on the financing entered in to by the Group.

### Bonds

The Group has the an unsecured callable bond at the balance sheet date with principal amount of EUR 250 million. The outstanding bond was issued by Ahlstrom-Munksjö on 9 June 2017 and the bond is listed on the Nasdaq Helsinki. The notes are callable before maturity and shall be repaid in full at their nominal principal amount on 9 June, 2022. The coupon of the bond is fixed. No specific guarantee has been given in relation to their issuance.

National currency	Initial notional amount, EUR million	Maturity	Coupon, %	Carrying value, EUR million	
				2018	2017
EUR	250.0	June 9, 2022	1.88%	248.8	248.5

### Bank loans

The Group has the following bank loans as at December 31, 2018. The long terms loans have maturity dates ranging from 2021-2023. The loans carry interest based on reference rates (floor at 0%) + margin.

2018 National currency	Weighted average interest rate, %	Carrying value, EUR million
<b>Committed loans from banks grouped by currency</b>		
EUR	1.90%	405.9
USD	5.00%	257.6
SEK	1.90%	58.5
BRL	7.90%	74.3
<b>Uncommitted loans from banks grouped by currency</b>		
CNY	5.70%	53.9
Other	5.30%	2.9

2017 National currency	Weighted average interest rate, %	Carrying value, EUR million
<b>Committed loans from banks grouped by currency</b>		
EUR	1.70%	220.2
USD	3.20%	29.1
SEK	1.90%	61.0
<b>Uncommitted loans from banks grouped by currency</b>		
CNY	6.30%	51.0
Other	5.00%	6.1

For further information on the maturity of borrowings and financial liabilities of the Group, see note 19.



### Interest rate risk

Interest rate risk refers to the risk that changes in interest rates would have a negative effect on the result of the Group and could affect the long-term competitiveness of Ahlstrom-Munksjö. There is a risk of interest rates moving both upwards and downwards. However, in accordance with the loan terms, the reference rates in the Group's bank loans have a floor at zero. Accordingly, as long as the reference rates are below zero, the Group's interest payments correspond to the margin.

All bank loans of the Group are at variable interest rates, which is in essence fixed when the reference interest rate is below zero due to the floor in the bank loans. The bond is a fixed rate borrowing. The average maturity of the total debt portfolio is currently 10 months (22 months).

Consideration is taken at all times to assess how vulnerable the Group is to a change in interest rates. In order to limit the impact of movements in interest rates, the Treasury Policy provides the following guidelines:

- Aim is to achieve an average maturity of the interest rates in the debt portfolio, including the interest rate derivatives, of 2 years +/-1 year or in accordance with the loan agreement if so specified.
- Interest maturities are preferably spread out evenly over time in order to avoid substantial risk concentrated on single financial year.

More information on how Ahlstrom-Munksjö manages its financial risks is presented below in note 19.

Cont. note 17

**Sensitivity analysis of Ahlstrom-Munksjö position to changes in interest rates**

The impact of reasonably possible interest rate fluctuation on the Group's net profit is shown in the table below at year-ends.

Interest rate sensitivity, EUR million	2018	2017
Variable rate cash equivalents	151.0	245.9
Variable rate bank loans	-853.1	-367.4
Impact of interest rate swaps	-	40.0
<b>Position used in sensitivity analysis</b>	<b>-702.1</b>	<b>-81.5</b>
Interest +1%, impact on profit for the period	-4.9	-0.6
Interest +2%, impact on profit for the period	-11.9	-1.4

**Finance lease liabilities**

The table below displays the future finance lease payments of the Group and when these fall due.

Future finance lease commitments, EUR million	Within 1 year	2-5 years	More than 5 years	Total
<b>2018</b>				
Minimum lease payments	1.3	3.1	0.3	4.7
Interest	-0.2	-0.3	0.0	-0.5
<b>Present value of minimum lease payments</b>	<b>1.1</b>	<b>2.8</b>	<b>0.3</b>	<b>4.2</b>
<b>2017</b>				
Minimum lease payments	2.4	3.3	-	5.7
Interest	-0.2	-0.3	-	-0.5
<b>Present value of minimum lease payments</b>	<b>2.2</b>	<b>3.0</b>	<b>-</b>	<b>5.2</b>

**Cash and cash equivalents**

Ahlstrom-Munksjö utilizes cash pools to optimize the amount of interest to be paid and received on the amounts held in the bank accounts in order to improve liquidity management. Group Treasury is responsible for the Group's cash pool management.

Cash and cash equivalents, EUR million	2018	2017
<b>Total</b>	<b>151.0</b>	<b>245.9</b>

Bank deposits earn variable interest based on the bank's daily deposit rate.

Restricted cash amounting to EUR 0.7 million (EUR 1.5 million) is presented in current trade and other receivables.

**Accounting policies****Borrowings**

Bonds, bank loans and loans from multilateral institutions are recognized at their inception at their fair value (typically the proceeds received) net of directly related transaction costs incurred. The borrowings are subsequently measured at amortized cost using the effective interest method. Transaction costs are amortized over the life of the borrowings based on the effective interest method.

**Facility fees**

Fees paid on the establishment of loan facilities are recognized as transaction costs of the credit facilities and facility loans to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

**Derecognition of borrowings**

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss within financial items.

**Finance leases**

Leases are treated as a finance lease when the risks and rewards incidental to ownership are substantially transferred to Ahlstrom-Munksjö by a lease contract. The Group recognizes the leased asset and related obligation in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments. Minimum lease payments made under the finance lease over the lease term are apportioned between finance cost and the reductions of the outstanding liability. The finance cost is allocated to each year during the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The lease asset is depreciated over the lease term, unless the ownership is transferred to the Group at the end of the lease, when they are depreciated in accordance with Ahlstrom-Munksjö's policy for property, plant and equipment which are defined in note 8.

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts, as applicable, are shown within borrowings in current liabilities in the balance sheet.

**18 EQUITY**

The Board of the Directors of Ahlstrom-Munksjö together with the management of the Group considers appropriate financial targets for Ahlstrom-Munksjö and agrees on a financial target framework. According to the long-term financial targets approved by the Board of Directors, Ahlstrom-Munksjö aims for a stable and annually increasing dividend to be paid bi-annually to shareholders.

In 2018, the Company paid dividends totaling to EUR 50 million paid in two installments in April and in September. In 2017, Ahlstrom-Munksjö returned EUR 44.9 million capital to its shareholders. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 59.9 million, EUR 0.52 per share, will be paid to shareholders in two different installments, in April and in October 2019.

**Distributable funds of Ahlstrom-Munksjö**

The following table shows distributable funds of the parent company Ahlstrom-Munksjö Oyj as at December 31, 2018 and December 31, 2017:

Distributable funds, EUR million	2018	2017
Reserve for invested unrestricted equity	558.7	408.7
Retained earnings	180.7	212.5
Net profit for the period	39.9	18.2
- Less capitalized development costs	-1.9	-
<b>Total distributable funds</b>	<b>777.4</b>	<b>639.4</b>

**Accounting policies**

Return of equity and dividends proposed by the Board of Directors are recognized in equity and liability in the balance sheet when they have been approved by the shareholders at the Annual General Meeting.

**Equity****Shares and share capital**

Ahlstrom-Munksjö has one series of shares issued under Finnish Law. The shares are listed on the Nasdaq Helsinki and Nasdaq Stockholm. The shares have no nominal value. Each share entitles the holder to one vote at the general meetings of shareholders of Ahlstrom-Munksjö. As at December 31, 2018, Ahlstrom-Munksjö share capital amounts to EUR 85 million (EUR 85 million) and the total number of shares is 115,653,315 (96,438,573). The shares have been entered into the Finnish book-entry securities system maintained by Euroclear Finland.

**Reserve for invested unrestricted equity and other reserves**

In the merger in 2017, reserve for invested unrestricted equity of Ahlstrom-Munksjö increased by reserve for invested unrestricted equity of Ahlstrom's parent company of EUR 61.1 million and the merger result of EUR 250.6 million.

**Merger accounting in 2017**

The combination of Ahlstrom and Munksjö on April 1, 2017 was structured as a statutory absorption merger whereby Ahlstrom's parent company merged into Munksjö's parent company. The equity in Ahlstrom-Munksjö's balance sheet reflects the impact of the merger accounting to the parent company's share capital, reserve for invested unrestricted equity and retained earnings. The merger result determined as the difference between net assets of Ahlstrom and the value of the merger consideration was recorded to reserve for invested unrestricted equity of Ahlstrom-Munksjö. See note 3 for more information on the merger of Ahlstrom and Munksjö.

**Rights issue**

Ahlstrom-Munksjö completed a rights offering of new shares in December 2018. A total of 19,211,910 shares were subscribed for in Finland and Sweden were registered with the Finnish Trade Register on December 19, 2018. In addition, total of 2,832 Offer Shares subscribed for without subscription rights in Sweden were registered with the Finnish Trade Register on 28 December 2018. The subscription price was EUR 7.81 per share and the total gross proceeds from the rights issue amounted to EUR 150,1 million. Direct costs related to the rights issue amounted to EUR 7.3 million (net of tax EUR 5.9 million) and have been recognised in equity as deduction from the proceeds received. Following the registrations, the total number of registered shares in Ahlstrom-Munksjö is 115,653,315. The proceeds from the rights issue were used to repay the outstanding bridge-to-equity facility of EUR 155.2 million.

The following table shows the impact of changes in the number of shares:

	Number of shares
<b>Opening at January 1, 2017</b>	<b>51,061,581</b>
Number of new Ahlstrom-Munksjö shares issued as merger consideration <sup>1</sup>	45,376,992
<b>Closing at December 31, 2017</b>	<b>96,438,573</b>
Rights issue	19,214,742
<b>Closing at December 31, 2018</b>	<b>115,653,315</b>

<sup>1</sup> Fair value of the consideration at the merger date was EUR 632.6 million recorded to the equity of Ahlstrom-Munksjö.

