

# Smart solutions out of fibers

# 2019

ANNUAL & SUSTAINABILITY REPORT

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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.

### Smart solutions out of fibers

We add value by combining fibers with our advanced technology and innovative and entrepreneurial culture, constantly exploring new materials and applications. Sustainability, innovation and quality are central in all our solutions – compostable food and beverage processing and packaging materials, filter media, liners for composites, 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 integrated acquired businesses, implemented profit improvement actions, strengthened our company culture and actively developed our business portfolio.



## YEAR IN BRIEF

# 02: Highlights of 2019

- Net sales reached EUR 2.9 billion and comparable EBITDA of EUR 313 million in 2019. The positive impact from improved gross margin for products was more than offset by lower sales volumes.
- Integration of the Expera and Caieiras acquisitions proceeded well and cost synergy targets were exceeded.
- Decision on a new structure for integration of the acquired businesses and strategic alignment, effective January 1, 2020.
- Ahlstrom-Munksjö announced it is exploring potential acquisitions, mergers and joint-ventures with decor paper suppliers in China to speed up the development of the Decor business into a stand-alone leading global operation and attract outside capital.
- Agreement to acquire Chinese decor papermaker Minglian New Materials Technology.
- Agreements to divest the fine art paper business in Arches, France and the glassfiber reinforcement business in Mikkeli, Finland.
- Acquisition of filter converting capacity to grow the attractive Liquid Technologies business in Asia and North America.
- Four strategic investments were completed to drive growth, efficiency and improved environmental performance.
- The company continued to launch new sustainable products that, for example, included Extia, a filtration material designed to extend the life time of air pollution applications, and CelluStraw, a plastic-free renewable material for drinking straws.
- Ahlstrom-Munksjö renewed its EcoVadis Gold Standard for the third consecutive time. The Gold rating is a result of performance in environment, labor practices, fair business practices and sustainable procurement. The assessment puts Ahlstrom-Munksjö in the top 1% of suppliers assessed, regardless of industry.

Key figures, EUR million	2019	2018	Pro forma 2018
Net sales	2,916.3	2,438.0	2,996.9
Comparable EBITDA	312.9	277.7	329.9
% of net sales	10.7	11.4	11.0
EBITDA	279.4	222.6	290.3
Operating result	103.2	88.7	129.4
Net profit	32.8	42.9	63.2
Earnings per share (basic)	0.27	0.43	0.54
Comparable EPS excl. depreciation and amortization arising from PPA	0.84	1.18	1.15
Dividend, EUR	0.52*	0.52	N/A
Operating cash flow	286.7	91.6	N/A
Capital expenditure	161.1	160.1	176.3
Net debt	885.0	962.5	N/A

\* Proposal to the Annual General Meeting  
PPA = Purchase price allocation

YEAR IN BRIEF

# 03: CEO word



In 2019, we executed our strategy with speed and determination. This included the integration of acquired businesses, implementation of profit improvement actions, strengthening the company culture and active development of our business portfolio.

The integration of the previous acquisitions proceeded well and we were able to partly mitigate the negative impact from lower sales volumes through a successful commercial strategy.

Lower end-use demand, stiffer competition and destocking in the value chain put pressure on volumes, which in turn had a negative impact on our financial results. Despite the challenging market environment, our gross margin for products did, however, improve throughout the year. This confirms that our commercial strategy, based on leading positions in niche markets and a differentiated product offering, is working well.

We actively developed our business portfolio and initiated a process where our Decor business could become a stand-alone operation. As a first step, we signed an agreement to acquire a Chinese decor manufacturer with state-of-the-art assets. In addition, we made an acquisition to grow our highly profitable Liquid Technologies business and announced two divestments.

The integration of Ahlstrom and Munksjö was completed at the beginning of 2019 and the targeted cost benefits were exceeded. The integration of the Expera and Caieiras acquisitions, completed in October 2018, have proceeded well and we have also here exceeded the estimated cost synergies. As a next step to deepen the integration and realize the full potential of the business combinations, a new organization was designed and implemented at the beginning of 2020.

### The road ahead

Improving competitiveness and profitability through our own actions remains a top priority. We have an ambitious, yet realistic long-term target of reaching an EBITDA margin of

*Improving competitiveness through our own actions remains a top priority.*

*"As a niche player, innovation, identifying trends and developing new customer solutions is ever more important in ensuring our future competitiveness."*



more than 14% over a business cycle. We have set a target to reach costs savings of at least EUR 50 million this year compared with 2019. In addition, we expect to gradually extract business synergies from the acquisitions and to reap the benefits from our recently completed strategic growth investments.

As a niche player, innovation, identifying trends and developing new customer solutions is ever more important in ensuring our future competitiveness. We have a strong product development platform and we have raised the target for sales generated from new products in the coming years. We will continue to launch new products that add value for our customers. Some great examples from last year include the plastic-free material for bendable drinking straws and filtration material that extends the lifetime of air filter applications.

We are firmly committed to sustainability and we have integrated sustainable practices throughout our value chain. It is also an important driver in most of our markets. We work in close collaboration with our suppliers, pursue continuous improvement in our operations and are aware that our people and communities make this possible. It is particularly our solutions that make the difference. They are produced

mainly from renewable materials and through their functionality provide sustainability benefits. We like to talk about smart solutions from fibers.

After an intense period of business transformation and growth, we have focused on developing our leaders and corporate culture to guide our ways of working and build a unified company. We renewed our leadership model by defining leadership principles that are used for leadership development. Based on the results of our global Culture Pulse survey, six culture cornerstones were identified to guide the way we work. These cornerstones describe our current strengths and establish a foundation to further develop our global culture of success and build a unified company.

We cannot achieve our targets without the full commitment of our people, our most important asset. I sincerely want to thank our dedicated employees for their hard work and the continued confidence from our shareholders. We will continue to work together with our customers for a successful future.

#### **Hans Sohlström**

President and CEO

# 01: The Company

We are truly a global company and we represent a diverse group of professionals. Our offering contributes to a more sustainable everyday life by providing renewable materials that are alternatives to non-renewables, and solutions with sustainability benefits.

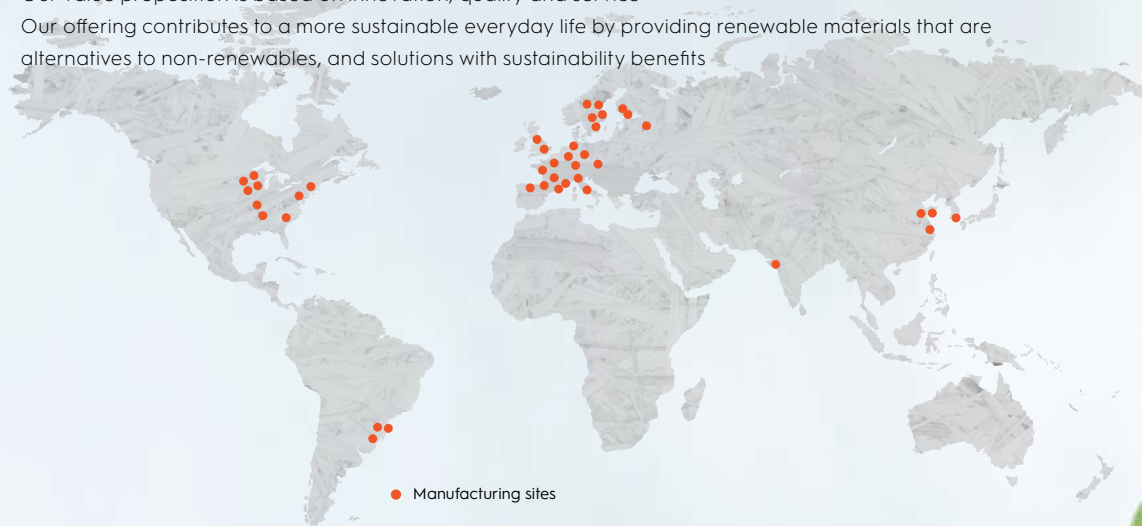


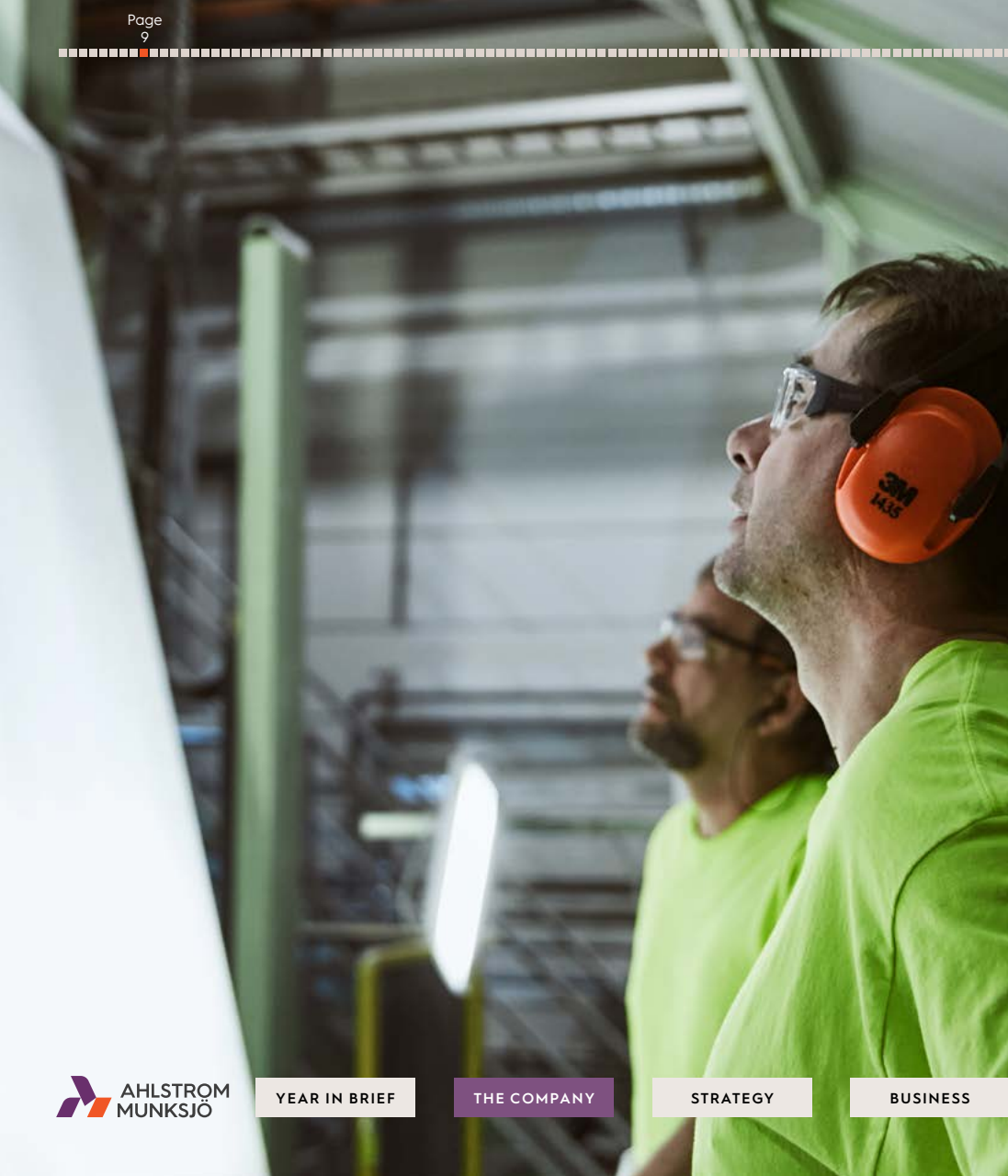
THE COMPANY

# 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 95% of our total fiber use
- We offer custom-made specialized fiber-based materials
- Our value proposition is based on innovation, quality and service
- Our offering contributes to a more sustainable everyday life by providing renewable materials that are alternatives to non-renewables, and solutions with sustainability benefits





### Our approach

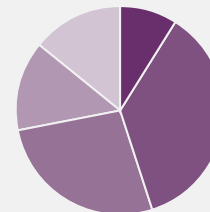
- Leading positions in most of the segments where we operate
- Businesses operate in growing markets, serving a variety of consumer and industrial end-user segments
- Balanced geographical exposure to a broad range of end-uses
- Designed sustainable and innovative solutions for customers
- Common operating platform providing scale advantage

### 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
- In 2019, net sales of approximately EUR 2.9 billion and comparable EBITDA of EUR 313 million
- Shares listed on Nasdaq Helsinki and Stockholm
- Head office in Helsinki

### A BALANCED SALES MIX

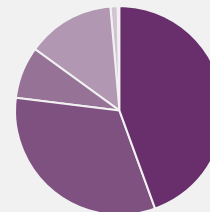
SALES BREAKDOWN BY END-USE\*



- Health Care and Life Science, **9%**
- Consumer Goods, **36%**
- Homebuilding and Furniture, **27%**
- Transportation, **14%**
- Industrial, **14%**

\*Management's estimate

### GEOGRAPHICAL SALES BREAKDOWN



- Europe **44%**
- North America **34%**
- South America **8%**
- Asia-Pacific **13%**
- Rest of the world **1%**

## THE COMPANY

# 03: Our people



Having the right strategy, culture and people in place is a prerequisite for long-term success.

**Embracing unique culture strengths and developing our leaders globally**

As we are going through an intense period of business transformation and growth as a company it makes it even more important to continue developing our leaders and build a unified culture to guide the way we work together.

Our aim is to strengthen our company culture that embraces diversity and promotes excellent leadership on all levels of the organization. We strive to create an environment where people can learn, develop and grow, and where we openly share and collaborate to succeed together. This takes us a long way in attracting and retaining talent with the right mindset, skills and behavior.

**Creating global success together**

In September 2019, 130 Ahlstrom-Munksjö leaders gathered in Amsterdam to talk about strategy and unity to better

understand where we are today, where we are going and how we'll get there together. The event was designed to encourage everyone to actively participate, ask questions and share feedback, while networking with new colleagues. Leaders left the meeting with an important task to communicate and explain the strategy and messages to their teams worldwide.

**Leadership matters and everyone deserves a good manager**

In early 2019, we created our leadership model and defined leadership principles by interviewing 30 leaders across the company. These principles are used as a basis for our leadership development and are embedded into key people processes. Customer centric, holistic, innovative and entrepreneurial are the main guiding elements of our approach to leading people, businesses and ourselves.

In 2019, we launched a leadership development portfolio that consists of four global leadership development programs based on the new leadership model. The programs target new managers, plant managers, young future leaders and senior leaders from all businesses.

*Customer centric, innovative, entrepreneurial and holistic are the main guiding elements of our way of leading people, businesses and ourselves.*



## Leadership Development portfolio 2019

"The Jump week was an amazing experience, an immersion of culture and values of Ahlstrom-Munksjö. We created a good network, shared experiences and got a lot of knowledge. I really believe this program changed my life."  
JUMP participant 2019



### JUMP

Young professionals with demonstrated success and desire to grow



### PIONEER

New managers getting their first role leading others



### LAUNCH

Plant managers



### LEAD

Senior leaders

Each group of participants were and will continue to be carefully selected to mirror Ahlstrom-Munksjö's unique employee diversity; different nationalities, all our business areas and functions, both females and males.

### Continuous learning culture drives performance

To further strengthen our continuous learning culture, we have actively been developing our global learning portfolio programs, including learning solutions such as webinars and e-learning, and comprehensive training programs. We also endorse cross-learning and learning from each other an essential part of our continuous learning culture.

### Mentoring as part of learning

Mentoring is something we actively utilize as a cross-learning tool as it is a unique opportunity for both the mentee and the mentor. We have committed leaders who are willing to contribute their time to share their experience and help their colleagues grow. Mentoring is a key element in each leadership development program after the actual course. In LEAD, a leadership development program for our senior leaders, we are testing a reverse mentoring – wherein young talents provide new perspectives to our experienced leaders. We have found that mentoring has a very positive learning impact and brings a positive organizational and cultural development component.



Group of talented future leaders, JUMP program participants, gathered in Noormarkku, Finland.

### Culture cornerstones guiding our way of working

In June 2019, we conducted our first global Culture Pulse survey and got feedback from 3,000 employees. Based on the results, six culture cornerstones were identified to guide our way of working:

- We build on sustainability, including safety, in everything we do
- We are an innovative leader in fiber-based solutions
- We are customer centric and we have a result-oriented way of working
- We are one team, one family with roots
- We operate with trust
- We are a truly global and diverse company

These culture cornerstones describe our current strengths and form the foundation of further development. To cascade the cornerstones locally, a group of Culture Ambassadors was formed in early 2020. These ambassadors will play an important role in our global culture development – they ensure that all the locations are engaged in and committed to the development work.

### Diversity and inclusion as part of our company DNA

Ahlstrom-Munksjö is a truly global company. We represent a diverse group of professionals, altogether 48 nationalities operating in 45 locations in 14 countries. We value and are committed to diversity and inclusion and continuously work on

to make improvements in those areas. In 2019, we initiated an internal article series Meet our People to help us get to know our colleagues better. In the first part, we introduced women working in different roles. We also produced a video where our senior female leaders were interviewed about their careers and important milestones at Ahlstrom-Munksjö.

### Strategic giving and local community engagement

All Ahlstrom-Munksjö employees were again invited to submit proposals for projects or efforts that they feel are important to them and to their local communities. We searched for projects that would link our products to local needs and at the same time align with United Nations' Sustainable Development Goals. We also adopted a more strategic approach to giving, using recognized philanthropy standards when choosing the projects, to achieve a more lasting and structural impact.

In total, 40 high-quality proposals were submitted from more than 20 sites and they all matched the predefined criteria and corresponded well with Ahlstrom-Munksjö's sustainability strategy. In the selection process the company was supported by the Eva Ahlström Foundation, a humanitarian organization founded in 2010 by members of the Ahlström family.

The initiative was very well received and highly appreciated among our employees. Eight projects were selected, including three focusing on strategic giving and five on supporting local communities.

## Chosen projects 2019

### PROJECT NANOMAJI -- TANZANIA

A solution to create an affordable filter that can be attached to the existing canisters used for drinking water storage and transportation.

### PROJECT ORIGIN BY OCEAN -- FINLAND

Cleaning up the Baltic Sea by creating an algae-based business ecosystem in Finland.

### PROJECT UNICEF -- ZAMBIA

UNICEF's Child Protection program in Zambia, an initiative shared with the Eva Ahlström Foundation and Ahlström Capital.

### PROJECT HARVEST HOPE FOOD BANK'S BACKPACK PROGRAM -- USA

The program operates during the school year and provides children who are at risk of hunger with healthy nutritious food to take home for the weekend, during school vacations, and on holidays.

### PROJECT NEW COMMUNITY SHELTER, INC -- USA

Volunteer groups make and serve lunch and dinner daily to over 100 people in the Green Bay area, and residents in the Transitional Living Program work to organize those events.

### PROJECT DONATION FOR A SPECIAL INSTITUTION FOR AUTISTIC CHILDREN IN BINZHOU -- CHINA

Donation to a local institution specialized at autistic children care and recovery.

### PROJECT MUOVERSI ALLEGRAEMENTE -- ITALY

Muoversi Allegramente is a non-profit organization that promotes sport as a way to achieve social inclusion of people of all ages with intellectual disability.

### PROJECT JAM - JACAREÍ AMPARA MENORES -- BRAZIL

Donation to support local people with intellectual, multiple and autistic disabilities, aiming at their social inclusion. This institution also supports young people's personal and professional development.

THE COMPANY

# 04: Trends in our environment



A steadily growing number of factors and trends are affecting and changing Ahlstrom-Munksjö's increasingly complex operating environment. These trends create both opportunities and challenges, some in the short-term and some in the long run, and their impact varies from business to business.

The accelerating pace of change demands readiness and the ability to adapt. Identifying the crucial factors and trends and then making the right priorities in product development and corporate strategy is more important than ever in the effort to maintain and strengthen competitiveness.

Since Ahlstrom-Munksjö manages a broad platform of businesses and serves a wide range of end uses, it is not likely to be significantly affected at a Group level by individual factors or trends. These can however be of great importance for an individual business.

Ahlstrom-Munksjö designs and develops products and solutions that target selected niche markets. A common denominator is that they are fiber-based with a high degree of complexity and technical content. The main end-user customer segments include food and beverage processing and packaging, transportation, homebuilding and furniture and the health care and life science industries. The baseline for growth in our targeted markets is the general economic development with potential further upside from increased value of new products or expanded product end-uses.

To stay in tune with changing market conditions, we monitor several factors in the operating environment. Each business has created its own strategy, taking specific trends relevant to its unique market into account.

## 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 many levels. The desire to replace plastic and aluminum provides growing markets for products such as cooking and

baking papers made from vegetable parchment as well as teabags and coffee pods made from compostable fiber materials. There is a growing trend of prohibiting the use of plastics for many uses such as shopping bags, disposable drinking straws and food packaging.

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's durability and multilayer technology. Water filtration products using our proprietary technology can reduce the demand for bottled water by improving tap water and thus helping to achieve a significant positive end impact on the environment.

At the same time, Ahlstrom-Munksjö is part of a resource-intensive manufacturing industry and costs and availability of raw materials impact our performance.

Potential scarcity of water, the need for sustainable forestry practices and the extensive use of chemicals in our industry are all challenges we are addressing with great vigor. Also, contributing to the Paris climate agreement requires an energy conversion. Water shortage may occur in densely populated areas and during periods of low rainfall. Sustainable forestry is crucial in combating climate change and provides numerous ecosystem services.

The issue of chemicals keeps growing in prominence as consumers and brand owners are looking for reduction or





*The electrification of mobility is picking up momentum and impacts one of our larger customer segments.*

elimination of harmful chemicals and increased supply chain transparency. In many cases, this provides opportunities as advanced technology and demanding product features work to our advantage. Our offering includes, for example, paper solutions free from formaldehyde and fluorescents.

#### **Demographics and Urbanization**

Today, 55% of the world's population lives in urban areas, a proportion that is expected to increase to 68% by 2050. Projections show that urbanization, the gradual shift in residence of the human population from rural to urban areas, combined with the overall growth of the world's population could add another 2.5 billion people to urban areas by 2050, with close to 90% of this increase taking place in Asia and Africa, according to United Nations data. This means a growing competition for resources and an increase in demand for consumer goods as general affluence rises. This demand will have to be met with truly sustainable products.

Accelerating urbanization, for example, greatly impacts the construction and furniture industries as lighter, more affordable and sustainable products are demanded and needed.

#### **Globalization**

Increased global interaction and integration among people, companies and economies worldwide drive growth of international trade and the exchange of ideas and culture. Strong global economic growth has increased purchasing power in large parts of the population and given rise to

a quickly expanding global middle class. This reinforces consumption and demand for consumer goods that before were out of reach for large parts of the population in emerging economies. At the same time the business landscape has changed radically with intensified industrial competition and companies from China and other developing markets taking a larger share of the market.

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

Digitalization, driven by information and communication technologies, is fundamentally changing economies, business and even societies. There is uncertainty about how this will affect jobs and wages as well as consumer preferences. It drives E-commerce and packaging, as well as product marking and labelling. It is instrumental in increasing transparency and facilitates a rapid spread of the latest trends and preferences as well as a sharper sustainability focus worldwide. For the manufacturing industry, it also provides resource optimization opportunities.

The electrification of mobility is picking up momentum and impacts one of our larger customer segments – the transportation industry – where 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.

# 01: Strategy

As a niche player, innovation, identifying trends and developing new customer solutions is ever more important in ensuring our future competitiveness.

STRATEGY

# 02: Implementing our strategy

*We made good progress in implementing our strategy as we delivered on the planned synergies and fostered value-creating transactions. Our commercial strategy focusing on product differentiation, service, quality and sustainability-driven innovations paid off.*

**STRATEGY OVERVIEW**

**CORNERSTONES**

**MISSION**  
Sustainable and innovative fiber-based solutions

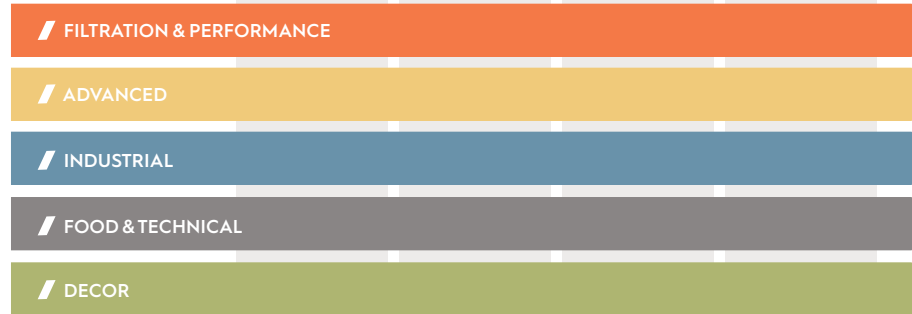
Local  
Accountability

Efficiency  
and Agility

Customer  
Value

Profitable  
Growth

**VISION**  
Global leader in chosen growth segments



**FINANCIAL TARGETS**

- EBITDA > 14% over a business cycle
- Net gearing < 100%
- Dividend: stable, over time increasing, paid four times a year



**VALUES**

Long-term commitment | Teamwork | Passion to innovate and improve

*A global leading position supported by sustainable market drivers provides the foundation for value creation.*

Our mission is to expand the role of fiber-based solutions for a sustainable everyday life, and our success depends on how we capture the opportunities that fiber-based materials offer. A position as a global leader, supported by sustainable market drivers, provides the foundation for long-term value creation for our shareholders. To reach and maintain that position, we focus efforts around the four cornerstones of our strategy – Local accountability, Efficiency and agility, Customer value, and Profitable growth.

#### Strategic cornerstones

- Using a business-based operating model that promotes local accountability and profit responsibility enables flexibility and builds on a shared common culture
- Efficiently utilizing the global common platform as well as the flexible and agile operating model
- Delivering customer value through superior quality, advanced technology, deep know-how and tailored services
- Ability to grow in selected niches of the fiber-based solutions segment

#### Leading position

Ahlstrom-Munksjö aims to be a top player in the markets where it operates. Larger size enables more efficient operations, better ability to meet customer needs and more resources devoted to research and development. Our aim is to grow our

businesses through both organic investments and acquisitions that add geographical scope, new technologies or customer categories. We also regularly assess what is the most value creating structure for our businesses.

#### Value through technology and service

Delivering customer value is important for securing growth and competitiveness and we can achieve this by improving existing products, designing new products and exploring emerging technologies. As a niche player, identifying trends and prioritizing the products to develop is ever more important. Long-term customer cooperation in product development creates a foundation for staying ahead of the competition.

#### Efficiency through a common platform

Our operating model guides our roles and responsibilities. We manage our platform of 16 businesses with lean group functions such as sourcing, IT, finance and human resources. Each business is accountable for its operational and financial performance. Meanwhile, the Group sets the strategic direction, decides on its priorities and resource allocation and provides support and economies of scale for the businesses. They are organized into five business areas based on their core capabilities and characteristics to further strengthen the synergies in the platform, as well as for reporting and governance purposes.



*Smart fluorofree popcorn bag solution out of fiber.*

**Our values:**

- Long-term commitment
- Teamwork
- Passion to innovate and improve

**Strength from shared values and ways of working**

Our values are important to the way we work - Long-term commitment, Teamwork, and Passion to innovate and improve - and they help to establish and secure a common ground and culture to operate from.

Our leadership model guides our leaders and helps them to translate the company's vision and strategy into tangible objectives. It embraces four key elements - Customer-centric, Innovative, Entrepreneurial, and Holistic. We need to understand our customers to serve them well and to stay ahead of the game by being innovative. Our leaders should adopt an entrepreneurial attitude and they should understand how to benefit from being part of a global company and have local accountability at the same time. The most important role of an Ahlstrom-Munksjö leader is to create an environment and conditions where all of us can realize our highest potential.



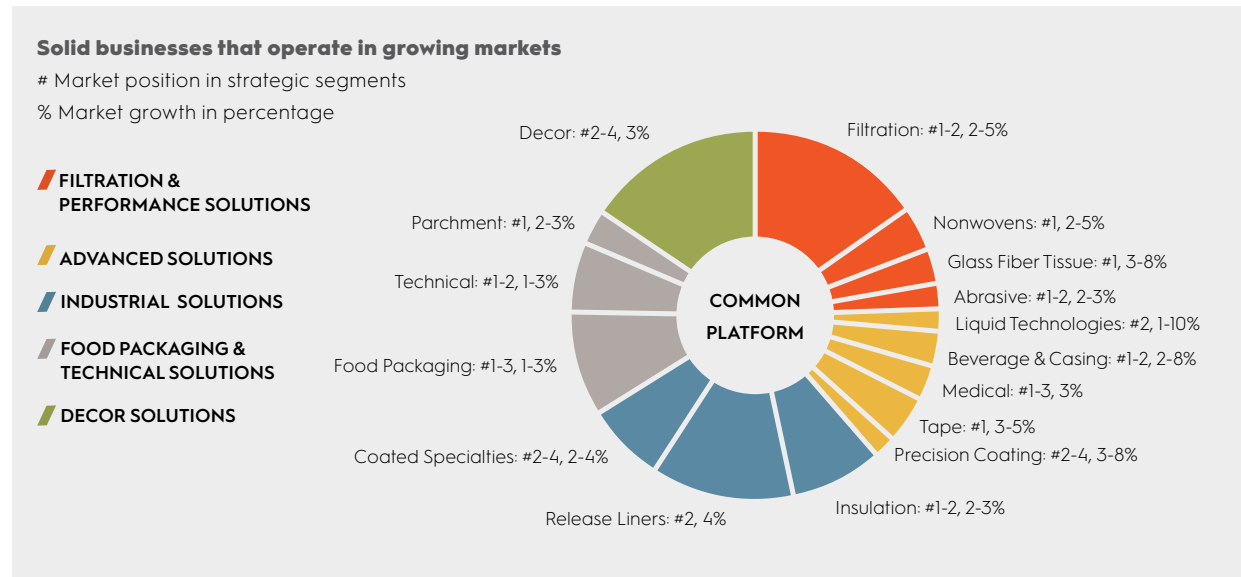
### Strategic transformation continues

In 2019, we successfully delivered on the planned synergy benefits from the Expera Specialty Solutions and Caieiras specialty paper mill acquisitions that were completed in October 2018. The cost synergy targets were exceeded and we are on track to benefit from the business synergies in 2020. We decided to implement a new business structure to promote core business capabilities, sharpen strategic targets and align the business characteristics of each business area. This was a natural next step following the initial integration phase of Expera. It will further improve our competitiveness

and customer service. The new structure became effective as of January 1, 2020.

In addition, our strategic growth investment program of nearly EUR 200 million is proceeding as planned and a majority of the projects are now in a ramp-up phase.

Our gross margin for products improved as we successfully implemented our commercial strategy that focuses on product differentiation, service and quality. We continued to introduce several new value-adding products for our customers and we have set the sales targets of new products to more than 15% of total net sales by 2025.



*Most of our businesses have a leading position, either on a global or regional scale. They all operate on growing markets and have solid underlying demand drivers.*

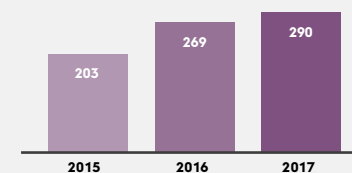
We also made progress in some isolated areas where we have faced challenges. In March, we closed an unprofitable production line in Stenay, France, in the coated-one side segment to focus on more value-adding products. As the market environment weakened, we proceeded with measures to maintain and improve competitiveness. In October, the company identified cost saving measures with an overall impact of at least EUR 50 million for the year 2020 compared with 2019.

Our regular assessment of the best structure of our platform of businesses resulted in two value creative agreements. In December, Ahlstrom-Munksjö divested the glass fiber reinforcement business in Mikkeli, Finland. The divestment of the fine art paper business under the ARCHES® brand is expected to be completed in Q1/2020. The divested businesses are small

and exhibit limited synergies with other Ahlstrom-Munksjö businesses, while the buyers are industrial and strategic players. In December 2019, we acquired converting filter capacity to grow our attractive Liquid Technologies business in Asia and North America.

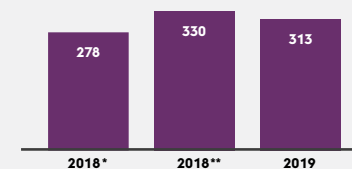
With the intention to capture the attractive value-creation opportunity in the decor business we started to explore potential acquisitions, mergers and joint-ventures with decor paper suppliers in China. There are opportunities to create a global leader with a strong presence in the world's two largest markets. In accordance with this plan, Ahlstrom-Munksjö signed a non-binding letter of intent in November to acquire Minglian New Materials Technology, comprising a state-of-the-art greenfield decor paper plant in the city of Xingtai, Hebei Province, China.

COMPARABLE EBITDA, EUR MILLION



Pro forma Ahlstrom-Munksjö excluding Expera and Caieiras

COMPARABLE EBITDA, EUR MILLION



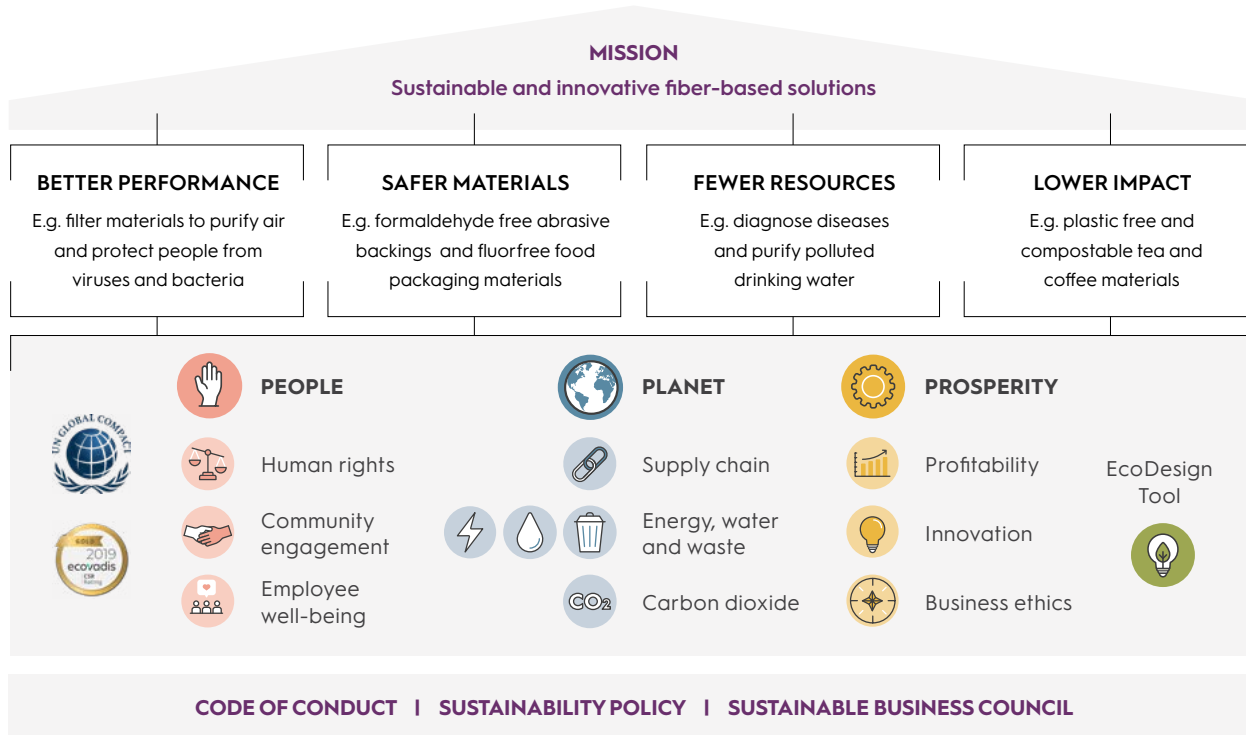
\* Actual Ahlstrom-Munksjö, including Expera and Caieiras as of October 10 and 17, respectively

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

TRANSFORMATION IN PROGRESS



## Sustainable everyday life



In addition, we also began investigating the possibility to attract outside capital investment into the Decor business to potentially fund these actions.

