

Smart solutions out of fibers 2020

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 of fiber-based solutions 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.

Fighting the pandemic with fibers

Ahlstrom-Munksjö is an established manufacturer of fiber-based fabrics which are used to construct protective medical fabrics such as surgical gowns and drapes, surgical face masks, protective apparel and sterile barrier systems. In addition, it produces diagnostics materials for rapid test kits and venting filters for devices used in the treatment of patients with respiratory disorders. Demand for all these solutions was strong in 2020.

Thanks to our in-depth knowledge and technical know-how, we were able to respond swiftly to growing demand by expanding manufacturing of face mask fabrics to lines normally used for producing other fiber-based materials.

Year in brief

E-commerce – Shopping online has this year been greatly accelerated by the pandemic. It has meant more packages, necessitating growing amount of label, tape and filling materials. Ahlstrom-Munksjö is a global leader in release liners for self-adhesive labels, paper filling materials and paper substrates utilized to produce carton sealing tapes.

YEAR IN BRIEF

01: Highlights of 2020

- Net sales were EUR 2.7 billion and comparable EBITDA increased to EUR 334 million in 2020. The result was supported by lower costs, partly related to own cost-saving measures.
 - Rapid response to the coronavirus pandemic and early establishment of safety protocol ensured that plants and customer service were kept operational throughout the year
 - Expansion of face mask materials' manufacture to production lines normally used for industrial products. In addition, cost saving actions cushioned the impact of the pandemic.
 - The company continued to launch new sustainable products, including lead acid battery product portfolio
- under the Ahlstrom-Munksjö FortiCell range of fiber-based solutions for energy storage applications
- World-class Net Promoter Score achieved in an external customer satisfaction survey. The survey demonstrated Ahlstrom-Munksjö's strong performance in many areas, and especially in personal contacts, technical service, innovation and sustainability.
 - Very good Employee Engagement Index of 80 in employee survey
 - Ahlstrom-Munksjö was awarded the EcoVadis Gold rating for the company's sustainability management and performance for the fourth consecutive year.
 - Recommended public tender offer for all Ahlstrom-Munksjö shares

Key figures, EUR million	2020	2019
Net sales	2,683.3	2,916.3
Comparable EBITDA	334.2	312.9
% of net sales	12.5	10.7
EBITDA	354.5	279.4
Operating result	176.2	103.2
Net result	94.5	32.8
Earnings per share (basic), EUR	0.78	0.27
Comparable EPS excl. depreciation and amortization arising from PPA	1.03	0.84
Dividend, EUR	n/a	0.52
Operating cash flow	255.1	286.7
Capital expenditure	117.5	161.1
Net debt	735.8	885.0

PPA = Purchase price allocation

YEAR IN BRIEF

02: CEO word



In 2020, we were successful in improving our result and developing our business despite the unprecedented challenges caused by the coronavirus pandemic. Our quick response to the pandemic demonstrated our agility, worldwide teamwork and business mindset combined with a sense of responsibility. Furthermore, the public tender offer is evidence of the good work we have done in recent years in creating an attractive business in a world of increasing stakeholder expectations.

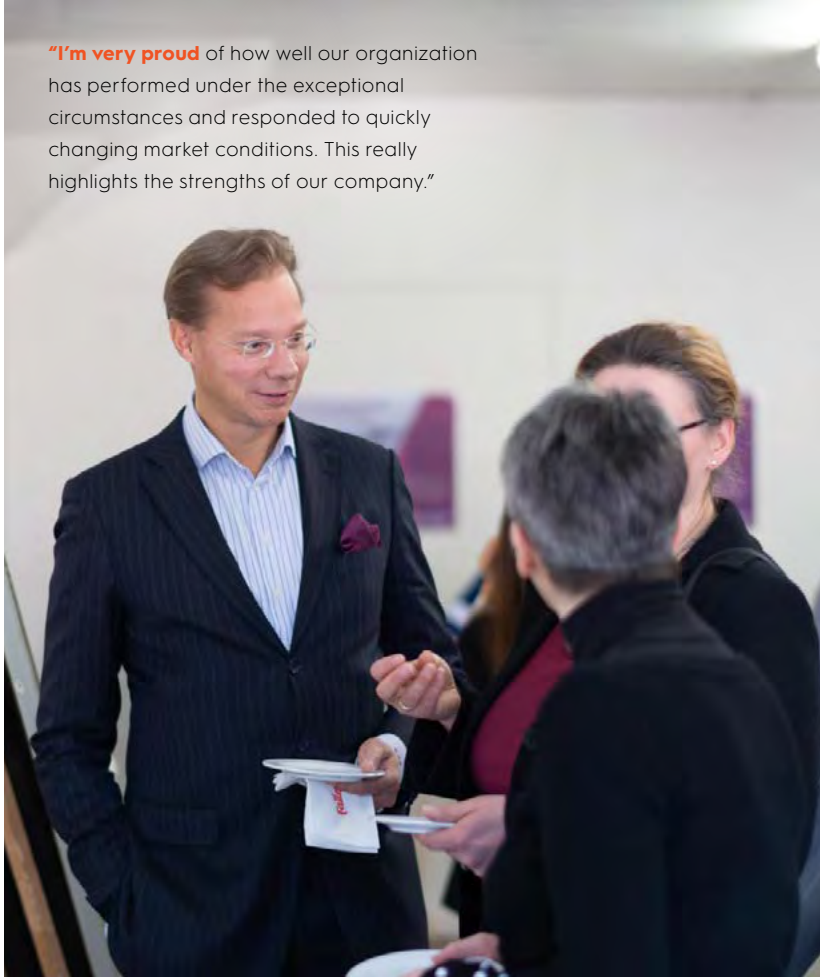
I'm pleased with our financial performance during this very exceptional year, and in particular, with our agile way of responding to the rapidly changing business environment. While our quarterly sales volumes showed large swings

throughout the year, profitability benefitted from lower costs due both to lower raw material prices and our own fixed and variable cost-saving measures. Our comparable EBITDA margin improved clearly and shows that our commercial strategy is working well. We ended the year with a stronger financial position thanks to a solid cash flow partly supported by some divestments of non-core businesses.

Customer activity recovered during the second half of the year as countries and markets reopened after lockdowns. This was particularly visible for transportation, as well as home building- and furniture-related applications, which are important end-use segments for us. Demand was on a good level in health care and life science end-uses throughout the year, and remained mostly stable in the consumer goods-related end-uses. Towards the end of the year, there were also signs of increasing demand for industrial-related products. The resurgence of the pandemic in the fourth quarter of the year caused countries to reimpose restrictions. These lighter and more regional lockdowns did not, however, have a meaningful impact on our customer demand in the fourth quarter.

Smart solutions out of fibers – Our product launches once again show how we create smart solutions by adding know-how and technology to fibers.

“I’m very proud of how well our organization has performed under the exceptional circumstances and responded to quickly changing market conditions. This really highlights the strengths of our company.”



Due to an early and proactive adaptation of our Safety Protocol, we have been able to ensure the health and safety of our employees, while keeping our plants operational and serving our customers. To mitigate the financial impact of the pandemic we implemented immediate actions, such as temporary layoffs, shorter working hours and minimized the use of external personnel and services. Meanwhile, we continued to work on ensuring competitiveness in the longer-term and identified additional streamlining opportunities in manufacturing fixed costs.

Thanks to our in-depth knowledge of fiber-based materials and global manufacturing platform, we were able to quickly expand our manufacturing of face mask fabrics to lines normally used for the production of other materials. This was a welcome and needed filler to our production that would have otherwise been left unutilized. Our response to the pandemic really demonstrated efficiency and agility, which is one of our key strategic cornerstones. We also took further steps in supplying the electric vehicle battery market by introducing a platform of fiber-based energy storage solutions. Our other new value added solutions include a replaceable filter media for branded outdoor apparel used as face masks.

Our commitment to sustainability is firm and encompasses the entire value chain from responsible sourcing to the end-life impact of our products. In this field our work was awarded the EcoVadis Gold rating for the fourth consecutive year thanks to our good performance within environmental impact, labor practices, fair business practices and sustainable procurement. Based on the views and expectations of key stakeholder groups and our own analysis we specified our sustainability related targets for the 2021-2025 time period.

I’m particularly pleased with the positive results of our comprehensive customer survey, which is a proof point that we have further reinforced our position as a global leader in fiber-based solutions. We scored particularly well in categories such as personal contact and technical service, as well as in innovation and sustainability. These are essential in strengthening our partnership with our customers, and are also important in solving the challenges of today’s society. We also achieved a world-class rating for a business-to-business manufacturer in Net Promoter Score. Likewise, the employee survey results demonstrate very good employee engagement.

On September 24, a consortium of investors announced a public tender offer to the shareholders of Ahlstrom-Munksjö, and the transaction was completed in February 2021. I consider this evidence of the good work we have done in recent years and how we have succeeded in creating an attractive business in a world of increasing stakeholder expectations. I am also confident that the ownership change can accelerate the development of our company to its fullest future potential.

Overall, I’m very proud of how well our organization has performed under the exceptional circumstances and responded to quickly changing market conditions. This really highlights the strengths of our company. I sincerely want to thank our skilled and dedicated employees for their hard work and the continued trust from all our stakeholders. We will continue to work together to create long-term success.

Hans Sohlström
President and CEO

The Company

Food safety – Consumers are increasingly looking for chemical free and eco-friendly options that meet food safety requirements. Ahlstrom-Munksjö offers outstanding grease-resistance for common fast-food packaging, food wraps and microwave popcorn bags, without the use of fluorochemicals, commonly referred to as PFAS.

Ahlstrom-Munksjö is a truly global company with operations on four continents. Josh, Ahlstrom-Munksjö's Nicolet plant team member, in Wisconsin, USA.

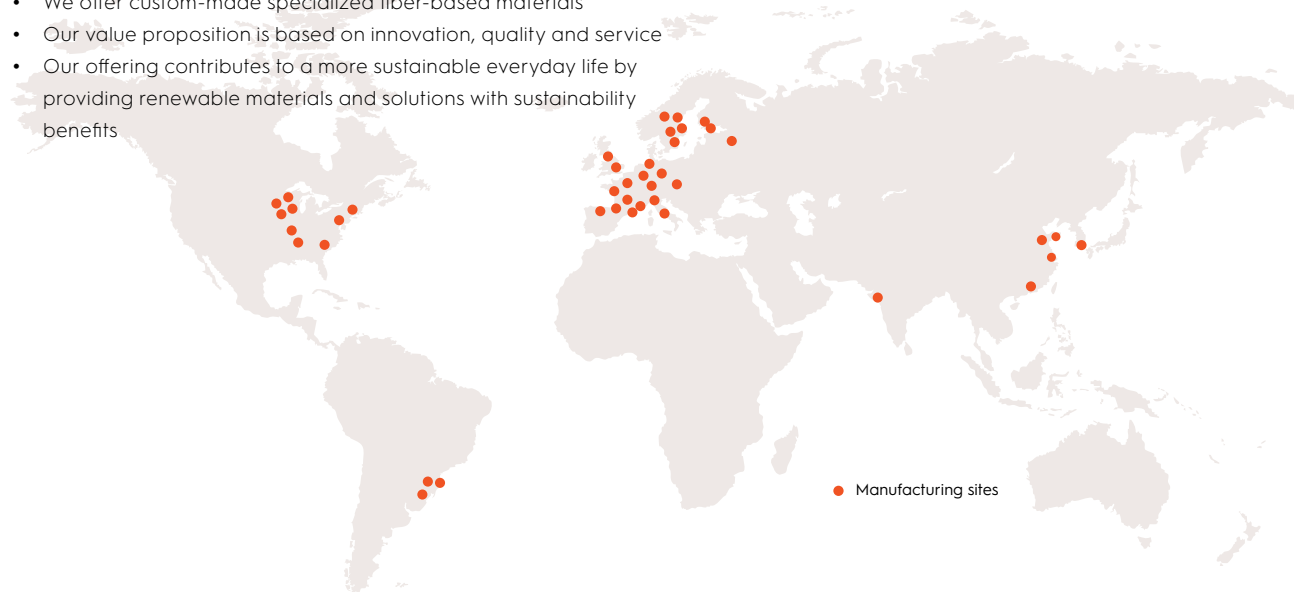


THE COMPANY

01: 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 about 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 and solutions with sustainability benefits



Our approach

- Leading position 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-users
- Designed sustainable and innovative solutions based on customers' needs
- Common operating platform providing scale advantage

Key facts

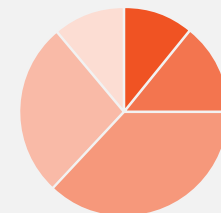
- Global network of sales offices, 45 plants and converting sites in 14 countries
- Approximately 7,800 employees
- More than 6,000 customers in over 100 countries
- In 2020, net sales of approximately EUR 2.7 billion and comparable EBITDA of EUR 334 million
- Head office in Helsinki



Ahlstrom-Munksjö employees Anne-Marie and Helén photographed in the Billingsfors plant, Sweden.

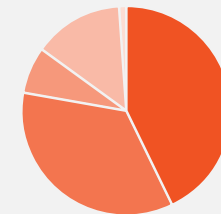
A BALANCED SALES MIX

BREAKDOWN OF SALES BY END USE %



- Industrial, **11%**
- Transportation, **14%**
- Consumer Goods, **37%**
- Homebuilding and Furniture, **27%**
- Health Care and Life Science, **11%**

GEOGRAPHICAL SALES BREAKDOWN



- Europe **43%**
- North America **35%**
- South America **7%**
- Asia-Pacific **14%**
- Rest of the world **1%**

Smart solutions for a sustainable everyday life

Ahlstrom-Munksjö creates value by partnering with its customers towards global success

KNOW-HOW, TECHNOLOGY AND PARTNERSHIP AT THE CENTER OF OUR VALUE CREATION

Ahlstrom-Munksjö plays an important role in the value chain. As a producer of functional materials we create value by adding know-how and advanced technology to fibers that we ensure are responsibly sourced. In close partnership with our customers we develop fiber-based solutions that often perform vital functions in the value chains and have a positive impact as part of the end product or solution. With our product offering we facilitate a sustainable everyday life by providing solutions with better performance, safer materials, fewer resources and lower environmental impact. We deliver a clear value proposition for our customers that is based on innovation, quality and customized service. Our customers use our solutions in a large variety of everyday applications within a broad range of end-uses that are underpinned by fundamental business drivers in today's society.

RAW MATERIAL SUPPLIERS

Carefully chosen inputs

Fibers
Chemicals
Energy

Responsible sourcing

Fibers are at the core of everything we do

AHLSTROM-MUNKSJÖ

Smart solutions

Filter media
Packaging and processing papers
Medical fabrics and life science diagnostics
Decorative laminates
Tape and abrasive backings
Insulation papers
... and many more

Know-how & technology

We add value by combining fibers with our know-how and advanced technology

OUR CUSTOMERS

Applications & End-uses

Air and liquid filters
Food and beverage packaging
Labelling
Surgical drapes and gowns, laboratory filters
Furniture and homebuilding
Masking tape and sanding paper
Transformers and high voltage cables
... and many more

Share of sales

11% Health Care & Life Science
37% Consumer Goods
27% Homebuilding & Furniture
14% Transportation
11% Industrial

Broad offering

Our customers use our solutions in a large variety of everyday applications

SOCIETY

Sustainable everyday life

Clean air and water
Alternative to single use plastics
E-commerce
Healthy and safe living
Urbanization
Electrification and renewable energy



Sustainability benefits

We facilitate a sustainable everyday life by providing solutions with better performance, safer materials, fewer resources, and a lower environmental impact



THE COMPANY

02: 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-term, 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.

The coronavirus pandemic has disrupted consumers' lives across the world and effectively shut down most economies temporarily. The length of the pandemic will probably be a key determinant on if and how our way of living will permanently change and affect future business opportunities for companies. The pandemic will in any case continue to have a significant

effect on hospitality and travel industries in 2021, while the impact on manufacturing is likely to be more moderate. Several vaccines appear to be effective against the virus, while a large share of the population won't be vaccinated until well into the year.

Even if the coronavirus crisis is unlikely to reverse the urbanization trend it might be slowed. The crisis has emphasized the need of transformative measures to create environments that are more resilient and sustainable. A new kind of multi-locality has emerged, which will have an impact on people's lifestyles and well-being.

Digitalization has taken a leap forward. Businesses have provided collaborative applications already for years, while the "work from home" needs generated by the pandemic created a hyper-acceleration in adaptation.

Retail has been dramatically affected. Street businesses providing products and services on the spot were already in decline before the outbreak due to the rise of e-commerce. The pandemic has accelerated the trend of growing online and click-and-collect way of shopping.

The pandemic is also felt across the transportation sector. Focus has shifted from moving people to keeping core transportation system operational to ensure freight and key workers can travel. Commuting and travelling may take several years to recover to their pre-pandemic level once lockdowns are finally lifted.

Already important priorities in consumers' lifestyles, health, hygiene and wellness have become increasingly appreciated, and created strong demand for medical devices, diagnostics and screening tools as well as protective medical fabrics that





are manufactured by Ahlstrom-Munksjö. Consumers are not just concerned of contamination but also jobs, finances and family, which intensifies stress, making them more cautious in their spending.

Sustainability and climate change

The shift towards a sustainable, mostly fossil-free and circular economy, is a megatrend which impacts and drives us forward 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

The crises has emphasized the need of transformative measures to create environments that are more resilient and sustainable.

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 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 fluorinated resins.

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

The electrification of mobility is picking up momentum and impacting the transportation industry, one of our larger customer segments.

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.

Even if the coronavirus crisis is unlikely to reverse the urbanization trend it might be slowed.



Strategy

Alternative use to single-use plastics – Today's environmentally aware consumers are increasingly looking for fully biodegradable and compostable alternatives for their single-serve tea bags and coffee capsules, pods, and bags. Ahlstrom-Munksjö is a forerunner in sustainable tea and coffee materials and we are actively working together with our customers.

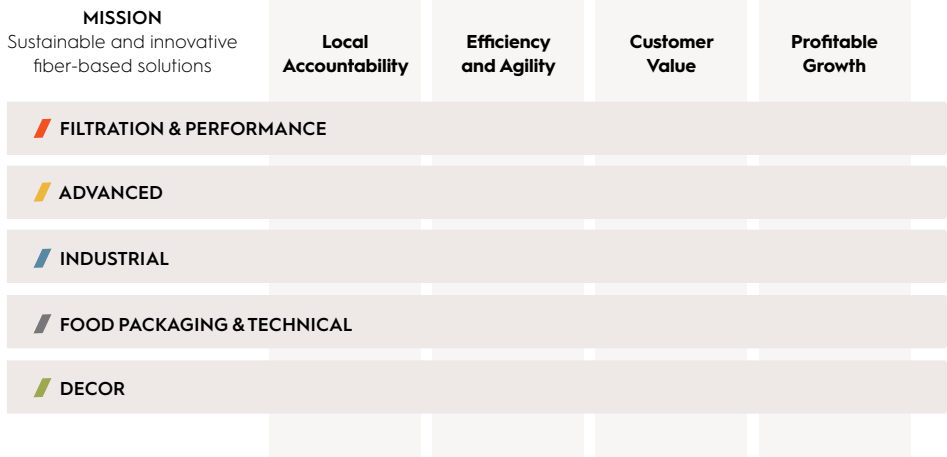
STRATEGY

01: Execution of strategy

We were able to improve our result and drive our business forward despite the unprecedented challenges caused by the coronavirus pandemic.

STRATEGY OVERVIEW

CORNERSTONES



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



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 offered by fiber-based materials.

A position as a global leader, supported by sustainable market drivers, provides the foundation for long-term value creation for our stakeholders. To reach and maintain that position, we focus efforts around the four strategic cornerstones – Local accountability, Efficiency and agility, Customer value, and Profitable growth.

Strategic cornerstones

- Local accountability: using a business-based operating model that promotes local accountability and profit responsibility enables flexibility and builds on a shared common culture
- Efficiency and agility: efficiently utilizing the global common platform as well as the flexible and agile operating model
- Customer value: delivering customer value through superior quality, advanced technology, deep know-how and tailored services
- Profitable growth: 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 in 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 product development initiatives is ever more important. Long-term customer cooperation in product development creates a foundation to stay 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.

Businesses 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.



STELLA gears us for future success

To ensure future competitiveness and create basis for continuous improvement of stakeholder value, we initiated in 2020 a major business platform renewal program called STELLA.

STELLA is a company-wide, multi-year program which gears Ahlstrom-Munksjö towards its future success. Together with our people worldwide and with the best external experts we innovate, design and implement new ways of working, efficient, streamlined processes and modern systems which take maximum advantage of digitalization and lead to improved customer experience. Stella is a guiding light when we imagine our future with fibers.

“Creating a strong, global business platform is a key enabler in our company transformation and growth strategy implementation. It will generate efficiency through uniform ways of working and modern systems, improve customer experience and contribute to the profitable growth. We will utilize our proven ability to innovate and are ready to drive the transformation in the entire industry,” explains CEO Hans Sohlström.

Strength from shared values and ways of working

Our values - Long-term commitment, Teamwork, and Passion to innovate and improve – are important to the way we work 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 adopt an entrepreneurial attitude and they 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.

Solid businesses that operate in growing markets

Market position in strategic segments

% Market growth in percentage

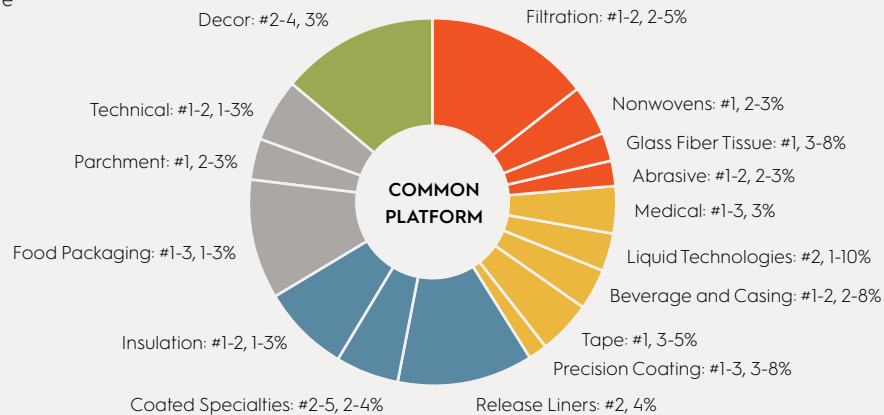
FILTRATION & PERFORMANCE SOLUTIONS

ADVANCED SOLUTIONS

INDUSTRIAL SOLUTIONS

FOOD PACKAGING & TECHNICAL SOLUTIONS

DECOR SOLUTIONS



Strategic transformation progresses under exceptional circumstances

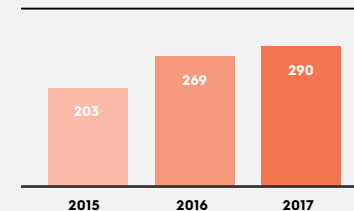
We started the year 2020 with a new structure and organization, which was put in place as a natural next step in finalizing the integration of major acquisitions from the prior years. The organizational structure promotes core business capabilities and align business characteristics and targets of each business area. It enables us to strengthen capabilities in areas of product development and innovation, global key customer account management and service, product and production technology as well as process improvement and production optimization. So far the new structure has brought with it production-related benefits.

We continued to pursue our commercial strategy and were able to improve our comparable EBITDA margin. This was supported by a more favorable raw material and energy prices environment as well as delivering on the cost savings

through our own actions. We managed also partly offsetting the challenging demand environment by quickly expanding production of face mask materials to production lines around the world that were normally used to manufacture other products. This was a needed filler to our production that would have otherwise been left unutilized. It was very much thanks to our early and agile response to the pandemic that we were able to keep our plants operational throughout the year with some minor and short-term exceptions.

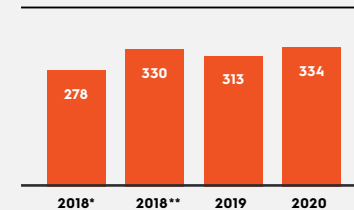
During the year we also launched a new strategic initiative to improve cross-business collaboration, called the Flexible Asset Model. Initially focused on optimization opportunities, it has also proven effective for cross-business knowledge and technology sharing. With learning and development support from the Group, our businesses have ideated on a strong pipeline of additional potential synergies to be tested and implemented for novel value creation.

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

STRATEGIC TRANSFORMATION PROGRESSING



Business

Electrification – A rapid electrification of transport and industrial processes are sweeping across the globe. Ahlstrom-Munksjö provides fiber-based products that form a crucial part in batteries and in electricity transmission over long distances with minimal loss.

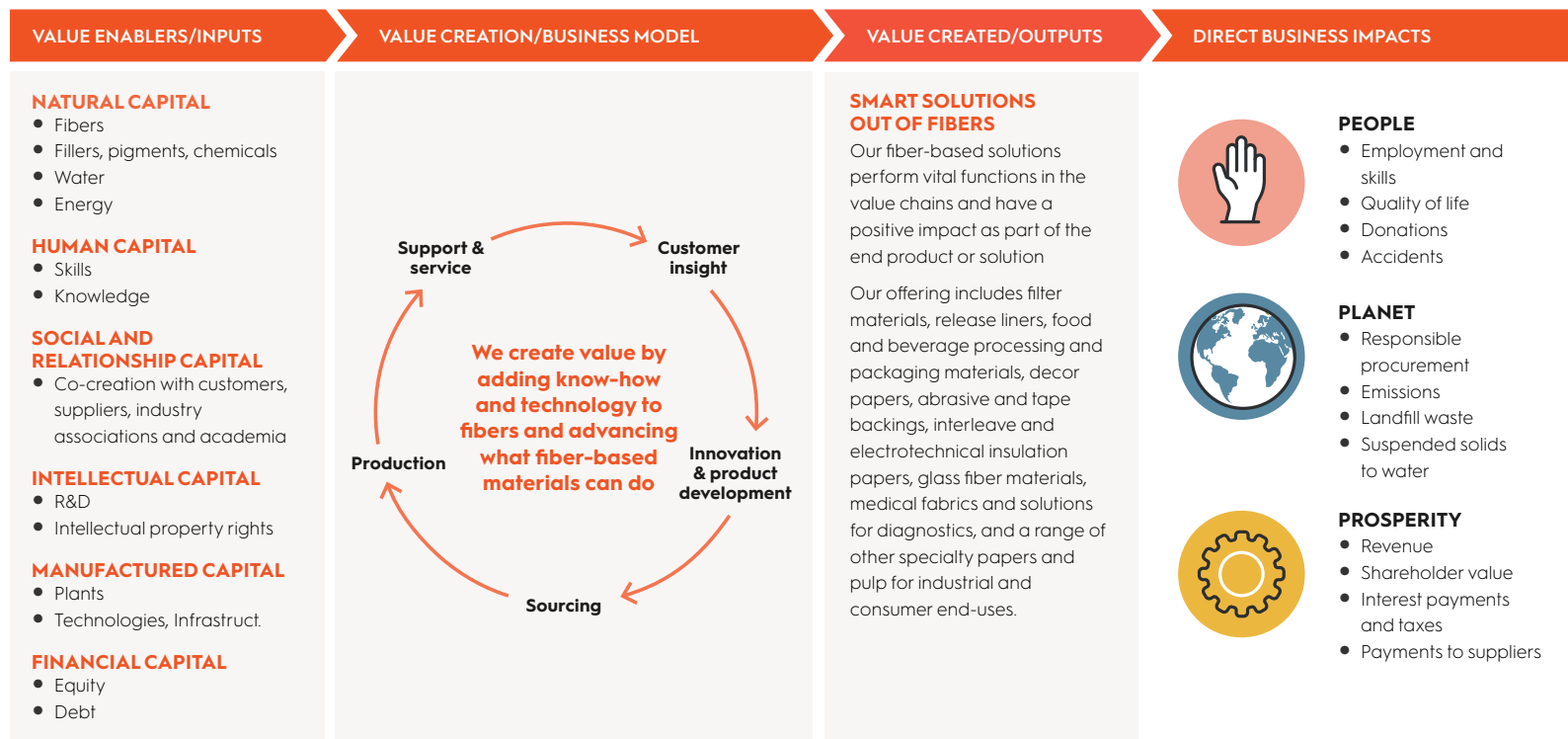
BUSINESS

01: Value creation

Ahlstrom-Munksjös ambition is to create value for all stakeholders – employees, shareholders, customers, and communities. By engaging the resources, we have available in the most efficient and sustainable way possible, we create solutions and products that deliver true value to our customers and the society.

At the center stand Ahlstrom-Munksjö's dedicated and skilled people that make intelligent use of the raw materials we use, combining them with our know-how and experience and extensive and agile manufacturing platform. A constant and relentless pursue of improvement and innovation allows us to push the boundaries for what fibers can do and how they can be employed in new innovative products to meet new customer needs and demands.

VALUE CREATION – OUR VALUE CHAIN



Natural Capital

Ahlstrom-Munksjö is a resource-intensive industry and thus has a particular responsibility to enhance environmental performance throughout its operations and supply chains. Responsible management of raw materials is also of considerable importance for the company's profitability given its meaningful share of total costs. The price volatility of the raw materials can have a short-term impact on profitability, while a careful selection is of greater importance in the longer term.

We pursue continuous improvement in multiple areas including minimizing the environmental impacts of the supply chain, making efficient and innovative use of raw materials, and reducing energy and water use and carbon dioxide emissions connected to our manufacturing footprint.

Our key operating criteria for the management of our raw materials are competitive total cost of ownership, security of supply, category management as well as governance and compliance. Procurement is managed in accordance with the daily requirements and aligned with the company's strategy, while in the long term, it strives for a sustainable competitive advantage for the business.

Supply chain

Ahlstrom-Munksjö uses a wide range of raw materials and energy in its global operations and is committed to ensuring that raw materials are responsibly sourced. The company strives to make the supply chain as sustainable as possible and



Achieving a 10% reduction in indirect spend by 2023

It is becoming more and more critical for companies to optimize their indirect spend that covers all goods and services they need to keep the operations up and running, such as maintenance, logistics, and a broad range of services. Optimization of this spend significantly supports the company's profit margin and affects the bottom line.

To achieve an ambitious cost reduction target of 10% by 2023, Ahlstrom-Munksjö initiated the Indirect Spend Down project focusing on two main pillars: buy less and reduce non-essential demand, and buy better and improve commercial conditions.

In order to reach this target, functional teams in finance and procurement have run workshops with production sites to identify saving opportunities. In these workshops, the teams execute an in-depth review of their existing indirect spend, identify potential cost reduction projects and create actions to successfully secure savings.

By the end of 2020, we assessed more than 80% of our indirect spend in more than 30 workshops. As a result, we have achieved savings of several million euros in 2020 and identified further savings opportunities for 2021.

with lowest achievable environmental impact given the current technological and economic circumstances. In this context, sustainability also includes sourcing in the most cost-efficient way in order to secure the company's long-term financial health and prosperity.

Ahlstrom-Munksjö works with a large number of suppliers to secure the high quality and diverse inputs needed to create its portfolio of fiber-based solutions. The largest procurement categories are managed globally and we strive to increase the regional procurement. Centrally managed activities create conditions for better service and lower costs. Fewer suppliers imply less administration and allow improved compliance.

The most important raw materials include fibers, particularly wood pulp, manmade fibers, chemicals, water, and energy used in the production process. The company also uses indirect suppliers, such as utilities, transportation services, and equipment providers.

Ahlstrom-Munksjö expects its suppliers to uphold high standards for ethical and socially and environmentally responsible business practices. Sound procurement practices also mitigate business risks for the company, our customers, and our investors.

Ahlstrom-Munksjö employs a rigorous vetting and evaluation process for all types of suppliers to ensure that they meet the required standards.

Suppliers are evaluated across eight sets of parameters including production and financial risks, logistical risks as well as Corporate Social Responsibility parameters. The framework is defined by Ahlstrom-Munksjö's Supplier Code of Conduct

which 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 maintains a regular dialogue with suppliers as well as systems for risk assessment and also conducts field audits.

The company has established targets to track its progress in this area. For 2020 the targets were that all suppliers are signatories or considered compliant, and that all chemical and fiber suppliers have undergone evaluation for Supplier Code of Conduct Risk.

At the end of 2020, 97% (95) of fiber suppliers and 96% (93) of chemical suppliers had signed the Supplier Code of Conduct or were considered compliant. During the year, progress also has been made in committing the energy and indirect suppliers to the Supplier Code of Conduct, with 60% (26) of the energy suppliers and 39% (23) of the indirect suppliers who have signed the Supplier Code of Conduct.

By year end 2020, 80% (approximately 190 suppliers) of all fiber and chemical suppliers have been evaluated by supplier risk assessment. For medium & high risk severity suppliers a supplier specific action plan has been put in place. In 2019 and 2020 seven audits were carried. Due to the pandemic on-site audits have not been possible in 2020.

The target for the 2021 to 2025 period is that a Corporate Social Responsibility audit has been carried out at all those suppliers that may be considered a heightened risk. Typically heightened risk is associated with certain geographies or that there is a lack of transparency.

Ahlstrom-Munksjö employs a rigorous vetting and evaluation process for all types of suppliers to ensure that they meet the required standards.

In the forest fiber supply chain Ahlstrom-Munksjö has policies in place to ensure sustainable forest management and fiber production practices.

Fibers and chemicals

Ahlstrom-Munksjö is using the fiber-based raw materials to deliver the high product performance tailored to specific applications for which Ahlstrom-Munksjö is renowned.

In the forest fiber supply chain Ahlstrom-Munksjö has policies in place to ensure sustainable forest management and fiber production practices.

The basic premise is that all forest fiber-based raw materials are purchased as certified or as a minimum controlled wood for sustainable forest management. Ahlstrom-Munksjö carries out an annual due diligence system to ensure the compliance with the regulations. The system is audited by third party and complies with the requirements of SGS wood legality assessment, which covers main legislations; EU Timber Regulation (EUTR), US Lacey Act and the Australian Illegal Prohibition Regulation. In addition, our plants have third party audited Chain of Custody certificates FSCTM, PEFACTM and SFITM. All certifications can be found from Ahlstrom-Munksjö webpages. In 2020, our forest fiber-based raw materials were 95% of the total fiber volume.

Man-made fibers and various coatings make up a smaller portion in terms of volume for Ahlstrom-Munksjö, but they play a vital and integral part in many of our products. Man-made fibers are sometimes required for products to achieve the performance needed by customers. In many cases they contribute to the efficiency and lifespan of the end product and help reduce the environmental impact of the end product.

Part of the man-made fibers are the plastics. There is a need to shift away from single-use plastics and to replace

fossil-based plastics as far as possible and Ahlstrom-Munksjö plays a role in this pursuit by finding solutions to compostable and bio-degradable materials.

Besides fibers, chemicals is a large raw material category used by Ahlstrom-Munksjö. They are used in the production to deliver functionality and performance. Regulations on chemicals are being monitored in all business to move towards applications which are sustainable. These efforts are driven both centrally in our R&D function and also in our businesses in close cooperation with suppliers and customers. In many instances Ahlstrom-Munksjö reacts in advance of regulations and standards coming into force.

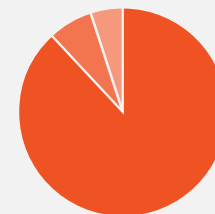
Energy and CO₂ emissions, water, and waste

In order to provide the sustainable fiber-based solutions, Ahlstrom-Munksjö's manufacturing sites use energy, water and raw materials to produce the products. Through operational efficiency and continuous improvement activities, the company strives to reduce the amount of waste. Local permits and regulations set the limits for emission, noise and other impacts to the environment.

CO₂ EMISSIONS

Ahlstrom-Munksjö uses a wide range of energy sources and energy is the primary source for the company's CO₂ emissions. Fuels used include renewable fuels such as bark, but also fossil based fuels like natural gas, lignite and coal. Electricity is sourced primarily from external suppliers but is also generated internally in certain manufacturing sites. The company

FIBERS USED IN AHLSTROM-MUNKSJÖ'S SMART SOLUTIONS



■ Pulp, 88%
 ■ Other renewable fibers, 7%
 ■ Synthetic fibers, 5%

Tree Planting Initiative in Mundra, India, to conserve nature

Saving the environment by protecting our planet and conserving our natural resources has been a long-standing global effort. Ahlstrom-Munksjö has a strong commitment to environmental conservation and building awareness across our organization through local initiatives at our plants.

The team at the Mundra plant in India started an organized tree planting program three years ago to bring employees together and to help combat climate change. During the program the team has planted more than 550 trees around the plant site. The grounds surrounding the factory are also cleaned regularly to ensure a safer environment.

responds proactively to an evolving regulatory environment, particularly in the European Union where many production sites are based.

Based on a study done in 2020 on energy use and efficiency, a roadmap to reducing CO₂ emissions has been designed. Key components in the plan are to replace the use of coal with natural gas and biomass, and increasing the use of renewable energy and other low-carbon energy sources.

The 2020 target for energy use was an annual 2% reduction of specific energy consumption from 2018 onward. In 2020, the total energy use in GJ per gross ton production increased by 1.5% to 26.7 (26.3). Customer demand changed considerably during the year caused by the spread of Covid-19.

The 2020 target for Scope 1 emissions was an annual reduction of 2% while the target for Scope 2 emissions was an annual reduction. In 2020, the Scope 1 emissions were 1.1 tons and Scope 2 carbon dioxide emissions were 0.3 tons.

For the 2021 to 2025 period the target is to reduce CO₂ Scope 1 and Scope 2 emissions by at least 15%.

WATER

Ensuring the access to clean water for people and business and a minimum impact from our operations to the surrounding environment and biodiversity are in key role on Ahlstrom-Munksjö's sustainability agenda.

Ahlstrom-Munksjö operates mainly in places that have good access to water resources, but also in some locations facing potential water shortages. To mitigate the water

For the 2021 to 2025 period the target is to reduce CO₂ emissions by at least 15%.

shortage risk, the company is preparing water management plans for the affected locations.

To limit degradation of water quality and impact on biodiversity from heat transfer in rivers the company most recently invested in Unterkochen plant, Germany, with good results.

The target for reductions of water usage was an annual 1.5% reduction in water use per gross ton production from 2018 onward. Water use in cubic meters per gross ton production decreased in 2020 by 1% to 72.3 (73.0). The decrease was due to lower production.

For the 2021 to 2025 period the target is that all plants in water stressed areas have a water management plan.

WASTE

Waste is an outcome of manufacturing products. Some waste is recoverable and used for recycling, but some amounts of waste are non-recoverable or non-recyclable waste.

Currently in Ahlstrom-Munksjö we have two sites with zero waste to landfill, while certain locations have landfilled materials such as green liqueur, ash or sludge. At our locations, studies and collaboration activities continue to find alternatives for landfilled waste.

The target for waste reduction is an annual 2% reduction in tons of waste to landfill from 2018 onward. In 2020, 100,564 tons of non-recoverable waste were sent to landfills, compared to 98 507 tons in 2019. The increase was partly due to the challenging weather conditions, which prevented a larger amount from being used in agriculture as fertilizer, and that the scope was expanded at the Caierias mill in Brazil.



Ahlstrom-Munksjö is committed to continuously developing its people.

Human Capital

At the center of Ahlstrom-Munksjö's value creation are our skilled and dedicated people who combine their expertise with our technology and raw fiber materials to create smart, value added solutions for our customers. We aim to provide safe and healthy work environments that are free from discrimination, and full of opportunities to learn, develop and grow. Ahlstrom-Munksjö's continued progress in these areas is essential to our long-term success in attracting and retaining talent with the right mindset to create smart fiber-based solutions.

Continuous learning culture drives performance development

Ahlstrom-Munksjö is committed to continuously developing its people. 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. Only by investing in the growth of our people can we meet evolving challenges and take advantage of new opportunities in a dynamic and global environment.