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**Treasury shares**

Shareholders' Meeting held in March 2018 authorized the Board of Directors to repurchase the parent company's own shares as well as to accept them as pledge. According to the resolution, the shares shall be repurchased in public trading at the prevailing market price using unrestricted shareholders' equity. The number of shares to be repurchased or accepted as pledge by virtue of the authorization shall not exceed 8,000,000 company's own shares. The authorizations are valid until the close of the next Annual General Meeting, however, no longer than eighteen (18) months from the close of the Annual General Meeting.

During the year 2018, Ahlstrom-Munksjö didn't repurchased any own shares. As at December 31, 2018, Ahlstrom-Munksjö holds 364,862 of its own shares, corresponding approximately 0.4 % of the total shares and votes.

The following table shows the movements in treasury shares:

	Number of shares	Cost, EUR million
<b>Opening at January 1, 2017</b>	<b>300,000</b>	<b>3.1</b>
Transferred to key management as a reward from LTIP 2014–2016	-235,138	-2.4
Repurchase in 2017	300,000	5.6
<b>Closing at December 31, 2017</b>	<b>364,862</b>	<b>6.3</b>
<b>Closing at December 31, 2018</b>	<b>364,862</b>	<b>6.3</b>

**Accounting policies****Treasury shares**

The parent company's shares that are acquired are recognized as a reduction of equity at cost of acquisition, including any directly attributable costs (net of tax). When the shares are cancelled or reissued, the acquisition cost of treasury shares is recognized in retained earnings.

**Cumulative translation adjustment**

Translation differences consist of translation differences arising from translation of foreign Group companies' assets and liabilities into euro, the presentation currency of the consolidated financial statements. On disposal of all or a part of a foreign Group company, the cumulative amount of translation differences is recognized as income or expense in the income statement when the gain or loss on disposal is recognized.

**Reserve for invested unrestricted equity**

Any consideration received for the issue of new shares or treasury shares of the parent company is recognized to reserve for invested unrestricted equity unless otherwise decided. Transaction costs directly related to the issue of these shares are recognized, net of tax, in the reserve for invested unrestricted equity as a reduction in the proceeds.

**Hedging reserve**

The hedging reserve comprises the unrealized fair value changes of cash flow hedges, net of taxes, qualifying for hedge accounting and the amount recognized is reclassified in profit or loss when the hedged item affects the profit or loss. See note 19 for more information on cash flow hedges.

**Retained earnings**

The following are recorded directly to retained earnings:

- The Group has certain long-term incentive plans for key personnel. These plans are accounted for as share-based payments where the fair value of the awards granted in shares are classified as equity-settled and recorded in the income statement and retained earnings in equity over the vesting period. See note 7 for more information on share-based payments.
- The Group has defined benefit plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions for these defined benefit plans are charged or credited to retained earnings. See note 15 for more information on defined benefit obligations.

## Financial risk management

This section discusses the Group's exposure to various financial risks, explains how these affect Ahlstrom-Munksjö's financial position and performance and how management manages the risks.

This section also describes the Group's financial instruments and the risk exposures, sensitivities and monitoring strategies related to these financial instruments.

### 19 FINANCIAL RISK MANAGEMENT

#### General

Financial risks of the Group consist of credit risk (see note 14), funding risk, liquidity risk and market risks. Market risks are further divided to currency risk, interest rate risk (refer to note 17) and commodity price risk.

Ahlstrom-Munksjö has updated its Treasury Policy during the year. The Treasury Policy sets the Board of Directors' guidelines on how finance and treasury operations are carried out and how financial risks within the Group are managed. The guidelines aim to ensure that the Group's financial risks are kept at an acceptable level.

The Treasury Policy is approved by the Board of Ahlstrom-Munksjö. The Board has the overall responsibility for managing financial risks. Executive Treasury Committee monitors and manages the financial risks. Operational management of financial risks is carried out centrally by the Group Treasury under the Treasury Policy. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

Group Treasury is handling all hedging of foreign exchange, commodity and interest rates, if nothing else has been approved. Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

#### Currency risk

Due to the global operations of Ahlstrom-Munksjö, the Group is exposed to currency risk. Currency risk refers to the risk that fluctuations in the foreign exchange market will negatively affect the Ahlstrom-Munksjö's cash flow, net profit and equity. Currency exposure, defined as all unhedged exposure in foreign currency, is split into two types of exposure: transaction exposure and translation exposure.

#### Transaction exposure

Ahlstrom-Munksjö conducts manufacturing and sells its products around the globe and is therefore exposed to transaction risk. Transaction exposure arises from commercial and finance-related transactions and payments in a currency other than an operation's functional currency i.e. from internal purchases, sales between manufacturing units and market companies, external sales and purchases as well as from financing transactions in foreign currencies.

Also firm commitments to acquire businesses may expose the Group to foreign currency transaction risk. The Group hedged a portion (USD 300 million nominal) of the USD denominated firm commitment to acquire Expera in latter part of 2018 by using a foreign exchange forward contract. The gain on hedge amounted to EUR 4.4 million which was recorded as an adjustment to the purchase consideration (see note 3 for further information on the acquisition of Expera).

Foreign currency cash flows are hedged on a net exposure basis in accordance with the rules set out in the Treasury Policy. The Group's risk management strategy in terms of currency risk and the guideline for Group companies is to hedge 75% (+/-10%) of the forecasted cash flows for a period up to 9 months if the total exposure to forecasted net flows of foreign currency exceeds the equivalent of 2% of total turnover of a Group company. The Group uses forward contracts to hedge this commercial foreign currency exposure and applies cash flow hedge accounting. The forward contracts' maturity is materially reconciled with the timing of the forecasted sales and purchases. At December 31, 2018 the fair value of the forwards under hedge accounting was EUR 0.2 million. In 2018, the Group booked gain of EUR 0.4 million to the cash flow hedge transferred to this year's result in OCI. The Group has not historically booked material ineffectiveness from the hedging relationships, however, ineffectiveness might arise from timing differences.

In addition to using derivatives for hedging, Ahlstrom-Munksjö also employs practical actions in order to reduce the currency risk. The number of currencies used in intercompany invoicing is minimized and where possible, Group Treasury will match foreign exchange cash flows within the Group.

The following tables show the Group's exposure to currency cash flow risk.

#### Additional unaudited pro forma information

##### Pro forma cash flows by currency before hedging activities

EUR million, 2018	EUR	SEK	USD	BRL	CNY	KRW	Other
Net sales	1,210	55	1,440	145	65	20	62
Operating costs	-1,315	-195	-1,240	-145	-50	-45	-57
<b>Net cash flow</b>	<b>-105</b>	<b>-140</b>	<b>200</b>	<b>0</b>	<b>15</b>	<b>-25</b>	<b>5</b>

##### Pro forma cash flows by currency before hedging activities

EUR million, 2017	EUR	SEK	USD	BRL	CNY	KRW	Other
Net sales	1,260	55	660	110	66	15	63
Operating costs	-1,155	-200	-480	-120	-55	-35	-54
<b>Net cash flow</b>	<b>105</b>	<b>-145</b>	<b>180</b>	<b>-10</b>	<b>11</b>	<b>-20</b>	<b>9</b>

At the end of the reporting period, the hedge ratio for the forecasted cash flows for the next 9 months, including indirect exposure embedded in pulp prices, was approximately 75% (80% for USD and about 70% for SEK (70%). The exposures in other currencies are limited and not hedged. Outstanding nominal amounts at the end of the year for these forward contracts were USD 21 million and SEK 720 million.

The following table shows the Group's estimated sensitivity for the next 9 months to a currency rate of a weaker EUR of 5%, including FX-hedges and indirect exposures. The table is based on information monitored by the Board for currency risk management.

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EUR million, Q1–Q3 2019	EUR	SEK	USD	BRL	CNY	KRW	Other
Currency change of 5% to EUR	-	-1.6	0.3	-0.1	0.6	-0.9	-0.1

The parent company has provided short term financing to its foreign subsidiaries which have been hedged by using forward contracts at December 31, 2018. Hedge accounting is not applied to these relationships. The nominal amounts of the loans are USD 25 million, CNY 25 million and GBP 20 million which correspond to the nominal amounts of the forward contracts, which in three months. These forward contracts are recognised at fair value with changes in fair value through the exchange gains and losses within the financial items. The fair value for the forwards was EUR -0,3 million at December 31, 2018.

### Translation risk

Ahlstrom-Munksjö's income statement and balance sheet are both exposed to foreign exchange fluctuations, as these affect the translation of subsidiaries' assets and liabilities denominated in foreign currencies.

The Group aims to minimize currency risk related to translation exposure by aiming to balance assets and liabilities of subsidiaries so that the foreign exchange risk is minimized in the consolidated balance sheet. Due to the long-term nature of net investments, equity hedging is not normally performed by the Group.

The following table shows the Group's translation exposure arising from net investments in foreign subsidiaries in major currencies. The table includes also a USD denominated intercompany loan that is accounted for as part of the net investment in a US subsidiary. Settlement of the loan is not planned or likely to occur in the foreseeable future.

Group translation exposure, EUR million	Net investment in subsidiaries	
	2018	2017
USD	483.8	158.7
SEK	233.3	219.2
BRL	101.5	108.8
CNY	43.6	51.7

The following table shows the consolidated equity's estimated sensitivity for a currency rate change of a weaker EUR of 5%.

EUR million	USD	SEK	BRL	CNY
Currency change of 5% to EUR	25.5	12.3	5.3	2.3



## Accounting policies

### Derivative instruments and hedging activities

Ahlstrom-Munksjö uses derivative instruments to manage certain exposures to fluctuations in foreign currency rates and interest rates. These derivative financial instruments are recognized initially at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting is applicable when, at inception of the hedge, there is a formal designation and documentation of the hedging relationship and other criteria for hedge accounting are met. At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management strategy and objective for undertaking its hedge transactions.