### Sustainable solutions at the center of our product development

Our sustainability work is rooted in our code of conduct and sustainability policy and is governed by our sustainability business council. As a participant of the UN Global Compact, we organize our sustainability work according to the United Nations Sustainable Development Goals as well as the material topics we identify and develop through dialogue with our stakeholders. With our product offering we facilitate a more sustainable everyday life by providing solutions that have better performance and safer materials, use fewer resources and have a lower impact than alternative options. We continue to develop sustainable and innovative fiber-based solutions with the help of our EcoDesign Tool. We have been recognized for our sustainability performance via receiving the EcoVadis Gold Rating, and we will use our sustainable product offering and sustainability momentum to further expand the role of fiber-based solutions in a sustainable everyday life.



# 01: Business

Most of our businesses hold a leading position in their strategic market segments. A majority also have a global leadership position, while others are more regional market leaders.

BUSINESS

# 02: Solid businesses, growing markets

Our 16 businesses share a common platform to drive efficiency and operational excellence.

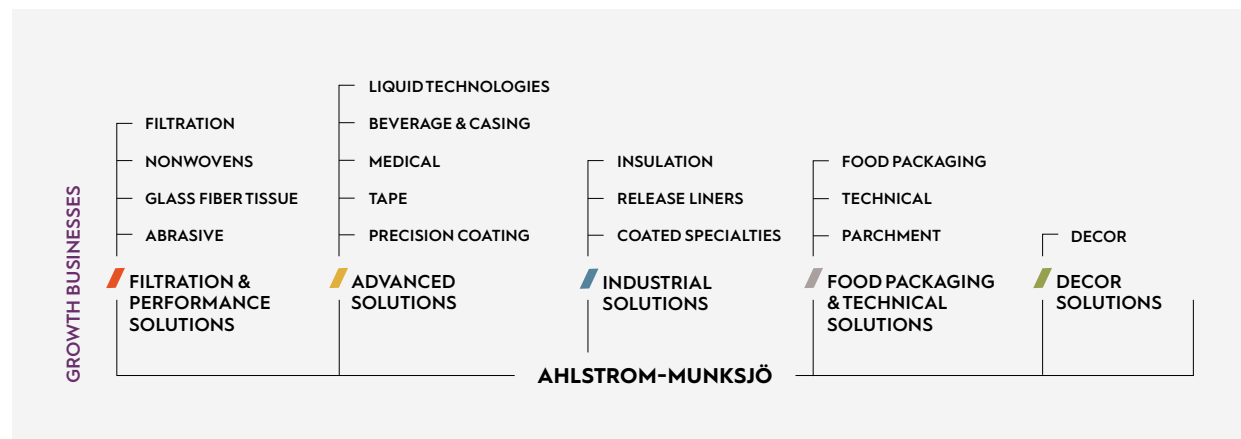
Most of our businesses hold a leading position in their strategic market segments. A majority also have a global leadership position, while others are more regional market leaders. All our businesses operate on growing markets with solid demand drivers. The sixteen businesses are organized into five business areas to further strengthen synergies as well as for reporting and governance purposes.

### New business structure, effective January 1, 2020

In 2019, Ahlstrom-Munksjö decided to implement a new business structure to promote core business capabilities and sharpen strategic targets and align the business characteristics of each business area. This was a natural next step following the initial integration phase of the North America Specialty Solutions business. In the new structure, North America Specialty Solutions is integrated into the operating platform and businesses are partly reorganized.

Under the new structure, the business areas Filtration & Performance Solutions and Advanced Solutions will strengthen their capabilities in the areas of technology and product development. The business areas Industrial Solutions and Food Packaging & Technical Solutions will be able to even

better optimize production through a more comprehensive production platform. The Decor Solutions business area maintains its single business focus, with the ambition to build a leading stand-alone global operation.



FILTRATION & PERFORMANCE SOLUTIONS

# Filtration

**HIGHLIGHTS 2019**

- Demand for filtration materials, and transportation especially, slowed down during the year after a more stable development at the beginning of the year. Demand for industrial filtration remained strong.
- Ramp-up of the product offering enhancement investment in Madisonville in the USA continued, while the design phase of the ongoing project to increase capacity of filtration and energy storage applications proceeded
- The business launched the expanded range of Ahlstrom-Munksjö Extia™, a high-performance filtration material designed to extend the life time of air pollution applications

**DEMAND DRIVERS**

- Mileage, growing truck and passenger car fleets
- Transportation: more stringent emission regulation, new filter applications in electrical mobility
- Industrial: higher air quality standards

**STRENGTHS**

- Global leadership engine filtration
- Growing position in industrial 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

**GOING FORWARD**

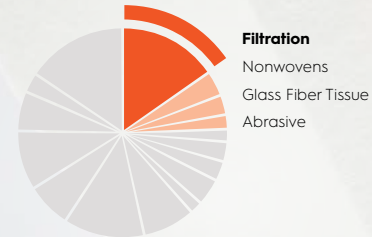
- Filtration seeks to further reinforce its global leadership in engine filtration and continue to grow in Asia
- The industrial filtration will be expanded, and new filtration applications developed to capitalize from the electrification of mobility

**The Filtration** business develops and produces high-performance 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. In transportation applications, sales come primarily from the aftermarket. The business operates globally.

**Market position** #1-2

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

**SALES BREAKDOWN BY BUSINESS, 2019**



## FILTRATION &amp; PERFORMANCE SOLUTIONS

## Nonwovens

### HIGHLIGHTS 2019

- Demand for construction related materials such as plasterboard remained solid, while the wallcoverings market in Europe remained soft
- Good progress in developing offering in plasterboard and digital wallcovering materials

### DEMAND DRIVERS

- Construction and need for energy efficient materials, growing demand for technical plasterboard solutions
- Shift from paper to nonwoven wallcoverings, increased use of personalized design in high-end wallcoverings
- Consumer spending

### STRENGTHS

- Leading position in the high-end wallcoverings market in Europe and Asia
- Differentiated offering for growing plasterboard applications
- Ability to tailor-make products to meet specific customer needs

### GOING FORWARD

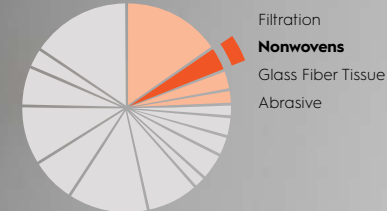
- Grow significantly in the plasterboard segment and explore new niches in, for example, furniture laminates
- To further strengthen the position in high-end and digital wallcoverings materials

The **Nonwoven** business produces a wide range of materials for various applications including high-end wallcoverings, automotive interiors, plasterboard and flushable wipes. Key markets are Europe and Asia.

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

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

### SALES BREAKDOWN BY BUSINESS, 2019



## FILTRATION &amp; PERFORMANCE SOLUTIONS

## Glass Fiber Tissue

### HIGHLIGHTS 2019

- Demand for flooring and other glass fiber tissue materials remained solid
- Divestment of the glass fiber reinforcement business in Mikkeli, Finland, was completed
- The business launched HighFlow Marine glass and carbon fiber reinforcement fabric for the marine industry, making the manufacturing process faster and more effective

### DEMAND DRIVERS

- Construction and renovation activity
- Growing popularity of luxury vinyl tile (LVT) flooring solutions, especially in North America
- Substitution from other flooring reinforcements such as mineral felt, especially in North America

### STRENGTHS

- Unique glass fiber tissue production technology
- Agile customer service and close customer relationships
- In-depth industry knowledge in flooring applications and in other glass veil application

### GOING FORWARD

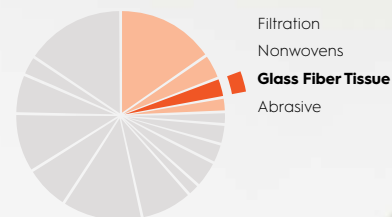
- Defend global leadership in glass fiber tissue for flooring applications and expand portfolio of applications for glass fiber tissue

**The Glass Fiber Tissue** business produces glass fiber tissue, mainly for flooring applications, and a range of building and transportation related end-uses. In flooring applications, Ahlstrom-Munksjö targets global markets.

**Market position** #1 in flooring

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

### SALES BREAKDOWN BY BUSINESS, 2019



## FILTRATION &amp; PERFORMANCE SOLUTIONS

## Abrasive

### HIGHLIGHTS 2019

- The markets for abrasive products was impacted by weaker demand from the automotive and wood panel industries
- Non-binding memorandum of understating to divest the fine art paper business, under the ARCHES® brand, to Italy-based F.I.L.A. Group for a debt free price of approximately EUR 44 million euros. The transaction is expected to be completed in Q1/2020.
- New designs for surface treatment materials (E2P)

### DEMAND DRIVERS

- Abrasives: Demand is driven by automotive, wood, furniture and construction industries
- Fine art: Demand driven by artists, luxury printing and wine/liquors business
- E2P: demand driven by designers

### STRENGTHS

- Abrasives: Only supplier offering a full range of paper and composite backings for the production of abrasive shapes in do-it-yourself or industrial channels. Very sustainable and innovative offering: 100% formaldehyde-free backings in light weight latex paper and heavy weight paper segments
- Fine art: the ARCHES® brand, famous worldwide for premium watercolor solutions
- E2P: a unique know-how to treat and magnify the surface of the backings to create new designs with state-of-the-art inks and pigments

### GOING FORWARD

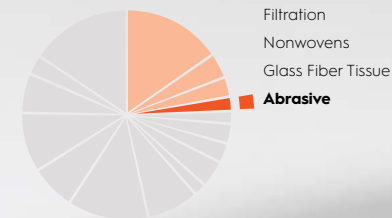
- Profitable growth through innovative product differentiation and mix improvement as well as continuous improvement in production and value-based pricing

**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 and printing papers under the brand name ARCHES® and “atelier” E2P for printing and surface treatment for different backings.

**Market position** #1-2

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

### SALES BREAKDOWN BY BUSINESS, 2019



## ADVANCED SOLUTIONS

## Liquid Technologies

### HIGHLIGHTS 2019

- Demand for laboratory products remained mostly robust
- Disruptor purification technology adoption proceeding for drinking water applications
- High interest for specimen collection cards in different applications
- Acquisition of filter converting capacity in North America and China

### 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, 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

### GOING FORWARD

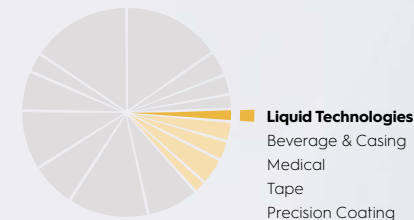
- Market position in life science and laboratory segment will be strengthened through further product development and partnerships with, e.g., kit assemblers. In liquid purification, the business will continue to penetrate the water purification market through more end-use applications.

The **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, 2019



## ADVANCED SOLUTIONS

## Beverage & Casing

**HIGHLIGHTS 2019**

- Markets for beverage softened, while demand for fibrous meat casings remained strong
- Renewed interest for sustainable infusion solutions with many key beverage customers showing curiosity to develop solutions replacing oil-based plastics in their products
- Launch of compostable oxygen barrier lid solutions for coffee applications

**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
- Unique oxygen barrier lidding solution as an alternative to aluminum
- Forerunner in plastic-free coffee materials
- Unique viscose technology in casing materials

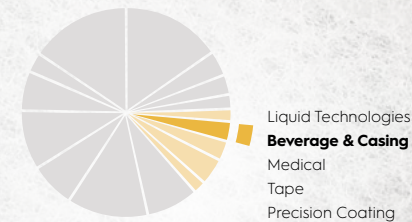
**GOING FORWARD**

- To continue to differentiate with 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
- Ongoing investment to improve manufacturing capability and efficiency in tea and coffee filter materials as well as in increased capacity

**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, 2019**



## ADVANCED SOLUTIONS

# Medical

### HIGHLIGHTS 2019

- Demand for medical fabrics was stable at a robust level
- Distribution agreement for newly launched PureArmor™ fabric with one of the largest medical distributors in the USA
- The business launched Ahlstrom-Munksjö TrustShield™, a versatile portfolio of medical fabrics that can be used to provide protection against surgical lasers, chemicals and potent chemotherapy drugs

### 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

### GOING FORWARD

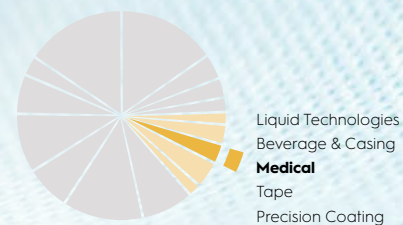
- Continue to expand with personal protective apparel fabrics as well as increasing market share in surgical drapes and gowns.
- Strengthen leading position in Europe in sterile wraps and grow as a solutions provider through an enhanced service offering
- Grow in Asia through improved customer service 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. Ahlstrom-Munksjö targets global markets.

**Market position** #1-3

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

### SALES BREAKDOWN BY BUSINESS, 2019



## ADVANCED SOLUTIONS

# Tape

**HIGHLIGHTS 2019**

- Demand for tape backings in Europe and North America was weaker, while it remained strong in Asia, specifically in China
- Significant productivity improvement at the Longkou plant in China, supported by volume growth and better capacity utilization
- Higher market share in Asia

**DEMAND DRIVERS**

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

**STRENGTHS**

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

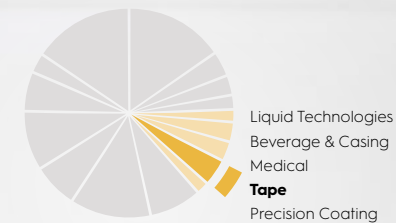
**GOING FORWARD**

- Consolidate product portfolio and optimize expanded global manufacturing footprint after Expera and Caieiras integration
- Growth in packaging tape segment by leveraging expanded product range in e-commerce after Expera integration and development of sustainable alternatives to replace plastics
- Leverage the competitive manufacturing in China in general purpose masking tape segment in Asia
- 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 to masking and packaging tape manufacturers used in the construction and automotive industries, packaging applications for e-commerce and for specialty purposes. Ahlstrom-Munksjö targets global markets.

**Market position #1**

**Average market growth** 3-5% p.a.

**SALES BREAKDOWN BY BUSINESS, 2019**

## ADVANCED SOLUTIONS

## Precision Coating

### HIGHLIGHTS 2019

- Demand for specialty release liner products remained strong
- The business extended its AeroBak™ product line for advanced composites driven mainly by the commercial aerospace industry
- Capacity expansion tracked to plan and fully commercialize in target markets

### DEMAND DRIVERS

- Increasing use of composite materials in the aerospace industry
- Aging population driving product development in advanced wound care
- Increased use of self-adhesive fasteners in industrial and home applications

### STRENGTHS

- Leading North American market position in composite
- High degree of technical complexity and customization
- Focus on innovation and product development capabilities

### GOING FORWARD

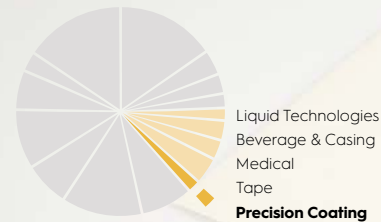
- Work proactively with customers and end-user collaborative innovation anticipating changing market needs of next generation products. Optimize capacity to support key market growth.

The **Precision Coating** business offers a variety of release liners for specialty markets including fiber composites, medical and tape. The business focuses on technically demanding applications that leverage our integration and coating expertise. Precision Coating continues to expand its capabilities to meet the stringent guidelines for the aerospace and medical markets.

**Market position** #2-4

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

### SALES BREAKDOWN BY BUSINESS, 2019



## INDUSTRIAL SOLUTIONS

## Insulation

### HIGHLIGHTS 2019

- Demand for electrotechnical papers was stable throughout the year, while the market for specialty pulp stabilized in the second half of the year a weak start of the year. The market for interleaving thin papers was stable at a low level due to a general slowdown in demand from steel manufacturers and steel tariffs.
- EUR 23 million investment to rebuild a recovery boiler and pulp line in Billingsfors, Sweden, was completed in the third quarter of 2019. In addition, EUR 4 million investment to modernize a bailing line at the Aspa pulp mill in Sweden was completed in the third quarter of 2019

### 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
- Strong position in interleaving papers based on high quality products and service level
- Internally sourced, high quality, pure and clean pulp
- Technical knowledge of power equipment end-uses

### GOING FORWARD

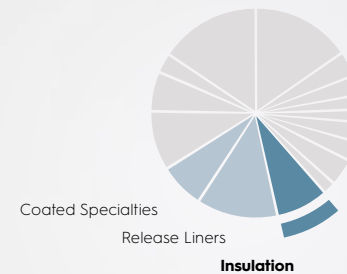
- Focus on profitability for both electrotechnical insulation and interleaving papers following a capacity increase in 2019. In addition, innovation, continuous improvement in operational efficiency and value-based pricing management is pursued.

**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, 2019



## INDUSTRIAL SOLUTIONS

# Release Liners

### HIGHLIGHTS 2019

- Demand for release liners improved for some grades towards the second half of the year, while the market remained competitive
- Introduced release paper certified for contact with food and baking, providing access to new market opportunities

### DEMAND DRIVERS

- E-commerce drives logistics and need for labels in tracking and identification
- Growing use of self-adhesive labels, fastening systems and carriers in industrial processes

### STRENGTHS

- World-class product performance and consistency
- Flexible service-driven platform and organization

### GOING FORWARD

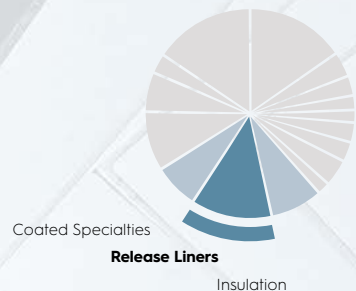
- Focus on operational excellence and continuous improvement in performance
- Build on Ahlstrom-Munksjö's expanded global platform, particularly in technical release liners for specialty industrial applications, to seize attractive opportunities
- Integrate release liner business and product range in Europe and North America
- Focused development on efficiency, differentiation and sustainability

**The Release Liners** business produces papers that, after coating of silicone from its customer, can be used to carry self-adhesive labels or for manufacturing and assembling adhesive materials and components in industrial processes. Key markets are Europe, North America and other selected export regions.

**Market position #2**

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

### SALES BREAKDOWN BY BUSINESS, 2019



INDUSTRIAL SOLUTIONS

## Coated Specialties

### HIGHLIGHTS 2019

- Demand for coated and flexible packaging paper products remained weak
- EUR 21 million investment to upgrade a coating line in Jacarei, Brazil, was completed in the third quarter of 2019

### DEMAND DRIVERS

- Increasing need of packaging, tracking and identification in supply chains
- Packaging functionality
- Sustainable alternatives replacing plastics
- Demographic and purchasing power development in Brazil and South America

### STRENGTHS

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

### GOING FORWARD

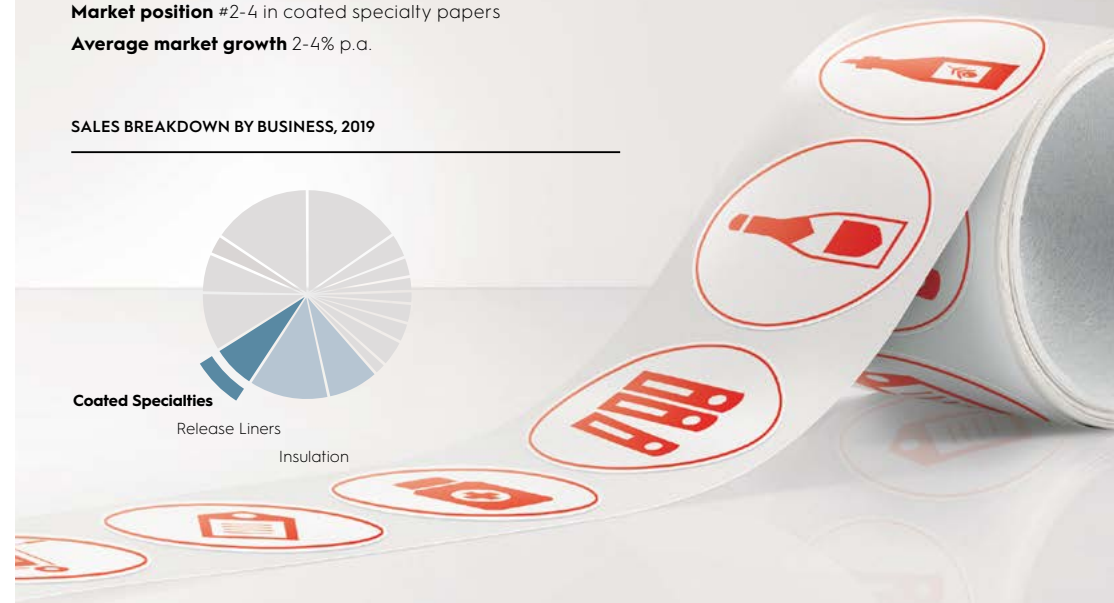
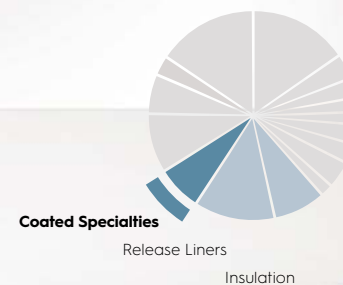
- Further increase efficiency via continuous improvement and key investments supporting product mix strategy, capturing a larger part of the high-value coated specialties segment
- To secure benefits from Caieiras integration in terms of market, operations, and competence sharing

**The Coated Specialties** business manufactures coated label papers, flexible packaging papers for fast-moving consumables and processed foods, as well as office, printing and writing papers. Key markets are Europe, South America and Asia.

**Market position** #2-4 in coated specialty papers

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

### SALES BREAKDOWN BY BUSINESS, 2019



## FOOD PACKAGING &amp; TECHNICAL SOLUTIONS

## Food Packaging

**HIGHLIGHTS 2019**

- Demand for food processing and packaging papers was stable
- The launch of ParaFree™ Wax Alternative Papers, a new generation of eco-friendly food packaging papers for the quick service restaurant industry
- In addition, enhancements were made to Grease-Gard® FluoroFree® technology to expand into Europe, providing a product family of grease-resistant papers for common fast-food packaging, food wraps, biscuits, and microwave popcorn bags without the use of fluorochemicals
- The launch of CelluStraw™, a fiber-based solution for single-use paper straws to replace plastic straws

**DEMAND DRIVERS**

- Sustainability, recyclability, and compostability
- Alternatives to single use-plastics
- Stricter food safety and chemical regulations
- Packaging functionality
- Move toward unbleached papers

**STRENGTHS**

- Strong innovation and product development capabilities
- Broad range of products and capabilities
- Leading North American market position with integrated unbleached pulp production

**GOING FORWARD**

- Work proactively with customers, focus on brand owner and end-user collaborative innovation
- Develop sustainable alternatives for single-use plastic packaging
- Continue to drive developments for sustainable, compostable packaging options for fast-food packaging and microwave popcorn bags.
- Utilize asset-based optimization

**The Food Packaging** business offers a broad range of specialty papers and unique capabilities for quick service restaurants, food processing, cooking and baking, and flexible packaging markets. Key markets are in North America and Europe.

**Market position** #1-3

**Average market growth** 1-3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2019**

## FOOD PACKAGING &amp; TECHNICAL SOLUTIONS

## Technical

**HIGHLIGHTS 2019**

- Demand for technical specialty papers remained soft, driven by weak industrial and construction activity
- Re-launch of Insu-Gard® and Flame-Gard® Building and Construction papers, showcasing further development of flame resistant developments
- Continued development of EcoJet™ Dye Sublimation papers, including expansion of technology across Ahlstrom-Munksjö assets globally to better serve the market

**DEMAND DRIVERS**

- U.S. construction and infrastructure activity, particularly homebuilding
- Trends in residential and commercial building segments, and changing building codes
- Increased use of LCD/other displays and continuing need for higher quality materials
- Sustainability in packaging
- Trends and changes in textile production and printing

**STRENGTHS**

- Leading North American market position
- High degree of technical complexity and customization
- Strong innovation and product development capabilities

**GOING FORWARD**

- Leverage R&D, Product Development, and capability strengths to address changing needs
- Utilize asset base optimization

**The Technical** business produces specialty products used for a wide variety of industrial and construction applications. The product portfolio includes glass interleave papers, saturating bases, laminating bases, and other industrial packaging fiber-based solutions. Key markets are in North America and selected export regions.

**Market position** #1-2

**Average market growth** 1-3% p.a.

**SALES BREAKDOWN BY BUSINESS, 2019**



## FOOD PACKAGING &amp; TECHNICAL SOLUTIONS

## Parchment

**HIGHLIGHTS 2019**

- Demand for parchment papers for food processing, packaging and industrial solutions weakened somewhat in the second half of the year after a more stable development earlier in the year
- Launch of the Optilam™ offering for a better performing and more cost-effective cellulosic alternative as a process consumable used in the smart card in-lay industry
- Introduction of the Purebarrier product line, which is the only 100% cellulosic product in the market without any additives or additional coatings

**DEMAND DRIVERS**

- Push from brand-owners towards sustainable alternatives
- Food and industrial markets seeking cellulosic solutions with intrinsic barrier properties and other functionalities to replace plastics
- Stricter food safety and chemical regulations

**STRENGTHS**

- Leading brand
- Capabilities helping customers to differentiate
- Unique technical characteristics of parchment paper

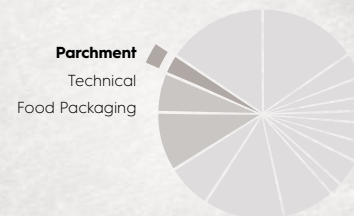
**GOING FORWARD**

- To leverage on the technical characteristics of parchment paper and consolidate and expand leadership in the premium segment of cooking and baking
- Penetrate food packaging market with oxygen barrier solutions
- Expand the use of parchment innovations to non-food adjacencies

**The Parchment** business produces a broad portfolio of sustainable solutions for food and industrial applications. The product portfolio includes cooking and baking papers, pan-liners, baking-trays and molds. Furthermore parchment is used in the textile tube and furniture laminate industries. Key markets are in Europe and North America.

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

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

**SALES BREAKDOWN BY BUSINESS, 2019**

## DECOR SOLUTIONS

## Decor

**HIGHLIGHTS 2019**

- Demand for decor products stabilized in the last quarter after very weak development earlier in the year. Despite of strong competition and price pressure due to the weak market, margins were stable throughout the year.
- Exploring strategic alternatives, including acquisitions, mergers and joint ventures with decor paper suppliers in China. Agreement to acquire a decor paper plant in China for EUR 60 million.
- EUR 5 million investment to enhance the quality of pre-impregnated decor papers in Dettingen, Germany was completed in the first quarter of 2019.

**DEMAND DRIVERS**

- Residential home starts, commercial building projects and renovation
- Rapidly growing middle class in developing markets driving construction and furniture demand
- Interior design trends
- Substitution from solid wood to panel based furniture and, within panel-based furniture, substitution from veneer and plastic foils to decor paper surfaces

**STRENGTHS**

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

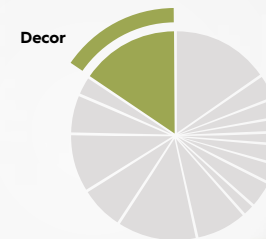
**GOING FORWARD**

- Grow and strengthen leading positions in Europe and North America
- Establish a strong growth platform in South America
- Enter Chinese market
- Continue to be a forerunner in sustainability

**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 markets are Europe, North and South America and selected export markets.

**Market position** #2-4


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

**SALES BREAKDOWN BY BUSINESS, 2019**

## BUSINESS

# 04: Responsible value creation

Ahlstrom-Munksjö has a firm commitment to sustainability. The long-term responsible business success is possible by our people and our products that are designed to bring value to the sustainable everyday life.

 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.

Sustainable practices are important throughout the value chain. They are embedded in our R&D work, procurement, production and sales. In close cooperation with our customers, we collaboratively manufacture 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 create a safe and healthy environment where our employees' well-being is in high focus and engage the local 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.

## Sustainability Governance

**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's



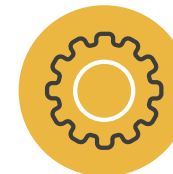
### PEOPLE

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

work is led by the Manager Group Sustainability and Capital Investments.

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 2019, the SBC found the management in each material topic in terms of targets to be satisfying.

To improve sustainability governance, in 2019 the scope of the Audit Committee was expanded to include sustainability topics and was consequently renamed the Audit and Sustainability Committee. The Audit and Sustainability Committee supports the Board of Directors in fulfilling its supervisory responsibility in relation to internal control, audit, internal auditing, risk management, accounting, financial reporting, sustainability key performance indicators and non-financial information and also prepares certain reporting, accounting, controlling and auditing matters to be handled by the Board.

### **Alignment with international sustainable development initiatives and involvement in partnerships and public affairs**

#### **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.

## CASE

# Ahlstrom-Munksjö's sustainability work awarded with third consecutive EcoVadis Gold rating



In June 2019, Ahlstrom-Munksjö renewed its EcoVadis Gold rating level for its sustainability management and performance for the third 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.

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.

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 also 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 (FSC®) 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 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.

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 (GR) Standards updated in 2016.

### Working Towards the UN SDGs

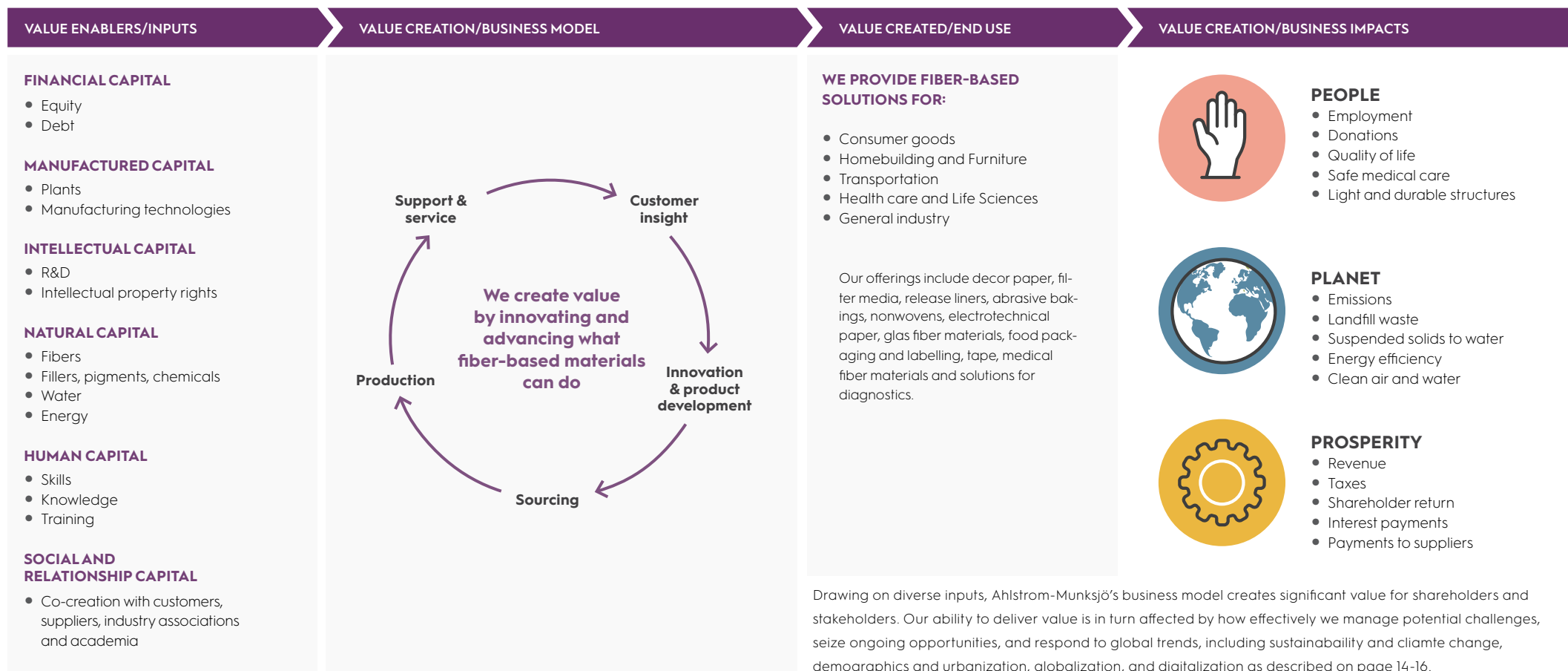
The United Nations Sustainable Development Goals (SDGs) are a framework for global change. They highlight the areas we all need to focus on to ensure a brighter future for us as human beings as well as for the rest of the planet. Ahlstrom-Munksjö seeks to contribute to this change by linking our business activities to the 12 SDGs that we can most directly impact.

- SDG 3: Good Health and Well-Being
- SDG 5: Gender Equality
- SDG 6: Clean Water and Sanitation
- SDG 7: Affordable and Clean Energy
- SDG 8: Decent Work and Economic Growth
- SDG 9: Industry, Innovation and Infrastructure
- SDG 12: Responsible Consumption and Production
- SDG 13: Climate Action
- SDG 14: Life Below Water
- SDG 15: Life on Land
- SDG 16: Peace, Justice and Strong Institutions
- SDG 17: Partnerships for the Goals

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



## VALUE CREATION – OUR VALUE CHAIN



## Environmental 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.

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 environment objectives.

By the end of 2019, 35 and 15 of our operating sites had achieved ISO 14001 and ISO 50001 certifications, respectively. Similarly, achieving the ISO45001:2018 occupational safety

management certification at 13 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. 42 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. 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.

	Material topics	Value chain phases/Boundary	United Nations Sustainable Development Goals
 People	1. Human rights	Sourcing, Production	SDG 8, 16
	2. Community engagement	Production	SDG 8, 17
	3. Employee well-being	Production	SDG 3, 5, 8
 Planet	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
 Prosperity	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

## Stakeholder Engagement and Materiality Assessment 2019

**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 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.

Ahlstrom-Munksjö conducted a materiality assessment in 2019 in order to assess the alignment of our material topics with stakeholder expectations and perceptions. This assessment was conducted via a survey completed by 29 external stakeholders and 1406 internal stakeholders.

In the survey stakeholders were asked to rank the importance of the nine material topics. In the consolidated and weighted results, this is how our stakeholders ranked the

relative importance of the nine material topics that frame our sustainability work:

1. Employee Well-Being
2. Business Ethics
3. Human Rights
4. Profitability
5. Energy, Water and Waste
6. Supply Chain
7. Innovation
8. Community Engagement
9. Carbon Dioxide

In addition to ranking the nine material topics, in some surveys stakeholders were also asked to rank a pre-defined list of material sub-topics and in all surveys stakeholders were asked to suggest new material topics and sub-topics. These results will be used to create a new materiality matrix in 2020.

### Identifying what is important

**102-46 | 102-47**

The materiality assessment executed in 2019 provides the most material issues for Ahlstrom-Munksjö on which the company will report and track progress. As the survey was completed at the end of the year, the materiality matrix and the focus points with action plans will be implemented and communicated during 2020.