The Human Resources team leads this initiative and follows the progress towards targets in this area. Employee well-being progress is measured by tracking what percentage of employees have had a performance and development discussion with their manager in the past year. By 2020, 95.6%

of all employees had at least one development discussion with their manager during the year. These conversations are a critical opportunity for feedback, learning, and inspiring growth – empowering our employees and helping them to recognize opportunities for further development.

We believe that continuous learning is important and recognize the need to respond to the rapidly changing business environment through the professional growth of our employees. To reinforce a culture of learning, we introduced a new company-wide learning platform that can be accessed anywhere and anytime by all employees. More than 60 courses and webinars have been added in 2020 – with 4,954 being registered as completed among our people.

At Ahlstrom-Munksjö, we represent a diverse group of professionals across the 14 countries we operate in. Although we use local languages in our daily work, in our global environment the common business language is English. To overcome some of the language barriers existing in our local communities, we decided to provide all employees the opportunity to study English in the world's largest virtual school. The school and teachers were available anywhere, anytime – even via smart phones.

As part of our onboarding process, we have continued with our “buddy” concept. Every new hire is assigned a buddy to help them ease into their new role and broaden their internal network right from the start. In addition to this, a quarterly CEO Welcome Webinar is held, which offers new employees a virtual face-to-face with our CEO and the chance to ask any questions directly – a key interaction that helps increase engagement and retention further.

KEY PEOPLE STATISTICS 2020

7,850+ employees

We are truly a global and diverse company

18%

of our workforce are women

14 countries

Our 45 locations are based across the globe

52 nationalities

Our people come from all walks of life

57 internal promotions

We value the knowledge and experience of our people

80% employee engagement

Our overall rate is at 80% with slight variations between business areas.

LEADERSHIP DEVELOPMENT PORTFOLIO 2020

**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

“Thanks to the JUMP program I was able to connect with colleagues from different Business Areas all around the world. I also learned from different functions, cultures and perspectives within the company.”

JUMP participant 2020

Leadership is about ensuring we achieve our common goals and that our people can perform at their best.

Everyone deserves a good manager

Leadership is about ensuring we achieve our common goals and that our people can perform at their best. It's about being transparent, keeping everyone informed and ensuring our people know what is expected of them for the company to achieve its strategy and vision. Our leaders play a key role in creating a culture of success, as well as preconditions for our employees to be successful and have a good work life balance.

2020 saw us continue to drive the leadership development portfolio forward, which consists of four global leadership development programs (JUMP, PIONEER, LAUNCH, LEAD). The programs target new managers, plant managers, young future leaders and senior leaders from all businesses and functions.

Mentoring continues to be integrated within our Leadership Development Programs and is vital to its overall goals and purpose. In addition to the recent trialing of reverse mentoring – wherein young talents provide new perspectives to our experienced leaders – we are now also planning a Women's mentoring program kick-off, due to launch 2021. The program is a measure with which the company strives to support women's career opportunities and provide mechanisms for managing work in a male-dominated work environment.

To bolster learning and knowledge sharing among all our leaders, new communication channels were launched, which included a monthly Leadership Matters newsletter and the development of a one-stop-shop “Manager's Toolbox”

300

line managers registered for leadership webinar series

1,000+

monthly leadership matters email recipients

85%

of employees feel respected by their line manager/supervisor

82%

of employees feel they get support from their line manager when they need it

website for line managers. We also introduced a leadership webinar series that focused not only on building leadership capabilities during the pandemic but also on the benefits of mindfulness and good mental health – for managers and their teams. This was a very popular series and feedback was extremely positive, with 98% of participants agreeing they would recommend the series to their colleagues.

Giving our employees a voice

We care about what our people have to say. Conducting surveys at a global and local level provides our employees with a specific channel to express their views, confidentially. Survey results are crucial to supporting how we operate, providing managers and teams with insights into areas that are good or not so good. If our people are happy and engaged then our customers will be more satisfied – ultimately leading to a more positive organizational performance.

To further develop our support and wellbeing offering, our processes and trainings, we wanted to hear more about the experiences and views of our people during the exceptional times brought about by COVID-19. To achieve this, a wellbeing pulse survey was conducted in spring 2020. All employees working in the office environment were invited to respond and results were very positive. 90% felt they could effectively contribute to the business during such exceptional times and also felt their line manager was available when needed. 84% felt collaboration between themselves and their colleagues was working well, despite the situation.

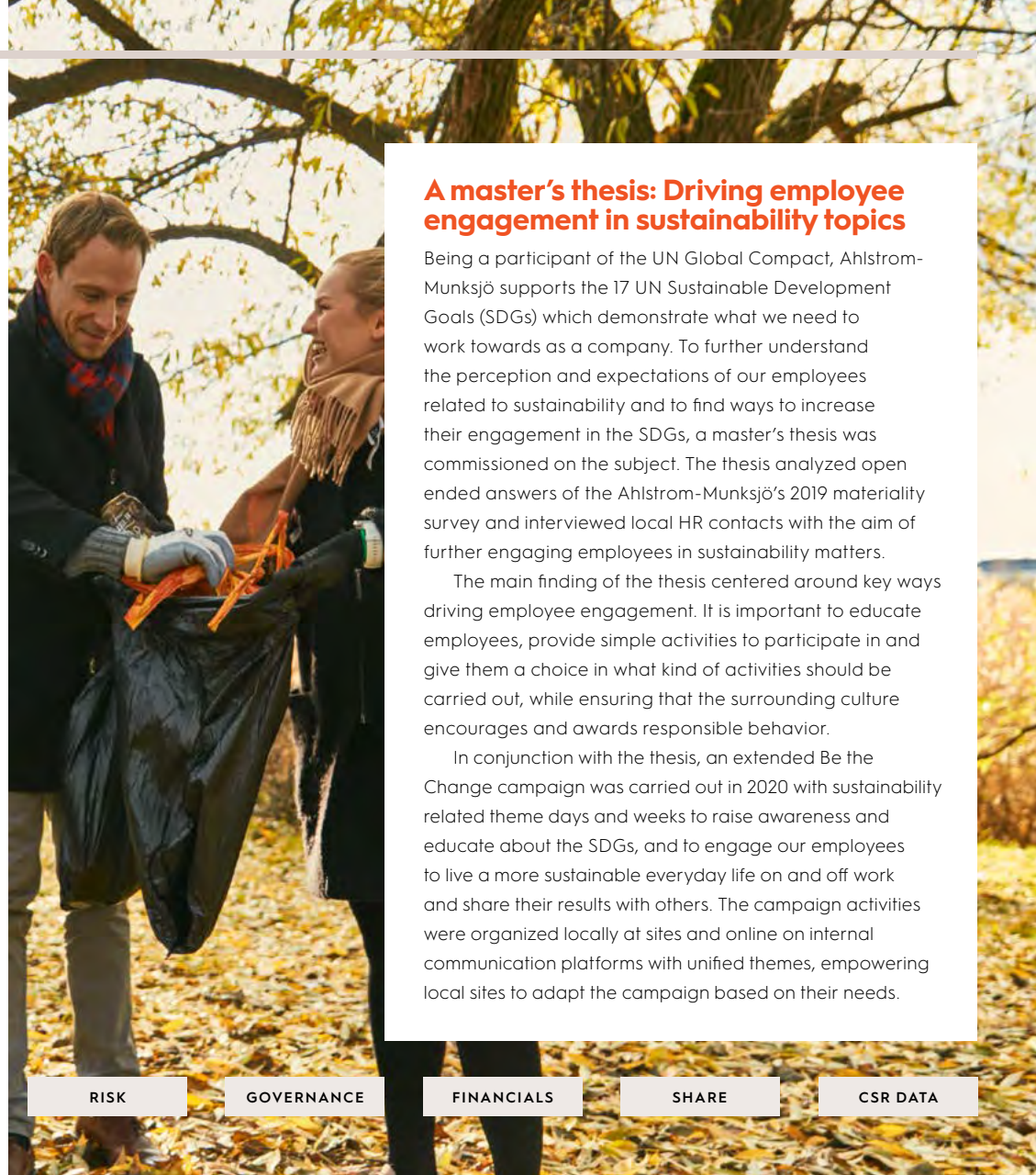
The Employee Engagement Index and Leadership Index was established and measured during our 2020 employee

A master's thesis: Driving employee engagement in sustainability topics

Being a participant of the UN Global Compact, Ahlstrom-Munksjö supports the 17 UN Sustainable Development Goals (SDGs) which demonstrate what we need to work towards as a company. To further understand the perception and expectations of our employees related to sustainability and to find ways to increase their engagement in the SDGs, a master's thesis was commissioned on the subject. The thesis analyzed open ended answers of the Ahlstrom-Munksjö's 2019 materiality survey and interviewed local HR contacts with the aim of further engaging employees in sustainability matters.

The main finding of the thesis centered around key ways driving employee engagement. It is important to educate employees, provide simple activities to participate in and give them a choice in what kind of activities should be carried out, while ensuring that the surrounding culture encourages and awards responsible behavior.

In conjunction with the thesis, an extended Be the Change campaign was carried out in 2020 with sustainability related theme days and weeks to raise awareness and educate about the SDGs, and to engage our employees to live a more sustainable everyday life on and off work and share their results with others. The campaign activities were organized locally at sites and online on internal communication platforms with unified themes, empowering local sites to adapt the campaign based on their needs.



Our health and safety strategy is to work actively with our 10 preventative measures in order to strengthen the safety culture.

survey. The baseline result for the Employee Engagement Index was defined as 80% and the Leadership Index as 77%. Based on the survey a base line for the Employee Engagement Index was established in 2020. A new target of 80% was set for 2025.

Safety is our mindset

Ahlstrom-Munksjö works towards a zero-injury workplace by setting ambitious targets for continuous improvement, and developing consistent safety practices and competencies at every level. We also strive to create a safety culture for all employees, contractors, and visitors at our sites that builds on local responsibility and accountability. The main element of our health and safety strategy is to work actively with our preventative measures in order to further strengthen the corporate safety culture.

Achieving our common safety KPIs assures all our stakeholders that we are continually reducing risks and creating a healthier and safer work environment. Continuous improvement also has a positive effect on financial performance as fewer accidents means higher productivity, fewer absences, better housekeeping and no unwanted stoppages.

To measure our progress in this area, Ahlstrom-Munksjö tracked three priority metrics: Total Recordable Incidents Rate (TRIR), Near Miss Rate, and hours of Tailored Safety Training. The main lagging indicator is the TRIR where a baseline of 2.2 was established in 2017. In 2020, the TRIR decreased by 12% to 1.42 (1.62 in 2019). We believe that zero accidents are possible, and this is our long-term aspiration.

The TRIR target for the 2021 to 2025 period is 1.0.

The annual near miss rate had a 2020 target of 5.5, much higher than the baseline target of 2.37 set in 2017. In 2020, the company achieved a near miss rate of 6.2 (5.0), 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 more than six near misses in 2020.

The number of hours of tailored safety training per employee each year reached 16,7 in 2020 (20 in 2019) compared to the target of 15. The reason for the decline is due to COVID-19 and no possibilities to conduct face to face trainings. Working with preventative activities such as the reviewing of safety alerts and best practices or working diligently on the main leading indicators, drives safety in the correct direction. The reduction of 17% in all recordable accidents in 2020, comes as a direct result of these efforts.

The way we have responded to the COVID-19 crisis has demonstrated our strength, agility and safety mindset. By January 23, 2020 we had already initiated a Centralized Crisis Alert Team to carry out a Global Pandemic Contingency and Preparedness Response Plan. This was coordinated to run alongside our COVID-19 Safety Protocol to keep employees safe and operations running continuously (and included the provision of 1.25 million facemasks for our teams across the globe). The scale of the outbreak, its sheer unpredictability and the speed at which the circumstances could change made implementing our safety measures particularly challenging.

75%

Of employees actively participated in health and safety preventative activities in 2020

89%

Of our plants hold an accredited safety management systems certification. 78% already ISO45001:2018.

6.2

Hazard reports and near misses were reported per employee in 2020

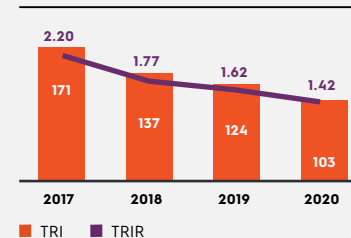
1.25 million

Facemasks provided to our employees

17%

Decrease in total recordable injuries compared to 2019

DEVELOPMENT OF TRI AND TRIR



TRI: Sum of all recorded occupational accidents for own employees; lost time accidents, occupational diseases, light duty cases, and other recordable incidents. Total Recordable Incidents Rate (TRIR): (TRI/Total hours worked) x 200,000.



Cultural cornerstones 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

Effective communication has been key to managing the crisis at Ahlstrom-Munksjö. We maintained transparency from day one through a variety of internal channels – including our internal pandemic website and frequently shared COVID-19 update letters from our CEO. In addition to this we encouraged the regular sharing of experiences and best practices via the network of crisis teams.

The lessons learned through the first countries and Ahlstrom-Munksjö plants affected by the outbreak have been crucial to our learning and development with regards to COVID-19 and employee health and safety. As a result of our effective responses and the wide range of adjustments to our existing business practices, we have kept our employees healthy, plants running and customers served since the outbreak of the pandemic.

Diverse and smart work

Ahlstrom-Munksjö aims to be a flexible employer, which is why, in 2020, we introduced smart and diverse working to all employees. Bringing an innovative mindset into the way we work and operate on a day-to-day basis is essential and the ability to positively influence the work-life balance builds motivation and creates engagement among our people.

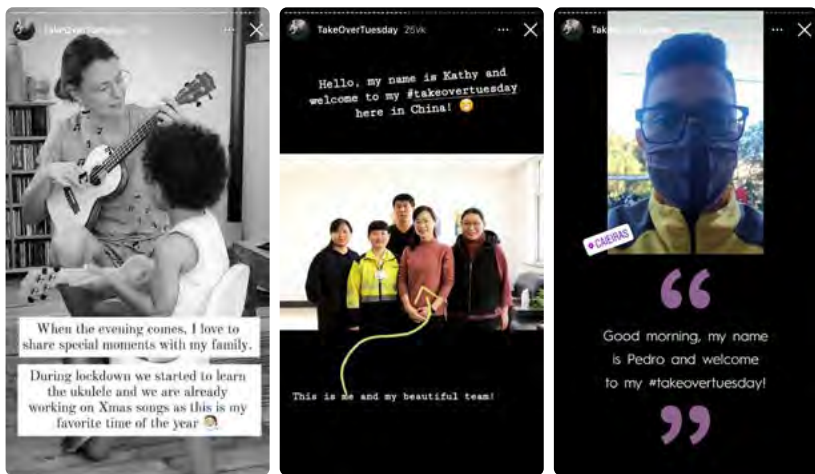
Diverse work provides tools and practices for making the best out of all situations, resulting in benefits for both the individual and the business. One of the ways we encouraged this new mindset was to introduce Microsoft Teams at the start of 2020. The new tool allowed teams to replace recurring and routine face-to-face meetings with virtual equivalents while also creating new opportunities for online collaboration and diverse work.

This new style of working was quickly tested and pushed further with the arrival of COVID-19. Our diverse and smart approach allowed employees and teams across the company to adapt quickly and efficiently – resulting in time savings and cost reductions too. Our pulse survey from early 2020 indicated that 77% of respondents could maintain engagement when working from home. By the end of the year, virtual meetings, live webinars and use of Teams as a shared workspace were commonplace, demonstrating the potential of diverse and smart working for Ahlstrom-Munksjö's way of working going forward.

Building on common culture through culture cornerstones

Despite working in multiple countries and businesses across the globe, our people share many commonalities. Working together as one team and sharing values, passion and goals makes us stronger as a company – which is why we defined and launched our six culture cornerstones in early 2020. The meaning and purpose of this roll-out was to create dialogue and bring the culture cornerstones to life in different forums, virtual workshops, team meetings and to raise awareness about our joint culture and how we wish to create success together.

Our culture cornerstones continue to guide how we operate both as individuals and a global company. From internal videos (where our people across the world explain what each cornerstone means to them) and people-focused visuals for web and print to a new podcast series featuring internal and external guests – our suite of content aims to convey the essence of each cornerstone across all teams and is constantly expanding.



In order to cascade this content, we established a Culture Ambassadors Network of 70+ employees, developed a Culture Lounge Yammer community and hold regular virtual coffee sessions where the network meet to discuss and share topical matters regarding the way we work together. By championing their new responsibilities and our new virtual communication tools (Yammer and Teams), the network has become an invaluable and diverse resource for teams working on culture and non-culture related projects alike – driving our cornerstones to the next level, supporting our local communities and providing support to colleagues throughout the company.

#ProudOfOurPeople

Diversity is one of our culture cornerstones and we consider it crucial to our success. With 50 nationalities, operating in 45 locations in 14 countries, we want to create an environment where our people can come to work knowing that they are valued and accepted – regardless of who they are or where they come from.

To create such an environment, we have encouraged more employee-generated content by opening our internal and external channels to our people so they can share their story, in their own words. From Instagram Stories (pictured above) to interviews with new or long serving employees, the message is clear: Ahlstrom-Munksjö is proud of you and we want to share your story with our people and the world.

Our employees value a company culture that celebrates diversity and inclusion – and this is something future employees also look for. By encouraging diversity, we create a culture

where everyone can be themselves and share their unique experience, knowledge and views for the benefit of the whole company. Our values, Code of Conduct and leadership principles guide us in building a culture, where diversity and inclusion are part of our DNA.

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.

In our work to identify talent, we have ensured that gender equality is respected. 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. We have also established targets to track gender representation in managerial roles at least proportional to the ratio of the total workforce. In 2020, 18% of employees and 21% of managers were female.

To further close the gender gap, we enable and foster a diverse workforce through the creation of a culture that is both diverse and inclusive. We develop leaders to build and develop diverse teams and, via initiatives such as our Women's Mentoring program (2021), we invest in women's career development to ensure continued diversity at all levels of the organization

In 2020, short and long-term gender targets for 2021-2025 were defined and an action plan for narrowing the gender gap in the overall workforce as well. Gender diversity is considered during recruiting, hiring and promotion and we also invest

in women's career development – a good example of this is the women's mentoring program mentioned earlier. Throughout these efforts, Ahlstrom-Munksjö will ensure compliance with our Code of Conduct and all applicable laws and regulations.

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.

Compliance with Human Rights issues in the operations is governed by Ahlstrom-Munksjö's Code of Conduct and in the

supply chain by the Supplier Code of Conduct. Ahlstrom-Munksjö has an externally hosted system, SpeakUp, 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. 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.

In order to make sure that all our employees are both aware of and understand Ahlstrom-Munksjö's Code of Conduct, they are expected to complete the Code of Conduct course which needs to be renewed biennially and is part of our introduction package for new hires. To date 95% of all employees of the Ahlstrom-Munksjö Group have completed the Code of Conduct course.

Responsible business practices

Ahlstrom-Munksjö is committed to conducting its business ethically and responsibly in local and global communities. 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 who reports to Audit and Sustainability Committee.

Ahlstrom-Munksjö's Code of Conduct provides with expectations for integrity and ethical behavior throughout the operations, including compliance with all appropriate national and international laws and regulations. The company has many policies and other lower level guidelines to provide further instructions in relation to specific topics such as anti-bribery, trade compliance, competition compliance as well as data protection. During 2020 Ahlstrom-Munksjö further enhanced the policy

DIVERSITY STATISTICS

24%

of total hires were female in 2020 compared to 23% in 2019

21%

of our managers are female

189

women hired in 2020

and other guideline governance and created a document repository to improve access to company guidelines.

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. In early 2020 Data Protection eLearning was launched to further enhance the communication around data protection issues and the company's Data Protection Policy. To date 86% of the target group of 2418 employees has taken the eLearning on Data Protection. During 2020 we also trained 193 persons from 28 different locations about business ethics and compliance online.

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 Department. Employees can also report any unethical or unlawful activity using an externally hosted SpeakUp whistleblowing system via phone or web-service 24/7. Our employees are being encouraged to raise their good faith concerns through these different channels without a fear of retaliation. All reports are reviewed and investigated and corrective actions are being taken as necessary.

To comply with ethical and responsible business practices we have the same target as for Human Rights, that all employees are expected to complete the Code of Conduct course.

Decreasing CO₂ emissions and increasing sustainability and safety in Billingsfors

Ahlstrom-Munksjö is investing around seven million euros in a new state-of-the-art coating machine at its Billingsfors plant in Sweden. The new machine will enable production and finish foils for furniture and building and construction industries without the use of formaldehyde in the coating process.

Billingsfors is a combined pulp and paper plant. The new machine is expected to increase the plant's manufacturing capacity and allows for the production of wider foils. This facilitates the expansion into new geographical markets. The investment also increases utilization of the pulp mill at the plant. The new machine is expected to be fully commissioned in the fourth quarter of 2021.

The investment will also reduce the plant's CO₂ emissions by an estimate of 20% which underlines Ahlstrom-Munksjö's position as a supplier of sustainable fiber-based solutions.

Besides making the Billingsfors plant more sustainable the investment also improves the working environment and employee safety while increasing productivity and lowering costs.



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

Social and Relationship Capital

Social and relationship capital is a prerequisite for Ahlstrom-Munksjö's value creation. Through our actions, we build trust and meaningful contacts with all our stakeholders, which contributes to the well-being of the local community and improves the company's image and attracts potential employees and customers. The interaction with stakeholders provides us also insight and contributes to our competence, as well as guides and supports us in our strategy execution.

Ahlstrom-Munksjö has been a supporter of the United Nations Global Compact initiative since 2017. We annually renew our support and commitment to its 10 Principles relating to human rights, labor, environment and anti-corruption. We have included the UN Global Compact and its principles as part of our core values in our everyday life and publish the Communication on Progress every year as part of the key requirement. 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. As a Global Compact 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 collaborating with our peers in UN Global Compact Networks, which is a valuable forum for us to shape

a long-term sustainable future with other businesses and organizations. Also, being a participant means that our employees can utilize learning opportunities in the UN Global Compact Academy for knowledge and learning of sustainability objectives regardless of location or function.

Ahlstrom-Munksjö is also actively involved in several partnerships between the academia, industry and private foundations. 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.

Ahlstrom-Munksjö is a member of the Finnish organization for sustainable business practices (FIBS), the European Disposables and Nonwovens Association (EDANA), 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), the Federation of European Producers of Abrasives and Food Packaging Institute, 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 (GRI) Standards.

To Ahlstrom-Munksjö, community engagement means having a positive impact on our global and local communities by supporting initiatives that align with the company values.

Community engagement

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

Currently, local community relationships are cultivated by plant managers and their teams in 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 responding to community feedback related to regular plant activities. Some plants have undertaken formal stakeholder analyses, and subsequently developed community engagement plans, whereas others work more on an ad hoc basis as and when opportunities or challenges arise.

The community activities are followed up by the People & Safety team 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.

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 carefully consider their yearly 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.

In 2020, there have been various efforts to support the communities, such as volunteering and monetary donations. The United Nation's Children's Day was recognized by all locations in collaboration with Unicef. For 2020 the target was that all plants have an annually updated community engagement plan. By the end of 2020, 40% of sites had an updated plan. Those without formal plans have participated at least in one community event during the year.

Investing in the future of our people and the planet

In 2020, a 23 million euro investment at the Billingsfors pulp and paper plant in Sweden was completed and fully ramped up. The investment primarily meant a rebuild of the recovery boiler, but also included several measures in the pulp production line in order to remove bottlenecks. The investment was decided in 2018 and the new boiler was installed in late 2019.

The investment increases pulp production by around 10% and paper production by a few percent, while also enhancing the plant's environmental performance significantly by improving process combustion. This reduces local air emissions and lowers the plant's climate change impact.

The investment enables Billingsfors to comfortably meet new and stricter environmental regulations. It also improves the plant's financial performance through lower maintenance costs and the higher pulp and insulation paper production.

The new recovery boiler has also meant a better and safer work environment at the plant and in particular in the boiler building.



Local community projects 2020 – donating to local initiatives

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. This year our local community initiatives focused on funding projects dedicated to gender equality or clean water and sanitation work in line with UN's Sustainable Development Goals (SDGs) 5 and 6. Our employees submitted a total of 19 initiatives to a team chaired by our CEO, Hans Sohlström, who then selected the final six funding projects based on each initiative's potential impact, meaningfulness and geographical or regional diversity.



EMPOWERING AND EDUCATING WOMEN IN BRAZIL

Rede Atena is a non-profit civil association with a focus on advancing gender equality through female empowerment. It supports women in the Brazilian cities of Caieiras, Franco da Rocha and Francisco Morato. Our donation supports a project called "Enable and Legalize to Empower" supporting women to prosper in their professional and personal lives.

FOSTERING GENDER EQUALITY BY SUPPORTING GIRL POWER IN USA

The YWCA of Mount Holly Springs, USA, works to eliminate racism and empower women and children through diversity and inclusion programs. Our donation supports Girl Power! LEADS (Lead, Empower, Advocate, Develop, Serve) – a program designed for schoolgirls in the local area.

ADVANCING GENDER EQUALITY IN INDIA

With a vision of building environments free from violence, the Kutch Mahila Vikas Sangathan (KMVS) project is working with local judiciary to support survivors and minority communities in a bid to create a safer world for women and girls. Our donation supports KMVS to continue their work educating people at schools on gender equality and environments free from violence.



ENABLING CLEAN DRINKING WATER FOR LOCAL CHILDREN IN RUSSIA

A local children's shelter in Tver cares for children aged 3-15 without parents. Currently with no suitable water supply for drinking or cooking, our donation supports the installation of a water filter system.

IMPROVING THE WORK AND LIVING CONDITIONS OF ABACA FARMERS IN ECUADOR

Cooperativa De Produccion Abaca-Ecuador is a cooperative supporting local abaca farmers in Ecuador, South America. Our donation supports the cooperative to develop their clean water and sanitation systems further, to improve the work and living conditions of the local community.

ENABLING ACCESS TO CLEAN DRINKING WATER FOR LOW-INCOME PEOPLE IN BRAZIL

The local Rotaract club organizes activities and projects promoting equality through the provision of basic services, including clean water, for people living in the neighborhoods of Guararema, Jacareí. Our donation supports the development of a project to supply clean drinking water to the people living in the neighborhoods out of Guararema city.



Driving social responsibility through Ahlström Collective Impact

In 2020, we have played a key role in developing and launching the Ahlström Collective Impact – a new corporate social responsibility initiative by Ahlstrom-Munksjö, Ahlström Capital, Antti Ahlström Perilliset, Eva Ahlström Foundation, Destia and Glaston. The partnership is committed to creating change by investing in a better future for children in partnership with UNICEF Finland. The partnership's activities and funding decisions are guided by commonly selected SDGs defined by the United Nations. In 2020 the focus has been on COVID-19. For Ahlstrom-Munksjö, the collaboration is a way of influencing and contributing to change, promoting equality and improving child-related risk management processes in the company's supply chains.

World Children's Day

World Children's Day was first established in 1954 as Universal Children's Day and is celebrated on 20 November each year to promote and celebrate children's rights. The date marks the day when the United Nations General Assembly adopted the Declaration of the Rights of the Child in 1959 to promote international togetherness, awareness among children worldwide, and the improvement of children's welfare.

In 2020, all Ahlström Collective Impact partners were actively involved in planning and executing joint campaigns to celebrate this important day. At Ahlstrom-Munksjö, we launched a series of internal and external initiatives and communication activities to advocate, promote and celebrate children's rights. We believe our participation in this important day and our actions will translate into dialogues and actions among our people that will help build a better world for children across the globe.



Ahlström Collective Impact –

The partnership is committed to creating change by investing in a better future for children in partnership with UNICEF Finland.

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2020 customer survey results put Ahlstrom-Munksjö in the forefront of the industry and identify areas for further improvement

Customer value is one of Ahlstrom-Munksjö's four strategic cornerstones and a prerequisite for maintaining a leadership position in fiber-based solutions. To measure and track the satisfaction of our key customers as well as to keep up with the market development, Ahlstrom-Munksjö regularly conducts third-party surveys among their key customers. The latest of these surveys was conducted in 2020.

In the survey of over 450 selected customers, 78% consider Ahlstrom-Munksjö to be their leading supplier (75% in the previous survey in 2017) and most customers are likely to choose Ahlstrom-Munksjö as their supplier again.

The total results of the survey also demonstrate a strong performance in many areas, and especially in personal contacts, technical service, innovation and sustainability. Our Net Promoter Score of 57 is a World Class rating for a manufacturer in a B2B relationship.

"At Ahlstrom-Munksjö, we strive to be a valuable partner for our customers and

contribute to their business success. These survey results clearly demonstrate that we are on the right track," says Hans Sohlström, President and CEO of Ahlstrom-Munksjö.

Identifying areas for improvement for the benefit of our customers

Through the survey, customers gave us many concrete suggestions on where we could further improve. For example, these inputs related to innovation and development serve as an important guidance in developing our offering even further. In today's fast-changing business landscape, it is more important than ever that we respond to our customer needs by identifying trends and continuously developing new fiber-based solutions. We have set our 2025 target for new products sales to 15% (calculated as sales of products launched in the past three years as a percentage of group sales), which is clearly higher than the level of 12% in 2020.

Intellectual Capital

As a producer of functional materials, identifying trends and developing existing and new customer solutions is ever more important in ensuring competitiveness and responding to challenges in today's society. At Ahlstrom-Munksjö innovation and product development are at the heart of value creation.

Ahlstrom-Munksjö has extensive research and development capabilities in each business. Product development in the businesses is carried out at the various plants and in collaboration with customers. The company also operates a research center at two sites in France, one in Pont-Evêque and one in Apprieu. The research center employing about 70 people works in close cooperation with the businesses and provides services, and develops new products and next generation technology platforms. Company-wide research and development work is governed by a steering committee chaired by the Executive Vice President, Innovation, Sustainability and Communication and composed by key representatives from business areas, centralized R&D and Intellectual Property function.

In addition, marketing, sales and customer service organizations support the R&D process by identifying areas where development needs to be prioritized or quality improved, or where customers are looking for new applications.

Capturing the opportunity in electrification

Ahlstrom-Munksjö has successfully served the automotive industry for 50 years and has gained a leading position in engine filtration worldwide. As electrification is rapidly changing the landscape of the industry, Ahlstrom-Munksjö is closely following the market development and innovating fiber-based solutions for energy storage applications.

Demand for energy storage is expected to grow significantly in the coming years, driven by vehicle electrification, a shift towards renewable energy and effective electricity supply chain management.

Fiber-based materials are widely used in energy storage devices, and thanks to the Ahlstrom-Munksjö's extensive expertise in cellulose, microglass and specialty nonwoven materials, the company is developing a complete range of solutions to its customers.

In 2020, Ahlstrom-Munksjö introduced the FortiCell product platform of fiber-based energy storage solutions. The first product launch included a complete range of solutions for lead acid batteries and we are aiming to introduce an offering for lithium-ion batteries with better heat transfer and improved safety aspects in the future. Stay tuned for more electrifying news!

Collaboration with stakeholders

Ahlstrom-Munksjö delivers high value-add products oriented towards customer requirements rather than industry standards. Typically, the products and services form an important part of a final product or perform crucial tasks in a production process. Thanks to our academic network, we participate in research programs on thematic of high strategic importance for the group. Long-term cooperation in product development with customers creates a foundation for advancing the capabilities of what fiber-based materials can do. In addition, our strong collaboration and partnership with suppliers enable to choose carefully the highest quality raw materials.

The company is also an active member in a number of coalitions to support circular- and bioeconomy:

- **4evergreen** to generate awareness about the benefits of fiber-based packaging materials, advocate for EU legislation supporting product design for recyclability and appropriate recycling infrastructures
- **Sustainable Packaging Coalition** to bring together businesses, educational institutions, and government agencies to collectively strengthen and advance the business case for more sustainable packaging, delivering results-oriented projects and cutting-edge resources

Among the strategic themes of the research center

REDUCING THE USE OF PLASTICS

One of the strategic directions of the company is to propose alternatives to plastic solutions as well as to increase the sustainability of its products by using biobased raw material

and tailoring their end of life without compromising their functional properties. Our project portfolio includes both developments related to cellulose (nano- and microfibrillated) and biopolymer from which we can make fibers and nonwovens, and having fast degradation in home composting conditions for example.

In 2020, the company introduced ‘from Plastic to Purpose’ campaign, which aims to raise awareness among consumers, customers and suppliers regarding the possibility of fiber-based solutions as a renewable packaging option.

FLUORO-FREE SOLUTIONS

Ahlstrom-Munksjö has developed paper solutions that are designed to deliver outstanding grease resistance without the use of PFAS (fluorochemicals) for a broad range of grease resistant food packaging applications, each with uniquely challenging performance requirements. Quick service restaurant applications, microwave popcorn bags, and other papers are specially manufactured to meet or exceed sustainability goals.

ENERGY STORAGE APPLICATIONS

Demand for energy storage is expected to grow significantly in the coming years, driven by vehicle electrification, a shift towards renewable energy and effective electricity supply chain management. Fiber-based materials are widely used in energy storage devices and, thanks to the Ahlstrom-Munksjö’s extensive expertise in cellulose, microglass and specialty nonwoven materials, the company is developing a complete range of solutions to its customers.

One of the strategic direction of the company is to propose alternatives to plastic solutions as well as to increase the sustainability of its products.



New products

Ahlstrom-Munksjö will continue to launch new products that add value for our customers. Some great examples from last year include a fiber-based solution for lead acid batteries under the FortiCell range for energy storage applications and a laminating process aid for circuit boards as part of the “from plastics to purpose” campaign. In addition, the commercialization of our fiber-based solution for paper straws to replace single-use plastic straws is gaining traction.

EcoDesign

Improving sustainability, which involves making existing products more environmentally friendly by making them compostable, recyclable or using lower amounts or different chemicals, is a high priority.

Ahlstrom-Munksjö uses EcoDesign tool to evaluate and assess every new product from a sustainability and product life-cycle perspective. The principle of the 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, and emissions. The assessment also addresses improvement of the sustainability aspects of the end product of which it will be a part.

Performance in 2020 and targets for the future

The company continues to target sales from new products launched during the last three years to reach 15% by 2025. In 2020, 12% (10% in 2019) of sales came from new products. We also have set two more detailed targets related to the design of our new product development work.

Our ambition is that by 2025, 100% of the new products in development are assessed with the EcoDesign Tool. In 2020, 99% of these new products in development were assessed by the tool. In addition, we target that 100% of the new products have a positive EcoDesign score by 2025, meaning their environmental impact is lower than a reference product’s.

In 2020, the company’s expenditure on R&D was approximately EUR 27 million, representing 1% of net sales. The figure does not include technical product development costs carried out in close cooperation with customers.



Parchmentizing line at the Saint Severin plant in France.

Manufacturing Capital

Ahlstrom-Munksjö operates a network of 45 plants and converting sites on four continents in the production of fiber-based materials and solutions. The company possesses unique know-how in fibers, chemistry and materials technology and the plants cover all major web forming and paper manufacturing technologies. Four of these sites also produce wood pulp for internal and external use.

In 2020, sold production decreased by 1% to 1,570,000 tons amid the coronavirus pandemic.

The company is nearing the completion of its EUR 190 million strategic growth investment program, which includes a total of 13 projects. Eleven of these have been completed and the remaining two projects are expected to be completed during 2021 and 2022.

In 2020, capital expenditure was reduced to EUR 118 million (161) as most of the strategic investment projects were completed. Depreciation and amortization on fixed assets was EUR 118 million (122).

The company is nearing the completion of its EUR 190 million strategic growth investment program.

Main objective is to ensure sufficient liquidity in relation to the level of the operating activity and to ensure room for strategic maneuvering.

Financial Capital

Ahlstrom-Munksjö's financial capital is divided into equity and debt. The company aims to keep an optimal capital structure to reduce the cost of capital. The main source of borrowings include bank loans and bonds. In addition to cash and cash equivalents, the company ensures its short term liquidity through committed bank overdrafts, revolving credit facility and commercial papers program. The main objective is to ensure sufficient liquidity in relation to the level of the operating activity and to ensure room for strategic maneuvering. The company uses factoring or similar arrangements as part of its effort to optimize working capital management. Ahlstrom-Munksjö also aims to spread its debt across different lenders, maturities and currencies to manage financial risks. Financing is managed and coordinated on the group level in order to reduce interest costs and to ensure efficient financing of business operations. Ahlstrom-Munksjö's target is to maintain net gearing ratio below 100%.



Ahlstrom-Munksjö's Business Model

Ahlstrom-Munksjö has an integrated business model with a focus on innovative fiber-based solutions that are continuously developed and improved in close collaboration with customers.

As a producer of functional materials we create value by adding know-how and advanced technology to carefully chosen fibers that we ensure are responsibly sourced.

A close partnership with customers in combination with sustainable sourcing and an efficient production platform constitutes a virtuous circle where insight and knowledge gained in each step of the process can be fed back and strengthen competitiveness.

Ahlstrom-Munksjö delivers a clear value proposition that is based on innovation, quality and customized service. Our customers use our solutions in a large variety of everyday applications within a broad range of end-uses that are underpinned by fundamental business drivers in today's society.

BUSINESS MODEL





Outputs

Ahlstrom-Munksjö provides advanced fiber-based solutions with high degree of complexity and technical content that often perform important functions in the value chain or the product solution.

Ahlstrom-Munksjö makes relatively few products that are intended for end use by customers. Instead, we deliver fiber-based solutions that form part of either an end product used by consumers, like different types of tape or face masks, or are used in an industrial or manufacturing process.

In many cases, like abrasive backing used for sanding products, they are used in both instances. Our products therefore form an integral and important part of many value chains.

One crucial aspect of our materials is functionality and that is something we are constantly striving to improve. Our materials and products perform a task and a function that improves and enhances the end product. We want that function to constantly improve while also becoming more sustainable. Intense and continuing collaboration with our customers makes sure this continues.

One example is our ParaFree™ Wax Alternative Papers used for food packaging in especially the fast-food industry. It is resistant to many oils and condiments and water repellent but still paraffin wax free which reduces the dependency on petroleum-based ingredients. In addition is printable on

Our materials and products perform a task and a function that improves and enhances the end product.

both sides, brings higher brightness and opacity which enhances visibility of the consumer's brand image and message. Combined, that brings greater functionality to the customer.

Another example is Optilam™ which is a breakthrough antistatic release material that helps RFID prelaminated inlays manufacturers to make the lamination process easier, more efficient. Our products improve the final quality of the inlay which helps the customer to better serve the RFID smart card market.

We also supply advanced and high-quality absorbent filtration media for use in flow-through and lateral flow and dipstick devices, used in testing and diagnostics for the laboratories and the health care industry.

Business Impacts

Our business and operations have an impact on communities, economies, and the environment. We work relentlessly to minimize potentially negative effects and contribute as much as possible to local communities and economies where we operate.

Ahlstrom-Munksjö is keenly aware that our operation and manufacturing sites are important to many local communities. They are typically located in more rural areas rather than metropolitan areas and therefore are important for local employment opportunities.

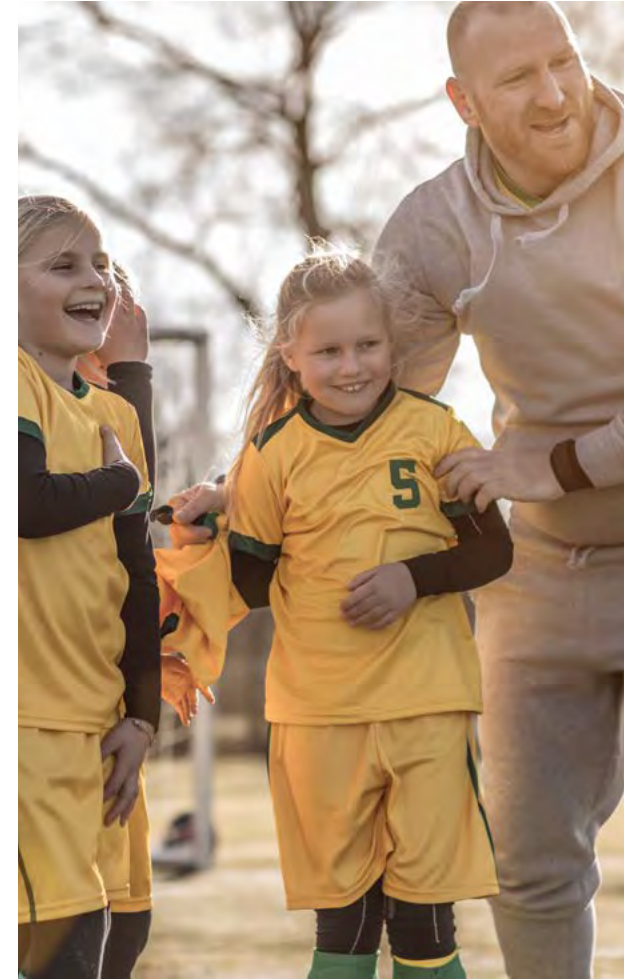
We contribute to local economies by providing employment with good opportunities for advancement and training and skills development on the job. We also contribute through taxes and by using local suppliers when possible. In some communities we may be one of the largest private employers and that is a role we take very seriously and have great respect for.