The Group only applies cash flow hedge accounting, which is used to hedge exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction or an unrecognized firm commitment. The effective portion of changes in the fair value of the hedging instrument is booked in other comprehensive income and accumulated in equity. It is reclassified in profit or loss when the hedged item affects the profit or loss, or in the initial cost of the hedged item when it relates to the hedge of a firm commitment to acquire a non-financial item (for example, business combination). The Group does not separate forward points in a hedge relationship.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. Subsequent changes in the value of the hedging instrument after the hedging relationship is terminated are recorded in profit and loss.



## Commodity risk

Commodity risk refers to the risk that changes in the cost of raw materials (pulp, titanium dioxide) and energy (electricity, gas, oil etc.) have a negative effect on the result and/or competitiveness of Ahlstrom-Munksjö. Consideration as to the vulnerability of the Group to changes in relevant commodity prices is taken periodically.

To mitigate the commodity risk exposure, the Group hedges commodity exposures in line with the Group Treasury Policy. In accordance with the policy, commodity hedging should have a maximum length of 3 years and can be up to 50% of forecasted consumption in the first year, 40% of forecasted consumption in the second year and 30% in the third year. All hedging transaction are also to be connected to projects, customer agreements or other direct identifiable business risks. This is in order to avoid speculative hedging. At the balance sheet date, the Group did not have any outstanding commodity derivatives.

## Funding and liquidity risk

### Funding risk

Funding risk refers to the risk the Ahlstrom-Munksjö does not at all times have access to financing or financing at an acceptable cost. This may arise should the Group become too dependent on a single source of financing, or if the maturity structure of the Group's debt portfolio is too concentrated. In order to mitigate funding risk, the Group aims to spread its debt across different lenders, different maturities and different forms of financing.

Ahlstrom-Munksjö has outlined the following guidelines in its Treasury Policy, which aim to mitigate the funding risk. The Group aims to ensure that not more than 50% of its debt portfolio will mature in the same 12-month period and the average maturity of the long-term finance should be at least 2 years. The Group also aims to avoid the inclusion of covenants in all types of financing agreements.

### Liquidity risk

Liquidity risk is the risk that Ahlstrom-Munksjö will not have sufficient funds to pay foreseen and unforeseen expenditures. In order to mitigate this risk, Group Treasury monitors the Group's cash pools, bank agreements and liquidity to ensure at all times that there is sufficient liquidity. The liquidity situation is monitored in such way that Ahlstrom-Munksjö Group at all times has sufficient liquidity. The Group's cash accounts are included in the cash pools.

Ahlstrom-Munksjö's cash needs in respect of meeting its financial liabilities are shown in the tables below. The maturity analysis was determined at the balance sheet date. The maturity analysis is based on undiscounted cash flows, excluding interest payments that are shown separately at the bottom of the table. The interest payments are based on market conditions at the balance sheet date.

Maturity of financial liabilities, EUR million, 2018	Within 1 year	Within 1-2 years	Within 2-3 years	More than 3 years	Total
<b>Non-derivative financial liabilities</b>					
Bonds	-	-	-	250.0	250.0
Bank loans	84.4	26.0	226.0	516.7	853.1
Finance lease liabilities	1.1	2.1	0.7	0.3	4.2
Securitization	43.7	-	-	-	43.7
Other financial liabilities	4.4	1.4	2.8	5.4	14.0
Trade payables	376.1	-	-	-	376.1
<b>Total</b>	<b>509.7</b>	<b>29.5</b>	<b>229.5</b>	<b>772.4</b>	<b>1,541.1</b>
Future interest on financial liabilities	30.3	34.2	32.3	44.0	140.8

Maturity of financial liabilities, EUR million, 2018	Within 1 year	Within 1-2 years	Within 2-3 years	More than 3 years	Total
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### Derivative financial liabilities

Interest rate swaps used for hedging	-	-	-	-	-
Forward exchange contracts used for hedging:					
- Outflow	-135.5	-	-	-	-135.5
- Inflow	134.8	-	-	-	134.8

Maturity of financial liabilities, EUR million, 2017	Within 1 year	Within 1-2 years	Within 2-3 years	More than 3 years	Total
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### Non-derivative financial liabilities

Bonds	-	-	-	250.0	250.0
Bank loans	71.4	16.9	141.0	138.1	367.4
Finance lease liabilities	2.2	1.0	0.7	1.3	5.2
Trade payables	287.7	-	-	-	287.7
<b>Total</b>	<b>361.3</b>	<b>17.9</b>	<b>141.7</b>	<b>389.4</b>	<b>910.3</b>

Future interest on financial liabilities	10.5	10.3	8.7	14.5	44.0
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### Derivative financial liabilities

Interest rate swaps used for hedging	-0.2	-	-	-	-0.2
Forward exchange contracts used for hedging:					
- Outflow	-132.3	-	-	-	-132.3
- Inflow	132.1	-	-	-	132.1

The table below represents the total amount of funds that are available to the Group at the balance sheet date, including bank overdrafts and undrawn available facilities.

Liquidity position, EUR million	2018	2017
Bank overdrafts	12.5	12.5
Cash and cash equivalents	151.0	245.9
Available undrawn credit facilities - committed	200.0	200.0
Available undrawn credit facilities - uncommitted	80.6	73.8
<b>Liquidity position</b>	<b>444.1</b>	<b>532.2</b>



Cont. note 19

**Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements**

Ahlstrom-Munksjö have a number of counterparties in respect of which the Group is both buyer and seller. Consequently, Ahlstrom-Munksjö's gross financial assets can be significant before offsetting. Offsetting is typically limited within specific products and it is possible when payment and receipt from the same counterparty occur simultaneously. These financial assets and liabilities are not offset on the balance sheet as the offsetting in the balance sheet is allowed only in certain, limited circumstances.

The table below shows the Group's derivative contracts that are subject to offsetting agreements. The column 'net amount' shows the impact on the Group's balance sheet if all set-off rights were exercised. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet.

Derivative instruments, EUR million	Carrying value of recognized financial assets (liabilities)	Master netting arrangements	Net amount
<b>2018</b>			
Derivative assets	0.8	-0.6	0.2
Derivative liabilities	-0.9	0.6	-0.3
<b>2017</b>			
Derivative assets	1.4	-1.2	0.2
Derivative liabilities	-1.8	1.2	-0.6

**Accounting policies****Offset of financial instruments**

Financial assets and liabilities are offset and recognized with a net amount in the balance sheet only when there is a legal right to offset the recognized amounts and an intention to balance the items with a net amount, or to simultaneously realize the asset and settle the liability.

**Financial assets and liabilities by category**

Financial assets and liabilities recognized in the balance sheet include cash and cash equivalents, loans and other financial receivables, trade receivables, other investments, trade payables, borrowings and derivatives.

The following table summarizes the carrying value of financial assets and liabilities by categories.

EUR million, December 31, 2018	Information on financial assets and liabilities					
	Carrying amounts	Of which financial assets and liabilities	Measured at amortised cost	Derivatives at fair value through income statement	Other financial items through income statement	Derivatives under hedge accounting
<b>Non-current assets</b>						
Other non-current assets	15.4	3.9	3.4	-	0.5	-
<b>Current assets</b>						
Trade and other receivables	374.0	292.7	292.0	0.0	-	0.8
Cash and cash equivalents	151.0	151.0	151.0	-	-	-
<b>Carrying amount by measurement category</b>	<b>540.4</b>	<b>447.7</b>	<b>446.4</b>	<b>0.0</b>	<b>0.5</b>	<b>0.8</b>
<b>Non-current liabilities</b>						
Non-current borrowings	1,023.4	1,023.4	1,023.4	-	-	-
Other non-current liabilities	1.7	0.6	0.6	-	-	-
<b>Current liabilities</b>						
Current borrowings	142.6	142.6	142.6	-	-	-
Trade and other payables	615.3	471.3	470.4	0.4	-	0.5
<b>Carrying amount by measurement category</b>	<b>1,783.0</b>	<b>1,637.9</b>	<b>1,637.0</b>	<b>0.4</b>	<b>-</b>	<b>0.5</b>

Cont. note 19

EUR million, December 31, 2017	Information on financial assets and liabilities					
	Carrying amounts	Of which financial assets and liabilities	Measured at amortised cost	Derivatives at fair value through income statement	Other financial items through income statement	Derivatives under hedge accounting
<b>Non-current assets</b>						
Other non-current assets	7.6	2.6	2.1	-	0.5	-
<b>Current assets</b>						
Trade and other receivables	259.3	205.9	204.4	0.2	-	1.2
Cash and cash equivalents	245.9	245.9	245.9	-	-	-
<b>Carrying amount by measurement category</b>	<b>512.8</b>	<b>454.4</b>	<b>452.4</b>	<b>0.2</b>	<b>0.5</b>	<b>1.2</b>
<b>Non-current liabilities</b>						
Non-current borrowings	542.3	542.3	542.3	-	-	-
Other non-current liabilities	0.5	0.5	0.5	-	-	-
<b>Current liabilities</b>						
Current borrowings	78.9	78.9	78.7	-	-	0.2
Trade and other payables	502.9	378.5	376.9	0.0	-	1.6
<b>Carrying amount by measurement category</b>	<b>1,124.6</b>	<b>1,000.3</b>	<b>998.5</b>	<b>0.0</b>	<b>-</b>	<b>1.8</b>

**Fair values of financial assets and liabilities**

The following table shows the carrying values (book values), fair values and valuation hierarchy of the Group's financial instruments as at the balance sheet date.