The commitment to the UN Global Compact and the Sustainable Development Goals was part of the materiality assessment. As an outcome, all 17 SDGs are important to

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





Ahlstrom-Munksjö's sustainability agenda, but the most important SDGs were the following:



During 2019, the Be the Change sustainability awareness week was carried out in 41 Ahlstrom-Munksjö locations. The purpose of the campaign was to raise awareness of the SDGs and to engage our people to sustainable everyday life. The campaign was reaching all of our employees in all regions. Through the materiality assessment there was an opportunity for our employees to share the feedback and suggestions on improving the competences of the sustainability, engaging the people to contribute and to increase the overall employee well-being at the sites. These feedbacks are being assessed during 2020, prioritized with plans of action and incorporated to the plant activities.

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



## CASE

## UN Global Compact Participant



Ahlstrom-Munksjö has been a supporter of the United Nations Global Compact initiative since 2017.

We annually renew our support and commitment to the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. We have included the UN Global Compact and its principles as part of our everyday life and publish the Communication on Progress every year as part of the key requirement.

As an active member and a Participant of the UN Global Compact, we are collaborating with our peers in UN Global Compact Networks. This is a valuable forum for us to shape the long-term sustainable future with other businesses and organizations. Also, as being a Participant in UN Global Compact, means that our employees have an excellent opportunity to utilize learning opportunities in the UN Global Compact Academy for knowledge and learning of sustainability objectives regardless of location or function.

### Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

### Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

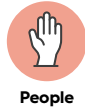
Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



People

Material topics	Targets 2019-2020	Results of 2019	SDGs
Human Rights	Same targets as for Supply Chain and Business Ethics	See Supply Chain and Business Ethics	8, 12, 16
Community Engagement	By end of 2020 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	58% of sites with an updated community engagement plan	12, 17
Employee Well-Being (Health and Safety)	We believe zero accidents is possible and we are committed to pursuing a Total Recordable Incident Rate (TRIR) of zero	Decrease of 6% in TRIR to 1.66	3, 8, 12
Employee Well-Being (Health and Safety)	Annual Near Miss Rate (NMR) higher than 4.0 (number of near miss incidents divided by hours worked over 1,800 hours worked)	NRM of 4.9 (3.65 in 2018)	3, 8, 12
Employee Well-Being (Health and Safety)	On average, at least 15 hours of tailored safety training per employee each year	20 of hours of tailored safety training per employee per year	3, 8, 12
Employee Well-Being (Employee Development)	All employees have had an annual performance and development discussion with their manager by end of year 2020	70% of employees that have had an annual performance and development discussion	3, 8, 12
Employee Well-Being (Employee Development)	Employee Engagement Index and Leadership Index baseline defined by end of year 2019 through a common Employee Engagement Survey	This target was pushed forward by one year due to ongoing integration following several acquisitions. A culture pulse survey was conducted to progress on this agenda.	3, 8, 12
Employee Well-Being (Gender Equality and Diversity)	By end of year 2019, short- and long-term gender and diversity targets defined and implementation of action plan for closing the gender gap begun; Have gender representation in managerial roles at least proportional to the ratio of the total workforce by end of year 2020	In 2019, work begun to establish short- and long-term gender and diversity targets, as well as designing action plans ensuring equal opportunities. In 2019 the base line for gender ratio was 18% female employees of total workforce. The share of female managers in 2019 was 21% of all managerial positions compared to the gender ratio of 18% of total workforce.	5, 12



## Planet

Material topics	Targets 2019-2020	Results of 2019	SDGs
Supply Chain	All chemical and fiber suppliers have signed the Supplier Code of Conduct or are considered compliant; All chemical and fiber suppliers have undergone evaluation for Supplier Code of Conduct Risk	Supplier Code of Conduct monitoring extended to all spend areas. Fibers 95% (95%), Chemicals 93% (95%), Indirect 23% (20%), Energy 26% (20%), Wood North America 90% (75%) By end of 2019 19% of all chemical and pulp suppliers have been evaluated by supplier risk assessment and an action plan is in place per supplier.	8, 12, 16, 17
Energy, Water and Waste	More than 95% of plants have a third-party audited environmental management system by end of year 2020	Environmental Management (ISO 14001) certification at 35 sites, representing 78% of the total	6, 7, 12, 13
Energy, Water and Waste	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	Energy Management (ISO 50001) certification at 15 sites for 17% of total energy use.	7, 12, 13
Energy, Water and Waste	An annual 2% reduction of specific energy consumption from 2018 onward	Due to the new perimeter of including Expera and Caieiras to the reporting boundaries, the specific energy consumption in A-M in 2019 was 34,2 GJ/tn. In the old perimeter in 2018 report the specific energy consumption was 8.7 GJ/tn	7, 12, 13
Energy, Water and Waste	An annual 1.5% reduction in water use per gross ton production from 2018 onward	Due to the new perimeter of including Expera and Caieiras to the reporting boundaries, the specific water use in 2019 was 73m3/gross tn. In the old perimeter in 2018 the specific water consumption was 41.4m3/gross ton	6, 12
Energy, Water and Waste	An annual 2 percent reduction in tons of waste to landfill from 2018 onward	Due to the new perimeter of including Expera and Caieiras to the reporting boundaries, the waste to landfill in 2019 was 98 507 tons. In the old perimeter in 2018, the amount was 12,321 tons.	12
Carbon Dioxide	2% annual reduction in Scope 1 carbon dioxide emissions per gross ton production from 2018 onward	Due to the new perimeter of including Expera and Caieiras to the reporting boundaries, the Scope 1 carbon dioxide emissions in 2019 were 1,3 tons carbon dioxide per gross ton production. In the old perimeter in 2018, the amount was 0.402 tons.	12, 13
Carbon Dioxide	Annual reduction in Scope 2 carbon dioxide emissions per gross ton production from 2018 onward	Scope 2 carbon dioxide emissions data collection in progress	12, 13
Profitability	EBITDA margin above 14% over a business cycle	Comparable EBITDA margin 10.7%	
Profitability	Gearing below 100%	Gearing 71.8%	
Profitability	A stable, over time increasing dividend, paid four times a year	Dividend (proposed) EUR 0.52 per share, paid in four installments	
Innovation	From a baseline established in 2019, additional targets for the design process and new products will be developed	66% of NPD projects that have been assessed with the EcoDesign Tool	9, 12
Business Ethics	All employees confirm Code of Conduct awareness through Code of Conduct training program by end of 2020	91% of employees have completed Code of Conduct training program	12, 16



## Prosperity

Note: At the end of 2018, Ahlstrom-Munksjö completed the acquisitions of Caieiras specialty paper mill in Brazil and Expera Specialty Solutions in the U.S. Planet related data for the above mentioned sites was not included in the 2018 report. Therefore the 2019 data is not comparable to the 2018 figures.

# 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 91% of employees completed the Code of Conduct e-learning by the end of 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.

## 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 2019 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. Read more in OUR PEOPLE.

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 2019, 58% 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 2019 target of 4.0, much higher than the baseline target of 2.37 set in 2017. In 2019 the company achieved a near miss rate of 4.9, up from 3.65 in 2018, 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 1.77 was established in 2018. In 2019 the TRI decreased substantially to 1.66.

The number of hours of tailored safety training per employee each year reached 20 hours in 2019, up from 15 hours in 2018. The target was 15 hours.

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 in all recordable accidents in 2019 comes as a direct result of these efforts.

## CASE

# Ahlstrom-Munksjö one of the first companies within its industry to be ISO 45001 certified



Ahlstrom-Munksjö believes that zero accidents is possible. The long-term goal is an accident-free workplace and in order to achieve this target, the company is certifying its plants with the ISO 45001 standard.

To achieve the long-term target and to ensure a safe working environment, Ahlstrom-Munksjö focuses on preventative activities, behavior-based safety interactions, safety inspections, auditing and tailored safety training. The performance is managed through systematic and efficient health and safety management processes.

Out of Ahlstrom-Munksjö's 45 plants globally, 21 have so far been ISO45001: 2018 certified. The new standard, published in March 2018, confirms excellence and good practices in occupational health and safety management systems. It promotes a safe and healthy working environment by providing a framework that allows organizations to identify and reduce their risks related to occupational health and safety, reduce potential for workplace accidents and illnesses and improve legislative compliance.

The target is that all Ahlstrom-Munksjö's plants will be certified with the standard at the latest in 2021.

"This new international, dynamic and process-based safety management standard considers risks and opportunities rather than risks only and at the same time it requires that the views of our stakeholders are considered. This standard takes our plants to a new level, and also increases efficiency, as it's based on the other ISO management system standards," says Rune Årnes, Vice President Health & Safety at Ahlstrom-Munksjö.



**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.

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 was planned to 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, targets for further improvements will be set. A culture pulse survey was conducted to progress on this agenda.

**GENDER EQUALITY AND DIVERSITY****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. In 2019, 18% of employees were female, and 21% of managers were female.

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 2020, 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 2019, 95% our fiber-based raw materials were renewable by volume. The 2018 figure of 92% is not comparable as it included Experia and Caieiras sites only from 2019. 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. By using certified or controlled wood materials, Ahlstrom-Munksjö can meet growing customer demand for certified products while contributing to more sustainable forest practices in its supply chain.

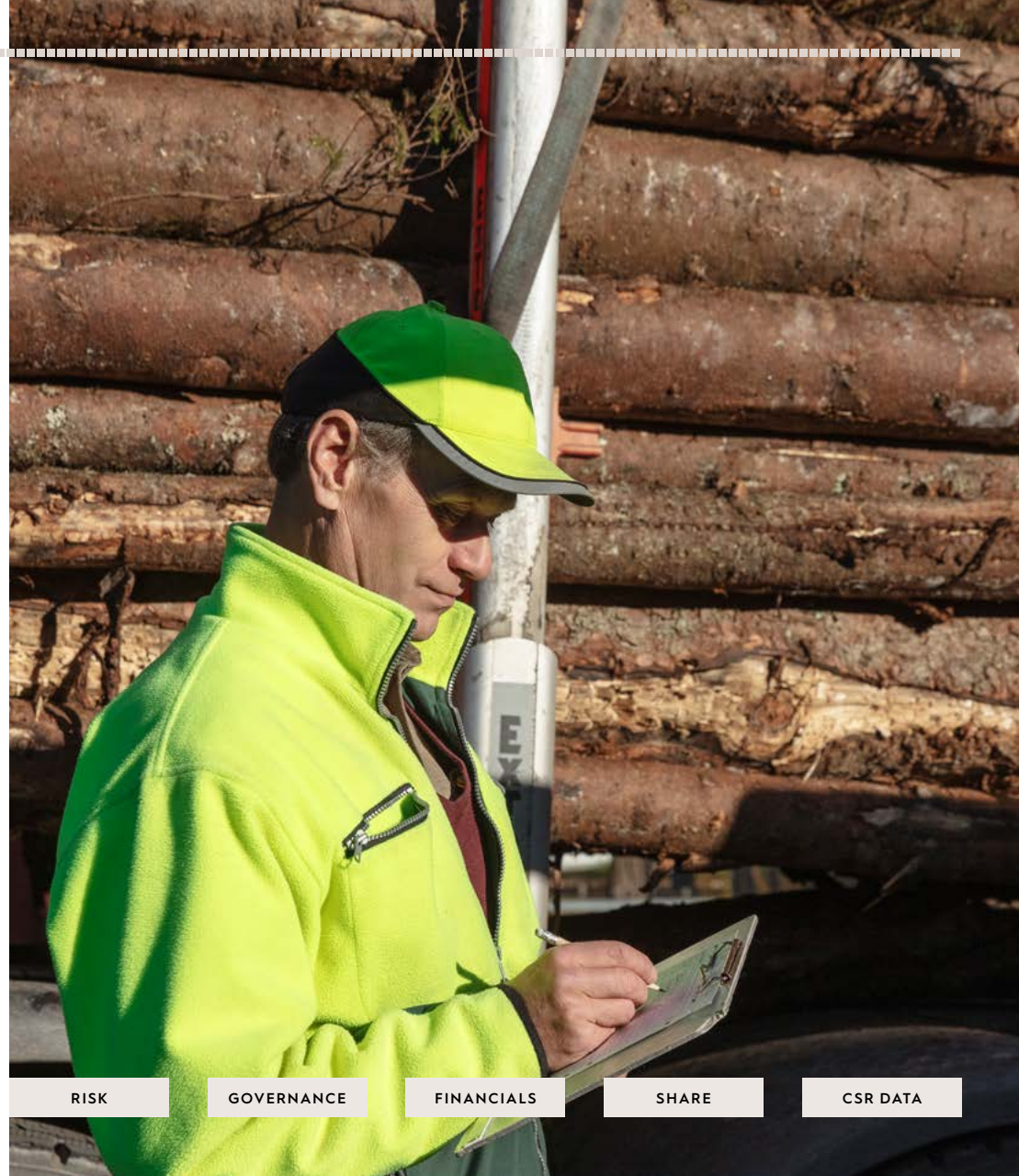
Data on both these processes is collected by Procurement through a centralized, cloud-based information platform. Any potential violations to the Supplier Code of Conduct can be reported to a Procurement manager, Human Resources or Legal departments. Ahlstrom-Munksjö has also contracted an external service 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 2019, 93% of chemical and 95% of fiber suppliers had signed the Supplier Code of Conduct or were considered compliant. For 2020 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.

## 5. Energy, water, and waste

Ahlstrom-Munksjö is dedicated to designing products and manufacturing processes that use raw materials, water, energy and other inputs as efficiently as possible to minimize its impacts to environment. As part of a resource-intensive industry, the company has a responsibility to continuously manage, mitigate and reduce its local, yet global impacts by internal collaborative efforts. The data is collected from each location through a cloud-based data collection system. The local accountability at the plants is the key on improving the performance.



We track and measure energy use and water use per gross ton of our production, as well as total tons of waste sent to landfill. The significant impact to biodiversity of the rivers and other water sources from our plants are the heat transfer and for that there has been approved capital investments initiated.

The targets for the environmental metrics were set at annual reductions

- 2 percent of specific energy consumption from 2018 onward
- 1.5 percent in water use per gross ton production from 2018 onward
- 2 percent in tons of waste to landfill from 2018 onward

It is important to recognize that the environmental performance between the years 2018 and 2019 are not comparable due to the reporting boundaries. In 2018 the former Expera plants and Caieiras plant were not included to the environmental performance, while in 2019 they are. However, it is unpleasant to report that the ambitious targets against the 2018 baseline has not been achieved, and it is due to the gross production amounts at the plants.

In 2019, the total energy use in GJ per gross ton production was 34.2, non-comparable to 8.7 in 2018 and water use in cubic meters per gross ton production was 73, non-comparable to 41.4 in 2018. In 2019, 98 507 tons of non-recoverable waste were sent to landfills, non-comparable to 12,321 tons in 2018. The impact on the most landfilled waste is derived from the mills at North America.

The activities in 2020 are focusing on re-defining the accurate target setting to the company of this size and diversity. The environmental performance is important to be assessed and the best practices within the company are to be taken into effective use. Energy efficiency activities at the plants are being supported with energy capex fund and engagement with collaboration projects with external stakeholders are in planning.

## CASE

# Successful recycler project in Mundra, India



One key component of our innovative platform is to improve production processes to generate benefits within and beyond Ahlstrom-Munksjö. For years, the Medical Business Unit in Mundra, India has had a recycling system that recycles the "side trims" back into the process which then helps to reduce overall waste, but there has been still other forms of waste that was not recyclable until now.

The Mundra team started to investigate options for re-processing the waste of the final product back into the production already in 2017. The team worked diligently on ways to optimize the project and the Recycling Project was successfully commercialized at the end of August 2019.

The new recycler machine has the ability to handle fabric waste in loose form, slabbed fabric, rolls waste, fabric pieces, filaments and hey waste. This machine provides the opportunity to control outward waste and recycle the material which cannot be used in the main line co-extruder due to feeding issues. Since the start-up, the Mundra plant has run the recycler machine at full capacity without any challenges. The converted waste material share for finished goods is being successfully used at a level of 5%. This has been a successful inhouse innovation for utilization of the onsite waste.

## 6. Carbon dioxide

### 305-1

Ahlstrom-Munksjö has acknowledged its responsibility towards the Sustainable Development Goal #13 Climate Action by decreasing specific carbon dioxide emissions and increasing the company's share of renewable and carbon free energy. This commitment 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 efficiency during 2019 is the primary contributor to climate mitigation efforts. The activities in investing on energy assets such as gas turbines and solar panels are showing results of local activities to decrease the impact. These support the long-term execution of mitigating and shifting towards a more sustainable energy landscape. During the 2020 the focus will be more in the increasing the share of the renewable energy sources and carbon neutrality activities.

The results between the years 2018 and 2019 are not comparable, due to the reporting boundaries agreed for 2018 report and 2019 report. However, the 2018 results are shared although those are not including the impact of acquisitions from North and South America in 2018.

In 2019 the Scope 1 emissions were 1.3 tons carbon dioxide per gross ton production, non-comparable to 0.402 tons in 2018. Scope 2 emissions data collection is in progress. The target for Scope 1 emissions is an annual reduction of 2 percent while the target for Scope 2 emissions is an annual reduction. The targets were not achieved and during 2020 the target setting is re-assessed to better demonstrate ambition level of the company.

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 cloud-based data collection system.

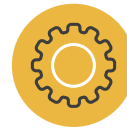
# Long-term success and innovation

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 to meet stakeholder expectations, especially among shareholders. Company employees, local communities located near the 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 aims to grow in selected niches of the innovative fiber-based solutions market. This includes organic growth as well as acquisitions, optimizing the price and product mix, and moving up the value chain through innovative offerings. A clear value-add to customers 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 create 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 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.

Ahlstrom-Munksjö's President & CEO and the 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 2019, the comparable EBITDA margin was 10.7%, gearing was 71.8% and the proposed dividend was EUR 0.52 per share. The company's financial targets are an EBITDA margin above 14 percent over a business cycle, gearing below 100 percent and a stable, over time increasing dividend, paid four times a year.

### 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 the company to select lower impact materials in sourcing, improve production processes and empower customers to create more sustainable solutions, generating benefits within and beyond Ahlstrom-Munksjö.

## CASE

### EcoDesign Tool



In 2018, a new and expanded EcoDesign Tool was developed to evaluate and assess every new product from a sustainability and product life-cycle perspective. The principle of the EcoDesign Tool 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 addresses improvement of the sustainability aspects of the end product of which it will be a part.

The new tool was implemented in 2019 and was well adopted. The ambition was that in 2019 all new products in development would be evaluated. In total, 87 eligible projects (66% of all projects at end of design phase or in industrialization phase) were assessed. Of these projects, 77% had a positive EcoDesign score, 19% had an equal score and 4% had a negative score.

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 the lowest 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.

## 9. Business ethics

### 205-2

Ahlstrom-Munksjö is committed to conducting its business ethically and responsibly in local and global communities. There is a zero-tolerance towards bribery and corrupt business practices as specified in the company's Code of Conduct and Anti-Bribery Policy and the company strives to conduct operations in a manner that meets the highest ethical and 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. To foster this the company has a compliance program in place which is led by the company's Chief Compliance Officer. During 2019 steps were taken to further develop and reinforce the compliance program along with related processes and organization to increase focus on compliance matters. These include among others an enhanced group-wide anti-bribery risk assessment process which was developed and launched in 2019 to better understand and address the company's corruption risk exposure.

## CASE

# Plastic-free solutions for single-use straws - also available in U-shape



A desire to replace plastics is a growing trend globally and the prohibition of the use of plastics in shopping bags, single-use straws and food packaging is gaining momentum. Ahlstrom-Munksjö CelluStraw™ is specially designed to phase out single-use plastic straws. Made of renewable, biodegradable and recyclable material, this new fiber-based solution is a sustainable alternative to plastic straws. It enables the food industry, such as fast-food chains, to better protect people and the planet, while continuing to offer a convenient drinking experience to consumers. The development of CelluStraw™ is another example of Ahlstrom-Munksjö's capabilities in developing fiber-based solutions for a more sustainable everyday life.

The range encompasses Cellustraw™ for straight straws and CelluStraw™U for U-shaped straws. They are made of responsibly sourced natural fibers and are safe for food contact. The recommended use is for cold drinks.

### Key advantages:

- Nature friendly compostable solution for single-use straws
- Convenient and safe for consumers, compliant with food contact regulations
- Trouble-free run on high-speed converting machines
- Remains in good shape once converted for storage and transportations
- Withstands in liquid for a sufficient period of time
- Suitable for both straight and folding straws, offering folding flexibility for the technically challenging U-shaped design for aseptic beverage cartons packing machines

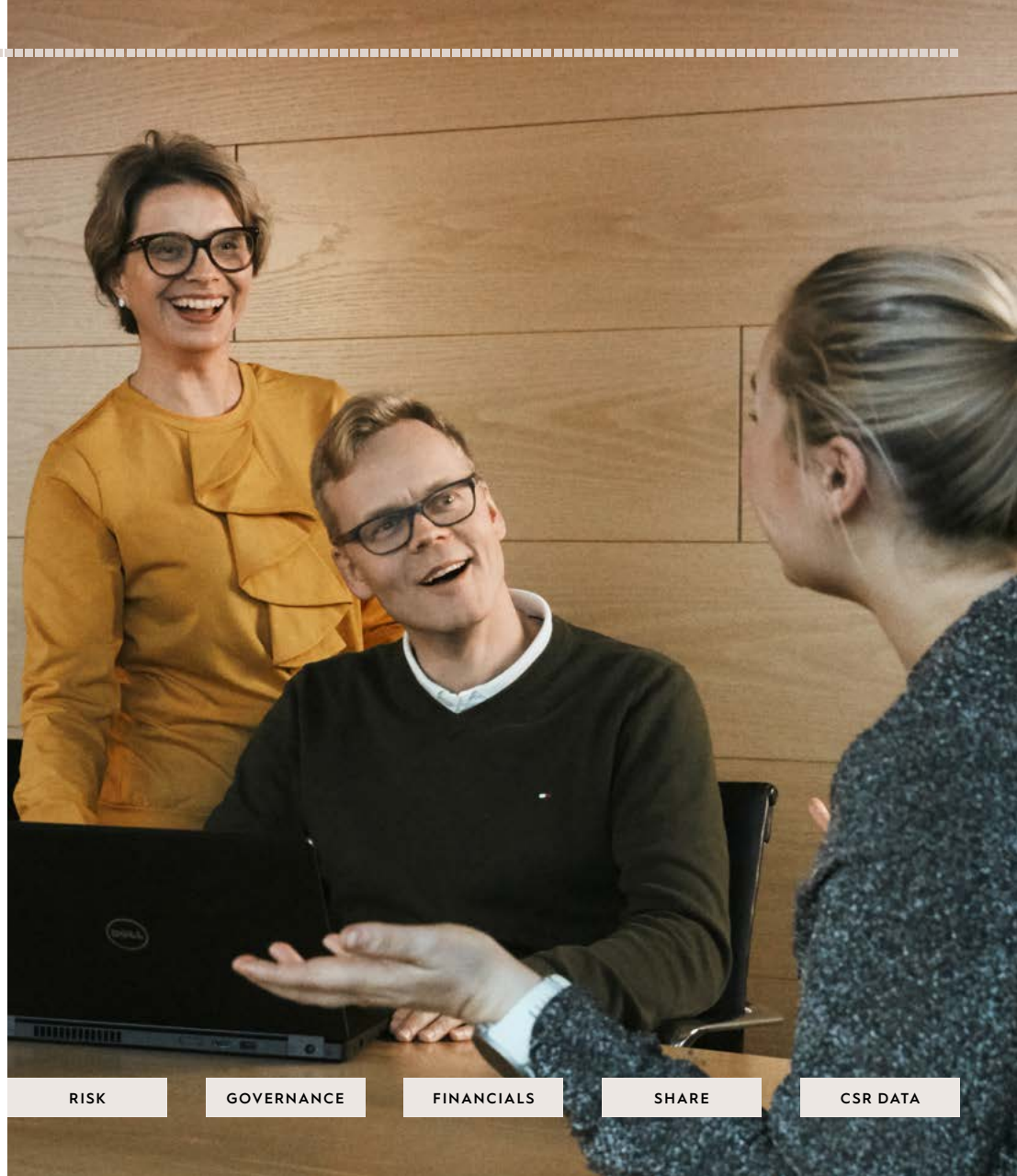
Ahlstrom-Munksjö continues to work in close cooperation with straw converters and machine producers to create and develop its share in this emerging and fast-growing market segment requiring plastic-free solutions.



Ahlstrom-Munksjö's Code of Conduct and Anti-Bribery Policy detail 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 policies are communicated throughout the organization and training is provided to employees both face-to-face as well as via online in accordance with a yearly training plan. To date 91% of all employees of the Ahlstrom-Munksjö Group have completed the new Code of Conduct eLearning which was launched late 2018. The Code of Conduct and the eLearning training is available in 12 different languages covering group's all main geographical locations.

The company is promoting a culture of open reporting on ethical issues and concerns. Any unethical or unlawful activity can be reported internally to a manager, the Human Resources or Legal departments. Ahlstrom-Munksjö also utilizes an externally hosted whistleblowing system, SpeakUp where reporting can be done via phone or web-service 24/7. Employees are being encouraged to raise their good faith concerns through these different channels without a fear of retaliation and an increased number of messages and reports made by the employees during 2019 in part demonstrates that this message is increasing well received. All reports are reviewed and investigated and corrective actions are being taken as necessary.



# 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

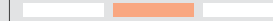
## Business and market risk – variations in market prices and volumes for Ahlstrom-Munksjö's products

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:



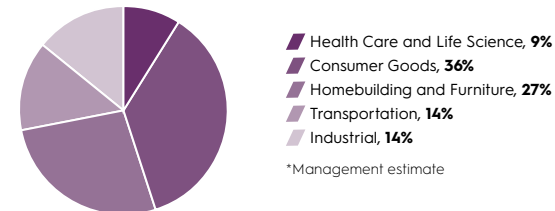
Global mega-trends like population growth, urbanization and digitalization affect most business areas, while the economic situation in different industries affect the Group's business areas in separate ways. For the group as a whole, the largest customer segments are Consumer Goods 36%, Homebuilding and Furniture 27%, Industrial 14%, Transportation 14%, Health Care and Life Science 9%.

Increasing political instability, global protectionism, sanctions and other unfavorable macroeconomic conditions could have a material adverse effect on the business. Accordingly, Ahlstrom-Munksjö is also exposed to cyclical changes in the various industries in which its customers operate. The company operates in 14 countries and the share of sales in Europe is (44%), North America (34%), South America (8%), Asia-Pacific (13%) 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.

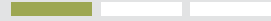
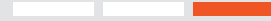
## SALES BREAKDOWN BY END-USE\*



\*Management estimate

**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:**

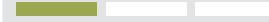
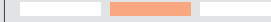
In the case of potential business combinations, substantial integration work is needed to realize expected synergies. Achieving the remaining part of the anticipated benefits of the Expera Acquisition, the Caieiras Acquisition and other potential acquisitions, largely depend on the timely and efficient integration of the business operations, processes and ways of working of the acquired entities. This, in turn, is also dependent on the management's time and resources in the acquired entities.

The Group has extensive experience from successful integration processes and realized synergies. However, 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.

Ahlstrom-Munksjö is also exposed to a customer concentration risk. The industries in which Ahlstrom-Munksjö's customers operate may be subject to future consolidation. Any such consolidation could result in companies having increased bargaining power and could lead to a decline in Ahlstrom-Munksjö's market share if an existing customer merges with or is acquired by an entity that has a strong relationship with a competitor of Ahlstrom-Munksjö.

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

At the end of December 2019, trade receivables stood at EUR 218.6 million. The average credit period was 35 days. A portion of the sales, corresponding to an average of EUR 224.3 million of trade receivables, has been credit insured and sold to financiers resulting in earlier payments received. In an uncertain economic situation, it may be difficult to cover Ahlstrom-Munksjö's customer credit risks with credit insurance.

**Customer structure and customer credit**

EUR million	2019	2018
Trade receivables not due	186.1	250.0
< 30 days	29.0	35.3
31-180 days	3.7	4.5
> 180 days	-0.2	1.1
<b>Total trade receivables</b>	<b>218.6</b>	<b>290.9</b>

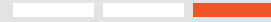
### Risk of variation in the price and the supply of raw materials

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.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



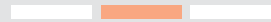
The most important raw materials are pulp, wood fiber to produce pulp, titanium dioxide, certain chemicals and various synthetic fibers including glass fiber. The market price of pulp or wood may vary over time and affects the Group's result. Ahlstrom-Munksjö uses different types of pulp e.g. long, short fiber and specialty pulps in its production. Ahlstrom-Munksjö works with a reasonably large number of suppliers to secure the diverse inputs needed. In 2019, a total of 637 thousands of tons of short-fiber pulp and 541 thousands of tons of long-fiber pulp was consumed. Exposure is reduced by 496 thousands of tons of the company's own production of mainly long-fiber pulp. For purchases, there is a structured method to ensure that the procurement process is complete and systematically designed.

Pulp, Ktonnes (actual)	2019
Own production	496
Usage long-fiber	541
Usage short-fiber	637
<b>Net exposure</b>	<b>682</b>

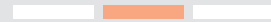
### Risk of price volatility and reduced supply of energy

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.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



Capital spending in internal energy efficiency is a priority. During 2019 the value of the energy consumed represented 8% of the Group's operational costs.

Low Medium High

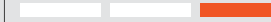
### Inability to attract, retain and motivate right talent

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.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



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.

**LIKELIHOOD:**



**FINANCIAL IMPACT:**



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. The cap on total annual emissions in the EU will gradually be reduced in phase 4 of the EU Emissions Trading System starting from 2021, and auctions will become the main method for issuing allowances. 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 co-operate 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 may from time to time be involved in litigation and other similar proceedings and further disputes could arise in the ordinary course of business related to, among others, contracts, tax issues, alleged defects in product deliveries, health and safety matters, competition law, intellectual property, employment matters, and environmental issues. The result of these cannot be predicted, but with respect to all the information that was available at the end of 2019, the results are not expected to affect the company's financial position to any significant extent.

The Group may also be 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 to translation risk 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 limited and mainly related to USD, SEK CNY, RUB and BRL. As a result of Ahlstrom Munksjö's increased presence in the United States, Ahlstrom Munksjö is especially exposed to fluctuations in the exchange rate of the U.S. dollar. A large share of operating expenses is in EUR and USD. 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, 75 % (+/- 10 %) of the forecasted net flows in the upcoming 9-month period shall be hedged. The market value of outstanding forward contracts at 31 December 2019 was EUR 1.2 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 2019 amounted to EUR 8.2 million and is recognized in other comprehensive income.

### 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> 	<b>FINANCIAL IMPACT:</b> 
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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 December 31, 2019 was EUR 855.0 million.


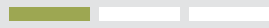
There is also a risk that the Company's balance sheet structure may limit the ability to finance future growth. For example, factoring and other similar arrangements currently constitute a significant source of funding to the Company. Adverse changes in the commercial terms for factoring, or the cancellation of such arrangements by the Company's counterparties, could have a material adverse effect on the Company's balance sheet and liquidity. To increase financial flexibility Ahlstrom-Munksjö issued capital securities on December 13, 2019.

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 (e.g., banks and insurance companies) may be unable to fulfil their obligations.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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To avoid this risk Ahlstrom-Munksjö's financial counterparty credit risk sub-policy states for example to enter into transactions with leading financial counter-parties that have strong credit ratings, how any excess liquidity may be invested, and that careful monitoring is done. Despite any efforts by Ahlstrom Munksjö to manage its counterparty risk, there is a possibility that one or more of Ahlstrom Munksjö's financing counterparties could face serious financial difficulties or bankruptcy. In 2019, there were no losses. Ahlstrom-Munksjö's maximum credit risk exposure corresponds to the fair values of the financial assets, in accordance with note 14 of the consolidated financial statements.

 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> 	<b>FINANCIAL IMPACT:</b> 
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Effective internal controls, working methods and common regulatory framework are necessary for Ahlstrom Munksjö to provide reliable financial information. 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> 	<b>FINANCIAL IMPACT:</b> 
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Impairment is recognized when an asset's or a cash-generating unit's carrying value exceeds the recoverable amount. Goodwill is not amortized but is tested for impairment annually, or more often, if an event or circumstance indicates that an impairment loss may have been incurred. 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 or regulations or their application and interpretation could also increase the tax burden.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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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.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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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 have resilience and to 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.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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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.

<b>LIKELIHOOD:</b> 	<b>FINANCIAL IMPACT:</b> 
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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 could reduce brand value and have an adverse effect on Ahlstrom Munksjö's business, financial condition and results of operations.

To minimize such risks, Ahlstrom-Munksjö has a solid program for sustainability, 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 2019

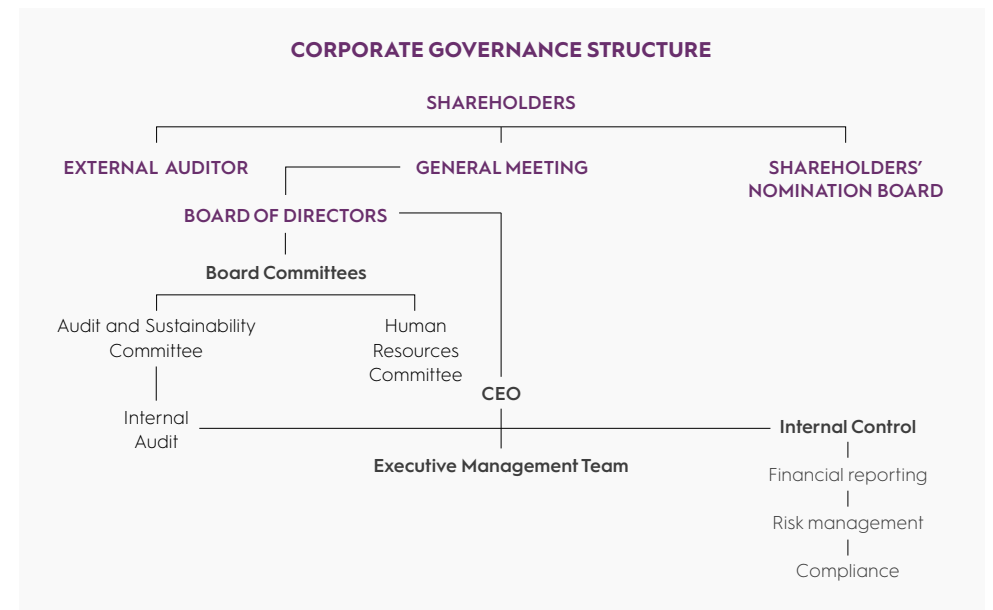
Ahlstrom-Munksjö Oyj (“Ahlstrom-Munksjö” or the “company”) is a Finnish public limited liability company, the shares of which are listed on Nasdaq Helsinki and Nasdaq Stockholm. In its corporate governance, Ahlstrom-Munksjö complies with applicable laws and regulations, including without limitation, 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 complied with the Finnish Corporate Governance Code 2015 and from January 1, 2020 onwards the Finnish Corporate Governance Code 2020, issued by the Securities Market Association (“Finnish Code”). The Finnish Code is available at [www.cgfinland.fi](http://www.cgfinland.fi).

The company does not deviate from any of the recommendations of the Finnish Code. The company also complied with the Swedish Corporate Governance Code from December 1, 2016, and from January 1, 2020 onwards the with the revised Swedish Corporate Governance Code applicable from January 1, 2020 (“Swedish Code”), 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 and Sustainability 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 (the “Board”) 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 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.