As a manufacturing company we recognize that our factories have an impact on the local and global environment. We constantly strive to reduce that impact by using sustainable water supplies, sustainable raw material supplies and reducing our carbon footprint. This is also done in dialogue with local authorities and communities.

As a manufacturing company we recognize that our factories have an impact on the local and global environment.

Our solutions and products help to improve our customers end products and processes and we continuously innovate and develop in order to push the boundaries for how our solutions can contribute to a more sustainable economy. Finding ways to enhance the efficiency and prolong the working life of products is one way to achieve that and developing fiber-based solutions that can replace plastics and other fossil-based materials is another.

Our ambition is to be at the forefront of this development as well as other areas such as reducing the need for chemicals and in particular chemicals that can be potentially harmful. Ideally, we can, as a market leader, also be an inspiration to other market participants and our customers.



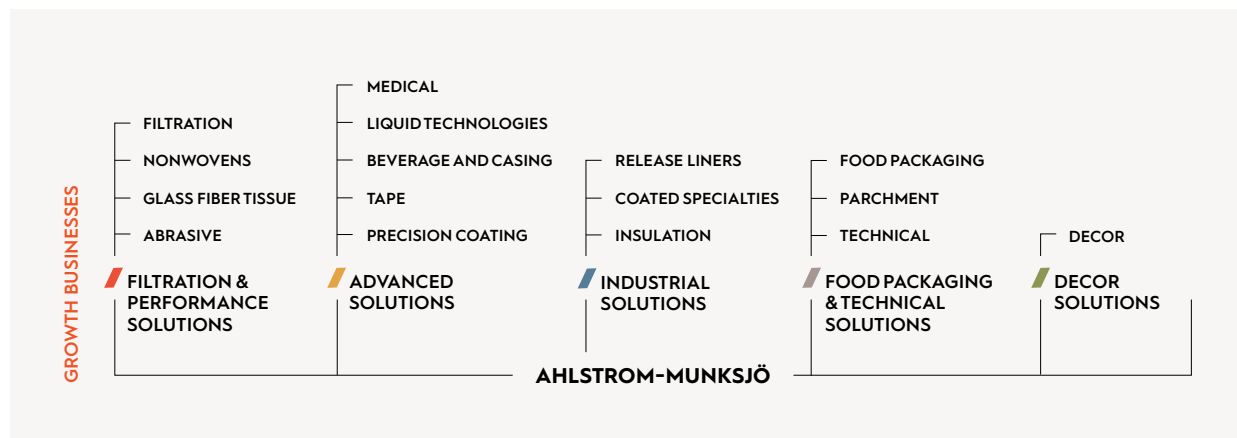
BUSINESS

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.

We started the year 2020 with a new structure and organization, which was put in place as a natural next step in finalizing the integration of major acquisitions from the prior years. The organizational structure promotes core business capabilities and align business characteristics and targets of each business area. It enables us to strengthen capabilities in areas of product development and innovation, global key



customer account management and service, product and production technology as well as process improvement and production optimization. During the year, the new structure brought with it production-related benefits.

FILTRATION & PERFORMANCE SOLUTIONS

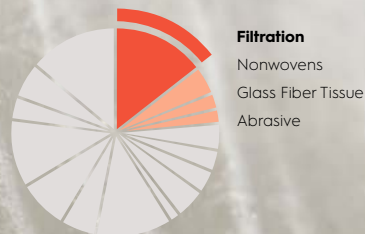
Filtration

The **Filtration** business develops and produces high performance filtration materials for engine oils, fuels and air, used in vehicles, as well as for industrial applications. The 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, 2020



HIGHLIGHTS 2020

- Demand for filtration materials, especially transportation end use, recovered during the second half of the year from a low level in the second quarter caused by the pandemic
- Ramp-up of global face mask materials production and the launch of Extia® Protect face mask product range
- Launch of Ahlstrom-Munksjö FortiCell®, a new range of fiber-based solutions for energy storage applications and introduction of a new product portfolio for lead acid batteries
- EUR 28 million investment to expand production of filtration and energy storage applications proceeding as planned, expected completion in the first quarter of 2022

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 in 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

- Further reinforce its global leadership in engine filtration and continue to grow in Asia
- Leverage established capabilities to expand in industrial filtration
- Develop new filtration applications to capitalize on the electrification of mobility

FILTRATION & PERFORMANCE SOLUTIONS

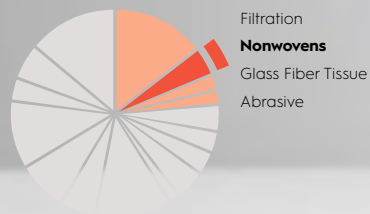
Nonwovens

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

Market position #1 in high-end wallcoverings

Average market growth 2-3% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Signs of improving demand for home building and construction related materials such as wallcoverings and plasterboard in the second half of the year. Strong demand for hygiene related products throughout the year.
- Supply agreement for wipes materials with Suominen
- Launch of WallStar® Digital into North America, delivering new PVC free wallcoverings material for customized digital printing
- Good progress in developing offering in plasterboard materials
- Extension of wallcoverings platform to paper and nonwoven backings from the Arches plant in France

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, fast growing digital printing market
- Consumer spending

STRENGTHS

- Leading position in the high-end wallcoverings market in Europe
- 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
- Further strengthen the position in high-end and digital wallcoverings materials
- Continue the extension of wallcoverings platform from the Arches plant in France

FILTRATION & PERFORMANCE SOLUTIONS

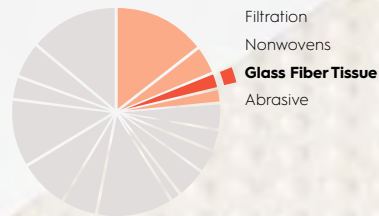
Glass Fiber Tissue

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, 2020



HIGHLIGHTS 2020

- Demand for glass fiber tissue started to recover during the second half of the year from a low level in the second quarter caused by the pandemic
- Launch of FibRoc® Flooring, a complete offering of high performance solutions for flooring applications
- Successful introduction of glass fiber tissue to energy storage and filtration applications
- Introduction of sustainable bio-based binders in glass fiber tissue offering

DEMAND DRIVERS

- Construction and renovation activity
- Growing popularity of luxury vinyl tile 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

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

FILTRATION & PERFORMANCE SOLUTIONS

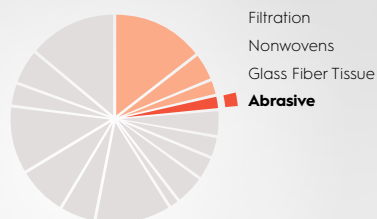
Abrasive

The **Abrasive** business, in which Ahlstrom-Munksjö targets global markets, produces specialty papers used as backings for abrasive products used in industrial and do-it-yourself sanding applications. The business also includes printing and surface treatment papers for different backings.

Market position #1-2

Average market growth 2-3% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Demand for abrasive materials started to recover during the second half of the year from a low level in the second quarter caused by the pandemic
- Investment decision at the Binzhou plant to produce abrasive backing papers locally in China to further strengthen its leading position in abrasive backings globally. The expected completion of the project is at the end of 2021.
- The divestment the fine art paper business to Italy-based F.I.L.A. Group, for a debt free price of approximately EUR 44 million euros, was completed
- Introduction of new sustainable offering to substitute oil-bond treatment

DEMAND DRIVERS

- Demand for abrasives is driven by automotive, wood, furniture and construction industries as well as do-it-yourself market
- Demand for decorative printing and coating papers is driven by designers

STRENGTHS

- 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.
- 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

ADVANCED SOLUTIONS

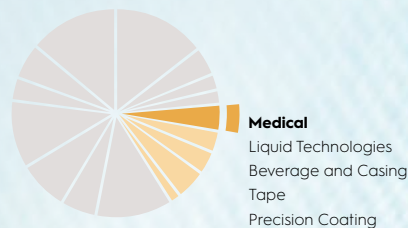
Medical

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, 2020



HIGHLIGHTS 2020

- Demand for medical fabrics was strong throughout the year with some normalization in the second half of the year
- Increased production of surgical face mask materials as well as surgical and clinical protective apparel
- Launch of TrustShield™ Biological, a personal protective apparel medical fabric designed to shield against hazardous pathogens
- Expansion of the TenderGuard™ product portfolio to include our face mask offering
- Reliance® SMS 200, Reliance® SMS 300, Reliance® Dextex 200, and Reliance® Dextex 300 were declared compatible with the French requirements for face masks used by civil servants in contact with the public

DEMAND DRIVERS

- COVID-19 pandemic for all personal protection equipment
- High-risk surgeries increasing
- Liabilities around infections and contamination
- Rigorous regulatory requirements
- Increasing use of single-use protection

STRENGTHS

- Leading in high protective fabrics used in operating rooms and clinical environments
- 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 used in surgical and clinical environments as well as increasing market share
- Strengthen leading position in Europe in sterilization wraps and grow as a solutions provider through an enhanced service offering
- Grow in Asia through improved customer service and local converting footprint

ADVANCED SOLUTIONS

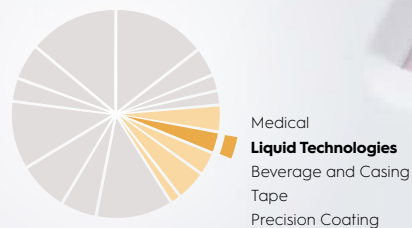
Liquid Technologies

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. Other niches include hot cooking oil and milk filtration applications.

Market position #2

Average market growth 1-10% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Demand for life science products as well as special components for rapid test kits for immune and antigen tests for COVID-19 were strong throughout the year
- Capacity increase through a new rewinder to fulfill the peak on demand
- Partnership with Spanish sports and life style accessories company BUFF* to provide certified filter media for replaceable face masks
- Integration of the hot cooking oil filtration business acquired at the end 2019

DEMAND DRIVERS

- Increase in testing for environmental and health monitoring
- Patient-friendly procedures, performed close to the patient (point of care/home)
- Quick, cost-effective solutions for healthcare
- Safer drinking water, rising quality standards for food and liquids

STRENGTHS

- Quality, service and strong portfolio for components for rapid test kits.
- Quality and service for laboratory filters
- Disruptor proprietary technology to remove bacteria and viruses, while keeping a high flow during the filtration process
- 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.
- Cost-effective solution to increase hot cooking oil quality

GOING FORWARD

- Strengthen market position in life science segment through further service and full deployment of our portfolio to support growing demand for rapid tests kits.
- In liquid purification, penetrate the water purification market through new customers and more end-use applications to proceed with the technology adoption.

ADVANCED SOLUTIONS

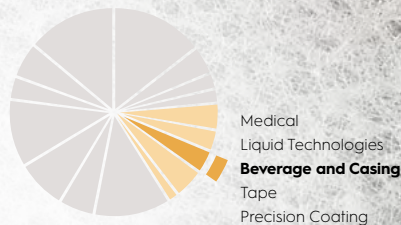
Beverage & Casing

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 #1-3

Average market growth 1-5% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Increased demand for tea bag and coffee materials, supported by in-home consumption due to restrictions on restaurants and coffee shops. Demand for casing materials was solid throughout the year.
- Ongoing investment at the Chirnside, UK, plant to reinforce market position. A new production line to be operative in first half of 2021.
- Significant growth in coffee materials, particularly in the North American market through new contracts and product development

DEMAND DRIVERS

- Consumers increasingly seek sustainable alternatives
- More demanding packaging functionality and barrier properties
- Consumers are increasingly price sensitive in certain beverage markets
- The negative impact from COVID-19 in quick service restaurants and food service sectors offset by increased in-home consumption

STRENGTHS

- Forerunner in plastic-free materials
- Leading innovation in sustainability through technical competence in home compostable polymers
- Unique oxygen barrier lidding solution as an alternative to aluminum
- Unique viscose technology in casing materials

GOING FORWARD

- Continue to differentiate with unique plastic-free, biodegradable and home compostable tea bag materials and single-serve coffee solutions offering
- Further develop and grow in the fibrous casing material segment
- Leverage the Chirnside, UK, plant investment
- Increase footprint in the North American coffee business

ADVANCED SOLUTIONS

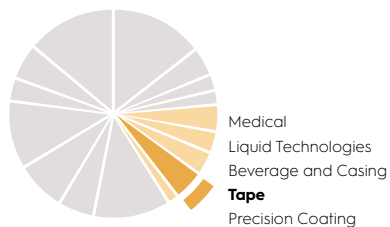
Tape

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, 2020



HIGHLIGHTS 2020

- Demand for masking tape backings was solid throughout the year, while demand for packaging related tapes was growing
- New product launches included Mastertape X-line for high-quality painting and Mastertape Pack for packaging applications

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

GOING FORWARD

- Continue to consolidate product portfolio and optimize expanded global manufacturing footprint
- Grow packaging tape segment by leveraging expanded product range in e-commerce and develop 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

ADVANCED SOLUTIONS

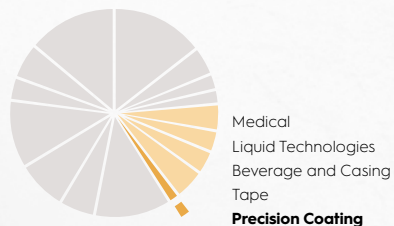
Precision Coating

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, and continues to expand its capabilities to meet the stringent guidelines for the aerospace and medical markets as well as sustainable non-release products for a range of markets.

Market position #2-4

Average market growth 3-8% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Demand for specialty release liner products weakened mainly due to a low activity in aerospace industry
- Organizational adjustments to pivot assets to address needs in Ahlstrom-Munksjö's other businesses to support capacity shortfalls and new business opportunities
- Leveraged expertise to enter new markets
- Improvements in operational efficiencies

DEMAND DRIVERS

- Post Covid-19, non-aerospace markets are showing signs of recovery
- Aging population driving product development in advanced wound care
- Increased use of self-adhesive fasteners in industrial and home applications
- Sustainable solutions in coating and substrates driving next generation products

STRENGTHS

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

GOING FORWARD

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

INDUSTRIAL SOLUTIONS

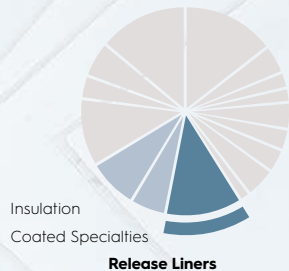
Release Liners

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 3–4% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- The peak in demand for release liners for labels during the first wave of the pandemic was followed by a slowdown in the third quarter and then a stabilization towards the end of the year. Demand for industrial and specialty grades recovered from the third quarter onwards following a decline in the second quarter.
- Positive acceptance for specialty liners certified for food contact and baking
- Joined the global consortium CELAB to promote circularity in the label business

DEMAND DRIVERS

- E-commerce, driving the need for labels in tracking and identification, which increased further through the pandemic
- Consumption of packed foods and beverage
- Use of self-adhesive materials, fastening systems and carriers in diverse industrial segments.

STRENGTHS

- World-class product performance and consistency
- Broad and often customized product range, suiting most application segments
- 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
- Continue the integration of European and North American business and product range
- Focus on developing efficiency, differentiation and sustainability

INDUSTRIAL SOLUTIONS

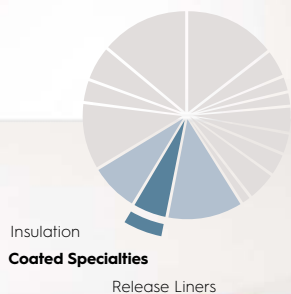
Coated Specialties

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 #3-5 in coated specialty papers

Average market growth 2% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Demand for label and flexible packaging papers improved in the second half of the year for Brazil following a very weak market in the first half of the year. In Europe, the market remained weak as inventory levels were high across the supply chain.
- Turnaround plan of the Stenay plant in France progressed as planned
- Adaptation of the Flexible Asset Model in Rottersac, France, in supplying and developing products to Ahlstrom-Munksjö's other businesses
- Continued good progress in ramping-up production of the new coating line in Jacarei, Brazil

DEMAND DRIVERS

- Rapid urbanization driving the need for packaging and e-commerce driving the need for labels
- Sustainable paper solutions to replace plastics films for flexible packaging
- Packaging functionality driving the need of barriers, resistance and heat-seal ability on paper
- Fluoro-free regulatory requirements
- Digital media replacing traditional ones

STRENGTHS

- Robust asset and technical expertise in barrier and resistance solutions for reducing the use of plastics and fluororesins, while preserving recyclability and compostability attributes
- Collaboration with other businesses at Ahlstrom-Munksjö
- Global platform with local accountability enabling the best relationship with customers, both regionally and globally in Europe, North America, South America and Asia
- Product range, technical expertise and product development capabilities

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 market segments
- Capitalizable on the new coating line investment completed in late 2019 at the Jacarei plant in Brazil
- Develop new industrial markets – like dye sublimation – to strengthen position through diversification and growth

INDUSTRIAL SOLUTIONS

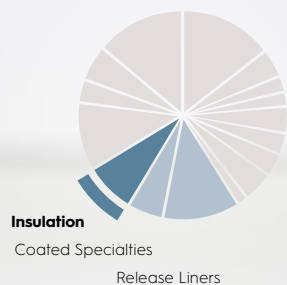
Insulation

The **Insulation** business supplies electrotechnical insulation papers to manufacturers of transformers and high voltage cables globally. It also produces thin papers used as interleaves, masking for textile printing, balancing foils and specialty long-fiber pulp.

Market position #1-2 in electrotechnical papers and steel interleaving

Average market growth 2-3% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Demand for electrotechnical papers improved in the second half of the year following a somewhat weaker market in the first half of the year. Demand for steel interleaving papers started to improve from the third quarter onwards from a low level.
- EUR 7 million investment to a more sustainable coating machine in Billingsfors, Sweden, to enable formaldehyde free finish foils for furniture, as well as building and construction industries

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

- Broaden product portfolio in chosen segments
- Pursue continuous improvement in operational efficiency and value-based pricing management
- Capitalize the recovery boiler and bailing line investments completed in 2019

FOOD PACKAGING & TECHNICAL SOLUTIONS

Food Packaging

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, 2020



HIGHLIGHTS 2020

- Demand improved for food processing and packaging in the second half of the year following a mild rebound in restaurant traffic and market share gains with FluoroFree® grease resistance technology and CelluStraw™ paper straw products
- Launch of Delicitera® Confectionary Papers, an enhanced line of sustainable and safe specialty papers geared towards the confectionary market
- ‘From Plastic to Purpose’ campaign to raise awareness of fiber-based solutions as a renewable packaging option. First product launched under the initiative was CelluSnack™ snack packaging papers.
- Commercialized High-Density Grease Proof (HDGP) baking paper technology in North America
- Achieved Biodegradable Products Institute’s compostability certification for CelluStraw™ paper straws

DEMAND DRIVERS

- Sustainability, recyclability, compostability, and alternatives to single-use plastics
- Stricter food safety and chemical regulations
- Packaging functionality

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

FOOD PACKAGING & TECHNICAL SOLUTIONS

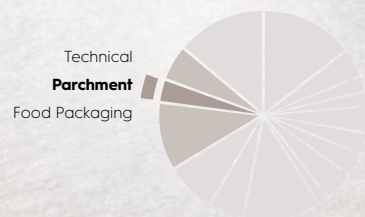
Parchment

The Parchment business produces a broad portfolio of sustainable solutions for food and industrial applications. The product portfolio includes cooking and baking papers, baking-trays and molds, food packaging papers for fresh & greasy foods. Parchment is also used in the textile tube and furniture laminate industries as well as in the radio frequency identification (RFID) and printed circuit board and copper clad lamination. 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, 2020



HIGHLIGHTS 2020

- Demand for parchment papers for food processing, packaging and industrial solutions increased in the second half of the year after a more stable development earlier in the year
- Launch of OptiLayout™, an innovative process aid for printed circuit board (PCB) and copper clad laminates (CCL) laminating systems, as part of “From Plastics to Purpose” campaign
- Unique 100% cellulosic composite PureBarrier™ supporting multiple brand owners in their search for sustainable oxygen barrier solutions

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
- Covid-19 pandemic triggering acceleration of cooking and baking at home

STRENGTHS

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

GOING FORWARD

- Leverage the technical characteristics of parchment paper as well as consolidate and expand leadership in the premium segment of cooking and baking papers
- Penetrate the food packaging market with oxygen barrier solutions
- Expand the use of parchment innovations to non-food solutions

FOOD PACKAGING & TECHNICAL SOLUTIONS

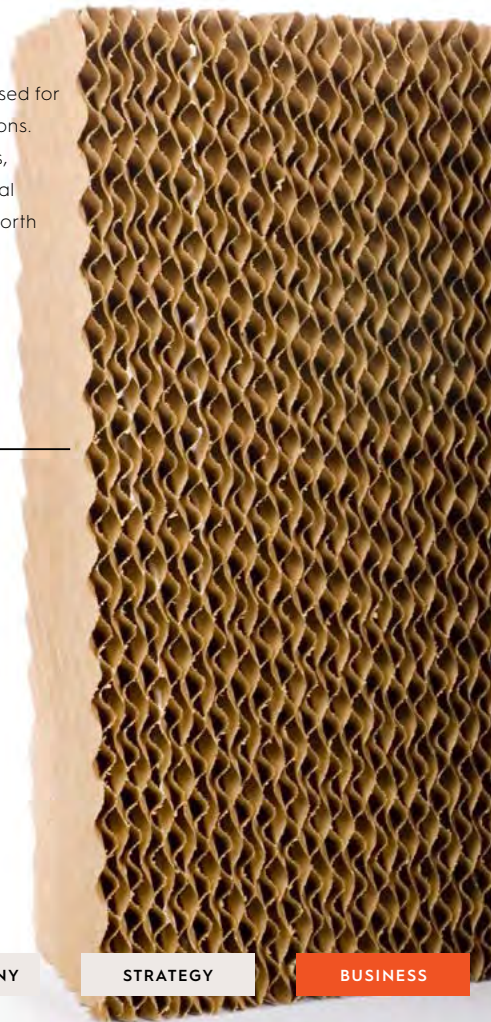
Technical

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, 2020



HIGHLIGHTS 2020

- Demand for technical specialty papers remained soft, driven by weak industrial and construction activity impacted by the pandemic, but with a significant rebound in the fourth quarter
- Launch of “Building with Ahlstrom-Munksjö” and “Open House” branding to showcase footprint in the building industry
- Significant growth and market share gain in medical base products
- ‘From Plastic to Purpose’ campaign to raise awareness of fiber-based solutions as a renewable packaging option. Key focus on the industrial and e-commerce packaging markets.

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, specifically in E-commerce and Cold-Chain applications

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
- Develop sustainable offerings and alternatives for the E-Commerce market
- Utilize asset base and technology optimization through the breadth and flexibility of Ahlstrom-Munksjö’s assets globally
- Maximize the overlap and alignment of other businesses in Ahlstrom-Munksjö to serve broader markets

DECOR SOLUTIONS

Decor

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 in Europe and North America, #1 in Latin America, #4 globally

Average market growth 3% p.a.

SALES BREAKDOWN BY BUSINESS, 2020



HIGHLIGHTS 2020

- Solid first quarter, following a year of de-stocking and weak demand in 2019
- Sharp drop in demand at the end of March, following pandemic related closures of retail furniture stores from mid-March to mid-June. This led to a broad-based downtime at decor paper customers in the furniture industry and an exceptionally weak second quarter.
- Increased household furniture spending during the summer driving a strong market recovery and exceptional demand of home furniture in the third quarter and continued good demand in the fourth quarter. Demand in office and shop furniture remained weak in the second half of the year.
- Strategic review of the business proceeding, while delayed due to the coronavirus outbreak

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 wood-panel based furniture and, within wood-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

Joining the fight against Covid-19

When the coronavirus pandemic struck in 2020 both the need for and the lack of efficient face masks quickly became apparent in many parts of the world. As a world leader in both fiber and filter technologies Ahlstrom-Munksjö rapidly went to work to see how we could be a part of alleviating the lack of adequate face masks.

By drawing on its agile and flexible manufacturing platform and decentralized management structure Ahlstrom-Munksjö could quickly recalibrate some production facilities to join the effort to fight the spread of the corona virus.

Ahlstrom-Munksjö has long been developing and manufacturing nonwoven fabrics used to construct protective medical fabrics such as surgical gowns and drapes, pleated surgical face masks, protective apparel, and sterile barrier systems. Ahlstrom-Munksjö had also been producing the inner and outer coverstock used for pleated surgical face masks but the middle filter media was not something Ahlstrom-Munksjö produced - until 2020.

By leveraging its in-depth knowledge of fiber-based solutions and the common manufacturing platform Ahlstrom-Munksjö was able to expand manufacturing of face mask fabrics to lines normally used for producing other fiber-based materials. The result was a full range of protective face mask fabrics for civil-, surgical and respiratory masks that was available in the spring 2020.

Among others, face mask material production was expanded at the plants in Tampere, Finland, and Turin in Italy. Filter material for face masks are also produced in for example Germany.

In Tampere and Turin, industrial filtration materials production was converted into production of high-quality face mask materials which was then used by partners and customers to produce different types of face masks.

The swift redirection of production resources in Ahlstrom-Munksjö has also been financially beneficial as some of the fall in demand ensuing from negative economic growth in most geographies could be at least partially offset by instead meeting the demand for face mask materials.

Most of the face mask material delivered by Ahlstrom-Munksjö is used in disposable masks but in a partnership with Spanish apparel maker Buff they are part of stylish and innovative reusable protective gear.

Ahlstrom-Munksjö supplies three-layer certified replacement filters with the capacity for 98% Bacterial Filtration Efficiency (BFE). They are inserted in products from Buff as its lightweight and ergonomic Filter Mask and Filter Tube.

The Filter Mask is ideal sport and outdoor activities, protecting the user yet allowing a high level of comfort while the Filter Tube keeps the user warm through the colder months. Both products will hopefully help to spread and maintain the use of face masks in all conditions.

Risk

Urbanization – Ever larger cities are continuing to attract people, and this places new demands on building technologies and how furniture is designed and made. Ahlstrom-Munksjö is supplying a very wide range of products that brings innovation and greater sustainability to the industry. We deliver products such as surface materials for furniture and flooring, wallpaper, dry boards, and balancing papers for building materials.

RISK AND RISK MANAGEMENT

01: 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 as mitigation. 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 a 3–5 year horizon and the impact relates to the estimated financial effect. Further comments about the risk management can be found in the section Corporate governance.

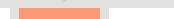
Business and market risk – variations in market prices and volumes for Ahlstrom-Munksjö's products

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 megatrends 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, 37%, Homebuilding and Furniture, 27%, Industrial, 11%, Transportation, 14%, Health Care and Life Science, 11%.

Increasing political instability, global protectionism, sanctions and other unfavorable macroeconomic conditions could have a material adverse effect on the business. The full impact of the ongoing COVID-19 pandemic cannot be foreseen as of yet, since it will depend on both the duration and severity and related measures taken to contain the pandemic. The long process of Brexit was concluded when the European Union and the United Kingdom reached an agreement on their future cooperation in late December 2020. Measures had been taken by Ahlstrom-Munksjö in preparation for the various possible Brexit outcomes. 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. The COVID-19 pandemic may accelerate the decline in the consumption of printing and writing paper, and trigger paper machine conversion to segments in which Ahlstrom-Munksjö is operating.

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.

Low Medium High

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. The market price of pulp or wood may vary over time and affects the Group's result. Ahlstrom-Munksjö works with a reasonably large number of suppliers to secure the diverse inputs needed to create its portfolio of specialty fiber products. Ahlstrom-Munksjö uses different types of pulp, such as long, short fiber and specialty pulp, in its production. In 2020, a total of 1,223 thousand tons of pulp was consumed. The purchases were reduced by 499 thousand tons of the company's own pulp production, which included market pulp production of 185 thousand tons at its Aspa pulp mill, Sweden. For purchases, there is a structured method to ensure that the procurement process is complete and systematically designed.

Inability to attract, retain and motivate right talent and competences

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.

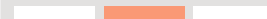
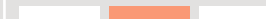
LIKELIHOOD:**FINANCIAL IMPACT:**

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.

Environmental risk, environmental regulation, 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.

LIKELIHOOD:**FINANCIAL IMPACT:**

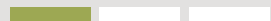
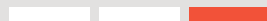
The Group's activities require permits and are also regulated by environmental legislation. The trend is moving toward more stringent and less flexible environmental regulations. For example, the Industrial Emissions Directive within the EU set sectorial emission limits based on what is considered possible to achieve using the best available technology without considering local conditions. In addition there may be potential changes in tightening environmental legislation in the United States. These items may result in new investments, increase in costs 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.

Low Medium High

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, which 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:**

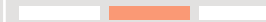
In the case of potential business combinations, substantial integration work is needed to realize expected synergies. Achieving the remaining part of the anticipated business synergies relating to Expera and Caieiras acquisitions or other potential acquisitions, largely depend on the timely and efficient integration of the business operations, processes and ways of working of the acquired entities with Ahlstrom-Munksjö, which, in turn, are 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 risk of customer concentration. The industries in which customers of Ahlstrom-Munksjö 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 the market and product. The Group has well-developed principles for customer credit and credit risk management including the use of credit insurance with regular follow-up.

At the end of December 2020, trade receivables stood at EUR 214.5 million. The average credit period was 29 days. A portion of sales, corresponding to an average of EUR 188.5 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	2020	2019
Trade receivables not due	189.5	186.1
< 30 days	22.3	29.0
31-180 days	2.0	3.7
> 180 days	0.7	-0.2
Total trade receivables	214.5	218.6

Risk of price volatility, reduced supply of energy and cost of CO₂ allowances

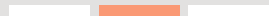
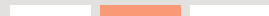
Energy costs represent a significant portion of the production costs. Ahlstrom-Munksjö mainly consumes electricity, oil and gas. Higher prices as well as reduced availability of energy could result in an increase in the Group's operating costs and impact operating result negatively.

LIKELIHOOD:**FINANCIAL IMPACT:**

Ahlstrom-Munksjö operates in an energy intensive industry and capital spending in internal energy efficiency is a priority. During 2020 the value of the energy consumed represented 8% of the Group's operational costs. In addition Ahlstrom-Munksjö has some own energy production assets, but majority of the consumed energy is sourced from external parties. Regulation changes regarding CO₂ allowances can increase costs of the allowances.

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.

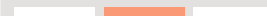
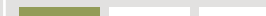
LIKELIHOOD:**FINANCIAL IMPACT:**

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 with a focus of applying best practices for the whole Group. For health and safety, Ahlstrom-Munksjö applies a vision of zero accidents.

Low Medium High

Legal risks

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

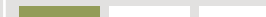
LIKELIHOOD:**FINANCIAL IMPACT:**

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 2020, 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.

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.

LIKELIHOOD:**FINANCIAL IMPACT:**

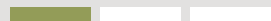
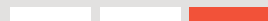
The Group's presentation currency is EUR. The net currency exposure is limited and mainly related to USD, SEK CNY, GBP and BRL. As a result of Ahlstrom Munksjö's increased presence in the United States, Ahlstrom Munksjö is especially exposed to fluctuations in the exchange rate of the USD. A large share 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 Group's extensive operations in the United States constitute to a partial natural hedge for the USD. The market value of outstanding forward contracts at December 31 2020 was EUR 4.2 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 2020 amounted to EUR -78.3 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.

LIKELIHOOD:**FINANCIAL IMPACT:**

To ensure that the Group has access to external financing, the guidelines for funding and liquidity 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, 2020 was EUR 735.8 million.

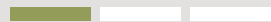
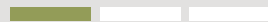
There is also a risk that the Company's balance sheet structure may limit the ability to finance future growth. For example, factoring and other similar arrangements currently constitute a significant source of funding to the Company. Adverse changes in the commercial terms for factoring, or the cancellation of such arrangements by the Company's counterparties, could have a material adverse effect on the Company's balance sheet and liquidity. During Q2/2020 additional facilities were secured and existing covenants renegotiated.

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.

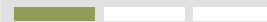
LIKELIHOOD:**FINANCIAL IMPACT:**

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 2020, there were no losses. Ahlstrom-Munksjö's maximum credit risk exposure corresponds to the fair values of the financial assets, in accordance with note 19.

Low Medium High

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

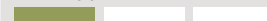
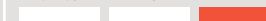
A misleading reporting can lead to wrong decisions / actions, which in turn may affect the company's results.

LIKELIHOOD:**FINANCIAL IMPACT:**

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

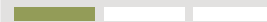
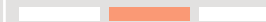
An impairment of goodwill or other asset could have a material adverse effect on the reported result.

LIKELIHOOD:**FINANCIAL IMPACT:**

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.

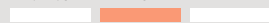
LIKELIHOOD:**FINANCIAL IMPACT:**

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

IT disruptions, information security and cyber-threats

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

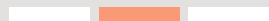
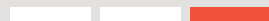
LIKELIHOOD:

FINANCIAL IMPACT:


Ahlstrom-Munksjö's operations and increasingly also communication with customers and suppliers are highly dependent on internal and external IT landscape. 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.

LIKELIHOOD:

FINANCIAL IMPACT:


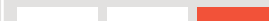
Ahlstrom-Munksjö depends on a continuous product and technology development in combination with long-term customer relationships. Future growth will depend on its continued ability to identify and respond to changes in consumer demand, develop its production and launch new and improved products. The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

R&D and innovation may also play a key role in meeting coming environmental and safety standards for products and production processes. The importance of ensuring that new products meet sustainability targets is increasing. This could result in a loss of permits or the prohibition of certain products or loss of market share as customers may opt for more sustainable products.

Reputational risks

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

LIKELIHOOD:

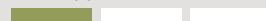
FINANCIAL IMPACT:


These risks relate mainly to issues concerning sustainability including environmental risks, the supply chain, health & safety, human rights and business ethics. Failure to meet expectations and standards in these areas could lead to reputational damage, which 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. Compliance program is established by the Group to mitigate the misconduct risk by our employees or third-party intermediaries. 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.

Failure to reach the transformational objectives and targets related to organizational and culture development

In the event the Group fails to reach the transformational objectives and development in connection to the renewal of its business platform, it may affect the group adversely.

LIKELIHOOD:

FINANCIAL IMPACT:


The Group has formed in an inclusive way the cornerstones for the common culture. Implementation includes for example culture ambassadors that have been mobilized across the whole organization to work with the whole company on developing the common culture. This is through a long journey to which Ahlstrom-Munksjö is fully committed to.

Low Medium High

Governance

Clean air – Clean air should not be a privilege but available to everyone. Ahlstrom-Munksjö is the global leader in filtration media for vehicles and industrial uses, making sure that the air both outdoors and indoors is free from pollutants. Clean air also helps to make industrial process more efficient and less polluting and thus more sustainable.

CORPORATE GOVERNANCE

01: Corporate Governance Statement 2020

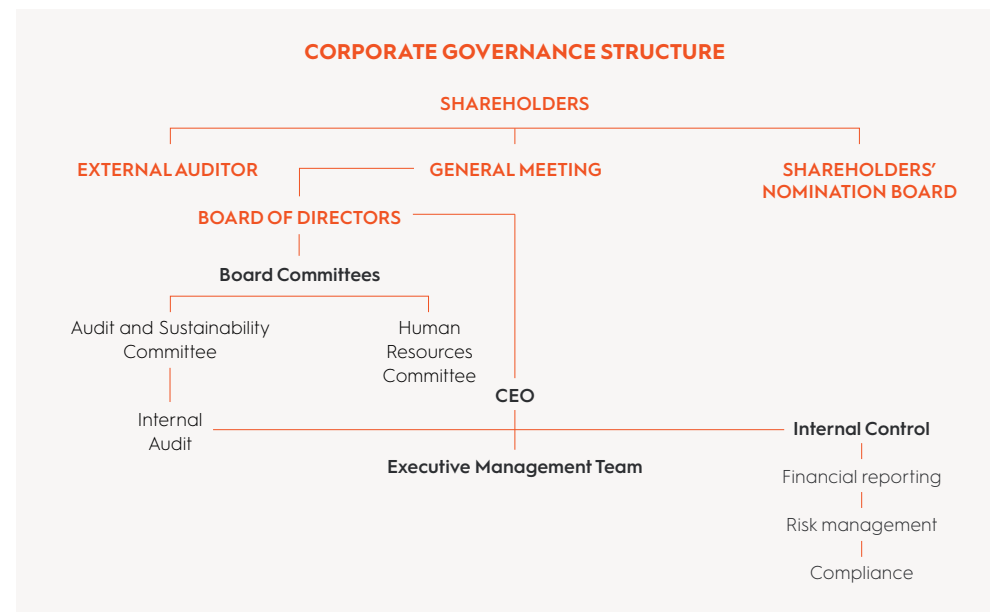
Ahlstrom-Munksjö Oyj (“Ahlstrom-Munksjö” or the “company”) is a Finnish public limited liability company, the shares of which are listed on Nasdaq Helsinki and Nasdaq Stockholm. In its corporate governance, Ahlstrom-Munksjö complies with applicable laws and regulations, including without limitation, the Finnish Limited Liability Companies Act (624/2006, as amended) (“Companies Act”), the Finnish Securities Markets Act (746/2012, as amended), the rules of Nasdaq Helsinki as well as the Company’s Articles of Association. In addition, Ahlstrom-Munksjö complies with the Finnish Corporate Governance Code 2020, issued by the Securities Market Association (“Finnish Code”). The Finnish Code is available at www.cgfinland.fi.

The company does not deviate from any of the recommendations of the Finnish Code. The company also complies with the Swedish Corporate Governance Code (“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.

Ahlstrom-Munksjö’s corporate governance principles have been approved by the Board of Directors of the company. 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 and the auditors fall within the sole jurisdiction of the General Meeting.

The General Meeting is convened by the Board. The Annual General Meeting shall be held within six (6) months of the end of the financial year. An Extraordinary General Meeting shall be held whenever the Board deems necessary, the auditor of the company or shareholders with at least 10% 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. 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 25, 2020 with 171 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 (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.