EUR million	2018			2017		
	Carrying value	Fair value	Level	Carrying value	Fair value	Level
<b>Non-current financial instruments measured at amortized cost</b>						
Bonds	248.8	253.2	1	248.5	256.1	1
Bank loans	771.6	771.6	2	290.8	290.8	2
Finance leases	3.1	3.1	2	3.0	3.0	2
<b>Financial instruments measured at fair value</b>						
Forward contracts - under hedge accounting	0.2	0.2	2	-0.4	-0.4	2
Forward contracts - fair value through income statement	-0.3	-0.3	2	0.2	0.2	2
Interest rate swap contracts - under hedge accounting	-	-	-	-0.2	-0.2	2

The Group considers that the carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements. In addition, the Group considers the carrying amount and fair value of bank loans the same as the Group's credit spread has not moved, they are tied to a variable rate, and as the borrowings are mainly withdrawn during the second half of the financial year.



## Accounting policies

### Financial assets at amortised cost

The group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows,
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

The financial assets in this group are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired (refer to note 14), as well as through the amortization process. This category of financial assets includes trade and other receivables and cash equivalents (refer to note 17).

### Financial assets and liabilities at fair value through income statement

The Group classifies derivatives for which hedge accounting is not applied as financial assets at fair value through income statement (FVPL).

Financial assets at fair value through income statement are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Other investments include unlisted shares and interests carried at fair value. Fair value changes are recognized in the other comprehensive income. For unlisted shares and interests the fair value cannot be measured reliably and therefore the management considers that the cost is a reasonable approximation of the fair value.

### Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are initially recognized at fair value, net of transaction costs. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in interest and other income and finance costs respectively.

This category of financial liabilities includes trade and other payables and debt (refer to note 17).

There has not been significant changes in the measurement bases of the financial assets and liabilities due to transition to IFRS 9.

### Fair values of financial assets and liabilities

The financial assets and liabilities measured at fair value in the balance sheet have been classified based on the three hierarchy levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2: inputs that are observable for the asset or liability, either directly or indirectly;
- level 3: unobservable inputs for the asset or liability.

The Group considers that the carrying amount of cash, trade receivables and various deposits provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements.

For financial liabilities at amortized cost, the fair value of financial liabilities is determined using:

- the quoted price for listed instruments (a detailed analysis is performed in the case of a material decrease in liquidity to evidence whether the observed price corresponds to the fair value; otherwise the quoted price is adjusted);
- the present value of estimated future cash flows, discounted using rates observed by the Group at the end of the period for bank loans, finance leases and other instruments.

Fair values of derivatives are based on valuations provided by external parties using various valuation techniques. The fair value of the forward exchange contracts is determined using forward exchange rates at the balance sheet date with the resulting fair value discounted to present value.

## Other notes

This section provides the additional information required to be disclosed under IFRS and Finnish statutory requirements. However, these are not considered critical in understanding the financial performance or the financial position of Ahlstrom-Munksjö.

## 20 OFF-BALANCE SHEET COMMITMENTS

Ahlstrom-Munksjö has the following off-balance sheet commitments at the balance sheet date.

Off-balance sheet commitments, EUR million	2018	2017
<b>Assets pledged:</b>		
Pledges	1.0	1.8
<b>Commitments:</b>		
Guarantees and commitments given on behalf of Group companies	56.9	68.6
Capital expenditure commitments	43.2	10.3
Other guarantees and commitments	31.8	5.3

Guarantees and commitments given on behalf of Group companies include a pension liability guarantee EUR 20.1 million (EUR 28.3 million) in the U.K.

Capital expenditure commitments are mainly related to investments in Billingsfors, Sweden and in Jacarei, Brazil.

Other guarantees and commitments include binding contract for purchases of energy among others.

The increase in other guarantees and commitments is mainly due to the acquisition of Expera.



### Accounting policies

#### Commitments

Unrecognized commitments are disclosed where the Group has an agreement or a pledge to assume a financial obligation at a future date.

## 21 AHLSTROM-MUNKSJÖ SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS AND RELATED PARTY TRANSACTIONS

The Group holds interests in a number of subsidiaries and associates which are outlined below along with their value at the year end, if applicable.

### Equity accounted investments

Ahlstrom-Munksjö holds a 33% share of the equity and 33% share of the voting rights of its associate company in Sweden, Sydved AB ("Sydved"). Ahlstrom-Munksjö purchases wood and woodchips from Sydved amounting to 793,817 m<sup>3</sup> (794,578 m<sup>3</sup>) of wood and woodchips amounting to EUR 40.8 million (EUR 35.8 million).

Book value of associated company, EUR million	2018	2017
Book value at the beginning of the year	1.2	2.2
Dividend	-	-0.7
Share of earnings for the year	0.0	-0.2
Translation differences	-0.1	-0.1
<b>Book value at the end of year</b>	<b>1.1</b>	<b>1.2</b>
Share of Sydved AB's assets, equity, net sales and profit before tax, EUR million	2018	2017
Assets	22.1	16.2
Equity	0.9	0.9
Net sales	97.0	87.4
<b>Profit before tax</b>	<b>0.0</b>	<b>-0.2</b>

The carrying value of the associated company Sydved AB has no goodwill included. The Group's liabilities to Sydved amounted to EUR 4.2 million (EUR 3.8 million). Share of profit of the associated company is EUR 0.0 million (EUR -0.2 million).

### Joint operations

Ahlstrom-Munksjö Paper GmbH is buying electricity and gas from Stadtwerke Aalen GmbH who owns 40% of Ahlstrom-Munksjö Paper GmbH's subsidiary Kraftwerksgesellschaft Unterkochen GmbH. The related purchase amounts to EUR 4.5 million (EUR 5.9 million).

Cont. note 21

**Group companies**

The consolidated accounts include the following entities:

Company name	Registered office	Share of equity %
Ahlstrom-Munksjö Oyj	Finland	Parent
Ahlstrom-Munksjö AB	Sweden	100
Munksjö UK Limited	United Kingdom	100
Ahlstrom-Munksjö Aspa Bruk AB	Sweden	100
Ahlstrom-Munksjö Paper AB	Sweden	100
Munksjö Electrotechnical Paper AB (dormant)	Sweden	100
Ahlstrom-Munksjö Spain Holding, S.L	Spain	100
Ahlstrom-Munksjö Paper S.A.	Spain	100
Ahlstrom-Munksjö Paper (Taicang) Co. Ltd	China	100
Ahlstrom-Munksjö Germany Holding GmbH	Germany	100
Ahlstrom-Munksjö Paper GmbH	Germany	100
Kraftwerksgesellschaft Unterkochen GmbH	Germany	60
Ahlstrom-Munksjö Dettingen GmbH	Germany	100
Ahlstrom-Munksjö Paper Inc.	USA	100
Ahlstrom-Munksjö Italia S.p.A.	Italy	100
Ahlstrom-Munksjö France Holding S.A.S.	France	100
Ahlstrom-Munksjö Arches S.A.S.	France	100
Ahlstrom-Munksjö Stenay S.A.S.	France	100
Ahlstrom-Munksjö Rottersac S.A.S.	France	100
Ahlstrom-Munksjö La Gère S.A.S.	France	100
Ahlstrom-Munksjö Paper Trading (Shanghai) Co., Ltd	China	100
Ahlstrom-Munksjö Asia Holdings Pte Ltd	Singapore	100
PTAhlstrom Indonesia	Indonesia	100
Ahlstrom-Munksjö Barcelona, S.A	Spain	100
Ahlstrom-Munksjö Brasil Indústria e Comércio de Papéis Especiais Ltda.	Brazil	100
Caieiras Indústria e Comércio de Papéis Especiais Ltda.	Brazil	100
Ahlstrom-Munksjö Chirnside Limited	United Kingdom	100
Ahlstrom-Munksjö Fibercomposites (Binzhou) Limited	China	100
Ahlstrom Munksjö Fiber Composites India Private Ltd	India	100
Ahlstrom-Munksjö Germany GmbH	Germany	100
Ahlstrom-Munksjö Glassfibre Oyj	Finland	100

Company name	Registered office	Share of equity %
Ahlstrom-Munksjö Tver LLC	Russia	100
Ahlstrom-Munksjö Industries S.A.S.	France	100
Ahlstrom-Munksjö Brignoud S.A.S.	France	100
Ahlstrom-Munksjö Tampere Oyj	Finland	100
Ahlstrom-Munksjö Specialties S.A.S.	France	100
Ahlstrom-Munksjö Japan Inc.	Japan	100
Ahlstrom-Munksjö Korea Co., Ltd	South Korea	100
Ahlstrom-Munksjö Malmédy SA	Belgium	100
Ahlstrom-Munksjö Monterrey, S. de R.L. de C.V.	Mexico	100
Ahlstrom-Munksjö South Africa (Pty) Ltd	South Africa	100
Ahlstrom-Munksjö Ställdalen AB	Sweden	100
Ahlstrom-Munksjö Falun AB	Sweden	100
Ahlstrom-Munksjö USA Inc.	USA	100
Ahlstrom-Munksjö Filtration LLC	USA	100
Ahlstrom-Munksjö Nonwovens LLC	USA	100
Windsor Locks Canal Company	USA	100
Ahlstrom-Munksjö NA Specialty Solutions Holdings Inc.	USA	100
Ahlstrom-Munksjö NA Specialty Solutions Acquisition LLC	USA	100
Ahlstrom-Munksjö NA Specialty Solutions LLC	USA	100
Ahlstrom-Munksjö Brokaw LLC	USA	100
Ahlstrom-Munksjö Nicolet LLC	USA	100
Ahlstrom-Munksjö Mosinee LLC	USA	100
Ahlstrom-Munksjö Rhinelander LLC	USA	100
Ahlstrom-Munksjö Coated Products LLC	USA	100
Ahlstrom-Munksjö Funding LLC	USA	100
Ahlstrom-Munksjö Vilnius UAB	Lithuania	100
Ahlstrom-Munksjö Warsaw Sp. Z.o.o	Poland	100
Ahlstrom-Munksjö Yulong (Shanghai) Specialty Paper Trading Co. Ltd	China	60
Ahlstrom-Munksjö Yulong Specialty Paper Company Limited	China	60
Akerlund & Rausing Kuban Holding GmbH	Germany	100

In addition, the Group has branch or representative offices in India, Indonesia, Sri Lanka, Taiwan and Thailand.