The Annual General Meeting was held on March 27, 2019 with 222 shareholders of the company represented in the meeting.

## Shareholders' Nomination Board

The Shareholders' Nomination Board (the "Nomination Board") prepares 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 also establishes the principles of diversity that it applies.

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



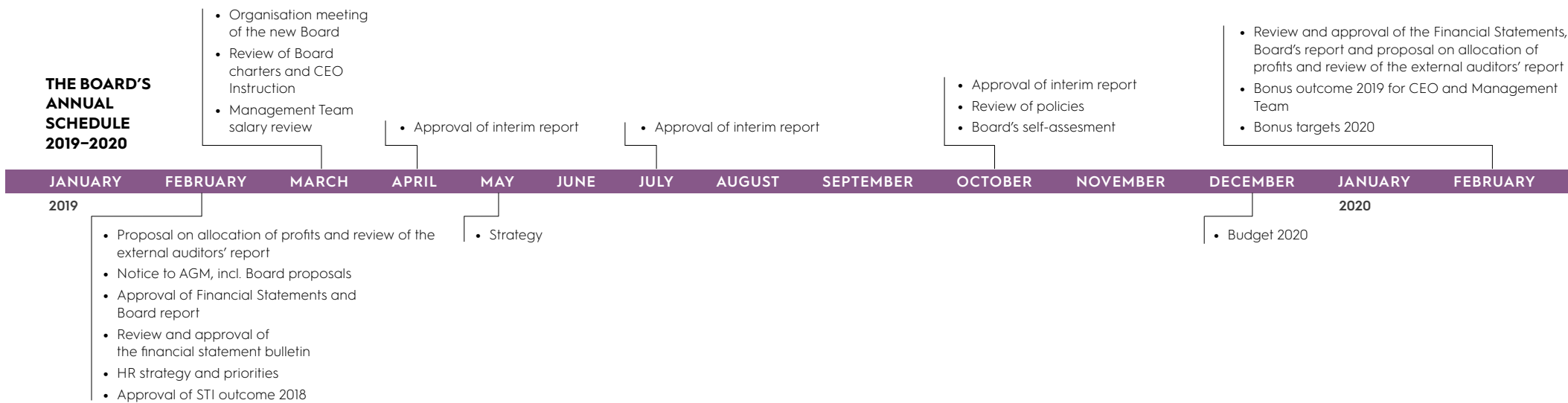
General Meeting the largest on the basis of the shareholders' register of the company held by Euroclear Finland and the register of shareholders held by Euroclear Sweden. However, holdings by a shareholder who, under the Finnish Securities Market Act, has the obligation to disclose its shareholdings (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 May 30 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: Kari Kauniskangas, 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 2019, the Nomination Board has held three (3) meetings.

On January 25, 2019 the Nomination Board proposed to the Annual General Meeting to be held on March 27, 2019 that the number of Board members would be nine (9) 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, Valerie A. Mars and Lasse Heinonen would be re-elected. In addition, the Nomination Board proposed that Jaakko Eskola would be elected as new member of the Board of Directors. Pernilla Walfridsson 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 130,000 a year, the Vice Chairman EUR 90,000 and the ordinary members EUR 65,000 each. The



Chairman of the Audit and Sustainability Committee shall annually receive EUR 15,000 and the ordinary members of such committee EUR 7,500. It was further proposed that 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 were 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.

On January 27, 2020, the Nomination Board proposed to the Annual General Meeting to be held on March 25, 2020 that the number of members of the Board of Directors shall be nine and that the current members Elisabet Salander Björklund, Lasse Heinonen, Alexander Ehrnrooth, Johannes Gullichsen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen, Valerie A. Mars, and Jaakko Eskola are to be re-elected. Peter Seligson was not available for re-election. In addition, the Nomination Board proposed that Ms. Nathalie Ahlström is to be elected new member of the Board. The Nomination Board has recommended that Jaakko Eskola 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 and Sustainability 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.

### **Diversity of the Board of Directors**

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 of Directors 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 of Directors 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 33.3% are women.

### **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 and a maximum of twelve 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 2019, 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 27, 2019 confirmed the number of Board members to be nine. 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, Valerie A. Mars and Lasse Heinonen were re-elected. Jaakko Eskola 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 and below.

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

In 2019, the Board of Directors convened 13 times, including three meetings held as telephone meetings. The attendance of the individual board members is set forth in the table below.

**Board of directors' shareholding December 31, 2019**

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. and subsidiaries		141,397	
Pension account		72,000	
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:</i>			
Viknum AB		14,048,006	
<i>Shares held by controlled entities:</i>			
Belgrano Inversiones Oy		668,508	
Jaakko Eskola	Board member	0	0
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

**Management Team's shareholding December 31, 2019**

Member	Title	Shares
Hans Sohlström	President and CEO	58,738
Sakari Ahdekivi	Deputy CEO and CFO	5,352
Dan Adrianzon	Executive Vice President, Industrial Solutions	3,777
Daniele Borlatto	Executive Vice President, Filtration & Performance Solutions	24,408
Andreas Elving	Executive Vice President Legal and General Counsel	6,925
Tomas Wulkan	Executive Vice President, Decor Solutions	0
Tarja Takko	Executive Vice President, People & Safety	6,261
Robyn Buss	Executive Vice President, Food Packaging & Technical Solutions	43,825

**Board meetings 2019**

Member	Board member since	Attendance	Percentage
Peter Seligson	2012	13/13	100%
Elisabet Salander Björklund	2013	13/13	100%
Alexander Ehrnrooth	2014	13/13	100%
Jaakko Eskola (member as of March 27, 2019)	2019	9/10	90%
Johannes Gullichsen	2017	13/13	100%
Lasse Heinonen	2018	13/13	100%
Hannele Jakosuo-Jansson	2013	13/13	100%
Harri-Pekka Kaukonen	2017	13/13	100%
Valerie A. Mars	2018	12/13	92%
Pernilla Walfridsson (member until March 27, 2019)	2017	3/3	100%

**Audit and Sustainability Committee meetings**

Member	Attendance	Percentage
Elisabet Salander Björklund	6/6	100%
Alexander Ehrnrooth	6/6	100%
Lasse Heinonen	6/6	100%
Harri-Pekka Kaukonen	5/6	83%
Valerie A. Mars	6/6	100%
Pernilla Walfridsson (member until March 27, 2019)	1/1	100%

**HR Committee meetings**

Member	Attendance	Percentage
Hannele Jakosuo-Jansson	8/8	100%
Jaakko Eskola (member as of March 27, 2019)	4/5	80%
Johannes Gullichsen	8/8	100%
Peter Seligson	8/8	100%

**Board Committees**

The Board of Directors of Ahlstrom-Munksjö resolved on March 27, 2019 to appoint two permanent Board committees, the Audit and Sustainability Committee and the Human Resources Committee. The composition, duties and working procedures of the Committees shall be defined by the Board of Directors 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 and Sustainability Committee**

The Audit and Sustainability Committee consists of at least three members, all of whom 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 and Sustainability Committee assists the Board in fulfilling its supervisory responsibilities and also prepares certain accounting and auditing matters to be handled by the Board, and oversees the company's sustainability strategy. In addition, the Audit and Sustainability Committee makes 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 and Sustainability 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 and Sustainability 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 and Sustainability Committee are from March 27, 2019, Elisabet Salander Björklund (Chairman), Alexander Ehrnrooth, Lasse Heinonen, Harri-Pekka Kaukonen and Valerie A. Mars. All of the members of the Audit and Sustainability Committee are independent of the company and its significant shareholders, except Alexander Ehrnrooth and Lasse Heinonen, who are 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 and Sustainability Committee. In 2019, the Audit and Sustainability Committee convened six times, including one meeting held as a telephone meeting. The attendance of the individual Committee members is set forth in the table to the left.



## Human Resources Committee

The Human Resources Committee consists of at least three members, the majority of whom 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), Jaakko Eskola, 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 2019 the Human Resources Committee convened eight times. The attendance of the individual Committee members is set forth on page 79.

## 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 78 and 90.

## Deputy CEO

Ahlstrom-Munksjö has a Deputy CEO registered in the Finnish Trade Register. The Deputy CEO is appointed by the Board and his/her employment contract is approved by the Board.

The Deputy CEO performs the duties of the CEO when the appointment of the CEO has ended or while the CEO is temporarily prevented from attending her/his duties. The provisions applicable to the CEO apply also to the deputy CEO, for instance as regards qualification for the position. Operational provisions pertaining to the CEO, such as the right of representation and disqualification, apply to the Deputy CEO when the Deputy CEO acts in the position of the CEO.

Sakari Ahdekivi, who has also been the CFO since March 1, 2019, is the Deputy CEO of the company as of April 1, 2017. Biographical details of the Deputy CEO and CFO and his shareholdings are set forth on pages 78 and 90.

## Executive Management Team

The Executive Management Team consists of the CEO, Deputy CEO and CFO, functional managers and business area managers. The members of the Executive Management Team are proposed by the CEO and appointed by the Board. The members of the Executive 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 Executive 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 2019, the Executive Management Team consisted of nine members. As of January 1, 2020, the Executive Management Team consists of ten members. The composition of the Executive Management Team, biographical details, the areas of responsibility of its members and the members' shareholdings in the company are described on pages 78 and 90-91.

### 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. The company has a remuneration policy defining the principles of the remuneration of the company's governing bodies, and as of 2021 the company will publish an annual remuneration report providing information on the fees paid to the company's governing bodies, in accordance with the Finnish Corporate Governance Code 2020.

### 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 and Sustainability 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 and Sustainability Committee.

KPMG Oy Ab (KPMG) was appointed auditors of the company on March 27, 2019. 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 2019 were EUR 1.4 million in total in the Group. Other fees charged amounted to EUR 0.3 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 and Sustainability 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 and Sustainability 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 Executive Management Team is required to update the risk evaluation at least once a year. The format and methodology used for the risk evaluation is an Enterprise Risk Management (ERM) – framework.

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 in 2019 were 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 and 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 the 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 and Sustainability Committee has the ultimate responsibility to oversee that the Internal Audit has been properly organized. 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 and Sustainability 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 Executive Management Team, Group Risk Management function and the internal auditors. The Internal Audit function reports regularly on its activities to the Audit and Sustainability Committee and to the CEO and CFO. The Internal Audit makes recommendations to the Executive 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 identified and taken into account appropriately in the decision-making process of the company. The company keeps a document approved by the Board of Directors on parties that are related to the company as well as the principles and procedures for monitoring and valuating related party transactions and the decision making related thereto.

### 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 controls, monitoring, communication, education and training
- Whistleblowing channel
- Disciplinary actions

In addition to the Code of Conduct, the company's key compliance policies include the Approval and Signing Policy, the Competition Compliance Policy and Manual, the Anti-Bribery Policy, the Trade Compliance Policy, the Data Protection Policy, the Risk Management Policy, the Treasury Policy and the Insider Rules.

The Ahlstrom-Munksjö Board of Directors, assisted by its Audit and Sustainability 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 2019 steps were taken to further develop and enhance the company's compliance program, processes and organization to increase awareness and focus on compliance matters. Ahlstrom-Munksjö lawyers have continued to hold compliance training sessions to promote awareness and compliance with applicable laws and company policies. In 2019 a special focus was on anti-bribery. The trainings will continue in 2020. To date 91% of all employees of the Ahlstrom-Munksjö Group have

completed the Code of Conduct eLearning which was launched in December 2018. A Data Protection eLearning will be launched in early 2020.

Ahlstrom-Munksjö has a group-wide externally maintained whistleblowing system, SpeakUp, where all employees may report unethical or unlawful activity. 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 and the Compliance Officer have access to said mailbox.

### Sustainability Governance

The Ahlstrom-Munksjö Sustainability Policy defines the formal sustainability governance structure and includes a 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 (the SBC) with representatives from the Executive Management Team, the business areas and other functions such as legal and procurement. The SBC, which convenes at least biannually, oversees the integration of sustainability practices into business operations. The SBC's work is led by the Manager Group Sustainability and Capital Investments.

The SBC sets targets and monitors progress set for the material topics. The SBC further discusses deviations from targets and the introduction of new targets and how these have been managed. For 2019, the SBC found the management in each material topic in terms of targets to be satisfying.

### Insiders

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 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 (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.

A project-specific insider list is established when an insider project arises. 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 advise 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<sup>9</sup> 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 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<sup>9</sup> 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 but may make recommendations on the election by the board of chairman and vice-chairman. The Audit and Sustainability 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, the remuneration policy 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 issue shares, 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 issue shares, to repurchase shares and to 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.

# 04: Board of Directors



## Peter Seligson

Chairman of the Board

**Born:** 1964

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Chairman of the Board 2012-2017, Vice Chairman of the Board 2017-2018, Chairman of the Board 2018-, Member of the Human Resources Committee

**Main occupation:** Partner, Seligson & Co Rahastoyhtiö Oyj

**Previous occupation:** Alfred Berg Finland, Managing Director 1991-1997; Arctos Securities, Head of Sales and Trading 1987-1991

**Other positions of trust:** Broadius Partners Oy, Chairman of the Board; Hercculia Oy Ab, Chairman of the Board; Aurajoki Oy, Member of the Board; Folkhälsan, Member of the Board; Seligson & Co Rahastoyhtiö Oyj, Member of the Board

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

Independent of the company and its significant shareholders



## Elisabet Salander Björklund

Vice Chairman of the Board

**Born:** 1958

**Citizenship:** Swedish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2013-, Vice Chairman of the Board 2018-, Chairman of the Audit and Sustainability Committee

**Main occupation:** Board professional

**Previous occupation:** Bergvik Skog AB, CEO 2010-2019; Stora Enso Oyj, Executive Vice President and member of the Group's Executive team 2005-2010

**Other positions of trust:** SweTree Technologies AB, Chairman of the Board; AB Karl Hedin, Member of the Board; Arevo AB, Member of the Board; Firefly AB, Member of the Board; Gasum Ltd, Member of the Board

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

Independent of the company and its significant shareholders





### Alexander Ehrnrooth

Member of the Board

**Born:** 1974

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2014–, Member of the Audit and Sustainability Committee

**Main occupation:** President & CEO of Virala Oy Ab

**Previous occupation:** Ahlstrom Corporation, Member of the Board 2015–2017; Fiskars Corporation, Member of the Board 2000–2018; Munksjö Corporation, Member of the Board 2014–2017; Wärtsilä Corporation, Member of the Board 2010–2015

**Other positions of trust:** Aleba Corporation, Chairman of the Board Belgrano Inversiones Oyj, Chairman of the Board; YIT Oyj, Member of the Board

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

Independent of the company and non-independent of its significant shareholders



### Jaakko Eskola

Member of the Board

**Born:** 1958

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2019–, Member of the Human Resources Committee

**Main occupation:** President & CEO of Wärtsilä Corporation

**Previous occupation:** Wärtsilä Corporation, Senior Executive Vice President and Deputy to the CEO 2013–2015, President of Marine Solutions 2006–2015, Vice President of Power Plants Sales & Marketing 2005–2006; Wärtsilä Development & Financial Services Oy, President 1998–2005

**Other positions of trust:** The Federation of Finnish Technology Industries, Member of the Board; The Finnish Foundation for Share Promotion, Member of the Board

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

Independent of the company and its significant shareholders



### Johannes Gullichsen

Member of the Board

**Born:** 1964

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2015–, Member of the Human Resources Committee

**Main occupation:** Entrepreneur

**Previous occupation:** Various senior positions in RAM Partners and eQ Bank Oy; Ahlström Capital Oy, Member of the Board; Walter Ahlström Foundation, Vice Chairman

**Other positions of trust:** Antti Ahlström Perilliset Oy, Chairman of the Board; Alfakemist Kapitalförvaltning Ab, Chairman of the Board; RAM Partners Oy, Chairman of the Board; GasEk Oy, Member of the Board; Nukute Oy, Member of the Board

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

Independent of the company and its significant shareholders



### Lasse Heinonen

Member of the Board

**Born:** 1968

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2018–, Member of the Audit and Sustainability Committee

**Main occupation:** President and CEO of Ahlström Capital Oy

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

**Other positions of trust:** Enics AG, Chairman of the Board; Destia Group Plc, Member of the Board; Olvi plc, Member of the Board; Terveystalo Plc, Member of the Board

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

Independent of the company and non-independent of significant shareholders



### Hannele Jakosuo-Jansson

Member of the Board

**Born:** 1966

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2013–, Chairman of the Human Resources Committee

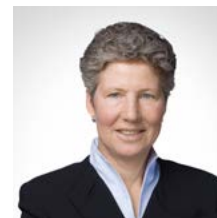
**Main occupation:** Senior Vice President, Human Resources, HSSEQ and Procurement, Neste Corporation

**Previous occupation:** Neste Oil Corporation, Vice President for Human Resources in Oil Refining 2004–2005, Laboratory and Research Manager at Technology Center 1998–2004

**Other positions of trust:** Nynas AB, Member of the Board

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

Independent of the company and its significant shareholders



### Valerie A. Mars

Member of the Board

**Born:** 1959

**Citizenship:** American

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2018–, Member of the Audit and Sustainability Committee

**Main occupation:** Senior Vice President & Head of Corporate Development of Mars, Inc.

**Previous occupation:** Mars, Inc., Masterfoods Europe, Director of Corporate Development, Masterfoods Czech and Slovak Republics, General Manager; Whitman Heffernan Rhein, Controller

**Other positions of trust:** Fiat Chrysler Automobiles N.V., Member of the Board; Rabobank North America, Member of the Advisory Board; Royal Canin, Member of the Board

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

Independent of the company and its significant shareholders



### Harri-Pekka Kaukonen

Member of the Board

**Born:** 1963

**Citizenship:** Finnish

**Assignments to the Ahlstrom-Munksjö Board:** Member of the Board 2016–, Member of the Audit and Sustainability Committee

**Main occupation:** Board professional

**Previous occupation:** Sanoma Corporation, President and CEO 2011–2015; Oy Karl Fazer Ab, various executive positions 2003–2011; McKinsey & Company, partner 1999–2003

**Other positions of trust:** YIT Oyj, Chairman of the Board; Esperi Care Holding Oy, Chairman of the Board; Lindström Oy, Chairman of the Board; Suomen Asuntoneuvoja Oy, Chairman of the Board; Suomen Vaka-palvelut II Oy (Touhula varhaiskasvatus), Chairman of the Board; TietoEVRY Corporation, Member of the Board

**Education:** D. Sc. (Tech.), M.Sc. (Eng.)

Independent of the company and its significant shareholders

# 05: Executive Management Team



## Hans Sohlström

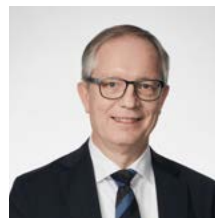
President and CEO

**Born:** 1964

**Citizenship:** Finnish

**Previous positions:** President and CEO of Ahlström Capital 2016-2018; President and CEO of Rettig Group 2012-2016; various executive and managerial positions at UPM-Kymmene 1990-2012

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



## Dan Adrianzon

Executive Vice President, Industrial Solutions

**Born:** 1960

**Citizenship:** Swedish

**Previous positions:** Executive Vice President, Health & Safety at Ahlstrom-Munksjö 2018-2019; several senior management positions in general management and in finance and control at Ahlstrom-Munksjö and prior to that in Munksjö since 1998; various positions at Saint Gobain, both in Sweden and in France, 1985-1997.

**Education:** Bachelor in Business Administration and Economics, Mechanical Engineer from Technical High School



## Sakari Ahdekivi

Deputy CEO and CFO

**Born:** 1963

**Citizenship:** Finnish

**Previous positions:** Deputy CEO and Executive Vice President Corporate Development at Ahlstrom-Munksjö 2017-2019; interim CEO and CFO at Ahlstrom 2016-2017; CFO at Ahlstrom 2014-2017; Managing Director at Tamro Finland and Baltics 2012-2013. Held also CFO positions at Tamro, YIT, and Huhtamäki as well as worked in various financial controlling positions at ABB.

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



## Daniele Borlatto

Executive Vice President, Filtration & Performance Solutions

**Born:** 1969

**Citizenship:** Italian

**Previous positions:** Executive Vice President of Industrial Solutions business area 2017-2019; President of Release Liners business area at Munksjö 2013-2017; Executive Vice President at Label and Processing business area at Ahlstrom 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



### Robyn Buss

Executive Vice President, Food Packaging & Technical Solutions

**Born:** 1968

**Citizenship:** United States of America

**Previous positions:** Executive Vice President, North America Specialty Solutions at Ahlstrom 2019; Vice President Sales & Marketing Expera Specialty Solutions 2013-2018; Vice President Sales & Marketing Thilmany Papers 2005-2013; Accounting and Sales Management at International Paper 1991-2005.

**Education:** B. A. University of Wisconsin-Madison, MBA University of Wisconsin-Oshkosh.



### Markus Westerkamp

Executive Vice President, Advanced Solutions

**Born:** 1965

**Citizenship:** German

**Previous positions:** Vice President, Food Packaging business unit at Ahlstrom-Munksjö 2019; Vice President, Supply Chain Filtration & Performance at Ahlstrom-Munksjö and Ahlstrom 2014 - 2018; Vice President, Operations Food business at Ahlstrom 2013; various several senior management positions in general management at Ahlstrom 1995-2012; various managerial positions in MD Papier 1990 - 1995.

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



### Tomas Vulkan

Executive Vice President, Decor Solutions

**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, sociology, philosophy



### 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



### Anna Bergquist

Executive Vice President, Strategy, Sustainability and Innovation

**Born:** 1980

**Citizenship:** Swedish

**Previous positions:** Vice President, Insulation business unit at Ahlstrom-Munksjö 2017-2019; Senior Vice President, Strategic Development at Munksjö 2010-2017; Engagement manager at McKinsey 2005-2010.

**Education:** M.Sc. (Industrial Economy)



### Tarja Takko

Executive Vice President, People & Safety

**Born:** 1968

**Citizenship:** Finnish

**Previous positions:** Vice President HR and BA Business HR at Ahlstrom-Munksjö 2018-2019; Global Head of HR at Qt Company 2017-2018; Vice President HRD at Ahlstrom 2010-2017; various managerial development positions at Nokia and managerial HR positions at Nokia Siemens Networks 2001-2010.

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

# 01: Financials

Our cash flow was very strong in 2019, while the market fundamentals turned out to be tougher than expected and our comparable EBITDA weakened slightly.



# The Ahlstrom-Munksjö financial year 2019

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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.

# Board of Directors' report

## HIGHLIGHTS OF 2019

- Net sales reached EUR 2,916 million (EUR 2,997 million pro forma) and comparable EBITDA of EUR 313 million (EUR 330 million pro forma). The positive impact from improved gross margin for products on comparable EBITDA was more offset by lower sales volumes.
- Very strong cash flow
- Ahlstrom-Munksjö announced it is exploring potential acquisitions, mergers and joint-ventures with decor paper suppliers in China to speed up the development of the Decor business into a stand-alone leading global operation and attract outside capital
  - Letter of intent to acquire Chinese decor papermaker Minglian New Materials Technology for EUR 60 million
- Integration of the Expera and Caieiras acquisitions proceeded well and cost synergy targets were exceeded
- Decision on a new structure for integration of the acquired businesses and strategic alignment, effective January 1, 2020
- Acquisition of filter converting capacity to grow the attractive Liquid Technologies business in Asia and North America
- Agreements to divest the fine art paper business in Arches, France and the glassfiber reinforcement business in Mikkeli, Finland

## DIVIDEND PROPOSAL

- The Board of Directors proposes that a dividend totaling EUR 0.52 per share (EUR 0.52), be paid in four installments.

## FINANCIAL PERFORMANCE 2019 *(Comparison to pro forma)*

Net sales decreased to EUR 2,916.3 million from the EUR 2,996.9 million in January-December 2018, showing a decline of 2.7%. In constant currency, net sales fell by 4.3%. Higher selling prices in all business areas except Industrial Solutions had a positive impact on net sales. Delivery volumes fell in all business areas.

Comparable EBITDA decreased to EUR 312.9 million (EUR 329.9 million), representing 10.7% of net sales (11.0%) mainly due to lower volumes. Gross margin for products (per metric ton) improved as increased selling prices more than offset higher variable costs. Fixed costs increased slightly. The implementation of the IFRS 16 standard had a positive impact of EUR 16.3 million on the EBITDA.

## Items affecting comparability (IAC) in EBITDA

EBITDA was EUR 279.4 million (EUR 290.3 million). IACs totaled EUR -33.4 million (EUR -39.6 million) and were mainly related to the integration of Expera Specialty Solutions as well as restructuring costs.

The operating result was EUR 103.2 million (EUR 129.4 million). Depreciation, amortization and impairment amounted to EUR 176.2 million (EUR 161.0 million), including depreciation and amortization arising from PPA of EUR 52.1 million (EUR 48.9 million).

Net financial items increased to EUR -51.6 million (EUR -42.5 million), including net interest expenses of EUR 47.6 million, due to higher net debt during the year.

#### **Net profit for the period**

Net profit for the period was EUR 32.8 million (EUR 63.2 million), and earnings per share were EUR 0.27 (EUR 0.54). Comparable earnings per share excluding depreciation and amortization arising from PPA were EUR 0.84 (EUR 1.15).

### **FINANCING AND CASH FLOW**

#### **Net financial items** *(comparison with actual)*

Net financial items increased to EUR -51.6 million (EUR -25.3 million) due to higher net debt. The figure includes net interest expenses of EUR 47.6 million, a currency exchange gain of EUR 2.8 million and other financial expenses of EUR 6.7 million. At the end of the reporting period, the weighted average interest rate, excluding lease liabilities and hybrid bond, was 3.4%.

#### **Net profit for the period** *(comparison with actual)*

Profit before taxes was EUR 51.6 million (EUR 63.3 million). Taxes amounted to EUR 18.8 million (EUR 20.4 million). The net profit for the period was EUR 32.8 million (EUR 42.9 million), and earnings per share were EUR 0.27 (EUR 0.43).

#### **Cash flow** *(comparison with actual)*

Net cash flow from operating activities rose to EUR 286.7 million (EUR 91.6 million) and was driven by reduction in net working capital. All net working capital items contributed to this improvement.

### **Balance sheet**

#### **Hybrid bond**

On December 13, 2019, Ahlstrom-Munksjö issued a EUR 100 million hybrid bond that is treated as equity in Group's consolidated financial statements in accordance with IFRS. As a consequence, the company's equity was increased and net debt reduced. The hybrid bond has no specific maturity date and the company may redeem it for the first time on February 13, 2024, or any interest payment day thereafter. It bears interest at a fixed rate of 3.879% per annum until February 13, 2024. The interest on the hybrid bond will be deducted from equity and is taken into account in earnings per share calculations as of Q4 2019.

#### **Net debt**

The company's net debt decreased to EUR 885.0 million at the end of the reporting period (EUR 962.5 million on December 31, 2018) due to the issue of the hybrid bond and improved cash flow. Gearing decreased to 71.8% (82.8% on December 31, 2018), mainly due to the issue of the hybrid bond.

The classification of certain balance sheet items between interest-bearing and non-interest-bearing assets and liabilities were redefined and comparative figures have been restated accordingly. The implementation of the new IFRS 16 standard, which is excluded from debt covenant calculations, increased net debt by EUR 54.2 million.

Ahlstrom-Munksjö's liquidity continues to be good. At the end of the review period, the total cash position was EUR 166.1 million (EUR 151.0 million on December 31, 2018). In addition, the company had undrawn committed credit facilities and committed cash pool overdrafts of EUR 214.0 million available.

On December 31, 2019, equity was EUR 1,232.0 million (EUR 1,162.2 million on December 31, 2018). The equity was increased by the issue of the hybrid bond. In addition, it was decreased by a EUR 60 million dividend.



## COST REDUCTION MEASURES AND SYNERGY BENEFITS

### Proceeding with measures to improve competitiveness

Ahlstrom-Munksjö is proceeding with its efforts to maintain and improve competitiveness. Identified cost saving measures are estimated to have an overall impact of at least EUR 50 million for the year 2020 compared with 2019. They comprise mainly procurement and production related savings as well as the impact from the machine closure in Stenay, France, that occurred in March 2019. The planned savings exclude the cost and business synergies related to the Expera and Caieiras acquisitions.

### Acquisitions of Expera Specialty Solutions and Caieiras specialty paper mill

Targeted cost synergies related to the Expera and Caieiras acquisitions were completed in 2019 and exceeded targets. The run rate of achieved cost synergies related to Expera was approximately EUR 12 million at year-end 2019, exceeding the initial target of EUR 8 million. The run rate of achieved cost synergies related to Caieiras was approximately EUR 10 million at year-end 2019, exceeding the initial target of EUR 6 million. Majority of the achieved synergies were related to variable costs. Costs related to achieving the synergies were combined about EUR 9 million.

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.

### DECOR EXPLORING STRATEGIC ALTERNATIVES IN CHINA

On September 17, 2019, Ahlstrom-Munksjö announced it was exploring potential acquisitions, mergers and joint-ventures with decor paper suppliers in China to speed up the development of the business into a stand-alone leading operation globally. In

addition, the company is investigating the interest of capital investment in the Decor business.

The opportunities being explored are based on strong strategic and financial rationales. Partnering with a Chinese decor paper supplier would create a global leader with a strong presence in the world's two largest markets. It would strengthen the business and its ability to serve customers as well as leverage from an industry-leading brand with premium quality and service. Outside capital would enable investments to grow and develop the business into a stand-alone operation.

On November 27, 2019, Ahlstrom-Munksjö signed a non-binding letter of intent to acquire Hebei Minglian New Materials Technology Co., Ltd. as part of this process. The company comprises a state-of-the-art greenfield decor paper plant in the city of Xingtai, Hebei Province, China. The debt-free purchase price is approximately EUR 60 million. The transaction is subject to further due diligence as well as final and binding transaction agreements. Negotiations are proceeding well and signing is expected within the first half of 2020.

### CAPITAL EXPENDITURE

Ahlstrom-Munksjö's capital expenditure excluding acquisitions totaled EUR 161.1 million in January-December 2019 (pro forma EUR 176.3 million). The investments were related to maintenance, cost and efficiency improvements, as well as growth initiatives and improved environmental performance and safety. The company did not announce any major new investment decisions during 2019.

The company is progressing with its EUR 190 million investment program including a total of 13 projects, of which four were completed in 2019; boiler and pulp line rebuild in Billingsfors, Sweden, a baling line modernization in Aspa, Sweden, a production line upgrade in Dettlingen, Germany, and a coating line upgrade in Jacarei, Brazil. Four remaining projects are expected to be completed in 2020 and 2021. A full list of completed and on-going investments is available at [www.ahlstrom-munksjo.com/Investors](http://www.ahlstrom-munksjo.com/Investors).

Capital expenditure is expected to be approximately EUR 140 million in 2020 (EUR 161 million in 2019).

## 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 nondegradable 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 2019, the company's expenditure on R&D was approximately EUR 30 million, representing 1% of net sales. The figure does not include technical product development costs carried out in close cooperation with customers.

## CHANGES IN THE GROUP EXECUTIVE MANAGEMENTTEAM (EMT)

On November 27, 2019, Anna Bergquist was appointed Executive Vice President, Strategy, Sustainability and Innovation, and a member of the Group Executive Management Team as of January 1, 2020.

On November 27, 2019, Tarja Takko was appointed Executive Vice President, People and Safety, and a member of the Group Executive Management Team as of January 1, 2020. Takko was previously acting Executive Vice President, People and Safety, and Vice President Talent and Development, Group HR.

On October 17, 2019, Markus Westerkamp, the former Vice President of the Food Packaging business, part of the Specialties business area, was appointed Executive Vice President of the Advanced Solutions business area and a member of the Group Executive Management Team as of January 1, 2020. Omar Hoek, former Executive Vice President of the Specialties business area and a member of the Group Executive Management Team, decided to leave Ahlstrom-Munksjö to pursue career opportunities outside the company.

On April 25, 2019, Robyn Buss was appointed Executive Vice President of Business Area North America Specialty Solutions as of October 1, 2019. She has succeeded Russ Wanke, who retired.

On April 25, 2019, Daniele Borlatto was appointed Executive Vice President of Business Area Filtration & Performance as of June 7, 2019. He was previously Executive Vice President of Business Area Industrial Solutions. Borlatto succeeded Fulvio Capusottti, who decided to take up new responsibilities outside Ahlstrom-Munksjö.

On April 25, 2019, Dan Adrianzon was appointed Executive Vice President of Business Area Industrial Solutions as of June 7, 2019. He was previously Executive Vice President of People and Safety.

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

## MAJOR EVENTS DURING THE REPORTING PERIOD

### Acquisition of filter converting capacity

On December 17, 2019, Ahlstrom-Munksjö announced it had acquired filter-converting operations in China and the U.S. from Shunde Lucas and Altior Industries. The transaction brings local filter converting capacity into China and a foothold for expanding sales of other products of the Liquid Technologies business.

Net sales of the acquired operations are approximately USD 7 million and comparable is EBITDA USD 2 million annually. Their product offering of hot cooking oil filters is used in quick service restaurants and food service operations, mainly in China and the U.S. The combined operations are expected to generate substantial synergy benefits. The debt-free purchase price (provisional) was EUR 9.6 million.

### Sale of glass fiber reinforcement business

On November 21, 2019, Ahlstrom-Munksjö agreed to sell its glass fiber reinforcement business in Mikkeli, Finland, to Vitrulan Composites Oy, a fully owned subsidiary of Vitrulan Group and part of the family-owned industrial holding ADCURAM Group.

The main product offering consisted of specialty glass fiber reinforcements for wind energy applications as well as for other end-uses including marine and transportation applications. The plant, which was part of the Filtration and Performance business area, employed about 100 people and had net sales of EUR 30 million. The transaction was completed on December 31, 2019.

### Non-binding memorandum of understanding to divest the fine art paper business

On October 30, Ahlstrom-Munksjö Oyj and its French subsidiary Ahlstrom-Munksjö Arches, have entered into a non-binding memorandum of understanding to divest Ahlstrom-Munksjö Arches' fine art paper business, under the ARCHES® brand, with the Italy-based F.I.L.A. Group, Fabbrica Italiana Lapis ed Affini S.p.A., a leading global player specialized in the research, design, manufacturing and sale of creative expression tools.

The standalone pro forma net sales of the fine art paper business were approximately EUR 13 million and comparable EBITDA in excess of EUR 4 million in 2019. The debt-free purchase price is approximately EUR 44 million. The signed non-binding memorandum of understanding is subject to statutory works council consultation and final and binding transaction agreements. The transaction is expected to be completed in the first quarter of 2020.

### New business and reporting structure

On April 25, 2019, Ahlstrom-Munksjö announced the implementation of a new business and reporting structure as of January 1, 2020. The new organizational structure is a natural next step following the completion and initial integration phase of the Expera Specialty Solutions acquisition.

In the new organizational structure, businesses are combined which share similar core capabilities, strategic targets and characteristics. This enables Ahlstrom-Munksjö to strengthen and further promote its capabilities in areas of product development and innovation, global key customer account management, product and production technology as well as process improvement and production optimization.

Ahlstrom-Munksjö's organizational structure and reporting segments, as of January 1, 2020, and their leaders are as follows:

- Filtration & Performance Solutions, Executive Vice President Daniele Borlatto
- Advanced Solutions, Executive Vice President Markus Westerkamp
- Industrial Solutions, Executive Vice President Dan Adrianzon
- Food Packaging & Technical Solutions, Executive Vice President Robyn Buss
- Decor Solutions, Executive Vice President Tomas Wulkan

Historical comparable financial figures for the new reporting structure will be published prior to the publication of the interim report January-March 2020 on April 23, 2020.