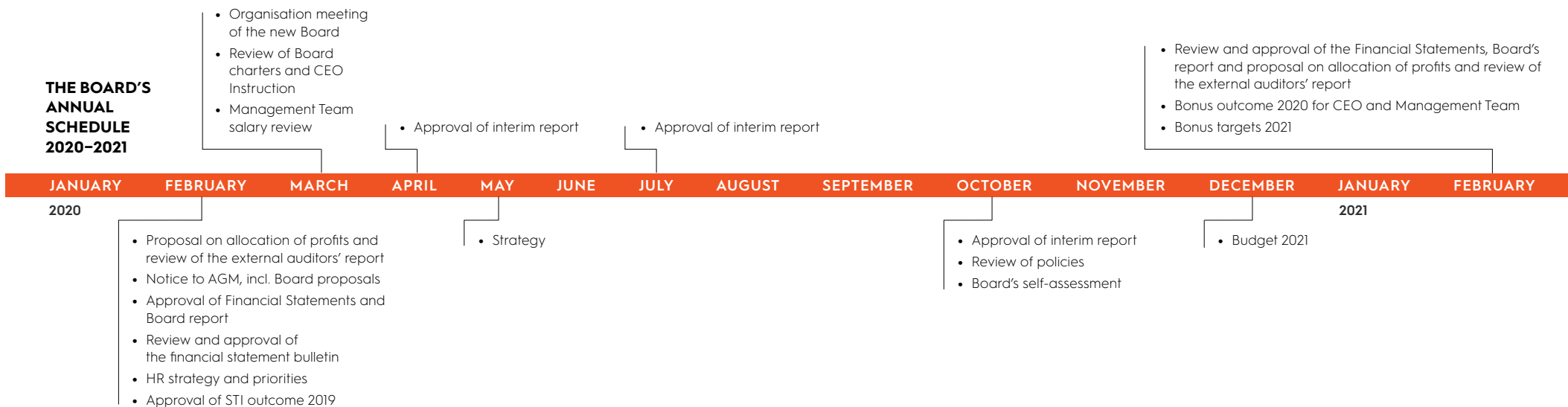
The right to nominate the shareholder representatives lies with those three shareholders whose share of all the voting rights in the company is on May 31 preceding the next Annual General Meeting the largest on the basis of the shareholders' register of the company held by Euroclear Finland and the register 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 30 May preceding the next Annual General Meeting.

Further, holdings by a group of shareholders who have agreed to nominate a joint representative to the Nomination Board will be summed up when calculating the share of all the voting rights, provided that the shareholders in question present a joint written request to that effect together with a copy of such an agreement to the Chairman of the Board no later than on May 30 preceding the Annual General Meeting. Holdings by a holder of nominee registered shares will be considered when determining the three largest shareholders if the holder of the nominee registered shares presents a written request to that effect to the Chairman of the Board 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 Ahlstrom Invest B.V., fully owned subsidiary of Ahlström Capital Oy), Alexander Ehrnrooth (appointed by Viknum AB, Belgrano Inversiones Oy and Alexander Ehrnrooth) and Mikko Mursula (appointed by Ilmarinen Mutual Pension Insurance Company). The Chairman of the Board Jaakko Eskola and the Vice Chairman of the Board Elisabet Salander Björklund act as expert members of the Nomination Board. Since its appointment in June 2020, the Nomination Board has held three (3) meetings.

On January 27, 2020 the Nomination Board proposed to the Annual General Meeting to be held on March 25, 2020 that the number of the Board members would be (9) and that the current members of the Board, Jaakko Eskola, Alexander Ehrnrooth, Johannes Gullichsen, Lasse Heinonen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen, Elisabet Salander Björklund and Valerie A. Mars would be re-elected. In addition, the Nomination Board proposed that Nathalie Ahlström would be elected as new member of the Board. Peter Seligson was not available for re-election. The Nomination Board recommended that Jaakko Eskola was elected Chairman of the Board and Elisabet Salander Björklund elected Vice Chairman of the Board. Further, the Nomination Board proposed that the Board, Board Committees 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 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 shall have the right to abstain from receiving remuneration.



On January 25, 2021 the Nomination Board issued a statement that in light of the upcoming completion of the tender offer and proposal for a new Board of Directors of the company to be decided by the Extraordinary General Meeting on February 19, 2021, the Nomination Board had decided to refrain from making proposals to the Annual General Meeting for 2021 and to adjourn further deliberations.

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 fulfills its fiduciary responsibilities. Board work requires understanding of differences in culture, values and ways of conducting business.

Diversity of the Board is considered from a number of aspects, including, but not limited to gender, age, nationality and cultural background. The Nomination Board deems it is important to have a Board with an appropriate age mix with different experiential and educational backgrounds as well as work experiences. The Board composition should also take into account the ownership structure of the company and the Board shall ideally consist of members with experience from international businesses representing different industries, tasks, positions, cultures and countries. 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. As at the end of 2020, both genders were well represented on the company's Board of which 44,4% were 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 shall consist of a minimum of four (4) and a maximum of twelve (12) members elected by the General Meeting. The members of the Board 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 shall be such that they enable the Board to see to its duties efficiently.

The Board 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 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 have been defined in the Procedural Rules for the Board 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 makes a self-assessment of its performance, practices and procedures annually. In 2020, the self-assessment was performed via a web-based survey and were reported both to the Nomination Board and to the Board in their meetings. In addition a written report on the entire Board's performance was submitted to each member of the Board.

The Annual General Meeting held on March 25, 2020 confirmed the number of Board members to be nine (9). The Annual General Meeting resolved in accordance with the proposal of the Nomination Board that Jaakko Eskola, Elisabet Salander Björklund, Alexander Ehrnrooth, Johannes Gullichsen, Lasse Heinonen, Hannele Jakosuo-Jansson, Harri-Pekka Kaukonen and Valerie A. Mars were re-elected.

Nathalie Ahlström was elected as new member of the Board. The Board elected Jaakko Eskola 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.

As of December 31, 2020, all Board members were independent of the company and of the significant shareholders of the company, except for Alexander Ehrnrooth and Lasse Heinonen, who were not independent of significant shareholders of the company. Alexander Ehrnrooth was 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 was not independent of the company's significant shareholders Ahlstrom Invest B.V., in the parent company of which, Ahlström Capital Oy, he is the President and CEO.

In 2020, the Board convened nineteen (19) times. The attendance of the individual board members is set forth in the table below. The unusually high number of the Board meetings in 2020 is due to the public tender offer for all outstanding shares in the company announced on September 24, 2020. In line with the Board's resolution made on August 3, 2020, Alexander Ehrnrooth, Johannes Gullichsen and Lasse Heinonen have not participated in the consideration and decision-making concerning the implications of the tender offer due to their material connections to and interests in the offeror.

Board of Directors' shareholding on December 31, 2020

Member	Position	Shares	Total
Jaakko Eskola	Chairman	9,080	9,080
Elisabet Salander Björklund	Vice Chairman	5,040	5,040
Nathalie Ahlström	Board member	0	0
Alexander Ehrnrooth	Board member	1,200	
<i>Shares held by org. in which person exercises influence:</i>			
Viknum AB		14,048,006	
<i>Shares held by controlled entities:</i>			
Belgrano Inversiones Oy		668,508	14,717,714
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

Executive Management Team's shareholding on December 31, 2020

Member	Title	Shares
Hans Sohlström	President and CEO	72,215
Sakari Ahdekivi	Deputy CEO and CFO	7,852
Dan Adrianzon	Executive Vice President, Industrial Solutions	9,292
Daniele Borlatto	Executive Vice President, Filtration & Performance Solutions	24,408
Robyn Buss	Executive Vice President, Food Packaging & Technical Solutions	38,140
Andreas Elving	Executive Vice President, Legal and General Counsel	6,925
Robin Guillaud	Executive Vice President, Innovation, Sustainability and Communication	3,580
Mikko Lankinen	Executive Vice President, Corporate Strategy and Development	4,606
Tarja Takko	Executive Vice President, People & Safety	6,761
Markus Westerkamp	Executive Vice President, Advanced Solutions	11,218
Tomas Wulkan	Executive Vice President, Decor Solutions	0

Board meetings 2020

Member	Member since	Attendance	% of meetings
Peter Seligson (chairman until March 25, 2020)	2012	3/3	100
Jaakko Eskola (chairman as of March 25, 2020)	2019	19/19	100
Elisabet Salander Björklund	2013	19/19	100
Alexander Ehrnrooth	2014	11/11	100
Johannes Gullichsen	2017	11/11	100
Lasse Heinonen	2018	11/11	100
Hannele Jakosuo-Jansson	2013	18/19	95
Harri-Pekka Kaukonen	2017	18/19	95
Valerie A. Mars	2018	18/19	95
Nathalie Ahlström (member as of March 25, 2020)	2020	16/16	100

Audit and Sustainability Committee meetings 2020

Member	Attendance	% of meetings
Elisabet Salander Björklund	5/5	100
Alexander Ehrnrooth	5/5	100
Lasse Heinonen	5/5	100
Harri-Pekka Kaukonen	5/5	100
Valerie A. Mars	3/5	60

Human Resources Committee meetings 2020

Member	Attendance	% of meetings
Hannele Jakosuo-Jansson	7/7	100
Peter Seligson (member until March 25, 2020)	3/3	100
Jaakko Eskola	7/7	100
Johannes Gullichsen	6/7	86
Nathalie Ahlström (member as of March 25, 2020)	4/4	100

Board Committees

The Board of Directors of Ahlstrom-Munksjö resolved on March 25, 2020 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 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 Committees' 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 (3) 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 were from March 25, 2020: Elisabet Salander Björklund (Chair), 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 were not considered independent of a significant shareholder of the company. All the members had the expertise and experience required for the performance of the responsibilities of the Audit and Sustainability Committee. In 2020, the Audit and Sustainability Committee convened five (5) times. 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 (3) 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 were from March 25, 2020: Hannele Jakosuo-Jansson (Chair), Jaakko Eskola, Johannes Gullichsen and Nathalie Ahlström. All of the members of the Human Resources Committee were independent of the company and its significant shareholders.

In 2020 the Human Resources Committee convened seven (7) times. The attendance of the individual Committee members is set forth on the previous page.

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.

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 has been the CEO of the company since April 16, 2018. Biographical details of the CEO and his shareholdings are set forth at the end of this section.

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 his/her 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 has been the Deputy CEO of the company since April 1, 2017, and the CFO since March 1, 2019. Biographical details of the Deputy CEO and CFO and his shareholdings are set forth at the end of this section.

Executive Management Team

The Executive Management Team consists of the CEO, the 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, and they report to the CEO.

The CEO and the 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 2020, the Executive Management Team consisted of eleven (11) 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 at the end of this section.

Remuneration

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

The Board decides on the remuneration of the CEO and the Deputy CEO based on a proposal by the Human Resources Committee within the confines of the Remuneration Policy. The Board decides 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.

The company has a Remuneration Policy defining the principles of the remuneration of the company's governing bodies. 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 Code. In accordance with the Finnish Code the company also publishes current remuneration of its Executive Team and paid rewards from the past financial year on the company's website.

Auditor

The main function of the statutory audit is to verify that the financial statements provide true, accurate and sufficient information on the Ahlstrom-Munksjö Group's performance and financial position for the financial year. The 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 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 the company'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 25, 2020. 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 2020 were EUR 1.4 million in total in the Group. Other fees charged amounted to EUR 0.4 million. The other fees consisted of audit related services and tax advice.

Risk Management

Ahlstrom-Munksjö Group has a Risk Management Policy, which is reviewed annually by the Board. 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, 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 are based on the company’s business areas: Decor Solutions, Filtration and Performance Solutions, Industrial Solutions, Food Packaging and Technical Solutions and Advanced Solutions. An important part of the Group’s internal control process are the meetings, which are held within each business area, where the CEO, the 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). The company’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.

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 the Deputy 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. 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 the Deputy 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 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 organization 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.

The Board has approved the Code of Conduct and the key compliance policies for the company. The company'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, the Anti-Bribery Policy, the Trade Compliance Policy, the Data Protection Policy, the Risk Management Policy, the Treasury Policy and the Insider Policy.

The Board, assisted by its Audit and Sustainability Committee, is responsible for overseeing how compliance is organized and managed at the company. 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 2020 steps were taken to further develop and enhance the company's policy structure and governance. The company lawyers have continued to hold compliance training sessions to promote awareness and compliance with applicable laws and company policies. Additionally all employees are expected to complete the Code of Conduct training, which is to be renewed biennially and is part of Ahlstrom-Munksjö's introduction package for new hires. To date 95% of all employees of the Ahlstrom-Munksjö Group have completed the Code of Conduct training.

In early 2020 Data Protection eLearning was launched to further enhance the communication around data protection issues and the company's Data Protection Policy. To date 86% of the target group of 2418 employees have completed the eLearning on Data Protection.

The company 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. Only the Chief Compliance Officer and the Ethics and 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 UN Global Compact and the continuous improvement in the 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, the business areas and other functions such as R&D, Communications, Legal and Procurement. The SBC, which convenes quarterly, oversees the integration of sustainability practices into business operations. The SBC's work is led by the Executive Vice President, Innovation, Sustainability and Communication.

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 2020, 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, the Management includes the members of the Board, the CEO and 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 be (the "Closed Window"). The Closed Window shall, however, always include at least 30 calendar days immediately preceding the announcement of the interim report or financial statement bulletin, as the case may be, and the day of publication of such report. The prohibition is in force regardless of whether such a person holds any inside information at that time.

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 advice any person with respect to trade apply also to the Financial Information Recipients.

CORPORATE GOVERNANCE

02: Appendix

Refers to the Finnish Code

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

Rule 1.3

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

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

Rule 2.1

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

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

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

- The nomination board makes proposals to the shareholders' meeting, in accordance with its charter. As the chairman of the board, in accordance with the Finnish Companies' Act and articles of association of the company, is elected by the board, the nomination board cannot propose the chairman 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.

⁹⁾ The Swedish Code uses the term nomination committee while in Finland the term nomination board is used for nomination bodies appointed by the shareholders.

CORPORATE GOVERNANCE

03: Board of Directors

Elected at the Annual General Meeting on March 25, 2020.

**Jaakko Eskola**

Chairman of the Board since 2020
Member of the Board since 2019
Member of the Human Resources Committee

Independent of the company and its significant shareholders

Born 1958, Finnish citizen
M.Sc. (Eng.)

Main occupation

President & CEO of Wärtsilä Corporation

Primary working experience

Wärtsilä Corporation, Senior Executive Vice President and Deputy to the CEO 2013-2015; Wärtsilä Corporation, President, Marine Solutions 2006-2015; Wärtsilä Corporation, Vice President, 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

**Elisabet Salander Björklund**

Vice Chairman of the Board since 2018
Member of the Board since 2013
Chairman of the Audit and Sustainability Committee

Independent of the company and its significant shareholders

Born 1958, Swedish citizen
M.Sc. in Forestry

Main occupation

Board professional

Primary working experience

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

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



Nathalie Ahlström

Member of the Board since 2020
Member of the Human Resources Committee

Independent of the company and its significant shareholders

Born 1974, Finnish citizen
M.Sc. (Tech.), Åbo Akademi University

Main occupation

President and CEO of Fiskars Corporation

Primary working experience

Fazer Group, EVP Confectionery and member of the Fazer Group Management Team 2018-2020; Amcor Ltd, Vice President & GM, High Performance Laminates 2016-2018; Amcor AFAP, Singapore, Vice President 2012-2014; Huhtamäki Oyj, several positions 2005-2012; Pöyry Management Consulting Oy, Analyst and Consultancy positions 1999-2005; Board member of Ahlstrom Corporation in 2012



Johannes Gullichsen

Member of the Board since 2017
Member of the Human Resources Committee

Independent of the company and its significant shareholders

Born 1964, Finnish citizen
B.Sc. (Eng.), MBA

Main occupation

Entrepreneur and Board professional

Primary working experience

Various senior positions in RAM Partners Oy and eQ Bank Oy; Ahlström Capital Oy, Member of the Board; RAM Partners Oy, Member of the Board; RAM Partners Alternative Strategies plc, 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



Alexander Ehrnrooth

Member of the Board since 2014
Member of the Audit and Sustainability Committee

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

Born 1974, Finnish citizen
M.Sc. (Econ.), MBA

Main occupation

President & CEO of Virala Oy Ab

Primary working experience

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 Oy, Chairman of the Board; Nidoco AB, Chairman of the Board; SPA Holdings 1 Oy, Member of the Board; SPA Holdings 2 Oy, Member of the Board; SPA Holdings 3 Oy, Member of the Board; YIT Oy, Member of the Board



Lasse Heinonen

Member of the Board since 2018
Member of the Audit and Sustainability Committee

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

Born 1968, Finnish citizen
M.Sc. (Econ.)

Main occupation

President and CEO of Ahlström Capital Oy

Primary working experience

Tieto Plc, CFO 2011-2018 and Head of Telecom, Media & Energy 2015-2016; Finnair Oy, various leadership roles eg. EVP Cargo & Aviation Services, Deputy CEO and CFO 2004-2011; Novartis Pharma and Sandoz, Managerial positions in finance and logistics in Novartis Pharma and Sandoz in Finland, Turkey and Switzerland 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



Hannele Jakosuo-Jansson

Member of the Board since 2013
Chairman of the Human Resources Committee

Independent of the company and its significant shareholders

Born 1966, Finnish citizen
M.Sc. (Eng.)

Main occupation

Senior Vice President, Human Resources, HSSEQ and Procurement, Neste Corporation

Primary working experience

Neste Oil Corporation, Vice President for Human Resources at Oil Refining 2004-2005 and Laboratory and Research Manager at Technology Center 1998-2004

Other positions of trust

Natural Resources Institute Finland (Luke), Member of the Board



Harri-Pekka Kaukonen

Member of the Board since 2017
Member of the Audit and Sustainability Committee

Independent of the company and its significant shareholders.

Born 1963, Finnish citizen
D.Sc. (Tech.), M.Sc. (Eng.)

Main occupation

Board professional

Primary working experience

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; Lindström Oy, Chairman of the Board; Suomen Vaka-palvelut II Oy (Touhula varhaiskasvatus), Chairman of the Board; Suomen Asuntoneuvoja Oy, Chairman of the Board; TietoEVRY Oyj, Member of the Board



Valerie A. Mars

Member of the Board since 2018
Member of the Audit and Sustainability Committee

Independent of the company and its significant shareholders

Born 1959, US citizen
BA degree from Yale University and MBA from the Columbia Business School

Main occupation

Senior Vice President & Head of Corporate Development of Mars, Incorporated

Primary working experience

Mars, Incorporated, Masterfoods Europe, Director of Corporate Development and 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

Board of Directors, Elected at the Extraordinary General Meeting on February 19, 2021.



Ivano Sessa

Chairman of the Board since 2021

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

Born 1977, Italian citizen
BS (Business Administration)

Main occupation

Managing Director, Bain Capital Private Equity

Primary working experience

Bain Capital Private Equity (since 2004), Managing Director and Co-Head of the Industrials vertical; Bain & Company, consultant (1999–2004); Chairman of the Board: Fedrigoni Holding; Member of the Board: Italmatch, MSX International, Autodistribution



Lasse Heinonen

Member of the Board since 2018

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

Born 1968, Finnish citizen
M.Sc. (Econ.)

Main occupation

President and CEO, Ahlström Capital Oy

Primary working experience

Tieto Plc, CFO 2011–2018 and Head of Telecom, Media & Energy 2015–2016; Finnair Oyj, various leadership roles eg. EVP Cargo & Aviation Services, Deputy CEO and CFO 2004–2011; Novartis Pharma and Sandoz, Managerial positions in finance and logistics in Novartis Pharma and Sandoz in Finland, Turkey and Switzerland 1992–2004



Peter Seligson

Member of the Board since 2021

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

Born 1964, Finnish citizen
Lic.oec (HSG)

Main occupation

CEO, Ahlstrom Invest B.V.

Primary working experience

Seligson & Co Rahastoyhtiö Oyj, Partner (since 1997), Alfred Berg Finland, Managing Director 1991–1997, Arctos Securities, Head of Sales and Trading 1987–1991



Karl-Henrik Sundström

Member of the Board since 2021

Independent of the company and its significant shareholders.

Born 1960, Swedish citizen

Bachelor (Business Administration), Advanced Management Program,

Main occupation

Board member, Vestas, NXP Semiconductors and Mölnlycke Healthcare

Primary working experience

Stora Enso, CEO (2014–2019), CFO (2012–2013), Executive Vice President for division Paper and Wood Products (2013–2014); NXP Semiconductors, CFO (2008–2012); Ericsson (1985–2007), several managerial positions in Ericsson, including CFO



Alexander Ehrnrooth

Member of the Board since 2014

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

Born 1974, Finnish citizen
M.Sc. (Econ.), MBA

Main occupation

President and CEO, Virala Oy Ab

Primary working experience

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



Halvor Meyer Horten

Member of the Board since 2021

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

Born 1981, Norwegian citizen
MSc (Econ.)

Main occupation

Principal, Bain Capital Private Equity

Primary working experience

Bain Capital Private Equity (since 2010), Principal in the Industrials Vertical leading Paper & Packaging, and Lead of Nordic activities across sectors; McKinsey (2007–2010), consultant; Member of the Board: Fedrigoni Holding, Nova Austral



Michael Siefke

Member of the Board since 2021

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

Born 1967, German citizen
PhD (Business Administration), MBA

Main occupation

Managing Director, Bain Capital Private Equity

Primary working experience

Bain Capital Private Equity (since 2001), Managing Director, Co-Head of the European Private Equity team and Global Head of the Industrials Vertical; Carlyle (1998–2001), Investment Manager; Member of the Board: Wittur, Stada and Centrient

CORPORATE GOVERNANCE

04: Executive Management Team



Hans Sohlström

President and CEO

Born 1964, Finnish citizen
M.Sc. (Tech.), M.Sc. (Econ.)

Primary working experience

Ahlström Capital Oy, President and CEO 2016-2018; Rettig Group, President and CEO 2012-2016; various executive and managerial positions at UPM-Kymmene Corporation 1990-2012



Sakari Ahdekivi

Deputy CEO and CFO

Born 1963, Finnish citizen
M.Sc. (Econ.)

Primary working experience

Ahlström-Munksjö Oyj, Deputy CEO and Executive Vice President, Corporate Development 2017-2019; Ahlström Corporation, Interim CEO and CFO 2016-2017; Ahlström Corporation, CFO 2014-2017; Tamro Oyj, Managing Director of business operations in Finland and Baltics 2012-2013. Mr. Ahdekivi has also held CFO positions at Tamro, YIT and Huhtamaki, and senior financial management positions at ABB.



Dan Adrianzon

Executive Vice President, Industrial Solutions

Born 1960, Swedish citizen
BBA and Economics, Mechanical Engineer

Primary working experience

Ahlström-Munksjö, Executive Vice President, Health & Safety 2018-2019; held several senior management positions in general management and in Finance and Control at Ahlström-Munksjö and prior to that in Munksjö since 1998; held several positions in Finance and Control within the Saint Gobain Group, both in Sweden and in France 1985-1997.



Daniele Borlatto

Executive Vice President, Filtration & Performance Solutions

Born 1969, Italian citizen
Degree in Business and Administration

Primary working experience

Ahlström-Munksjö, Executive Vice President, Industrial Solutions 2017-2019; Munksjö Oyj, Executive Vice President and President for Release Liners 2013-2017; Ahlström Corporation, Executive Vice President, Label and Processing 2011-2013; Ahlström Corporation, Vice President, Release & Label business unit and Supply Chain Label & Processing business area 2010-2011; Ahlström Corporation, Senior Vice President, Release & Label Papers and member of Corporate Executive Team 2007-2010. Mr. Borlatto was employed at Ahlström Corporation between 1990-2013.



Robyn Buss

Executive Vice President, Food Packaging & Technical Solutions

Born 1968, U.S. citizen
BA from the University of Wisconsin-Madison and MBA from the University of Wisconsin-Oshkosh

Primary working experience

Ahlstrom-Munksjö, Executive Vice President, North America Specialty Solutions in 2019; Expera Specialty Solutions, Vice President, Sales & Marketing 2013-2018; Thilmany Papers, Vice President, Sales & Marketing 2005-2013; International Paper, Financial Analyst/Cost Accountant and various sales and marketing leadership positions 1991-2005



Andreas Elving

Executive Vice President, Legal and General Counsel

Born 1976, Swedish citizen
Master of Laws from Uppsala University

Primary working experience

Autoliv Inc., Associate General Counsel 2015-2016; Mannheimer Swartling Advokatbyrå AB, Senior Associate 2014-2015; Mannheimer Swartling (China), Senior Associate 2010-2014; Mannheimer Swartling Advokatbyrå AB, Associate/Senior Associate 2004-2010; District Court of Stockholm, Law Clerk 2002-2004



Robin Guillaud

Executive Vice President, Innovation, Sustainability and Communication (as of October 28, 2020)

Born 1976, French citizen
M.Sc. (Tech.) and MBA

Primary working experience:

Ahlstrom-Munksjö, Vice President, Business Development, Filtration and Performance Solutions 2017-2020; prior to that held several positions at Ahlstrom such as Vice President, Industrial Nonwovens 2015-2017; Marketing Manager, Building and Energy 2012-2015; Product Manager, Technical Nonwovens 2010-2012; Sales Director, Technical Nonwovens 2008-2010; Marketing Manager, Food Product Line UK 2004-2008; Sales and Marketing Manager in Atlanta, USA 2000-2004



Mikko Lankinen

Executive Vice President, Corporate Strategy and Development (as of October 28, 2020)

Born 1973, Finnish citizen
M.Sc. (Econ.) and Master of Laws

Primary working experience

Ahlstrom-Munksjö Oyj, Chief Development Officer, Corporate Development 2019-2020; Ahlstrom-Munksjö Oyj, Vice President, Corporate Development 2017-2019; Ahlstrom Corporation, Vice President, Treasury 2014-2017; Ahlstrom Corporation, Vice President, M&A 2011-2014; Initia Corporate Finance, Partner 2009-2011; Danske Bank, Vice President, Large Corporate Relationships 2007-2009; held various positions including that of Analyst, Associate Director and Partner at Mandatum from 2002 to 2007



Tarja Takko

Executive Vice President, People & Safety

Born 1968, Finnish citizen
M.Sc. (Econ.), M.Sc. (Soc.)

Primary working experience

Ahlstrom-Munksjö Oyj, Vice President, Human Resources 2018-2019; Qt Company, Global Head of HR 2017-2018; Ahlstrom Corporation, Vice President, HR Development 2010-2017; various managerial positions at Nokia and Nokia Siemens Networks prior to 2010



Markus Westerkamp

Executive Vice President, Advanced Solutions

Born 1965, German citizen
M.Sc. (Tech)

Primary working experience

Ahlstrom-Munksjö, Vice President, Food Packaging 2018-2019; Ahlstrom-Munksjö and Ahlstrom, Vice President, Supply Chain, Filtration & Performance Solutions 2014-2018; held various executive and managerial positions at Ahlstrom-Munksjö from 1995 to 2012; prior to that held various managerial positions at MD Papier from 1990 to 1995



Tomas Wulkan

Executive Vice President, Decor Solutions

Born 1961, Swedish citizen
Degree in Business Administration from Umeå University

Primary working experience

Various leading positions within Svenska Cellulosa Aktiebolaget SCA in 1992-2017, most recently as President, BU Middle East, India and Africa 2012-2017, and before that as President for BU Personal Care Europe 2009-2011

Anna Bergquist acted as Executive Vice President, Strategy, Sustainability and Innovation until October 28, 2020.

Financials

Health and wellness – Today's consumers are placing more and more value on health and wellness and do-it-yourself diagnosis is becoming easier than ever as more self-test kits appear on pharmacy shelves and websites. Ahlstrom-Munksjö offers a wide variety of high quality absorbent filtration media designed for use in flow-through and lateral flow and dipstick devices.

The Ahlstrom-Munksjö financial year 2020

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

FINANCIALS

Board of Directors' report

HIGHLIGHTS OF 2020

- Net sales decreased due to an adverse currency effect, lower selling prices and a less favorable product mix. Comparable EBITDA increased, supported by lower costs. Cash flow remained good.
- Rapid response to the coronavirus pandemic and an early establishment of Covid-19 Safety Protocol ensured that plants and customer service were kept operational throughout year
- Expansion of face mask materials' manufacture to production lines normally used for industrial products and cost saving actions cushioned the impact of the pandemic.
- Demand recovered in the second half of 2020, and the resurgence of global Covid-19 infections had a limited impact
- Sale of the fine art paper business in Arches, France
- Recommended public tender offer for all Ahlstrom-Munksjö shares.

DIVIDEND PROPOSAL

The Board of Directors' dividend proposal to the Annual General Meeting will be decided after the Extraordinary General Meeting to be held on February 19, 2021.

FINANCIAL PERFORMANCE 2020

Net sales decreased by 8.0% to EUR 2,683.3 million (2,915.3). At constant currency rates, the decrease was 5.3%, driven mainly by lower selling prices and a more adverse product mix. Deliveries increased significantly in health-care- and life science-related end uses, and grew modestly in consumer goods-related end uses. Deliveries decreased in transportation and industrial related applications and fell slightly in home building- and furniture-related end uses.

Comparable EBITDA increased to EUR 334.2 million (312.9), representing 12.5% of net sales (10.7). Lower variable costs more than offset the negative impact of lower selling prices. Variable costs were reduced due to both lower raw material prices and cost-saving measures.

Items affecting comparability (IAC) in EBITDA and operating result

EBITDA was EUR 354.5 million (279.4). Items affecting comparability (IACs) in EBITDA totaled EUR 20.3 million (-33.4) and included a capital gain of EUR 32.0 million from the sale of the fine arts paper business, as well as costs related to the tender offer. The previous year's figure included costs related to the integration of Expera Specialty Solutions, as well as restructuring

costs. The operating result was EUR 176.2 million (103.2). Depreciation, amortization and impairment amounted to EUR -178.4 million (-176.2), including depreciation and amortization arising from PPA of EUR -51.0 million (-52.1), and an impairment loss of EUR -9.2 million (-2.4), which is an item affecting comparability in the operating result.

Net financial items

Net financial items decreased to EUR -45.7 million (-51.6). The figure includes net interest expenses of EUR -36.5 million (-47.6), a currency exchange loss of EUR -2.2 million (2.8 gain) and other financial expenses of EUR -7.0 million (-6.7). Net interest expenses decreased due to lower interest rates.

Net profit for the period

The result before taxes was EUR 130.4 million (51.6). Taxes amounted to EUR -36.0 million (-18.8). The net result was EUR 94.5 million (32.8), and earnings per share (basic) were EUR 0.78 (0.27).

CASH FLOW AND FINANCING

Cash flow

Net cash from operating activities amounted to EUR 255.1 million (286.7) and was mainly supported by the improved result. Working capital decreased although not as significantly as in the comparison period.

Capital expenditure

Ahlstrom-Munksjö's capital expenditure excluding acquisitions totalled EUR 117.5 million in January-December 2020 (EUR 161.1 million). The investments were related to maintenance, cost and efficiency improvements, as well as growth initiatives and improved environmental performance and safety.

On September 23, 2020, Ahlstrom-Munksjö announced a EUR 7 million investment in a more sustainable coating machine in Billingsfors, Sweden to enable formaldehyde free balancing and finish foils for furniture, as well as the building and construction industries. The new machine is expected to be fully commissioned in the fourth quarter of 2021.

In December, a new power co-generation investment was completed at the Turin plant in Italy. The new plant allows the combined and efficient power and steam generation needed for the site's processes.

The company is progressing with its EUR 190 million investment program, including a total of 13 projects, of which 11 have been completed. The remaining two are expected to be completed in 2021 and 2022. A full list of completed and on-going investments is available at www.ahlstrom-munksjo.com/Investors.

Net debt

Net debt decreased to EUR 735.8 million at the end of the reporting period (885.0 on December 31, 2019) and was supported by the sale of the fine arts business in the first quarter and strong cash flow in the second half of the year. Gearing stood at 62.1% (71.8 on December 31, 2019).

The company's liquidity continues to be strong. At the end of the reporting period, the total cash position was EUR 308.7 million (166.1 on December 31, 2019). In addition, it had undrawn committed credit facilities and committed cash pool overdrafts of EUR 261.0 million at its disposal. At the end of the reporting period, the weighted average interest rate, excluding lease liabilities and the hybrid bond, was 2.7% (3.4 on December 31, 2019).

The public tender offer for Ahlstrom-Munksjö shares was completed on February 4, 2021 which will have an impact on the Group's financing structure. EUR 249.5 million of the bonds and EUR 602.9 million of the bank loans will become redeemable during the first half of 2021 at the lenders' option based on the customary change of control terms in the existing financing agreements. Any repayments will be financed using committed facilities of SPA Holdings 3 Oy, the new parent company for Ahlstrom-Munksjö Oy. Further details are described in Events after the reporting period.

On December 31, 2020, equity was EUR 1,184.6 million (1,232.0 on December 31, 2019). The equity was impacted by a EUR 60 million dividend to be paid in four installments, EUR 15 million each. Cash flow impact for 2020 has been EUR 45 million and the last installment has been paid on January 11, 2021.

TENDER OFFER FOR ALL AHLSTROM-MUNKSJÖ SHARES

On September 24, 2020, a consortium consisting of Ahlström Capital, funds managed or advised by Bain Capital as well as Viknum and Belgrano Inversiones made a public recommended cash tender offer for all shares in Ahlstrom-Munksjö.

Below is a summary of the process.

SUMMARY OF THE TENDER OFFER (based on the announcement day information)

- The offer price is EUR 18.10 in cash for each share. The offer price represents a premium of approximately:
 - 24% compared to EUR 14.56, the closing price on September 23, 2020, the last trading day immediately preceding the announcement of the tender offer
 - 37% compared to EUR 13.20, the closing price on July 31, 2020, the last trading day prior to the consortium submitting its non-binding proposal to Ahlstrom-Munksjö
 - 30% compared to EUR 13.96, the three-month volume-weighted average trading price preceding the announcement of the tender offer
 - 41% compared to EUR 12.87, the twelve-month volume-weighted average trading price preceding the announcement of the tender offer
- The offer price implies an enterprise value multiple of approximately 10.0 times Ahlstrom-Munksjö's Comparable EBITDA for the 12 months ended June 30, 2020, which is attractive when compared to similar M&A transactions in the fiber-based engineered materials sector, and the historical trading multiple of Ahlstrom-Munksjö over the cycle
- The tender offer values Ahlstrom-Munksjö's total equity at approximately EUR 2.1 billion
- The Board of Directors of Ahlstrom-Munksjö, represented by a quorum of non-conflicted members, has unanimously decided to recommend that the shareholders of Ahlstrom-Munksjö accept the tender offer
- Certain major shareholders of Ahlstrom-Munksjö, i.e. Ahlström Capital, Viknum, Belgrano Inversiones, Varma Mutual Pension Insurance Company, and Ilmarinen Mutual Pension Insurance Company, together representing over 35% of all the shares and votes in Ahlstrom-Munksjö, have irrevocably undertaken to accept the tender offer. Varma Mutual Pension Insurance Company's and Ilmarinen Mutual Pension Insurance Company's undertakings are subject to certain customary conditions.

BACKGROUND AND STRATEGIC RATIONALE OF THE TENDER OFFER

- The consortium believes that under private ownership Ahlstrom-Munksjö will be best placed to fulfil its potential from its diversified product portfolio, substantial technical know-how as well as its leading positions in attractive niches. However, the consortium recognizes that the sector is becoming increasingly competitive.
- The consortium intends to invest significant time, resources and capital to support the company's strategy for long-term profitable growth, to maintain and further strengthen the company's existing market positions in its core areas, as well as to invest in new business opportunities. Under private ownership, the company would be ideally positioned to invest further and faster in initiatives to support organic growth as well as benefiting from additional expansionary capital expenditures and acquisitions to strengthen selected areas of the portfolio.

- The consortium believes that Ahlstrom-Munksjö, in a private setting, will more effectively manage all above mentioned initiatives as well as current market challenges as management can devote its full attention to business performance without the constraints imposed by its current balance sheet and the public market.
- The consortium is well-positioned to support the transformation of the company due to Bain Capital's considerable experience in the industry and distinctive approach to investments, working alongside management in the pursuit of long-term strategic goals, with the benefit of continuity from the families' prominent participation in the consortium. Together this unique group of investors is best equipped with the appropriate long-term investment horizon, expertise and capital required to realize Ahlstrom-Munksjö's potential.

On September 30, 2020, the Board of Directors of Ahlstrom-Munksjö resolved on a dividend in the amount of EUR 0.13 per each outstanding share. In accordance with the announcement of the tender offer, the offer price per share was reduced on a euro-for-euro basis as a result. Following the adjustment of the offer price, the price offered for each share in the tender offer was EUR 17.97, subject to any further adjustments.

On October 16, 2020, the Board of Directors of Ahlstrom-Munksjö, represented by a quorum of non-conflicted members, issued a statement regarding the tender offer, unanimously recommending that the shareholders of Ahlstrom-Munksjö to accept the tender offer.

On October 22, 2020, at 9:30 a.m. (Finnish time) the offer period for the tender offer commenced, and it was announced to expire on December 30, 2020, at 4:00 p.m. (Finnish time).

On December 8, 2020, the offeror decided to extend the offer period to expire on January 14, 2021, at 4:00 p.m. (Finnish time), unless the offer period was extended further or any extended offer period was discontinued in accordance with the terms and conditions of the tender offer.

On December 17, 2020, the Board of Directors of Ahlstrom-Munksjö resolved on a dividend in the amount of EUR 0.13 per each outstanding share. In accordance with the announcement of the tender offer, the offer price per share was further reduced on a euro-for-euro basis as a result. Following the adjustment of the offer price, the price offered was EUR 17.84, subject to any further adjustments.

For information about final result and completion of the public tender offer see section Events after the reporting period.

UPDATE ON COVID-19

Health and safety of utmost importance

On January 23, 2020, Ahlstrom-Munksjö initiated a centralized crisis alert team to carry out a global pandemic contingency and preparedness response plan. The company has established a Covid-19 Safety Protocol to ensure safe operations and customer service. Its manufacturing plants are maintaining a cohesive set of rules to keep operations running and employees safe. Local adjustments are made according to country level or local health and safety regulation and guidance.

Limited operational impact of the coronavirus pandemic

Ahlstrom-Munksjö's 45 plants and converting sites in 14 countries have remained operational during 2020, except for a few temporary shutdowns caused by government lockdowns or employee absences related to quarantine or infections. Production has not been interrupted to any significant extent due to raw material supply issues.

Significant impact on customer activity

Within Ahlstrom-Munksjö's broad range of advanced fiber-based solutions, the impact of the pandemic on customer activity has varied.

Since the first quarter of 2020, the company has experienced strong demand in the healthcare and life science end-use segments. Solutions for personal protection equipment, such as face masks, drapes and gowns, as well as diagnostics materials for rapid test kits and venting filters for devices used in the treatment of patients with respiratory disorders, were in strong demand. The exceptional circumstances, with regional lockdowns and limited mobility for citizens, also increased demand for packaging-related release liner and tape backings.

In the second quarter, demand decreased clearly in the home building and furniture, transportation and industrial end-uses due to a large portion of the global population being in lockdown.

In the third quarter, demand recovered in home building and furniture, driven mainly by increased household furniture spending, as well as transportation end-uses. Toward the end of the year, demand for industrial-related products improved. Overall demand for consumer goods-related applications, of which food and beverage and packaging represent the largest share, remained relatively stable. However, it has varied depending on end use. The surge in the number of infections in the fall caused countries to reimpose restrictions, but these lighter and more regional lockdowns did not have a material impact on demand in the fourth quarter.

Capacity expansion in response to growing demand

The pandemic has created an exceptional situation globally and a strong demand for healthcare goods in general, and particularly for protective medical products made from Ahlstrom-Munksjö's fabrics. Ahlstrom-Munksjö has long been an established manufacturer of nonwoven fabrics, which are used to construct protective medical fabrics such as surgical gowns and drapes, pleated surgical face masks, protective apparel and sterile barrier systems. The company has been producing the inner and outer coverstock used for pleated surgical face masks, while the middle filter media was something Ahlstrom-Munksjö has not produced until recently. Thanks to its in-depth knowledge of filtration materials and common manufacturing platform, the company could respond swiftly to growing demand by expanding the manufacture of face mask fabrics to lines normally used for producing other fiber-based materials. As of the second quarter of 2020, the company's offering includes a full range of protective face mask fabrics for civil, surgical and respiratory masks.

During the second half of 2020, delivery volumes of face mask fabrics gradually decreased, as production and export of face masks from China resumed, and global availability and price competition increased.

Actions to mitigate the negative financial impact

For Ahlstrom-Munksjö the financial implications of the pandemic was relatively limited in 2020. Ahlstrom-Munksjö took numerous actions across the organization to cushion the financial impact of the decline in delivery volumes.