**Accounting policies****Subsidiaries, joint operations and associates**

Subsidiaries are entities that are directly or indirectly controlled by Ahlstrom-Munksjö controls, ie. when the Group is exposed to, or has rights to, variable returns from its involvement and has the ability to affect those returns through exercising power. Subsidiaries are consolidated from the date control is achieved to the date when the Group ceases to exercise power.

Associated companies are those in which the Group has a significant influence over operational and financial policies. Significant influence is the power to participate in, but not control or jointly control, the financial and operating decisions of the investee. These investments are accounted for using the equity method.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses in accordance with the Ahlstrom-Munksjö's contractual rights and obligations.

**Transactions eliminated on consolidation and transactions between the owners of the parent**

Transactions between Group companies, including intra-group receivables and liabilities, income or expenses and unrealized gains or losses are eliminated in full. Unrealized gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest, unless otherwise contractually agreed by the parties. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Transactions with the owners of the parent are reported within shareholders' equity. Transactions with non-controlling interests are reported as transactions with equity owners of the Group. Divestments to and purchases from non-controlling interests result in gains and losses for the Group, which are reported in equity.

**22 AUDITOR REMUNERATION**

Ahlstrom-Munksjö's Annual General Meeting ("AGM") makes resolutions each year to elect the Group's auditors. It was resolved at the 2018 AGM that in accordance with the proposal of the Board that KPMG Oy Ab would be appointed as the Group's auditor.

Auditor remuneration, EUR million	2018	2017
Audit fees	-1.2	-1.1
Audit-related fees	-0.4	-0.3
Tax service fees	-0.2	-0.3
Other fees	-0.0	-
<b>Total</b>	<b>-1.8</b>	<b>-1.7</b>

KPMG Oy Ab has provided non-audit services to the entities of Ahlstrom-Munksjö Group in total of EUR 0.1 million (EUR 0.5 million) during the financial year 2018.

**23 NEW ACCOUNTING STANDARDS****IFRS 16**

The new standard, IFRS 16 Leases is effective on January 1, 2019. The new standard will affect primarily the accounting by lessees and will result in the recognition of the majority of leases on the balance sheet. The new lease standard removes the previous distinction between operating and finance leases and requires recognition of an asset (the right to use the leased asset) and a financial liability to make lease payments. In accordance with IFRS 16 the operating expenses relating to leases will be replaced by depreciations and interest expenses, resulting in a change in our key metrics e.g. EBITDA. Due to the changes the result for the period will also be affected as the total expense will typically be higher in the earlier years of a lease and lower in later years.

Ahlstrom-Munksjö will adopt IFRS 16 upon initial application January 1, 2019 using a simplified approach and thus comparative figures will not be restated. The Group will use the other available practical expedients, including the exclusion of short-term leases with a term to maturity of less than 12 months, low-value leases and leases of intangible assets.

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Ahlstrom-Munksjö initially measures the lease liability at the present value of the lease payments to be made over the lease term. The lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate. The payments are based on the lease contracts and respective payment schedules.

Ahlstrom-Munksjö has analyzed the leasing contracts and collected the lease contract data as of December 31, 2018. The implementation of IFRS 16 will increase the lease liability and the property, plant and equipment in the balance sheet on January 1, 2019 by approximately EUR 60 million. In the 2019 consolidated income statement, the operating expenses will decrease, while depreciations and interest costs will increase as result of lease expenses capitalized in accordance with IFRS 16. This will lead to an improvement in EBITDA.

**IFRIC23**

IFRIC 23 Uncertainty over Income Tax Treatments clarifies how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, including:

- that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information
- that the entity should reflect the effect of an uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty

The Group will apply the Interpretation as of January 1, 2019 and based on initial analysis does not expect any material adjustments to arise in this respect.

**24 POST-BALANCE SHEET EVENTS**

The Group has no knowledge of any significant events after the end of the reporting period that would have had a material impact on the financial statements for 2018.



# Parent company financial statements, FAS

The Parent Company Financial Statements are prepared according to Generally Accepted Accounting Principles in Finland "Finnish GAAP". Accounting principles are available in Group Consolidated Financial Statements. The main differences between the accounting policies of the Group and the Parent Company are:

- Hedge accounting is not applied to derivative contracts
- Costs related to the combination of Munksjö AB and Ahlstrom Oyj's Label and Processing business
- Costs related to the listing of the company's shares on the Helsinki stock exchange
- Cost related to the rights issue

## Income statement

EUR million	2018	2017
<b>Net sales</b>	<b>94.6</b>	<b>60.0</b>
Other operating income	0.3	0.0
Personnel costs	-5.4	-3.8
Depreciation and amortization	-5.1	-3.0
Other operating expense	-55.5	-38.6
	<b>-66.0</b>	<b>-45.5</b>
<b>Operating profit</b>	<b>28.9</b>	<b>14.5</b>
<b>Financing income and expense</b>		
Dividend income	34.3	9.8
Interest and other financing income	20.0	16.2
Interest and other financing expense	-30.0	-24.7
Gains and losses on foreign currency	2.4	-2.1
	<b>26.8</b>	<b>-0.9</b>
<b>Profit/loss before appropriations and taxes</b>	<b>55.7</b>	<b>13.6</b>
<b>Appropriations</b>		
Change in cumulative accelerated depreciation	0.1	0.2
Group contributions	-12.8	6.7
Income taxes	-3.1	-2.3
<b>Profit/loss for the period</b>	<b>39.9</b>	<b>18.2</b>

**Balance sheet**

EUR million	Dec 31, 2018	Dec 31, 2017
<b>ASSETS</b>		
<b>Non-current assets</b>		
<i>Intangible assets</i>		
Intangible rights	3.8	2.8
Other long term expense	25.5	10.8
Advances paid	8.9	2.9
	<b>38.2</b>	<b>16.5</b>
<i>Tangible assets</i>		
Land and water areas	0.0	0.0
Machinery and equipment	0.3	0.4
Other tangible assets	0.1	0.1
Advances paid and construction in progress	0.3	-
	<b>0.7</b>	<b>0.5</b>
<i>Long-term investments</i>		
Shares in Group companies	1,154.4	1,105.3
Shares in other companies	0.1	0.1
	<b>1,154.4</b>	<b>1,105.4</b>
<b>Current assets</b>		
<i>Long-term receivables</i>		
Receivables from Group companies	605.0	302.0
Deferred tax assets	0.7	2.2
	<b>605.6</b>	<b>304.2</b>
<i>Short-term receivables</i>		
Receivables from Group companies	83.9	81.5
Other short-term receivables	2.3	0.3
Prepaid expenses and accrued income	2.9	2.4
	<b>89.2</b>	<b>84.2</b>
Cash and cash equivalents	86.3	116.3
<b>TOTAL ASSETS</b>	<b>1,974.5</b>	<b>1,627.1</b>

EUR million	Dec 31, 2018	Dec 31, 2017
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	85.0	85.0
Non-restricted equity reserve	558.7	408.7
Retained earnings	180.7	212.5
Profit/loss for the period	39.9	18.2
	<b>864.3</b>	<b>724.4</b>
<b>Appropriations</b>		
Cumulative accelerated depreciation	0.2	0.3
	<b>3.3</b>	<b>5.1</b>
<b>Liabilities</b>		
<i>Long-term liabilities</i>		
Loans from financial institutions	711.3	538.1
	<b>711.3</b>	<b>538.1</b>
<i>Short-term liabilities</i>		
Loans from financial institutions	26.0	16.0
Trade payables	6.4	2.8
Liabilities to Group companies	348.5	328.6
Other short-term liabilities	0.1	0.5
Accrued expenses and deferred income	14.4	11.3
	<b>395.4</b>	<b>359.2</b>
<b>Total liabilities</b>	<b>1,106.7</b>	<b>897.3</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,974.5</b>	<b>1,627.1</b>

## Cash flow statement

EUR million	2018	2017
<b>Cash flow from operating activities</b>		
Operating profit	28.9	14.5
Depreciation, amortization and write-downs	5.1	3.0
Other adjustments	-1.1	0.8
<b>Operating profit before change in net working capital</b>	<b>32.9</b>	<b>18.3</b>
Change in net working capital	1.4	-0.6
<b>Cash generated from operations</b>	<b>34.3</b>	<b>17.7</b>
Interest income	21.0	15.8
Interest and other financing expense	-17.8	-22.2
Income taxes	-0.7	-0.5
<b>Net cash from operating activities</b>	<b>36.8</b>	<b>10.7</b>
<b>Cash flow from investing activities</b>		
Capital expenditures	-26.3	-2.0
Capital injections in Group companies	-75.3	-
Capital refund from Group companies	13.8	-
Proceeds from sale of other shares	0.0	-
Liquidation of subsidiary shares	2.4	-
Dividends received	34.3	9.8
<b>Net cash used in investing activities</b>	<b>-51.0</b>	<b>7.8</b>