## BUSINESS AREAS AND STRUCTURE

In 2019, 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 January–December 2019

After a long period of destocking and lower end-use demand, demand for decor paper recovered in the fourth quarter. Due to weak demand and eroding raw material prices, price pressure and competition was intense throughout the year. The long-term underlying demand for decor products is, however, still growing healthy.

#### 2019 compared with 2018 pro forma

Net sales decreased 6.6% to EUR 422.1 million, compared with EUR 451.9 million in the comparison period. The decline was mainly due to lower sales volumes. While the average selling price for the year was stable, prices fell during the year, reflecting the decrease in key raw material costs.

Comparable EBITDA decreased to EUR 29.9 million (EUR 37.1 million), representing 7.1% (8.2%) of net sales, mainly due to lower volumes. Average selling prices were stable. The positive impact of lower variable costs were offset by increased fixed costs per ton, which was related to lower sales and production volumes.

## 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 January–December 2019

Demand for filtration products, and transportation especially, remained at a low level in Europe and the Americas, while improved in Asia. In construction-related markets, demand for plasterboard, flooring and other glass fiber tissue end-uses remained solid, while the wallcoverings market in Europe weakened.

#### 2019 compared with 2018 pro forma

Net sales decreased 1.0% to EUR 665.6 million, compared with EUR 672.5 million in the comparison period. Lower sales volumes were partially offset by higher selling prices, an improved product mix and a favorable currency effect.

Comparable EBITDA increased to EUR 123.1 million (EUR 114.7 million), representing 18.5% (17.0%) of net sales. Higher selling prices and improved operational efficiency more than offset the negative impact of lower volumes.

## 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 January–December 2019

Demand for release liners improved for some grades in the second half of the year, while the market environment remained competitive. Demand for electrotechnical insulation and interleaving papers remained stable, while demand for specialty pulp improved during the fourth quarter. The markets for abrasive backings and coated products were weak with improving signs for coated products in Brazil towards the end of the year.

**2019 compared with 2018 pro forma**

Net sales decreased by 5.5% to EUR 653.5 million, compared with EUR 691.2 million in the comparison period. The decline was mainly due to lower volumes in the paper businesses and lower selling prices for specialty pulp.

Comparable EBITDA decreased to EUR 75.4 million (EUR 99.7 million), representing 11.5% (14.4%) of net sales. Profitability was mainly impacted by lower volumes in the paper businesses and lower prices for specialty pulp as well as higher energy costs. Fixed costs decreased.

**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 release liners, tape, interleaving papers and specialty paper to wrap and package processed and quick service restaurant prepared foods.*

**Market review January–December 2019**

Demand for food processing and packaging papers was stable, while the markets for industrial and technical specialty papers remained soft. In the release liner segment, demand in commodity grades remained weak and was impacted by new capacity and intensified competition, while demand for coated products remained relatively solid.

**2019 compared with 2018 pro forma**

Net sales increased 2.5% to EUR 641.6 million, compared with EUR 626.0 million in the comparison period. The increase was driven by higher selling prices and a favorable currency effect. Deliveries were lower.

Comparable EBITDA decreased to EUR 53.3 million (EUR 57.0 million), representing 8.3% (9.1%) of net sales, mainly due to lower volumes and higher fixed costs. This was partially offset by higher selling prices.

**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 January–December 2019**

In the Food Packaging business, demand for parchment papers for food processing and packaging remained weak. Beverage markets improved and demand for fibrous meat casing materials remained strong. Demand for tape backings in Europe and North America was weaker, while it continued to be strong in Asia. In the Advanced Liquid Technologies and Medical businesses, demand remained mostly robust.

**2019 compared with 2018 pro forma**

Net sales decreased by 3.3% to EUR 561.0 million, compared with EUR 580.3 million in the comparison period, as higher selling prices were more than offset by lower deliveries.

Comparable EBITDA increased to EUR 46.3 million (EUR 37.6 million), representing 8.3% (6.5%) of net sales. Higher selling prices more than offset increased variable costs, and cost efficiency improved, partly related to the closure of the paper machine. Volumes decreased.

**SHARES AND SHARE CAPITAL**

Ahlstrom-Munksjö's shares are listed on the Nasdaq Helsinki and 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, 2019, Ahlstrom-Munksjö's share capital amounted to EUR 85.0 million, and the total number of shares since December 28, 2018 has been 115,653,315,

following a rights issue that increased the number of shares by 19,214,742 from 96,438,573.

The company had 12,853 shareholders at the end of the reporting period (12,095 as of Dec. 31, 2018) according to Euroclear Finland Ltd. Ahlstrom-Munksjö held a total of 364,862 of its own shares, corresponding to approximately 0.3% of total shares and votes.

### Share price performance and trading

	Nasdaq Helsinki		Nasdaq Stockholm	
	2019	2018	2019	2018
Share price at the end of the period, EUR/SEK	14.32	12.12	149.60	124.40
Highest share price, EUR/SEK	15.18	20.10	165.00	197.40
Lowest share price, EUR/SEK	11.90	10.68	121.40	110.00
Market capitalization at the end of the period*, EUR million	1,650.9	1,397.3	N/A	N/A
Trading value, EUR/SEK million	184.5	192.0	214.3	335.2
Trading volume, shares million	13.3	12.8	1.5	2.2
Average daily trading volume, shares	53,330	51,343	5,847	8,825

\*Excluding the shares held by Ahlstrom-Munksjö

### ANNUAL GENERAL MEETING OF SHAREHOLDERS

Ahlstrom-Munksjö Oyj's Annual General Meeting (AGM) was held on March 27, 2019. The AGM adopted the Financial Statements for 2018 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year 2018.

The AGM resolved to distribute a dividend of EUR 0.52 per share for the fiscal year that ended on December 31, 2018 in accordance with the proposal of the Board of Directors. The dividend was paid in two instalments. The first installment of EUR 0.26 per share was paid on April 5, 2019, and the second installment of EUR 0.26 per share on October 4, 2019. The full release on resolutions is available at [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com).

### PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The Board of Directors has amended the company's dividend policy. The new policy: Ahlstrom-Munksjö aims to distribute a stable, over time increasing dividend, to be paid four times per year. The previous policy: Ahlstrom-Munksjö aims to distribute a stable, over time increasing dividend, to be paid biannually.

The distributable funds on the balance sheet of Ahlstrom-Munksjö Oyj as of December 31, 2019 amounted to EUR 801,327,209.86. The Board of Directors proposes that the Annual General Meeting resolves, based on the financial statements of the company for 2019, on the dividend payment in the amount of EUR 0.52 per share.

The dividend shall be paid in four instalments. The first instalment of EUR 0.13 per share shall be paid to a shareholder who on the record date of the payment, March 27, 2020, 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 3, 2020.

The second instalment of EUR 0.13 per share shall be paid in July 2020 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. The Board of Directors shall resolve on the payment separately. The preliminary record date of the payment is July 2, 2020 and the preliminary payment date July 9, 2020.

The third instalment of EUR 0.13 per share shall be paid in October 2020 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. The Board of Directors shall resolve on the payment separately. The preliminary record date of the payment is October 2, 2020 and the preliminary payment date October 9, 2020.

The fourth instalment of EUR 0.13 per share shall be paid in January 2021 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. The Board of Directors shall resolve

on the payment separately. The preliminary record date of the payment is January 4, 2021 and the preliminary payment date January 11, 2021.

In addition, the Board of Directors proposes that EUR 150,000 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 in the risk section of the Annual report and at [www.ahlstrom-munksjo.com](http://www.ahlstrom-munksjo.com). Financial risks are described in notes 17 and 19 of the consolidated financial statements.

### Short-term risks

As Ahlstrom-Munksjö manages a broad portfolio of businesses and serves a wide range of end users globally, the company not likely to be significantly affected on a group level by individual factors. However, uncertain global economic and financial market conditions could have a materially adverse effect on the Group, its results of operations and financial condition.

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 and energy, financial risks, as well as other business factors including developments in global politics and the financial markets. The company's financial performance may be impacted by the timing of possible raw material price increases and its ability to raise selling prices. On-going trade disputes and the outcome of Brexit increases uncertainty in the global economic outlook and this may have an effect on Ahlstrom-Munksjö's markets. At this stage it is too early to assess the impact of the recent coronavirus outbreak to the company's businesses.

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 also refers to future potential acquisitions.

The company's key financial risks include interest rate and currency risks, liquidity risk and credit risk. To mitigate these risks, methods such as hedging and credit insurance are used. 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.

## NON-FINANCIAL INFORMATION STATEMENT

Ahlstrom-Munksjö produces sustainable and innovative fiber-based solutions to customers worldwide. The company's offering includes 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. Ahlstrom-Munksjö operates in 45 production and converting sites in 14 countries, serving more than 7,000 customers in 100 countries.

Ahlstrom-Munksjö employed an average of 8,078 people in January-December 2019 (6,480) in full-time equivalents. As of December 31, 2019, the highest numbers of employees were in the United States (31%), France (20%), Sweden (10%), Brazil (9%) and Germany (7%).

Net sales were EUR 2,916 million and comparable EBITDA EUR 313 million.

At the end of 2018, Ahlstrom-Munksjö completed the acquisitions of Caieiras specialty paper mill in Brazil and Expera Specialty Solutions in the U.S. Planet related data for the above mentioned sites was not included in the 2018 report. Therefore the 2019 data is not comparable to the 2018 figures.

Ahlstrom-Munksjö organization, including branches, and businesses are presented in the annual report and in note 21 in the consolidated financial statements.

**BUSINESS MODEL**

Innovation, identifying trends and developing new customer solutions are at the center of Ahlstrom-Munksjö's value creation. The added value is created by innovating and advancing the capabilities of fiber-based materials, providing the customers with solutions that make their businesses more efficient and sustainable. A well-designed and executed strategy, as well as a strong and supportive corporate culture promoting knowledge and continuous learning are prerequisites for the company's success.

By collecting and building on continuous and in-depth customer insight, the products can be tailored to individual customer needs and sustainability interests. By sourcing the right quality and mix of raw materials, the production processes can be run efficiently with specialized equipment and deep technical know-how, while providing the customers with tailored services and pre-sales, sales, and after-sales support.

**AHLSTROM-MUNKSJÖ'S SUSTAINABILITY AREAS AND MATERIAL TOPICS**

The company has identified nine material topics within its materiality areas People, Planet, Prosperity.

**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. The non-financial information will include all of these except for the themes of profitability and innovation that will be discussed in other sections of the annual report.

**SUSTAINABILITY POLICY AND MANAGEMENT APPROACH**

The Ahlstrom-Munksjö sustainability policy defines the formal sustainability governance structure. 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. To improve sustainability governance, in 2019 the scope of the Audit Committee was expanded to include sustainability topics and was consequently renamed the Audit and Sustainability Committee.

**NON-FINANCIAL MATTERS AS REQUIRED BY THE FINNISH ACCOUNTING ACT**

The Board of Directors has evaluated the following non-financial matters: environmental, social and employee, respecting human rights as well as anti-corruption and bribery, as required by the Finnish Accounting Act and set forth in EU Directive 2014/95/EU.

**1. THE ENVIRONMENT**

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 in energy and water use and waste reduction and disposal, and carbon dioxide emissions reductions.

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.

### Supply chain

Ahlstrom-Munksjö expects its suppliers to uphold high standards for ethical and socially and environmentally responsible business practices. By supporting partners who adhere to overall responsible practices, Ahlstrom-Munksjö can avoid the risk of negative impacts on operation and reputation and contribute to sustainable development across the value chain. Sound procurement practices also mitigate business risks for the company, customers, and 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 creates accountability by evaluating Supplier Code of Conduct risks and following up with mitigation actions as needed.

The supplier risk management procedure is in place to support the organization to identify potential risk factors in the supply chain. The procedure consists of an evaluation per supplier and creation of a risk mitigation action plan according to risk severity. The risk evaluation is assessed semi-annually by the category managers/buyers and the risk mitigation action plan is reviewed quarterly by procurement function. Supplier audits are conducted by qualified Ahlstrom-Munksjö personnel (ie. procurement or quality professionals) or by accredited 3rd party auditors.

### Performance indicators

The target is that all fiber and chemical suppliers are signatories or considered compliant by end of 2020. At the end of 2019, 95 percent (96) of fiber suppliers and 93 percent (89) of chemical suppliers had signed the Supplier Code of Conduct or were considered compliant.

During the year, progress has been made in committing the energy and indirect suppliers to the Supplier Code of Conduct. In 2019, 26 percent of the energy suppliers and 23 percent of the indirect suppliers had signed the Supplier Code of Conduct.

By year end 2019, 19 percent of all fiber and chemical suppliers have been evaluated by supplier risk assessment and a supplier specific action plan has been put in place.

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 employees can report violations confidentially through a hotline or online. Reports of violations may also be made by third parties to a dedicated and confidential mailbox at [codeviolation@ahlstrom-munksjo.com](mailto:codeviolation@ahlstrom-munksjo.com).

### Energy, water and waste

Ahlstrom-Munksjö's production generates emissions to air and water, waste to landfills and noise. The risk of failing to comply with environmental regulation and permits, or failing to continuously improve our production processes and our products could lead to a material adverse effect on the company as well as reducing environmental quality. Plant managers and their teams lead these efforts. Ahlstrom-Munksjö also continues to strengthen internal networks and training opportunities to share best practices in resource management specific to the company's operations.

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.

### Performance indicators

Compared to the previous year, the company has increased in size through the acquisitions of Caieiras specialty paper mill in Brazil and Expera Specialty Solutions in

the U.S., that were completed in October 2018. The acquired businesses are more resource intensive, making the performance indicators between the years incomparable. Also, the data collection on the key performance indicators for the environmental items has been expanded during 2019 to include all plants and the standardization between the units is still in working progress.

Many plants 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 78 percent of the sites. 15 plants, representing now 17 percent (60 percent) of our total energy use are ISO 50001 certified in energy management. 21 plants are already certified after the ISO45001:2018 Safety Management System, and 11 plants according to the old standard OHSAS18001:2007. The remaining 12 sites plan either to transit or obtain the ISO45001:2018 Safety Management System by end of 2021. Ahlstrom-Munksjö also uses the European Union EMAS certification.

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 2019, the total energy use in GJ per gross ton production was 34,2, compared to 8.7 in 2018. Water use in cubic meters per gross ton production was 73, compared to 41.4 in 2018. In 2019, 98 507 tons of non-recoverable waste were sent to landfills, compared to 12,321 tons in 2018. The increases are due to recent acquisitions.

### Carbon dioxide

Ahlstrom-Munksjö has acknowledged its responsibility towards the Sustainable Development Goal #13 Climate Action by decreasing specific carbon dioxide emissions and increasing the company's share of renewable and carbon free energy. This commitment 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.

### Performance indicators

As for energy water and waste, carbon dioxide performance indicators in 2019 are also affected by the acquisitions in 2018, making them incomparable. The target for Scope 1 emissions is an annual reduction of 2 percent while the target for Scope 2 emissions is an annual reduction. In 2019, the Scope 1 emissions were 1.3 tons carbon dioxide per gross ton production, compared to 0.402 tons in 2018. Scope 2 carbon dioxide emissions data collection for 2019 could not be fully achieved and remains in progress.

Ahlstrom-Munksjö will continue its efforts to reduce carbon dioxide emissions through improved energy efficiencies and its sourcing activities. 16 plants are part of the EU CO2 European Trading Scheme. Plant managers and their teams will lead the efforts to work on energy efficiency and emission reduction in coordination with Procurement and with support from the Energy Network. To monitor our progress, emissions data for each of production site will be aggregated on a quarterly basis through the cloud-based data collection system.

## 2. SOCIAL AND PERSONNEL-RELATED ISSUES

People are central to every aspect of sustainability at Ahlstrom-Munksjö. The company aims 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.

Ahlstrom-Munksjö believes in creating safe and inclusive work environments where employees are given fair treatment and equal opportunity. Ahlstrom-Munksjö is committed to being 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.

## 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. Currently, local community relationships are cultivated by plant managers and their teams at 45 locations worldwide. 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. 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.

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. These activities are supported and followed up on by Group HR, who reports Community Engagement Activities annually.

### Performance indicators

By the end of 2019, 58 percent of sites had an updated community engagement plan. The target is that by end of 2020 all plants have an annually updated community engagement plan.

## Employee well-being

Ahlstrom-Munksjö focuses on three dimensions of the Employee Well-Being topic: Health & Safety, Employee Development, as well as and Gender Equality and Diversity.

### Health & Safety

Safety is our mindset throughout operations at Ahlstrom-Munksjö. The company works towards a zero-injury workplace and a healthy, productive team 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 can reduce the risks of injuries or diseases that can lead to delays, quality issues and liability.

This work is determined by the Occupational Health and Safety Policy, safety standards and guidelines, safety rules, lifesaving rules, and that safety management systems required to be certified by an external partner.

As highlighted in the company's Occupational Health and Safety Policy, focus lies on conducting the ten preventative activities, with main focus on reporting upon hazards and near misses, 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.

**Performance indicators**

To measure our progress in this area, Ahlstrom-Munksjö tracks three priority metrics: total recordable incidents rate (TRI<sup>1</sup>), near miss rate, and hours of tailored safety training.

The main lagging indicator is the Total Recordable Incident (TRIR) where a baseline of 2.2 was established in 2017. In 2019 the TRIR decreased by 6 percent to 1.66.

The annual near miss rate had a 2019 target of 4.0, much higher than the baseline target of 2.37 set in 2017. In 2019, the company achieved a near miss rate of 4.9, up from 3.65 in 2018, meaning that risks are being reported and responded upon swiftly. In Ahlstrom-Munksjö we believe that collecting near-miss reports helps create a culture that seeks to identify and control hazards, which over time will reduce risks and the potential for harm. This KPI means that each employee has on average submitted a minimum of nearly five near misses in 2019.

The number of hours of tailored safety training per employee each year reached 20 in 2019, up from 15 in 2018. The target was 15. 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 six percent in all recordable accidents in 2019, comes as a direct result of these efforts.

There were less severe accidents in 2019, as we had a 2.5 percent improvement year-on-year. We could however see an increase in lost days from 1,898 to 2,028, or severity rate up from 0.12 to 0.13. From this we interpret less severe accidents, but the accidents we have had, have been more severe, as the absolute value of absence days increased. We will therefore continue focusing on reducing the severe accidents in 2020, with different measures, as a result of this.

<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 by for example providing on-the-job training as well as development programs within leadership and other strategic competence areas. Continuous learning and growing are essential components of a vibrant company and can contribute to achieving growth and greater business, social and environmental results throughout the company. By investing into our team we can continue to remain an attractive employer.

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.

**Performance indicators**

All employees should have an annual performance and development discussion with their manager so that they are empowered in their roles and have opportunities for further development. In 2019, 70% of employees had an annual performance and development discussion. An Employee Engagement Index and Leadership Index based on surveys was planned to 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, targets for further improvements will be set. A culture pulse survey was conducted to progress on this agenda.

**Gender Equality and Diversity**

In addition to preventing discrimination in accordance with our Human Rights activities, Ahlstrom-Munksjö is working to proactively ensure equal opportunities and drawing on

talent across the population. Drawing on talent from across all groups of population enriches our company and enhances our products and solutions. By working with equality, the legal risks as well as reputational risks can be mitigated.

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.

#### **Performance indicators**

To track progress in this area, our HR team will measure the percentage of male and female managers at the company. A HR data management system was implemented in 2018 to establish baselines and track progress.

In 2019, work begun to establish short- and long-term gender and diversity targets, as well as designing action plans ensuring equal opportunities. In 2019, the base line for the gender ratio was 18 percent female employees of total workforce. The target is to have a gender representation in managerial roles that is at least proportional to the ratio of the total workforce. The share of female managers in 2019 was 21 percent of all managerial positions compared to the gender ratio of 18 percent of total workforce.

### **3. RESPECT FOR HUMAN RIGHTS**

Ahlstrom-Munksjö is highly committed to respecting fundamental human rights in all its activities and expects the same from suppliers. Human rights violations in the supply chain is considered a larger risk than in Ahlstrom-Munksjö's own operations.

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.

Mitigating risks of violations in human rights along the supply chain such as poor employment and working conditions can also counteract negative impacts to sustainable development at large and minimize reputational risks.

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 labor and forced labor 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.

#### **Performance indicators**

To comply with Human Rights issues we have the same targets as for Supply Chain and Business Ethics.

At the end of 2019, 93 percent of chemical suppliers, 95 percent of fiber suppliers, 26 percent of the energy suppliers and 23 percent of the indirect suppliers had signed the Supplier Code of Conduct or considered compliant. By end of 2019 19 percent of all fiber and chemical suppliers have been evaluated by supplier risk assessment and an action plan is in place per supplier. To date 91 percent of all employees of the Ahlstrom-Munksjö Group have completed the Code of Conduct training program.

Ahlstrom-Munksjö has an external service where employees can report violations confidentially. Reports of violations may also be made by third parties to a dedicated

and confidential mailbox at [codeviolation@ahlstrom-munksjo.com](mailto:codeviolation@ahlstrom-munksjo.com). Our management approach is to focus on full legal compliance and investigate and resolve any reports of potential violations in a thorough and timely manner.

#### 4. PREVENTION OF CORRUPTION AND BRIBERY

##### Business ethics

Ahlstrom-Munksjö is committed to conducting its business ethically and responsibly in local and global communities. There is a zero-tolerance towards bribery and corrupt business practices as specified in the company's Code of Conduct and Anti-Bribery Policy and the company strives to conduct operations in a manner that meets the highest ethical and 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. To foster this the company has a compliance program in place which is led by the company's Chief Compliance Officer. During 2019 steps were taken to further develop and reinforce the compliance program along with related processes and organization to increase focus on compliance matters. These include among others an enhanced group-wide anti-bribery risk assessment process which was developed and launched in 2019 to better understand and address the company's corruption risk exposure. 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.

##### Performance indicators

Ahlstrom-Munksjö's Code of Conduct and Anti-Bribery Policy detail 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 policies are communicated throughout the organization and training is provided to employees both face-to-face as well as via online in accordance with a yearly training plan. To date 91 percent of all employees of the Ahlstrom-Munksjö Group have completed the Code of Conduct training program.

##### OUTLOOK FOR 2020

Ahlstrom-Munksjö's comparable EBITDA reached EUR 313 million in 2019. The decline in volumes, which had a negative impact on the result in 2019, levelled off towards the end of the year. In the beginning of 2020, there are some early signs of improvement in demand. Raw material and energy prices had a negative impact for the full year 2019, while they started to have a positive impact in the second half. The ratio between average selling price and variable costs was at a good level at the start of 2020. Ahlstrom-Munksjö will continue its efforts to improve performance and competitiveness. Identified cost savings, mainly related to variable costs, are estimated to have an overall impact of at least EUR 50 million for 2020. Ahlstrom-Munksjö's comparable EBITDA in 2020 is expected to be higher than 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 2019.

##### 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 analysts, investors and other parties and provide additional information to analyze our performance and capital structure.

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 2019-2017

EUR million, or as indicated	2019	2018	2017	pro forma 2018	pro forma 2017
<b>Performance indicators</b>					
Net sales	2,916.3	2,438.0	1,959.9	2,996.9	2,961.5
Operating result	103.2	88.7	103.5	129.4	106.4
Operating result margin, %	3.5	3.6	5.3	4.3	3.6
EBITDA	279.4	222.6	210.1	290.3	272.2
EBITDA margin, %	9.6	9.1	10.7	9.7	9.2
Comparable EBITDA	312.9	277.7	248.2	329.9	366.3
Comparable EBITDA margin, %	10.7	11.4	12.7	11.0	12.4
Items affecting comparability in EBITDA	-33.4	-55.1	-38.1	-39.6	-94.0
Comparable operating result	139.0	151.4	141.7	176.6	200.4
Comparable operating result margin, %	4.8	6.2	7.2	5.9	6.8
Items affecting comparability in operating result	-35.8	-62.7	-38.1	-47.3	-94.0
Comparable operating result excluding depreciation and amortization arising from PPA	191.1	186.1	166.1	225.5	251.7
Net profit	32.8	42.9	66.5	63.2	41.9
Earnings per share (basic), EUR	0.27	0.43	0.78	0.54	0.36
Earnings per share (diluted), EUR	0.27	0.43	0.78	0.54	0.36
Comparable net profit	59.3	89.7	93.3	97.2	115.9
Comparable earnings per share, EUR	0.50	0.91	1.09	0.83	1.00
Comparable net profit excluding depreciation and amortization arising from PPA	98.0	115.6	110.3	133.4	152.6
Comparable earnings per share excluding depreciation and amortization arising from PPA, EUR	0.84	1.18	1.29	1.15	1.32
Cash generated from operating activities	286.7	91.6	186.5	n/a	n/a
Operating cash flow per share	2.49	0.95	2.20	n/a	n/a
Capital expenditure	161.1	160.1	84.6	176.3	124.7
Payment for acquisition of businesses and subsidiaries, net of cash acquired	10.8	608.0	-	n/a	n/a
Average number of employees, FTE	8,078	6,480	5,109	8,204	8,196

EUR million, or as indicated	2019	2018	2017
<b>Capital structure</b>			
Capital employed average for 12 months <sup>1</sup>	2,363.3	1,814.5	1,433.5
Total equity	1,232.0	1,162.2	1,038.0
Net debt <sup>1</sup>	885.0	962.5	370.7
Gearing ratio, % <sup>1</sup>	71.8	82.8	35.7
Comparable return on capital employed, rolling 12 months, % <sup>1</sup>	5.9	8.3	9.9
Equity/assets ratio, %	38.5	35.9	43.3
Net debt/Comparable EBITDA <sup>1</sup>	2.8	3.5	1.5

<sup>1</sup> During the year 2019 classification of certain balance sheet items between interest-bearing and non-interest-bearing assets and liabilities were redefined. The change in presentation led into changes in calculation of some non-IFRS based key figures. All comparative periods have been restated accordingly.

## Reconciliation of certain key performance measures

EUR million	2019	2018	2017	pro forma 2018	pro forma 2017
<b>Items affecting comparability</b>					
Transaction costs	-2.7	-10.9	-5.8	-1.3	-59.2
Integration costs	-11.7	-20.4	-17.2	-22.0	-17.2
Inventory fair valuation	-	-7.5	-11.1	-	-18.6
Restructuring costs	-15.4	-15.9	-1.0	-15.9	-2.9
Environmental provision	-	-0.2	-1.5	-0.2	-1.5
Gain/Loss on business disposal	-1.6	-	0.7	-	6.4
Other	-2.1	-0.1	-2.3	-0.1	-1.1
<b>Total items affecting comparability in EBITDA</b>	<b>-33.4</b>	<b>-55.1</b>	<b>-38.1</b>	<b>-39.6</b>	<b>-94.0</b>
Impairment loss	-2.4	-7.7	-	-7.7	-
<b>Total items affecting comparability in operating result</b>	<b>-35.8</b>	<b>-62.7</b>	<b>-38.1</b>	<b>-47.3</b>	<b>-94.0</b>
<b>Comparable EBITDA</b>					
Operating result	103.2	88.7	103.5	129.4	106.4
Depreciation, amortization and impairment	176.2	133.9	106.6	161.0	165.9
<b>EBITDA</b>	<b>279.4</b>	<b>222.6</b>	<b>210.1</b>	<b>290.3</b>	<b>272.2</b>
Total items affecting comparability in EBITDA	33.4	55.1	38.1	39.6	94.0
<b>Comparable EBITDA</b>	<b>312.9</b>	<b>277.7</b>	<b>248.2</b>	<b>329.9</b>	<b>366.3</b>
<b>Comparable operating result excl. depreciation and amortization arising from PPA</b>					
Operating result	103.2	88.7	103.5	129.4	106.4
Total items affecting comparability in operating result	35.8	62.7	38.1	47.3	94.0
<b>Comparable operating result</b>	<b>139.0</b>	<b>151.4</b>	<b>141.7</b>	<b>176.6</b>	<b>200.4</b>
Depreciation and amortization arising from PPA <sup>1</sup>	52.1	34.7	24.4	48.9	51.3
<b>Comparable operating result excl. depreciation and amortization arising from PPA</b>	<b>191.1</b>	<b>186.1</b>	<b>166.1</b>	<b>225.5</b>	<b>251.7</b>
<b>Comparable net profit excl. depreciation and amortization arising from PPA</b>					
Net profit	32.8	42.9	66.5	63.2	41.9
Total items affecting comparability in operating result	35.8	62.7	38.1	47.3	94.0
Taxes relating to items affecting comparability in operating result	-9.3	-15.9	-11.4	-13.3	-20.0
<b>Comparable net profit</b>	<b>59.3</b>	<b>89.7</b>	<b>93.3</b>	<b>97.2</b>	<b>115.9</b>
Depreciation and amortization arising from PPA <sup>1</sup>	52.1	34.7	24.4	48.9	51.3
Taxes relating to depreciation and amortization arising from PPA	-13.4	-8.9	-7.3	-12.6	-14.6
<b>Comparable net profit excl. depreciation and amortization arising from PPA</b>	<b>98.0</b>	<b>115.6</b>	<b>110.3</b>	<b>133.4</b>	<b>152.6</b>

EUR million	2019	2018	2017	pro forma 2018	pro forma 2017
<b>Comparable earnings per share, EUR</b>					
Comparable net profit	59.3	89.7	93.3	97.2	115.9
Profit attributable to non-controlling interest	-1.2	-1.4	-0.6	-1.4	-0.7
Comparable net profit attributable to parent company shareholders	58.2	88.4	92.7	95.8	115.2
Interest on hybrid bond for the period after taxes	-0.2	-	-	-	-
Weighted average number of outstanding shares	115,288,453	96,758,002	84,941,326	115,288,453	115,344,915
<b>Comparable earnings per share, EUR</b>	<b>0.50</b>	<b>0.91</b>	<b>1.09</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	98.0	115.6	110.3	133.4	152.6
Profit attributable to non-controlling interest	-1.2	-1.4	-0.6	-1.4	-0.7
Comparable net profit excl. depreciation and amortization arising from PPA attributable to parent company shareholders	96.8	114.2	109.8	132.1	151.9
Interest on hybrid bond for the period after taxes	-0.2	-	-	-	-
Weighted average number of outstanding shares	115,288,453	96,758,002	84,941,326	115,288,453	115,344,915
<b>Comparable earnings per share excl. depreciation and amortization arising from PPA, EUR</b>	<b>0.84</b>	<b>1.18</b>	<b>1.29</b>	<b>1.15</b>	<b>1.32</b>
<b>Comparable return on capital employed, rolling 12 months<sup>2</sup>, %</b>					
Comparable operating result for the last 12 months	139.0	151.4	141.7	n/a	n/a
Capital employed, average for the last 12 months	2,363.3	1,814.5	1,433.5	n/a	n/a
<b>Comparable return on capital employed, rolling 12 months, %</b>	<b>5.9</b>	<b>8.3</b>	<b>9.9</b>	<b>n/a</b>	<b>n/a</b>
<b>Net debt<sup>2</sup></b>					
Cash and cash equivalents	166.1	151.0	245.9	n/a	n/a
Non-current borrowings	899.0	1,020.4	539.3	n/a	n/a
Non-current lease liability	44.2	3.1	3.0	n/a	n/a
Current borrowings	94.8	132.7	72.1	n/a	n/a
Current lease liability	13.1	1.1	2.2	n/a	n/a
Securitization liability	-	-43.7	-	n/a	n/a
<b>Net debt</b>	<b>885.0</b>	<b>962.5</b>	<b>370.7</b>	<b>n/a</b>	<b>n/a</b>

<sup>1</sup> 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.

<sup>2</sup> During the year 2019 classification of certain balance sheet items between interest-bearing and non-interest-bearing assets and liabilities were redefined.



## 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</b>	Operating result excluding items affecting comparability in operating result and depreciation and amortization arising from PPA	
<b>Comparable net profit</b>	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 earnings per share, EUR</b>	Net profit excluding items affecting comparability in operating result, 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 net profit excluding depreciation and amortization arising from PPA</b>	Comparable net profit - net profit attributable to non-controlling interests - Interest on hybrid bond for the period after taxes/ weighted average number of shares outstanding	
<b>Comparable earnings per share excluding depreciation and amortization arising from PPA</b>	Net profit excluding items affecting comparability in operating result, net of tax, and depreciation and amortization arising from PPA net of tax	
<b>Items affecting comparability in operating result</b>	Comparable net profit excluding depreciation and amortization arising from PPA - net profit attributable to non-controlling interests - Interest on hybrid bond for the period after taxes/ weighted average number of shares outstanding	
<b>Items affecting comparability in EBITDA</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>Net debt</b>	Items affecting comparability in operating result excluding impairment losses.	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 and non-current and current lease liability less securitization liability less cash and cash equivalents	
<b>Capital employed average for 12 months<sup>1</sup></b>	Non-current and current borrowings and non-current and current lease liability less securitization liability	
<b>Comparable return on capital employed, rolling 12 months, %</b>	Total equity and total debt (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>	Comparable operating result (for the last 12 months) / capital employed (average of the last 12 months)	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>	Net debt / total equity	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</b>	Total equity / total assets	Net debt to EBITDA is a useful measure for management to monitor the level of Ahlstrom-Munksjö's indebtedness.
<b>Capital expenditure</b>	Net debt / comparable EBITDA	Capital expenditure provides additional information of the cash flow needs of the operations.
<b>Operating cash flow per share, EUR</b>	Purchases for property, plant and equipment and intangible assets as presented in the cash flow statement.	
	Operating cash flow / weighted average number of shares outstanding	

<sup>1</sup> Calculated with December 2018 closing balance sheet without IFRS 16 impact.