Implemented actions have included temporary layoffs, reduction of working hours and the minimization of the use of external personnel and services. Spending was reduced and certain projects were postponed. Members of the Executive Management Team and the CEO took a 50% and 100% reduction, respectively, on one month's salary during the second quarter. The Board of Directors also decided to forgo their compensation for one month in the second quarter.

Savings from these actions were approximately EUR 24 million in 2020.

MEASURES TO IMPROVE COMPETITIVENESS

Expera and Caieiras cost synergies achieved – business synergies ahead

In 2019, the company achieved the targeted cost synergy run rate of EUR 21 million from the Expera and Caieiras acquisitions, exceeding the initial target of EUR 14 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 are related 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.

However, coronavirus-related lockdowns and travel restrictions have delayed the implementation of some of the planned actions, and implemented actions generated synergy benefits of EUR 2 million in 2020.

Program to lower manufacturing fixed costs

Ahlstrom-Munksjö has expanded its businesses and ability to meet customer needs through a merger and acquisitions in recent years. This strategic transformation has proven successful, and the company has captured the promised synergy benefits. The market environment has been challenging, impacted by volatile raw material prices, lower demand and intensified competition. The company's continuous improvement measures and the synergy benefits realized from the acquisitions have reduced both variable and fixed costs. However, the company's cost-effectiveness can be further improved.

Ahlstrom-Munksjö introduced a new longer-term profit improvement program in April 2020. The annualized target from the program is in the range of EUR 20 million. The majority of the savings are expected to come from manufacturing fixed costs. Implemented actions delivered savings of EUR 7 million in 2020.

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. Coronavirus related lockdowns and travel restrictions are delaying the negotiation and signing of the transaction is expected during the first half of 2021.

PERSONNEL

Ahlstrom-Munksjö employed in January-December 2020 an average of 7,814 (8,078) people in full-time equivalents. As of December 31, 2020, the highest numbers of employees were in the United States (31%), France (19%), Sweden (10%), Brazil (9%) and Germany (7%).

INNOVATION

Ahlstrom-Munksjö has extensive research and development capabilities in each business. Product development in the businesses is carried out at the various plants and in collaboration with customers. The company also operates a research center at two sites in France, one in Pont-Evêque and one in Apprieu. The research center employing about 70 people works in close cooperation with the businesses and provides services, and develops new products and next generation technology platforms. Company-wide research and development work is governed by a steering committee chaired by the Executive Vice President, Innovation, Sustainability and Communication and composed by key representatives from business areas, centralized R&D and Intellectual Property function.

In addition, marketing, sales and customer service organizations support the R&D process by identifying areas where development needs to be prioritized or quality improved, or where customers are looking for new applications.

One of the strategic direction of the company is to propose alternatives to plastic solutions as well as to increase the sustainability of its products by using biobased raw material and tailoring their end of life without compromising their functional properties. Ahlstrom-Munksjö has developed paper solutions that are designed to deliver outstanding grease resistance without the use of PFAS (fluorochemicals) for a broad range of grease resistant food packaging applications, each with uniquely challenging performance requirements. Quick service restaurant applications, microwave popcorn bags, and other papers are specially manufactured to meet or exceed sustainability goals.

Ahlstrom-Munksjö also develops fiber-based materials to be used in energy storage devices.

In 2020, the company's expenditure on R&D was approximately EUR 27 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 MANAGEMENT TEAM (EMT)

On August 21, 2020, Anna Bergquist, Executive Vice President, Strategy, Sustainability and Innovation and a member of the Group Executive Management Team, decided to leave Ahlstrom-Munksjö to pursue career opportunities outside the company.

On October 28, 2020, Mikko Lankinen was appointed Executive Vice President, Corporate Strategy and Development, and a member of the Group Executive Management Team as of October 28, 2020. He reports to Hans Sohlström, President and CEO.

On October 28, 2020, Robin Guillaud was appointed Executive Vice President, Innovation, Sustainability and Communication, and a member of the Group Executive Management Team as of October 28, 2020. He reports to Hans Sohlström, President and CEO.

The members of the EMT and Board of Directors are introduced in the Annual report and at 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.

EVENTS DURING THE REPORTING PERIOD

On September 24, 2020, a consortium of investors made a public recommended cash tender offer for all shares in Ahlstrom-Munksjö. For information about the offer see section Tender offer for all Ahlstrom-Munksjö shares.

Change in the reporting language

On December 18, 2020, Ahlstrom-Munksjö decided to discontinue the use of Swedish as a reporting language as of January 1, 2021. The official reporting languages used in the company's regulatory disclosures will be Finnish and English. By discontinuing the use of Swedish as a reporting language, Ahlstrom-Munksjö aims to ensure speed and efficiency in the company's financial reporting and in the publishing of releases.

Sustainability work awarded with EcoVadis Gold rating

Ahlstrom-Munksjö was awarded the EcoVadis Gold rating for the company's sustainability management and performance for the fourth consecutive year in June 2020. Compared with the results from the previous year, progress was especially made in sustainable procurement.

EcoVadis is a globally recognized business sustainability rating provider. The Corporate Social Responsibility assessment criteria include four themes: environment, labor practices, sustainable procurement and fair business 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, and is audited by independent sustainability experts.

Divestment of the fine art paper business

On March 3, 2020, Ahlstrom-Munksjö completed the sale of fine art paper business ARCHES® to Italian based F.I.L.A. Group, Fabbrica Italiana Lapis ed Affini S.p.A., for a debt and cash free price of EUR 43.6 million. The company booked a capital gain of EUR 32.0 million from the sale. The fine art paper business is small and has limited synergies within Ahlstrom-Munksjö's portfolio of businesses. F.I.L.A. is a strategic and industrial owner, a leading global player in its field, for which the ARCHES paper product range is complementary and provides further

growth opportunities. 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 transaction was first announced on October 30, 2019.

New plan periods in the share-based long-term plans and a new matching share plan

On February 13, 2020, the Board of Directors decided on a new performance period under the long-term share-based incentive plan announced on October 24, 2017. The Board of Directors has, in addition, decided on the establishment of a fixed matching share plan as well as on the establishment of a new earning period in the restricted share plan that was announced on March 28, 2019. The aim of the plans is to align the objectives of the company's shareholders and key personnel to increase the company's value and to commit the key personnel to the company through an incentive system based on the ownership of Ahlstrom-Munksjö shares. The full release is available at www.ahlstrom-munksjo.com/Media/releases.

BUSINESS AREAS AND STRUCTURE

Ahlstrom-Munksjö implemented a new business and reporting structure as of January 1, 2020. The new business areas are Filtration & Performance Solutions, Advanced Solutions, Industrial Solutions, Food Packaging & Technical Solutions and Decor Solutions which form Group's operating segments. More information about the company's structure and business areas can be found in note 4 of the consolidated financial statements.

EUR million, or as indicated	Net sales		Comparable EBITDA		Comparable EBITDA margin, %	
	2020	2019	2020	2019	2020	2019
Filtration & Performance Solutions	637.1	724.0	118.6	126.1	18.6	17.4
Advanced Solutions	476.2	470.2	61.1	50.6	12.8	10.8
Industrial Solutions	683.9	765.7	71.3	61.1	10.4	8.0
Food Packaging & Technical Solutions	554.6	582.4	52.5	53.4	9.5	9.2
Decor Solutions	369.7	419.6	37.6	34.5	10.2	8.2
Other and eliminations	-38.1	-46.5	-6.8	-12.9	–	–
Group	2,683.3	2,915.3	334.2	312.9	12.5	10.7

FILTRATION & PERFORMANCE SOLUTIONS

The Filtration & Performance Solutions business area develops and produces engine oil, fuel and air filtration materials, as well as industrial filtration. It also produces abrasive backings, glass fiber for flooring products as well nonwoven materials for automotive, construction, textile, hygiene and wallcovering applications.

Market review January–December 2020

- Demand for filtration materials gradually recovered from a low level in Q2
- Demand for glass fiber flooring, abrasive backings, wallcoverings and plasterboard materials improved
- Face mask material deliveries compensated for temporarily lower demand in Q2–Q3
- Launch of Ahlstrom-Munksjö FibRoc®, a new product platform of high-performance solutions for durable applications. FibRoc® Flooring product portfolio was the first introduction under the portfolio.
- Launch of product portfolio for lead acid batteries under the Ahlstrom-Munksjö FortiCell range of fiber-based solutions for energy storage applications

2020 compared with 2019

The decline in net sales was mainly driven by lower sales volumes, particularly in the Filtration business, and the divestments of the glass fiber reinforcement and fine arts businesses. The divestments had a negative impact of about EUR 43 million on net sales.

The decline in comparable EBITDA was mainly driven by lower sales volumes. This was partially offset by improved cost efficiency.

ADVANCED SOLUTIONS

The Advanced Solutions business area develops and produces materials for laboratory filters and life science diagnostics, water filtration, beverage and food processing, tapes and medical fabrics. The business area also supplies hot cooking oil and milk filtration materials as well as specialty release liners.

Market review January-December 2020

- Strong demand for medical and life science products
- Solid demand growth for tape backings, tea and coffee materials, as well as fibrous meat casing materials
- Weak demand for specialty release liners due to low activity in aerospace
- Launch of Trustshield Biological, a personal protective apparel medical fabric designed to shield against hazardous pathogens
- Partnership with BUFF, a producer of sport and lifestyle accessories, for the supply of replaceable filter media in face masks.

2020 compared with 2019

Net sales increased as higher selling prices and volumes were almost offset by an adverse currency effect. Deliveries increased in all businesses except Precision Coating, where they decreased significantly.

Comparable EBITDA increased mainly due to a larger share of sales of medical and life science products, more than offsetting the negative impact of lower specialty release liner deliveries.

INDUSTRIAL SOLUTIONS

The Industrial Solutions business area develops and produces release liners, electrotechnical insulation papers as well as flexible packaging and coated label papers. The business area also supplies specialty pulp, interleaving papers as well as office and printing papers.

Market review January-December 2020

- Good demand growth in release liners for labels, with improving demand for industrial grades from a weak Q2
- Recovery in demand for electrotechnical and steel interleaving papers in Q4
- Demand for coated papers improved, particularly in Brazil, after a decline in Q2
- Ahlstrom-Munksjö joined CELAB (Circular Economy for Labels), a global coalition to promote the development of the circular economy for self-adhesive label materials
- Decision to invest in a more sustainable coating machine in Billingsfors, Sweden to enable formaldehyde free balancing and finishing foils for furniture, as well as the building and construction industries
- A new power co-generation investment was completed at the Turin site in Italy. The new plant allows the combined and efficient power and steam generation needed for the site's processes.

2020 compared with 2019

Net sales declined mainly due to lower selling prices and an adverse currency effect.

Comparable EBITDA increased mainly due to lower costs, more than offsetting lower selling prices. Costs were reduced partly due to internal initiatives.

FOOD PACKAGING & TECHNICAL SOLUTIONS

The Food Packaging & Technical Solutions business area develops and produces a wide range of sustainable food packaging and processing papers as well as specialty papers for industrial and construction use.

Market review January-December 2020

- Demand for food processing and packaging continued to improve, following a mild rebound in restaurant traffic
- Robust demand for parchment cooking and baking papers in North America and flexible packaging products sold in grocery stores continued
- Rebound in demand for specialty papers in industrial and construction applications in Q4.

2020 compared with 2019

Net sales decreased due to lower delivery volumes, particularly in the Technical business, and an adverse currency effect. Average selling prices were lower and were partly impacted by a less favorable product mix.

Comparable EBITDA decreased. Lower variable costs more than offset the negative impacts of lower sales volumes and average selling prices. Fixed costs increased, partly driven by maintenance activity.

DECOR SOLUTIONS

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

Market review January-December 2020

- After a market recovery in the first quarter, demand for decor paper dropped at the end of March, following the closures of retail furniture outlets. In the second half of the year, there was a strong market recovery, following their re-opening.
- Broad-based downtime at decor paper customers and end-customers in the furniture industry from mid-March to mid-June. Strong demand recovery in the second half of the year
- Very strong demand in home furniture and home renovation segments during the summer and fall driving good order inflow in the second half of the year, while demand in office and shop furniture remained weak
- Strategic review of the business proceeding, although delayed due to the coronavirus outbreak

2020 compared with 2019

Net sales decreased due to significantly lower delivery volumes in Q2, lower selling prices and adverse currency effect.

Comparable EBITDA increased as lower variable costs, partly driven by higher raw material efficiency, more than offset the negative impacts of lower selling prices and volumes.

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 AMI in Helsinki and AMIS in Stockholm. On December 31, 2020, Ahlstrom-Munksjö's share capital amounted to EUR 85.0 million and the total number of shares was 115,653,315.

The company had a total of 15,938 shareholders at the end of the reporting period (14,742 as of December 31, 2019) according to Euroclear Finland Ltd. and Euroclear Sweden Ltd.

At the end of the reporting period, Ahlstrom-Munksjö held 664,862 own shares, corresponding to approximately 0.6% of total shares and votes.

Share price performance and trading

	Nasdaq Helsinki		Nasdaq Stockholm	
	2020	2019	2020	2019
Share price at the end of the period, EUR/SEK	18.10	14.32	181.40	149.60
Highest share price, EUR/SEK	18.42	15.18	192.60	165.00
Lowest share price, EUR/SEK	8.12	11.90	90.50	121.40
Market capitalization at the end of the period ¹ , EUR million	2,081.3	1,650.9	n/a	n/a
Trading value, EUR/SEK million	417.9	184.5	354.7	214.3
Trading volume, shares million	28.6	13.3	2.3	1.5
Average daily trading volume, shares	113,384	53,330	9,014	5,847

¹Excluding the shares held by Ahlstrom-Munksjö

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Ahlstrom-Munksjö Oyj's Annual General Meeting (AGM) was held on March 25, 2020. The AGM adopted the Financial Statements for 2019 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year 2019.

The AGM resolved to distribute a dividend of EUR 0.52 per share (EUR 59,793,995.56 in total) for the fiscal year that ended on December 31, 2019 in accordance with the proposal of the Board of Directors. The dividend will be paid in four installments. The first installment of EUR 0.13 per share was paid on April 3, 2020, the second installment of EUR 0.13 was paid on July 9, 2020 the third installment of EUR 0.13 was paid on October 9, 2020, and the fourth installment of EUR 0.13 was paid on January 11, 2021.

The full release on resolutions is available at www.ahlstrom-munksjo.com

PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The distributable funds on the balance sheet of Ahlstrom-Munksjö Oyj as of December 31, 2020 amounted to EUR 901,057,524.65. The Board of Directors' dividend proposal to the Annual General Meeting will be decided after the Extraordinary General Meeting to be held on February 19, 2021.

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. 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 uses globally, it is unlikely to be significantly affected at a group level by individual business related factors. However, slowing global economic growth and uncertain financial market conditions could have a materially adverse effect on the Group's financial results, operations and financial position.

Recently, the coronavirus pandemic has been the key driver of increased uncertainty globally from an economic and social perspective. The risk of a broader economic downturn is less tangible. However, if it materializes, it may weaken demand for a wide range of Ahlstrom-Munksjö products for a longer period. The full impact of the pandemic cannot be foreseen at this stage. It will depend on both the duration and severity of the pandemic, and the measures taken to contain it. The resurgence in the number of infections during the fall of 2020 has caused countries to reimpose temporary and regional restrictions.

The coronavirus pandemic has disrupted consumers' lives across the world. The length of the pandemic will probably be a key determinant for if and how our way of life will permanently change and affect companies' future business opportunities. Globally, the rollout of coronavirus vaccinations has started, which is expected to contain the spread.

Ahlstrom-Munksjö has assessed carrying amounts of assets and liabilities, such as goodwill and other intangible, tangible assets, inventories, deferred taxes, trade receivables and pension plans and re-assessed the need of impairment. Based on the assessments, the consequences of the pandemic has currently no impact on asset valuations.

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, regulations 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 pose a threat to the global economy, which may have an effect on Ahlstrom-Munksjö's markets.

Operational risks such as personnel absences, supply of key raw materials and deliveries to customers have also increased due to the pandemic. These risks have been mitigated by a rapid and coordinated response, and the implementation of the Ahlstrom-Munksjö Covid-19 Safety Protocol. However, if the pandemic continues for a longer period, the exposure to the operational risks may increase.

The company's key financial risks include interest rate and currency, liquidity and credit risks. To mitigate short-term risks, methods such as hedging and credit insurance are used. Additional credit risk assessment has been implemented for customer receivables to evaluate the potential implications of the coronavirus pandemic. Based on the assessment, the company has not identified any significant increase in the amount of bad debt, and there has currently not been any significant change in payment delays related to Ahlstrom-Munksjö's customer

receivables. However, if the pandemic continues for a longer period, the exposure to the credit risk, such as delayed payments from the customers, may increase.

The pandemic has increased the risk of financiers becoming more cautious and reducing banks' willingness to provide financing. This may have an impact on refinancing and increase financing costs. Ahlstrom-Munksjö's liquidity continues to be good, and during the second quarter, the company has signed additional financing facilities to further strengthen its liquidity position. There are no major short-term refinancing needs.

The Group is exposed 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 regularly assesses the best structure for its platform of businesses and systematically evaluates M&A opportunities. In potential business combinations, substantial integration work is needed to realize expected synergies.

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 the available current information, no significant impact on the financial position of the company is expected.

More information about risks and uncertainty factors related to Ahlstrom-Munksjö's business and the company's risk management is available at www.ahlstrom-munksjo.com.

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 in January-December 2020 an average of 7,814 (8,078) people in full-time equivalents. As of December 31, 2020, the highest numbers of employees were in the United States (31%), France (19%), Sweden (10%), Brazil (9%) and Germany (7%). Net sales were EUR 2,683.3 million and comparable EBITDA EUR 334.2 million.

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

Knowhow, technology and partnership at the center of value creation

Ahlstrom-Munksjö is a producer of functional materials. We create value by adding knowhow and advanced technology to fibers that we ensure are responsibly sourced. In close partnership with our customers we develop fiber-based solutions that often perform vital functions and have a positive impact as part of the end product or solution.

We deliver a value proposition for our customers that is based on innovation, quality and customized service. With our product offering we facilitate a sustainable everyday life by providing solutions with better performance, safer materials, fewer resources and lower environmental impact. Our customers use our solutions in a large variety of everyday applications within in a broad range of end-uses that are underpinned by fundamental business drivers in today's society.

AHLSTROM-MUNKSJÖ'S SUSTAINABILITY AREAS AND MATERIAL TOPICS

For the year 2020, the company reports on nine material topics within its materiality areas People, Planet and 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 are discussed in other sections of the Board of Directors' report.

SUSTAINABILITY POLICY AND MANAGEMENT APPROACH

Ahlstrom-Munksjö's 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.

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.

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 procurement promotes 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 (i.e. procurement or quality professionals) or by accredited third party auditors.

Performance indicators

The target for the year 2020 was that all fiber and chemical suppliers are signatories or considered compliant by the end of the year. At the end of 2020, 97 percent (95) of fiber spend and 96 percent (93) of chemical spend 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 2020, 60 percent (26) of the energy suppliers and 39 percent (23) of the indirect suppliers had signed the Supplier Code of Conduct or were considered compliant.

By year end 2020, 80 percent (approximately 190 suppliers) of all fiber and chemical spend have been evaluated by supplier risk assessment. For medium & high risk severity suppliers a supplier specific action plan has been put in place. In 2019 and 2020 seven Corporate Social Responsibility (CSR) audits were completed and risk mitigation plan were put in place. Due to the pandemic on-site audits have not been possible in 2020.

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.

Energy, water and waste

Ahlstrom-Munksjö's production generates emissions to air and water, and waste to landfills. 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

We assess energy use and water use per gross ton of our production, as well as total tons of waste sent to landfill.

The target for specific energy consumption reduction was an annual 2 percent reduction from 2018 onward. In 2020, the total energy use in GJ per gross ton production increased by 1.5% to 26.7 (26.3) partly due to swings in production caused by changing customer demand, particularly in Q2 and Q3, caused by the spread of Covid-19. Due to issues in data collection, the 2019 figure for energy consumption was corrected. The company is taking the required actions to ensure accurate data collection.

The target for reductions of water usage was an annual 1.5 percent reduction in water use per gross ton production from 2018 onward. Water use in cubic meters per gross ton production decreased by 1% to 72.3 (73.0).

The target for waste reduction is an annual 2 percent reduction in tons of waste to landfill from 2018 onward. In 2020, 100,564 tons of non-recoverable waste were sent to landfills, compared to 98 507 tons in 2019. The increase was partly due to the challenging weather conditions, which prevented a larger amount from being used in agriculture as fertilizer, and that the waste scope was expanded at the Caierias mill in Brazil.

Carbon dioxide

Ahlstrom-Munksjö has acknowledged its responsibility to align with targets set by international agreements of 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

The target for Scope 1 emissions was an annual reduction of 2 percent while the target for Scope 2 emissions was an annual reduction. In 2020, the Scope 1 emissions were 1.1 tons and Scope 2 carbon dioxide emissions were 0.3 tons. Due to issues in data collection, performance in 2020 is not comparable with reporting in 2019. The company is taking the required actions to ensure accurate data collection.

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

The target for 2020 was that all plants have an annually updated community engagement plan. By the end of 2020, 40 percent (58) of sites had updated their formal community engagement plans. However, 100% of the plants participated in the company-wide United Nation's Children's Day in November, 2020. This activity was localized in 12 language versions and taken forward locally by the site Culture Ambassador and local HR.

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 (TRIR), Near Miss Rate, and hours of Tailored Safety Training.

The main lagging indicator is the Total Recordable Incidents rate (TRIR) where a baseline of 2.2 was established in 2017. In 2020 the TRIR decreased by 12 percent to 1.42 (1.62 in 2019, adjusted for divested entities).

The annual near miss rate had a 2020 target of 5.5, much higher than the baseline target of 2.37 set in 2017. In 2020, the company achieved a near miss rate of 6.0, up from 5.0 in 2019, 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 six near misses in 2020.

The number of hours of tailored safety training per employee this year reached 17 in 2020, down from 20 in 2019. The target was however 15. The reason for the decline is due to Covid-19, and no possibilities to conduct face to face trainings. 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 seventeen percent in all recordable accidents in 2020, compared to 2019, comes as a direct result of these efforts.

Total Recordable Incidents is the sum of all recorded occupational accidents; lost time accidents, occupational diseases, light duty cases, and other recordable incident. Total recordable Incidents Rate; (Total Recordable Incidents/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 the Employee Development aspect of the Employee Well-Being materiality, progress is measured by tracking what percentage of employees have had a performance and development discussion with their manager in the past year as well as by employee and leadership engagement indexes.

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 2020, 96 percent (70) of employees had an annual performance and development discussion. The Employee Engagement Index and Leadership Index were established and measured during our 2020 employee survey. The baseline result for the Employee Engagement Index was defined as 80% and the Leadership Index as 77%.

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

For the Gender Equality and Diversity aspect of the Employee Well-Being materiality, Human Resources measures the percentage of male and female managers at the company. The target was to have a gender representation in managerial roles that is at least proportional to the ratio of the total workforce. In 2019, the base line for the gender ratio was 18 percent female employees of total workforce.

The share of female managers in 2020 was 21 (21) percent of all managerial positions compared to the gender ratio of 18 (18) percent of total workforce. Gender diversity is considered during recruiting, hiring and promotion.

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

Compliance with Human Rights issues in the operations is governed by Ahlstrom-Munksjö's Code of Conduct and in the supply chain by the Supplier Code Conduct.

In order to make sure that all our employees are both aware of and understand Ahlstrom-Munksjö's Code of Conduct, they are expected to complete the Code of Conduct course which needs to be renewed biennially and is part of our introduction package for new hires. To date 95% (91%) of all employees of the Ahlstrom-Munksjö Group have completed the Code of Conduct course.

Business ethics

Ahlstrom-Munksjö is committed to conducting its business ethically and responsibly in local and global communities. 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 who reports to Audit and Sustainability Committee. Ahlstrom-Munksjö's Code of Conduct provides with expectations for integrity and ethical behavior throughout the operations, including compliance with all appropriate national and international laws and regulations. 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

To comply with ethical and responsible business practices we have the same target as for Human Rights, that all employees are expected to complete the Code of Conduct course. To date 95% (91%) of all employees of the Ahlstrom-Munksjö Group have completed the Code of Conduct course.

At the end of 2020, Ahlstrom-Munksjö updated its materiality assessment. The KPIs and targets for the materialities as of 2021 are presented in Corporate Social Responsibility (CSR) Data chapter in the Annual Report.

OUTLOOK

Ahlstrom-Munksjö expects demand for its products to remain at the current level.

EVENTS AFTER THE BALANCE SHEET DATE

On September 24, 2020, a consortium, consisting of Ahlström Capital, funds managed or advised by Bain Capital as well as Viknum and Belgrano Inversiones made a public recommended cash tender offer for all shares in Ahlstrom-Munksjö. The offer period for the

tender offer commenced on October 22, 2020 and expired on January 14, 2021. The consortium's intention is to eventually acquire all the shares in Ahlstrom-Munksjö and apply for a delisting of the shares from Nasdaq Helsinki and Nasdaq Stockholm to develop the company in a private domain.

On January 18, 2021 based on the preliminary result, the offeror decided that it will waive the minimum acceptance condition and complete the tender offer in accordance with its terms and conditions provided that the final result of the tender offer confirms that the tender offer has been validly accepted with respect to shares representing, together with any shares otherwise held by the offeror prior to the date of the announcement of the final result of the tender offer, on a fully diluted basis at least 75% of the shares and voting rights of the company. On January 20, 2021 the consortium declared the tender offer unconditional with approximately 81% of shares validly tendered and accepted in the tender offer.

On January 20, 2021, the offeror also announced the commencement of a subsequent offer period in accordance with the terms and conditions of the tender offer. The subsequent offer period commenced on January 21, 2021 and expired on February 4, 2021. According to the final result of the subsequent offer period, the shares validly tendered and accepted during the subsequent offer period, together with the shares validly tendered and accepted during the initial offer period (as extended) and otherwise acquired by the offeror through market purchases until February 8, 2021, represent approximately 90.6% of all the shares and voting rights carried by the shares in Ahlstrom-Munksjö. The offeror's intention is to apply for the shares in Ahlstrom-Munksjö to be delisted from Nasdaq Helsinki Ltd ("Nasdaq Helsinki") and from Nasdaq Stockholm AB ("Nasdaq Stockholm"), respectively, as soon as permitted and reasonably practicable under the applicable laws and regulations and the rules of Nasdaq Helsinki and Nasdaq Stockholm. As the offeror's holdings in Ahlstrom-Munksjö will exceed 90% of all the shares and voting rights carried by the shares in Ahlstrom-Munksjö after the settlement of the shares tendered in the tender offer, the offeror will initiate compulsory redemption proceedings to acquire the remaining shares in accordance with the Finnish Companies Act.

Extraordinary General Meeting

On January 25, 2021, notice was given to the shareholders of Ahlstrom-Munksjö to Extraordinary General Meeting to be held on February 19, 2021 to resolve on the election of new Board of Directors and certain other matters.

Change in Ahlstrom-Munksjö Group ownership

Following the completion of the Tender Offer on February 4, 2021, Spa (BC) Lux Holdco S.à r.l. (entity owned and controlled by funds managed and/or advised by Bain Capital Private Equity (Europe), LLP, and/or its affiliates), Ahlstrom Invest B.V., Viknum AB (an entity in which

Alexander Ehrnrooth, a member of the Board of Directors, exercises influence) and Belgrano Inversiones Oy (an entity in which Alexander Ehrnrooth, a member of the Board of Directors, exercises control) together indirectly owned 81.0% of all the shares and voting rights in Ahlstrom-Munksjö Oyj through Spa Holdings 3 Oy, a private limited liability company incorporated and existing under the laws of Finland. The ultimate new parent company for Ahlstrom-Munksjö Oyj is SPA Lux TopCo Sàrl, an entity domiciled in Luxembourg.

Transaction costs

Ahlstrom-Munksjö will pay approximately EUR 9 million of transaction costs resulting from the successful closing of the Tender Offer, which will be recognized as expenses during first quarter of 2021. These expenses will be reported as items affecting comparability in the Company's results for the first quarter 2021.

Long-term incentive plans

Ahlstrom-Munksjö's Board of Directors decided on February 9, 2021 following the closing of the Tender Offer to prematurely terminate all existing long-term share-based incentive plans and to settle them in cash. Matching share plans (2019-2021, 2020-2022) reward payments are made to the participants immediately and long-term share-based incentive plans (LTI 2019-2021, LTI 2020-2022) rewards payments are made to the participants in three months from closing of the Tender Offer. The estimated amount of cash payments (including social security costs) is approximately EUR 18.6 million during the first half of the year of 2021. The income statement impact over the first quarter of 2021 resulting from accelerated vesting is approximately EUR 15.8 million. The income statement impact will be reported as items affecting comparability in the Group's results.

Change of control events impact to Ahlstrom-Munksjö's long-term funding

As a result of the settlement of the tender offer on February 4, 2021, the EUR 249.5 million senior bond and EUR 602.9 million of the bank loans (amounts reported as carrying values as of December 31, 2020) will become redeemable during the first half of 2021 to the extent the financing providers exercise their mandatory prepayment rights based on the customary change of control terms in the existing financing documents.

In addition, unless Ahlstrom-Munksjö at its option decides to redeem the hybrid bond within six months from the date of completion of the tender offer, the interest rate of the hybrid bond will increase by an additional margin of 5.0% p.a.

For purposes of the refinancing of Ahlstrom-Munksjö's existing debt, financing the Tender Offer and other agreed purposes, SPA Holdings 3 Oy and SPA US Holdco, Inc have committed senior term facilities and senior bridge facilities totaling to EUR 1,650 million (nominal) provided on a customary certain funds basis, with maturities of 7 years. Any repayments

required by the existing Ahlstrom-Munksjö financing providers are expected to be initially funded using proceeds from an intercompany loan provided to Ahlstrom-Munksjö by SPA Holdings 3 Oy and Ahlstrom-Munksjö USA Inc by SPA US Holdco, Inc and cash on balance sheet in each case, in all material respects reflecting the terms of the committed facilities of SPA Holdings 3 Oy and SPA US Holdco, Inc described above with the exception of a 12 month maturity, customary margin step-up and other customary changes for such intercompany loan instrument.

In addition, the existing committed EUR 200 million multicurrency revolving facility agreement and the committed EUR 50 million revolving credit facility, which both were undrawn at the balance sheet date, may be cancelled at the lender's option. SPA Holdings 3 Oy and SPA US Holdco, Inc also have a committed EUR 325 million revolving credit facility under its senior facilities agreement to replace these facilities and to provide ongoing working capital and general corporate funding requirements for the Group.

Ahlstrom-Munksjö Oyj

Board of Directors

Key figures

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 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 are unaudited.

Financial key figures 2020–2018

EUR million, or as indicated	2020	2019	2018
Performance indicators			
Net sales	2,683.3	2,915.3	2,437.5
Operating result	176.2	103.2	88.7
Operating result margin, %	6.6	3.5	3.6
EBITDA	354.5	279.4	222.6
EBITDA margin, %	13.2	9.6	9.1
Comparable EBITDA	334.2	312.9	277.7
Comparable EBITDA margin, %	12.5	10.7	11.4
Items affecting comparability in EBITDA	20.3	-33.4	-55.1
Comparable operating result	165.1	139.0	151.4
Comparable operating result margin, %	6.2	4.8	6.2
Items affecting comparability in operating result	11.1	-35.8	-62.7
Comparable operating result excluding depreciation and amortization arising from PPA	216.1	191.1	186.1
Net result	94.5	32.8	42.9
Earnings per share (basic), EUR	0.78	0.27	0.43
Earnings per share (diluted), EUR	0.78	0.27	0.43
Comparable net result	84.6	59.3	89.7
Comparable earnings per share, EUR	0.70	0.50	0.91
Comparable net result excluding depreciation and amortization arising from PPA	122.8	98.0	115.6
Comparable earnings per share excluding depreciation and amortization arising from PPA, EUR	1.03	0.84	1.18
Net cash from operating activities	255.1	286.7	91.6
Operating cash flow per share, EUR	2.22	2.49	0.95
Capital expenditure	117.5	161.1	160.1
Payment for acquisition of businesses and subsidiaries, net of cash acquired	–	10.8	608.0
Average number of employees, FTE	7,814	8,078	6,480

EUR million	2020	2019	2018
Capital structure			
Capital employed average for 12 months	2,301.1	2,363.3	1,814.5
Total equity	1,184.6	1,232.0	1,162.2
Net debt	735.8	885.0	962.5
Gearing ratio, %	62.1	71.8	82.8
Return on equity (ROE), rolling 12 months, %	7.9	2.9	4.1
Comparable return on equity, rolling 12 months, %	7.1	5.2	8.6
Return on capital employed (ROCE), rolling 12 months, %	7.7	4.4	4.9
Comparable return on capital employed, rolling 12 months, %	7.2	5.9	8.3
Equity/assets ratio, %	37.9	38.5	35.9
Net debt/Comparable EBITDA	2.2	2.8	3.5

Reconciliation of certain key performance measures

EUR million	2020	2019	2018
Items affecting comparability			
Transaction costs	-6.5	-2.7	-10.9
Integration costs	-0.5	-11.7	-20.4
Inventory fair valuation	–	–	-7.5
Restructuring costs	-2.6	-15.4	-15.9
Environmental provision	–	–	-0.2
Gain/Loss on business disposal	31.8	-1.6	–
Other	-1.9	-2.1	-0.1
Total items affecting comparability in EBITDA	20.3	-33.4	-55.1
Impairment loss	-9.2	-2.4	-7.7
Total items affecting comparability in operating result	11.1	-35.8	-62.7
Comparable EBITDA			
Operating result	176.2	103.2	88.7
Depreciation, amortization and impairment	178.4	176.2	133.9
EBITDA	354.5	279.4	222.6
Total items affecting comparability in EBITDA	-20.3	33.4	55.1
Comparable EBITDA	334.2	312.9	277.7
Comparable operating result excl. depreciation and amortization arising from PPA			
Operating result	176.2	103.2	88.7
Total items affecting comparability in operating result	-11.1	35.8	62.7
Comparable operating result	165.1	139.0	151.4
Depreciation and amortization arising from PPA ¹	51.0	52.1	34.7
Comparable operating result excl. depreciation and amortization arising from PPA	216.1	191.1	186.1

¹ 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.

EUR million	2020	2019	2018
Comparable net result excl. depreciation and amortization arising from PPA			
Net result	94.5	32.8	42.9
Total items affecting comparability in operating result	-11.1	35.8	62.7
Taxes relating to items affecting comparability in operating result	1.2	-9.3	-15.9
Comparable net result	84.6	59.3	89.7
Depreciation and amortization arising from PPA ¹	51.0	52.1	34.7
Taxes relating to depreciation and amortization arising from PPA	-12.8	-13.4	-8.9
Comparable net result excl. depreciation and amortization arising from PPA	122.8	98.0	115.6
Comparable earnings per share, EUR			
Comparable net result	84.6	59.3	89.7
Profit attributable to non-controlling interest	-1.4	-1.2	-1.4
Comparable net result attributable to parent company shareholders	83.3	58.2	88.4
Interest on hybrid bond for the period after taxes	-3.2	-0.2	–
Weighted average number of outstanding shares	115,034,656	115,288,453	96,758,002
Comparable earnings per share, EUR	0.70	0.50	0.91
Comparable earnings per share excl. depreciation and amortization arising from PPA, EUR			
Comparable net result excl. depreciation and amortization arising from PPA	122.8	98.0	115.6
Net result attributable to non-controlling interest	-1.4	-1.2	-1.4
Comparable net result excl. depreciation and amortization arising from PPA attributable to parent company shareholders	121.5	96.8	114.2
Interest on hybrid bond for the period after taxes	-3.2	-0.2	–
Weighted average number of outstanding shares	115,034,656	115,288,453	96,758,002
Comparable earnings per share excl. depreciation and amortization arising from PPA, EUR	1.03	0.84	1.18

EUR million	2020	2019	2018
Return on equity (ROE), rolling 12 months, %			
Net result for the last 12 months	94.5	32.8	42.9
Total equity, average for the last 12 months	1,189.7	1,149.3	1,048.2
Return on equity, rolling 12 months, %	7.9	2.9	4.1
Comparable return on equity, rolling 12 months, %			
Comparable net result for the last 12 months	84.6	59.3	89.7
Total equity, average for the last 12 months	1,189.7	1,149.3	1,048.2
Comparable return on equity, rolling 12 months, %	7.1	5.2	8.6
Return on capital employed (ROCE), rolling 12 months, %			
Operating result for the last 12 months	176.2	103.2	88.7
Capital employed, average for the last 12 months	2,301.1	2,363.3	1,814.5
Return on capital employed, rolling 12 months, %	7.7	4.4	4.9
Comparable return on capital employed, rolling 12 months, %			
Comparable operating result for the last 12 months	165.1	139.0	151.4
Capital employed, average for the last 12 months	2,301.1	2,363.3	1,814.5
Comparable return on capital employed, rolling 12 months, %	7.2	5.9	8.3
Net debt			
Cash and cash equivalents	308.7	166.1	151.0
Non-current borrowings	744.1	899.0	1,020.4
Non-current lease liabilities	37.8	44.2	3.1
Current borrowings	249.3	94.8	132.7
Current lease liabilities	13.2	13.1	1.1
Securitization liability	–	–	-43.7
Net debt	735.8	885.0	962.5

¹ 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.

CALCULATION OF KEY FIGURES

The definitions of financial key performance indicators are described below.