EUR million	2018	2017
<b>Cash flow from financing activities</b>		
Rights issue	150.1	-
Change in notes receivable and short-term investments	-307.5	-18.5
Change in long-term debt	184.6	135.9
Change in short-term debt	7.1	-111.1
Purchase of own shares	-	-5.6
Dividends paid	-50.0	-48.2
<b>Net cash used in financing activities</b>	<b>-15.7</b>	<b>-47.5</b>
<b>Net change in cash and cash equivalents</b>	<b>-30.0</b>	<b>-29.0</b>
Cash and cash equivalents at the beginning of the period	116.3	126.2
Cash and cash equivalents from merger	-	19.1
<b>Cash and cash equivalents at the end of the period</b>	<b>86.3</b>	<b>116.3</b>

# Proposal for the distribution of profits

*This document is an English translation of the Finnish auditor's report.  
Only the Finnish version of the report is legally binding.*

The Parent Company's balance sheet on December 31, 2018 shows:

	EUR
Non-restricted equity reserve	558,737,599.61
Retained earnings	180,655,778.98
Profit for the period	39,886,776.08
- Less capitalized development costs	-1,874,737.00
<b>Total distributable funds</b>	<b>777,405,417.67</b>

The Board of Directors proposes to the Annual General Meeting to be held on March 27, 2019 as follows:

- a dividend of EUR 0.52 per share to be paid from the retained earnings corresponding to	59,949,995.56
- non-restricted equity reserve carried forward	558,737,599.61
- to be retained in retained earnings	160,592,559.50
- less capitalized development costs	-1,874,737.00
	<b>777,405,417.67</b>

The dividend shall be paid in two instalments. The first instalment of EUR 0.26 per share shall be paid to a shareholder who on the record date of the payment, March 29, 2019, is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB. The payment date proposed by the Board of Directors for this instalment is April 5, 2019.

The second instalment of EUR 0.26 per share shall be paid in October 2019 to a shareholder who on the record date of the payment is registered in the shareholders' register of the company maintained by Euroclear Finland Ltd or in the register of shareholders maintained by Euroclear Sweden AB, which, together with the payment date, shall be resolved by the Board of Directors in its meeting scheduled for September 25, 2019. The record date of the payment would be September 27, 2019 and the payment date October 4, 2019, at the latest.

Helsinki, February 13, 2019

Peter Seligson

Alexander Ehrnrooth

Johannes Gullichsen

Lasse Heinonen

Hannele Jakosuo-Jansson

Harri-Pekka Kaukonen

Valerie A. Mars

Elisabet Salander Björklund

Pernilla Walfridsson

Hans Sohlström  
CEO

# Auditor's report

## To the Annual General Meeting of Ahlstrom-Munksjö Oyj

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Ahlstrom-Munksjö Oyj (business identity code 2480661-5) for the year ended 31 December 2018. 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, financial performance and 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 the 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 22 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.

#### Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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.

**THE KEY AUDIT MATTER****HOW THE MATTER WAS ADDRESSED IN THE AUDIT****Valuation of goodwill and acquisition related intangible assets – refer to note 12 of the consolidated financial statements**

- At the end of the financial year, the group had EUR 631 million of goodwill and EUR 505 million of other intangible assets. The goodwill amounts to 54 % of the group equity and 19 % of the group's total assets at 31 December, 2018.
- According to the IFRS standards goodwill is not depreciated but instead it is subject to an annual impairment test. The impairment tests are based on material management estimates including long term growth, profitability and discount rates.
- Acquisition related intangible assets have a definitive useful life, however, the useful lives and related amortization periods are assessed annually.
- We assessed the impairment tests prepared by management. We have involved KPMG valuation specialists in our audit. Our assessment included the following procedures:
  - Tested the integrity of the calculations and the technical model.
  - Challenged the assumptions used by management in respect of forecasted growth rates and the appropriateness of the discount rates used. We also assessed the assumptions used in relation to market and industry information.
  - We evaluated the cash flows used by comparing to the group's budgeting process and the understanding we gained from our audit.
  - Furthermore, we have considered the adequacy of the group's disclosures in respect of the impairment testing.
  - For acquisition related intangible assets, we challenged management's assumptions regarding the remaining useful life of identified intangible assets based on our own expectations and on our knowledge of the client and experience of the industry in which it operates.

**Business combinations: Purchase price allocation on acquisitions – refer note 3 of the consolidated financial statements**

- In 2018, Ahlstrom-Munksjö acquired Expera Specialty Solutions and MD Papéis' Caeiras for a total purchase consideration of EUR 620 million. Acquisition accounting requires the fair value of the acquired assets and liabilities at the acquisition date to be determined. This involves complex valuation considerations and required the use of specialists. Goodwill arising from the acquisitions was EUR 202 million and EUR 207 million was allocated to separately identified intangible assets.
- There is a risk of inappropriate management judgment in determining the fair value of assets acquired as the calculations are based on financial estimates.
- The purchase price allocation includes significant judgments in assessing the fair values of the assets and liabilities acquired. The fair values are based on the anticipated future performance of the acquired entities. With the involvement of KPMG valuation specialists, we challenged and evaluated key assumptions made by management and their advisors. This includes the challenge of the key assumptions made by management, such as the discount rates, royalty rates applied, and the projected financial information.
- We performed audit procedures on the acquired opening balances
- We evaluated the adequacy of disclosures in the group's financial statements.

**Revenue recognition – refer to accounting principles for the consolidated financial statements and notes 2 and 5 of the consolidated financial statements**

- Revenue is mainly generated through the sale of manufactured goods. The revenue is generated by subsidiaries in different countries. The revenue earned from the sale of goods is recognised when the control associated with ownership is transferred to the buyer in accordance with the terms of delivery.
- In general, revenue recognition within the group is not complex but due to the large volumes of transactions and the fact that the revenue is generated through subsidiaries in different countries revenue recognition has been identified as an area of focus in the audit.
- During our audit we have focused on identifying unusual sales transactions. Auditors of subsidiaries have performed testing of controls related to revenue recognition and also performed substantive procedures such as testing of sales agreements and year-end transactions.
- We have on group level assessed the revenue recognition principles and based on work performed by the auditors in the subsidiaries tested compliance with group revenue recognition principles.

#### Valuation of Inventories – refer to note 13 to the consolidated financial statements

- The value of inventories amounted to EUR 430 million at the end of the financial year.
- There are several different systems for inventory accounting in the group. It is essential from an accounting perspective that the internal control related to inventory accounting and valuation is appropriately organized.
- The valuation of inventories is based on management estimates in respect of obsolescence assessment.
- In our audit the key focus has been on the pricing and valuation of inventories. Our component auditors carried out appropriate controls testing and substantive testing in relation to standard cost setting, accounting for variances and obsolescence provisions including monitoring of inventory levels.
- On group level we have assessed the work performed by the auditors in the subsidiaries and on group level made an overall assessment of the valuation of inventories.

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

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

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

#### Auditor's Responsibilities for the Audit of Financial Statements

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

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

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



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

#### **Other Reporting Requirements Information on our audit engagement**

We were first appointed as auditors by the Annual General Meeting on 2.4.2014, and our appointment represents a total period of uninterrupted engagement of 5 years.

#### **Other Information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors 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 the 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, 13 February 2019  
KPMG OYAB

ANDERS LUNDIN  
Authorised Public Accountant, KHT

# 01: Shareholders

We engage actively with investors and invite them to a dialogue with us. The main goal is support a true and fair valuation of the company's securities at all times. We have about 13,000 shareholders.

# Engaging with investors

## Ahlstrom-Munksjö shares and shareholders

Ahlstrom-Munksjö's shares are listed on the Nasdaq Helsinki as well as on the Nasdaq Stockholm. All shares carry one vote and have equal voting rights. The trading code is AM1 in Helsinki and AMIS in Stockholm.

On December 31, 2018, Ahlstrom-Munksjö's share capital amounted to EUR 85 million, and the total number of shares since December 28, 2018 has been 115,653,315. As a result of a rights issue, the total number of shares in Ahlstrom-Munksjö increased by 19,214,742 from 96,438,573 during the reporting period. Ahlstrom-Munksjö held a total of 364,862 of its own shares, corresponding to approximately 0.3% of the total shares and votes.



On September 7, 2018 Ahlstrom-Munksjö arranged a capital markets day in Helsinki.

## Share price performance and trading

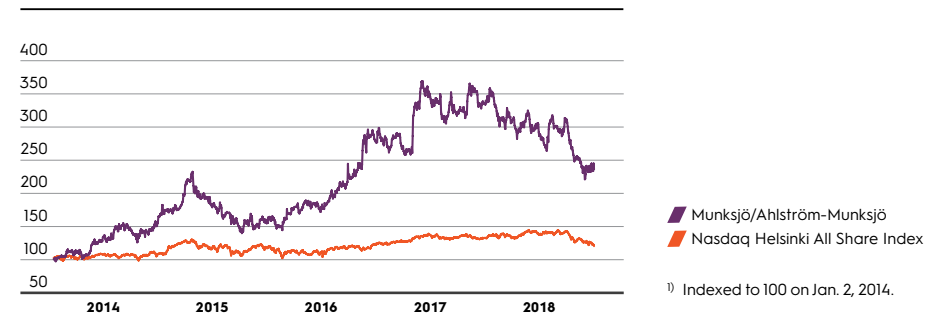
	Nasdaq Helsinki		Nasdaq Stockholm	
	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>
Share price at the end of the period, EUR/SEK	12.12	18.17	124.40	177.30
Highest share price, EUR/SEK	20.10	20.49	197.40	199.50
Lowest share price, EUR/SEK	10.68	13.75	110.00	131.50
Market capitalization at the end of the period <sup>2</sup> , EUR million	1,397.4	1,745.7	N/A	N/A
Trading value, EUR/SEK	192.0	263.7	335.2	398.8
Trading volume, shares	12.8	15.0	2.2	2.3
Average daily trading volume, shares	51,343	59,978	8,825	9,339

<sup>1</sup> January-March 2017 Munksjö Oyj only

<sup>2</sup> Excluding the shares held by Ahlstrom-Munksjö

Ahlstrom-Munksjö's shares are also traded on alternative exchanges, such as Cboe, Liquidnet, Turquoise and Posit. Those exchanges represented about 38% of the total trading value during the reporting period (source: Fidessa Fragmentation Index).