## Share related indicators for 2019–2017

	2019	2018	2017
Earnings per share (basic), EUR	0.27	0.43	0.78
Earnings per share (diluted), EUR	0.27	0.43	0.78
Equity per share, EUR	10.6	10.0	10.7
Dividend per share, EUR <sup>1</sup>	0.52	0.52	0.52
Dividend per earnings, %	189.3	120.9	66.7
Effective dividend yield, %	3.6	4.3	2.9
Price/earnings ratio, %	52.1	28.2	23.3
<b>Share price development</b>			
Lowest quotation, EUR	11.90	10.68	13.75
Highest quotation, EUR	15.18	20.10	20.49
Average quotation for the period, EUR	13.84	14.96	17.58
Closing share price at the reporting date, EUR	14.32	12.12	18.17
Market capitalization, EUR million	1,650.9	1,397.3	1,745.7
Shares traded (1,000 shares)	13,332	12,836	15,002
Shares traded, % of all shares	11.6	13.3	17.7
Weighted average number of outstanding shares during the period (1,000 shares)	115,288	96,758	84,941
Number of shares at the end of the period (1,000 shares)	115,653	115,653	96,439
of which treasury shares	365	365	365

<sup>1</sup> in year 2019 Board's proposal, subject to shareholder approval

Share related indicator	Definition
<b>Earnings per share (EPS), basic, EUR</b>	Net profit for the period attributable to parent company's shareholders - Interest on hybrid bond for the period after taxes / weighted average number of outstanding shares during the period
<b>Earnings per share (EPS), diluted, EUR</b>	Net profit for the period attributable to parent company's shareholders - Interest on hybrid bond for the period after taxes / weighted average number of outstanding shares during the period and dilution effect from share based incentive plans
<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
<b>Shares traded, % of all share</b>	Shares traded/weighted average number of outstanding shares during the period

# Consolidated financial statements, IFRS

## Income statement

EUR million	NOTE	2019	2018	Additional unaudited pro forma information pro forma 2018
Net sales	4, 5	2,916.3	2,438.0	2,996.9
Other operating income	5	12.1	9.6	10.9
<b>Total operating income</b>		<b>2,928.5</b>	<b>2,447.7</b>	<b>3,007.8</b>
<b>Operating costs</b>				
Changes in inventories of finished goods and work in progress		-30.3	25.0	24.7
Materials and supplies		-1,517.8	-1,208.2	-1,445.7
Other operating expenses	6	-718.1	-589.5	-715.3
Employee benefit expenses	7	-583.1	-452.4	-581.2
Depreciation, amortization and impairment	8	-176.2	-133.9	-161.0
<b>Total operating costs</b>		<b>-2,825.5</b>	<b>-2,359.0</b>	<b>-2,878.5</b>
Share of profit in equity accounted investments	21	0.2	0.0	0.0
<b>Operating result</b>		<b>103.2</b>	<b>88.7</b>	<b>129.4</b>
Financial income	9	6.6	8.9	9.4
Financial expenses	9	-58.2	-34.3	-51.9
<b>Net financial items</b>		<b>-51.6</b>	<b>-25.3</b>	<b>-42.5</b>
<b>Profit before tax</b>		<b>51.6</b>	<b>63.3</b>	<b>86.9</b>
Income taxes	10	-18.8	-20.4	-23.6
<b>Net profit</b>		<b>32.8</b>	<b>42.9</b>	<b>63.2</b>

## Statement of comprehensive income

EUR million	NOTE	2019	2018	Additional unaudited pro forma information pro forma 2018
<b>Net profit</b>		<b>32.8</b>	<b>42.9</b>	
<b>Other comprehensive income</b>				
<b>Items that may be reclassified to profit or loss</b>				
Exchange differences on translation of foreign operations	19	8.2	-13.5	
Hedges of net investments in foreign operations		-	-0.0	
Change in cash flow hedge reserve	19	-2.2	0.3	
Cash flow hedge transferred to this year's result	19	3.2	0.4	
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial gains and losses on defined benefit plans	15	-8.3	0.6	
<b>Tax attributable to other comprehensive income</b>		<b>1.1</b>	<b>-1.1</b>	
<b>Comprehensive income</b>		<b>34.9</b>	<b>29.8</b>	
<b>Net profit attributable to:</b>				
Parent company's shareholders		31.7	41.6	
Non-controlling interests		1.2	1.4	
<b>Comprehensive income attributable to:</b>				
Parent company's shareholders		33.7	28.4	
Non-controlling interests		1.2	1.3	
<b>Earnings per share</b>				
Weighted average number of outstanding shares		115,288,453	96,758,002	115,288,453
Basic earnings per share, EUR	11	0.27	0.43	0.54
Diluted earnings per share, EUR	11	0.27	0.43	0.54

## Balance Sheet

EUR million	NOTE	Dec 31, 2019	Dec 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,131.5	1,117.2
Right-of-use assets	12	57.0	-
Goodwill	12	642.7	630.6
Other intangible assets	12	499.1	505.1
Equity accounted investments	21	1.4	1.1
Other non-current assets	19	19.3	15.4
Deferred tax assets	10	9.9	7.5
<b>Total non-current assets</b>		<b>2,360.8</b>	<b>2,276.9</b>
<b>Current assets</b>			
Inventories	13	387.6	429.6
Trade and other receivables	14	278.9	374.0
Income tax receivables	10	7.7	3.3
Cash and cash equivalents	17	166.1	151.0
<b>Total current assets</b>		<b>840.4</b>	<b>957.9</b>
<b>TOTAL ASSETS</b>		<b>3,201.2</b>	<b>3,234.9</b>

EUR million	NOTE	Dec 31, 2019	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	661.8
Other reserves and treasury shares	18	311.1	302.0
Retained earnings	18	63.4	103.5
<b>Total equity attributable to parent company's shareholders</b>		<b>1,121.2</b>	<b>1,152.3</b>
Non-controlling interests		10.8	9.9
Hybrid bond	18	100.0	-
<b>Total equity</b>		<b>1,232.0</b>	<b>1,162.2</b>
<b>Non-current liabilities</b>			
Non-current borrowings	17	899.0	1,020.4
Non-current lease liability	17	44.2	3.1
Other non-current liabilities		1.4	1.7
Employee benefit obligations	15	97.2	92.7
Deferred tax liabilities	10	147.5	150.6
Non-current provisions	16	24.3	25.9
<b>Total non-current liabilities</b>		<b>1,213.5</b>	<b>1,294.3</b>
<b>Current liabilities</b>			
Current borrowings	17	94.8	132.7
Current lease liability	17	13.1	1.1
Trade and other payables	14	621.7	624.1
Income tax liabilities	10	13.2	8.1
Current provisions	16	12.8	12.3
<b>Total current liabilities</b>		<b>755.6</b>	<b>778.4</b>
<b>Total liabilities</b>		<b>1,969.2</b>	<b>2,072.6</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,201.2</b>	<b>3,234.9</b>

## Statement of changes in equity

Equity attributable to parent company's shareholders

EUR million	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	Hybrid bond	TOTAL EQUITY
<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>-</b>	<b>1,036.5</b>
Net profit	-	-	-	-	-	-	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>-</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>-</b>	<b>1,162.2</b>
Restatement due to IFRIC 23 (note 2, 10)	-	-	-	-	-	-	-2.6	-2.6	-	-	-2.6
<b>BALANCE AT JANUARY 1, 2019</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>100.9</b>	<b>1,149.7</b>	<b>9.9</b>	<b>-</b>	<b>1,159.6</b>
Net profit	-	-	-	-	-	-	31.7	31.7	1.2	-	32.8
Other comprehensive income before tax	-	-	-	-	8.1	1.0	-8.3	0.9	0.0	-	0.9
Tax on other comprehensive income	-	-	-	-	-	-0.2	1.4	1.1	-	-	1.1
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8.1</b>	<b>0.8</b>	<b>24.7</b>	<b>33.7</b>	<b>1.2</b>	<b>-</b>	<b>34.9</b>
Dividends and other	-	-	-	-	-	-	-60.1	-60.1	-0.3	-	-60.4
Transaction costs on rights issue	-	0.0	-	-	-	-	-	0.0	-	-	0.0
Hybrid bond	-	-	-	-	-	-	-0.6	-0.6	-	100.0	99.4
Long term incentive plans	-	-	-	-	-	-	-1.6	-1.6	-	-	-1.6
<b>BALANCE AT DECEMBER 31, 2019</b>	<b>85.0</b>	<b>661.8</b>	<b>384.9</b>	<b>-6.3</b>	<b>-68.5</b>	<b>1.0</b>	<b>63.4</b>	<b>1,121.2</b>	<b>10.8</b>	<b>100.0</b>	<b>1,232.0</b>

## Cash flow statement

EUR million	NOTE	2019	2018
<b>Cash flow from operating activities</b>			
<b>Net profit</b>		<b>32.8</b>	<b>42.9</b>
Adjustments:			
Non-cash transactions and transfers to cash flow from other activities			
Depreciation, amortization and impairment	8	176.2	133.9
Gains and losses on sale of non-current assets		1.3	-0.1
Change in employee benefit obligations	15	-7.2	-4.9
Non-cash transactions and transfers to cash flow from other activities, total		170.4	129.0
Interest and other financial income and expense		51.3	25.3
Taxes	10	18.8	20.4
Changes in net working capital:			
Change in trade and other receivables	14	47.3	-46.6
Change in inventories	13	40.4	-43.1
Change in trade and other payables	14	5.8	5.2
Change in provisions		-2.3	2.5
Interest received		1.2	2.4
Interest paid		-46.1	-19.8
Other financial items		-4.8	-5.6
Income taxes paid	10	-28.0	-21.0
<b>Net cash from operating activities</b>		<b>286.7</b>	<b>91.6</b>

EUR million	NOTE	2019	2018
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment and intangible assets	12	-161.1	-160.1
Payment for acquisition of businesses and subsidiaries, net of cash acquired	3	-10.8	-608.0
Proceeds from disposal of shares in Group companies and businesses and associated companies		1.4	-
Change in other investments		-0.8	-0.7
Proceeds from disposal of intangible assets and property, plant and equipment		0.8	0.6
<b>Net cash from investing activities</b>		<b>-170.4</b>	<b>-768.3</b>
<b>Cash flow from financing activities</b>			
Rights issue		-5.7	148.5
Hybrid bond	18	99.3	-
Change in non-current borrowings	17	-124.8	470.7
Change in current borrowings	17	4.4	18.7
Lease liabilities		-15.2	-1.8
Dividends and other		-60.4	-50.3
<b>Net cash from financing activities</b>		<b>-102.4</b>	<b>585.9</b>
<b>Net change in cash and cash equivalents</b>		<b>13.9</b>	<b>-90.9</b>
Cash and cash equivalents at the beginning of the period		151.0	245.9
Foreign exchange effect on cash		1.2	-4.0
<b>Cash and cash equivalents at the end of the period</b>		<b>166.1</b>	<b>151.0</b>

Implementation of the IFRS 16 standard in 2019 has an effect on the presentation of cash flow statement. Paid lease expenses were moved from net cash from operating activities to net cash from financing activities, and are presented as change in lease liabilities. The comparison period consists of finance lease liabilities (IAS 17).

## 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.

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

## Cont. note 2

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.

#### Classification of certain balance sheet items

Classification of certain balance sheet items between interest-bearing and non-interest-bearing assets and liabilities were redefined. The change in presentation led into changes in calculation of some non-IFRS based key figures. All comparative periods have been restated accordingly. The restatement as of December 31, 2018 between current borrowings and trade and other payables amounted to EUR 8.8 million.

#### 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, 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Plan amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRSs (2015-2017 cycle)

The group has changed its accounting policies following the adoption of IFRS 16 and IFRIC 23.

#### IFRS 16 Leases

The new standard, IFRS 16 Leases was effective on January 1, 2019. The new standard resulted in the recognition of the majority of Ahlstrom-Munksjö's leases on the balance sheet and therefore Ahlstrom-Munksjö's assets and liabilities have increased. Ahlstrom-Munksjö has adopted the new standard using a simplified approach and thus comparative figures are not restated.

See notes 8, 9 and 12 for more information.

#### IFRIC 23 Uncertainty over Income Tax Treatments

Ahlstrom-Munksjö has adopted IFRIC 23 Uncertainty over Income Tax Treatments effective January 1, 2019. Group is operating in a complex multinational environment and has reviewed its income tax treatment and adopted the interpretation using a modified retrospective approach. An adjustment of EUR -2.6 million related to tax liabilities has been recognized to the opening balance of retained earnings and income tax payables at January 1, 2019.

See note 10 for more information.

Impact of implementation of IFRS 16 standard and IFRIC 23 on the opening balance sheet for year 2019 is presented below.

Impact of IFRS 16 and IFRIC 23 on the opening balance sheet, EUR million	Dec 31, 2018	Impact of IFRS 16	Impact of IFRIC 23	Jan 1, 2019
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	1,117.2	-	-	1,117.2
Right-of-use assets	-	57.0	-	57.0
Goodwill	630.6	-	-	630.6
Other intangible assets	505.1	-	-	505.1
Equity accounted investments	1.1	-	-	1.1
Other non-current assets	15.4	-0.7	-	14.8
Deferred tax assets	7.5	-	-	7.5
<b>Total non-current assets</b>	<b>2,276.9</b>	<b>56.4</b>	<b>-</b>	<b>2,333.3</b>
<b>Current assets</b>				
Inventories	429.6	-	-	429.6
Trade and other receivables	374.0	-	-	374.0
Income tax receivables	3.3	-	-	3.3
Cash and cash equivalents	151.0	-	-	151.0
<b>Total current assets</b>	<b>957.9</b>	<b>-</b>	<b>-</b>	<b>957.9</b>
<b>TOTALASSETS</b>	<b>3,234.9</b>	<b>56.4</b>	<b>-</b>	<b>3,291.2</b>



Cont. note 2

Impact of IFRS 16 and IFRIC 23 on the opening balance sheet, EUR million	Dec 31, 2018	Impact of IFRS 16	Impact of IFRIC 23	Jan 1, 2019
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>	<b>1,162.2</b>	<b>-</b>	<b>-2.6</b>	<b>1,159.6</b>
<b>Non-current liabilities</b>				
Non-current borrowings	1,020.4	-	-	1,020.4
Non-current lease liability	3.1	44.1	-	47.2
Other non-current liabilities	1.7	-	-	1.7
Employee benefit obligations	92.7	-	-	92.7
Deferred tax liabilities	150.6	-	-	150.6
Non-current provisions	25.9	-	-	25.9
<b>Total non-current liabilities</b>	<b>1,294.3</b>	<b>44.1</b>	<b>-</b>	<b>1,338.3</b>
<b>Current liabilities</b>				
Current borrowings	132.7	-	-	132.7
Current lease liability	1.1	12.3	-	13.4
Trade and other payables	624.1	-	-	624.1
Income tax liabilities	8.1	-	2.6	10.7
Current provisions	12.3	-	-	12.3
<b>Total current liabilities</b>	<b>778.4</b>	<b>12.3</b>	<b>2.6</b>	<b>793.3</b>
<b>Total liabilities</b>	<b>2,072.6</b>	<b>56.4</b>	<b>2.6</b>	<b>2,131.6</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,234.9</b>	<b>56.4</b>	<b>-</b>	<b>3,291.2</b>

**Other**

Other amendments and improvements listed in this note 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 12, 2020 and are expected to be adopted by the Annual General Meeting on March 25, 2020.

**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 2018, 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.

## Cont. note 2

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 acquisitions and disposals. 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.

Considering the magnitude of the acquisitions 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, we have presented as pro forma information selected combined pro forma financial data for illustrative purposes to give effect to the acquisitions and the related financing and refinancing transactions as if the acquisitions 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	Business acquisitions and disposals	X	X		
4	Business area information	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	X	
8	Depreciation, amortization and impairment	X		X	
9	Net financial items	X			
10	Taxes	X	X		
11	Earnings per share	X		X	

Note Topic

**Operating capital**

12	Intangible assets, property, plant and equipment and right-of-use assets	X	X		
13	Inventories	X	X		
14	Trade receivables and other receivables and trade and other payables	X			X
15	Defined benefit obligation	X	X		X
16	Provisions	X	X		
<b>Net debt and capital management</b>					
17	Net debt	X			X
18	Equity	X			

**Financial risk management**

19	Financial risk management	X	X	X	X
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**Other notes**

20	Off-balance sheet commitments and contingent liabilities	X			
21	Ahlstrom-Munksjö subsidiaries, associates and joint operations and related party transactions <sup>1</sup>	X			
22	Auditor remuneration				
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 business acquisitions and disposals. This section includes disclosures that explain the Group's performance on a consolidated level as well as on a business area level, employee benefits, operating expenses, finance items as well as information about our tax footprint and earnings per share.

### 3 BUSINESS ACQUISITIONS AND DISPOSALS

2019

#### Divestment of glass fiber reinforcement business in Mikkeli

On December 31, 2019 Ahlstrom-Munksjö completed the sale of its glass fiber reinforcement business in Mikkeli, Finland, to Vitruulan Composites Oy, a fully owned subsidiary of Vitruulan Group and part of the family-owned industrial holding ADCURAM Group. Mikkeli was part of the Filtration and Performance business area.

#### Provisional loss on sale and cash flow

EUR million

Total net assets sold	4.8
Provisional sale consideration	3.2
Provisional loss on sale	-1.5
<b>Cash flow</b>	
Provisional sale consideration	3.2
Receivable related to sale consideration	-1.9
<b>Consideration received</b>	<b>1.4</b>

Total book value of sold net assets were EUR 7.2 million and corresponding fair value EUR 4.8 million. An impairment loss of EUR 2.4 million was recognized and the loss on sale was EUR 1.5 million. Receivable of EUR 1.9 million related to the sale consideration is recognized in the Trade and other receivables. The provisional sale consideration is subject to completion of the closing accounts in accordance with the terms of the sale agreement.

#### Acquisition of converting operations in China and in the U.S.

On December 17, 2019, Ahlstrom-Munksjö acquired converting operations in China and the U.S. from Shunde Lucas and Altior Industries. The provisional purchase price is EUR 9.6 million. The acquisition will be reported as part of the Specialties business area.

#### Provisional purchase price allocation and cash flow

EUR million

<b>Non-current assets</b>	
Property, plant and equipment	0.6
Other intangible assets	2.8
<b>Current assets</b>	
Inventories	1.2
<b>Non-current liabilities</b>	
Deferred tax liabilities	-0.3
<b>Total net assets acquired</b>	<b>4.4</b>
<b>Goodwill</b>	<b>5.2</b>
<b>Provisional purchase consideration</b>	<b>9.6</b>
<b>Cash flow</b>	
Provisional purchase consideration	9.6
Liability related to purchase consideration	-0.3
<b>Consideration paid</b>	<b>9.3</b>

The fair values of acquired identifiable intangible assets at the date of acquisition were EUR 2.8 million comprising of customer relationships.

The goodwill of EUR 5.2 million arising from the acquisition of converting operations is mainly attributable to synergies. Acquired goodwill has been allocated to Specialties business area. For more information about goodwill allocation and our annual goodwill impairment tests, see note 12. The provisional purchase consideration is subject to completion of the closing accounts in accordance with the terms of the purchase agreement.

Acquisition related costs of EUR 0.3 million are included in other operating expenses in income statement and in net cash from operating activities in cash flow statement.

The consolidated net sales for the year ended December 31, 2019, as though the acquisition date had been as of January 1, 2019 were EUR 2,922.9 million.

Cont. note 3

2018

**Acquisition of Expera and Caieiras**

On October 10, 2018, Ahlstrom-Munksjö completed the acquisition of U.S. specialty paper producer Expera Specialty Solutions ("Expera Specialty Solutions", "Expera"). Ahlstrom-Munksjö acquired 100 % of the shares.

On October 17, 2018, Ahlstrom-Munksjö completed the acquisition of MD Papéis' Caieiras ("MD Papéis' Caieiras", "Caieiras") specialty paper mill in Brazil. Ahlstrom-Munksjö acquired 100 % of the shares.

**Final purchase consideration**

EUR million	Expera Specialty Solutions	MD Papéis' Caieiras
Final cash consideration	524.9	96.7

**Final purchase price allocation**

The closing accounts were confirmed in accordance with the terms of the share purchase agreements during the year 2019 and the following table presents the final fair values of the net assets acquired and the amount of goodwill arising from the acquisitions as of the dates of acquisitions.

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	-

EUR million	Expera Specialty Solutions	MD Papéis' Caieiras
<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	-1.0
<b>Total net assets acquired</b>	<b>349.7</b>	<b>63.8</b>
<b>Goodwill</b>	<b>171.7</b>	<b>32.8</b>
Gain on hedge, net of tax	3.5	-
<b>Final purchase consideration</b>	<b>524.9</b>	<b>96.7</b>

In both acquisitions, the final considerations were paid during the year 2019.

**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 be uncollectable.

Ahlstrom-Munksjö hedged nominal 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 171.7 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.

Cont. note 3

**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 32.8 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 income statement and in net cash from operating activities in 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.

**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.

**Business disposals**

Gains or losses arising from the sale of business are recognized as other operating income or other operating expenses. Intangible and tangible assets with definite useful lives are tested for impairment if there are indicators of impairment, see more information on triggering events in note 12.

**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

Ahlstrom-Munksjö is organized into five business areas which are Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties. These five business areas form the Group's reportable segments. Ahlstrom-Munksjö's business areas are described below:

<p><b>Decor</b></p> <p>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></p> <p>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></p> <p>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></p> <p>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 release liners, tape, interleaving papers and specialty paper to wrap and package processed and quick service restaurant prepared foods.</p>
<p><b>Specialties</b></p> <p>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></p> <p>Other and eliminations include head office costs comprising the following functions: Group Finance, Corporate Development, Legal, R&amp;D, Group Communications and Investor Relations, as well as Group Human Resources. 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, 2019	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties	Other and eliminations	Group
Net sales, external	419.8	654.3	652.7	641.6	546.1	1.8	2,916.3
Net sales, internal	2.3	11.3	0.8	-	14.9	-29.2	-
<b>Net sales</b>	<b>422.1</b>	<b>665.6</b>	<b>653.5</b>	<b>641.6</b>	<b>561.0</b>	<b>-27.4</b>	<b>2,916.3</b>
Comparable EBITDA	29.9	123.1	75.4	53.3	46.3	-15.1	312.9
Items affecting comparability in EBITDA							-33.4
Depreciation, amortization and impairments							-176.2
<b>Operating result</b>							<b>103.2</b>

### Additional business area information

Additional business area information, EUR million, 2019	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties	Other and eliminations	Group
Capital expenditure	9.2	31.5	64.1	21.1	14.5	20.7	161.1
Depreciation, amortization and impairment	-12.7	-48.0	-39.8	-30.3	-34.7	-10.8	-176.2
Operating working capital	62.1	85.5	76.2	96.8	84.6	-4.9	400.3

Cont. note 4

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 impairment							-133.9
<b>Operating result</b>							<b>88.7</b>

**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	61.0	97.1	89.6	109.2	92.8	-11.1	438.7



Cont. note 4

**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 Caieiras. 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 Caieiras. Pro forma impact is presented as if the acquisitions had taken place at the beginning of the year 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 per cent 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	2019	2018
USA	897.0	457.5
Germany	262.4	285.9
Brazil	186.8	130.2
France	181.9	183.6
China	148.6	146.8
Italy	129.0	132.9
Poland	114.8	115.4
Spain	112.6	108.1
United Kingdom	71.6	76.8
India	62.2	62.7
Finland	17.8	17.4
Other	731.7	720.7
<b>Total</b>	<b>2,916.3</b>	<b>2,438.0</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	2019	2018	2018
Europe	1,275.0	1,324.5	1,333.9
North America	986.7	529.3	976.4
South America	234.4	171.1	240.1
Asia-Pacific	383.6	376.7	409.3
Rest of the world	36.5	36.5	37.2
<b>Total</b>	<b>2,916.3</b>	<b>2,438.0</b>	<b>2,996.9</b>

Cont. note 5

**Contract assets and liabilities**

The Group has advance payments received from customers EUR 1.9 million (EUR 1.9 million), see note 14.

**Non-current assets by geography**

Non-current assets by geography, EUR million	2019	2018
USA	822.6	793.4
France	323.5	333.4
Italy	235.7	240.7
Germany	222.0	215.7
Brazil	189.5	172.1
Finland	159.7	146.4
Sweden	173.4	149.0
China	78.9	80.4
South Korea	41.7	43.4
Spain	36.9	32.6
Other	76.9	69.8
<b>Total</b>	<b>2,360.8</b>	<b>2,276.9</b>

**Other operating income**

Other operating income mainly includes government grants and sale of scrap products and materials.

Other operating income, EUR million	2019	2018
Government grants	3.3	1.8
Sale of scrap	3.1	2.3
R&D and other tax credits	1.4	0.7
Gain on sale of fixed assets	0.9	0.3
Rental and lease income	0.3	0.1
Insurance compensation	0.3	1.4
Other	2.9	3.1
<b>Total</b>	<b>12.1</b>	<b>9.6</b>

**Accounting policies****Revenue recognition**

IFRS 15 Revenue from Contracts with Customers standard 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 Company 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.

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.

## 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 the mills.

Other operating expenses, EUR million	2019	2018
Energy costs	-219.0	-172.8
Other production costs	-131.1	-106.3
Freights and other delivery costs	-109.8	-87.4
Repair and maintenance costs	-101.5	-66.7
External services	-20.5	-31.2
Local and property taxes	-14.1	-12.0
Insurance	-8.7	-6.2
Leasing and rental costs	-4.2	-12.4
Other	-109.3	-94.6
<b>Total</b>	<b>-718.1</b>	<b>-589.5</b>

External services include auditor remuneration to the Group's auditors. See more information in note 22.

Change in Leasing and rental costs is due to the implementation of IFRS 16 in January 1, 2019, therefore figures are not comparable (see note 12 for further information).

Other consist of IT costs, travel costs, communication costs and office supplies.

## Operating lease commitments (IAS 17)

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	
	Future minimum leasing fees	Of which, premises
Within 1 year	13.3	5.1
2-5 years	25.7	12.3
More than 5 years	8.4	7.5
<b>Total</b>	<b>47.5</b>	<b>25.0</b>

Only the comparison period is presented as due to IFRS16 adoption January 1, 2019 most of the lease contracts were recognized in the balance sheet. The reconciliation of lease liabilities recognized in balance sheet January 1, 2019 and operating lease commitments reported in December 31, 2018 can be found in note 12.



## Accounting policies

### Repair and maintenance

Ordinary repairs and maintenance activities are performed to maintain the plants 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.

## 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. The following section outlines the benefits granted to our employees, to our Executive Management Team including the CEO and 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	2019	2018
Wages and salaries	-457.0	-334.9
Statutory social expenses	-73.4	-67.3
Pension expenses, defined contribution plans	-35.9	-27.2
Pension expenses, defined benefit plans (note 15)	-2.5	-2.5
Long-term incentives	1.6	-2.2
Other indirect employee costs	-15.8	-18.3
<b>Total</b>	<b>-583.1</b>	<b>-452.4</b>

#### 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. See Board of Director's report for changes in our Group Executive Management team and Board of Directors.

Remuneration of the CEO and the Executive Management Team, EUR thousand, 2019 <sup>1</sup>	Fixed salary payments	Short term incentives and bonuses	Fringe benefits	Payments to voluntary pensions	Total
CEO – Hans Sohlström	643	103	0	124	870
Executive Management Team	2,286	674	72	265	3,296
<b>Total</b>	<b>2,929</b>	<b>776</b>	<b>72</b>	<b>389</b>	<b>4,166</b>

<sup>1</sup> Not including social costs.

Remuneration of the CEO and the Executive Management Team, EUR thousand, 2018 <sup>1</sup>	Fixed salary payments	Short term incentives and bonuses	Fringe benefits	Payments to voluntary pensions	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>64</b>	<b>521</b>	<b>4,572</b>

CEO and Executive Management remuneration and benefits recognized in income statement, EUR thousand <sup>1</sup>	Salaries and other short-term employee benefits	Long-term incentives	Payments to voluntary pensions	Total
2019	3,509	-300	389	3,598
2018	3,413	817	521	4,751

<sup>1</sup> Not including social costs.

#### Executive Management Team remuneration

The fixed remuneration on the CEO and other members of the Executive Management Team consists of both fixed salary and personal benefits such as company car and phone benefit. The CEOs monthly fixed total salary is EUR 51,667. The variable compensation of the CEO and other members of the Executive Management Team consists of short term incentive plan (STI) and long term incentive plans (LTI). The Board of Directors authorize the final resolution on the payments from the incentive plans for the Executive Management Team and the CEO.

#### Pensions

Pension arrangements for the Executive Management Team and CEO include customary occupational pensions and in some cases individually agreed defined contribution pension arrangements. The CEO is part of the Finnish obligatory pension plan (TyeL) and in addition he belongs to an additional Group Pension Plan. Ahlstrom-Munksjö shall contribute 20 per cent of the CEO's monthly fixed salary per annum to the Group Pension Plan. The CEO's retirement age is 63 according to the additional Group Pension Plan.

#### Other benefits

To the extent that other benefits are paid, they consist of company cars, housing, schooling fees and health insurances.

Cont. note 7

**Termination Clauses for the CEO**

The CEO's Service Contract may be terminated by the Company with twelve (12) months' notice and by the CEO with six (6) months' notice. If the Company terminates the CEO's Contract for any other reason than material breach, the Company shall pay the CEO severance compensation equal to the amount of his fixed salary for the full six (6) months immediately preceding the termination.

**Average number of employees**

Average number of employees (FTE) by business area	2019	2018
Decor	1,005	870
Filtration and Performance	1,592	1,587
Industrial Solutions	1,664	1,510
North America Specialty Solutions	1,821	468
Specialties	1,627	1,673
Other	369	372
<b>Total</b>	<b>8,078</b>	<b>6,480</b>

**Additional unaudited pro forma information**

Average number of employees (FTE)	2018
<b>Total</b>	<b>8,204</b>

**Remuneration of the Board of Directors and Board Committees**

Ahlstrom-Munksjö's Annual General Meeting ("AGM") makes resolutions each year on the compensation for the members of the Board of Directors remuneration. The 2019 AGM resolutions for yearly compensation were as follows (The 2018 remuneration resolutions are presented in brackets as comparatives):

- The Chairman of the Board EUR 130,000 a year (previously EUR 100,000)
- The Vice Chairman EUR 90,000 (EUR 80,000) and the ordinary members EUR 65,000 (EUR 60,000) each.
- The Chairman of the Audit Committee EUR 15,000 (EUR 12,000) and the ordinary members of the committee EUR 7,500 (EUR 6,000) each.
- The Chairman of the Human Resources Committee EUR 10,000 (EUR 8,000) and the ordinary members EUR 5,000 (EUR 4,000) each.
- The Chairman of the Shareholders' Nomination Board EUR 8,000 (EUR 8,000) and the ordinary members EUR 4,000 (EUR 4,000) each.

**Compensation of current members of the Board of Directors and/or board committees and/or shareholders' nomination board, EUR thousand**

		2019	2018
Peter Seligson	Chairman of the Board	127	102
Elisabet Salander Björklund	Vice-Chairman of the Board	102	92
Alexander Ehrnrooth		75	72
Jaakko Eskola		53	-
Johannes Gullichsen		69	64
Lasse Heinonen		69	17
Hannele Jakosuo-Jansson		73	68
Harri-Pekka Kaukonen		71	66
Valerie A. Mars		-	-
Kari Kauniskangas	Nomination board member	4	-
Mikko Mursula	Nomination board member	4	4

**Compensation of former members of the Board of Directors and/or board committees and/or shareholders' nomination board, EUR thousand**

		2019	2018
Pernilla Walfridsson	Up until March 27, 2019	17	66
Mikael Lilius	Nomination board member up until March 27, 2019	4	5

**Shareholding of the Board of Directors and Executive management**

Board of Directors shareholding, December 31, 2019	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
Jaakko Eskola	Board member	0
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

Cont. note 7

Executive management shareholding, December 31, 2019	Title	Shares
Hans Sohlström	President and CEO	58,738
Sakari Ahdekivi	Deputy CEO and CFO	5,352
Dan Adrianzon	EVP, Industrial Solutions	3,777
Daniele Borlatto	EVP, Filtration and Performance	24,408
Andreas Elving	EVP, Legal and General Counsel	6,925
Omar Hoek	EVP, Specialties	2,000
Tarja Takko	EVP, People and Safety (acting)	6,261
Tomas Wulkan	EVP, Decor	0
Robyn Buss	EVP, North America Specialty Solutions	43,825

#### Related party transaction - the Board of Directors and the Executive Management Team

There have not been any material transactions between Ahlstrom-Munksjö and its members of the Board of Directors or the Executive Management Team or persons closely associated with these members or organization in which these individuals have control or significant influence. There are no loans granted to any members of the Board of Directors or Executive Management Team at December 31, 2019 nor December 31, 2018.

#### 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 which are established on a recurring basis to align the interests of the shareholders and management.

#### Ahlstrom-Munksjö Long-term Incentive Share-based Plans

Ahlstrom-Munksjö's Board of Directors decided on October 24, 2017 to introduce a rolling long-term share-based incentive plan for 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. At the end of December 2019, there are three ongoing performance periods.

In March 2019 the Board of Directors also decided, in addition to the rolling long-term share-based incentive plan on the establishment of a fixed matching share plan as well as on the establishment of a new restricted share plan as a complementary share-based incentive structure for specific situations.

#### Rolling long-term share based incentive programme

The rolling long-term share based incentive plan consists of a rolling structure of individual plans, each with a three-year performance period:

- The first performance period for 2017-2019 ("LTI 2017-2019") was decided by the Board of Directors in October, 2017. The performance conditions described below were not met and thus no reward will be paid out in 2020.
- In addition to the 2017-2019 performance period, the Board of Directors of Ahlstrom-Munksjö decided in October, 2017 of a one off Bridge Plan. The Bridge Plan included one performance period comprising of the years 2017-2018. The performance conditions described below were not met and thus no reward will be paid out in 2020.
- The second performance period is 2018-2020 ("LTI 2018-2020") that was decided by the Board in February, 2018. The possible reward will be paid out in 2021 in the form of shares, provided that the below described performance and service conditions are met.
- The third performance period is 2019-2021 ("LTI 2019-2021") that was decided by the Board in March, 2019. The possible reward will be paid out in 2022 in the form of shares, provided that the below mentioned performance and service conditions are met.

#### 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.

- 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 Board of Directors in order for the condition to be met. A market condition is taken into account when estimating the grant date fair value and therefore, the expense is recognised irrespectively of whether this market condition is satisfied.
- 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. A performance condition other than market condition is not taken into account when estimating the grant date fair value. If the condition is not met, then it will result in a true up of the cumulative share-based payment cost.

#### 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.

Service condition as well as the probability of achieving the comparable EBITDA performance criteria are used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme.

Cont. note 7

**Other long-term incentive share based plans****Matching Share Plan**

The Matching Share Plan is a one-off plan, which covers the years 2019 - 2021. A precondition of an eligible individual's participation in the plan is the individual's personal investment in shares of Ahlstrom-Munksjö. In the Matching Share Plan the participant will receive one matching share for each invested share free of charge after an approximately three-year restriction period in the year 2022 provided that the participant continues to own the invested shares and that the employment relationship of the participant with Ahlstrom-Munksjö still continues.

Service condition is used to calculate the annual expense and cumulative amount recognized in equity relating the share-based payment scheme.

**Restricted Share plan**

The Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year retention period after which the share rewards granted within the plan will be paid to the participants in shares of Ahlstrom-Munksjö.

The commencement of each individual plan is subject to a separate Board approval and no individual plans have been approved by the Board at the end of December 2019.

Data related to the LTI plans	LTI 2019-2021	Matching share plan	LTI 2018-2020	LTI 2017-2019	Bridge plan
Initial amount, pcs	672,000	109,000	1	1	1
Initial allocation date	Mar 28, 2019	Mar 28, 2019	Feb 12, 2018	Oct 24, 2017	Oct 24, 2017
Beginning of earning period	Jan 1, 2019	Jan 1, 2019	Jan 1, 2018	Jan 1, 2017	Jan 1, 2017
End of earning period	Dec 31, 2021	Feb 12, 2022	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
End of restriction period	Mar 15, 2022	Mar 31, 2022	Mar 15, 2021	Mar 15, 2020	Feb 15, 2020
Vesting conditions	3-year Total Shareholder Return, EBITDA requirement, Service period	Share ownership obligation, Service period	3-year Total Shareholder Return, EBITDA requirement, Service period	3-year Total Shareholder Return, EBITDA requirement, Service period	2-year Total Shareholder Return, EBITDA requirement, Service period
Maximum contractual life, years	3.0	3.0	3.1	2.4	2.2
Remaining contractual life, years	2.2	2.2	-	-	-
Number of participants at the end of the period	76	35	-	-	-
Payment method	Shares/Cash	Shares/Cash	Shares/Cash	Shares/Cash	Shares/Cash

<sup>1</sup> Is expressed as a specific monetary amount. The possible reward is converted into a specific number of shares after the earning period by dividing the monetary amount of the reward with the share price prevailing at the time of the conversion.