Key figure	Definitions	Reason for use of the key figure
Operating result	Net result before taxes and net financial items	Operating result shows result generated by the operating activities
Operating result margin, %	Operating result / net sales	
EBITDA	Operating result before depreciation, amortization and impairment	EBITDA is the indicator to measure the performance of Ahlstrom-Munksjö.
EBITDA margin, %	EBITDA / net sales	EBITDA margin is a key measure in our long-term financial targets.
Comparable EBITDA	EBITDA excluding items affecting comparability in EBITDA	
Comparable EBITDA margin, %	Comparable EBITDA / net sales	
Comparable operating result	Operating result excluding items affecting comparability in operating result	
Comparable operating result margin, %	Comparable operating result / net sales	
Comparable operating result excluding depreciation and amortization arising from PPA	Operating result excluding items affecting comparability in operating result and depreciation and amortization arising from PPA Depreciation and amortization arising from PPA comprise depreciation and amortization charges from fair value adjustments relating to the business combinations starting from the year 2013.	Comparable EBITDA, comparable EBITDA margin, comparable operating result, comparable operating result margin, comparable operating result excluding depreciation and amortization arising from PPA, comparable net result, comparable earnings per share, comparable net result 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 result 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.
Comparable net result	Net result excluding items affecting comparability in operating result, net of tax	
Comparable earnings per share (basic), EUR	Comparable net result - net result attributable to non-controlling interests - Interest on hybrid bond for the period after taxes / weighted average number of shares outstanding during the period	
Comparable net result excluding depreciation and amortization arising from PPA	Net result excluding items affecting comparability in operating result, net of tax, and depreciation and amortization arising from PPA, net of tax	
Comparable earnings per share excluding depreciation and amortization arising from PPA, EUR	Comparable net result excluding depreciation and amortization arising from PPA - net result attributable to non-controlling interests - Interest on hybrid bond for the period after taxes / weighted average number of shares outstanding during the period	
Items affecting comparability in operating result	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.	
Items affecting comparability in EBITDA	Items affecting comparability in operating result excluding impairment losses	
Earnings per share (EPS), basic, EUR	Net result 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	
Earnings per share (EPS), diluted, EUR	Net result 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 + dilution effect from share based incentive plans	

Key figure	Definitions	Reason for use of the key figure
Net debt	Non-current and current borrowings and non-current and current lease liability less securitization liability less cash and cash equivalents	Net debt and total debt are indicators to measure the total external debt financing of Ahlstrom-Munksjö
Total debt	Non-current and current borrowings and non-current and current lease liability less securitization liability	
Capital employed average for 12 months	Total equity and total debt (average of the last 12 months)	Capital employed average for 12 months, Return on capital employed, rolling 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.
Return on capital employed (ROCE), rolling 12 months, %	Operating result (for the last 12 months) / capital employed (average of the last 12 months)	
Comparable return on capital employed, rolling 12 months, %/Comparable ROCE, rolling 12 months, %	Comparable operating result (for the last 12 months) / capital employed (average of the last 12 months)	
Total equity for 12 months	Total equity (average of the last 12 months)	Total equity for 12 months, Return on equity, rolling 12 months and Comparable return on equity, rolling 12 months measures the equity available and the ability to generate income from it.
Return on equity (ROE), rolling 12 months, %	Net result (for the last 12 months) / total equity (average of the last 12 months)	
Comparable return on equity, rolling 12 months, %/ Comparable ROE, rolling 12 months, %	Comparable net result (for the last 12 months) / total equity (average of the last 12 months)	
Gearing ratio, %	Net debt / total equity	Ahlstrom-Munksjö believes that Gearing ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Ahlstrom-Munksjö's indebtedness. Gearing ratio is also one of the Ahlstrom-Munksjö's long-term financial targets measure.
Equity/assets ratio, %	Total equity / total assets	Ahlstrom-Munksjö believes that Equity/assets ratio helps to show financial risk level and it is a useful measure for management to monitor the level of Group's capital used in the operations.
Shareholders' equity per share, EUR	Equity attributable to parent company's shareholders / number of shares outstanding at the end of the period	
Capital expenditure	Purchases for property, plant and equipment and intangible assets as presented in the cash flow statement.	Capital expenditure provides additional information of the cash flow needs of the operations.
Operating cash flow per share, EUR	Net cash from operating activities / weighted average number of shares outstanding during the period	
Net debt/ Comparable EBITDA	Net debt / comparable EBITDA	Net debt to EBITDA is a useful measure for management to monitor the level of Ahlstrom-Munksjö's indebtedness

Share related indicators 2020-2018

	2020	2019	2018
Earnings per share (basic), EUR	0.78	0.27	0.43
Earnings per share (diluted), EUR	0.78	0.27	0.43
Shareholders' equity per share, EUR	9.33	9.73	10.00
Dividend per share, EUR ¹	0.00	0.52	0.52
Dividend per earnings, %	0.0	189.3	120.9
Effective dividend yield, %	0.0	3.6	4.3
Price/earnings ratio, %	23.1	52.1	28.2
Share price development			
Lowest share price, EUR	8.12	11.90	10.68
Highest share price, EUR	18.42	15.18	20.10
Average share price, EUR	14.62	13.84	14.96
Closing share price at the reporting date, EUR	18.10	14.32	12.12
Market capitalization, EUR million	2,081.3	1,650.9	1,397.3
Shares traded (1,000 shares)	28,573	13,332	12,836
Shares traded, % of all share	24.8	11.6	13.3
Weighted average number of outstanding shares during the period (1,000 shares)	115,035	115,288	96,758
Number of shares at the end of the period (1,000 shares)	115,653	115,653	115,653
of which treasury shares (1,000 shares)	665	365	365

¹ For year 2020 the Board of Directors' dividend proposal to the Annual General Meeting will be decided after the Extraordinary General Meeting to be held on February 19, 2021.

Share related indicator	Definition
Earnings per share (EPS), basic, EUR	Net result 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
Earnings per share (EPS), diluted, EUR	Net result 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 + dilution effect from share based incentive plans
Shareholders' equity per share, EUR	Equity attributable to parent company's shareholders / number of shares outstanding at the end of the period
Dividend per share, EUR	Dividends paid for the period / number of shares outstanding at the end of the period
Dividend per earnings, %	Dividend per share / earnings per share, basic
Effective dividend yield, %	Dividend per share / closing share price at the reporting date
Price/Earnings ratio, %	Closing share price at the reporting date / earnings per share, basic
Market capitalization	Total number of shares outstanding multiplied by the share price at the reporting date
Average share price, EUR	Total value of shares traded / number of shares traded during the period
Shares traded, % of all shares	Shares traded/weighted average number of outstanding shares during the period

Consolidated financial statements, IFRS

Income statement

EUR million	NOTE	2020	Restated 2019
Net sales	4, 5	2,683.3	2,915.3
Cost of goods sold	6, 7, 8	-2,269.5	-2,544.1
Gross profit		413.9	371.2
Sales and marketing expenses	7, 8	-56.7	-68.1
R&D expenses	7, 8	-21.0	-15.3
Administrative expenses	7, 8	-151.6	-149.6
Other operating income	6	53.8	20.7
Other operating expense	6	-62.4	-55.9
Share of profit in equity accounted investments	21	0.2	0.2
Operating result		176.2	103.2
Financial income	9	20.0	6.6
Financial expenses	9	-65.7	-58.2
Net financial items		-45.7	-51.6
Result before tax		130.4	51.6
Income taxes	10	-36.0	-18.8
Net result		94.5	32.8

The notes are an integral part of the financial statements.

Statement of comprehensive income

EUR million	NOTE	2020	2019
Net result		94.5	32.8
Other comprehensive income			
Items that may be reclassified to income statement			
Exchange differences on translation of foreign operations	19	-78.3	8.2
Change in cash flow hedge reserve	19	4.6	-2.2
Cash flow hedge transferred to this year's result	19	-2.1	3.2
Income taxes related to items that may be reclassified		-0.5	-0.2
Items that will not be reclassified to income statement			
Actuarial gains and losses on defined benefit plans	15	1.1	-8.3
Income taxes related to items that will not be reclassified		-0.7	1.4
Comprehensive income		18.6	34.9
Net result attributable to:			
Parent company's shareholders		93.1	31.7
Non-controlling interests		1.4	1.2
Comprehensive income attributable to:			
Parent company's shareholders		17.5	33.7
Non-controlling interests		1.2	1.2
Earnings per share			
Weighted average number of outstanding shares		115,034,656	115,288,453
Weighted average number of outstanding shares, diluted		115,115,532	115,320,715
Basic earnings per share, EUR	11	0.78	0.27
Diluted earnings per share, EUR	11	0.78	0.27

The notes are an integral part of the financial statements.

Balance Sheet

EUR million	NOTE	Dec 31, 2020	Dec 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,032.3	1,131.5
Right-of-use assets	12	49.4	57.0
Goodwill	12	608.9	642.7
Other intangible assets	12	452.3	499.1
Equity accounted investments	21	1.6	1.4
Other non-current assets	19	21.3	19.3
Deferred tax assets	10	6.1	9.9
Total non-current assets		2,172.0	2,360.8
Current assets			
Inventories	13	366.0	387.6
Trade and other receivables	14	264.7	278.9
Income tax receivables	10	11.9	7.7
Cash and cash equivalents	17	308.7	166.1
Total current assets		951.4	840.4
TOTAL ASSETS		3,123.4	3,201.2

EUR million	NOTE	Dec 31, 2020	Dec 31, 2019
EQUITY AND LIABILITIES			
Equity			
<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	230.9	311.1
Retained earnings	18	95.2	63.4
Total equity attributable to parent company's shareholders		1,072.9	1,121.2
Non-controlling interests		11.7	10.8
Hybrid bond	18	100.0	100.0
Total equity		1,184.6	1,232.0
Non-current liabilities			
Non-current borrowings	17	744.1	899.0
Non-current lease liabilities	17	37.8	44.2
Other non-current liabilities		5.6	1.4
Employee benefit obligations	15	93.1	97.2
Deferred tax liabilities	10	141.7	147.5
Non-current provisions	16	21.8	24.3
Total non-current liabilities		1,044.0	1,213.5
Current liabilities			
Current borrowings	17	249.3	94.8
Current lease liabilities	17	13.2	13.1
Trade and other payables	14	608.8	621.7
Income tax liabilities	10	13.4	13.2
Current provisions	16	10.1	12.8
Total current liabilities		894.8	755.6
Total liabilities		1,938.8	1,969.2
TOTAL EQUITY AND LIABILITIES		3,123.4	3,201.2

The notes are an integral part of the financial statements.

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
EQUITY AT DECEMBER 31, 2018	85.0	661.8	384.9	-6.3	-76.7	0.2	103.5	1,152.3	9.9	-	1,162.2
Restatement due to IFRIC 23	-	-	-	-	-	-	-2.6	-2.6	-	-	-2.6
EQUITY AT JANUARY 1, 2019	85.0	661.8	384.9	-6.3	-76.7	0.2	100.9	1,149.7	9.9	-	1,159.6
Net result	-	-	-	-	-	-	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
Total comprehensive income	-	-	-	-	8.1	0.8	24.7	33.7	1.2	-	34.9
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
EQUITY AT DECEMBER 31, 2019	85.0	661.8	384.9	-6.3	-68.5	1.0	63.4	1,121.2	10.8	100.0	1,232.0
EQUITY AT JANUARY 1, 2020	85.0	661.8	384.9	-6.3	-68.5	1.0	63.4	1,121.2	10.8	100.0	1,232.0
Net result	-	-	-	-	-	-	93.1	93.1	1.4	-	94.5
Other comprehensive income before tax	-	-	-	-	-78.1	2.5	1.1	-74.5	-0.2	-	-74.7
Tax on other comprehensive income	-	-	-	-	-	-0.5	-0.7	-1.2	-	-	-1.2
Total comprehensive income	-	-	-	-	-78.1	2.0	93.5	17.5	1.2	-	18.6
Dividends and other	-	-	-	-	-	-	-59.9	-59.9	-0.3	-	-60.3
Repurchase of treasury shares	-	-	-	-4.0	-	-	-	-4.0	-	-	-4.0
Interest on hybrid bond	-	-	-	-	-	-	-3.7	-3.7	-	-	-3.7
Long term incentive plans	-	-	-	-	-	-	1.9	1.9	-	-	1.9
EQUITY AT DECEMBER 31, 2020	85.0	661.8	384.9	-10.4	-146.6	3.0	95.2	1,072.9	11.7	100.0	1,184.6

The notes are an integral part of the financial statements.

Cash flow statement

EUR million	Note	2020	2019
Cash flow from operating activities			
Net result		94.5	32.8
Adjustments:			
Non-cash transactions and transfers to cash flow from other activities			
Depreciation, amortization and impairment	8	178.4	176.2
Gains and losses on sale of non-current assets		-32.1	1.3
Change in employee benefit obligations	15	-3.4	-7.2
Non-cash transactions and transfers to cash flow from other activities, total			
		142.9	170.4
Interest and other financial income and expense		45.5	51.3
Taxes	10	36.0	18.8
Changes in net working capital:			
Change in trade and other receivables	14	-4.7	47.3
Change in inventories	13	1.0	40.4
Change in trade and other payables	14	20.9	5.8
Change in provisions	16	-6.1	-2.3
Interest received		1.1	1.2
Interest paid		-36.8	-46.1
Other financial items		-6.0	-4.8
Income taxes paid	10	-33.1	-28.0
Net cash from operating activities		255.1	286.7

EUR million	Note	2020	2019
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets	12	-117.5	-161.1
Payment for acquisition of businesses and subsidiaries, net of cash acquired	3	—	-10.8
Proceeds from disposal of shares in Group companies and businesses and associated companies	3	42.1	1.4
Change in other investments		-0.4	-0.8
Proceeds from disposal of intangible assets and property, plant and equipment		0.3	0.8
Net cash from investing activities		-75.4	-170.4
Cash flow from financing activities			
Rights issue		—	-5.7
Repurchase of treasury shares		-4.0	—
Hybrid bond	18	—	99.3
Proceeds from non-current borrowings	17	20.0	4.0
Repayment of non-current borrowings	17	-32.8	-128.8
Change in current borrowings	17	47.2	4.4
Change in lease liabilities	17	-14.8	-15.2
Dividends and other		-45.3	-60.4
Net cash from financing activities		-29.7	-102.4
Net change in cash and cash equivalents			
		149.9	13.9
Cash and cash equivalents at the beginning of the period			
		166.1	151.0
Foreign exchange effect on cash			
		-7.4	1.2
Cash and cash equivalents at the end of the period	17	308.7	166.1

The notes are an integral part of the financial statements

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 and restated 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 gross 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 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.

Cont. note 2

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.

New reporting structure and the presentation of income statement

The Group has changed the presentation format for the Income statement based on function of expenses as of January 1, 2020 to align with internal reporting. The comparative income statement information for the year 2019 has been restated and accordingly is unaudited. Previously the Group presented its income statement based on the nature of expenses. The Group made also certain minor reclassifications of the income statement items in connection with adoption of the functional presentation. Certain items previously reported within Net sales were classified to other income statement lines, such as operative exchange gains and losses as well as operative foreign exchange derivative results. In addition, certain accounting policy alignments were made between Net sales and Other operating income relating to the past acquisitions and the income from the sale of emission and other environmental rights previously presented in Other operating expenses was reclassified to Other operating income. As a result of these reclassifications, Net sales for the year 2019 decreased by EUR 1.0 million and Other operating income for the year 2019 increased by EUR 8.6 million. The reclassifications have no impact on Group's operating result or net result for the year 2019. In the 2020 financial statements certain income statement line items were renamed, such as net profit to net result and profit before tax to result before tax.

Ahlstrom-Munksjö implemented a new business and reporting structure as of January 1, 2020. The new business areas are Filtration & Performance Solutions, Advanced Solutions, Industrial Solutions, Food Packaging & Technical Solutions and Decor Solutions which form Group's operating segments. In these financial statements, the comparative segment information for the year 2019 has been restated accordingly and is unaudited. More information is disclosed in note 4. In addition, the Group has reallocated goodwill to affected cash-generating units, see note 12 for more information.

Expenses by function

Cost of goods sold includes costs of producing inventories that have been sold to third parties, delivery expenses, impairment of inventories, repair and maintenance, operative exchange gains/losses including the impact of the foreign exchange derivatives and general overhead expenses of Group's Production and supply function which are expensed as incurred.

Sales and marketing expenses include costs of selling products, customer service, marketing and promotional expenses.

R&D expenses include the expenses of Ahlstrom-Munksjö's R&D facilities and expenses related to innovation and product development resources.

Administrative expenses include expenses of General Management, Finance, Corporate Strategy and Development, Legal, Communications and Investor Relations, Human Resources and Information Systems functions.

Tender offer for all Ahlstrom-Munksjö shares

On September 24, 2020, a consortium consisting of Ahlström Capital, funds managed or advised by Bain Capital as well as Viknum and Belgrano Inversiones made a public recommended cash tender offer for all shares in Ahlstrom-Munksjö.

On September 30, 2020, the Board of Directors of Ahlstrom-Munksjö resolved on a dividend in the amount of EUR 0.13 per each outstanding share. In accordance with the announcement of the tender offer, the offer price per share was reduced on a euro-for-euro basis as a result. Following the adjustment of the offer price, the price offered for each share in the tender offer was EUR 17.97, subject to any further adjustments.

On October 16, 2020, the Board of Directors of Ahlstrom-Munksjö, represented by a quorum of non-conflicted members, issued a statement regarding the tender offer, unanimously recommending that the shareholders of Ahlstrom-Munksjö to accept the tender offer.

On October 22, 2020, at 9:30 a.m. (Finnish time) the offer period for the tender offer commenced, and it was announced to expire on December 30, 2020, at 4:00 p.m. (Finnish time).

On December 8, 2020, the offeror decided to extend the offer period to expire on January 14, 2021, at 4:00 p.m. (Finnish time), unless the offer period was extended further or any extended offer period was discontinued in accordance with the terms and conditions of the tender offer.

On December 17, 2020, the Board of Directors of Ahlstrom-Munksjö resolved on a dividend in the amount of EUR 0.13 per each outstanding share. In accordance with the announcement of the tender offer, the offer price per share was further reduced on a euro-for-euro basis as a result. Following the adjustment of the offer price, the price offered was EUR 17.84, subject to any further adjustments.

For information about final result and completion of the public tender offer see note 24.

Impact of Covid-19

Due to continuing uncertainty around the Covid-19 pandemic, Ahlstrom-Munksjö has continued to assess the impact on its business, results of operations, financial position and cash flows. For Ahlstrom-Munksjö the financial implications of the pandemic have been relatively limited so far. Ahlstrom-Munksjö's 45 plants and converting sites in 14 countries have remained operational during 2020, except for a few temporary shutdowns caused by government lockdowns or employee absences related to quarantine or infections. Production has not been interrupted to any significant extent due to raw material supply issues.

Within Ahlstrom-Munksjö's broad range of advanced fiber-based solutions, the impact of the pandemic on customer activity has varied. The pandemic has also created an exceptional situation globally and a strong demand for healthcare goods in general, and particularly for protective medical products made from Ahlstrom-Munksjö's fabrics. Additional credit risk assessment has been implemented for customer receivables to evaluate the potential implications of the Covid-19 pandemic. Based on the assessment, the Group has not identified any significant increase in the amount of bad debt, and there has currently not been any significant change in payment delays related to Ahlstrom-Munksjö's customer receivables.

The pandemic has increased the risk of financiers becoming more cautious and reducing banks' willingness to provide financing. This may have an impact on refinancing and increase financing costs. Ahlstrom-Munksjö's liquidity continues to be good, and during the second quarter, the company has signed additional financing facilities to further strengthen its liquidity position. There are no major short-term refinancing needs. The company also proactively increased its financial flexibility by renegotiating its other financial covenant, net debt to EBITDA. Please see more information in notes 17 and 19.

Given the ongoing and dynamic nature of the circumstances surrounding the Covid-19 pandemic, it is difficult to predict how significant the impact of Covid-19, including any responses to it, will be on the global economy and the business of the Group or for how long any disruptions are likely to continue. This has increased uncertainty and management judgement related to cash flow projections. Ahlstrom-Munksjö assesses continuously indications for impairment and carrying amounts of the assets and liabilities.

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, 2020:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business - Amendments to IFRS 3 Business Combinations

Cont. note 2

- Definition of Material – Amendments to IAS 1 Presentation of Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Interest Rate Benchmark Reform – Phase 1 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures
- Covid-19-Related Rent Concessions – Amendment to IFRS 16 Leases

The amendments and improvements listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The financial statements were authorised for issue by Ahlstrom-Munksjö's Board of Directors on February 9, 2021 and are expected to be adopted by the Annual General Meeting.



Accounting estimates and judgements

Due to the uncertainty around the Covid-19 pandemic, Ahlstrom-Munksjö has reviewed its estimates and judgements used in the preparation of financial statements. The possible impact of the situation due to the Covid-19 on the relevant factors in each estimate have been taken into consideration. The impact of the pandemic on estimates in the financial reporting rely on managements best judgement under the current circumstances but the end result will depend heavily on the duration and severity of the pandemic.

Notes disclosures

Notes to the financial statements include information required under IFRS to understand the financial statements and is material and relevant to Ahlstrom-Munksjö's operations, financial position and performance. Information is considered material and relevant if, for example:

- The amounts are significant because of size or nature;
- Disclosure is important for understanding the results of the Group;
- Disclosure helps to explain the impact of significant changes in the composition of the Group, operations or significant events such as acquisitions, impairments, major refinancing transactions; or
- The disclosure relates to an aspect of Ahlstrom-Munksjö's operations that is important to its future performance.

Where an accounting policy is applicable to a specific note, it is described within that note with the related disclosures including estimates and judgements of material nature made by management. Certain of our accounting policies that relate to the financial statements as a whole, are disclosed above. New IFRS standards and amendments or interpretations that will be adopted post-balance sheet date are described in note 23.

Financial statement disclosures are organised into the following sections:

- Performance – This section focuses on the results and performance of the Group including a description of changes in our group structure. This section includes disclosures that explain the Group's performance on a consolidated level as well on a business area level, sources of revenue, other operating income and expense, 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.

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 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 risk disclosures are included within the footnotes to our main statements:

Note Topic



Ahlstrom-Munksjö's business and basis of preparation

Note	Topic	Accounting policy	Judgement	Risk
1	Information about Ahlstrom-Munksjö			
2	Basis of preparation	X	X	

Performance

Note	Topic	Accounting policy	Judgement	Risk
3	Business acquisitions and disposals	X	X	
4	Business area information	X		
5	Sources of revenue	X		
6	Cost of goods sold and other operating income and other operating expense	X		
7	Employee and board of directors remuneration ¹	X	X	
8	Depreciation, amortization and impairment	X		
9	Net financial items	X		

Note	Topic	Accounting policy	Judgement	Risk
10	Taxes	X	X	
11	Earnings per share	X		
Operating capital				
12	Intangible assets, property, plant and equipment and right-of-use assets	X	X	
13	Inventories	X	X	
14	Trade and other receivables and trade and other payables	X		X
15	Defined benefit obligation	X	X	X
16	Provisions	X	X	
Net debt and capital management				
17	Net debt	X		X
18	Equity	X		
Financial risk management				
19	Financial risk management	X		X
Other notes				
20	Off-balance sheet commitments	X		
21	Ahlstrom-Munksjö subsidiaries, associates and joint operations and related party transactions ¹	X		
22	Auditor remuneration			
23	New accounting standards			
24	Post-balance sheet events			

¹Related party transactions are presented separately for the Board of Directors and key management remuneration in note 7 and other related parties are presented in note 21.

Performance

This section focuses on the results and performance of the Group including a description of changes in our group structure. This section includes disclosures that explain the Group's performance on a consolidated level as well on a business area level, employee benefits, other operating income and expense, finance items as well as information about our tax footprint and earnings per share.

3 BUSINESS ACQUISITIONS AND DISPOSALS

2020

Divestment of Fine Arts in Arches

On March 3, 2020 Ahlstrom-Munksjö completed the sale of its fine art paper business ARCHES® to Italian based F.I.L.A. Group, Fabbrica Italiana Lapis ed Affini S.p.A., at a debt and cash free price of EUR 43.6 million.

Gain on sale and cash flow

EUR million	
Total net assets sold	10.3
Sale consideration	42.3
Gain on sale	32.0
Cash flow	
Consideration received	42.3

The last part of disposal was completed in the second quarter of 2020. Total book value of sold net assets were EUR 10.3 million and the gain on sales was EUR 32.0 million.

Divestment of glass fiber reinforcement business in Mikkeli

During the year 2020 the sale consideration of glass fiber reinforcement business in Mikkeli was adjusted by EUR -0.4 million and sale consideration of EUR 0.2 million was received. The total cash flow impact of the divestment during the year 2020 was EUR -0.2 million.

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 Vitruan Composites Oy, a fully owned subsidiary of Vitruan Group and part of the family-owned industrial holding ADCURAM Group. Mikkeli was part of the Filtration and Performance business area.

Loss on sale and cash flow

EUR million	
Total net assets sold	4.8
Sale consideration	3.2
Loss on sale	-1.5
Cash flow	
Sale consideration	3.2
Receivable related to sale consideration	-1.9
Consideration received	1.4

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.

Cont. note 3

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 Allfor Industries. The purchase price is EUR 9.6 million. The acquisition will be reported as part of the Advanced Solutions business area.

Purchase price allocation and cash flow

EUR million

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

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 Advances Solutions business area. For more information about goodwill allocation and our annual goodwill impairment tests, see note 12.

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.

**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 administrative 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 implemented new business and reporting structure as of January 1, 2020. Starting from the year 2020 Ahlstrom-Munksjö is organized into five business areas which are Filtration & Performance Solutions, Advanced Solutions, Industrial Solutions, Food Packaging & Technical Solutions and Decor Solutions and which also form Group's operating segments. Ahlstrom-Munksjö's business areas are described below. The comparative business area information for the year 2019 has been restated to correspond to the current reporting structure and is consistent with internal reporting to the CODM.

<p>Filtration & Performance Solutions</p> <p>The Filtration & Performance Solutions business area develops and produces engine oil, fuel and air filtration materials, as well as industrial filtration. It also produces abrasive backings, glass fiber for flooring products as well as nonwoven materials for automotive, construction, textile, hygiene and wallcovering applications.</p>	<p>Advanced Solutions</p> <p>The Advanced Solutions business area develops and produces materials for laboratory filters and life science diagnostics, water filtration, beverage and food processing, tapes and medical fabrics. The business area also supplies hot cooking oil and milk filtration materials as well as specialty release liners.</p>
<p>Industrial Solutions</p> <p>The Industrial Solutions business area develops and produces release liners, electrotechnical insulation papers as well as flexible packaging and coated label papers. The business area also supplies specialty pulp, interleaving papers as well as office and printing papers.</p>	<p>Food Packaging & Technical Solutions</p> <p>The Food Packaging & Technical Solutions business area develops and produces a wide range of sustainable food packaging and processing papers as well as specialty papers for industrial and construction use.</p>
<p>Decor Solutions</p> <p>The Decor Solutions business area develops and produces paper-based surfacing for wood-based materials such as laminate flooring, furniture and interiors.</p>	<p>Other and eliminations</p> <p>Other and eliminations include head office costs comprising the following functions: Group Finance, Corporate Development, Legal, R&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, 2020	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions	Other and eliminations	Group
Net sales, external	630.0	473.7	676.8	526.2	369.2	7.5	2,683.3
Net sales, internal	7.1	2.5	7.1	28.4	0.5	-45.5	—
Net sales	637.1	476.2	683.9	554.6	369.7	-38.1	2,683.3
Comparable EBITDA	118.6	61.1	71.3	52.5	37.6	-6.8	334.2
Items affecting comparability in EBITDA	30.6	-0.3	-1.5	-0.4	-0.9	-7.2	20.3
EBITDA	149.2	60.8	69.7	52.1	36.7	-14.0	354.5
Depreciation, amortization and impairment							-178.4
Operating result							176.2

Additional business area information

Additional business area information, EUR million, 2020	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions	Other and eliminations	Group
Capital expenditure	26.3	12.5	32.4	17.5	8.9	20.0	117.5
Depreciation, amortization and impairment	-51.3	-20.9	-46.9	-34.1	-11.7	-13.4	-178.4
Operating working capital	58.8	73.0	51.6	49.9	33.1	-40.3	226.0

Cont. note 4

Financial performance by business area, EUR million, restated 2019	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions	Other and eliminations	Group
Net sales, external	717.1	468.2	758.2	545.3	418.8	7.8	2,915.3
Net sales, internal	6.9	2.1	7.4	37.1	0.8	-54.3	—
Net sales	724.0	470.2	765.7	582.4	419.6	-46.5	2,915.3
Comparable EBITDA	126.1	50.6	61.1	53.4	34.5	-12.9	312.9
Items affecting comparability in EBITDA	-4.4	-0.4	-8.2	-2.1	-9.5	-8.8	-33.4
EBITDA	121.7	50.2	52.9	51.3	25.0	-21.6	279.4
Depreciation, amortization and impairment							-176.2
Operating result							103.2

Additional business area information

Additional business area information, EUR million, restated 2019	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions	Other and eliminations	Group
Capital expenditure	35.5	10.5	63.1	20.3	9.4	22.2	161.1
Depreciation, amortization and impairment	-53.8	-23.4	-39.8	-33.5	-13.8	-11.9	-176.2
Operating working capital ¹	68.8	77.1	67.5	47.7	55.9	-13.9	303.1

¹Due to reclassifications between non-operative and operative receivables and payables the total of operating working capital for 2019 has changed and is not audited.

**Accounting policies****Business areas**

Ahlstrom-Munksjö's CEO assisted by the Executive 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 net sales and comparable EBITDA. Comparable EBITDA is defined for internal management reporting purposes as operating result before depreciation, amortization and impairments and excluding items affecting comparability. Ahlstrom-Munksjö defines items affecting comparability being 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 restructuring including redundancy payments, 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.

In addition to comparable EBITDA, the CODM also follows the business areas' 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	2020	Restated 2019
USA	857.1	894.5
Germany	255.6	262.4
Brazil	152.3	185.9
China	148.5	148.6
Italy	121.9	129.0
Poland	114.8	114.8
Netherlands	103.8	29.5
Spain	100.3	112.6
France	94.0	181.9
Turkey	60.8	58.0
India	54.3	61.9
Other	619.8	736.4
Total	2,683.3	2,915.3

Net sales in the table above are presented based on the customers' geographical location. Ahlstrom-Munksjö recognizes revenue at a point in time.

Net sales by region, EUR million	2020	Restated 2019
Europe	1,158.4	1,275.0
North America	932.0	984.2
South America	197.1	233.5
Asia-Pacific	356.9	382.9
Rest of the world	38.9	39.7
Total	2,683.3	2,915.3

Contract assets and liabilities

The Group has advance payments received from customers EUR 3.0 million (EUR 1.9 million), see note 14.

Non-current assets by geography

Non-current assets by geography, EUR million	2020	2019
USA	727.7	822.6
Sweden	267.0	173.4
France	259.9	323.5
Italy	201.2	235.7
Germany	189.9	222.0
Finland	161.5	159.7
Brazil	121.3	189.5
China	75.5	78.9
Spain	58.8	36.9
South Korea	29.4	41.7
Other	79.8	76.9
Total	2,172.0	2,360.8

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 significant amount of services. Sale of goods is the revenue stream of the Company that consists of the following business areas: Filtration & Performance Solutions, Advanced Solutions, Industrial Solutions, Food Packaging & Technical Solutions and Decor Solutions.

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 COST OF GOODS SOLD AND OTHER OPERATING INCOME AND OTHER OPERATING EXPENSE

Cost of goods sold

Cost of goods sold, EUR million	2020	Restated 2019
Raw materials	-1,117.1	-1,332.1
Production costs	-718.9	-734.5
Energy	-198.3	-225.0
Delivery expenses	-102.7	-109.4
Other variable costs	-136.6	-139.8
Operative exchange gains/losses including foreign exchange derivatives	4.1	-3.4
Total	-2,269.5	-2,544.1

Other operating income

Other operating income, EUR million	2020	Restated 2019
Gain on business disposal	32.0	—
Government grants	9.4	3.3
Sale of scrap and side products	4.8	5.5
R&D and other tax credits	1.1	1.4
Gain on sale of fixed assets	0.3	0.9
Rental and lease income	0.3	0.3
Gain on sale of emission rights and other environmental rights	0.0	6.2
Insurance compensation	0.0	0.3
Other	5.9	2.9
Total	53.8	20.7

Other operating expense

Other operating expense, EUR million	2020	Restated 2019
Depreciation and amortization arising from PPA ¹	-51.0	-52.1
Impairment loss	-9.2	-2.4
Other	-2.2	-1.5
Total	-62.4	-55.9

¹ 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.



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.

Cost of goods sold

Cost of goods sold includes costs of producing inventories that have been sold to third parties, delivery expenses, impairment of inventories, repair and maintenance, operative exchange gains/losses including the impact of the foreign exchange derivatives and general overhead expenses of Group's Production and supply function which are expensed as incurred.

Other operating income

Other operating income includes gain from disposal of assets, gain on sale of emission rights, sale of scrap and side products and regular incomes, such as rental and lease income and gain relating to business disposals. Other operating income includes also grants. Government grants are recognized in the income statement in the same period as the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the assets and accordingly reduce the depreciation of the underlying asset.

Other operating expense

Other operating expenses include depreciation and amortization arising from purchase price allocations (PPA), impairment losses, losses from disposal of assets, bad debt allowances and other costs not directly related to production, supply and sale of products.

7 EMPLOYEE AND BOARD OF DIRECTORS REMUNERATION

Ahlstrom-Munksjö has some 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	2020	2019
Wages and salaries	-454.0	-457.0
Statutory social expenses	-70.8	-73.4
Pension expenses, defined contribution plans	-32.4	-35.9
Pension expenses, defined benefit plans (note 15)	-3.5	-2.5
Long-term incentives	-1.9	1.6
Other indirect employee costs	-11.3	-15.8
Total	-573.9	-583.1

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 Group Executive Management team and Board of Directors.

2020

Remuneration of the CEO and the Executive Management Team, EUR thousand, 2020 ¹	Fixed salary payments	Short term incentives and bonuses payments	Fringe benefits	Payments to voluntary pensions	Total
CEO - Hans Sohlström	599	223	0	124	947
Executive Management Team	2,328	858	29	342	3,557
Total	2,928	1,081	30	466	4,504

¹ Not including social costs.

CEO and Executive Management Team remuneration and benefits recognized in income statement, EUR thousand, 2020 ¹	Salaries and other short-term employee benefits	Long-term incentives	Payments to voluntary pensions	Total
CEO - Hans Sohlström	986	262	124	1,373
Executive Management Team	3,989	565	342	4,895
Total	4,975	827	466	6,268

¹ Not including social costs.

2019

Remuneration of the CEO and the Executive Management Team, EUR thousand, 2019 ¹	Fixed salary payments	Short term incentives and bonuses payments	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
Total	2,929	776	72	389	4,166

¹ Not including social costs.

CEO and Executive Management Team remuneration and benefits recognized in income statement, EUR thousand, 2019 ¹	Salaries and other short-term employee benefits	Long-term incentives	Payments to voluntary Pensions	Total
CEO - Hans Sohlström	899	-46	124	977
Executive Management Team	2,610	-253	265	2,622
Total	3,509	-300	389	3,598

¹ 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. Members of the Executive Management Team took 50% and the CEO took 100% reduction on their one month's salary during the second quarter to mitigate the negative financial impact of Covid-19.

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.

Cont. note 7

Other Benefits

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

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

	2020	2019
Average number of employees (FTE)	7,814	8,078

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 2020 AGM resolutions for yearly compensation were as follows (The 2019 remuneration resolutions are presented in brackets as comparatives):

- The Chairman of the Board EUR 130,000 (EUR 130,000)
- The Vice Chairman EUR 90,000 (EUR 90,000) and the ordinary members EUR 65,000 (EUR 65,000) each.
- The Chairman of the Audit Committee EUR 15,000 (EUR 15,000) and the ordinary members of the committee EUR 7,500 (EUR 7,500) each.
- The Chairman of the Human Resources Committee EUR 10,000 (EUR 10,000) and the ordinary members EUR 5,000 (EUR 5,000) 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.

Members of The Board of Directors decided to forgo their compensation for one month in the second quarter of 2020 to mitigate the negative financial impact of Covid-19.

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

		2020	2019
Jaakko Eskola	Chairman of the Board	108	53
Elisabet Salander Björklund	Vice-Chairman of the Board	104	102
Nathalie Ahlström		47	–
Alexander Ehrnrooth		70	75
Johannes Gullichsen		64	69
Lasse Heinonen		66	69
Hannele Jakosuo-Jansson		69	73
Harri-Pekka Kaukonen		66	71
Valerie A. Mars		–	–
Kari Kauniskangas	Nomination board member	8	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

		2020	2019
Peter Seligson	Up until March 25, 2020	34	127
Pernilla Wafriðsson	Up until March 27, 2019	–	17
Mikael Lilius	Nomination board member up until March 27, 2019	–	4

Shareholding of the Board of Directors and Executive management

Board of Directors shareholding
December 31, 2020

	Title	Shares
Jaakko Eskola	Chairman of the Board	9,080
Elisabet Salander Björklund	Vice-Chairman of the Board	5,040
Nathalie Ahlström	Board member	0
Alexander Ehrnrooth	Board member	14,717,714
Johannes Gullichsen	Board member	415,955
Lasse Heinonen	Board member	0
Hannele Jakosuo-Jansson	Board member	3,600
Harri-Pekka Kaukonen	Board member	4,868
Valerie A. Mars	Board member	14,680

Cont. note 7

Executive management shareholding December 31, 2020	Title	Shares
Hans Sohlström	President and CEO	72,215
Sakari Ahdekiivi	Deputy CEO and CFO	7,852
Dan Adrianzon	Executive Vice President, Industrial Solutions	9,292
Daniele Borlatto	Executive Vice President, Filtration & Performance Solutions	24,408
Robyn Buss	Executive Vice President, Food Packaging & Technical Solutions	38,140
Andreas Elving	Executive Vice President, Legal and General Counsel	6,925
Robin Guillaud	Executive Vice President, Innovation, Sustainability and Communication	3,580
Mikko Lankinen	Executive Vice President, Corporate Strategy and Development	4,606
Tarja Takko	Executive Vice President, People & Safety	6,761
Markus Westerkamp	Executive Vice President, Advanced Solutions	11,218
Tomas Wulkan	Executive Vice President, Decor Solutions	0

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, 2020 nor December 31, 2019.

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 2020, there are three ongoing performance periods.

In March 2019 the Board of Directors 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.

In February 2020 the Board of Directors decided to introduce a rolling Fixed Matching Share plan, and establish a new earning period in the restricted share plan that was announced

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. Below the list of the open performance periods at the end of December 2020.

- Performance period 2018-2020 ("LTI 2018-2020") was decided by the Board in February, 2018. The performance conditions described below were not met and thus no reward will be paid out in 2021.
- Performance period 2019-2021 ("LTI 2019-2021") 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 period 2020-2022 ("LTI 2020-2022") was decided by the Board in February, 2020. The possible reward will be paid out in 2023 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, the following performance conditions will need to be met over the performance periods.

Common for all 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.

Performance periods 2018-2020 and 2019-2021

- 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.

Performance period 2020-2022

- Ahlstrom-Munksjö's cumulative earnings per share (EPS) over the performance period. 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. The cumulative share-based payment cost is true up depending on the level of achieving the cumulative earning per share (EPS).

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 or earnings per share 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.

Ahlstrom-Munksjö's Board of Directors decided on February 13, 2020 to introduce a rolling Fixed Matching Share Plan for members of the Group's key personnel. Its first plan period covers the years 2020-2022. A precondition of an eligible individual's participation is a personal investment in Ahlstrom-Munksjö shares. In the Matching Share Plan 2020 the participant will receive one matching share (gross before the withholding of all applicable taxes) for each two invested shares free of charge after an approximately three-year restriction period in the spring 2023. A precondition for the receipt of the share reward is the continued holding of the invested shares and continued employment with Ahlstrom-Munksjö throughout the plan.

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. No individual plans have been approved by the Board at the end of December 2020.

Data related to the LTI plans	LTI 2020-2022	Matching share plan 2020	LTI 2019-2021	Matching share plan 2019	LTI 2018-2020
Initial amount, pcs	625,400	127,450	672,000	109,000	¹⁾
Initial allocation date	Feb 13, 2020	Feb 13, 2020	Mar 28, 2019	Mar 28, 2019	Feb 12, 2018
Beginning of earning period	Jan 1, 2020	Jan 1, 2020	Jan 1, 2019	Jan 1, 2019	Jan 1, 2018
End of earning period	Dec 31, 2022	Feb 28, 2023	Dec 31, 2021	Feb 12, 2022	Dec 31, 2020
End of restriction period	Mar 15, 2023	Mar 31, 2023	Mar 15, 2022	Mar 31, 2022	Mar 15, 2021
Vesting conditions	3-year Total Shareholder Return, Earnings per share, Service period	Share ownership obligation, Service period	3-year Total Shareholder Return, EBITDA requirement, Service period	Share ownership obligation, Service period	3-year Total Shareholder Return, EBITDA requirement, Service period
Maximum contractual life, years	3.1	3.1	3.0	3.0	3.1
Remaining contractual life, years	2.2	2.2	1.2	1.2	—
Number of participants at the end of the period	90	64	73	35	—
Payment method	Shares/Cash	Shares/Cash	Shares/Cash	Shares/Cash	Shares/Cash

¹⁾ Allocation 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 2020-2022	Matching share plan 2020	LTI 2019-2021	Matching share plan 2019
January 1, 2020				
Outstanding at the beginning of the reporting period	—	—	565,200	78,196
Changes during the period				
Granted	613,399	68,451	3,600	—
Forfeited	2,900	—	14,400	—
December 31, 2020				
Outstanding at the end of the period	610,499	68,451	554,400	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 2020-2022	Matching share plan 2020
Grant date	May 15, 2020	May 15, 2020
Share price at grant date, EUR	11.82	14.00
Share price at the end of the reporting period, EUR	18.10	18.10
Expected average yearly volatility, %	34.4	–
Expected dividends, EUR	1.60	1.60
Maturity, years	2.8	2.9
Valuation model	Monte Carlo	–
Fair value of the reward at December 31, 2020, EUR million	3.6	0.8
Effect on the profit for the period and liabilities, EUR million	2020	2019
Expense (-) for the reporting period	-1.9	1.6
Liabilities arising from share-based payments at December 31 (social costs)	0.3	0.0
Future cash payment to be paid to the tax authorities from share-based payments, estimated at the end of the period	6.5	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 non-market performance condition and the requirement to stay in service are not factored into the grant date fair value. If the non-marked performance condition 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 non-market performance criteria levels 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. Net settled schemes are treated as equity settled.