### SHARE PRICE DEVELOPMENT<sup>1)</sup>



<sup>1)</sup> Indexed to 100 on Jan. 2, 2014.

**Total shareholder return (TRS)**

	2018	2017	2016	2015	2014	Total
Ahlstrom-Munksjö	-27.4%	17.9%	93.4%	-9.9%	72.4%	<b>184.3%</b>
Nasdaq Helsinki All Share Index	-4.8%	9.1%	10.8%	13.6%	10.4%	<b>43.8%</b>
Nasdaq Stockholm All Share Index	-4.7%	8.9%	13.1%	9.7%	16.1%	<b>46.3%</b>

**Payout and yield**

	2018	2017	2016	2015	2014
Return on equity / Dividend per share, EUR	0.52 <sup>1</sup>	0.52	0.47 <sup>2</sup>	0.30	0.25
Effective yield, %	4.3	2.9	3.0	3.5	2.8

<sup>1</sup> Proposal to the AGM<sup>2</sup> Converted by using the same number of shares as in 2017**Shareholders**

The company had 12,095 shareholders at the end of the reporting period, according to Euroclear Finland. The largest shareholders include Ahlström Capital and Viknum AB, which both hold over ten percent of the company's share capital. For more information on the shareholders, please see the table below. A list of Ahlstrom-Munksjö's largest shareholders, which is updated once a month, is available in the Investors section of the company's website at [www.ahlstrom-munksjo.com/Investors](http://www.ahlstrom-munksjo.com/Investors).

**Major shareholders at Dec. 31, 2018**

Shareholder	Shares	% of shares
1 Ahlström Capital Group	21,618,957	18.7
AC Invest Five B.V.	21,618,957	18.7
2 Viknum AB	14,048,006	12.2
3 Ilmarinen Mutual Pension Insurance Company	3,845,778	3.33
4 Odin Funds	2,588,280	2.24
Odin Sverige	2,303,940	1.99
Odin Finland	284,340	0.25
5 Huber Mona Lilly	2,294,006	1.98
6 Varma Mutual Pension Insurance Company	2,089,532	1.81
7 Tracewski Jacqueline	1,612,926	1.39
8 Nahi Kai Anders Bertel	1,478,950	1.28
9 Seligson Peter	1,287,973	1.11
Seligson Peter	1,074,576	0.93
Baltiska Handels A.B.	213,397	0.18
10 Studer Anneli	1,235,653	1.07
11 Gullichsen Johan Erik	1,171,068	1.01
12 Huber Karin	1,170,553	1.01
13 Sumelius John Michael	1,154,388	1.00
14 Emmett Linda-Maria	1,137,627	0.98
15 Kylmälä Kim	1,128,888	0.98
16 Huber Samuel	1,041,307	0.90
17 Nordea Life Assurance Finland Ltd.	1,035,060	0.90
18 Lund Niklas Roland	1,034,920	0.89
19 Nordea Funds	990,764	0.86
Nordea Finland Fund	247,920	0.21
Nordea Pro Finland Fund	212,621	0.18
Nordea Nordic Small Cap	184,647	0.16
Nordea Premium Varainhoito Tasapaino	82,227	0.07
Nordea Premium Varainhoito Malli	79,825	0.07
Nordea Säästö 50	67,390	0.06
Nordea Säästö 25 Fund	48,593	0.04
Nordea Säästö 75	38,845	0.03
Nordea Premium Asset Management Growth	28,696	0.02
20 Koivulehto Monica	981,690	0.85
20 largest shareholders total	62,946,326	54.4
Nominee registered shareholder	16,688,843	14.4
Other shareholders	36,018,146	32.2
Total	115,653,315	100

The above table is compiled by Ahlstrom-Munksjö and is based on the data provided by Euroclear Finland Ltd. and Euroclear Sweden Ltd.

## OWNERSHIP STRUCTURE AND DISTRIBUTION AT DEC. 31, 2018



Number of shares	Number of shareholders	%	Number of shares	%
1 - 100	4,702	38.88	287,354	0.25
101 - 500	4,648	38.43	1,108,867	0.96
501 - 1,000	1,214	10.04	859,355	0.74
1,001 - 5,000	1,118	9.24	2,537,177	2.02
5,001 - 10,000	141	1.17	999,031	0.86
10,001 - 50,000	113	0.93	2,632,887	2.28
50,001 - 100,000	35	0.29	2,442,593	2.11
100,001 - 500,000	92	0.76	21,939,721	18.97
> 500,000	32	0.27	83,046,330	71.81
<b>Total</b>	<b>12,095</b>	<b>100.00</b>	<b>115,653,315</b>	<b>100.00</b>
Nominee registered			16,688,843	14.43

**Information for shareholders**

The Annual General Meeting of Shareholders (AGM) of Ahlstrom-Munksjö Oyj will be held on Tuesday, March 27, 2019 at 1:00 p.m. in Finlandia Hall (Mannerheimintie 13e, Helsinki, Finland).

In order to attend the Annual General Meeting, a shareholder must be registered in the company's register of shareholders, held by Euroclear Finland Ltd on the record date of March 15, 2019. As instructed on the notice, shareholders participating in the AGM must give prior notice to attend by March 22, 2019.

A shareholder, whose shares are registered in the register of the company's shareholders maintained by Euroclear Sweden AB, shall, to fulfill the requirements to attend the AGM be entered in the register of the company's shareholders maintained by Euroclear Sweden AB on March 15, 2019, at the latest, and must contact Euroclear Sweden AB and request temporary registration in the shareholders' register of the company maintained by Euroclear Finland Ltd.

For further information, please visit [www.ahlstrom-munksjo.com/agm-2019](http://www.ahlstrom-munksjo.com/agm-2019).

**Financial information in 2019**

- Financial statements release 2018: February 14
- Annual report 2018: During the week starting February 25
- Interim report January-March 2019: April 25
- Half-year report January-June 2019: July 30
- Interim report January-September 2019: October 30

**Analysts**

The following investment banks and brokerage firms cover Ahlstrom-Munksjö in their research.

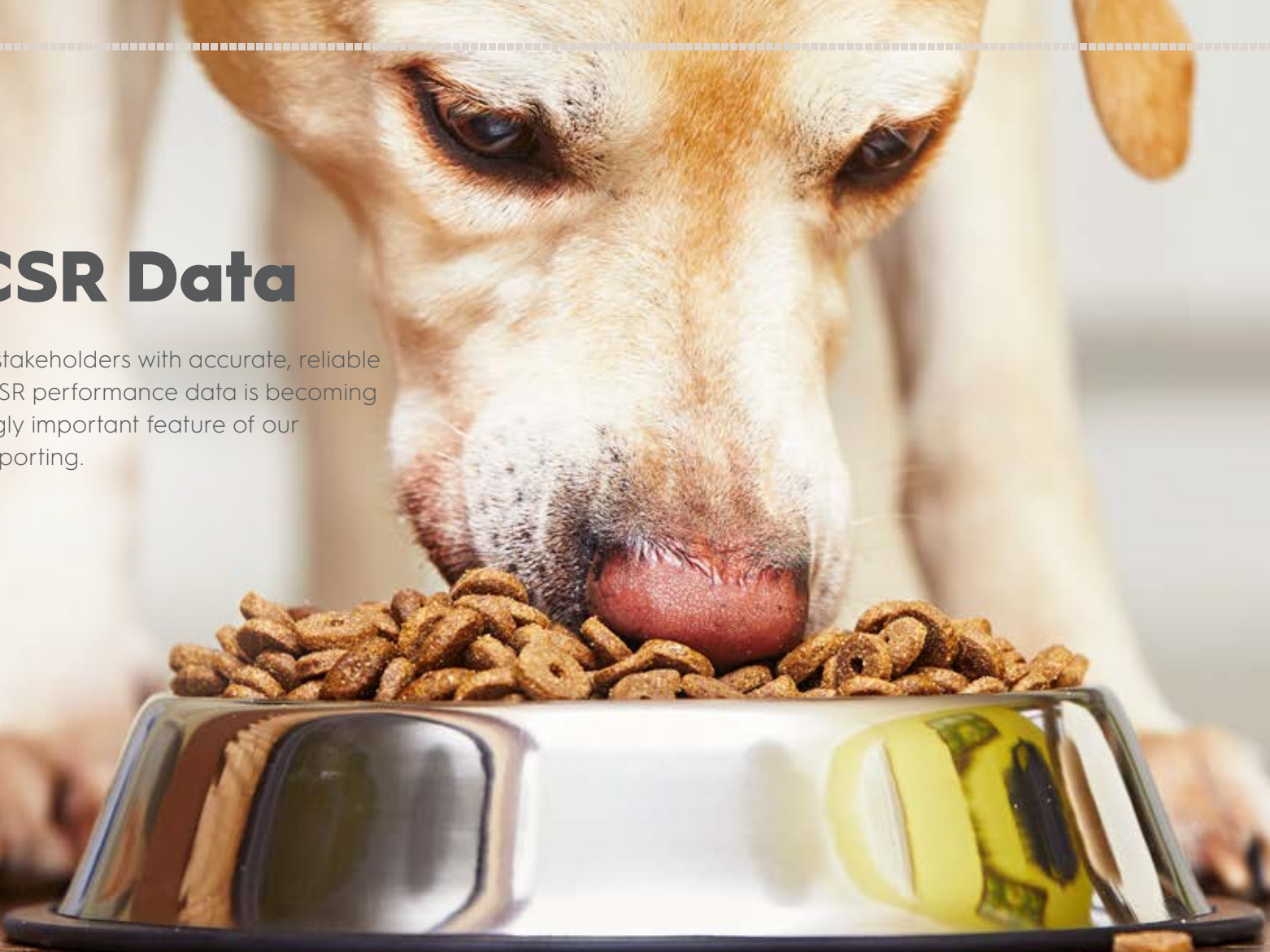
- Danske
- Inderes
- Kepler Cheuvreux
- Nordea
- SEB Enskilda

The views and estimates presented by the analysts are their own and the company takes no responsibility on any of their statements.