Changes of the number of shares during the period	LTI 2019-2021	Matching share plan
<b>January 1, 2019</b>		
Outstanding at the beginning of the reporting period	0	0
<b>Changes during the period</b>		
Granted	612,700	80,196
Forfeited	-47,500	-2,000
<b>December 31, 2019</b>		
Outstanding at the end of the period	565,200	78,196

Cont. note 7

**Fair value determination**

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

Data related to the fair value of rewards	LTI 2019-2021	Matching share plan
Grant date	May 20, 2019	May 10, 2019
Share price at grant date, EUR	13.14	13.21
Share price at December 31, 2019, EUR	14.32	14.32
Expected average yearly volatility, %	29.9	-
Expected dividends, EUR	1.58	1.58
Maturity, years	3.0	3.0
Valuation model	Monte Carlo	-
Fair value of the reward at December 31, 2019, EUR million	1.9	0.8

Effect on the profit for the period and liabilities, EUR million	2019	2018
Expense (-) for the reporting period	1.6	-2.2
Liabilities arising from share-based payments December 31 (social costs)	0.0	0.1
Future cash payment to be paid to the tax authorities from share-based payments, estimated at December 31	0.6	-

No other rewards were exercised or forfeited during the period for these plans.

**Accounting policies****Share-based payments**

The long term incentive share based plans 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'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. The expense is recognized irrespectively of whether the conditions are satisfied. The comparable EBITDA performance criteria (non-market performance condition) and the requirement to stay in service are not factored into the grant date fair value. If the EBITDA criteria or 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 likelihood of achieving the comparable EBITDA performance criteria and 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.

**Matching share plan**

The share-based cost related to the matching share plan is recognized 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. The fair value is determined on the grant date. Expected dividends during the vesting period have been deducted from the value of the share. 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.

**Accounting estimates and judgements**

The long term incentive share based plans 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 long term incentive share based plans have been estimated at the grant-date based on the probability of TSR reaching specific thresholds at the end of the performance period. 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 and annual TSR volatility.

The expense recognized in Employee benefit expenses is based on management's estimate of the likelihood of achieving the comparable EBITDA performance criteria and the estimated number of participants remaining in the scheme when the vesting period ends.

At the end of each period, management estimates the likelihood of achieving the comparable EBITDA performance criteria and the expected retention rate for participants in order to calculate the expense for the current period and the change in the amount recognised in equity. In order to estimate the likelihood of achieving the comparable EBITDA criteria management considers the Group's comparable EBITDA performance against the target to date and the forecast for the remainder of the performance period.

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, property, plant and equipment and right-of-use assets ("ROU assets") are stated in the balance sheet at cost less accumulated depreciation, amortization and impairment.

Depreciation and amortization, EUR million	2019	2018
<b>Intangible assets</b>		
Customer relationships	-15.4	-9.5
Patents and trademarks	-1.7	-1.7
Other	-18.0	-13.1
<b>Property, plant and equipment</b>		
Land improvements and buildings	-14.7	-12.7
Machinery and equipment and other	-108.6	-89.2
<b>ROU assets</b>		
Land and buildings	-4.2	-
Machinery and equipment and other	-11.3	-
<b>Total</b>	<b>-173.9</b>	<b>-126.2</b>

Depreciation and amortization arising from PPA adjustments recognized in the acquisitions and in the merger was EUR 52.1 million in 2019 and EUR 34.7 million in 2018.

Impairment, EUR million	2019	2018
<b>Property, plant and equipment</b>		
Machinery and equipment	-2.4	-7.7
<b>Total</b>	<b>-2.4</b>	<b>-7.7</b>

**Impairment losses**

In 2019 an impairment loss of EUR -2.4 million was recognized in relation to the divestment of Mikkeli plant. In 2018 impairment losses related to restructuring of one-side coated product segment, a part of the Specialties business area were recognized.

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
Customer relationships	-14.9
Patents and trademarks	-1.7
Other intangible assets	-12.5
Property, plant and equipment	-19.7
<b>Total</b>	<b>-48.9</b>

Other intangible assets mainly comprises favourable contracts (e.g. economic value of the landfill rights) and technology related intangible assets identified in business combinations.

Cont. note 8

**Accounting policies**

Depreciation and amortization is recognized in the income statement on a straight-line basis based on estimated useful life of intangible assets, property, plant and equipment and ROU assets, 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

**ROU assets**

Land and water areas	5–12 years
Buildings	5–53 years
Machinery and equipment	2–8 years

**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	2019	2018
Interest income from loans and receivables	1.2	2.4
Exchange rate gains	5.4	6.5
<b>Financial income</b>	<b>6.6</b>	<b>8.9</b>
Interest expense from Bank loans and bonds	-45.9	-25.0
Interest expenses on lease liabilities <sup>1</sup>	-2.7	-0.2
Loss on interest rate swap	-	-0.2
Unwinding of discount on provisions and net interest cost on defined benefit plans	-2.4	-2.3
Extinguished borrowings (Net gain or loss)	-0.2	-0.6
Exchange rate losses	-2.6	-0.5
Other financial costs <sup>2</sup>	-4.4	-5.5
<b>Financial expenses</b>	<b>-58.2</b>	<b>-34.3</b>
<b>Net financial items</b>	<b>-51.6</b>	<b>-25.3</b>

<sup>1</sup> Interest expenses on lease liabilities are not comparable due to IFRS 16 adoption January 1, 2019 (impact of IFRS 16 EUR 2.5 million). Interest expenses in 2018 are related to finance leases (IAS 17).

<sup>2</sup> Other financial costs include bank fees, waiver costs and back-stop facility fees related to the already existing financing and the bridge facilities.

Cont. note 9

Exchange rate gains and losses in the income statement, EUR million	2019	2018
<b>Exchange gains and losses</b>		
Operating result	-0.1	1.5
Financial income and expenses	3.0	6.6
<b>Foreign exchange derivatives</b>		
Operating result	-3.2	-4.7
Financial income and expenses	-0.3	-0.6
<b>Total</b>	<b>-0.6</b>	<b>2.9</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 and other financial 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	2019	2018
<b>Profit before taxes</b>	<b>51.6</b>	<b>63.3</b>
<b>Current tax income/expense</b>		
Current tax on profits for the year	-29.2	-25.2
Adjustments in respect of prior years	2.9	-1.3
<b>Total</b>	<b>-26.3</b>	<b>-26.5</b>
<b>Deferred tax</b>		
Relating to tax loss carry forwards	-8.9	-7.3
Relating to other temporary differences	16.4	13.4
<b>Total</b>	<b>7.5</b>	<b>6.1</b>
<b>Total income taxes</b>	<b>-18.8</b>	<b>-20.4</b>

Reconciliation of effective tax rate, EUR million	2019	2018
<b>Profit before taxes</b>	<b>51.6</b>	<b>63.3</b>
Income tax at Finnish tax rate (20%)	-10.3	-12.7
Effect of other tax rates for foreign subsidiaries	2.5	2.3
Regional, minimum and foreign withholding taxes	-1.2	-1.1
Effect on deferred tax from change in tax rate	-0.2	-4.4
Adjustments to current tax in respect of prior years	3.1	-1.3
Current year losses for which no deferred tax asset recognized	-16.1	-3.0
Revaluation of deferred tax assets and liabilities	2.9	-0.6
Non-deductible expenses	-1.6	-2.4
Tax exempt income and tax reliefs	1.9	2.8
Other	0.2	0.0
<b>Income taxes in the income statement</b>	<b>-18.8</b>	<b>-20.4</b>

Ahlstrom-Munksjö reviewed its income tax treatment in 2019 and adopted IFRIC 23 interpretation using a modified retrospective approach. An adjustment of EUR 2.6 million regarding uncertain tax treatments has been booked to the opening balance of retained earnings and current tax payables at January 1, 2019.

## Cont. note 10

Change in deferred tax on temporary differences and loss carry forwards, EUR million, 2019	Opening	Translation difference/ other	Business combination	Recognized in income statement	Recognized in OCI or directly in equity	Closing
Property, plant and equipment and intangible assets	-224.3	-1.1	-0.3	5.1	-	-220.6
Employee benefit obligations	14.9	0.1	-	2.3	1.3	18.6
Provisions	16.5	0.2	-	0.0	-	16.7
Tax losses carried forward	34.6	-0.1	-	-8.9	-	25.6
Other	15.2	-0.2	-	8.9	-1.8	22.1
<b>Net of deferred tax liabilities (-) and deferred tax assets (+)</b>	<b>-143.1</b>	<b>-1.1</b>	<b>-0.3</b>	<b>7.5</b>	<b>-0.5</b>	<b>-137.6</b>
Assets	7.5					9.9
Liabilities	-150.6					-147.5

Change in deferred tax on temporary differences and loss carry forwards, EUR million, 2018	Opening	Translation difference/ other	Business combination	Recognized in income statement	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.

	Tax losses carried forward		Recognized deferred tax assets		Unrecognized deferred tax assets	
Tax losses and related deferred tax assets, EUR million	2019	2018	2019	2018	2019	2018
Expiry within one year	3.8	4.0	0.0	0.0	0.9	1.0
Expiry within two-five years	51.0	50.0	0.2	0.9	12.7	12.0
Expiry after five years	11.6	13.2	1.3	1.5	1.5	1.7
No expiry	219.1	212.4	24.1	32.2	31.5	22.9
<b>Total</b>	<b>285.5</b>	<b>279.6</b>	<b>25.6</b>	<b>34.6</b>	<b>46.6</b>	<b>37.6</b>

Recognized deferred tax assets on losses at December 31, 2019 relate mainly to Brazil and France.

Unrecognized deferred tax assets on losses at December 31, 2019 relate mainly to China, France, India, Spain and the United Kingdom.



## 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. The Group files tax returns in several jurisdictions and evaluates regularly tax positions taken. Tax liabilities for uncertain tax positions are recognized when it is considered that certain tax positions will be challenged or have already been challenged by tax authorities.

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 estimates possibilities to use deferred tax assets based on current business plans. The Group periodically evaluates status of ongoing tax audits and disputes and 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. Because the Group operates in complex international tax environment, significant degree of judgement is used in identifying outcomes of tax audits and disputes and uncertain tax positions.



## EARNINGS PER SHARE

The total number of shares at the end of December 2019 is 115,653,315. In December 2018, in connection with the rights issue, 19,214,742 new shares were issued. The comparative period presented, does not 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	2019	2018
Net profit attributable to the parent company's shareholders, EUR million	31.7	41.6
Accumulated interest expenses on hybrid bond after taxes for the period, EUR million	-0.2	-
Weighted average number of outstanding shares before dilution	115,288,453	96,758,002
Dilution effect from share based incentive plans	32,262	-
Weighted average number of outstanding shares after dilution	115,320,715	96,758,002
<b>Basic earnings per share, EUR</b>	<b>0.27</b>	<b>0.43</b>
<b>Diluted earnings per share, EUR</b>	<b>0.27</b>	<b>0.43</b>



## Additional unaudited information – pro forma basic earnings per share

Pro forma earnings per share	2018
Net profit attributable to the parent company's shareholders, EUR million	61.9
Weighted average number of outstanding shares	115,288,453
<b>Basic earnings per share, EUR</b>	<b>0.54</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 accumulated interest expenses on hybrid bond after taxes for the period is deducted in the earnings per share calculation. 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.

## Other intangible assets

## 12 INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

### Intangible assets

Intangible assets, EUR million, 2019	Other intangible assets				
	Goodwill	Customer relationships	Patents and trademarks	Other	Other intangible assets in total
<b>Historical cost</b>					
Opening	630.6	288.2	50.2	285.8	624.2
Business combination	7.7	2.8	-	-	2.8
Additions	-	-	-	18.4	18.4
Disposals	-	-	-	-0.9	-0.9
Reclassifications and other	-	-	-	4.2	4.2
Translation differences	4.3	2.8	-	2.0	4.8
<b>Closing</b>	<b>642.7</b>	<b>293.8</b>	<b>50.2</b>	<b>309.4</b>	<b>653.4</b>
<b>Accumulated amortization</b>					
Opening	-	26.8	9.1	83.3	119.2
Amortization	-	15.4	1.7	18.0	35.1
Disposals	-	-	-	-0.7	-0.7
Translation differences and other	-	0.0	-	0.7	0.7
<b>Closing</b>	<b>-</b>	<b>42.2</b>	<b>10.8</b>	<b>101.3</b>	<b>154.3</b>
<b>Net book value at year end</b>	<b>642.7</b>	<b>251.6</b>	<b>39.4</b>	<b>208.1</b>	<b>499.1</b>

Other intangible assets as at December 31, 2019 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 other intangible assets for year ended December 31, 2019 mainly relate to capitalized development costs, acquired customer contracts (see note 3 for more information) and IT projects.

Intangible assets, EUR million, 2018	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	-	-	-	-0.5	-0.5
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>

### Goodwill

The carrying value of goodwill amounted to EUR 642.7 million (EUR 630.6 million) as of December 31, 2019.

Ahlstrom-Munksjö is organized into five business areas which are Decor, Filtration and Performance, Industrial Solutions, North America Specialty Solutions and Specialties. These five business areas form the Group's reportable segments. Goodwill is allocated to the 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 4 for business area information.

Cont. note 12

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	2019	2018
Decor	177.6	175.8
Filtration and Performance	58.3	57.9
Industrial Solutions	136.5	135.7
North America Specialty Solutions	175.9	172.6
Specialties	94.4	88.6
<b>Total</b>	<b>642.7</b>	<b>630.6</b>

### 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 2.0% 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, 2019	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties
Average net sales growth % in the testing period	0.7	1.4	2.5	2.1	5.0
Long-term growth-%	2.0	2.0	2.0	2.0	2.0
Average EBITDA margin % in the testing period	7.4	18.8	11.5	8.0	9.3
Pre-tax discount rate %	6.3	6.3	6.3	6.1	6.1

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

The impairment tests for 2019 indicated that the recoverable amount of the groups of CGUs exceeded their carrying value and goodwill is not been impaired.

Goodwill impairment tests for 2018 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 2019 exceeds their carrying value by EUR 343.4 million for Decor, EUR 1,888.9 million for Filtration and Performance, EUR 680.6 million for Industrial Solutions, EUR 507.3 million for North America Specialty Solutions and EUR 702.2 million for Specialties.

Sensitivity of the key assumptions, 2019	Decor	Filtration and Performance	Industrial Solutions	North America Specialty Solutions	Specialties
Annual average change % in EBITDA in the testing period	-37	-61	-33	-35	-39
Pre-tax discount rate % change in percentage points	4	18	6	4	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. In 2019 development costs that met capitalization criteria and were capitalized amounted to EUR 6.5 million (EUR 3.6 million).

**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 401,096 units (418,206 units) of CO<sub>2</sub> emission rights for the year 2019. The rights in excess of the Group's needs have been transferred to 2020. As of December 31, 2019, the remaining CO<sub>2</sub> credits amounted to 98,841 units (245,324 units) and their market value was approximately EUR 2.5 million (EUR 5.5 million).

In 2019, Ahlstrom-Munksjö has sold emission rights for EUR 2.3 million (EUR 2.7 million) and has not bought any emission rights (EUR 0.8 million).

**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.

**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 liability 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 note 8.

**Property, plant and equipment**

Property, plant and equipment, EUR million, 2019	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
<b>Historical cost</b>						
Opening	72.1	395.0	2,270.4	16.5	143.6	2,897.5
Reclassification to right-of-use assets (Finance lease IAS 17)	-	-2.0	-8.9	-	-	-10.8
Business Combination	-	-	0.6	-	-	0.6
Additions	0.0	1.2	20.2	1.5	122.5	145.5
Disposals	-0.1	-7.9	-43.8	-0.4	-	-52.1
Reclassifications and other	4.6	10.9	107.4	7.2	-131.8	-1.6
Translation differences	-0.2	1.5	8.3	0.2	0.3	10.1
<b>Closing</b>	<b>76.4</b>	<b>398.8</b>	<b>2,354.4</b>	<b>25.1</b>	<b>134.6</b>	<b>2,989.2</b>
<b>Accumulated depreciation</b>						
Opening	8.2	240.5	1,521.3	10.0	0.3	1,780.4
Reclassification to right-of-use assets (Finance lease IAS 17)	-	-0.3	-4.7	-	-	-5.0
Depreciation	0.5	14.1	106.9	1.5	0.2	123.3
Disposals	-0.1	-5.4	-43.1	-0.4	-	-48.9
Impairment	0.1	0.4	1.9	-	-	2.4
Reclassifications	-	0.1	-4.8	5.0	0.0	0.2
Translation differences and other	-0.1	0.7	4.7	0.1	0.0	5.4
<b>Closing</b>	<b>8.6</b>	<b>250.2</b>	<b>1,582.2</b>	<b>16.2</b>	<b>0.5</b>	<b>1,857.7</b>
<b>Net book value at year end</b>	<b>67.8</b>	<b>148.6</b>	<b>772.1</b>	<b>8.8</b>	<b>134.1</b>	<b>1,131.5</b>

Increase in property, plant and equipment for the year ended December 31, 2019 were mainly related to the investments in Jacarei, Brazil EUR 24.9 million, in Billingsfors, Sweden EUR 22.2 million, in Fabriano, Italy EUR 11.9 million, in Madisonville, U.S. EUR 10.4 million, in Mosinee, U.S. EUR 8.5 million and in Aspa, Sweden EUR 7.4 million.

See note 20 for information on capital expenditure commitments and note 8 for information on impairment losses.

Cont. note 12

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 at year end</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>

**Right-of-use assets ("ROU assets")**

The new standard, IFRS 16 Leases was effective on January 1, 2019. The new standard resulted in the recognition of the majority of Ahlstrom-Munksjö's leases on the balance sheet and therefore Ahlstrom-Munksjö's assets and liabilities have increased. Right-of-use assets recognized in the balance sheet include vehicles, forklifts, machinery and equipment, premises and land areas.

ROU Assets, EUR million, 2019	Land and water areas	Buildings	Machinery and Equipment	Total
<b>Historical cost</b>				
Opening	-	-	-	-
Reclassification from property, plant and equipment (Finance lease IAS 17)	-	2.0	8.9	10.8
Impact of IFRS 16 on the opening balance	0.7	22.8	33.5	57.0
Additions	-	0.5	11.3	11.8
Other	-	-2.9	-0.6	-3.5
Translation differences	0.0	0.2	0.3	0.5
<b>Closing</b>	<b>0.7</b>	<b>22.6</b>	<b>53.4</b>	<b>76.7</b>
<b>Accumulated depreciation</b>				
Opening	-	-	-	-
Reclassification from property, plant and equipment (Finance lease IAS 17)	-	0.3	4.7	5.0
Depreciation	0.1	4.1	11.3	15.4
Impairment	-	-	0.0	0.0
Other	-	-0.4	-0.4	-0.8
Translation differences	0.0	0.0	0.0	0.0
<b>Closing</b>	<b>0.1</b>	<b>4.0</b>	<b>15.6</b>	<b>19.7</b>
<b>Net book value at year end</b>	<b>0.7</b>	<b>18.6</b>	<b>37.8</b>	<b>57.0</b>

The expenses relating to leases for which Ahlstrom-Munksjö applied the practical expedient (short-term leases and low-value leases) amounted to 4.0 EUR million and the income from subleasing right-of-use assets amounted to 0.3 EUR million for the year end December 31, 2019. IFRS 16 EBITDA impact for the year end December 31, 2019 amounted to EUR 16.3 million.

Ahlstrom-Munksjö has currently no material variable lease payments that are not included in the measurement of ROU asset and no leases with residual value guarantees.

Cont. note 12

**Reconciliation of lease liabilities recognized in balance sheet January 1, 2019 and operating lease commitments reported December 31, 2018**

Commitments December 31, 2018 and Lease liability January 1, 2019, EUR million	January 1, 2019
<b>Operating lease commitments December 31, 2018 (note 6)</b>	<b>47.5</b>
Finance lease (IAS 17)	4.2
Contracts reassessed as lease contracts (add) <sup>1</sup>	16.6
Adjustments as a result of a different treatment of extension and termination options	3.3
Short-term and low-value leases (less)	-5.1
Impact from discounting	-5.9
<b>Lease liability January 1, 2019</b>	<b>60.6</b>

<sup>1</sup> Mainly related to one service agreement in the U.S.

Weighted average incremental borrowing rate January 1, 2019 was 4.31%.

**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

## Cont. note 12

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 as the costs they are intended to compensate on a net basis unless the grant compensates an item which has been expensed in prior years.

**Right-of-use assets**

Ahlstrom-Munksjö has adopted the new standard using a simplified approach and thus comparative figures are not restated. According to IFRS 16, the measurement of the right-of-use asset and the lease liability is determined by discounting the minimum future lease payments. Ahlstrom-Munksjö initially measures the lease liability at the present value of the lease payments to be made over the lease term. The payments are based on the lease contracts and respective payment schedules. Non-lease components, such as maintenance rents and other variable components are separated from the lease liability and expensed if the non-lease components are specified in the agreement. Open ended lease contracts and extension options are taken into account using management's best estimate, e.g. end date for open ended lease contracts is the most likely end date for the contracts and the extension option is included if it is reasonably certain that the extension option will be exercised. Right-of-use asset is initially measured equal to the lease liability and adjusted if payments relating to agreement are done in advance or there are initial costs for the agreement. Right-of-use assets are also subject to impairment (IAS 36). The lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate. The incremental borrowing rate comprises the reference rate and credit spread for incremental borrowing. Factors affecting the incremental borrowing rate include the length of the contract and potential premiums for country and currency risks. The revised incremental borrowing rate is used when there are changes in the lease term, changes in assessment of an option to purchase the asset and modifications to the lease that are not accounted as a separate lease. A change in index or such expected changes do not result in a revised discount rate.

After the commencement date according to IFRS 16 the following applies: lease liabilities are reduced by lease amortization and remeasurements are made to reflect changes to the lease payments; rights-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses adjusted for remeasurements of the lease liability.

Ahlstrom-Munksjö will use 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. Payments for short-term leases, leases of low-value assets and variable lease payments not included in the measurement of the lease liability will continue to be presented as operating expenses.

**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.

**Estimates and judgements related to ROU assets**

The Group has open ended lease contracts and contracts with extension options. Management uses their best estimate according to the existing information available to evaluate the most likely end date for these types of contracts. Changes in the estimated end dates impact the amount of ROU asset and lease liability booked in the balance sheet.

**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	2019	2018
Materials and supplies	85.3	99.4
Work in progress	33.5	33.6
Finished products	203.2	234.2
Consumables and spare parts	65.7	62.4
<b>Total</b>	<b>387.6</b>	<b>429.6</b>

Change in allowance for inventory obsolescence for Finished products and Work in progress, EUR million

	2019	2018
<b>Opening</b>	<b>-23.4</b>	<b>-16.9</b>
Business combination	-	-3.2
Change in allowance for inventory obsolescence	-0.1	-1.2
Inventory write-downs through profit and loss	-3.2	-2.1
Translation differences	-0.2	0.0
<b>Closing</b>	<b>-26.8</b>	<b>-23.4</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	2019	2018
Trade receivables	218.6	290.9
Value added tax	13.0	19.0
Escrow cash account	-	0.7
Prepaid expenses and accrued income	20.6	29.4
Current derivative assets (note 19)	1.7	0.8
Other receivables	24.9	33.2
<b>Total</b>	<b>278.9</b>	<b>374.0</b>

Trade receivables consists mainly of receivables from contracts with customers.

### 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 loss allowance 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, a loss allowance of 0.0%-10.0% is made. The trade receivables, which are overdue 181-360 days a loss allowance of 60.0% will be made and for more than 360 days a loss allowance of 100.0% will be made. 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.

The ageing of trade receivable, both gross and the impaired amount, is shown in the following table.

EUR million, 2019	Not due	1-30	31-180	181-360	>360	Total
Trade receivable	186.1	29.2	3.8	-0.4	6.5	225.1
Loss allowance	-	-0.1	-0.1	-0.2	-6.0	-6.4
<b>Trade receivables</b>	<b>186.1</b>	<b>29.0</b>	<b>3.7</b>	<b>-0.7</b>	<b>0.5</b>	<b>218.6</b>

EUR million, 2018	Not due	1-30	31-180	181-360	>360	Total
Trade receivable	250.1	35.8	4.6	1.3	6.6	298.4
Loss allowance	-0.1	-0.5	-0.1	-0.7	-6.1	-7.5
<b>Trade receivables</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>

### Recoverability of trade receivable

Change in allowance for trade receivable, EUR million

Opening at January 1, 2018	-7.8
Business combination	-1.2
Increase in allowance recognized in profit or loss during the year	-0.4
Reversal of allowance	1.9
Translation differences	0.1
<b>Closing at December 31, 2018</b>	<b>-7.5</b>
Opening at January 1, 2019	-7.5
Increase in allowance recognized in profit or loss during the year	-0.7
Reversal of allowance	1.7
Translation differences	0.0
<b>Closing at December 31, 2019</b>	<b>-6.4</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 224.3 million (EUR 151.1 million). The growth during 2019 was to a large extent due to changing the securitization liability of EUR 43.7 million reported at end of the reporting period 2018 to factoring or similar arrangements.

#### Trade and other payables

Trade and other payables, EUR million	2019	2018
Trade payables	454.3	464.3
Accrued expenses	132.9	127.9
Trade payables to equity accounted investments	5.1	4.2
Current derivative liabilities (note 19)	0.5	0.8
Advances received from customers	1.9	1.9
Other liabilities	27.0	25.0
<b>Total</b>	<b>621.7</b>	<b>624.1</b>

Accrued expenses, EUR million	2019	2018
Accrued wages and salaries	21.5	22.8
Accrued vacation pay	28.3	27.9
Accrued social security costs	14.4	16.2
Accrued customer bonuses	17.7	17.3
Accrued interest expenses	9.6	8.8
Other	41.5	34.8
<b>Total</b>	<b>132.9</b>	<b>127.9</b>

Accrued expenses include rebates from contracts with customers amounting to EUR 17.7 million (EUR 17.3 million).

Trade payables to equity accounted investments comprise of trade 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.

## 15 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.

#### 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	2019	2018
Present value of funded benefit obligations	209.2	189.4
Present value of unfunded benefit obligations	64.7	60.8
Fair value of plan assets	-190.2	-167.4
Deficit/Surplus	83.7	82.8
Effect of asset ceiling	8.5	5.0
<b>Net defined benefit liability - closing</b>	<b>92.1</b>	<b>87.9</b>
Other long-term employee benefits	5.1	4.8
<b>Total net liability</b>	<b>97.2</b>	<b>92.7</b>

Changes in the present value of obligations, EUR million	2019	2018
<b>Present value of defined obligation - opening</b>	<b>250.2</b>	<b>275.7</b>
Current and past service cost	2.6	2.5
Interest cost	7.4	7.1
Remeasurement gain/loss on pension scheme liabilities	26.4	-14.4
Benefits paid	-16.9	-23.4
Other changes	-0.6	-1.6
Translation differences	4.8	4.4
<b>Present value of defined benefit obligation - closing</b>	<b>273.9</b>	<b>250.2</b>



Cont. note 15

Changes in the fair value of the plan assets, EUR million	2019	2018
<b>Opening fair value of plan assets</b>	<b>167.4</b>	<b>183.6</b>
Interest income on plan assets	5.8	5.4
Remeasurement gain/loss on pension scheme assets	21.1	-11.1
Contributions by employer	8.4	9.1
Benefits paid	-16.9	-23.4
Other changes	-0.5	-0.2
Translation differences	4.8	3.9
<b>Closing fair value of plan assets</b>	<b>190.2</b>	<b>167.4</b>

Changes in the effect of asset ceiling, EUR million	2019	2018
<b>Effect of asset ceiling – opening</b>	<b>5.0</b>	<b>2.3</b>
Changes in asset ceiling	3.0	2.7
Interest expense/income on asset ceiling	0.2	-
Translation differences	0.3	0.0
<b>Effect of asset ceiling – closing</b>	<b>8.5</b>	<b>5.0</b>

Amounts recognized in income statement, EUR million	2019	2018
<b>Personnel costs</b>		
Current service cost	-3.3	-3.5
Past service cost	0.7	1.0
<b>Finance costs</b>		
Net interest cost	-1.8	-1.8
<b>Cost recognized in income statement</b>	<b>-4.3</b>	<b>-4.3</b>

Remeasurement effects recognized in other comprehensive income (OCI), EUR million	2019	2018
Remeasurement gain/loss on pension scheme assets	21.1	-11.1
Remeasurement gain/loss on pension scheme liabilities	18.6	14.4
Remeasurement gain/loss on change in asset ceiling	-48.0	-2.7
<b>Remeasurement effects before tax</b>	<b>-8.3</b>	<b>0.6</b>
Income tax relating to remeasurement effects	1.4	-0.9
<b>Remeasurement effects recognized in OCI</b>	<b>-6.9</b>	<b>-0.3</b>

The Group expects to contribute EUR 8.7 million to its defined benefit plans in 2020.

Plan asset categories, EUR million	2019	2018
Equity instruments (listed)	41.7	34.2
Debt instruments	114.8	109.2
Property	0.0	0.3
Other	33.7	23.7

Principal actuarial assumptions, %	2019	2018
<b>USA</b>		
Discount rates	3.2	4.2
Future salary increases	n/a	n/a
Future pension increases	n/a	n/a
<b>UK</b>		
Discount rate	2.0	3.0
Future salary increases	n/a	n/a
Future pension increases	3.3	3.7
<b>France</b>		
Discount rate	0.9	1.5
Future salary increases	2.8	2.8
Future pension increases	n/a	n/a

Cont. note 15

Principal actuarial assumptions, %	2019	2018
<b>Sweden</b>		
Discount rate	1.4	2.3
Future salary increases	2.8	3.0
Future pension increases	2.8	3.0
<b>Germany</b>		
Discount rate	0.5	1.4
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, EUR million	2019	2018
Discount rate change + 0.50%	-17.1	-14.3
Discount rate change - 0.50%	18.9	15.9

Sensitivity analyses: Future salary growth, EUR million	2019	2018
Future salary growth + 0.50%	3.0	2.3
Future salary growth - 0.50%	-2.6	-2.1

Sensitivity analyses: Future pension growth, EUR million	2019	2018
Future pension growth + 0.50%	6.7	6.0
Future pension growth - 0.50%	-6.2	-5.4

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 company 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, 2019	Environmental	Restructuring	Other	Total
<b>Opening</b>	<b>18.8</b>	<b>14.8</b>	<b>4.6</b>	<b>38.2</b>
Unwinding of discount	0.6	-	-	0.6
Provisions made during the year	0.7	8.1	2.4	11.2
Provisions used during the year	-0.6	-8.7	-3.4	-12.7
Provisions reversed	-	-0.1	-0.3	-0.4
Reclassification	-3.2	-0.1	3.3	-
Translation differences	0.2	-0.1	0.0	0.2
<b>Closing</b>	<b>16.4</b>	<b>14.1</b>	<b>6.7</b>	<b>37.1</b>
Non-current provisions				24.3
Current provisions				12.8

Environmental provisions of EUR 16.4 million mainly consist of landfill related provisions in the U.S. EUR 9.9 million, future restoration costs of old Fitchburg mill in the U.S. and old buildings in Sweden.

Provisions made are mainly related to the restructuring in the U.S. and France. For the most part the provisions used relates to the Stenay mill in France.

Provisions, EUR million, 2018	Environmental	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

**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 2019 the ratio was 71.8% (82.8%).

### 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 lease liabilities to secure the availability of assets used in the production process.

Net debt, EUR million	2019	2018
Bonds	249.2	248.8
Bank loans	738.8	853.1
Securitization liability	-	43.7
Lease liabilities <sup>1</sup>	57.3	4.2
Other financial liabilities	5.8	7.4
<b>Gross borrowings</b>	<b>1,051.1</b>	<b>1,157.2</b>
<b>Less: Cash and cash equivalents</b>	<b>166.1</b>	<b>151.0</b>
<b>Less: Securitization liability</b>	<b>-</b>	<b>43.7</b>
<b>Net debt</b>	<b>885.0</b>	<b>962.5</b>

<sup>1</sup> 2018 finance lease liabilities (IAS 17)

Classification of certain balance sheet items between interest-bearing and non-interest-bearing assets and liabilities were redefined in 2019. All comparative periods have been restated accordingly.

### Reconciliation of net debt

An analysis of the changes in net debt is provided below.

Reconciliation of net debt, EUR million, 2019	Opening	Business Combination	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	1,157.2	-	-180.3	60.6	13.5	1,051.1
Securitization liability	-43.7	-	44.7	-	-1.0	-
Cash and cash equivalents	151.0	-	13.9	-	1.2	166.1
<b>Net debt</b>	<b>962.5</b>	<b>-</b>	<b>-149.5</b>	<b>60.6</b>	<b>11.3</b>	<b>885.0</b>

Reconciliation of net debt, EUR million, 2018	Opening	Business Combination	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	616.5	57.2	487.7	-6.7	2.5	1,157.2
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>370.7</b>	<b>13.7</b>	<b>578.5</b>	<b>-6.7</b>	<b>6.3</b>	<b>962.5</b>

### Borrowings

Ahlstrom-Munksjö's bank loans include several facilities. These facilities consist mainly of, in original nominal amounts, a term facility of EUR 200 million maturing in 2021; a multicurrency revolving credit facility of EUR 200 million and term facilities in EUR, SEK and USD totaling to approximately EUR 209 million maturing in 2022; term facilities in EUR and USD totaling to approximately EUR 339 million maturing in 2023; and a working capital credit facility of BRL 330 million maturing in 2023.

On December 13, 2019 Ahlstrom-Munksjö issued a EUR 100 million hybrid bond. The hybrid bond does not have a specified maturity date, but Ahlstrom-Munksjö may redeem the hybrid bonds for the first time on February 13, 2024, or on any interest payment date thereafter. The hybrid bond is subordinated to Ahlstrom-Munksjö's other debt obligations and treated as equity in the IFRS financial statements. The hybrid bond bears interest at a fixed rate of 3.879 percent per annum until February 13, 2024. More information about the hybrid bond can be found on note 18. The proceeds from the hybrid bond issue were used to partly repay and refinance the EUR 200 million term facility maturing on 2021.

During 2018, 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 (EUR 150 million facility) 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 is repaid on a semi-annual instalments of EUR 5 million that started on May 31, 2019 and the

Cont. note 17

Facility B will be repaid in 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).

Furthermore, during 2018 Ahlstrom-Munksjö assumed in the Expera acquisition a securitization liability presented within current borrowings in the balance sheet. The financing received under this arrangement amounted to EUR 43.7 million as at December 31, 2018. Securitization liability was repaid and cancelled in full on April 17, 2019.

To finance the Caieiras acquisition, the Group withdrew a BRL 330.0 million loan on October 10, 2018 (see note 3). The loan will mature in 2023.

At the balance sheet date, the weighted average interest rate, excluding hybrid bond and lease liabilities, for the Group was approximately 3.4 % (3.3%). Net debt amounted to EUR 885.0 million (EUR 962.5 million) at December 31, 2019, resulting in a gearing of 71.8 % (82.8%). According to Ahlstrom-Munksjö's current financial covenants 2019, 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%. IFRS16 impact is excluded from the debt covenant calculations. 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 June 9, 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 June 9, 2022. The coupon of the bond is fixed. No specific guarantee has been given in relation to their issuance.

Notional currency	Initial notional amount, EUR million	Maturity	Coupon, %	Carrying value, EUR million	
				2019	2018
EUR	250.0	June 9, 2022	1.88%	249.2	248.8

#### Bank loans

The Group has the following bank loans as at December 31, 2019. The long term loans have maturity dates ranging from 2021 - 2023. The loans carry interest based on reference rates (floor at 0%) + a margin.