Matching share plan

The share-based cost related to the matching share plan is recognized under Administrative 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 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 Administrative expenses is based on management's estimate of the likelihood of achieving the non-market 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 non-market 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 for achieving the non-market performance criteria management considers the Group's non-market performance criteria 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	2020	2019
Other intangible assets		
Customer relationships	-15.0	-15.4
Patents and trademarks	-1.7	-1.7
Other	-20.9	-18.0
Property, plant and equipment		
Land improvements and buildings	-14.6	-14.7
Machinery and equipment and other	-102.0	-108.6
Right-of-use assets		
Land and water areas and buildings	-3.8	-4.2
Machinery and equipment and other	-11.2	-11.3
Total	-169.1	-173.9

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

Depreciation and amortization arising from PPA adjustments recognized in the acquisitions and in the merger was EUR 51.0 million in 2020 and EUR 52.1 million in 2019.

Impairment, EUR million	2020	2019
Property, plant and equipment		
Machinery and equipment	-8.2	-2.4
Right-of-use assets		
Land and water areas and buildings	-1.1	-
Total	-9.2	-2.4

Depreciation, amortization and impairment, EUR million	2020	2019
Depreciation, amortization and impairment	178.4	176.2

Impairment losses

In 2020 impairment losses totalled to EUR -9.2 million. Impairment losses recognized relates to an old gas turbine in Turin, Italy that was replaced (EUR -4.2 million), to property, plant and equipment in Stenay plant in France that is facing increased competition (EUR -4.0 million) and a right-of-use asset office building in Sweden that is no longer in use (EUR -1.1 million). In 2019 an impairment loss of EUR -2.4 million was recognized in relation to the divestment of Mikkeli plant.



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

Other 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
Right-of-use assets	
Land and water areas	5-12 years
Buildings	5-53 years
Machinery and equipment	2-8 years

9 NET FINANCIAL ITEMS

Net financial items outlines the components of financial income and financial expenses included in the income statement. The Group's financial income is mainly comprised of exchange rate gains on financing items. Financial costs mainly consist of interest expense on bank loans, pension loan and bonds.

Net financial items, EUR million	2020	2019
Interest income from loans and receivables	1.1	1.2
Exchange rate gains	18.2	5.4
Other financial income	0.7	–
Financial income	20.0	6.6
Interest expense from bank loans, pension loan and bonds	-35.1	-45.9
Interest expenses on lease liabilities	-2.5	-2.7
Loss on interest rate swap	-0.0	–
Unwinding of discount on provisions and net interest cost on defined benefit plans (note 15, 16)	-1.8	-2.4
Extinguished borrowings (Net gain or loss)	–	-0.2
Exchange rate losses	-20.3	-2.6
Other financial costs ¹	-6.0	-4.4
Financial expenses	-65.7	-58.2
Net financial items	-45.7	-51.6

¹ Other financial costs include bank fees and amendment fees related to existing financing agreements.

Exchange rate gains and losses in the income statement, EUR million	2020	2019
Exchange gains and losses		
Operating result	1.4	-0.1
Financial income and expenses	-0.6	3.0
Foreign exchange derivatives		
Operating result	2.7	-3.2
Financial income and expenses	-1.6	-0.3
Total	1.9	-0.6



Accounting policies

Financial income and expenses

Financial income in the income statement consists of interest income from financial asset measured at amortized cost, gain on interest rate swaps, 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	2020	2019
Result before taxes	130.4	51.6
Current tax income/expense		
Current tax on profits for the year	-32.5	-29.2
Adjustments in respect of prior years	3.8	2.9
Total	-28.6	-26.3
Deferred tax		
Relating to tax loss carry forwards	-5.5	-8.9
Relating to other temporary differences	-1.8	16.4
Total	-7.3	7.5
Total income taxes	-36.0	-18.8

Reconciliation of effective tax rate, EUR million	2020	2019
Result before taxes	130.4	51.6
Income tax at Finnish tax rate (20%)	-26.1	-10.3
Effect of other tax rates for foreign subsidiaries	-6.5	2.5
Regional, minimum and foreign withholding taxes	-6.1	-1.2
Effect on deferred tax from change in tax rate	0.4	-0.2
Adjustments to current tax in respect of prior years	0.8	3.1
Current year losses for which no deferred tax asset recognized	-1.0	-16.1
Revaluation of deferred tax assets and liabilities	4.2	2.9
Non-deductible expenses	-2.2	-1.6
Tax exempt income and tax reliefs	1.0	1.9
Other	-0.5	0.2
Income taxes in the income statement	-36.0	-18.8

Uncertain tax positions

The Group had income tax receivables and liabilities where tax recoverability or tax payable amount is uncertain due to pending tax audits, tax disputes or other reasons. At balance sheet date net liability of uncertain tax position was EUR 2.5 million (EUR 3.0 million). The recorded amounts are based on management's estimates of the outcomes.

2020

Change in deferred tax on temporary differences and loss carry forwards, EUR million	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	-220.6	14.2	—	16.5	—	-190.0
Employee benefit obligations	18.6	-0.3	—	-3.9	-0.8	13.6
Provisions	16.7	-1.3	—	1.2	—	16.6
Tax losses carried forward	25.6	-2.2	—	-5.5	—	17.9
Other	22.1	-0.7	—	-15.6	0.4	6.4
Net of deferred tax liabilities (-) and deferred tax assets (+)	-137.6	9.6	—	-7.3	-0.4	-135.6
Assets	9.9					6.1
Liabilities	-147.5					-141.7

2019

Change in deferred tax on temporary differences and loss carry forwards, EUR million	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
Net of deferred tax liabilities (-) and deferred tax assets (+)	-143.1	-1.1	-0.3	7.5	-0.5	-137.6
Assets	7.5					9.9
Liabilities	-150.6					-147.5

Cont. note 10

Tax losses and related deferred tax assets EUR million	Tax losses carried forward		Recognized deferred tax assets		Unrecognized deferred tax assets	
	2020	2019	2020	2019	2020	2019
Expiry within one year	–	3.8	–	0.0	–	0.9
Expiry within two-five years	47.6	51.0	–	0.2	11.9	12.7
Expiry after five years	10.1	11.6	1.2	1.3	1.3	1.5
No expiry	185.5	219.1	16.7	24.1	29.0	31.5
Total	243.2	285.5	17.9	25.6	42.2	46.6

Recognized deferred tax assets on losses at December 31, 2020 relate mainly to France, Brazil and India. Unrecognized deferred tax assets on losses at December 31, 2020 relate mainly to China, France, 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.

11 EARNINGS PER SHARE

The total number of shares at the end of December 2020 was 115,653,315. At the end of the reporting period, Ahlstrom-Munksjö held 664,862 own shares, corresponding to approximately 0.6% of total shares and votes.

Earnings per share	2020	2019
Net result attributable to the parent company's shareholders, EUR million	93.1	31.7
Accumulated interest expenses on hybrid bond after taxes for the period, EUR million	-3.2	-0.2
Weighted average number of outstanding shares before dilution	115,034,656	115,288,453
Dilution effect from share based incentive plans	80,876	32,262
Weighted average number of outstanding shares after dilution	115,115,532	115,320,715
Basic earnings per share, EUR	0.78	0.27
Diluted earnings per share, EUR	0.78	0.27



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.

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

Intangible assets

Intangible assets, EUR million, 2020	Other intangible assets				
	Goodwill	Customer relationships	Patents and trademarks	Other	Other intangible assets in total
Historical cost					
Opening	642.7	293.8	50.2	309.4	653.4
Additions	–	–	–	18.1	18.1
Disposals	-5.3	–	–	-0.7	-0.7
Reclassifications and other	–	–	–	5.4	5.4
Translation differences	-28.4	-23.9	–	-14.8	-38.7
Closing	608.9	269.9	50.2	317.4	637.5
Accumulated amortization					
Opening	–	42.2	10.8	101.3	154.3
Amortization	–	15.0	1.7	20.9	37.6
Disposals	–	–	–	-0.7	-0.7
Reclassifications	–	–	–	3.0	3.0
Translation differences and other	–	-3.6	–	-5.6	-9.2
Closing	–	53.6	12.5	119.0	185.1
Net book value at year end	608.9	216.3	37.7	198.4	452.3

Other intangible assets as at December 31, 2020 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, 2020 mainly relate to capitalized development costs, patents and IT projects. Goodwill disposals in 2020 relates to divestment of Fine Arts in Arches. See note 3 for more information.

Intangible assets, EUR million, 2019	Other intangible assets				
	Goodwill	Customer relationships	Patents and trademarks	Other	Other intangible assets in total
Historical cost					
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
Closing	642.7	293.8	50.2	309.4	653.4
Accumulated amortization					
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
Closing	–	42.2	10.8	101.3	154.3
Net book value at year end	642.7	251.6	39.4	208.1	499.1

Goodwill

The carrying value of goodwill amounted to EUR 608.9 million (EUR 642.7 million) as of December 31, 2020.

Ahlstrom-Munksjö is organized into five business areas which are Filtration & Performance Solutions, Advanced Solutions, Industrial Solutions, Food Packaging & Technical Solutions and Decor Solutions. Ahlstrom-Munksjö's business areas are described below. These five business areas form the Group's operating and 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

As a result of implementing a new business and reporting structure as of January 1, 2020 the Group has reallocated goodwill to affected groups of CGUs. The following table presents the allocation of goodwill to Ahlstrom-Munksjö's new business areas (groups of CGUs) and is not comparable to goodwill allocation presented for comparative year. The reallocation was performed using a relative value approach.

The following tables present 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	2020
Filtration & Performance Solutions	54.6
Advanced Solutions	67.1
Industrial Solutions	131.6
Food Packaging & Technical Solutions	184.0
Decor Solutions	171.6
Total	608.9

Allocation of goodwill by business area, EUR million	2019
Filtration and Performance	58.3
Specialties	94.4
Industrial Solutions	136.5
North America Specialty Solutions	175.9
Decor	177.6
Total	642.7

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. The impact of Covid-19 on the future cash flows is insignificant. 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. In the weighted average cost of capital (WACC) management has included an alpha factor amounting to 2.0% to mitigate the risks related to the future cash flow projections and to the impact of Covid-19 pandemic.

The following tables set out the key assumptions for the groups of CGUs. The comparative year data is based on the previous business and reporting structure and is not comparable with the current year's data.

Key assumptions, 2020	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions
Average net sales growth % in the testing period	4.9	2.8	2.7	4.5	3.0
Long-term growth-%	2.0	2.0	2.0	2.0	2.0
Average EBITDA margin % in the testing period	19.7	15.1	12.9	9.9	10.9
Pre-tax discount rate %	7.3	7.1	7.4	6.9	7.8

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

The impairment tests for 2020 indicated that the recoverable amount of the groups of CGUs exceeded their carrying value and goodwill is not been impaired.

Goodwill impairment tests for 2019 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 2020 exceeds their carrying value by EUR 1,744.5 million for Filtration & Performance Solutions, EUR 606.1 million for Advanced Solutions, EUR 520.0 million for Industrial Solutions, EUR 552.3 million for Food Packaging & Technical Solutions and EUR 203.0 million for Decor Solutions.

Key assumptions, 2020	Filtration & Performance Solutions	Advanced Solutions	Industrial Solutions	Food Packaging & Technical Solutions	Decor Solutions
Annual average change % in EBITDA margin in the testing period	-12.7	-8.5	-4.3	-4.0	-3.3
Pre-tax discount rate % change in percentage points	21.3	10.6	6.8	4.2	3.5

Cont. note 12

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 2020 development costs that met capitalization criteria and were capitalized amounted to EUR 6.2 million (EUR 6.5 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 379,597 units (401,096 units) of CO2 emission rights for the year 2020. The rights in excess of the Group's needs have been transferred to 2021. As of December 31, 2020, the remaining CO2 credits amounted to 30,850 units (98,841 units) and their market value was approximately EUR 10 million (EUR 2.5 million).

In 2020, Ahlstrom-Munksjö did not sell or buy any emission rights. During the year 2019 Ahlstrom-Munksjö sold emission rights amounting to EUR 2.3 million but didn't buy any.

**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, labour and testing that are directly attributable to creating, producing and preparing the asset to be capable of operating in the manner intended by management. Amortization period for capitalized development costs is 10 years.

Emission rights

Ahlstrom-Munksjö participates in the European Union's Emissions Trading Scheme aimed at reducing greenhouse gas emission and receives allowances for a defined period to emit a fixed tonnage carbon dioxide. The Group receives allowances either free of charge from the scheme or acquires them from other participants. The allowances received and the liability based on the actual emissions are netted. A provision is recognized if the allowances received do not cover the actual emissions. No intangible asset is recognized for the excess of allowances. Gains arising from the sale of the emission right allowances are recorded in other operative income in the income statement.

Cont. note 12

**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 above in this note.

The covid-19 has increased the uncertainty related to the cash flow projections as the final impact will depend on the duration and the severity of the virus. In the weighted average cost of capital (WACC) management has included an alfa factor amounting to 2.0% to mitigate the risks related to the future cash flow projections and to the impact of Covid-19 pandemic.

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, 2020	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
Historical cost						
Opening	76.4	398.8	2,354.4	25.1	134.6	2,989.2
Additions	–	1.4	20.4	0.4	65.4	87.6
Disposals	–	-0.5	-9.0	-0.3	-1.6	-11.4
Reclassifications and other	1.2	15.6	95.8	3.0	-121.0	-5.4
Translation differences	-2.4	-12.4	-79.6	-0.8	-9.7	-105.0
Closing	75.2	402.8	2,382.0	27.4	67.7	2,955.1
Accumulated depreciation						
Opening	8.6	250.2	1,582.2	16.2	0.5	1,857.7
Depreciation	0.8	13.8	100.2	1.8	–	116.5
Disposals	–	-0.5	-7.2	-0.2	–	-7.9
Impairment	–	–	8.2	–	–	8.2
Reclassifications	–	0.2	-5.2	1.9	–	-3.0
Translation differences and other	0.2	-5.4	-42.9	-0.5	0.0	-48.7
Closing	9.5	258.3	1,635.3	19.3	0.4	1,922.8
Net book value at year end	65.7	144.5	746.7	8.1	67.3	1,032.3

Increase in property, plant and equipment for the year ended December 31, 2020 were mainly related to the investments in Turin, Italy EUR 13.3 million, in Chirside, UK EUR 8.9 million, in Rhinelander, U.S. EUR 4.9 million, in Thilmany, U.S. EUR 4.8 million, in Mosinee, U.S. EUR 4.1 million and in Billingsfors, Sweden EUR 4.0 million. A total of EUR -7.9 million of the disposals in historical cost and EUR 4.7 million of disposals in accumulated depreciation relate to the divestment of Fine Arts in Arches. See note 3 for more information.

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, 2019	Land and land improvements	Buildings	Machinery and Equipment	Other tangible	Construction in progress	Total
Historical cost						
Opening	721	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	12	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
Closing	76.4	398.8	2,354.4	25.1	134.6	2,989.2
Accumulated depreciation						
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
Closing	8.6	250.2	1,582.2	16.2	0.5	1,857.7
Net book value at year end	67.8	148.6	772.1	8.8	134.1	1,131.5

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

Right-of-use assets recognized in the balance sheet include vehicles, forklifts, machinery and equipment, premises and land areas.

Right-of-use assets, EUR million, 2020	Land and water areas	Buildings	Machinery and Equipment	Total
Historical cost				
Opening	0.7	22.6	53.4	76.7
Additions	–	2.7	9.0	11.7
Other	–	-2.0	-5.1	-7.1
Translation differences	-0.1	-0.9	-2.0	-3.0
Closing	0.7	22.4	55.3	78.3
Accumulated depreciation				
Opening	0.1	4.0	15.6	19.7
Depreciation	0.1	3.7	11.2	15.0
Impairment	–	1.1	–	1.1
Other	–	-1.8	-4.2	-6.1
Translation differences	0.0	-0.2	-0.6	-0.8
Closing	0.1	6.8	21.9	28.9
Net book value at year end	0.6	15.5	33.3	49.4

The expenses relating to leases for which Ahlstrom-Munksjö applied the practical expedient (short-term leases and low-value leases) amounted to EUR 4.3 million (EUR 4.0 million) and the income from subleasing right-of-use assets amounted to EUR 0.3 million (EUR 0.3 million) for the year end December 31, 2020 and are reported as other operating income.

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

Right-of-use assets, EUR million, 2019	Land and water areas	Buildings	Machinery and Equipment	Total
Historical cost				
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
Closing	0.7	22.6	53.4	76.7
Accumulated depreciation				
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
Closing	0.1	4.0	15.6	19.7
Net book value at year end	0.7	18.6	37.8	57.0



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.

Cont. note 12

Gains or losses arising from the sale of property, plant and equipment are recognized as other operating income or other operating expenses.

Government grants

Government grants are recognized at fair value when there is a reasonable assurance that the grant will be received. Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the assets and accordingly reduce the depreciation of the underlying asset. Other government grants are recognized in the income statement in the same period as the costs they are intended to compensate unless the grant compensates an item which has been expensed in prior years.

Right-of-use assets

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.

Payments of short-term leases with a maturity less than 12 months, leases of low-value assets and variable lease payments are not included in the measurement of the lease liability nor right-of-use asset and are presented in cost of goods sold, sales and marketing, R&D and administrative expenses in the income statement.



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. Management has considered the triggering events due to Covid-19 pandemic and other events and tested the assets for impairment accordingly. For impairment testing see more details in note 8.

Estimates and judgements related to right-of-use 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 right-of-use asset and lease liability booked in the balance sheet.

13 INVENTORIES

Inventories consist of products from the Group's five business areas - Filtration & Performance Solutions, Advanced Solutions, Industrial Solutions, Food Packaging & Technical Solutions and Decor Solutions - in varying stages of the production process.

Inventories, EUR million	2020	2019
Materials and supplies	89.1	85.3
Work in progress	31.6	33.5
Finished products	181.6	203.2
Consumables and spare parts	63.7	65.7
Total	366.0	387.6
Change in allowance for inventory obsolescence for Finished products and Work in progress, EUR million	2020	2019
Opening	-26.8	-23.4
Change in allowance for inventory obsolescence	-2.9	-0.1
Inventory write-downs through profit and loss	-0.1	-3.2
Translation differences	0.8	-0.2
Closing	-28.9	-26.8

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 items 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	2020	2019
Trade receivables	214.5	218.6
Value added tax	16.1	13.0
Prepaid expenses and accrued income	17.7	20.6
Current derivative assets (note 19)	4.4	1.7
Other receivables	12.1	24.9
Total	264.7	278.9

Trade receivables consists mainly of receivables from contracts with customers.

Ageing of trade receivable

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

EUR million, 2020	Not due	1-30	31-180	181-360	>360	Total
Trade receivable	189.5	22.3	2.0	0.2	6.8	220.8
Loss allowance	–	0.0	0.0	-0.1	-6.2	-6.3
Trade receivables	189.5	22.3	2.0	0.1	0.6	214.5

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
Trade receivables	186.1	29.0	3.7	-0.7	0.5	218.6

Recoverability of trade receivable

Change in allowance for trade receivable, EUR million

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
Closing at December 31, 2019	-6.4
Opening at January 1, 2020	-6.4
Increase in allowance recognized in profit or loss during the year	-0.6
Reversal of allowance	0.6
Translation differences	0.1
Closing at December 31, 2020	-6.3



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.

Cont. note 14

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 188.5 million (EUR 224.3 million).

Trade and other payables

Trade and other payables, EUR million	2020	2019
Trade payables	408.0	454.3
Accrued expenses	146.9	132.9
Trade payables to equity accounted investments	4.2	5.1
Current derivative liabilities (note 19)	0.2	0.5
Advances received from customers	3.0	1.9
Other liabilities	46.4	27.0
Total	608.8	621.7

Accrued expenses, EUR million	2020	2019
Accrued personnel costs	89.6	64.2
Accrued customer rebates	23.4	17.7
Accrued interest expenses	7.9	9.6
Other	26.1	41.5
Total	146.9	132.9

Accrued expenses include rebates from contracts with customers amounting to EUR 23.4 million (EUR 17.7 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.

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.

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 OBLIGATION

Group has defined benefit plans in several countries, of which the most significant are the United States 43.6% of Group's total defined benefit obligation, United Kingdom 25.5%, France 11.8%, Sweden 7.0% and Germany 5.3%. 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 Chirside Ltd.

In France the main funded defined benefit plan 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	2020	2019
Present value of funded benefit obligations	208.8	209.2
Present value of unfunded benefit obligations	59.3	64.7
Fair value of plan assets	-194.1	-190.2
Deficit/Surplus	74.0	83.7
Effect of asset ceiling	8.8	8.5
Net defined benefit liability - closing	82.8	92.1
Other long-term employee benefits	7.7	5.1
Total net liability	90.4	97.2

Amounts in the balance sheet, EUR million	2020	2019
Employee benefit obligations	93.1	97.2
Other non-current assets	2.7	—
Total net liability	90.4	97.2

Cont. note 15

Changes in the present value of obligations, EUR million	2020	2019
Present value of defined obligation - opening	273.9	250.2
Disposal	-0.6	–
Reclassification	-2.8	–
Current and past service cost	3.6	2.6
Interest cost	5.6	7.4
Remeasurement gain/loss on pension scheme liabilities	16.6	26.4
Gains and losses on settlement	0.0	–
Benefits paid	-15.0	-16.9
Other changes	0.0	-0.6
Translation differences	-13.1	4.8
Present value of defined benefit obligation - closing	268.1	273.9
Changes in the fair value of the plan assets, EUR million	2020	2019
Opening fair value of plan assets	190.2	167.4
Reclassification	-0.1	–
Interest income on plan assets	4.6	5.8
Remeasurement gain/loss on pension scheme assets	18.3	21.1
Contributions by employer	8.6	8.4
Benefits paid	-15.0	-16.9
Other changes	0.0	-0.5
Translation differences	-12.5	4.8
Closing fair value of plan assets	194.1	190.2
Changes in the effect of asset ceiling, EUR million	2020	2019
Effect of asset ceiling - opening	8.5	5.0
Changes in asset ceiling	0.6	3.0
Interest expense/income on asset ceiling	0.2	0.2
Translation differences	-0.5	0.3
Effect of asset ceiling - closing	8.8	8.5

Amounts recognized in income statement, EUR million	2020	2019
Personnel costs		
Current service cost	-3.0	-3.3
Past service cost	-0.6	0.7
Gains and losses on settlement	0.0	–
Finance costs		
Net interest cost	-1.2	-1.8
Cost recognized in income statement	-4.7	-4.3
Remeasurement effects recognized in other comprehensive income (OCI), EUR million	2020	2019
Remeasurement gain/loss on pension scheme assets	18.3	21.1
Remeasurement gain/loss on pension scheme liabilities	-16.6	18.6
Remeasurement gain/loss on change in asset ceiling	-0.6	-48.0
Remeasurement effects before tax	1.1	-8.3
Income tax relating to remeasurement effects	-0.7	1.4
Remeasurement effects recognized in OCI net of tax	0.4	-6.9

The Group expects to contribute EUR 8.0 million to its defined benefit plans in 2021.

Plan asset categories, EUR million	2020	2019
Equity instruments (listed)	42.8	41.7
Debt instruments	114.8	114.8
Property	–	0.0
Other	36.4	33.7

Cont. note 15

Principal actuarial assumptions, %	2020	2019
USA		
Discount rates	2.3	3.2
Future salary increases	n/a	n/a
Future pension increases	n/a	n/a
UK		
Discount rate	1.5	2.0
Future salary increases	n/a	n/a
Future pension increases	3.4	3.3
France		
Discount rate	0.3	0.9
Future salary increases	2.8	2.8
Future pension increases	n/a	n/a
Sweden		
Discount rate	1.1	1.4
Future salary increases	2.5	2.8
Future pension increases	1.5	2.8
Germany		
Discount rate	0.5	0.5
Future salary increases	2.3	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 (increase of liability (+)/decrease of liability (-)).

Sensitivity analyses: Discount rate impact, EUR million	2020	2019
Discount rate change + 0.50%	-18.4	-17.1
Discount rate change - 0.50%	20.4	18.9

Sensitivity analyses: Future salary growth, EUR million	2020	2019
Future salary growth + 0.50%	3.1	3.0
Future salary growth - 0.50%	-2.8	-2.6

Sensitivity analyses: Future pension growth, EUR million	2020	2019
Future pension growth + 0.50%	6.9	6.7
Future pension growth - 0.50%	-6.5	-6.2

Sensitivities are calculated by changing one assumption while keeping other variables constant.



Accounting policies

Defined benefit obligation

The Group has various pension schemes and other post-employment benefits in accordance with local practices in different countries. The post-employment plans 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 post-employment plan under which the company 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 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 or other post employment plan 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 post employment 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, 2020	Environmental	Restructuring	Other	Total
Opening	16.4	14.1	6.7	37.1
Unwinding of discount	0.6	–	–	0.6
Provisions made during the year	0.6	1.8	4.8	7.2
Provisions used during the year	-0.3	-7.1	-3.7	-11.2
Provisions reversed	–	-1.6	-0.6	-2.2
Reclassification	-0.5	–	2.7	2.2
Translation differences	-1.0	-0.2	-0.8	-1.9
Closing	15.8	7.0	9.1	31.9
Non-current provisions				21.8
Current provisions				10.1

Environmental provisions of EUR 15.8 million mainly consist of landfill related provisions in the U.S. EUR 9.8 million, future restoration costs of old Fitchburg mill in the U.S. and old buildings in Sweden. Provisions made are mainly other provisions and provisions related to customer claims. For the most part the provisions used relates to the Stenay mill in France.

Provisions, EUR million, 2019	Environmental	Restructuring	Other	Total
Opening	18.8	14.8	4.6	38.2
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
Closing	16.4	14.1	6.7	37.1
Non-current provisions				24.3
Current provisions				12.8



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 2020 the ratio was 62.1 % (71.8 %).

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 a securitization liability. The Group assumed the securitization liability in 2018 as a result of the acquisition of Expera and the arrangement has been extinguished since that date. The Group's sources of borrowing for funding and liquidity purposes are primarily bank loans, pension loan 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	2020	2019
Bond	249.5	249.2
Bank loans	721.5	738.8
Pension loan	20.0	–
Lease liabilities	51.0	57.3
Other financial liabilities	2.4	5.8
Gross borrowings	1,044.4	1,051.1
Less: Cash and cash equivalents	308.7	166.1
Net debt	735.8	885.0

Reconciliation of net debt

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

Reconciliation of net debt, EUR million, 2020	Opening	Movements in cash flow	Non-cash movements	Translation differences	Closing
Gross borrowings	1,051.1	19.6	13.5	-39.7	1,044.4
Cash and cash equivalents	166.1	149.9	–	-7.4	308.7
Net debt	885.0	-130.3	13.5	-32.3	735.8

Reconciliation of net debt, EUR million, 2019	Opening	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
Net debt	962.5	-149.5	60.6	11.3	885.0

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 multi currency revolving credit facility of EUR 200 million and term facilities in EUR, SEK and USD totalling to approximately EUR 208 million maturing in 2022; term facilities in EUR and USD totalling to approximately EUR 320 million maturing in 2023; and a working capital credit facility of BRL 330 million maturing in 2023.

On April 22, 2020 Ahlstrom-Munksjö signed a new EUR 50 million committed revolving credit facility for 12 months as part of the Company's overall funding liquidity management activities. In addition, on April 20, 2020 the company signed a pension loan (TyEL pension loan) of EUR 20 million maturing in 2023 and on May 11, 2020 a new term loan of EUR 50 million maturing in 2021.

On December 13, 2019 Ahlstrom-Munksjö issued a EUR 100 million hybrid bond. The proceeds from the hybrid bond issue were used to partly repay and refinance the EUR 200 million term facility maturing on 2021. More information about the hybrid bond can be found in note 18.

At the balance sheet date, the weighted average interest rate, excluding lease liabilities and hybrid bond, for the Group was approximately 2.7 % (3.4%). Net debt amounted to EUR 735.8 million (EUR 885.0 million) at December 31, 2020, resulting in a gearing of 62.1 % (71.8%). Ahlstrom-Munksjö's financing facilities contain two gearing financial covenants that are monitored quarterly which are consolidated net debt to consolidated EBITDA and consolidated net debt to equity. During the second quarter of 2020, Ahlstrom-Munksjö proactively increased its financial flexibility by renegotiating its financial covenant, the consolidated net debt to consolidated EBITDA. 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.

Cont. note 17

The tables below provide further detail on the financing entered in to by the Group.

Bonds

The Group has an unsecured senior bond outstanding at the balance sheet date with a principal amount of EUR 250 million. The 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, however, the bond terms also contain a customary change of control clause entitling noteholders to require redemption at par with accrued interest if there is a change of control of Ahlstrom-Munksjö share ownership. The coupon of the bond is fixed at 1.88 %.

National currency	Initial notional amount, EUR million	Maturity	Coupon, %	Carrying value, EUR million	
				2020	2019
EUR	250.0	June 9, 2022	1.88	249.5	249.2

Bank loans

The Group has the following bank loans as at December 31, 2020. The long term loans have maturity dates ranging from 2022 - 2023. The loans carry interest based on reference rates (floor at 0%) + a margin.

2020	Weighted average interest rate %	Carrying value, EUR million
National currency		
Committed loans from banks grouped by currency		
EUR	2.1	305.5
USD	2.9	240.4
SEK	2.5	59.8
BRL	7.4	51.8
Uncommitted loans from banks grouped by currency		
CNY	4.5	50.5
BRL	8.1	13.5

2019

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

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 is 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, is currently 11 months (8 months) with interest rate derivatives.

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.

In accordance with its policy, Ahlstrom-Munksjö may hedge its interest rate risk by using derivative instruments, such as interest rate swaps. The gross nominal volume of interest rate derivatives at the time of financial statements is EUR 50.0 million and USD 130.0 million, by which floating-rate financing has been converted into fixed-rate financing. All derivatives are maturing in 2023. The group applies IFRS hedge accounting on all interest rate swap contracts. At December 31, 2020, the fair value of the interest rate swaps under hedge accounting was EUR -0.4 million. The Group booked gain of EUR 0.0 million to the cash flow hedge transferred to this year's result in OCI.

More information on how Ahlstrom-Munksjö manages its financial risks is presented below in note 19.

Cont. note 17

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

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

Interest rate sensitivity, EUR million	2020	2019
Variable rate cash equivalents	308.7	166.1
Variable rate bank loans	-719.1	-734.5
Impact of interest rate swaps	155.9	–
Position used in sensitivity analysis	-254.4	-568.4
Interest +1%, impact on net result	-2.0	-4.8
Interest +2%, impact on net result	-4.5	-10.5

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.

EUR million	2020	2019
Cash and cash equivalents	308.7	166.1

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

The cash and cash equivalents disclosed above include restricted cash amounting to EUR 47.3 million (EUR 45.7 million).


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.

De-recognition 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 2020, the Company decided to distribute dividends to its shareholders totalling to EUR 59.8 million (EUR 59.9 million). Dividends were paid in four different instalments, three during the year 2020 (April, July and October) and the last instalment in January 2021. The Board of Directors' dividend proposal to the Annual General Meeting based on the financial statements of the year 2020, will be decided after the Extraordinary General Meeting to be held on February 19, 2021.

Distributable funds of Ahlstrom-Munksjö

The following table shows distributable funds of the parent company Ahlstrom-Munksjö Oyj as at December 31, 2020 and December 31, 2019:

Distributable funds, EUR million	2020	2019
Reserve for invested unrestricted equity	558.7	558.7
Retained earnings	179.2	160.5
Net result	163.6	82.6
- Less capitalized development costs	-0.5	-0.5
Total distributable funds	901.1	801.3



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, 2020, 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

The following table shows the impact of changes in the number of shares:

	Number of shares
Opening at January 1, 2020	115,653,315
Change	—
Closing at December 31, 2020	115,653,315

Treasury shares

During the year 2020, Ahlstrom-Munksjö repurchased a total of 300,000 own shares. As at December 31, 2020, Ahlstrom-Munksjö holds 664,862 of its own shares, corresponding approximately 0.6 % of the total shares and votes.

Shareholders' Meeting held in March 2020 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 may be repurchased or accepted as pledge in one or several instalments and either through a tender offer made to all shareholders on equal terms or in another proportion than that of the existing shareholdings of the shareholders in the company in public trading at the prevailing market price. The shares would be repurchased with funds from the company's unrestricted shareholders' equity. The 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.

Cont. note 18

The following table shows the movements in treasury shares:

	Number of shares	Cost, EUR million
Closing at December 31, 2019	364,862	6.3
Repurchase of own shares	300,000	4.0
Closing at December 31, 2020	664,862	10.4

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 of if there is a change of control in Ahlstrom-Munksjö. It bears interest at a fixed rate of 3.879 percent per annum until February 13, 2024. 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.

Upon a change of control event, Ahlstrom-Munksjö is entitled to redeem the hybrid bond in whole, but not in part, within six months from the change of control at the nominal amount together with accrued interest to the date of redemption. Unless Ahlstrom-Munksjö at its option redeems the hybrid bond within six months from the date of change of control, the interest rate of the hybrid bond will increase by an additional margin of 5.0% p.a.



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 income statement 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 retained earnings in the consolidated financial statements, net of taxes, after dividend approved by the Annual General Meeting. The arrangement fees are also 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 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 result 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. Additionally, firm commitments to acquire businesses may expose the Group to foreign currency transaction risk.

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, 2020, the fair value of the foreign currency forwards under hedge accounting was EUR 4.2 million. In 2020, the Group booked loss of EUR 2.1 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, 2020	BRL	CNY	EUR	GBP	KRW	SEK	USD	Other
Net sales	125	70	1,174	18	16	106	1,263	39
Operating costs	-105	-42	-976	-45	-39	-216	-1,091	-29
Net cash flow	20	29	198	-27	-23	-110	172	11

Cash flows by currency before hedging activities

EUR million, 2019	BRL	CNY	EUR	GBP	KRW	SEK	USD	Other
Net sales	159	67	1,290	20	14	43	1,281	42
Operating costs	-161	-55	-1,151	-36	-36	-157	-1,083	-23
Net cash flow	-2	12	139	-16	-21	-114	197	19

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 and other adjustments, was approximately 72% (74%) for USD, about 82% for SEK (67%), and about 71% for GBP (-%). Hedging of GBP was initiated during 2020. The exposures in other currencies are limited and are not hedged. Outstanding nominal amounts at the end of the year for these forward contracts were USD 35 million, SEK 720 million, and GBP 16 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 2021	BRL	CNY	GBP	KRW	SEK	USD	Other
Currency change of 5% to EUR	-1.5	-1.0	0.4	0.8	0.1	-0.3	-0.5

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, 2020. The nominal amounts of the loans are USD 5 million, CNY

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25 million, the nominal amount of the deposit is JPY 661 million. Additionally, the parent company hedges an external loan with a nominal amount of USD 35 million. Hedge accounting is not applied to these relationships. Furthermore, 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 -0.0 million at December 31, 2020.

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 the predominant currencies for the Group.

Group translation exposure, EUR million	Net investment in subsidiaries	
	2020	2019
USD	513.7	550.2
SEK	195.6	115.5
GBP	64.2	23.9
BRL	61.1	93.5
CNY	43.2	39.7
KRW	37.0	51.1

The following table shows the consolidated equity's estimated sensitivity for a currency rate change of a weaker EUR of 5 %.

EUR million	BRL	CNY	GBP	KRW	SEK	USD
Currency change of 5% to EUR	2.9	2.1	3.1	1.8	9.3	24.5

**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 income statement when the hedged item affects the income statement, 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 income statement. Subsequent changes in the value of the hedging instrument after the hedging relationship is terminated are recorded in income statement.

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Commodity risk

Commodity risk refers to the risk that changes in the cost of raw materials (pulp, titanium dioxide etc.) 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 committed obligations in addition to 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 based on the contractual obligations existing 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. Ahlstrom-Munksjö's liquidity position at year-end comprising of the strong cash position of EUR 308.7 million and increase in the committed credit lines to EUR 261.0 million is sufficient to meet the 2021 repayment obligations on the existing debt maturities if the expected closing for Tender Offer and its impacts to the Company's capital structure would not take place as estimated.

Maturity of financial liabilities, EUR million, 2020	2021	2022	2023	2024-	Total
Non-derivative financial liabilities					
Bond ¹	–	250.0	–	–	250.0
Bank loans ¹	241.5	147.3	332.7	–	721.5
Pension loan	5.0	10.0	5.0	–	20.0
Lease liabilities	13.2	11.4	7.9	18.6	51.0
Other financial liabilities	2.9	2.6	0.5	–	6.0
Trade payables	412.2	–	–	–	412.2
Total	674.8	421.3	346.1	18.6	1,460.7
Future interest on financial liabilities	27.4	18.2	12.3	4.4	62.2
Derivative financial liabilities					
Interest rate swaps used for hedging	–	–	-0.4	–	-0.4
Forward exchange contracts used for hedging:					
- Outflow	-163.1	–	–	–	-163.1
- Inflow	167.2	–	–	–	167.2

¹Bond comprising of EUR 249.5 million and EUR 602.9 million of the bank loans (carrying values) will become redeemable at the lenders' option if there is a change of control in Ahlstrom-Munksjö as a result of the Tender offer expected to take place in February 2021.

Maturity of financial liabilities, EUR million, 2019	2020	2021	2022	2023-	Total
Non-derivative financial liabilities					
Bond	–	–	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
Total	566.8	140.8	409.3	399.1	1,516.0
Future interest on financial liabilities	35.9	34.5	26.7	19.0	116.0
Derivative financial liabilities					
Interest rate swaps used for hedging	–	–	–	–	–
Forward exchange contracts used for hedging:					
- Outflow	128.3	–	–	–	128.3
- Inflow	-128.2	–	–	–	-128.2

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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 Group's funding programmes include committed Revolving Credit Facilities of EUR 250 million (EUR 50 million maturing 2021 and EUR 200 million maturing 2022), and Finnish Commercial Paper programme totalling EUR 300 million and available uncommitted bank overdrafts.