# 01: CSR Data

Serving our stakeholders with accurate, reliable and timely CSR performance data is becoming an increasingly important feature of our corporate reporting.



# 01: Report preparation

This is Ahlstrom-Munksjö's second report prepared in accordance with the GRI Standards guidelines in the Core version. We have also reported information relating to our own material topics in accordance with the GRI Standards' reporting principles, and we have taken into account the statutory requirements concerning the reporting of non-financial and diversity data.

The Ahlstrom-Munksjö combined Annual and Sustainability Report is prepared and published annually. The reporting cycle is for the full year, containing information for the reporting period of January 1, 2018 to December 31, 2018. Ahlstrom-Munksjö's Annual and Sustainability Report 2017 was published on February 28, 2018.

## CONTENT OF THE REPORT

Ahlstrom-Munksjö's Annual and Sustainability Report focuses on strategy, the achievement of objectives and targets, and operational results for the past year. Our general ambition for the report is to be transparent, relevant and comparable.

The sustainability report is based on Ahlstrom-Munksjö's materiality analysis, which was completed in 2017, and on the results of a review of the analysis in 2018. The materiality analysis is based on our dialogue with stakeholders and it is designed to identify the issues that are most critical to Ahlstrom-Munksjö's social, environmental and economic value creation.

## REPORTING BOUNDARIES

Reporting is limited to those areas in which the Company exercises complete control over the collection of data and quality of information unless otherwise indicated. The acquisitions of Caieiras and Expera in October impacted the data collection process. Planet related data is limited to Ahlstrom-Munksjö, prior to the acquisitions. People and Prosperity related data includes the entire Group, including Caieiras and Expera from the beginning of 2018.

## OUR PRIORITY STAKEHOLDER GROUPS

Ahlstrom-Munksjö is focused on engaging five key stakeholder groups. These are (1) customers, (2) investors, (3) employees and unions, (4) suppliers and (5) local communities. These stakeholder categories were selected based on internal qualitative analyses



ranking which groups have the most impact on the company's business, and are in turn the most directly impacted by our activities. Ahlstrom-Munksjö works to engage each of these groups and respond to their unique interests.

### Customers

Our customers are as diverse and specialized as our product portfolio. They often have unique interests in addition to quality, supply chain and cost expectations for our high performing, innovative products. The company engages in frequent individual and small group conversations with current and potential customers to ensure we meet their needs on an ongoing basis. Ahlstrom-Munksjö also solicits customer feedback through a regular in-depth Voice of the Customer survey conducted through a third party to promote honest feedback.

Based on the dialogue in 2018, human rights, occupational health and safety and safe chemicals are among the top ranked interests of our customers in their sustainability agendas. Ahlstrom-Munksjö's performance in these areas helps our customers uphold their own supply chain commitments to promote human rights, particularly around preventing child labour, safe and healthy work environments for everyone who contributes to their products, and innovative products and processes that significantly reduce or eliminate chemicals with potential health risks.

### Investors

Our shareholders vary by size, time horizon, and interest in the company's social, economic, and environmental performance. We see that sustainability issues have become

a higher priority for shareholders. Our new data collection system to track environmental and energy metrics and targets as well as increased communication will help meet investors' growing interest in available information about our activities and results.

The company regularly engages in dialogue with investors through quarterly updates, our website, quarterly and annual reporting, in-person meetings and events, and individual conversations. The company also responds to information requests and questionnaires to ensure investors fully understand our work in areas of interest to their decision making processes.

Financial performance, pricing power to mitigate higher raw material costs, as well as updates on the integration and targeted synergy benefits following the two acquisitions during 2018 were among investors' top interests. Other priority topics for this group relate to mitigating risks through responsible business practices in our material topic areas Human Rights, Health & Safety, Business Ethics, and Supply Chain. Investors also prioritized identifying opportunities for growth through Innovation and reducing costs through efficiencies on issues such as Energy.

### Employees and unions

Our employees are at the heart of everything we accomplish at Ahlstrom-Munksjö. Led by Human Resources, Ahlstrom-Munksjö engages employees throughout the company in continuous dialogue about sustainability topics across their employment cycle through trainings, written communications, events, and individual and small group conversations. Based on these interactions, top areas of interest include our material topics of Employee Well-Being, particularly related to health and safety and employee

development, Profitability to ensure continued opportunities to grow within the company, and Community Engagement, the company's interactions with the communities in which employees live.

In addition to regularly engaging individual employees, Ahlstrom-Munksjö is also committed to active dialogue with unions, including European Works Council (EWC) representatives. This will include plant tours that encourage mutual learning and cross-fertilization and discussions about company sustainability performance in top areas of EWC interest, such as business results, health and safety, and company values.

### Suppliers

Ahlstrom-Munksjö suppliers are diverse in terms of size, footprint, products, and geography. Our fiber suppliers include commodity pulp suppliers, large companies producing synthetics, and smaller farmers selling niche products such as abaca. We also work with chemical, equipment, energy, water, and service suppliers on scales from the global to the highly local.

Ahlstrom-Munksjö strives to build productive relationships with our suppliers through regular contact primarily through individual and small group conversations. Our Procurement team works to ensure each supplier adheres to our Supplier Code of Conduct, which includes legal compliance, human rights, health and safety, responsible business, environmental impact, and other responsibility provisions.

Based on the Procurement team's expert knowledge, in general, our suppliers primarily seek clarity on our sustainability initiatives and requirements that impact their operations.

### Local communities

Ahlstrom-Munksjö is often a significant employer in the areas where it operates, creating a special responsibility and interest among employees' friends and families, local authorities, direct plant neighbours, local suppliers, and other community members. Many production sites take a proactive approach to direct community engagement, including providing opportunities for community members to learn more about and discuss social, economic, and environmental issues with Ahlstrom-Munksjö.

Although variable across sites, regular activities include open houses and plant tours, educational or professional development opportunities for young people, such as internships or collaborations with local schools and universities, and providing charitable donations and in-kind support to community enrichment activities. Production sites also work to be a good neighbor and quickly respond to any nuisance complaints related to regular plant activities.

Although local communities' concerns vary significantly by production site context, based on interviews with plant managers, the top concerns that emerges across these diverse plants are our material topics of Energy, Water and Waste, particularly water quality, Employee Well-Being, especially health and safety, and Profitability, in the context of the company continuing to provide good employment opportunities in the areas where it operates.

### MATERIAL TOPICS

Based on Ahlstrom-Munksjö's materiality assessment, the company continues to focus on nine material topics within its sustainability areas People, Planet and Prosperity.

# GRI CONTENT INDEX - General Disclosures

Disclosure Number	Description	Response/Page
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<b>Governance</b>		
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Total number of employees	
<b>a) By gender</b>	
Female	1,473
Male	6,843
<b>b) By region</b>	
Belgium	72
Brazil	726
China	323
Finland	291
France	1,714
Germany	558
India	105
Indonesia	3
Italy	540
Japan	3
Korea	112
Lithuania	5
Mexico	3
Poland	1
Russia	82
Spain	167
Sri Lanka	2
Sweden	837
Taiwan	3
Thailand	7
UK	177
USA	2,585
<b>c) By employment type</b>	
Full time 8,154 of which Female 1,371, Male 6,783	
Part time 162, of which Female 102, Male 60	
<b>d) Significant portion non-employees</b>	
No	
<b>e) Variations in a), b) or c)</b>	
No	
<b>f) Data compiling</b>	
Global HR master data	

Disclosure Number	Description	Response/Page
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102-49	Reporting period	Reported metrics are for the full year.
102-51	Date of most recent report	This is the first report for the merged company Ahlstrom-Munksjö.
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103-1	Explanation of the material topic and its Boundary	42, 45
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Disclosure Number	Description	Response
<b>AHLSTROM-MUNKSJÖ'S OWN DISCLOSURES</b>		
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## CROSS-REFERENCE TABLE

# UN Global Compact

As of 2017, Ahlstrom-Munksjö is a signatory to the United Nations Global Compact and its ten principles.

Ahlstrom-Munksjö's Sustainability Report 2018 also serves as Ahlstrom-Munksjö's Communication on Progress (COP). The table shows where each Global Compact principle can be found in Ahlstrom-Munksjö's Annual and Sustainability Report 2018.

UN Global Compact ten principles	Page reference
<b>HUMAN RIGHTS</b>	
1. Businesses should support and respect the protection of internationally proclaimed human rights in the spheres they can influence	37, 44
2. Businesses should make sure that they are not complicit in human rights abuses	37, 44
<b>LABOUR</b>	
3. Businesses should support the freedom of association and the effective recognition of the right to collective bargaining	37, 44, 57
4. Businesses should work to eliminate all forms of forced and compulsory labour	37, 44, 57
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6. Businesses should eliminate discrimination in respect of employment and occupation	37, 44, 57
<b>ENVIRONMENT</b>	
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9. Businesses should encourage the development and diffusion of environmentally friendly technologies	50-54
<b>CORRUPTION</b>	
10. Businesses should work against corruption in all its forms, including extortion and bribery	57



The mark of  
responsible forestry



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#### **Ahlstrom-Munksjö**

Ahlstrom-Munksjö is one of the world's leading players in sustainable and innovative fiber solutions.

#### **Head office**

Alvar Aallon katu 3 C  
FI-00100 Helsinki  
Finland

Tel. +358 10 888 0