2019 Notional currency	Weighted average interest rate, %	Carrying value, EUR million
<b>Committed loans from banks grouped by currency</b>		
EUR	2.2	283.7
USD	4.9	266.6
SEK	2.5	57.4
BRL	8.0	79.9
<b>Uncommitted loans from banks grouped by currency</b>		
CNY	4.6	51.2

2018 Notional currency	Weighted average interest rate, %	Carrying value, EUR million
<b>Committed loans from banks grouped by currency</b>		
EUR	1.9	405.9
USD	5.0	257.6
SEK	1.9	58.5
BRL	7.9	74.3
<b>Uncommitted loans from banks grouped by currency</b>		
CNY	5.7	53.9
Other	5.3	2.9

For further information on the maturity of 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 interest rate floor at zero. Accordingly, if the reference rates are below zero, the Group's interest payments correspond to the margin.

Most of the Group's bank loans are at variable interest rates, which for loans denominated in euros in essence fixed when the reference interest rate is below zero, due to the interest rate floor in the bank loans. The bond is a fixed rate borrowing. The average maturity of the total debt portfolio, excluding hybrid bond and lease liabilities, is currently 8 months (10 months).

Cont. note 17

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 in note 19.

### Sensitivity analysis of Ahlstrom-Munksjö position to changes in interest rates

The impact of reasonably possible interest rate fluctuation on the Group's profit before tax is shown in the table below at year-ends.

Interest rate sensitivity, EUR million	2019	2018
Variable rate cash equivalents	166.1	151.0
Variable rate bank loans	-734.5	-853.1
<b>Position used in sensitivity analysis</b>	<b>-568.4</b>	<b>-702.1</b>
Interest +1%, impact on net profit	-4.8	-4.9
Interest +2%, impact on net profit	-10.5	-11.9

### 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>

Only the comparison period is presented as due to IFRS 16 adoption January 1, 2019 as most of the lease contracts were recognized in the balance sheet.

### 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	2019	2018
<b>Total</b>	<b>166.1</b>	<b>151.0</b>

Bank deposits earn variable interest based on the bank's daily deposit rate.

The Group redefined its definition on restricted cash for 2019 to include cash balances that are subject to regulatory restrictions or other limitations. The cash and cash equivalents disclosed above include EUR 45.7 million (EUR 34.8 million) of cash balances that are subject to regulatory restrictions or other limitations, and are therefore not immediately available to the other entities of the Group. In 2018, the reported restricted cash EUR 0.7 million included only escrow account balances.



### 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.

#### Lease liabilities

For the accounting policy please see note 12.

#### 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. Restricted cash includes cash balances that are subject to regulatory restrictions or other limitations, and are therefore not immediately available to the other entities of the Group.

## 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 to shareholders several times a year.

In 2019, the Company paid dividends to its shareholders totaling to EUR 59.9 million (EUR 50.0 million) paid in two installments in April and in October. 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 four different installments, three during the year 2020 (April, July and October) and the last installment in January 2021.

### Distributable funds of Ahlstrom-Munksjö

The following table shows distributable funds of the parent company Ahlstrom-Munksjö Oyj as at December 31, 2019 and December 31, 2018:

Distributable funds, EUR million	2019	2018
Reserve for invested unrestricted equity	558.7	558.7
Retained earnings	160.5	180.7
Net profit	82.6	39.9
- Less capitalized development costs	-0.5	-1.9
<b>Total distributable funds</b>	<b>801.3</b>	<b>777.4</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, 2019, Ahlstrom-Munksjö share capital amounts to EUR 85.0 million (EUR 85.0 million) and the total number of shares is 115,653,315 (115,653,315). The shares have been entered into the Finnish book-entry securities system maintained by Euroclear Finland.

### Reserve for invested unrestricted equity and other reserves

#### Rights issue

Ahlstrom-Munksjö completed a rights offering of new shares in December 2018. A total of 19,211,910 shares 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 December 28, 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 right 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, 2018</b>	<b>96,438,573</b>
Rights issue	19,214,742
<b>Closing at December 31, 2018</b>	<b>115,653,315</b>
<b>Closing at December 31, 2019</b>	<b>115,653,315</b>

### Treasury shares

During the year 2019, Ahlstrom-Munksjö didn't repurchase any own shares. As at December 31, 2019, Ahlstrom-Munksjö holds 364,862 of its own shares, corresponding approximately 0.3% of the total shares and votes.

Shareholders' Meeting held in March 2019 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

## Cont. note 18

number of shares to be repurchased or accepted as pledge by virtue of the authorization shall not exceed 11,500,000 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.

The following table shows the movements in treasury shares:

	Number of shares	Cost, EUR million
<b>Closing at December 31, 2018</b>	<b>364,862</b>	<b>6.3</b>
<b>Closing at December 31, 2019</b>	<b>364,862</b>	<b>6.3</b>

### Hybrid bond

On December 13, 2019 Ahlstrom-Munksjö issued a EUR 100 million hybrid bond. The hybrid bond does not have a specified maturity date, but Ahlstrom-Munksjö may redeem it for the first time on February 13, 2024, or on any interest payment date thereafter. It bears interest at a fixed rate of 3.879 percent per annum until February 13, 2024. The proceeds from the hybrid bond issue were used to partly repay and refinance the EUR 200 million term facility maturing on 2021. The hybrid bond will be subordinated to Ahlstrom-Munksjö's debt obligations and is treated as equity in Ahlstrom-Munksjö's consolidated financial statements prepared in accordance with IFRS. The hybrid bond does not confer their holder the rights of a shareholder and does not dilute the holdings of the current shareholders.

The hybrid bond includes a disposal event call option, entitling Ahlstrom-Munksjö to redeem the hybrid bond in a disposal event where the related aggregate disposal proceeds are equal or greater than the outstanding aggregate amount of the hybrid bond. In such event, Ahlstrom-Munksjö is entitled to redeem the hybrid bond in whole, but not in part, on the first anniversary following the hybrid bond issue date and at any time thereafter at 103 percent of their nominal amount together with accrued interest to the date of redemption.



### 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.

### Hybrid bond

The hybrid bond is treated as equity in the consolidated financial statements. Interest on the hybrid bond is not accrued but is recorded in the consolidated financial statements in retained earnings, net of taxes, after dividend approved by the Annual General Meeting. The arrangement fees are recorded in retained earnings.

### 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 a hybrid bond. Interest on hybrid bond is charged to retained earnings as well as the related arrangement fees.
- 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 risk.

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 Directors of Ahlstrom-Munksjö. The Board of Directors 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. In 2018 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 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 the total turnover of the 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, 2019, the fair value of the forwards under hedge accounting was EUR 1.3 million. In 2019, the Group booked gain of EUR 3.2 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.

#### Cash flows by currency before hedging activities

EUR million, 2019	EUR	SEK	USD	BRL	CNY	KRW	Other
Net sales	1,290	43	1,281	159	67	14	63
Operating costs	-1,151	-157	-1,083	-161	-55	-36	-59
<b>Net cash flow</b>	<b>139</b>	<b>-114</b>	<b>197</b>	<b>-2</b>	<b>12</b>	<b>-21</b>	<b>3</b>



#### 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>

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 74% (December 31, 2018: 75%) for USD and about 67% for SEK (December 31, 2018: 70%). The exposures in other currencies are limited and not

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hedged. Outstanding nominal amounts at the end of the year for these forward contracts were USD 27 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.

EUR million, Q1-Q3 2020	EUR	SEK	USD	BRL	CNY	KRW	Other
Currency change of 5% to EUR	-	-1.1	0.5	0.7	0.4	-0.8	-0.7

The parent company has provided financing (or received deposits) to (from) its foreign subsidiaries which have been hedged by using forward contracts at December 31, 2019. Hedge accounting is not applied to these relationships. The nominal amounts of the loans are USD 5 million, CNY 25 million, and GBP 20 million, the nominal amount of the deposit is JPY 631 million. These amounts correspond to the nominal amounts of the forward contracts, which have a maturity of three months and are adjusted according to the open balances. 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 -0.1 million at December 31, 2019.

#### 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. For 2018, the table includes also a USD denominated intercompany loan (USD 365 million) that is accounted for as part of the net investment in a US subsidiary. The loan was converted to equity during 2019.

Group translation exposure, EUR million	Net investment in subsidiaries	
	2019	2018
USD	550.2	483.8
SEK	115.5	135.0
BRL	93.5	101.5
KRW	51.1	48.2
CNY	39.7	43.6

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	KRW	CNY
Currency change of 5% to EUR	29.0	6.1	4.9	2.7	2.1



#### 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 forecasted transaction or 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 forecasted transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecasted 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 or 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, <b>2019</b>	2020	2021	2022	2023-	Total
<b>Non-derivative financial liabilities</b>					
Bonds	-	-	250.0	-	250.0
Bank loans	90.2	127.5	147.6	373.5	738.8
Lease liabilities	12.7	10.5	8.8	25.4	57.3
Other financial liabilities	4.5	2.8	2.9	0.3	10.4
Trade payables	459.4	-	-	-	459.4
<b>Total</b>	<b>566.8</b>	<b>140.8</b>	<b>409.3</b>	<b>399.1</b>	<b>1,516.0</b>
Future interest on financial liabilities	35.9	34.5	26.7	19.0	116.0
<b>Derivative financial liabilities</b>					
Forward exchange contracts used for hedging:					
- Outflow	128.3	-	-	-	128.3
- Inflow	-128.2	-	-	-	-128.2

Maturity of financial liabilities, EUR million, <b>2018</b>	2019	2020	2021	2022-	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 (IAS 17)	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
<b>Derivative financial liabilities</b>					
Forward exchange contracts used for hedging:					
- Outflow	-135.5	-	-	-	-135.5
- Inflow	134.8	-	-	-	134.8

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The table below represents the total amount of funds that are available to the Group at year end. In addition to bank overdrafts and cash and cash equivalents, the Groups funding programmes include a committed Revolving Credit Facility of EUR 200 million (maturing in 2022), a Finnish Commercial Paper programme totalling EUR 300 million and available uncommitted bank overdrafts.

Liquidity position, EUR million	2019	2018
Available committed bank overdrafts	14.0	12.5
Cash and cash equivalents	166.1	151.0
Committed Revolving Credit Facility	200.0	200.0
Finnish Commercial Paper programme	300.0	300.0
Available uncommitted bank overdrafts	97.5	80.6
<b>Liquidity position</b>	<b>777.6</b>	<b>744.1</b>

Ahlstrom-Munksjö uses factoring or similar arrangements for working capital management. 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 other similar arrangements was EUR 224.3 million (EUR 151.1 million). For more information please see note 14.

#### 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 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>2019</b>			
Derivative assets	1.7	-0.5	1.2
Derivative liabilities	-0.5	0.5	-
<b>2018</b>			
Derivative assets	0.8	-0.6	0.2
Derivative liabilities	-0.9	0.6	-0.3



#### 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.

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**Financial assets and liabilities by category**

Financial assets and liabilities recognized in the balance sheet include cash and cash equivalents, loans receivables 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, 2019	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	19.3	6.0	5.5	-	0.5	-
<b>Current assets</b>						
Trade and other receivables	278.9	220.8	219.0	0.2	-	1.5
Cash and cash equivalents	166.1	166.1	166.1	-	-	-
<b>Carrying amount by measurement category</b>	<b>464.3</b>	<b>392.9</b>	<b>390.7</b>	<b>0.2</b>	<b>0.5</b>	<b>1.5</b>
<b>Non-current liabilities</b>						
Non-current borrowings	899.0	899.0	899.0	-	-	-
Non-current lease liability	44.2	44.2	44.2	-	-	-
Other non-current liabilities	1.4	0.5	0.5	-	-	-
<b>Current liabilities</b>						
Current borrowings	94.8	94.8	94.8	-	-	-
Current lease liability	13.1	13.1	13.1	-	-	-
Trade and other payables	621.7	461.8	461.3	0.2	-	0.3
<b>Carrying amount by measurement category</b>	<b>1,674.2</b>	<b>1,513.4</b>	<b>1,512.9</b>	<b>0.2</b>	<b>-</b>	<b>0.3</b>

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	1,020.4	1,020.4	1,020.4	-	-	-
Non-current finance lease liability	3.1	3.1	3.1	-	-	-
Other non-current liabilities	1.7	0.6	0.6	-	-	-
<b>Current liabilities</b>						
Current borrowings	132.7	132.7	132.7	-	-	-
Current finance lease liability	1.1	1.1	1.1	-	-	-
Trade and other payables	624.1	480.1	479.2	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>

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**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	2019			2018		
	Carrying value	Fair value	Level	Carrying value	Fair value	Level
<b>Non-current financial instruments measured at amortized cost</b>						
Bonds	249.2	257.7	1	248.8	253.2	1
Bank loans	649.8	649.8	2	771.6	771.6	2
Lease liabilities <sup>1</sup>	44.2	44.2	2	3.1	3.1	2
<b>Financial instruments measured at fair value</b>						
Forward contracts - under hedge accounting	1.3	1.3	2	0.2	0.2	2
Forward contracts - fair value through income statement	-0.1	-0.1	2	-0.3	-0.3	2

<sup>1</sup> 2018 finance lease liabilities (IAS 17)

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 carrying amounts of non-current and current loan from financial institutions and other loan are measured at amortized cost using the effective interest rate. The fair value amounts are reasonable approximations of their carrying amounts.

**Accounting policies****Financial assets measured at amortized cost**

The group classifies its financial assets as at amortized 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 (see note 14), as well as through the amortization process. This category of financial assets includes trade and other receivables and cash equivalents (see 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 profit or loss (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 recognised 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 (see note 17).

### 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 lease liabilities 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 had the following off-balance sheet commitments at the balance sheet date.

Off-balance sheet commitments, EUR million	2019	2018
<b>Assets pledged:</b>		
Pledges	0.9	1.0
<b>Commitments:</b>		
Guarantees and commitments given on behalf of Group companies	56.5	56.9
Capital expenditure commitments	15.7	43.2
Other guarantees and commitments	40.9	31.8

Guarantees and commitments given on behalf of Group companies include a pension liability guarantee EUR 20.4 million (EUR 20.1 million) in the U.K.

Capital expenditure commitments are mainly related to investments in Turin, Italy and North America Specialty Solutions business area in the U.S.

Other guarantees and commitments include binding contract for purchases of energy among others.

At the end of December, 2019, the Group does not have any contingent liabilities.



### 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.

#### Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed by uncertain future events that are not wholly within the control of the entity. They can also include obligations that are not recognized because their amount cannot be measured reliably or because settlement is not probable. A contingent liability is not recognized in the statement of financial position but as off-balance sheet commitments.

## 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 862,147 m<sup>3</sup> (793,817 m<sup>3</sup>) of wood and woodchips amounting to EUR 44.0 million (EUR 40.8 million).

Book value of associated company, EUR million	2019	2018
Book value at the beginning of the year	1.1	1.2
Share of earnings for the year	0.2	0.0
Translation differences	0.0	-0.1
<b>Book value at year end</b>	<b>1.4</b>	<b>1.1</b>
Share of Sydved AB's assets, equity, net sales and profit before tax, EUR million	2019	2018
Assets	21.3	22.1
Equity	1.1	0.9
Net sales	101.1	97.0
Profit before tax	0.3	0.0

The carrying value of the associated company Sydved AB has no goodwill included. The Group's liabilities to Sydved amounted to EUR 5.1 million (EUR 4.2 million). Share of profit of the associated company is EUR 0.2 million (EUR 0.0 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 5.4 million (EUR 4.5 million).

### 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
Ahlstrom-Munksjö Aspa Bruk AB	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
Munksjö Paper S.p.A	Italy	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
PT Ahlstrom 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 Chirside 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 Oy	Finland	100
Ahlstrom-Munksjö Tver LLC	Russia	100
Ahlstrom-Munksjö Industries S.A.S.	France	100



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Company name	Registered office	Share of equity %
Ahlstrom-Munksjö Brignoud S.A.S.	France	100
Ahlstrom-Munksjö Tampere Oy	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 Stålldalen 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 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 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, Norway, 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, i.e. 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 2019 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	2019	2018
Audit fees	-1.4	-1.2
Audit-related fees	-0.2	-0.4
Tax service fees	-0.1	-0.2
Other fees	0.0	0.0
<b>Total</b>	<b>-1.7</b>	<b>-1.8</b>

KPMG Oy Ab has provided non-audit services to the entities of Ahlstrom-Munksjö Group in total of EUR 0.0 million (EUR 0.1 million) during the financial year 2019.

**23 NEW ACCOUNTING STANDARDS****IFRS 17 Insurance Contracts**

This standard is not endorsed for use by the European Union as of December 31, 2019. IASB's proposal effective for financial years beginning on or after January 1, 2022.

The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4 standard. The Group does not expect any impact on the financial statements regarding this new standard.

**24 POST-BALANCE SHEET EVENTS**

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 2019.

# 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:

- Hybrid bond is treated as liability and the associated interests and arrangement fees are booked in the Income Statement
- 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	2019	2018
<b>Net sales</b>	<b>103.0</b>	<b>94.6</b>
Other operating income	0.0	0.3
Personnel costs	-7.7	-5.4
Depreciation and amortization	-6.5	-5.1
Other operating expense	-57.7	-55.5
	<b>-72.0</b>	<b>-66.0</b>
<b>Operating profit</b>	<b>31.0</b>	<b>28.9</b>
<b>Financing income and expense</b>		
Dividend income	43.8	34.3
Interest and other financing income	23.6	20.0
Interest and other financing expense	-23.2	-30.0
Gains and losses on foreign currency	7.1	2.4
	<b>51.2</b>	<b>26.8</b>
<b>Profit before appropriations and taxes</b>	<b>82.3</b>	<b>55.7</b>
<b>Appropriations</b>		
Change in cumulative accelerated depreciation	0.1	0.1
Group contributions	6.4	-12.8
	<b>6.5</b>	<b>-12.7</b>
Income taxes	-6.1	-3.1
<b>Net profit</b>	<b>82.6</b>	<b>39.9</b>

**Balance sheet**

EUR million	Dec 31, 2019	Dec 31, 2018
<b>ASSETS</b>		
<b>Non-current assets</b>		
<i>Intangible assets</i>		
Development expenses	0.5	-
Intangible rights	10.7	3.8
Other long term expense	21.6	25.5
Advances paid	12.5	8.9
	<b>45.3</b>	<b>38.2</b>
<i>Tangible assets</i>		
Land and water areas	0.0	0.0
Machinery and equipment	0.2	0.3
Other tangible assets	0.1	0.1
Advances paid and construction in progress	0.0	0.3
	<b>0.3</b>	<b>0.7</b>
<i>Long-term investments</i>		
Shares in Group companies	1,585.0	1,154.4
Shares in other companies	0.1	0.1
	<b>1,585.0</b>	<b>1,154.4</b>
<b>Current assets</b>		
<i>Long-term receivables</i>		
Receivables from Group companies	184.6	605.0
Deferred tax assets	0.6	0.7
	<b>185.2</b>	<b>605.6</b>
<i>Short-term receivables</i>		
Receivables from Group companies	39.5	83.9
Other short-term receivables	0.2	2.3
Prepaid expenses and accrued income	6.0	2.9
	<b>45.7</b>	<b>89.2</b>
Cash and cash equivalents	104.0	86.3
<b>TOTAL ASSETS</b>	<b>1,965.7</b>	<b>1,974.5</b>

EUR million	Dec 31, 2019	Dec 31, 2018
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	85.0	85.0
Non-restricted equity reserve	558.7	558.7
Retained earnings	160.5	180.7
Net profit	82.6	39.9
	<b>886.9</b>	<b>864.3</b>
<b>Appropriations</b>		
Cumulative accelerated depreciation	0.2	0.2
	<b>3.1</b>	<b>3.3</b>
<b>Provisions for contingencies</b>		
	<b>3.1</b>	<b>3.3</b>
<b>Liabilities</b>		
<i>Long-term liabilities</i>		
Hybrid bond	100.0	-
Loans from financial institutions	587.4	711.3
	<b>687.4</b>	<b>711.3</b>
<i>Short-term liabilities</i>		
Loans from financial institutions	26.0	26.0
Trade payables	6.4	6.4
Liabilities to Group companies	342.6	348.5
Other short-term liabilities	0.3	0.1
Accrued expenses and deferred income	12.7	14.4
	<b>388.1</b>	<b>395.4</b>
<b>Total liabilities</b>	<b>1,075.5</b>	<b>1,106.7</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,965.7</b>	<b>1,974.5</b>

## Cash flow statement

EUR million	2019	2018
<b>Cash flow from operating activities</b>		
Operating profit	31.0	28.9
Depreciation, amortization and write-downs	6.5	5.1
Other adjustments	-0.1	-1.1
<b>Operating profit before change in net working capital</b>	<b>37.5</b>	<b>32.9</b>
Change in net working capital	-4.0	1.4
<b>Cash generated from operations</b>	<b>33.5</b>	<b>34.3</b>
Interest income	23.7	21.0
Interest and other financing expense	-15.6	-17.8
Income taxes	-5.0	-0.7
<b>Net cash from operating activities</b>	<b>36.6</b>	<b>36.8</b>
<b>Cash flow from investing activities</b>		
Capital expenditures	-11.3	-26.3
Capital injections in Group companies	-450.6	-75.3
Capital refund from Group companies	20.0	13.8
Proceeds from sale of other shares	0.2	-0.0
Liquidation of subsidiary shares	-	2.4
Dividends received	43.8	34.3
<b>Net cash from investing activities</b>	<b>-397.9</b>	<b>-51.0</b>

EUR million	2019	2018
<b>Cash flow from financing activities</b>		
Rights issue	-	150.1
Change in loans receivable and short-term investments	417.4	-307.5
Hybrid bond	100.0	-
Change in long-term debt	-125.3	184.6
Change in short-term debt	47.0	7.1
Dividends paid	-60.0	-50.0
<b>Net cash from financing activities</b>	<b>379.0</b>	<b>-15.7</b>
<b>Net change in cash and cash equivalents</b>	<b>17.7</b>	<b>-30.0</b>
Cash and cash equivalents at the beginning of the period	86.3	116.3
<b>Cash and cash equivalents at the end of the period</b>	<b>104.0</b>	<b>86.3</b>

# Proposal for the distribution of profits

The Parent Company's balance sheet on December 31, 2019 shows:

	EUR
Non-restricted equity reserve	558,737,599.61
Retained earnings	160,492,559.50
Net profit	82,637,186.75
- Less capitalized development costs	-540,136.00
<b>Total distributable funds</b>	<b>801,327,209.86</b>

The Board of Directors proposes to the Annual General Meeting to be held on March 25, 2020 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	183,179,750.69
- less capitalized development costs	-540,136.00
	<b>801,327,209.86</b>

The dividend shall be paid in four instalments. The first instalment of EUR 0.13 per share shall be paid to a shareholder who on the record date of the payment, March 27, 2020, 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 3, 2020.

The second instalment of EUR 0.13 per share shall be paid in July 2020 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. The Board of Directors shall resolve on the payment separately. The preliminary record date of the payment is July 2, 2020 and the preliminary payment date July 9, 2020.

The third instalment of EUR 0.13 per share shall be paid in October 2020 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. The Board of Directors shall resolve on the payment separately. The preliminary record date of the payment is October 2, 2020 and the preliminary payment date October 9, 2020.

The fourth instalment of EUR 0.13 per share shall be paid in January 2021 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. The Board of Directors shall resolve on the payment separately. The preliminary record date of the payment is January 4, 2021 and the preliminary payment date January 11, 2021.

Helsinki, February 12, 2020

Peter Seligson

Alexander Ehrnrooth

Jaakko Eskola

Johannes Gullichsen

Lasse Heinonen

Hannele Jakosuo-Jansson

Harri-Pekka Kaukonen

Valerie A. Mars

Elisabet Salander Björklund

Hans Sohlström  
CEO

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

# 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 2019. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

#### In our opinion

- The consolidated financial statements give a true and fair view of the group's financial position, 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 accounting principles for the consolidated financial statements and note 12)**

- At the end of the financial year, the group had EUR 643 million of goodwill and EUR 499 million of other intangible assets. The goodwill amounts to 52 % of the group equity and 20 % of the group's total assets at 31 December, 2019.
- Goodwill is tested for impairment when indicators of impairment exist, or at least annually. Goodwill impairment testing is conducted by comparing the carrying value with the recoverable amount using a discounted cash flow model.
- Determining the key assumptions used in the impairment tests requires management judgement and estimates especially relating to 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.
- Valuation of goodwill and acquisition related intangible assets are considered a key audit matter due to the significant carrying values and high level of management judgement involved.
- We assessed the impairment tests prepared by the Company.
- Our detailed audit work with the involvement of KPMG valuation specialists included testing the integrity of the calculations and the technical model. We challenged the assumptions used by management in respect of forecasted growth rates and profitability as well as the appropriateness of the discount rates used. We also validated the assumptions used in relation to market and industry information.
- We also evaluated the cash flows used by comparing them to the group's budgets and to 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.

**Revenue recognition (refer to accounting principles for the consolidated financial statements and note 5)**

- 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 the large volumes of transactions and the fact that the revenue is generated through subsidiaries in different countries makes revenue recognition an area of focus in the audit and is therefore determined as a key audit matter.
- 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 accounting principles of the consolidated financial statements and note 13)**

- The value of inventories amounted to EUR 388 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.
- Due to the significant carrying amount and management judgement involved, valuation of inventories is determined as a key audit matter that our audit is focused on.
- 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 6 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, 12 February 2020  
KPMG OY AB

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.

# Ahlstrom-Munksjö shares and shareholders

Ahlstrom-Munksjö's shares are listed on the Nasdaq Helsinki and 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, 2019, Ahlstrom-Munksjö's share capital amounted to EUR 85.0 million, and the total number of shares since December 28, 2018 has been 115,653,315, following a rights issue that increased the number of shares by 19,214,742 from 96,438,573. Ahlstrom-Munksjö held a total of 364,862 of its own shares, corresponding to approximately 0.3% of total shares and votes.

## Contact Investor Relations



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### Juho Erkheikki

Investor Relations Manager

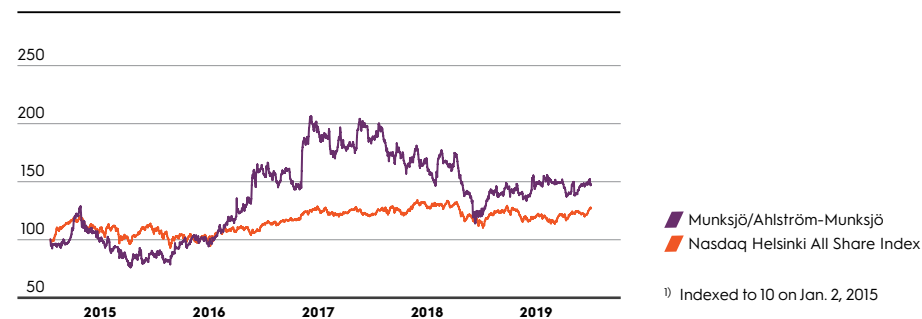
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## Share price performance and trading

	Nasdaq Helsinki		Nasdaq Stockholm	
	2019	2018	2019	2018
Share price at the end of the period, EUR/SEK	14.32	12.12	149.60	124.40
Highest share price, EUR/SEK	15.18	20.10	165.00	197.40
Lowest share price, EUR/SEK	11.90	10.68	121.40	110.00
Market capitalization at the end of the period*, EUR million	1,650.9	1,379.3	N/A	N/A
Trading value, EUR/SEK million	184.5	192.0	214.6	335.2
Trading volume, shares million	13.3	12.8	1.5	2.2
Average daily trading volume, shares	53,330	51,343	5,831	8,825

## SHARE PRICE DEVELOPMENT<sup>1)</sup>



**Total shareholder return (TRS)**

	2019	2018	2017	2016	2015	Total
Ahlstrom-Munksjö	22.5%	-27.4%	17.9%	93.4%	-9.9%	85.7%
Nasdaq Helsinki All Share Index	17.4%	-4.8%	9.1%	10.8%	13.6%	53.6%
Nasdaq Stockholm All Share Index	31.0%	-4.7%	8.9%	13.1%	9.7%	46.2%

**Payout and yield**

	2019*	2018	2017	2016	2015
Return on equity / Dividend per share, EUR	0.52	0.52	0.52	0.47**	0.30
Effective yield, %	3.6	4.3	2.9	3.0	3.5

\* Proposal to the AGM

\*\* Converted by using the same number of shares as in 2017

**Shareholders**

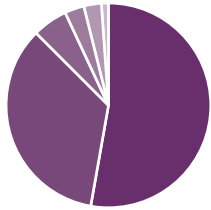
Ahlstrom-Munksjö had 12,853 shareholders at the end of 2019 (12,095 as of Dec. 31, 2018) according to Euroclear Finland Ltd. The largest shareholders include Ahlström Capital and Viknum AB, which both hold over ten percent of the company's share capital. For more information on the shareholders, please 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, 2019**

Shareholder	Shares	% of shares
1 Ahlström Capital Oy	21,618,957	18.69
2 Viknum AB	14,048,006	12.15
3 Ilmarinen Mutual Pension Insurance Company	3,382,789	2.92
4 Odin Sverige	2,581,264	2.23
5 Huber Mona Lilly	2,294,006	1.98
6 Varma Mutual Pension Insurance Company	2,089,532	1.81
7 Tracewski Jacqueline	1,512,926	1.31
8 Seligson Peter	1,304,061	1.12
9 Nahi Kai Anders Bertel	1,283,030	1.11
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 Elo Mutual Pension Insurance Company	1,090,434	0.94
17 Huber Samuel	1,041,307	0.90
18 Lund Niklas Roland	1,034,920	0.89
19 Nordea Funds	1,017,719	0.88
20 Koivulehto Monica	981,690	0.85
20 largest shareholders total	62,278,818	53.85
Nominee registered	16,733,532	14.47
Other shares	36,640,965	31.68
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, 2019



- Foreigners (outside Finland), **53%**
- Households in Finland, **34%**
- Public sector (incl. mutual pensions), **6%**
- Private companies, **3%**
- Fin. and ins. Institutions, **3%**
- Non-profit org., **1%**

Number of shares	Number of shareholders	%	Number of shares	%
1 - 100	5,272	41.02	309,596	0.27
101 - 500	4,844	37.69	1,167,636	1.01
501 - 1,000	1,257	9.78	905,008	0.78
1,001 - 5,000	1,073	8.35	2,206,236	1.91
5,001 - 10,000	137	1.07	959,860	0.83
10,001 - 50,000	110	0.86	2,592,496	2.24
50,001 - 100,000	31	0.24	2,171,183	1.88
100,001 - 500,000	96	0.75	22,597,663	19.54
> 500,000	33	0.26	82,743,637	71.55
<b>Total</b>	<b>12,853</b>	<b>100.00</b>	<b>115,653,315</b>	<b>100.00</b>
Nominee registered			16,733,532	14.47

**Information for shareholders**

The Annual General Meeting of Shareholders (AGM) of Ahlstrom-Munksjö Oyj will be held on Wednesday, March 25, 2020 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 13, 2020. As instructed on the notice, shareholders participating in the AGM must give prior notice to attend by March 20, 2020.

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 13, 2020, 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-2020](http://www.ahlstrom-munksjo.com/agm-2020).

**Financial information in 2020**

- Financial statements release 2019: February 13, 2020
- Annual report 2019: During the week starting February 25, 2020
- Interim report January-March 2020: April 23
- Half-year report January-June 2020: July 28
- Interim report January-September 2020: October 28

**Analysts**

The following investment banks and brokerage firms cover Ahlstrom-Munksjö in their research.

- Danske
- Inderes
- Handelsbanken
- Kepler Cheuvreux
- Nordea
- OP Cooperative
- 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: Reporting Principles

This is Ahlstrom-Munksjö's third 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 nonfinancial 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, 2019 to December 31, 2019. Ahlstrom-Munksjö's Annual and Sustainability Report 2018 was published on February 28, 2019.

## 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 first materiality assessment, which was completed in 2017, and on the results of a second assessment completed in 2019. The materiality assessment 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 2018 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 2019, 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 2019 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 contained in the five focus themes of People, Sustainable Supply Chain, Environment, Business Ethics and Sustainable Solutions.

(Material topics elaborated in Non-Financial Information document)

# GRI CONTENT INDEX - General Disclosures

Disclosure Number	Description	Response/Page
<b>GRI 102: GENERAL DISCLOSURES</b>		
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102-9	Supply chain	51,57-58
102-10	Significant changes to the organization and its supply chain	4, 5-6, 25
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102-14	Statement from senior decision-maker	5-6
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<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behaviour	10-13, 18-23 <a href="http://www.ahlstrom-munksjo.com/Careers/code-of-conduct/">www.ahlstrom-munksjo.com/Careers/code-of-conduct/</a>
<b>Governance</b>		
102-18	Governance structure	42, 73-91

Total number of employees	
<b>a) By gender</b>	
Female	1,440
Male	6,662
<b>b) By region</b>	
Belgium	78
Brazil	710
China	331
Finland	198
France	1,602
Germany	546
India	102
Indonesia	3
Italy	538
Japan	3
Korea	121
Lithuania	5
Mexico	3
Poland	1
Russia	81
Spain	170
Sri Lanka	2
Sweden	813
Taiwan	3
Thailand	8
UK	187
USA	2,597
<b>c) By employment type</b>	
Full time 7,914 of which Female 1,334, Male 6,580	
Part time 188, of which Female 106, Male 82	
<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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<b>Stakeholder engagement</b>		
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<b>Reporting practice</b>		
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102-49	Reporting period	Reported metrics are for the full year.
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102-56	External assurance	The GRI-report has not been audited

## GRI CONTENT INDEX - Topic-Specific Standards

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205-2	Communication and training about anti-corruption policies and procedures	<b>Business ethics</b>
<b>GRI 305: EMISSIONS</b>		
103-1	Explanation of the material topic and its Boundary	46, 51, 60
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103-3	Evaluation of the management approach	43
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103-2	The management approach and its components	46, 50, 56
103-3	Evaluation of the management approach	43
404-3	Percentage of employees receiving regular performance and career development reviews	<b>Employee well-being, employee development</b>

Disclosure Number	Description	Response															
<b>GRI 405: DIVERSITY AND EQUAL OPPORTUNITY</b>																	
103-1	Explanation of the material topic and its Boundary	41, 56															
103-2	The management approach and its components	41, 56															
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405-1	Diversity of governance bodies and employees	<b>Employee well-being, gender equality</b>															
		<table border="1"> <thead> <tr> <th></th> <th>Board of Directors</th> <th>Executive Management Team</th> </tr> </thead> <tbody> <tr> <td>Gender</td> <td>Female 33%, Male 67%</td> <td>Female 30%, Male 70%</td> </tr> <tr> <td>Age, under 30 years old, %</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Age, 30–50 years old, %</td> <td>11%</td> <td>20%</td> </tr> <tr> <td>Age, over 50 years old, %</td> <td>89%</td> <td>80%</td> </tr> </tbody> </table>		Board of Directors	Executive Management Team	Gender	Female 33%, Male 67%	Female 30%, Male 70%	Age, under 30 years old, %	0%	0%	Age, 30–50 years old, %	11%	20%	Age, over 50 years old, %	89%	80%
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<b>GRI 412: HUMAN RIGHTS ASSESSMENT</b>																	
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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 2019 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 2019.

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	43-44, 52
2. Businesses should make sure that they are not complicit in human rights abuses	43-44, 52
<b>LABOUR</b>	
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	43, 52
4. Businesses should work to eliminate all forms of forced and compulsory labour	37, 52
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7. Businesses should support a precautionary approach to environmental challenges	44-45, 57-60
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The mark of  
responsible forestry



**AHLSTROM-MUNKSJÖ  
ANNUAL & SUSTAINABILITY REPORT 2019**

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