Liquidity position, EUR million	2020	2019
Available committed bank overdrafts	11.0	14.0
Cash and cash equivalents	308.7	166.1
Committed revolving credit facilities	250.0	200.0
Finnish Commercial Paper programme	300.0	300.0
Available uncommitted bank overdrafts	102.7	97.5
Liquidity position	972.4	777.6

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 188.5 million (EUR 224.3 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
2020			
Derivative assets	4.4	-0.4	3.9
Derivative liabilities	-0.6	0.4	-0.2
2019			
Derivative assets	1.7	-0.5	1.2
Derivative liabilities	-0.5	0.5	—



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 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, 2020	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
Non-current assets						
Other non-current assets	21.3	1.3	0.8	–	0.4	–
Current assets						
Trade and other receivables	264.7	219.2	214.8	0.1	–	4.3
Cash and cash equivalents	308.7	308.7	308.7	–	–	–
Carrying amount by measurement category	594.8	529.1	524.3	0.1	0.4	4.3
Non-current liabilities						
Non-current borrowings	744.1	744.1	744.1	–	–	–
Non-current lease liabilities	37.8	37.8	37.8	–	–	–
Other non-current liabilities	5.6	5.0	4.6	–	–	0.4
Current liabilities						
Current borrowings	249.3	249.3	249.3	–	–	–
Current lease liabilities	13.2	13.2	13.2	–	–	–
Trade and other payables	608.8	415.4	415.2	0.1	–	0.1
Carrying amount by measurement category	1,658.8	1,464.8	1,464.2	0.1	–	0.5

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
Non-current assets						
Other non-current assets	19.3	6.0	5.5	–	0.5	–
Current assets						
Trade and other receivables	278.9	220.8	219.0	0.2	–	1.5
Cash and cash equivalents	166.1	166.1	166.1	–	–	–
Carrying amount by measurement category	464.3	392.9	390.7	0.2	0.5	1.5
Non-current liabilities						
Non-current borrowings	899.0	899.0	899.0	–	–	–
Non-current lease liabilities	44.2	44.2	44.2	–	–	–
Other non-current liabilities	1.4	0.5	0.5	–	–	–
Current liabilities						
Current borrowings	94.8	94.8	94.8	–	–	–
Current lease liabilities	13.1	13.1	13.1	–	–	–
Trade and other payables	621.7	461.8	461.3	0.2	–	0.3
Carrying amount by measurement category	1,674.2	1,513.4	1,512.9	0.2	–	0.3

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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	2020			2019		
	Carrying value	Fair value	Level	Carrying value	Fair value	Level
Non-current financial instruments measured at amortized cost						
Bonds	249.5	252.0	1	249.2	257.7	1
Bank loans	479.6	479.6	2	649.8	649.8	2
Pension loan	15.0	15.0	2	–	–	–
Lease liabilities	37.8	37.8	2	44.2	44.2	2
Financial instruments measured at fair value						
Forward contracts - cash flow hedge accounting	4.2	4.2	2	1.3	1.3	2
Forward contracts - fair value through income statement	-0.0	-0.0	2	-0.1	-0.1	2
Interest rate swap contracts - cash flow hedge accounting	-0.4	-0.4	2	–	–	–

The Group considers that the carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables provide a reasonable approximation of fair value, due to the short maturity and liquid nature of these elements. In addition, the 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 at amortised cost

The group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows;
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

The financial assets in this group are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired (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).

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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. The fair value of interest rate swaps is determined using net present value method, supported by market interest rates and other market information at the end of the reporting period.

Other notes

This section provides the additional information required to be disclosed under IFRS and Finnish statutory requirements. However, these are not considered critical in understanding the financial performance or the financial position of Ahlstrom-Munksjö.

20 OFF-BALANCE SHEET COMMITMENTS

Ahlstrom-Munksjö has the following off-balance sheet commitments at the balance sheet date.

Off-balance sheet commitments, EUR million	2020	2019
Assets pledged:		
Pledges	1.0	0.9
Commitments:		
Guarantees and commitments given on behalf of Group companies	67.0	56.5
Capital expenditure commitments	38.4	15.7
Other guarantees and commitments	50.6	40.9

Guarantees and commitments given on behalf of Group companies include a pension liability guarantee EUR 19.3 million (EUR 20.4 million) in the U.K.

Capital expenditure commitments are mainly related to the IT investment in parent company, Finland, and the strategic investments in Advanced Solutions business area in Chirnside, UK as well as in Filtration & Performance Solutions business area, in Malmédy, Belgium and in Turin, Italy.

Other guarantees and commitments include binding contracts for purchases of energy and IT development projects among others.

At the end of December, 2020, 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.

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 827,245 m³ (862,147 m³) of wood and woodchips amounting to EUR 39.7 million (EUR 44.0 million).

Book value of associated company, EUR million	2020	2019
Book value at the beginning of the year	1.4	1.1
Share of earnings for the year	0.2	0.2
Translation differences	0.0	0.0
Book value at the year end	1.6	1.4

Share of Sydved AB's assets, equity, net sales and profit before tax, EUR million	2020	2019
Assets	20.7	21.3
Equity	1.4	1.1
Net sales	90.1	101.1
Profit before tax	0.2	0.3

The carrying value of the associated company Sydved AB has no goodwill included. The Group's liabilities to Sydved amounted to EUR 4.2 million (EUR 5.1 million). Share of profit of the associated company is EUR 0.2 million (EUR 0.2 million).

Joint operations

Ahlstrom-Munksjö Paper GmbH is buying electricity and gas from Stadtwerke Aalen GmbH who owns 40% of Ahlstrom-Munksjö Paper GmbH's subsidiary Kraftwerksgesellschaft Unterkochen GmbH. The related purchase amounts to EUR 4.7 million (EUR 5.4 million).

Group companies

The consolidated accounts include the following entities:

Company name	Registered Office	Share of equity %
Ahlstrom-Munksjö Oy	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

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Company name	Registered Office	Share of equity %
Ahlstrom-Munksjö Tver LLC	Russia	100
Ahlstrom-Munksjö Industries S.A.S.	France	100
Ahlstrom-Munksjö Brignoud S.A.S.	France	100
Ahlstrom-Munksjö Tampere 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 Ståldalen 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, ie. when the Group is exposed to, or has rights to, variable returns from its involvement and has the ability to affect those returns through exercising power. Subsidiaries are consolidated from the date control is achieved to the date when the Group ceases to exercise power.

Associated companies are those in which the Group has a significant influence over operational and financial policies. Significant influence is the power to participate in, but not control or jointly control, the financial and operating decisions of the investee. These investments are accounted for using the equity method.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses in accordance with the Ahlstrom-Munksjö's contractual rights and obligations.

Transactions eliminated on consolidation and transactions between the owners of the parent

Transactions between Group companies, including intra-group receivables and liabilities, income or expenses and unrealized gains or losses are eliminated in full. Unrealized gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest, unless otherwise contractually agreed by the parties. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Transactions with the owners of the parent are reported within shareholders' equity.

Transactions with non-controlling interests are reported as transactions with equity owners of the Group. Divestments to and purchases from non-controlling interests result in gains and losses for the Group, which are reported in equity.

22 AUDITOR REMUNERATION

Ahlstrom-Munksjö's Annual General Meeting ("AGM") makes resolutions each year to elect the Group's auditors. It was resolved at the 2020 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	2020	2019
Audit fees	-1.4	-1.4
Audit-related fees	-0.3	-0.2
Tax service fees	-0.1	-0.1
Other fees	0.0	0.0
Total	-1.8	-1.7

KPMG Oy Ab has provided non-audit services to the entities of Ahlstrom-Munksjö Group in total of EUR 0.0 million (EUR 0.0 million) during the financial year 2020.

23 NEW ACCOUNTING STANDARDS

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases

To be applied from 1 January 2021

Amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of interest rate benchmark reform. Amendments assist companies in providing useful information about the effects of interest rate benchmark reform on financial statements.

Amendments to IAS 16 Property, Plant and Equipment

To be applied from 1 January 2022

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

To be applied from 1 January 2022

When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs.

Annual Improvements to IFRS Standards 2018–2020

To be applied from 1 January 2022

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments clarify the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter later than its parent – a subsidiary may elect to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent.
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities: This amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- IFRS 16 Leases – Lease incentives – Example 13. The amendment removes the illustration of payments from the lessor relating to leasehold improvements. The example was not clear as to why such payments are not a lease incentive.
- IAS 41 Agriculture – Taxation in fair value measurements. This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement. When a present value technique is used to measure fair value, the assumptions used for the cash flows and discount rates should be internally consistent – i.e. using either after tax or pre-tax for both.

Amendments to IAS 1 Presentation of Financial Statements

To be applied from 1 January 2023

The amendments are to promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

IFRS 17 Insurance Contracts

To be applied from 1 January 2023

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 doesn't expect any material impact on the financial statements regarding the new standards, amendment nor improvements.

24 POST-BALANCE SHEET EVENTS

On September 24, 2020, a consortium, consisting of Ahlström Capital, funds managed or advised by Bain Capital as well as Viknum and Belgrano Inversiones made a public recommended cash tender offer for all shares in Ahlstrom-Munksjö. The offer period for the tender offer commenced on October 22, 2020 and expired on January 14, 2021. The consortium's intention is to eventually acquire all the shares in Ahlstrom-Munksjö and apply for a delisting of the shares from Nasdaq Helsinki and Nasdaq Stockholm to develop the company in a private domain.

On January 18, 2021 based on the preliminary result, the offeror decided that it will waive the minimum acceptance condition and complete the tender offer in accordance with its terms and conditions provided that the final result of the tender offer confirms that the tender offer has been validly accepted with respect to shares representing, together with any shares otherwise held by the offeror prior to the date of the announcement of the final result of the tender offer, on a fully diluted basis at least 75% of the shares and voting rights of the company.

On January 20, 2021 the consortium declared the tender offer unconditional with approximately 81% of shares validly tendered and accepted in the tender offer.

On January 20, 2021, the offeror also announced the commencement of a subsequent offer period in accordance with the terms and conditions of the tender offer. The subsequent offer period commenced on January 21, 2021 and expired on February 4, 2021. According to the final result of the subsequent offer period, the shares validly tendered and accepted during the subsequent offer period, together with the shares validly tendered and accepted during the initial offer period (as extended) and otherwise acquired by the offeror through market purchases until February 8, 2021, represent approximately 90.6% of all the shares and voting rights carried by the shares in Ahlstrom-Munksjö. The offeror's intention is to apply for the shares in Ahlstrom-Munksjö to be delisted from Nasdaq Helsinki Ltd ("Nasdaq Helsinki") and from Nasdaq Stockholm AB ("Nasdaq Stockholm"), respectively, as soon as permitted and reasonably practicable under the applicable laws and regulations and the rules of Nasdaq Helsinki and Nasdaq Stockholm. As the offeror's holdings in Ahlstrom-Munksjö will exceed 90% of all the shares and voting rights carried by the shares in Ahlstrom-Munksjö after the settlement of the shares tendered in the tender offer, the offeror will initiate compulsory redemption proceedings to acquire the remaining shares in accordance with the Finnish Companies Act.

Extraordinary General Meeting

On January 25, 2021, notice was given to the shareholders of Ahlstrom-Munksjö to Extraordinary General Meeting to be held on February 19, 2021 to resolve on the election of new Board of Directors and certain other matters.

Change in Ahlstrom-Munksjö Group ownership

Following the completion of the Tender Offer on February 4, 2021, Spa (BC) Lux Holdco S.à r.l. (entity owned and controlled by funds managed and/or advised by Bain Capital Private Equity (Europe), LLP, and/or its affiliates), Ahlstrom Invest B.V., Viknum AB (an entity in which Alexander Ehrnrooth, a member of the Board of Directors, exercises influence) and Belgrano Inversiones Oy (an entity in which Alexander Ehrnrooth, a member of the Board of Directors, exercises control) together indirectly owned 81.0% of all the shares and voting rights in Ahlstrom-Munksjö Oyj through Spa Holdings 3 Oy, a private limited liability company incorporated and existing under the laws of Finland. The ultimate new parent company for Ahlstrom-Munksjö Oyj is SPA Lux TopCo Sàrl, an entity domiciled in Luxembourg.

Transaction costs

Ahlstrom-Munksjö will pay approximately EUR 9 million of transaction costs resulting from the successful closing of the Tender Offer, which will be recognized as expenses during first quarter of 2021. These expenses will be reported as items affecting comparability in the Company's results for the first quarter 2021.

Long-term incentive plans

Ahlstrom-Munksjö's Board of Directors decided on February 9, 2021 following the closing of the Tender Offer to prematurely terminate all existing long-term share-based incentive plans and to settle them in cash. Matching share plans (2019-2021, 2020-2022) reward payments are made to the participants immediately and long-term share-based incentive plans (LTI 2019-2021, LTI 2020-2022) rewards payments are made to the participants in three months from closing of the Tender Offer. The estimated amount of cash payments (including social security costs) is approximately EUR 18.6 million during the first half of the year of 2021. The income statement impact over the first quarter of 2021 resulting from accelerated vesting is approximately EUR 15.8 million. The income statement impact will be reported as items affecting comparability in the Group's results.

Change of control events impact on Ahlstrom-Munksjö's long-term funding

As a result of the settlement of the tender offer on February 4, 2021, the EUR 249.5 million senior bond and EUR 602.9 million of the bank loans (amounts reported as carrying values as of December 31, 2020) will become redeemable during the first half of 2021 to the extent the financing providers exercise their mandatory prepayment rights based on the customary change of control terms in the existing financing documents.

In addition, unless Ahlstrom-Munksjö at its option decides to redeem the hybrid bond within six months from the date of completion of the tender offer, the interest rate of the hybrid bond will increase by an additional margin of 5.0% p.a.

For purposes of the refinancing of Ahlstrom-Munksjö's existing debt, financing the Tender Offer and other agreed purposes, SPA Holdings 3 Oy and SPA US Holdco, Inc have committed senior term facilities and senior bridge facilities totaling to EUR 1,650 million (nominal) provided on a customary certain funds basis, with maturities of 7 years. Any repayments required by the existing Ahlstrom-Munksjö financing providers are expected to be initially funded using proceeds from an intercompany loan provided to Ahlstrom-Munksjö by SPA Holdings 3 Oy and Ahlstrom-Munksjö USA Inc by SPA US Holdco, Inc and cash on balance sheet in each case, in all material respects reflecting the terms of the committed facilities of SPA Holdings 3 Oy and SPA US Holdco, Inc described above with the exception of a 12 month maturity, customary margin step-up and other customary changes for such intercompany loan instrument.

In addition, the existing committed EUR 200 million multicurrency revolving facility agreement and the committed EUR 50 million revolving credit facility, which both were undrawn at the balance sheet date, may be cancelled at the lender's option. SPA Holdings 3 Oy and SPA US Holdco, Inc also have a committed EUR 325 million revolving credit facility under its senior facilities agreement to replace these facilities and to provide ongoing working capital and general corporate funding requirements for the Group.

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	2020	2019
Net sales	95.4	103.0
Other operating income	–	0.0
Personnel costs	-10.8	-7.7
Depreciation, amortization and impairment	-13.6	-6.5
Other operating expense	-55.9	-57.7
	-80.3	-72.0
Operating result	15.0	31.0
Financing income and expense		
Dividend income	167.4	43.8
Interest and other financing income	8.9	23.6
Interest and other financing expense	-25.3	-23.2
Impairment of long term investments	-14.4	–
Gains and losses on foreign currency	3.0	7.1
	139.6	51.2
Result before appropriations and taxes	154.7	82.3
Appropriations		
Change in cumulative accelerated depreciation	0.1	0.1
Group contributions	10.5	6.4
	10.6	6.5
Income taxes	-1.6	-6.1
Net result	163.6	82.6

Balance sheet

EUR million	Dec 31, 2020	Dec 31, 2019
ASSETS		
Non-current assets		
<i>Intangible assets</i>		
Development expenses	0.5	0.5
Intangible rights	22.1	10.7
Other long term expense	13.4	21.6
Advances paid and construction in progress	7.3	12.5
	43.3	45.3
<i>Tangible assets</i>		
Land and water areas	0.0	0.0
Machinery and equipment	0.1	0.2
Other tangible assets	0.1	0.1
Advances paid and construction in progress	0.0	0.0
	0.2	0.3
<i>Long-term investments</i>		
Shares in Group companies	1,602.8	1,585.0
Shares in other companies	0.1	0.1
	1,602.9	1,585.0
Current assets		
<i>Long-term receivables</i>		
Receivables from Group companies	190.2	184.6
Other long-term assets	4.5	0.6
	194.7	185.2
<i>Short-term receivables</i>		
Trade receivables	0.8	–
Receivables from Group companies	55.6	39.5
Other short-term receivables	0.4	0.2
Prepaid expenses and accrued income	9.4	6.0
	66.2	45.7
Cash and cash equivalents	248.2	104.0
TOTAL ASSETS	2,155.6	1,965.7

EUR million	Dec 31, 2020	Dec 31, 2019
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	85.0	85.0
Non-restricted equity reserve	558.7	558.7
Retained earnings	179.2	160.5
Result for the period	163.6	82.6
	986.5	886.9
Appropriations		
Cumulative accelerated depreciation	0.1	0.2
	3.0	3.1
Liabilities		
<i>Long-term liabilities</i>		
Hybrid bond	100.0	100.0
Loans from financial institutions	462.0	587.4
Pension loans	15.0	–
Trade payables	0.8	–
Other long-term debts	0.4	–
	578.1	687.4
<i>Short-term liabilities</i>		
Loans from financial institutions	176.6	26.0
Pension loans	5.0	–
Trade payables	7.4	6.4
Liabilities to Group companies	368.4	342.6
Other short-term liabilities	19.8	0.3
Accrued expenses and deferred income	10.6	12.7
	587.8	388.1
Total liabilities	1,165.9	1,075.5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,155.6	1,965.7

Cash flow statement

EUR million	2020	2019
Cash flow from operating activities		
Result before appropriations and taxes	154.7	82.3
Adjustments		
Depreciation, amortization and impairment	13.6	6.5
Impairment of long-term investments	14.4	–
Interest and other financial income and expense	13.4	-7.5
Received dividends	-167.4	-43.8
Other adjustments	-0.1	-0.1
Cash flow from operating activities before the changes in net working capital	28.5	37.5
Changes in net working capital		
Change in trade and other receivables, increase(-)/decrease(+)	-1.8	2.7
Change in trade and other payables, increase (+)/decrease (-)	10.9	-6.7
Cash flow from operating activities before financial items and taxes	37.6	33.5
Interest paid and payments of other financial items (-)	-21.5	-15.6
Interests received (+)	5.9	23.7
Income taxes paid (-)	-5.8	-5.0
Net cash from operating activities	16.2	36.6
Cash flow from investing activities		
Purchases of property, plant and equipment and intangible assets (-)	-13.2	-11.3
Proceeds from disposal of property, plant and equipment and intangible assets (+)	–	0.2
Investment in other long-term assets (-)	-0.7	–
Capital refund from Group companies (+)	8.0	20.0
Capital injections to Group companies (-)	-17.9	-450.6
Dividends received from investments (+)	167.4	43.8
Net cash from investing activities	143.6	-397.9

EUR million	2020	2019
Cash flow from financing activities		
Repurchase of treasury shares (-)	-4.0	–
Proceeds from long-term loans (+)	20.0	100.0
Repayment of long-term loans (-)	-26.0	-125.3
Proceeds from short-term loans (+)	50.0	–
Changes in loans receivables and loans from Group companies	-16.9	477.2
Dividends and other	-45.1	-60.0
Group contribution received	8.8	–
Group contribution paid	-2.4	-12.8
Net cash from financing activities	-15.6	379.0
Net change in cash and cash equivalents	144.2	17.7
Cash and cash equivalents at the beginning of the period	104.0	86.3
Net change in cash and cash equivalents	144.2	17.7
Cash and cash equivalents at the end of the period	248.2	104.0

Proposal for the distribution of profits

The Parent Company's balance sheet on December 31, 2020 shows:

	EUR
Non-restricted equity reserve	558,737,599.61
Retained earnings	179,177,369.75
Net result	163,624,246.54
- Less capitalized development costs	-481,691.25
Total distributable funds	901,057,524.65

The Board of Directors' dividend proposal to the Annual General Meeting will be decided after the Extraordinary General Meeting to be held on February 19, 2021.

	EUR
- dividend will be decided after the Extraordinary General Meeting	
- non-restricted equity reserve carried forward	558,737,599.61
- to be retained in retained earnings	342,801,616.29
- less capitalized development costs	-481,691.25
	901,057,524.65

Helsinki, February 9, 2021

Jaakko Eskola

Nathalie Ahlström

Alexander Ehrnrooth

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 2020. 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 609 million of goodwill and EUR 453 million of other intangible assets. The goodwill amounts to 51 % of the group equity and 19 % of the group's total assets at 31 December, 2020.
- 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 business plans 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 366 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 7 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, 9 February 2021
KPMG OYAB

ANDERS LUNDIN
Authorised Public Accountant, KHT

Shareholders

Renewable energy – 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.

SHARE

01: Engaging with investors

Ahlstrom-Munksjö continued an active dialogue with the financial community despite the pandemic and contacts with investors increased by about one third from the previous year. Key topics discussed during the year included the company's rapid response to the pandemic, and in particular, its ability to expand the production of face mask materials. As the year progressed, the discussions shifted more towards how the company can reach its long-term strategic targets. In the latter part of the year the focus shifted to the tender offer for all shares in the company.

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 AM1 in Helsinki and AMIS in Stockholm.

On December 31, 2020, Ahlstrom-Munksjö's share capital amounted to EUR 85.0 million and the total number of shares was 115,653,315. At the end of the

reporting period, Ahlstrom-Munksjö held 664,862 own shares, corresponding to approximately 0.6% of total shares and votes.

Ahlstrom-Munksjö had a total of 15,938 shareholders at the end of 2020 (14,742 as of December 31, 2019), according to Euroclear Finland Ltd. and Euroclear Sweden Ltd. The largest shareholders included Ahlström Capital and Viknum AB, which both held over 10% 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.

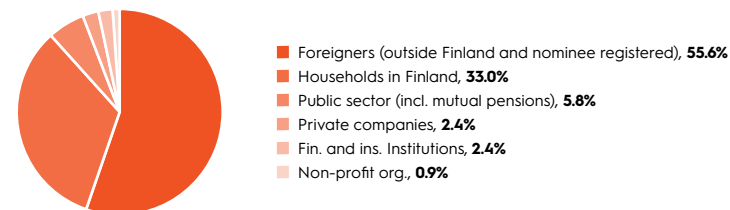
On September 24, 2020, a consortium of investors announced a recommended public cash tender offer for all shares in Ahlstrom-Munksjö. The transaction was completed in February 2021 as the consortium's ownership exceeded 90% and it started a compulsory redemption procedure and delisting of the shares.

Major shareholders at Dec. 31, 2020

	Shareholder	Shares	% of shares
1	Ahlström Capital Oy	21,618,957	18.7
2	Viknum AB	14,048,006	12.2
3	Ilmarinen Mutual Pension Insurance Company	3,146,781	2.7
4	Odin Funds	3,122,295	2.7
5	Huber Mona Lilly	2,294,006	2.0
6	Nordea Funds	2,200,842	1.9
7	Varma Mutual Pension Insurance Company	1,659,532	1.4
8	Tracewski Jacqueline	1,512,926	1.3
9	Elo Mutual Pension Insurance Company	1,405,303	1.2
10	Studer Anneli	1,235,653	1.1
11	Lund Niklas Roland	1,203,503	1.0
12	Gullichsen Johan Erik	1,171,068	1.0
13	Huber Karin	1,170,553	1.0
14	Sumelius John Michael	1,154,388	1.0
15	Emmett Linda-Maria	1,137,627	1.0
16	Kylmälä Kim	1,128,888	1.0
17	Huber Samuel	1,041,307	0.9
18	Nahi Kai Anders Bertel	1,036,539	0.9
19	Seligson Peter	1,000,000	0.9
20	Koivulehto Monica	981,690	0.9
	20 largest shareholders total	61,026,579	52.8
	Nominee registered	20,357,570	17.6
	Other shares	34,269,166	29.6
	Total	115,653,315	100.0

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, 2020

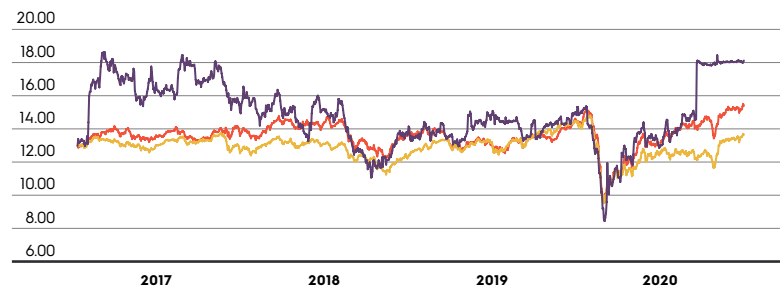


Number of shares	Number of shareholders	%	Number of shares	%
1 - 100	6,629	47.5	352,368	0.3
101 - 500	4,931	35.4	1,193,288	1.0
501 - 1,000	1,126	8.1	824,593	0.7
1,001 - 5,000	926	6.6	1,914,590	1.7
5,001 - 10,000	110	0.8	767,125	0.7
10,001 - 50,000	87	0.6	1,996,530	1.7
50,001 - 100,000	31	0.2	2,181,826	1.9
100,001 - 500,000	77	0.6	18,335,914	15.9
> 500,000	33	0.2	88,087,081	76.2
Total	13,950	100	115,653,315	100
Nominee registered			20,357,570	17.6

Share price performance and trading

	Nasdaq Helsinki		Nasdaq Stockholm	
	2020	2019	2020	2019
Share price at the end of the period, EUR/SEK	18.10	14.32	181.40	149.60
Highest share price, EUR/SEK	18.42	15.18	192.60	165.00
Lowest share price, EUR/SEK	8.12	11.90	90.50	121.40
Market capitalization at the end of the period*, EUR million	2,081.3	1,650.9	N/A	N/A
Trading value, EUR/SEK million	417.9	184.5	354.7	214.3
Trading volume, shares million	28.6	13.3	2.3	1.5
Average daily trading volume, shares	113,384	53,330	9,014	5,847

SHARE PRICE DEVELOPMENT



■ Ahlström-Munksjö
■ Europe Stoxx 600 Index
■ Nasdaq Helsinki All Share Index

Rebased at Ahlstrom-Munksjö's closing share price April 3, 2017

Total shareholder return*

	5 years	3 years	1 year
Ahlstrom-Munksjö	175%	17%	20%
Nasdaq Helsinki All Share Index	58%	28%	12%
Stoxx Europe 600 Index	33%	14%	-2%

* At Dec. 31, 2020

Dividend and yield

	2020*	2019	2018	2017	2016
Dividend per share / Return on equity, EUR	n/a	0.52	0.52	0.52	0.47**
Effective yield, %	n/a	3.6	4.3	2.9	3.0

* The Board of Directors' dividend proposal to the Annual General Meeting will be decided after the Extraordinary General Meeting to be held on February 19, 2021

** Covered by using the same number of shares as in 2017

Information for shareholders

Ahlstrom-Munksjö's Annual General Meeting is planned to be held on Wednesday, March 24, 2021 at 1:00 p.m. EET. The AGM will be convened at a later date by Ahlstrom-Munksjö's Board of Directors.

Ahlstrom-Munksjö plans to publish financial reports in 2021 as follows:

- Financial statements release 2020: February 10, 2021
- Interim report January-March 2021: April 27, 2021
- Half-year report January-June 2021: July 23, 2021
- Interim report January-September 2021: October 27, 2021

The schedule above may be subject to change following the completion of the tender offer for Ahlstrom-Munksjö.

Analysts

The following investment banks and brokerage firms covered Ahlstrom-Munksjö in their research in 2020.

- 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.

Contact Investor Relations



Johan Lindh

Vice President, Group Communications and Investor Relations

Tel. +358 10 888 4994

johan.lindh@ahlstrom-munksjo.com



Juho Erkheikki

Investor Relations Manager

Tel. +358 (0)50 413 4583

juho.erkheikki@ahlstrom-munksjo.com

CSR Data

Clean water – Access to clean water is unfortunately not a given. Ahlstrom-Munksjö has developed the unique and proprietary Disruptor® technology which purifies water with the use of any chemicals. The technology is very efficient and versatile and can be used in personal water bottles as well as for residential use such as taps and serving containers.

CSR DATA

01: Sustainability reporting

This is Ahlstrom-Munksjö's fourth 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, 2020 to December 31, 2020. Ahlstrom-Munksjö's Annual and Sustainability Report 2019 was published on February 28, 2020.

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 materiality 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.

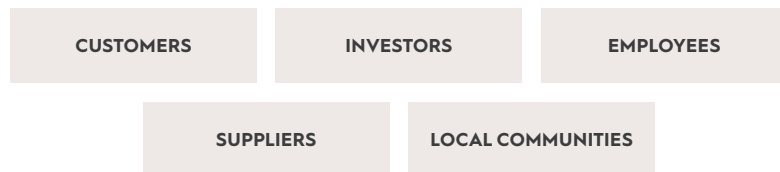
Stakeholder engagement

Stakeholder engagement is part of Ahlstrom-Munksjö's commitment to responsible business practices and critical to our long-term business success. An ongoing exchange involves sharing our progress with our key stakeholder groups in a transparent way and understanding their needs and expectations for the company.

Effective and transparent dialogue allows us to better prevent and manage risks by more quickly identifying and responding to 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.

These stakeholder groups 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. Our stakeholder collaboration work provides us important input for our long-term development efforts.



Investors

Our shareholders vary by size and time horizon and they put a lot of interest in the company's environmental, social and governance (ESG) processes. The company regularly engages in dialogue with investors through quarterly updates and annual reporting through our digital platforms, in-person meetings and events, as well as individual conversations. The company also responds to information requests and questionnaires to ensure investors obtain the accurate status of our ESG performance and targets.

Based on a comprehensive survey conducted in 2020 for a targeted group of investors with good insight in the company, sustainable product development, climate change and greenhouse gas emission reduction were ranked the top three most important material topics. To remain an attractive investment according to the investors Ahlstrom-Munksjö needs to carefully consider future trends in sustainable consumer behavior and direction of regulatory changes in its product development and long-term R&D work. The company need also to actively work with risks and opportunities due to climate change as well as lower green-house gas emissions in line with climate science.

Customers

Our customers are as diverse and specialized as our product portfolio. They often have unique requirements 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. The company answers to inquirers coming from customers about our sustainability performance and shares EcoVadis scorecards to demonstrate our actions and progress on a regular basis. Ahlstrom-Munksjö also solicits customer feedback through regular customer surveys conducted through a third party to promote honest feedback.

Based on the dialogue and the customer survey in 2020, ensuring responsibility at all parts of the whole supply chain was seen as a priority by customers. Climate issues such as energy and carbon as well as the properties of our materials in terms of using renewable, recyclable and reusable materials when appropriate is valued by customers as well as the availability of certifications as all of these also help the customer to be more responsible.

Employees & unions

Our employees have a central role in our operations and are the key contributor for the company's long-term value creation. We engage employees throughout the company in continuous dialogue about sustainability topics during their careers through surveys, trainings, internal communications, events, and individual and small group conversations. Ahlstrom-Munksjö conducts surveys directed at all employees on a regular basis throughout the year as well as more targeted deep dives for specific employee groups based on for example site, function or position using digital platforms as well as group or individual discussions.

Based on these interactions and survey answers, a top area of interest for employees is wellbeing, which is seen to be as working for a company that listens to employee concerns, minds health & safety as well as emphasizes the importance of conducting business in an ethical manner and ensuring equal and fair treatment for all. In addition to this, employees place importance in environmental issues such as energy and water.

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 man-made fibers, and smaller farmers selling niche products such as abaca, which is annual fiber. We also work with chemical

suppliers and indirect suppliers including 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 as well as answer to inquiries and share our EcoVadis scorecard. In addition to this, we work together with chosen suppliers to create awareness about sustainable working standards and drive common responsibility advancements.

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 we operate, creating a special responsibility and interest among local authorities, local suppliers, direct plant neighbors, employees' families and other community members. Production sites also work to be a good neighbor and quickly respond to any nuisance complaints related to regular plant activities and are in contact with local media. Although slightly differing 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.

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 environmental issues relating to use of energy, consumption and quality of water, waste, health and safety of the employees, and financial profitability, in the context of the company continuing to provide good employment opportunities in the areas where it operates.

IDENTIFYING WHAT IS IMPORTANT

New sustainability material topics were identified in 2020 based on the views and expectations of key stakeholder groups. The material topics were formulated based on the materiality assessment, which is updated every two years. A materiality survey was conducted in 2019 with internal and external stakeholders. In 2020 the work was extended to include deep dives with surveys and interviews for investors, top leaders and site human resources contacts as well as an extensive customer survey. The various stakeholders were asked to rank the importance of the material topics and indicate how they perceive sustainability at Ahlstrom-Munksjö currently and in the future.

The number of material topics was reduced from nine to five to provide more focus for the future development work. In addition to the identified material topics and set targets, Ahlstrom-Munksjö collects base data continuously on the other areas falling under people, planet and prosperity topics to ensure that the full scope of ESG matters is covered and progress on these is tracked.

Based on input from our stakeholders and Ahlstrom-Munksjö's analysis new material topics were formulated. At the end of 2020, Ahlstrom-Munksjö updated its materiality assessment and will as of 2021 be reporting progress on the following materialities:

PEOPLE

1. A Safe and Responsible Culture

PLANET

2. Energy and Carbon Emissions
3. Responsible Water Consumption
4. Sustainable Procurement

PROSPERITY

5. Sustainable Innovations


Materialities and Targets 2021-2025



Material Topics	Targets 2021-2025	SDGs
PEOPLE		
Developing safe and responsible culture	Wellbeing: Employee Engagement Index 80	3
Developing safe and responsible culture	Safety: Total Recordable Incidents Rate below 1	3
PLANET		
Energy and Carbon Emissions	CO ₂ emission reduction -15%	13
Managing the water consumption responsibly	All plants in water stressed areas have a water management plan	13
Sustainable Procurement	Corporate Social Responsibility audits on Suppliers assessed with High risk status	12
PROSPERITY		
Sustainable Innovations	All new products in development are assessed with the EcoDesign Tool	8
Sustainable Innovations	All new products have a positive EcoDesign score	8

The commitment to the UN Global Compact and the Sustainable Development Goals was part of the materiality assessment. All 17 SDGs are important to Ahlstrom-Munksjö's sustainability agenda, but five SDGs were identified to be the most relevant currently. We continuously assess and track our impact on each goal through B Impact Assessment's SDG Action Manager.



MATERIALITIES AND TARGETS 2019-2020

	Material topics	Targets 2019-2020	Results of 2020	SDGs
 People	Human Rights	All employees confirm Code of Conduct awareness; All employees covered by training program on Code of Conduct	95% (91) of employees have completed Code of Conduct e-Learning	8, 12, 16
	Community Engagement	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	40% (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 Incidents Rate (TRIR) of zero	TRIR of 1.42 (1.62 adjusted for divested entities)	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)	NMR of 6.0 (5.0)	3, 8, 12
	Employee Well-Being (Health and Safety)	On average, at least 15 hours of tailored safety training per employee each year	17 (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	96% (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 2020 through a common Employee Engagement Survey	Employee engagement index of 80%	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	18% (18) of employees are female; 21% (21) of managers are female; Gender diversity is considered during recruiting, hiring and promotion	5, 12

	Material topics	Targets 2019-2020	Results of 2020	SDGs
 Planet	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"	Fibers 97% (95), Chemicals 96% (93%), Indirect 39% (23%), Energy 60% (26%), Wood NA 100% (91%) 80% of suppliers have undergone evaluation for SCoC risks"	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 38 sites; Environmental Management (ISO 50001) certification at 16 sites	6, 7, 12, 13
	Energy, Water and Waste	An annual 2% reduction of specific energy consumption from 2018 onward	1.5% increase in specific energy consumption	7, 12, 13
	Energy, Water and Waste	An annual 1.5% reduction in water use per gross ton production from 2018 onward	1% reduction in specific water use	7, 12, 13
	Energy, Water and Waste	An annual 2% reduction in tons of waste to landfill from 2018 onward	2% increase in tons of waste to landfill	6, 12
	Carbon Dioxide	2% annual reduction in Scope 1 carbon dioxide emissions per gross ton production from 2018 onward	Scope 1 carbon dioxide emissions were 1.1 ton per gross ton production (data collection issues)	12
	Carbon Dioxide	Annual reduction in Scope 2 carbon dioxide emissions per gross ton production from 2018 onward	Scope 2 carbon dioxide emissions were 0.3 ton per gross ton production (data collection issues)	12, 13
 Prosperity	Profitability	EBITDA margin above 14% over a business cycle	EBITDA margin 12.5%	
	Profitability	Net gearing below 100%	Net gearing 62.1%	
	Profitability	A stable and annually increasing dividend, to be paid biannually	Dividend proposal will be announced after the Extraordinary General Meeting to be held on February 19, 2021.	
	Innovation	From a baseline established in 2019, additional targets for the design process and new products will be developed	99% of new products were assessed by the EcoDesign Tool	9, 12
	Business Ethics	All employees confirm Code of Conduct awareness through Code of Conduct training program	95% (91) of employees have completed Code of Conduct e-Learning	12, 16

TOPIC BOUNDARIES

	Material topics	Value chain phases/Boundary
People	1. Human rights	Sourcing, Production
	2. Community engagement	Production
	3. Employee well-being	Production
Planet	4. Supply chain	Sourcing
	5. Energy, water, and waste	Sourcing, Production
	6. Carbon dioxide	Sourcing, Production
Prosperity	7. Profitability	Customer insight, Innovation & product development, Support & service
	8. Innovation	Customer insight, Innovation & product development
	9. Business ethics	Sourcing, Production, Sales, Customer Insight

ALIGNMENT WITH INTERNATIONAL SUSTAINABLE DEVELOPMENT INITIATIVES AND INVOLVEMENT IN PARTNERSHIPS AND PUBLIC AFFAIRS

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

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

participant, the company is dedicated to responsible practices from the highest level of leadership to the most local concern in a supply chain or at a production site. We are committed to continuing our work to uphold the principles on respecting human rights, responsible labor practices, environmental quality, and anti-corruption practices.

For Ahlstrom-Munksjö, these principles are essential in ensuring full compliance with all applicable laws and regulations, managing risks in procurement and operations, building a trusted brand and reputation, and identifying opportunities to contribute further to social and environmental outcomes.

Ahlstrom-Munksjö is 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 (GRI) 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 has reviewed the SDGs against its activities and decided on 12 relevant goals based on where it can have the greatest 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

Environmental Certifications and Standards

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 2020, 38 and 16 of our operating sites had achieved ISO 14001 and ISO 50001 certifications, respectively. Similarly, achieving the ISO45001:2018 occupational safety management certification at 35 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.

GRI CONTENT INDEX - General Disclosures

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102-4	Location of operations	8, 168-169
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Governance		
102-18	Governance structure	48, 74-94

Total number of employees

a) By gender	
Female	1,431
Male	6,660
b) By region	
Belgium	82
Brazil	720
China	344
Finland	232
France	1,529
Germany	572
India	106
Indonesia	3
Italy	552
Japan	3
Korea	122
Lithuania	7
Mexico	4
Poland	1
Russia	86
Spain	173
Sri Lanka	2
Sweden	828
Taiwan	3
Thailand	5
UK	208
USA	2,509
c) By employment type	
Full time	7,899 of which Female 1,325, Male 6,574
Part time	192, of which Female 106, Male 86
d) Significant portion non-employees	
No	
e) Variations in a), b) or c)	
No	
f) Data compiling	
Global HR master data	

Disclosure Number	Description	Response/Page
GRI 102: GENERAL DISCLOSURES		
Stakeholder engagement		
102-40	List of stakeholder groups	185-187
102-41	Collective bargaining agreements	www.ahlstrom-munksjo.com/Careers/code-of-conduct/
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102-45	Entities included in the consolidated financial statements	168-169
102-46	Defining report content and topic Boundaries	188-191
102-47	List of material topics	189-190
102-48	Restatements of information	-
102-49	Reporting period	Reported metrics are for the full year.
102-51	Date of most recent report	February 25, 2020
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Back inner cover
102-54	Claims of reporting in accordance with the GRI Standards	185
102-55	GRI content index	193-197
102-56	External assurance	The GRI-report has not been audited

GRI CONTENT INDEX - Topic-Specific Standards

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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 2020 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 2020.

UN Global Compact ten principles	Page reference
HUMAN RIGHTS	
1. Businesses should support and respect the protection of internationally proclaimed human rights in the spheres they can influence	33-34, 35, 72, 191
2. Businesses should make sure that they are not complicit in human rights abuses	33-34, 35, 72, 191
LABOUR	
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	33
4. Businesses should work to eliminate all forms of forced and compulsory labour	33, 72
5. Businesses should work to abolish child labour	23, 33, 38, 72
6. Businesses should eliminate discrimination in respect of employment and occupation	27, 32-33, 72
ENVIRONMENT	
7. Businesses should support a precautionary approach to environmental challenges	22-26
8. Businesses should undertake initiatives to promote greater environmental responsibility	22-26, 191
9. Businesses should encourage the development and diffusion of environmentally friendly technologies	22-26, 40-42
CORRUPTION	
10. Businesses should work against corruption in all its forms, including extortion and bribery	33, 72, 84

